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ERM Culture Alignment to Enhance Competitive Advantage

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Section I Introduction

Shifting economic conditions, technological advances, emerging markets, geopolitical threats and changing regulatory environments have compelled organizations to turn to ERM to address the wide array of risks continually facing them. Over the years, risk management has been transitioning into ERM, and was perceived an area for further development particularly in the aspect of restructuring risk culture intro ERM culture. With gradually increasing ERM maturity, many organizations still learn how to distinguish between risk culture and ERM culture and how to embed it across the organization.

ERM has been recognized as a program for enabling organizations to mitigate the impact of negative risks and identify opportunities for calculated risk taking. ERM has therefore sparked initial interest within organizations with its potential for generating value. As organizations became more exposed to increased market volatility and unpredictability, ERM has undergone continuous development and so has the cultural element directly aligned with it. ERM culture extends enterprise-wide and is necessary for generating the high reliability and predictability in business results that enhance stakeholder confidence and build consistent value.

Consequently, ERM demonstrates a lasting value through sustainability and the competitive advantage it provides to the organization. Sustainability comes through the consistency of employees demonstrating the same behaviors and sharing the same corporate values in managing risk. Behaviors and shared values build an organizational ERM culture that enhances and maintains the positive impact of ERM.

The relatively new concept of ERM culture, understanding it, confronting the challenges it brings and facilitating the cultural change to achieve acceptance across the organization has not yet been adequately researched and is the key topic of this paper.

Section II ERM Culture

The need of organizations to have a strong ERM culture emerged from the shifting role of ERM from being a specific type of risk management handled by a small department or a specialized group of professionals to a process of guiding the achievement of strategic objectives.

ERM is a recognized process that generates value. While ERM can protect organizations from the impact of negative risks, uncover opportunities for calculated risk taking, and enhance the perception of stakeholders, it also can, when executed with consistency, create sustainable value. Consistency is essential for ensuring that ERM maintains its impact on the operations of the organization. Consistency occurs when the employees of the organization carry the same values and demonstrate the same behaviors that show reliable and predictable results. This consistency is the backbone of ERM culture. ERM culture, as a product of employees working together and sharing the same values and displaying the same behaviors, establishes the sustainability of an ERM program.

With the establishment of an ERM definition by the Committee of Sponsoring Organizations (COSO) in 2004, ERM became recognized as a process '*applied in strategy setting across the enterprise*' and '*designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite to provide reasonable assurance regarding the achievement of entity objectives.*' ERM surfaced as a course of continuous efforts that required the collaboration of departments, teams and functions across the entire organization. Through the recent involvement of departments, teams and functions not traditionally associated with risk management practices, new perspectives have come into the process of ERM and, with such integration of human capital, organizational cultures regarding the treatment of ERM emerged.

The COSO definition mentions human interactions that would influence the impact of ERM in organizations:

- ERM is '*affected by an entity's board of directors, management and other personnel*': This specifies the role of stakeholders across the organization making decisions and taking action on ERM. Opinions, perspectives, organizational politics and other human factors would influence the success of ERM. By this definition, ERM cannot be put into a '*silo*' but it must be influenced by multiple groups of stakeholders as it is used not only to protect the organization from loss but to preserve and enhance shareholder value (Branson, 2010).
- ERM is '*applied in strategy setting*': This specifies that ERM can be used as part of a procedure in enabling the organization to achieve its objectives and gain an advantage over competitors. This involves an agreement among stakeholders to make ERM a part of the strategy and to take action in using it as a means to enhance the customer perspective of the organization, market share and stakeholder confidence.

The prevalence of decision making and perspective sharing in driving ERM reveals the presence of underlying human forces influencing the management of risk. While the COSO definition of ERM opened the discussion for ERM to be integrated into organizational strategic plans in the years immediately following the issuance of this definition, a necessity remained to address the human forces that impacted the day-to-day operations which make strategy execution a reality. The day-to-day operations of strategy execution involve decisions and actions taken at all levels of the organization. Business decisions and actions regarding risk are shaped by a system of values and behaviors present throughout an organization. These values and behaviors can be demonstrated by individuals or groups within the organization (IIF, 2009). Farrell and Hoon (2010) emphasize culture as being the product of shared values and behaviors. Culture is a value, in the context of ERM, that has an impact on business decisions (Brooks, 2010) and determines the way in which the organization identifies, understands, discusses and acts on the risks it faces and the risks it takes (IIF, 2009). ERM culture affects the decisions of management and employees whether or not they are consciously weighing benefits and costs (Farrell and Hoon, 2010).

Culture, as argued by Brooks (2010), is not an intangible concept but one which can be measured. The strength of risk culture can be determined by the level of consistency that decisions over risk have with policies and the desired risk profile of the organization (Brooks, 2010). Within decision making, there is an active consideration of potential rewards and losses in taking and avoiding risks. This consideration enables the decision makers to choose decisions that will align the best with the policies and desired risk profile of the organization which ultimately, based on Brooks' assessment, contributes to risk culture strength.

There are elements, consistent with organizational policies and the desired risk profile that signify a strong risk culture within an organization:

- Committed executive leadership and senior managers that model the ERM culture they wish to see in the organization (IIF, 2009)
- Incentives that reward risk awareness among departments, teams and employees to establish enterprise-wide thinking (Buehler, Freeman and Hulme, 2008)
- Information sharing and communication among departments and teams
- Learning opportunities for employees

Just as strength within an ERM culture can be noticed, weaknesses within an ERM culture can also be identified. ERM culture shows a lack of strength when decisions run counter to the organizational policies and the desired risk profile (Brooks, 2010). This signifies the absence of a type of consistency that is typically found in the behaviors and values that shape a culture. The consistency necessary for an ERM culture can be undermined by competing interests. Brooks (2010) gives the following example of how considerations of risk get removed by other interests of stakeholders:

"It may occur at the top of an organization if an acquisition is being considered, and considerations of risk fall victim to the ego of the participants. They may be put aside because the participants in the transaction have "fallen in love with the deal," and cannot bear the thought of backing out of the transaction given the work that has been put into it and the potential benefits of the transaction. (...) Rewards may also incent this type of behavior. These may be tangible rewards – bonuses and salary increases – or they may be intangible because the participants in successful transactions are those recognized in the organization, given higher profiles and promotions." (Brooks, 2010)

This example demonstrates how competing interests can ruin the consistency that is needed for developing the strength of a risk culture. Participants in the transaction focused on the benefits and the overall attractiveness of the deal instead of considering how the transaction would enhance or erode the risk portfolio that the organization wishes to have.

However, organizations that do not possess an ERM culture fail to reap the benefits of a functional ERM program. Because ERM culture is a product of shared values and behaviors, it is based on establishing predictability and high reliability in executing processes for managing risks. When there is no ERM culture, business units are not working together in managing risks and achieving strategic objectives but they are working in silos. Low reliability and a lack of consistency in the execution of risk management processes are the result of business units practicing ERM in silos. They also signify the absence of quality in an ERM program and result in processes for managing risks to be repeated which translates into additional costs in staff time and dedicated resources. When reliability and consistency are at low levels, a mixed message is communicated to staff on how the organization values ERM. This can negatively impact the perception of employees and diminish the support that is necessary for a global execution of ERM throughout the organization.

To identify its own ERM culture and determine its strength, an organization has to ask some introspective questions about how it values ERM:

- What are the shared values, beliefs and behaviors related to ERM in the organization?
- How are the organization's policies regarding risk management considered in decision making?
- How is the organization's risk tolerance or risk portfolio considered in decision making?
- How are employees rewarded for demonstrating organizational risk awareness?
- How are the board of directors, executives and managers engaged in the risk management of the organization? Why does this level of engagement exist?
- How open is the information sharing and communication between departments and teams in the organization?
- How is the condition of the learning environment for employees to apply ERM to their day-to-day jobs?

The alignment and cooperation of stakeholders throughout the organization are needed for the execution of strategy and building a sustainable competitive advantage. When employees share the same values and display the same behaviors in managing risk, consistency in the execution of ERM and business results are ensured. Consistency minimizes the costs associated with ERM because it prevents processes from being redone and it gives stakeholders the assurance of how the organization approaches its risk portfolio.

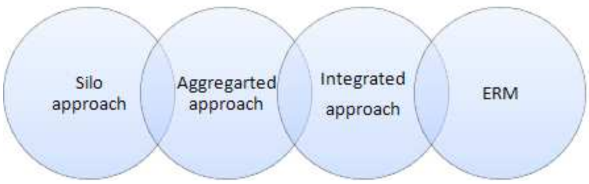
Section III Practical Examples and Literature Gaps

The concept of risk culture has been in the spotlight over recent years with the growing management realization that financial collapses of many organizations originated from flawed risk culture or no culture at all. Historically, most literature references on risk culture were made in connection to negative risk events, organizational failures and a spectrum of catastrophic occurrences (AON, 2010). The definition of risk culture has been formulated inadequately with key aspects remained undetermined (Copper, 2011). The fragmented view on organizational culture and management perception of often misunderstood complexity of its nature has undermined culture's role and importance in enterprise risk management implementation. Risk culture gaps can open organizations to vulnerability in the areas where key risks are being overlooked leaving management exposed to unexpected future (loss) events. Organizations that foster self-reinforcing behaviors and build new mindsets create an intangible culture that can accelerate high business performance. Moreover, lack of solid risk culture can also diminish organization's ability to achieve business objectives crippling business performance and weakening market competitiveness (Rossiter, 2001).

Creating a strong ERM culture is a prerequisite for a sustainable and value-adding ERM. As a consequence a lot of efforts were focused on conducting extensive surveys to analyze the flaws of existing risk management practices, corporate governance, management leadership and risk culture. Risk management culture was also the top priority at Deloitte's Directors Forum at the beginning of 2011 (Deloitte, 2011). Culture was identified as critical for building risk intelligent organization where everyone takes responsibility for risk management and '*minds the business'* to protect and create value.

While conveying an industry outlook onto risk culture, multiple surveys deliver a strong and uniform message to corporate management indicating significant culture deficiencies. Enterprise Risk Management Survey (2006) highlighted that most organizations measure the effectiveness of ERM in the context of regulatory compliance with expectation of enhancing shareholder value. The study highlighted four most common ERM maturity stages each influencing ERM culture distinctly (Figure 1). Risk culture formed within one of the distinctive risk management environment will have different dominating features and will develop in a unique way.

Figure 1 Maturity of ERM Approaches



Source: Originated by the authors

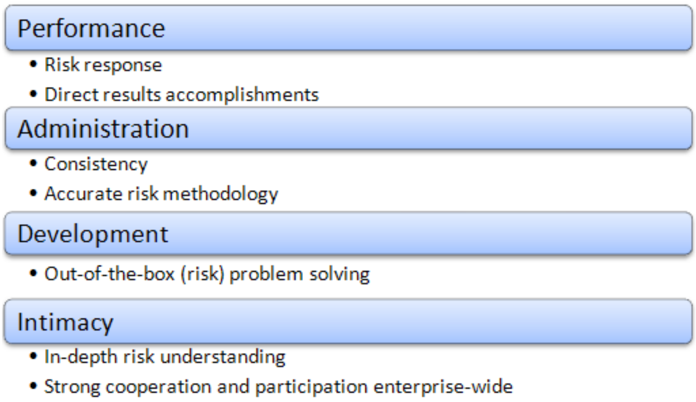
48.4% respondents saw the ability to set a common risk culture, establish common risk language, and understand risk appetite as a potential ERM implementation benefits. When asked if 'culture openly encourages the reporting of risks and losses' 32% '*agreed,*' while only 16% '*strongly agreed'*. In conclusion, ERM was still in initial stages of implementation, and was considered by the surveyed a reasonably new concept. There has been significant progress to develop ERM further supported by management buy-in, but most risk management focus revolved around SOX and was not a priority outside of credit and audit groups. Silo risk approach visibly dominated as the main risk management approach and prevented organizations to develop a strong enterprise risk culture (RMA, 2006).

In a recent KPMG International survey (2010), 48% of respondents identified risk culture as a primary contributor to the financial crisis. Even though risk culture has become a fundamental component of ERM, many organizations show significant deficiencies in this area (KPMG, 2010). Over 58% of surveyed corporate board members and internal auditors admitted that most personnel had little or no understanding of how risk exposures should be assessed for likelihood and impact. This indicates that the leadership may not adequately foster the culture of continuous enterprise risk development for the employees. Additionally, employees should fully comprehend how well-informed risk decisions are made and ensure that risk behaviors are consistently permeated within the organization. Without strong ERM approach, establishing an enterprise risk culture becomes unachievable and may adversely affect decision making.

AON's ERM *Full Picture* survey (2007) investigates three core elements of ERM: strategy, resources and culture. 64% of respondents believe that embedding risk management culture is a key ERM component, and 45% that claimed culture was considered throughout an ERM implementation process. Many organizations stated that culture is still often ignored and not seen as a corporate priority. AON's cultural model was used in the survey to categorize four cultural types across various enterprises (Figure 2).

Organizations leaning towards '*performance-driven*' culture focus on results and exhibit effective and timely risk response. '*Administration-driven*' cultures feature inconsistency and bespoke risk methodology. Conversely, '*development-driven*' frameworks promote unique risk thinking approach, and '*intimacy-driven*' ones, a solid risk understanding and the idea of collective participation. Risk culture depends on what cultural model is adopted by an organization (AON, 2007).

Figure 2 AON's Cultural Model (2007)



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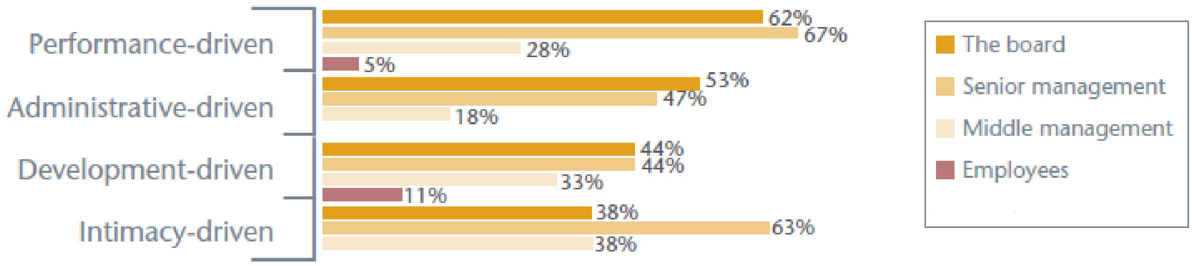
The AON's 2007 study also revealed that the risk management culture drives a better understanding of ERM and strategic objectives. For example, in a '*performance-driven*' organizations and similarly in the '*intimacy-driven*' ones, the boards' understanding of ERM objectives increases '*significantly*' by 62% while senior management's by 67%. This can be compared to the '*development-driven*' cultural profile where the board's and senior management's support for ERM objectives has gone up only by 44% (Figure 3). Surprisingly, the understanding of ERM objectives by employees has not increased significantly across all cultural types which implicates that there is still little enterprise-wide involvement of personnel in the ERM implementation. The lack of engagement of employees in ERM will most likely impede organizational ability to develop comprehensive and effective ERM culture. Key findings of AON's 2007 research show that only one in ten organizations confirmed that ERM is embedded in the business process. One in four enterprises admitted that ERM had an impact on the enterprise strategic planning process. Moreover, performance-driven cultures that are results-driven were most effective in implementing ERM, and therefore establish a strong baseline to develop a robust ERM culture.

Figure 3 Understanding of and support for ERM objectives



Source: AON (2007)

Over 50% of the surveyed agreed that specific techniques were used to create a strong culture across the organizations. Over 70% of respondents in enterprises with a clearly defined ERM function favored policies and reviews endorsed by senior management and risk monitoring as efficient tools to create solid risk management culture. 49% of respondents found stakeholder involvement useful and only 18% considered risk training programs effective. Accordingly, in organizations without the dedicated ERM function only 46% of the surveyed deemed risk policies fostered by management meaningful enough. 24% of the surveyed agreed that stakeholder engagement was relevant for culture development, and 11% saw risk programs in favorable light (AON, 2007). The survey results emphasize that the importance of ERM culture is strongly associated with how organizations adopt ERM; organizations that developed resilient ERM have, therefore, an advantage in creating effective ERM culture. As a consequence, employees in organizations with established ERM show more trust and understanding in management's efforts to ingrain ERM culture into organizational structure.

Embedding ERM culture within a unique organizational structure may result in significantly different long term results (Figure 4). Over 50% of employees in the '*performance-driven*' culture stated admittedly that key benefits were an enhanced shareholder value and meeting corporate objectives. For 40% of respondents in the '*administration-driven*' culture creating a risk culture was a priority. In '*development-driven*' organizations the focus is primarily on reducing the element of risk surprise and '*fire-fighting*' (nearly 70% of personnel). Enhanced shareholder value and reputation, and minimized cost of risk were considered nearly equally important (close to 60% of all personnel). Key risk priorities in enterprises with '*intimacy-driven*' frameworks were identified as creating a risk culture and reducing a cost of risk. Disparity between ERM benefits resulting from a strong culture appear to be broad depending on cultural risk framework implemented across organization but can be utilized with equal effectiveness.

Figure 4 ERM Benefits by Cultural Type

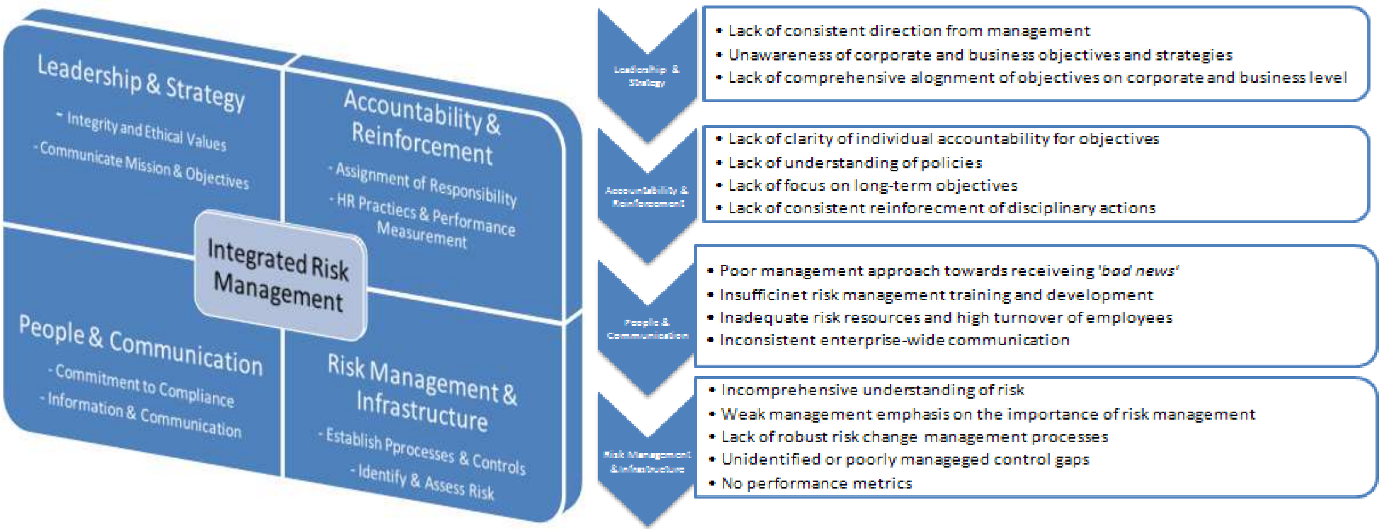
% saying "very" or "fairly successful"	Performance-driven	Administrative-driven	Development-driven	Intimacy-driven
Enhance shareholder value	55%	29%	56%	25%
Engender risk culture	45%	41%	55%	50%
Meet corporate objectives	52%	24%	44%	25%
Enhance stakeholder reputation	42%	29%	56%	38%
Reduce fire-fighting	38%	24%	67%	25%
Facilitate change	40%	24%	33%	38%
Reduce cost of risk	30%	29%	56%	50%
Become established tool	42%	18%	11%	38%
Enhance customer service	40%	24%	22%	13%

Source: AON (2007)

Another AON's *Global ERM* survey (2010), performed in a highly uncertain economy during the third quarter of 2009, further demonstrates that regardless of some successful global ERM implementations, and its effect on organizational ERM culture and the stakeholders, there is still a great need for more development of both ERM and ERM culture (AON, 2010).

ERM culture as a critical ERM dimension can be perceived as a way employees feel about the organization; employees' attitudes towards risk will affect how organization is managed. Integrated Risk management proposed by PWC (2009) presents some of the important features of an effective risk management culture (Figure 5), and addresses key insecurities of a change in risk management.

Figure 5 Effective risk culture and potential shortcomings



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The approach highlights key features of the effective risk management: 1) Leadership and Strategy, 2) Accountability and Reinforcement, 3) People and Communication and 4) Risk Management and Infrastructure. *Leadership* promotes and integrates high ethical standards, and ensures clear enterprise-wide communication of business objectives. *Accountability* component warrants individual risk responsibility. Organizations also need to demonstrate the ability to share knowledge and promote continuous development and growth of all employees what is encompassed in *People's* quadrant. Lastly, *Risk Management* quadrant depicts organizational capability in assessing, measuring and mitigating major risk exposures concentration. Those core attributes supported by set behaviors, specific knowledge and skills and by appropriate infrastructure build on an integrated risk management framework and become a foundation for a corporate culture. Potential benefits of Integrated Risk Management are enhanced risk awareness and a better understanding of what business and risk objectives are.

Followed by examples of cultural risk approaches practiced across the industries, this paper presents specific case studies on ERM culture illustrating key challenges and recommendations for further development relevant to this research (Table 1).

Table 1 ERM culture case studies

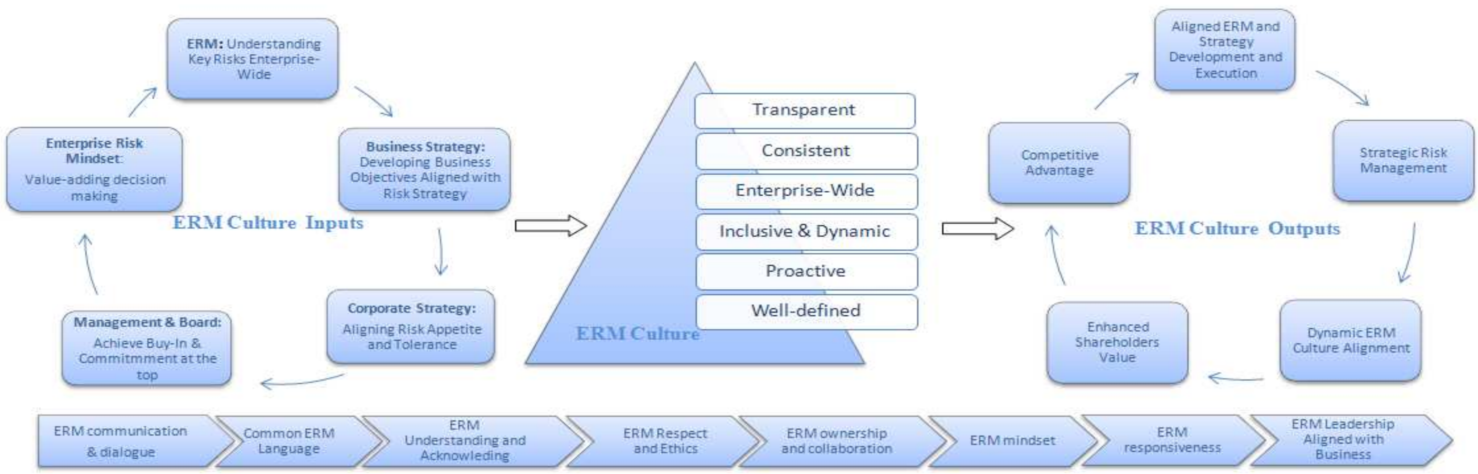
Organisation	Challenges	What was done? Results	Further Improvements and Recommendations
AZ Electronic Materials	➢ Reporting and process requirements ignited scepticism ➢ Focus on data collection instead of 'action' dispersed management' attention ➢ Challenging Introduction (and integration) of risk culture to globally diverse business units ➢ Difficulties with cultural change and transitioning into the new risk approach Potential long-term benefits difficult to recognise and comprehend by employees	➢ Reprioritising the importance of ERM and risk culture to protect the organisation's mission and achieve better customer satisfaction ➢ Efforts to embed ERM culture throughout the enterprise globally ➢ Initial Risk Assessment sessions received management support and adequate action responses *Results* ➢ Better understanding of corporate objectives and business continuity, customer needs and potential threats and opportunities to the business ➢ Improved quality controls ➢ Perception of strong competitive market image; stronger customer loyalty ➢ Better internal and external communication over potential business interruptions	➢ Focus on practical translation of risk analysis into risk action items (key threats and opportunities for the business) ➢ Continued integration of risk culture amid global environment, and achieve enterprise-wide cultural uniformity ➢ Ensuring logical understanding of both ERM and risk culture as extension of planning strategies ➢ Define explicit alignment of risk culture, competitive advantage and long term suitability
Global Investment Bank	➢ *New unit* had a good ability to challenge each others' actions and ideas but a lack of cooperation and cohesion became main management concern ➢ Working towards reducing the visible disconnect in communication and daily operations between risk and business groups ➢ Minimise the demographic divide between senior and junior employees hindering complete group integration people's behaviours and risk decisions	➢ Risk culture was re-assessed within sales and trading units recently integrated as a *new unit* ➢ Management aims to ensure a comprehensive integration of newly formed group though creating strong and consistent risk culture *Results* ➢ The existing risk culture needs to be rethought due to the gaps identified as a result of the internal survey ➢ Employees were unclear what the bank's risk tolerance meant ➢ The change of group's structure triggered unexpected people's behaviours and risk decisions	➢ Senior management should re-align the leadership team and encourage risk behaviours as a part of a robust risk culture ➢ Communicating risk tolerance enterprise-wide should be changed; everyone in an organisation should be able to understand and express clearly what risk tolerance is ➢ Increased transparency in making risk decisions and business involvement in setting risk appetite ➢ Rethink internal controls and processes to ensure effective approval mechanisms ➢ Reassess what value can be generated through risk culture

Global Professional Services	➢ Potential over-extending of junior staff was identified as a emerging concern ➢ Junior employees felt that senior colleagues did not appreciate *'upward challenges'* what in effect inflicts inhibition and lack of confidence to undertake challenges Employees expressed lack of clear guidelines and communication in terms of risk tolerance vs. appetite	➢ Current risk culture was assessed ➢ Management raised no specific cultural concerns to investigate but was keen on learning what can be improved ➢ Risk culture was considered *'healthy'* *Results* ➢ The study analysis revealed the risk culture can be considered *'robust'* especially regarding employees response to change and their caring about the quality their work and the impact on organisation	➢ Senior and junior employees should work together to overcome disconnect and lack of integration ➢ Senior and more experienced staff should provide guidance to junior personnel to reinforce trust across the organisation ➢ Comprehensive risk training for all employees (knowledge sharing, cross training) to clear away risk inconsistencies ➢ Restructured (more effective) annual planning process that incorporates key risks organisation may face ➢ Re-align risk appetite and strategic business objectives
Financial Services	➢ Communication is not yet consistent and the most effective enterprise-wide ➢ Level of risk ownership and commitment is lacking and appears to be disintegrated; employees feel like the risk ownership is primarily an element of risk management not the business ➢ Lack of alignment between risk and business management magnifies the view of risk as a inconvenience rather that a value-adding opportunity ➢ Lack of focus on adequate risk adjusted incentives and compensation schemes discourages effective managing risks, and diminishes risk morale in relation to positive recognition	➢ The state of existing risk culture was examined as a critical element of an effective risk management ➢ Internal risk survey was designed to gauge employees' attitudes towards the current risk management approach ➢ A baseline for development of risk culture was established on the survey analysis ➢ Bespoke workshops and discussions were organised within various stakeholders groups *Results* ➢ Employees value integrity and appreciate the organisation appears to have a competitive advantage in the market driven by cultural change ➢ Risk change management has been perceived as well designed and implemented and communication was found effective bottom-up and top-down	➢ Effective change management to engage with the new culture ➢ Robust information flow leading to informed business decisions, ➢ Aligning compensation and risk-based performance to encourage effective risk management

Source: Originated by the authors

The analysis of four case studies allowed examining competing views of ERM culture, and concluding what organizations did to achieve the end results, where they fell short and what future developmental recommendations might be. The surveys investigated in this paper formed a baseline for a new culture approach *ERM Culture alignment* (Figure 6), which addresses the shortcomings identified in the reviewed cultural approaches.

Figure 6 ERM Culture Alignment



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The Alignment consists of three key elements: ERM inputs that shape ERM culture attributes, ERM culture as a core of risk management structure, and ERM outputs that influence the business results. ERM culture inputs focus on the elements that are critical to form an effective cultural ERM alignment. In all aspects, for business and corporate strategies to fold into an alignment with ERM strategy, enterprise risk awareness becomes essential. Among many organizations, main challenges for corporate leadership still remains the same: to gain tacit understanding of what enterprise-wide risk awareness means in business reality, and how to align it with the business, and corporate risk objectives. Corporate leaders often fail to focus on establishing a consistent and inclusive behavioral model that can reinforce intangible risk and business rules. Management attitudes should exemplify the ERM standards in the organization.

ERM Culture Alignment is introduced briefly in this paper as the authors continue on the development on this approach and presenting it in more details in a separate research paper.

Section IV Driving an Effective ERM Culture

As demonstrated in previous sections of this paper, ERM culture is influenced by several factors. One of the most important factors is the involvement of leadership and employees at all levels in adopting, accepting and promoting ERM and ERM culture. While direct leadership engagement has immediate impact on corporate and business strategies, it also effectively leads to setting a clear organizational direction. While leveraging leadership involvement, enterprise risk management and strategy development should be aligned; thus becoming '*two sides of the same coin'*. ERM needs to be embedded in enterprise-wide activities, processes, policies and procedures, and implemented across all organization's divisions including strategic business units (SBUs). Consequently, ERM culture requires a synergy within the unique organizational culture.

A good example of effective ERM approach and its focus on risk culture is Caterpillar Inc. It adopted a unique ERM approach to the organizational structure (calling it 'Business Risk Management – '*BRM'*) by setting the key objective: to identify, track and mitigate anything that would prevent the enterprise from achieving its long-term strategic objectives (Driscoll et al, 2011). To promote the BRM culture, Caterpillar Inc. developed a code of conduct statement to promote this behavior: '*Our Values in Action'*. The code implies that they: *'see risk as something to be managed and as a potential opportunity'* (Driscoll et al, 2011).

Other factors critical to developing an ERM cultures are: aligning ERM with corporate and business strategies and management buy-in. As senior management develops a strategic vision of the organization the roadmap for corporate and business objectives is being established in parallel. Subsequently, business and risk objectives are defined in alignment, with the warranted support from the management. Achieving management's commitment to develop ERM and ERM culture is crucial throughout the entire process. An enterprise-wide alignment of risk and strategies creates a foundation for effective ERM culture (Althonayan et al., 2011). *Holistic Alignment Approach* developed as a result of earlier research

(Althonayan et al., 2011) addresses the importance of linking ERM, with the corporate and business strategies enterprise-wide (Althonayan et al., 2011). ERM as a core element of the *Holistic Alignment Approach* links each business unit with the risk management enterprise-wide and emphasizes the importance of a strong ERM culture as a prerequisite of this approach (Althonayan et al., 2011).

Althonayan *et al*., (2011) stated that, '*comprehensive alignment of all three interconnected dimensions: ERM, corporate and business strategies aims to steer risk management initiatives and strategies in the same direction, therefore inspires improving organization's ability to meet the strategic objectives. It aligns and prioritises key risks and strategies across the enterprise bringing organizational balance into the strategic equilibrium'* (Althonayan *et al*., 2011).

Based on the conclusion of AON's research in Section III (2007), organizational sustainability and creating a competitive advantage have been perceived as a significant step forward in the organizational development by building a stronger and more dynamic risk culture (AON, 2007). The result is a risk management culture that drives a better understanding of corporate and business objectives, robust talent management, enhanced cultural behaviors and adding shareholders value. Consequently, the presence of a robust ERM culture inspires collaborative efforts to achieve minimized total cost of risk, improved organizational performance and emerging growth opportunities. According to AON's 2007 research, the full value of risk culture is not realized until it is completely integrated with ERM. Because ERM has been designed to support the business and ensure its long-term sustainability, management and all employees should be truly involved in the risk management process.

As indicated earlier, 93% of organizations with advanced ERM are successful in achieving corporate objectives and agree that aligning ERM and ERM culture helps enhance organizational value. Strong ERM culture is also a prerequisite for a sustainable ERM; '*ERM Cultural Alignment'* presented in Section III can be the source for sustainable competitive advantage.

Another research study performed by IRM (2010) looked at risk culture from a different perspective and based risk survey on four key themes: 1) Tone at the Top, 2) Governance, 3) Competency and 4) Decision Making. IRM 2010 analyzed respondents' perceptions of current risk culture. On the basis of respondents' opinions, it was clear that the risk was not fully embedded into organizational culture, and it was still often managed in isolation. Most of risk aspects associated directly with the risk leadership, level of risk transparency, making risk decisions and rewarding for appropriate risk taking were rated by surveyed 2 out of 4. Risk resources scored the highest rating of 2.6/4 and, and risk competency the lowest: 1.9/4. Key conclusions from the study indicate that the four discussed aspects of risk culture are intermittently correlated. The survey also revealed that embedding risk management in organizational culture remains a significant challenge especially for organizations where risk management is developed in isolation to the business (i.e. there is no ERM culture established). Lastly, only few organizations can honestly admit they have developed structured strategies that focus on creating a risk culture.

Research shows that in order to accomplish an alignment of ERM and risk culture, a well-defined vision and ERM planning become essential initial step (AON, 2007). Senior management buy in a commitment to create a fitting internal environment, and an appointment of resources have also been identified as critical in building risk culture. Finally, a cross communication between lines of businesses, awareness of business objectives, risk-performance indicators and the integration of ERM into business planning were highly recommended for consideration. In organizations where ERM has been embedded into the internal structure, 85% of respondents confirmed the culture was "*entirely* "or "*significantly*" respected compared to 39% of respondents in organizations where ERM is merely being established. This further confirms that there is a strong interdependency between ERM development and a process of creating strong risk culture (AON, 2007).

Another significant factor contributing to the process of shaping ERM culture is ERM mindset and enterprise-wide communication. The results-driven organizations view information flow and communication as key principles for creating strong governance and culture. Enterprise-wide risk communication and a dialogue between management and employees can help understand key risk concentrations (in terms of risk appetite and tolerance) and strengthen the relationships between groups often working in isolation. Employees need to feel encouraged to logically debate and challenge risk-based business decision processes they participate in. An effective method for communicating and responding to risk issues within *ERM Culture Alignment* is to identify who the stakeholders are, gain their commitment and awareness, develop a robust communication strategy within *'safe channels'*, and ensure continuous feedback. Finally, developing success metrics to measure the process effectiveness becomes crucial. Therefore, robust risk cultures promote leadership strategies for downward and upward communication.

Employees should see risk management as a strategic '*partner'* to the business and feel motivation for a proactive collaboration. Allocating the right resources to the right functions with the appropriate level of authority can significantly impact risk culture. One possibility is to realign the organizational structure and transition personnel across from risk management into the business, or require business consult directly with the risk management function. Moreover, common risk language creates ERM mindset and permeates the atmosphere of no intimidation or fear to '*talk business or risk*' with the management. Management's commitment to creating sustainable organizational culture should support developing unique cultural characteristics that can result in significant impact on business reputation and value.

Section V Conclusions

As the role of risk management has gone through significant changes over the years, the restructuring of risk culture intro ERM culture became an area of an increased focus. ERM culture affects the decisions of management and employees whether or not they are consciously weighing organizational benefits versus the costs. ERM culture reflects a lack of strength when decisions run counter to the organizational policies and the risk profile.

The surveys conducted in recent years further demonstrate that flaws in risk culture or the lack of risk culture was one of the primary contributors to the financial crisis. Even though risk culture has become a fundamental component of ERM, many organizations reflect significant deficiencies in this area. Risk culture gaps can expose organizations to vulnerability in the areas where key risks are being overlooked or to unexpected future risk events that can negatively impact the business performance. The studies also confirmed that embedding risk management within the organizational culture remains a significant challenge especially for organizations where risk management is developed in isolation to the business. Therefore, organizations need to rethink the current risk cultures, and focus management efforts on developing a strong and dynamic ERM culture. As a prerequisite for a sustainable and value-adding ERM, ERM culture allows realizing its full value and capitalizes it enterprise-wide. Enterprises with no ERM culture ingrained in the organizational structure fail to accomplish the full potential of ERM benefits. When there is no ERM culture, business units are not working together in managing risks and achieving strategic objectives but they are working in silos. Moreover, lack of solid risk culture can also diminish organization's ability to achieve business objectives crippling business performance and weakening market competitiveness.

ERM culture should be well-defined, transparent and maintain a level of consistency for all employees. It should be dynamic and proactive to unexpected changes and generate uniform risk response. Organizations that can understand and adapt all components of the ERM Cultural Alignment proposed in this paper can execute corporate and business objectives aligned with risk strategy and gain competitive intelligence through an effective ERM culture. *ERM Culture Alignment* enforces integrating processes of formulating and executing core strategies with ERM implementation planning. It can inspire management to create effective cultural alignment that fosters integrity and empowerment and can become a key to generating enhanced shareholders value, meeting regulatory compliance and ensuring competitive sustainability.

In conclusion, there is still a great need for more development of both ERM and ERM culture and few organizations can honestly acknowledge adopting a comprehensive ERM culture.

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