



Embedding a positive risk management culture

Key findings from an independent programme of research

June 2015



Many businesses recognise the need to develop their approach to risk management, but find that making tangible progress is not always straightforward. A variety of obstacles can hinder their quest for improvement. It can be their own organisational culture, their employees' willingness to embrace change or management's ability to cascade new ideas and initiatives through the business.

Overcoming this organisational challenge is rarely achieved through one single step or change in approach, nor is it completed at one moment in time. It is much more likely to come through the cumulative effect of individual steps, each of which supports and strengthens other key actions taken.

In this report, based on interviews with 377 key 'risk' decision-makers from small, medium sized and larger businesses, we examine:

- The extent to which UK businesses have a positive risk management culture that is embedded through their organisation
- The critical steps needed to embed this culture
- Which of these steps have the most impact

The overriding conclusion is that relatively few businesses in the UK believe they have a positive risk culture that is genuinely embedded through their organisation. For those that do, it suggests that a successful strategy includes a combination of the more obvious 'foundation stones' of risk management and other 'under-recognised' factors.

At a time when risk exposures are reported to be increasing, ensuring that the risk culture is fit for purpose, should be an important priority for UK businesses.

Richard Thomas

Head of Risk Solutions
QBE European Operations



“ a successful strategy includes a combination of the more obvious 'foundation stones' of risk management and other 'under-recognised' factors ”

Key research findings

- Only three in ten (30%) decision-makers indicate that a positive risk management culture is embedded within their business to a 'significant' degree. Having an embedded risk culture is almost twice as likely in the larger companies (250+ employees) as in the smallest businesses (less than 50 employees).
- Respondents perceive the most important steps taken by their companies to embed a positive risk culture have been:
 - Ensuring senior management lead and direct on the importance of risk management
 - Developing an environment where employees are encouraged to speak out and report concerns about risk-related issues
 - Providing employees with regular training and/or learning and development programmes on managing risk
- The survey reveals a number of 'under-recognised' factors in the embedding process. In particular, 'including positive risk management behaviours in employees' annual assessments' is a key point of difference between companies with an embedded culture and those without.

3in10 businesses have a positive risk culture embedded

Critical steps

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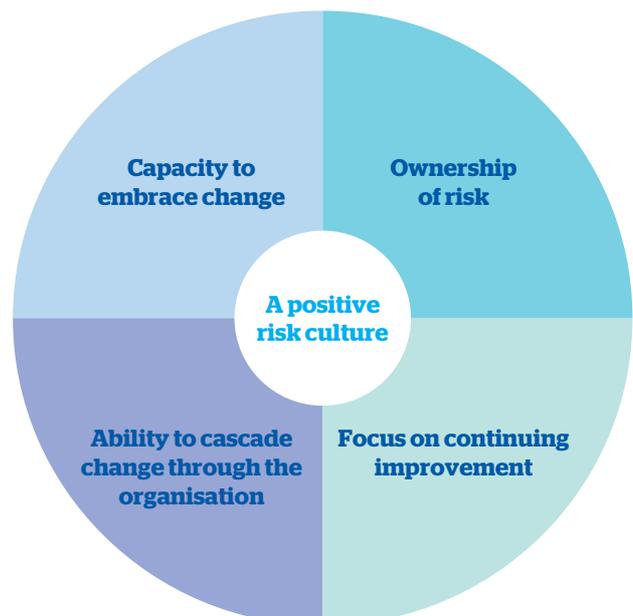
1 Ensure **senior management** lead and direct on the importance of risk management.
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2 Develop an environment where employees are encouraged to **speak out** and report concerns about risk-related issues.
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3 Provide employees with **training**

Positive risk culture

A positive risk management culture can be defined as a set of shared beliefs and values about the importance of risk management - and the need to maintain an active focus on managing risk within day-to-day operations.



Towards an embedded risk culture

Organisational culture can be one of the cornerstones of success in managing risk, or a real barrier to progress. Our latest survey explores the specific steps taken by companies to develop and embed a positive risk management culture as well as to identify those actions most commonly associated with success in this area.

In addition to confirming a number of 'foundation stones' for the embedding process, the feedback from our contributors points to a number of 'under-recognised' factors which appear to differentiate businesses with an embedded culture from those without.

Steps taken

In the research, eight specific steps to embedding a positive risk culture were explored. The aim was to identify the actions most frequently being taken by businesses to develop their approach to risk management, as well as the initiatives deemed most important, or successful, in the embedding of a positive risk culture.

The specific steps covered were:

1. Senior management leadership and direction
2. Identification of an appropriate risk culture
3. Regular training and development programmes
4. The ability of employees to speak out and report concerns
5. Rewarding potential improvement
6. Visibility of key performance indicators (KPIs)
7. The inclusion of positive risk behaviour within employees' annual assessments
8. Discussion of key learning points (from incidents and near misses)



Key findings

One of our key findings is that only three in ten companies indicate that a positive risk management culture is embedded within their business to a 'significant' degree.

- A positive risk culture is almost twice as likely to be embedded in the larger companies (250+ employees) as in the smallest businesses (less than 50 employees).
- Given the size distribution of businesses across the UK economy, this implies that the 'true' level of embedded risk culture is little more than one in five businesses.
- The survey also suggests the level of embedding is noticeably weaker in certain sectors, e.g. Leisure/Catering/Entertainment, Manufacturing/Engineering and IT/Telecoms/Media, than it is in others such as Financial Services, Business/Professional Services and Building/Construction. (See table 1)

The survey feedback clearly demonstrates that businesses with a positive risk culture in place have taken a wide range of steps as part of the embedding journey. For example, 'ensuring senior management lead and direct on the importance of risk management' and 'developing an environment where employees are encouraged to speak out and report concerns about risk-related issues', are almost always cited as steps that have been taken.

Indeed, the majority of the individual steps explored were high scorers for this group of businesses. (See tables 2, 3 and 4)

So what then are the factors that really matter? Which specific steps, if any, contribute most to the embedding of a positive risk culture?

Given that most businesses that have achieved this indicate that they have adopted the majority, if not all, of the eight individual steps, (and given that businesses yet to achieve an embedded risk culture have adopted many of the same steps), it is necessary to dig a little deeper to identify which specific steps most successfully contribute to the embedding process.

In the research, this was explored in two ways: firstly, by direct questioning of survey respondents; secondly, through comparative analysis of the responses given by the 'embedded' and 'not embedded' groups.

Foundation Stones

When asked a direct question, decision-makers identify three factors that, above everything else, they see as critical to the embedding process.

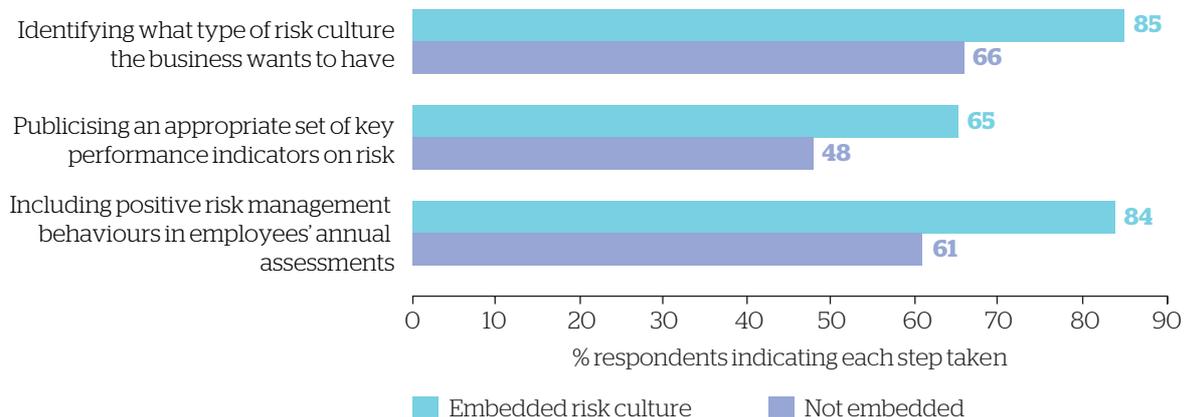
- Ensuring senior management lead and direct on the importance of risk management.
- Developing an environment where employees are encouraged to speak out and report concerns about risk-related issues.
- Providing employees with regular training and/or learning and development programmes on managing risk.

Differentiating Factors

Analysis of the relative levels of implementation of the steps taken by businesses with an embedded risk culture vs. those without, suggests that the defining factors in the embedding process may be:

- 'Including positive risk management behaviours in employees' annual assessments'. Because, although it doesn't feature highly as a 'top of mind' success factor, for this particular step there is the most significant difference between the 'embedded' and 'not embedded' groups.
- 'Publicising an appropriate set of key performance indicators on risk'.
- Formally 'identifying what type of risk culture the business wants to have' may also be under-recognised factors in the embedding process.

Steps taken to develop the company's risk culture and approach to risk management: Businesses with an embedded risk culture vs. those without an embedded culture: Most significant differences in steps taken



Viewpoint

Central to a rigorous risk management framework is having the right culture in place. While there is certainly no perfect one-size-fits all, there are best practice approaches that will enable organisations to embed the culture that is right for them.

Change of this importance doesn't happen overnight and requires a long term approach and continuous commitment.

As a business insurer, QBE works with organisations to help them to assess, manage and mitigate their insurable risks. In many cases, our support and guidance enable clients to reduce losses, leading to operational cost savings and business efficiencies.

From our experience of working with organisations from all sectors and based on the findings of our latest research, we recommend that business leaders ask themselves the following questions:

- Am I putting risk management high-up on the corporate agenda? Best practice companies are those whose leaders facilitate and pro-actively engage in the process of risk management.
- Do my employees understand our approach to risk management and what our expectations of them are?
- Are we motivating employees to help us achieve our risk management goals?
- Do I and my leadership team understand the return on investment of implementing best practice risk management procedures? Better productivity, operational cost savings informed decision making can all be achieved.
- Am I effectively exploiting the resource and expertise of my insurer? Forward thinking insurance companies will actively seek to work with their clients to improve their risk profiles and can bring, and help apply a wealth of best practice experience from a multitude of sectors.



Survey results

Table 1: Extent to which a positive risk management culture is embedded by size of company

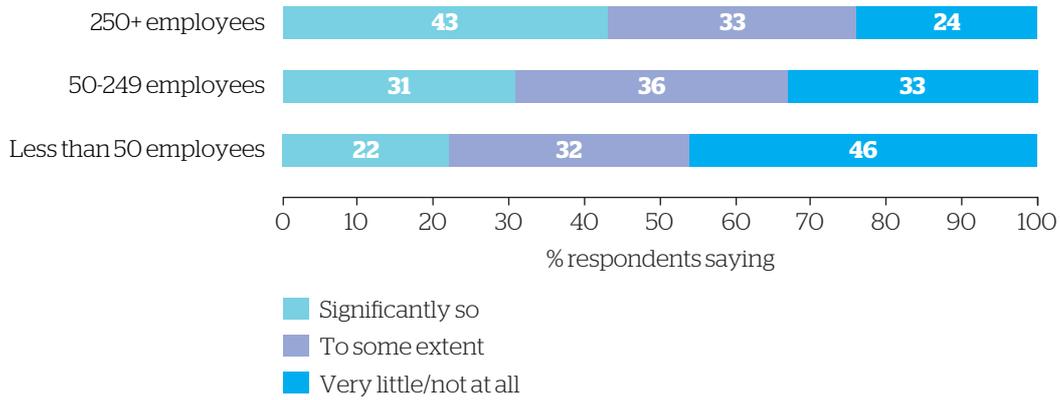


Table 2: Steps taken to embed a positive risk management culture: Businesses with an embedded culture

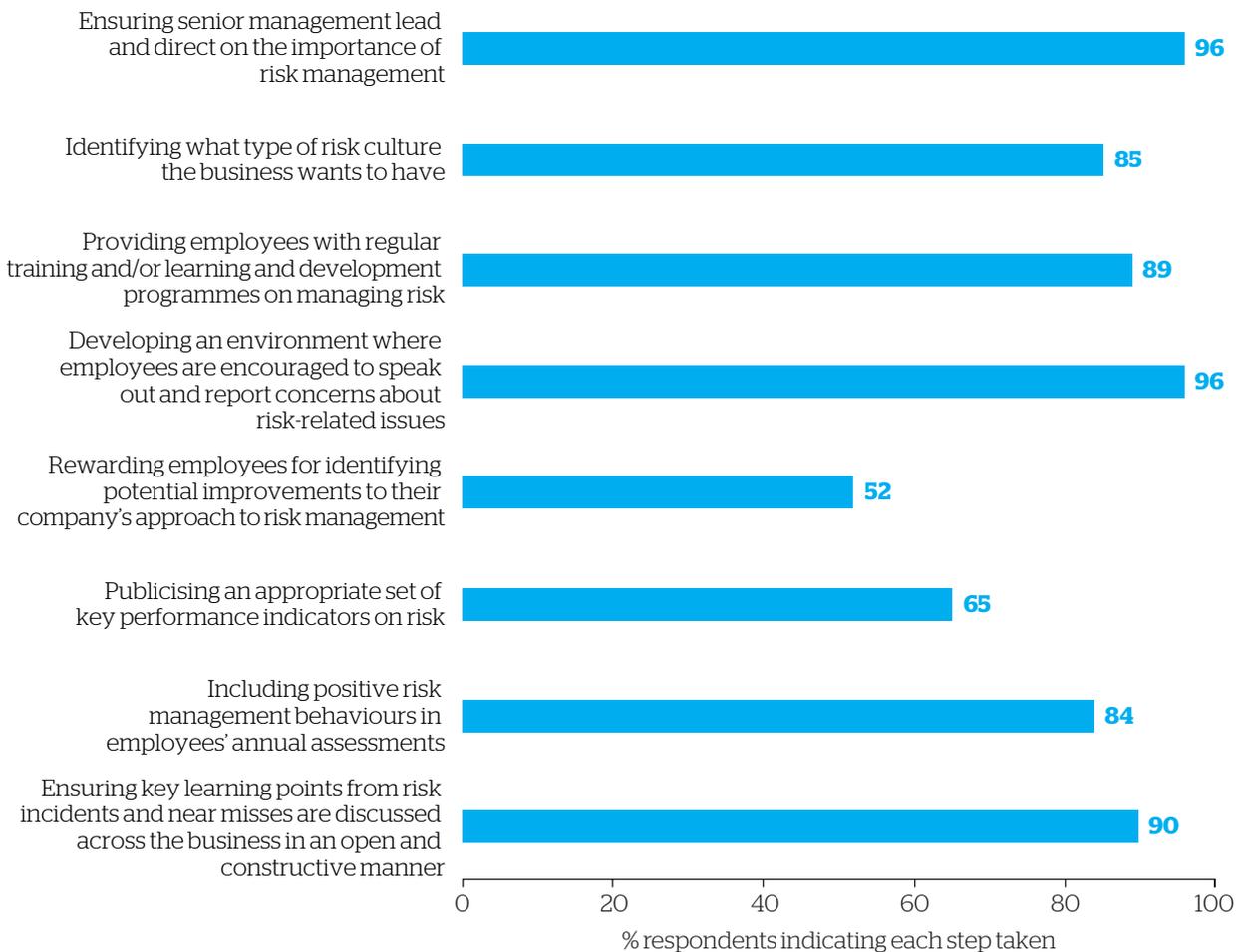


Table 3: Steps taken to develop the company’s risk culture and approach to risk management: Businesses without an embedded culture

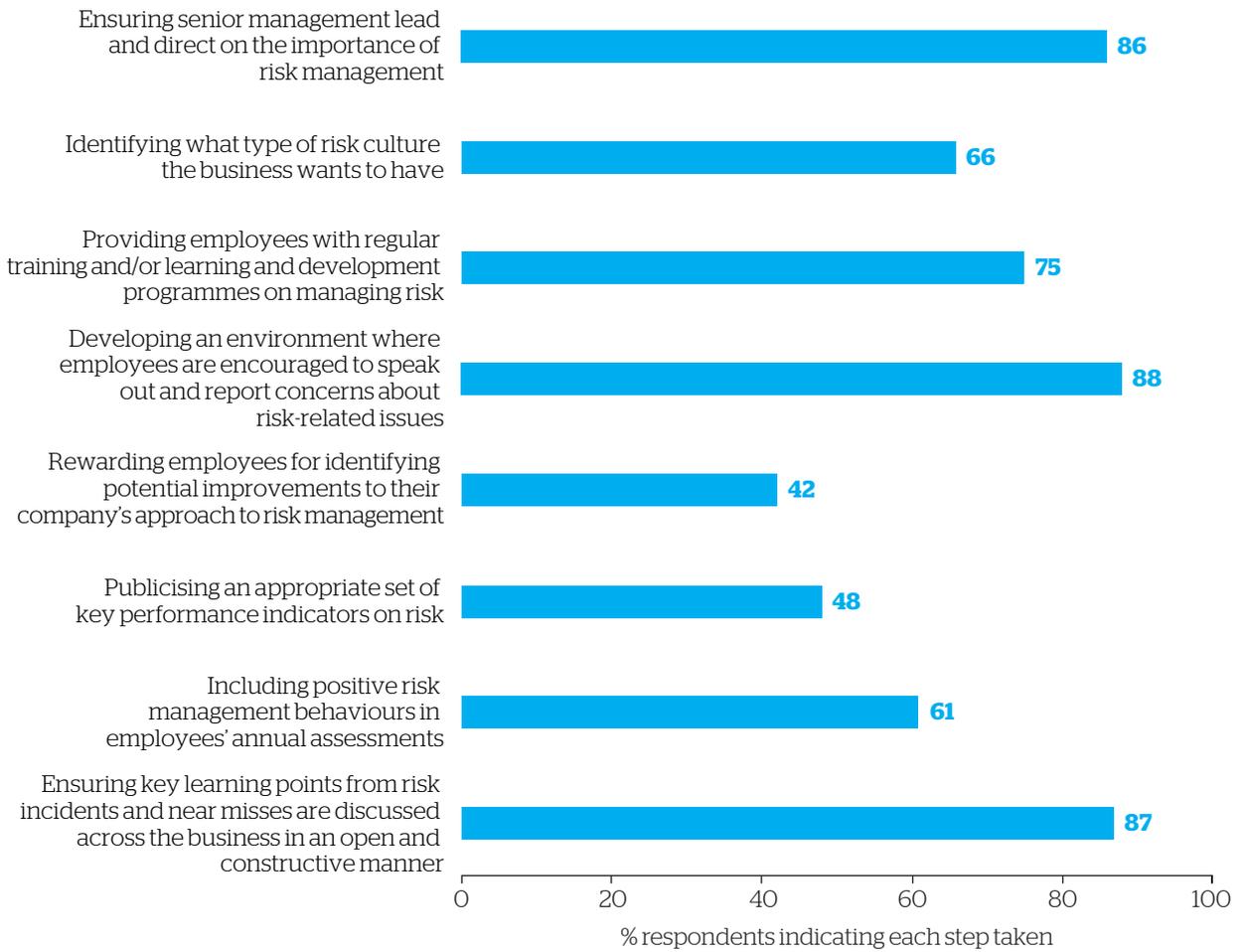
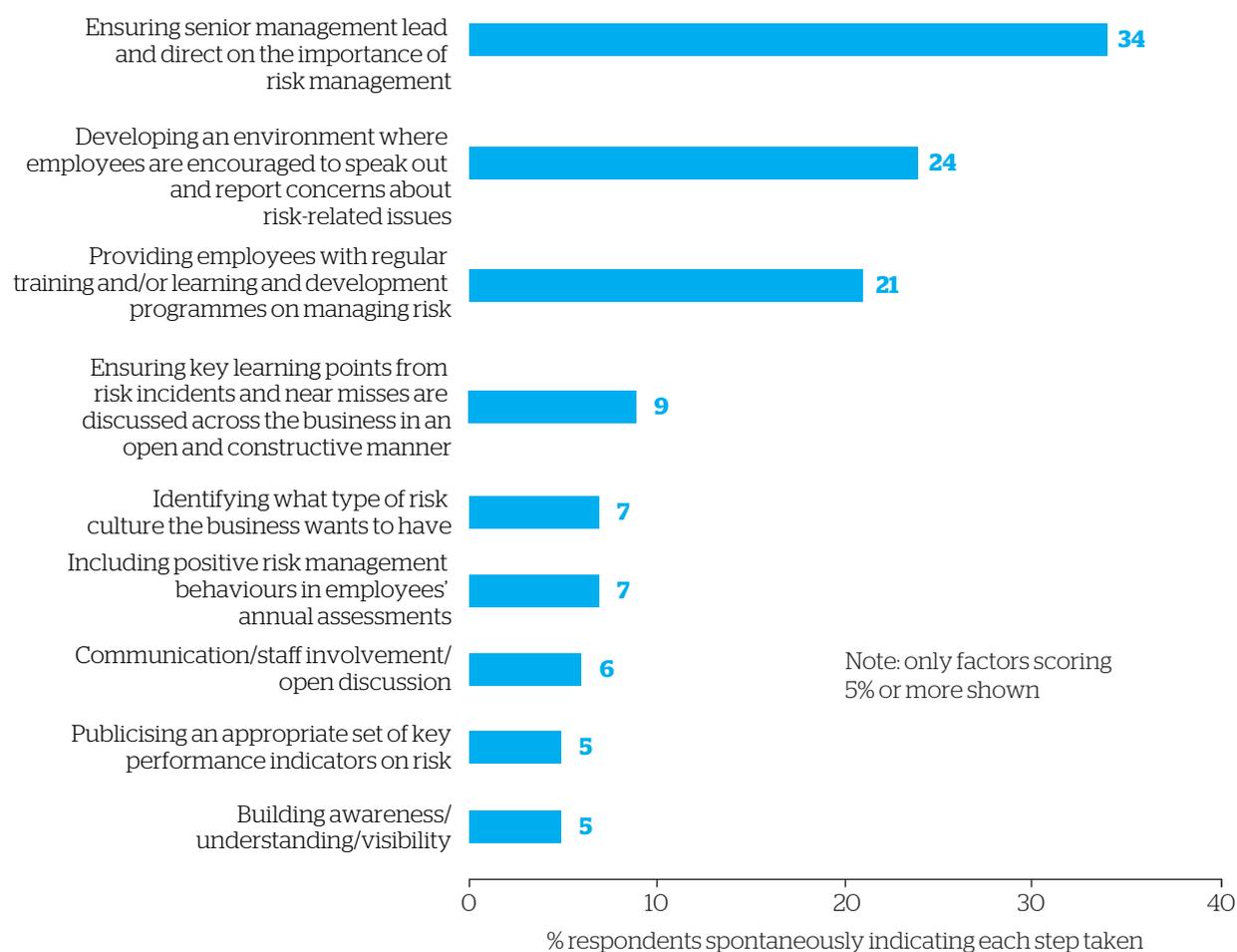


Table 4: Most important or successful steps in embedding a positive risk management culture: Businesses with an embedded culture (“significantly so”)



How the research is conducted

The interviews for the QBE Business Risk Sentiment Survey are conducted and analysed for QBE by an independent research agency. The job title of individual respondents contributing to the survey varies from organisation to organisation, but each of our contributors confirms that he or she is personally involved in decision-making about managing risk.

The research is focused on 7 key industry sectors (defined by SIC codes) and 6 specific UK regions (defined by post code).

| INDUSTRY SECTORS COVERED | REGIONS COVERED |
|--------------------------------|-------------------------------|
| Business/Professional Services | Birmingham/West Midlands |
| Building/Construction | Bristol |
| IT/Telecoms/Media | Glasgow/Scotland |
| Retail/Wholesale | Leeds/Yorkshire |
| Manufacturing/Engineering | London (within M25) |
| Leisure/Catering/Entertainment | Manchester/Greater Manchester |
| Financial Services | |

Companies targeted for interview have a minimum of 5 employees and a maximum of 1,000 employees. Within these parameters, interviews are spread across three company size categories: 5-49 employees; 50-249 employees; 250+ employees.

The results for the majority of questions are presented on an unweighted basis. However, for reasons of comparability of the results from wave to wave, the results for the questions focusing on the overall level of risk are weighted to an equal spread by company size.

For Wave 4 of the survey, 377 interviews were conducted in April and May 2015.

About QBE

QBE is a business insurance specialist. We understand the risks businesses face and support organisations from a diverse range of sectors in managing and mitigating their risk enabling them to realise their objectives.

An A+ rated insurer, we have the appetite and capacity to provide cover for businesses of all sizes.

Our extensive product range includes:

| | |
|--|------------------------------|
| Accident and health (inc commercial PA and business travel) | Pharmaceutical and medical |
| After the event insurance | Political risk and terrorism |
| Commercial crime | Product guarantee and recall |
| Commercial combined | Product protection |
| Contractor all risks/EAR | Property |
| Energy, offshore and onshore | Reinsurance |
| Entertainment and leisure industry | Scheme underwriting facility |
| Environmental impairment liability | Specie |
| Financial and professional liability (Cyber Liability, Director's & Officer's, Professional Indemnity) | Surety/bonds |
| General liability (Employer's Liability, Public Liability, Tradesman) | Trade credit |
| Marine | Warranty and GAP |
| Motor Commercial (inc fleet, haulage, bus and coach, motor trade) | |

Risk management

Effective risk management is a feature of all successful organisations - and it's one of our key underwriting considerations. We work closely with businesses to improve their systems and processes; minimising their exposure to risk and helping to reduce the frequency and severity of any losses.

We stand by our claims

Inevitably, claims do occur. That's when businesses really discover the value their insurance company delivers. We pride ourselves on our positive attitude and proactive approach to claims management. Our claims teams have a deserved reputation for the professional, efficient and sympathetic way they work with brokers and clients when losses are incurred.

Local knowledge

UK underwriting offices: London, Belfast, Birmingham, Bristol, Chelmsford, Glasgow, Leeds, Manchester and Stafford.

To find out more

For more information about QBE and how we can help your business, please visit our website www.QBEurope.com

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