An evaluation of the risk culture at management level in a South African government organisation

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Mini-dissertation submitted in *partial fulfilment* of the requirements for the degree *Magister Commercii* in Banking and Financial Risk Management at the Vaal Triangle Campus of the North-West University

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November 2015
PREFACE

This mini-dissertation is the final deliverable in the Centre for Applied Risk Management (UARM)'s taught master's degree programme. The mini-dissertation was written in article format and consists of three sections: Research project overview, Article and Reflection.

This mini-dissertation is the student's own work. The student was responsible for the final concept, set-up, the execution of the research project and the writing of the mini-dissertation. The members of the supervisory team contributed in an advisory and technical support capacity on study conceptualisation and design, analysis and interpretation of data and critical revision of the manuscript by the student. The mini-dissertation was language-edited before submission.

The main supervisor gave the student permission to submit this mini-dissertation for examination.
ABSTRACT

A strong risk culture is critical for any organisation to manage its risks. Recent reports from the Auditor-General about a South African government institution (Auditor General of South Africa, 2014) demonstrated that its risks were not being adequately mitigated. The purpose of the study reported on here has therefore been to put this judgement to the test and, because no recognised instrument could be found to evaluate the risk culture, an instrument was developed. Many of the risk culture assessment frameworks available have been developed by consulting companies which could be of value to organisations however this study chose to focus mainly on academic literature. In this descriptive study we used a focus group to identify the possible strengths and weaknesses of the prevailing risk culture, following which a questionnaire was designed and used to assess the current risk culture of the organisation. The results were used to evaluate the risk culture with the aim of proposing steps in which to embed a risk culture. We found that the existing risk culture does not contribute to this organisation’s capacity to manage its risks. We also found that managers in this organisation are not encouraged to take risks to achieve their objectives and employees are not held accountable for the management of risks. In agreement with previous studies which found that training in risk management is important, this study suggests that training should be compulsory for all senior management. This study also found that factors of tone at the top, accountability, communication, risk competence and risk capacity are critical to embed a risk culture in an organisation. This study contributes to the existing literature by suggesting ways in which a risk culture could be embedded in an organisation. The results of this research could be useful to organisations, boards, and risk committees.

*Keywords: Enterprise risk management, risk culture, embedding a risk culture.*
ACKNOWLEDGEMENTS

Firstly, thank you to Almighty God for the guidance and strength during this research journey. I would like to express my sincere gratitude to my employer for affording me this opportunity to embark on this journey and for financing my studies. My appreciation to my supervisor at work for her understanding and support in ensuring that I could complete this mini-dissertation.

Thank you to my family for their patience, understanding and support the past two years. Many of the family holidays were sacrificed for this dissertation.

I would like to take this opportunity to express my sincere appreciation to Professor Zaaimean and her team at the North-West University for all the support they have given me to complete this difficult journey. It has been a tough two years.

A big thank you to all my colleagues and employees in the department who participated in this study, for without you this dissertation would not have been possible.

My sincere appreciation must be extended to my research supervisor Dr Sonja Gilliland for her patience, time, support and guidance. She always had time for me, even during weekends.

To Mr Henry Cockeran, the Technical Advisor for my research project at the North-West University, a big thank you. Professor Zaaimean is fortunate to have a person like you on her staff. You and Dr Sonja make an awesome team.
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RESEARCH PROJECT OVERVIEW

1  How does this study fit into the field of risk management?

Organisations often struggle to implement risk management and to embed a risk culture. Academics suggest that a risk culture must be embedded in an organisation but few actually describe how it must be done. A strong risk culture is a pre-condition for any organisation to manage its risks (Fraser & Simkins, 2010:88). Valsamakis, Vivian and du Toit (2013:140) suggest that an embedded risk culture within an organisation plays a critical role in the success of risk management. Often organisations focus more attention on improving risk management systems than focus on improving the risk culture within the organisation. Risk management would be less complicated when organisational risk culture is matured.

2  Why did the student decide to study this specific topic?

The study was motivated by recent reports from the Auditor-General on a South African government institution which demonstrated that its risks were not being adequately mitigated. The department struggles to implement risk management and embed a risk culture in the organisation. The student wanted to establish whether the existing risk culture of the organisation supported or impeded the organisation in managing its risks and to propose steps by means of which to embed a risk culture in this organisation.

3  Why was the specific journal selected for the article?

The South African Journal of Business Management was selected due to the relevance of the study in terms of management theory and practice. The study impacts on both public and private organisations that are battling to successfully implement risk management and to adequately mitigate their risks. The study identified ways in which an organisation can embed a risk culture. Embedding a risk culture is critical for the successful implementation of risk management.
1 Abstract

A strong risk culture is critical for any organisation to be able to manage its risks. Recent reports from the Auditor-General on a South African government institution demonstrated that its risks were not being adequately mitigated. The purpose of this study reported on here was therefore to put this judgement to the test and because no recognised instrument could be found to evaluate the risk culture, an instrument was developed. Many of the risk culture assessment frameworks available have been developed by consulting companies which could be of value to organisations however this study chose to focus mainly on academic literature. In this descriptive study we used a focus group to identify the possible strengths and weaknesses of the prevailing risk culture, following which a questionnaire was designed and used to assess the current risk culture of the organisation. The results were used to evaluate the risk culture with the aim to propose steps by means of which to embed a risk culture. We found that the existing risk culture does not contribute to this organisation managing its risks. We also found that managers in this organisation were not encouraged to take risks to achieve their objectives and employees were not held accountable for the management of risks. In agreement with previous studies which found that training in risk management was important, this study suggests that training should be compulsory for all senior management. This study contributes to the existing literature by suggesting ways in which a risk culture could be embedded in an organisation. The results of this research could be useful to organisations, boards, and risk committees.

Keywords: Enterprise risk management, risk culture, embedding a risk culture.
2 Introduction

A strong risk culture is critical for an organisation to manage its risks (Fraser & Simkins, 2010:88). To this end, the role of the risk management unit in the organisation is to support business in managing risk and providing assurance that the organisation’s risks are adequately mitigated. McKinsey (2010:2) claims that organisations focus more attention on improving risk management systems than focusing on improving the risk culture of the organisation, even though Valsamakis, Vivian and du Toit (2013:140) suggest that an embedded risk culture within an organisation plays a critical role in the success of risk management.

Unlike private institutions that are accountable to shareholders, public institutions such as government departments experience greater scrutiny as they are responsible for using public funds (Vincent, 1996:57-64). Enterprise Risk Management (ERM) requires employees at the various levels of such an entity to view the management of risk as part of their daily task (Fraser & Simkins, 2010:3). For risk management to be effective, it must become part of the organisational culture and the responsibility of every employee (Florescu, Barabas & Barabas, 2015). According to the Institute of Directors in Southern Africa, the King Code on Corporate Governance (2009) requires that assurance must be provided that an organisation’s significant risks have been identified and adequate mitigation measures established. To achieve this goal all organisations should ensure that a risk culture permeates its business. Embedding a risk culture, moreover, is seen as the first step in ensuring that risk management is not only adequate but reflective of its risk culture (Fraser & Henry, 2007:392-409). The absence of a risk culture is often blamed for an organisation’s inability to manage its risks.

The findings of the Auditor-General’s Report on a particular South African government organisation (hereafter referred to as the department) for the past few years demonstrate that its exposure to risk is not adequately mitigated. The purpose of the study being reported here was to determine whether the existing risk culture supported or impeded the organisation in managing its risks. The primary objective was to evaluate the existing risk culture at management level, with the secondary objective being to identify the steps to embed a risk culture in this organisation. Although this study mainly targeted management employees, it also included a small sample of non-management employees to compare their respective opinions and knowledge. The following section contains a review of the literature on the area under investigation.

3 Background

This section provides an overview of the existing literature in the area under investigation. Limited academic research could be found on how to embed a risk culture in organisations
other than work completed by consulting companies which could be of value to organisations. The literature is used to briefly discuss the following concepts important to the research: risk and risk management, the purpose of risk management, culture, organisational culture and enterprise risk management, risk culture, the importance of risk culture and factors to consider when addressing risk culture.

3.1 What is risk and enterprise risk management?

After the literature on risk had been consulted, the following definitions were found to be relevant and useful for the purpose of the study. Pullman and Webster (2010:11) suggest that ‘risk’ be defined as ‘something that may occur and its effects on achieving the objectives,’ whilst enterprise risk management (ERM) is defined as the management of risks in an integrated manner (Valsamakis et al., 2013:86). It is important for any organisation to have a sound risk culture to be able to identify, assess and adequately mitigate its risks.

3.2 Purpose of risk management

Bernstein (1996:197) describes the purpose of risk management as ‘maximising the areas where we have some control over the outcome while minimising the areas where we have absolutely no control.’ Risk management helps an organisation to manage various types of risks, to reduce the opportunity to cause harm, and to create value for an organisation (Waring, 2013:10). Waring and Glendon (2001:7) suggest that risk management supports the organisation in the prevention of loss, reduces insurance costs and helps facilitate a sustainable business. If an organisation’s risk culture is seen as a barrier to the implementation of risk management then the purpose of risk management will not be realised.

3.3 Organisational culture and enterprise risk management

The word culture refers to ‘the total shared beliefs, values and knowledge of a group of people with a common purpose’ (Hillson & Murray-Webster, 2005:69). According to Thomya and Saenchaityathon (2015:158-163), organisational culture refers to a set of values, beliefs, norms and understanding which individuals in an organisation regard as good and which are transferred to new employees. The unique culture of every organisation is an important factor and plays a crucial role in the success and failure of ERM in an organisation (Fraser & Simkins, 2010: 87-91; Kimbrough & Componation, 2009:18-26; Thomya & Saenchaityathon, 2015:158). According to Hillson and Murray-Webster (2005) organisational culture is not constant and the awareness of risk management is the first step to establish an organisational risk culture. A strong organisational culture is one in which employees in the organisation take decisions in a disciplined way while considering the risks and rewards associated with such decisions (Fraser & Simkins, 2010:87-91). It is important for an organisation to create an enabling environment
that fosters ERM in its business processes and in its daily activities. This will create a culture where risks are timeously identified and adequately mitigated.

3.4 **What is risk culture?**

The success of risk management efforts in any organisation depends on an informed and supportive risk culture (Fraser & Simkins, 2010:87-95). The Institute of Risk Management (2012) describes the term *risk culture* as the understanding, beliefs and values that both the employees and management of an entity hold about risk. McGing and Brown (2014:3-4) describe risk culture as the extent to which an organisation encourages employees to take risks. Fraser and Simkins (2010:134), describe ‘risk culture’ as a process whereby an organisation defines its critical areas of business, its key risk indicators, its risk appetite and its tolerance levels. According to Sheedy and Griffin (2014:4), risk culture refers to an organisation’s employees’ attitudes, perceptions, values and behaviour towards risk management. The employees of an organisation must know and understand the type of risk behaviour that management expects of them. Employees or people are an important component of risk culture. An organisation’s risks are identified, assessed and mitigated by people. A strong risk culture should permeate every level of an organisation if its risks are to be identified and adequately mitigated.

3.5 **Factors to consider when addressing the risk culture**

According to Fraser and Simkins (2010:91-92), Valsamakis *et al.* (2013:139-140) and the Institute of Risk Management (2012), organisations should consider the following as important factors when addressing the risk culture of the organisation: tone at the top, accountability, communication, risk competence, and risk taking.

3.5.1 **Risk taking**

Appraisals are an important part of performance management and include the achievement of both financial and non-financial targets (Blunden & Thirlwell, 2010: 272). Valsamakis *et al.* (2013:139) are supported by Chang, Huang, Roan, Chang and Liu (2014:164-194) when they suggest that an organisation should implement performance incentives for risk taking and this should be made known to the employees. Waring and Glendon (2001:391) suggest that the taking of risk is an essential element of any organisation wanting to create value. In order to embed a risk culture, an organisation must encourage and reward certain types of risk-related behaviour whilst processes must be instituted to support such behaviour (Fraser & Simkins, 2010:91-94).
3.5.2 Risk competence

Chang et al. (2014:164-194), Dowlen (1995:19-24) and Galloway and Funston (2000:23) found that for risk management to be effective, it is crucial that managers be trained in risk management to assist them to better manage their risks. Carey (2001: 24-27) suggests that for risk management to be effective it has to develop a strategy to embed risk management in the organisation by training employees in risk management and to create an enabling environment where employees are encouraged to report and escalate concerns related to risk. Smith and Merritt (2002:183) suggest that in the absence of risk management training, employees would not be able to identify risks, assess, evaluate and mitigate the exposure to risk. Valsamakis et al. (2013:140) suggest that training of employees and gaining skills in risk management form an integral part of embedding a risk management culture in organisations.

3.5.3 Communication

Both Valsamakis et al. (2013:139) and Bostanci (2013:19) agree that communication is an important risk management principle that an organisation’s risk culture should address. Improving the communication on risk management is an important step in embedding a risk culture in the organisation (Carey, 2001:24-27). Hallowell, Molenaar and Fortunato (2013:114-121) suggest that risk culture can be developed through written communication via memoranda and policies on risk management.

3.5.4 Accountability

According to a report by the Institute of Risk Management in the United Kingdom (2012), holding individuals accountable for their organisationally related risks is an important element of risk culture. This is supported by the Financial Stability Board framework (2014) and by Hallowell et al. (2013:114-121) who suggest that a good risk culture includes holding employees accountable for the management of their risks. A risk culture can be embedded in an organisation by ensuring that managers take ownership of their risks at the different levels in the organisation (Fraser & Henry, 2007).

3.5.5 Tone-at-the-top

With culture the ‘tone’ is of critical importance with a leadership that encourages and discourages a certain standard of behaviour in a risk context (Fraser & Simkins, 2010:87-91). Kimbrough and Componation (2009:18-26) supported by Hallowell et al. (2013:114-121) suggest that a risk culture can be developed by organisations having a strong commitment from senior management. Fraser and Simkins (2010:93) suggest that it is not only about the provision of resources and funding but it is the support from the leadership of an organisation.
that exemplifies certain type of risk behaviour. According to Blunden and Thirlwell (2010:272), senior management of the organisation must ‘walk the talk’ and what happens at this level determines what happens at the other levels in the organisation. Employees at the lower levels generally replicate how employees at the higher levels behave. The following chapter outlines the method used in this study.

4 Method

This section presents the method used in the study including the analysis of the data, results, discussion and implications of the results.

The existing risk culture in the department was evaluated on the basis of responses to a questionnaire completed online by 120 employees of the organisation. The questionnaire was drawn up from the results of interviews with a focus group and extracts from the literature on risk and risk culture (Fraser & Simkins, 2010; Warning, 2013; Valsamakis et al., 2013; and The Institute of Risk Management, 2012). The focus group consisted of five employees representing management and non-management employees from each level in the department, who were interviewed to identify the possible strengths and weaknesses of the prevailing risk culture.

The questionnaire consisted of three sections. Section 1 captured biographical information (gender, ethnicity, nationality, level of current role in the organisation and highest level of formal education completed). Section 2 addressed the participants’ level of agreement with regard to 29 statements related to the risk culture in the department with regards to tone-at-the-top, risk communication, risk competence, risk policies, risk capacity, and risk performance management. A 4-point Likert scale was used to rate the level of agreement with the statements, where 1 = strongly disagree, 2 = disagree, 3 = agree, and 4 = strongly agree. A neutral option was not included as the statements were constructed in such a manner that the participants had to respond either positively or negatively. Section 3 was an open-ended question that allowed the participants an opportunity to provide suggestions on how the organisation could improve its risk culture.

The target population was senior executives, senior management, and middle management as well as non-management employees within the department. The questionnaire was first piloted with four participants who were representative of the target population to ensure the clarity and relevance of the questions to which minor adjustments were subsequently made. The questionnaire was then distributed to all management employees using a list of names and their contact details provided by the department.
A small sample of non-management employees was also targeted to compare their responses with those of management employees. The questionnaire was distributed to non-management employees selected according to their positions in the department to ensure that they would have sufficient knowledge of the risk management culture in the department. The survey was administered online to all the participants. Once the questionnaire had completed, it was automatically downloaded to a database and converted to an Excel spreadsheet. IBM SPSS version 22 was used to calculate frequencies. The following section deals with the results of the study.

5 Results and Discussion

The demographic profile of the participants in the study is provided in Table 1 and the principal responses to the questions are summarised in Table 2. Although there were 29 questions in the questionnaire, the study mainly focussed on 13 questions that could be of value to this organisation wanting to embed a risk culture.

5.1 Demographic profile of participants

Overall, 120 responses were received of which 94 were from management and 26 from non-management; 107 questionnaires were completed in full.

Table 1: Demographic profile of participants (n=120)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Men 49% and Women 51%</td>
</tr>
<tr>
<td>Age (years)</td>
<td>26-35 (24.2%); 36-45 (44.2%); 46-55 (18.3%); 56-65 (13.3%). (Average age 43)</td>
</tr>
<tr>
<td>Level of role in organisation</td>
<td>Executive Management (1%); Senior Management (26%); Middle Management (51%) and Non-management (22%)</td>
</tr>
<tr>
<td>Ethnic group</td>
<td>Black (52%); Coloured (11%); Indian (8%); White (28%); Other (1%)</td>
</tr>
<tr>
<td>Nationality</td>
<td>South African (99%); Other (1%)</td>
</tr>
<tr>
<td>Highest level of formal education</td>
<td>Secondary school (11%); Diploma (19%); Bachelor’s degree (30%); Honours degree (19%); MBA (5%); Master’s degree (9%); Doctorate degree (3%) ; Other (3%)</td>
</tr>
</tbody>
</table>

5.2 Risk culture components

The results are discussed according to the following components as mentioned in the literature review, tone at the tone-at-the-top, accountability, communication, risk competence, performance incentives for risk taking, and risk capacity. The results in Table 2 have been combined for management and non-management in the categories strongly disagree, disagree, agree and strongly agree.
5.2.1 Tone-at-the-top

Approximately two-thirds of both management and non-management personnel had the perception that management did not provide visible leadership on how employees should respond to risk. More than two-thirds of both management and non-management personnel had the perception that management did not provide consistent leadership on how employees should respond to risk. These results showed that the perception of both management and non-management employees is that the tone-at-the-top in the organisation is weak. If risk management is to be effective in this department, then the leadership must lead by example on how employees should respond to risk. The leadership of this department must make an effort to change this perception through their actions.

5.2.2 Accountability

Six out of ten of the management participants responded that managers did not take ownership of their risks, whereas 68% of non-management employees thought the same. These results showed that the perception of both management and non-management employees was that managers in this organisation did not take ownership of their risks.

The results also showed that 73% of management and almost two-thirds of non-management employees had the perception that their performance agreements did not include the management of risks. These results suggest that the employees in this organisation are not held accountable in their performance evaluations for the management of risks. The leadership of this department firstly has to ensure that the performance agreements of management and non-management employees include the management of risks. Only then will the performance of risk management in this department improve.

5.2.3 Communication

More than two-thirds of both management and non-management participants had the perception that top-down communication on risk is not effective. The results also showed that more than 50% of management and almost 50% of non-management participants had the perception that risk communication bottom-up is not effective. When communication on risk is effective, it allows the employees in an organisation to fulfil their risk management responsibilities optimally. This department needs to make greater use of written communication in the form of circulars, the intranet, risk workshops and risk forums to keep employees engaged in risk management.
5.2.4 Risk competence

Almost two-thirds of management and 60% of non-management participants had the perception that the organisation does not conduct training in risk management. Fifty-nine per cent of management and almost two-thirds of non-management participants indicated that they had not been trained to manage risks. More than 50% of management and more than two-thirds of non-management participants had the perception that employees did not understand the risk appetite of the organisation. Fifty-seven per cent of management and 56% of non-management employees had the perception that employees did not understand the risk policy of the organisation. The results suggest that there is a general lack of understanding of the entity's risk policy and appetite. It is imperative that the employees in this department know and understand its risk management policy, risk management framework and risk management strategy. It is clear that improving the risk competence of both management and non-management employees should receive urgent attention if risk management were to be effective.

5.2.5 Performance incentives for risk taking

More than two-thirds of management and 87% of non-management employees had the perception that the organisation did not encourage risk-taking. The results suggest that the organisation could be risk-averse or risk-neutral. Vincent (1996:57-64) found in his study in the USA, Japan, New Zealand, Argentina and Australia that managers in public institutions are sceptical about taking risks due to increased scrutiny and accountability. Vincent suggests that the flexibility about taking risks, unlike in the private sector, is absent in the public sector. He does, however, suggest that managers in public institutions should be allowed some flexibility to make mistakes that are small when taking risks. This organisation should consider encouraging both management and non-management employees to take certain risks with the aim to improve performance and service delivery, provided that the decisions taken are within its risk appetite.

5.2.6 Risk capacity

One in seven of both management and non-management employees had the perception that the department had insufficient risk management capacity to manage risks in the organisation. The results suggest that insufficient risk management capacity could negatively affect the implementation of risk management in this organisation. For risk management to be effective in this department, the risk management division needs to be adequately staffed with sufficient risk management capacity, as failing which risks will not be timeously identified, assessed and adequately mitigated. The allocation of resources by the leadership of this department is critical.
<table>
<thead>
<tr>
<th>Question</th>
<th>Management (%)</th>
<th>Non-management (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly disagree</td>
<td>Disagree</td>
</tr>
<tr>
<td><strong>Tone at the top</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management provides visible leadership on how employees should respond to risk</td>
<td>18%</td>
<td>45%</td>
</tr>
<tr>
<td>Management provides consistent leadership on how employees should respond to risk</td>
<td>21%</td>
<td>49%</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers take ownership of the risks that they are responsible for</td>
<td>14%</td>
<td>47%</td>
</tr>
<tr>
<td>My performance agreement includes the management of risks</td>
<td>16%</td>
<td>57%</td>
</tr>
<tr>
<td>I am measured on risk management during performance reviews</td>
<td>17%</td>
<td>49%</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top-down communication on risk management is effective</td>
<td>16%</td>
<td>54%</td>
</tr>
<tr>
<td>Bottom-up communication on risk management is effective</td>
<td>8%</td>
<td>48%</td>
</tr>
<tr>
<td><strong>Risk competence</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organisation conducts training in risk management</td>
<td>12%</td>
<td>53%</td>
</tr>
<tr>
<td>I have been trained to manage risks in the organisation</td>
<td>9%</td>
<td>50%</td>
</tr>
<tr>
<td>I understand the risk appetite of the organisation</td>
<td>6%</td>
<td>49%</td>
</tr>
<tr>
<td>I understand the risk policy of the organisation</td>
<td>5%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Risk taking</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The organisation encourages managers to take risks</td>
<td>18%</td>
<td>59%</td>
</tr>
<tr>
<td><strong>Risk capacity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is sufficient risk management capacity to manage risks in the organisation</td>
<td>17%</td>
<td>58%</td>
</tr>
</tbody>
</table>

In the final open-ended question of the questionnaire, the participants were afforded an opportunity to make recommendations on how the organisation can improve its risk culture. The following exact comments couched either assessment or recommendations, were provided by both management and non-management employees. Management participants supported the view of non-management participants who recommended the following:
• More communication, more awareness sessions on risk management.
• Risk management road shows both nationally and in provincial offices.
• Compulsory training on risk management.
• There should be enough training of middle to senior management on risk management.
• It should be compulsory that every employee undergo a risk management training that is tailor-made to the organisation specific
• The risk management component is not sufficiently capacitated, which is hampering the clear functioning and more so the detection of risks.
• Increase the capacity in risk management unit.
• Risk should form part of the performance agreements of all the managers at the different business areas so that each manager can start taking ownership and accountability for his own risk related to his business area.
• Risk management should be one of the Key Performance Areas (KPA) of senior managers and middle managers performance agreements and be measured accordingly.
• Risk management should be a standing KRA for every individual and management must be assessed on how they manage risk in their business units.
• Risk and rewards should be made known.
• Improve top to bottom communication on risk and risk management.

These comments from the open-ended question support the findings in the questionnaire where the participants stated that communication on risk management in this organisation is not adequate, that the training provided on risk management is not adequate, that there is insufficient risk management capacity in the organisation, the management of risk is not part of the performance agreements of its employees and employees in this organisation are not incentivised to take risks.

5.3 Discussion

The results demonstrated firstly that the existing risk culture of the Department does not contribute to the management of risks in the organisation. The findings provided answers to the primary objective of the study which was to evaluate the existing risk culture at management level of the department. The factors identified from the literature and used to assess the risk culture are:

Tone-at-the-top: The results of this study also showed that the leadership of the department does not provide consistent and visible leadership on risk taking and the management of risks. Hallowell et al. (2013) found in their study on ERM in state departments of transport in the USA
that support from the leadership and their personal involvement in risk management sets the
tone for the success of ERM in the organisation. Kimbrough and Componation (2009) found in
their study that strong and visible leadership by senior management of an organisation is critical
for the success of ERM.

Accountability: The results showed that performance agreements of employees in this
organisation do not include the management of risks and the employees are not measured on
the management of risks during performance reviews. The findings have been confirmed by the
human resource section of the department after the results had been obtained from the study,
and it was indicated that the management of only financial risk is included in the performance
agreements of senior management under the section of 'core management criteria and
standards'; however operational risks, strategic risks, regulatory risks, legal risks, compliance
risks, to name a few, are not included. It was also confirmed that the performance agreements
for middle management and non-management personnel do not include the management of
risks. This is a concern for the department because Florescu et al. (2015) found in their study in
Romania on trends in risk management implementation in small and medium enterprises that
the management of risk must be a key performance indicator for employees if organisations
want to hold employees accountable. The results of this study also suggest that managers in
this department do not take ownership of their risks. In their study in the United Kingdom,
Harwood, Ward and Chapman (2009) found that some managers in public listed companies
take voluntary ownership of their risks while others have to be forced. These results support the
study done by Vincent (1996:58) and Fraser and Henry (2007:402) which found that the lack of
ownership of risks by managers will impede the organisation in managing its risks.

Communication: The results of this study showed that the communication both top-down and
bottom-up is not effective. Employees are not kept informed on a continuous basis on risk-
related issues. The findings are consistent with what Bostanci (2013) found when the risk
culture at a Bank in Turkey was assessed which found that the risk communication between and
within departments was not effective. Our results, in accordance with Fraser and Henry
(2007:402), found that for risk management to be successful, communication on risk issues
needs to be effective.

Risk competence: The results showed that opportunities for training in risk management are not
adequate and that managers have not been sufficiently trained to manage risks. The findings
are consistent with those of Chang et al. (2014) in which it was found that there is a lack of risk
management training in public institutions in Taiwan. With the majority of management
agreeing on a lack of understanding of the department’s risk policy and appetite, the results are
consistent with what Ke, Wang and Chan (2012:678) found in their study on the practice of risk management in public-private projects in China. Their study further concluded that there was limited training in risk management which contributed to the absence of a strong risk management culture. These results, together with the results of Hallowell et al. (2013) and Dowlen (1995) could indicate that it is imperative that employees must be adequately trained in risk management for them to fulfil their roles in the management of risks. It can therefore be suggested therefore that the department’s employees are not adequately equipped to fulfil their roles in the management of risks.

Performance incentives for risk taking: The results suggest that the department does not encourage employees to take risks, implying that it could be seen to be more risk-averse or risk-neutral rather than risk-seeking. No incentives for risk taking are provided in this department either. The results of this study are consistent with what Chang et al. (2014) found in their study in Taiwan on the development of a risk assessment framework for public administration, that there was a lack of incentives for risk management in public institutions. However, Bozeman and Kingsley (2008:109-118) found in their study on risk culture in public and private institutions in the United States of America that there is no conclusive evidence that managers in public institutions are more risk-averse than managers in private institutions. Vincent (1996:57-64) in his study on managing risks in public institutions in the USA, Japan, New Zealand, Argentina and Australia found that employees in public institutions adopt a more cautious approach towards risk taking as they are more concerned with issues of controls and accountability than on taking risks to achieve their objectives. Encouraging both management and non-management employees to take certain risks with the aim to introduce innovation and to improve service delivery, should be part of this department’s risk culture, provided that the decisions taken are within its risk appetite.

Risk capacity: The results showed that there is insufficient risk management capacity in the department. Despite the results being based on perception of the participants in this study, this department has already responded to the findings by the recent approval to increase the staff complement in the risk management unit. Kimbrough and Componation (2009:24) performed a study on the relationship between organisational culture and enterprise risk management in public and private institutions in 21 countries, including the USA. The study found that certain factors in an organisation can have a positive or negative impact on the implementation of risk management. Their study, however, did not reference sufficient or insufficient risk management capacity as being one of them. The results of our study suggest that insufficient risk management capacity could be a factor that negatively affects the implementation of risk management in the department.
To address the secondary research objective of the research, the results suggest that a strong risk culture can be embedded in the organisation by instituting the following measures as indicated in Table 3:

**Table 3: Steps to embed a risk culture**

<table>
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<th>Action</th>
<th>Steps</th>
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| Tone at the top   | • Visible and consistent leadership on risk-related issues needs to permeate every level of the organisation.  
                    • The leadership should ‘walk the talk’ rather than ‘talk the walk’. |
| Accountability    | • The management of risks to be included in the performance agreement of every employee.  
                    • Managers to take ownership of their risks |
| Communication     | • Continuous risk communication through risk workshops, written memoranda and road shows to inform employees of risk management and their roles and responsibilities in the process. |
| Risk Capacity     | • The organisation needs to increase the staff complement in the risk management unit. This will help improve the implementation of risk management in the Department. |
| Risk taking       | • Employees should be encouraged to take risks if the risks and rewards are made known. |
| Training in risk management | • Compulsory training in risk management for all senior management employees.  
                          • If funds are available then to be extended to middle and non-management |

6 Conclusion

This section presents the conclusion, implications for managers, limitations of the study and areas for further research.

This study provided valuable information on the existing risk culture of the organisation and what could be done to embed a risk culture. Participation in this study by employees has raised awareness around risk management and risk culture within the organisation. Both management and non-management employees agree on the status of this organisation’s current risk culture. It could be inferred that management has indirectly solicited buy-in from non-management employees should the organisation wish to take steps to improve its risk culture. The findings of the study suggested that the existing risk culture does not contribute to the management of risks in the organisation. In addition, the study found that the performance agreements of its employees do not include the management of risks, that there is insufficient risk management capacity in the organisation, that risk management training is inadequate, that communication on risk is ineffective, and employees are not incentivised to take risks. Finally the results of the study indicated that the tone-at-the-top is weak. It is imperative for the organisation to take
action now to improve its existing risk culture. Taking steps to embed a risk culture is seen as
the first step in addressing these shortcomings.

Kimbrough and Componation (2009) found that organisational culture could be a hindrance to
the implementation of risk management and based on the results of this study, it is evident that
the existing risk culture of this organisation does not contribute to the organisation managing its
risks. A further investigation could be to determine if the organisational culture is impacting the
establishment of an effective risk culture. There is a need for management to address this
deficiency.

The other question that begs answering is whether the culture factors identified are also
applicable to developing countries such as South Africa. One obvious example is the issue of
corruption, which has become endemic in the South African culture, and which potentially would
be present in the management culture as well?

The results also showed that if the risk management unit is insufficiently staffed, it could
negatively impact the organisation in the successful implementation of risk management. Both
management and non-management employees suggested in the open-ended question in the
questionnaire that this organisation should increase the number of employees in its risk
management unit. No reference of this could be found in previous studies.

Although literature in the field of study has indicated that training in risk management is
important, none has found or suggested that training in risk management should be compulsory.
The suggestion by the participants in the open-ended question has clearly articulated that
training in risk management should be compulsory. Employees of the Senior Management
Services should receive compulsory training in risk management and if financially viable this
training should be extended to other employees.

Although no previous studies had been done on how to embed a risk culture, the results of this
study identified measures that this organisation, and others, could institute to embed a risk
culture as listed in Table 3, thereby contributing to the literature on risk culture.

This study does not profess that all issues about this organisation’s risk culture have been
identified or that those which have been identified are applicable to all public and private
organisations. The findings, however, do offer value to managers in this and other
organisations, to audit and risk committees and to boards and academics.

Although this study focussed on one particular public sector institution in South Africa, there is a
need to extend this research to evaluate the risk culture of other public and private sector
organisations. There is further scope to investigate whether audit committees are playing an active role in improving the risk culture of public institutions in South Africa.

7 References


Number of words of mini-dissertation: 6279; (17 pages) Requirement of the South African Journal of Business Management (not more than 20 pages)
REFLECTION

Risk Management as a discipline is relatively new and conducting research in such a field made this project more interesting. The study was motivated by recent reports from the Auditor-General (2014) on the public institution in South Africa that its risks were not being adequately mitigated. This department struggles to implement risk management and embed a risk culture in the organisation. Objectives of the research were to establish whether the existing risk culture of the organisation supports the organisation in managing its risks and to identify steps to embed a risk culture in this organisation. Ultimately the overall aim of the study was to assist this department to better manage its risk.

Fraser and Simkins (2010:88) suggest that a strong risk culture is a pre-condition for an organisation to manage its risks. Embedding a risk culture within an organisation plays a critical role in the success of risk management. The research journey commenced with a comprehensive literature review on the subject of risk culture and risk management. Various online databases were accessed to identify studies previously done in the area under investigation. Both local and international journals were reviewed. The literature review revealed that most of the studies done thus far were related to risk management and limited research could be found on the topic of risk culture or how to embed a risk culture in organisations. It became clear that this study could add to the body of knowledge in the risk management space, both for private and public institutions, academics, boards, risk committees, risk practitioners and scholars alike. During this process I have learnt to critically analyse journal articles and I developed my research skills.

No recognised instrument to evaluate risk culture could be found in the literature. The study used a focus group to identify the strengths and weaknesses of the existing risk culture of the said department. The information gathered from the focus group together with literature on the subject found in books written by recognised risk management writers, was used to develop an appropriate instrument. A questionnaire was developed to evaluate the existing risk culture of the department. The study sampled management and non-management employees in the department.

The questionnaire was completed online by all the participants. The results indicated that the existing risk culture did not support the organisation in managing its risks. The study further identified ways in which a risk culture could be embedded in this organisation. Thus both the primary and the secondary research objectives were achieved.
In terms of my personal experience, I enjoyed developing my skills in trying to solve a problem and found collecting the data from which to draw findings was exciting. I have learnt how to search for journals, which databases to search and how to search for them. My reading on the available literature taught me about the implementation of risk management in the United States of America, China, Argentina, United Kingdom and New Zealand. I enjoyed using the research tools in this project. Using both a qualitative and a quantitative method for data-collection was not easy, but over time I managed to find my way. I did not enjoy following up with the participants to determine whether they had completed the research questionnaire.

I found it difficult and stressful writing a research paper to the standard of a journal. Trying to find scholarly literature around the area under investigation was difficult. Remaining focussed and keeping sight of the end goal is what kept me motivated during this difficult time. In future research I intend to improve the planning phase of possible research by reading more widely on the scholarly literature prior to the commencement of the research.

The hard work over two years has finally culminated in the submission of the mini-dissertation. It has been an enriching experience fraught with many challenges. Initially I thought writing an article for possible publication would not be too difficult. I now understand the amount of work involved in writing such an article. It is tough and involves team work, commitment and time.

This research journey has strengthened my interest in research and in particular the risk management space. It has alerted me to the impact this paper could have on both my organisation and other organisations and to other scholars in this field. The study had achieved its intended outcome of identifying ways to embed a risk culture in organisations. I hope my research contributes in a small way to the body of knowledge and will assist others in expanding their own knowledge.

Reference

South African Journal of Business Management
Instructions to Authors

Editorial policy: The South African Journal of Business Management publishes articles that have real significance for management theory and practice. Original theory and unique application plus readability and good writing style are important criteria for publication. No articles which have been published elsewhere or are under consideration elsewhere will be considered. Nor will any article be considered that are not written in perfect English or that do not adhere to the instructions to authors.

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All opinions expressed in papers appearing in the South African Journal of Business Management are those of the authors, and are not necessarily subscribed to by the editorial staff or by the Association for Professional Managers in South Africa.

Contributions must be written in English (to facilitate accessibility internationally).

The content of the Journal falls into two categories: Managerial theory is devoted to the reporting of new methodological developments, whether analytical or philosophical. In general, papers are considered most appropriate if, in addition to developing new theory, some discussion of applications, either historical or potential, is included. Both state-of-the-art surveys and papers discussing new developments are appropriate in this category. The orientation is to the development of the theory of management.

Management practice is concerned with the methodology involved in applying scientific knowledge. Attention is focussed on the problems of developing and converting management theory to practice, bearing in mind behavioural and economic realities. Papers should reflect the mutuality of interest of managers and management scientists in the exercise of the management function.

Appropriate papers may include: examples of implementations that generalize experience rather than specific incidents and facts, or principles of model development and adaptation that underlie successful application of particular facets of management theory. The relevance of the paper to the professional manager should be highlighted as far as possible.

Correspondence from readers is encouraged on all matters pertinent to management. Especially welcome are academic replies to articles published in the Journal.

Lay-out of manuscripts: Articles should be submitted electronically. The following details should be provided: author’s surname; type of word processing document and the file name. Use A4-size formatting, 1.5 spacing and margins of 3cm. The first page should contain the title with the name and complete address of the author to whom correspondence is to be sent. The title, which should be concise but sufficiently informative for information retrieval purposes, should appear on the second page without the names of the authors. Articles should not exceed 20 pages.

The text of the manuscript must be preceded by an English abstract of about 200 words.

Tables should be numbered consecutively in Arabic numerals (Table 1) and should bear a short yet adequate descriptive title. Footnotes to tables should be designated by lower-case letters appearing as superscript to the appropriate entries. Tables should be presented on separate sheets, grouped together at the end of the manuscript. Their approximate positions in the text should be indicated.

Mathematical notations should be selected so as to simplify the typesetting process. Authors should attempt to make mathematical expressions in the body of the text as simple as possible. Greek letters and unusual symbols (if handwritten) must be labelled when they first appear in the manuscript, as well as the subscript ‘oh’ (as distinguished from the number ‘zero’).

Illustrations should be prepared on separate A4 pages. Authors should use dedicated graphical software giving uniform lines and lettering of a size which will be clearly legible after reduction. Freehand or typewritten lettering and lines are not acceptable. Authors are requested to pay particular attention to the proportions of illustrations so that they can be accommodated in single (86 mm) or double (179 mm) columns after reduction, without wastage of space. Figures should be numbered consecutively in Arabic numerals (Figure 1), and descriptive captions should be listed on a separate page. All illustrations should be grouped together at the end of the manuscript, and their approximate positions in the text indicated.

References: the Harvard method should be used, namely short references in the text and more detailed references arranged in alphabetical order at the end of the manuscript.

References in the text. Cited information must be identified accurately. The surname(s) of the author(s), year of publication and page number(s) appear in parentheses after the quotation, for example (Coetzee, 1986: 2-5), (Brown & Jones, 1986: 2-5). Omit the page number(s) if the entire publication is referred to, for example (Berger, 1994).
works by three or more authors the surnames of all the
authors should be given in the first reference to such a
work, for example ‘A recent study (Jones, Smith, Boren &
White, 1993) shows …’ In later references to this work
only the first author’s name is given, and the abbreviation
et al., a comma and the year of publication. For example:
(Jones et al., 1993).

References at the end of the manuscript. More details about
sources referred to in the text must appear at the end of
the manuscript under the caption ‘References’. Sources must
be arranged alphabetically according to the surnames of the
first author. If more than one publication by the same
author(s) appear in one year they must be distinguished by
an a, b, etc., for example 1981a, 1981b.

References from books. After the year of publication,


Helping the poor. In Schoon, A. (Ed.). Poverty in the 3rd

References from journals. After the year of publication,
follows the title of the article, title of the journal, volume,
number, page(s).

Langmuir, I. 1956. ‘Isomorphism, isoterism and

References from the Internet. Hollard, P.J. 1999. Food

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No articles will be published without first undergoing an
anonymous but rigorous refereeing procedure. The editor
reserves the right to make the final decision with respect to
publication.
APPENDIX B: RISK CULTURE QUESTIONNAIRE

Risk Culture Survey

1. Survey explanation and consent

TITLE OF THE RESEARCH PROJECT:
Risk culture at management level in a South African government institution
RESEARCHER: GS Naidoo
ADDRESS: [Redacted]
CONTACT:
Email: naidoo@[Redacted]
Phone: [Redacted]

You are invited to take part in a research project that forms part of my mini-dissertation as partial fulfillment of the degree MCom Banking and Financial Risk Management. Please take some time to read the information presented here, which will explain the details of this project. Please ask the researcher any questions about any part of this project that you do not fully understand. It is very important that you are fully satisfied that you clearly understand what this research entails and how you could be involved. Also, your participation is entirely voluntary and you are free to decline to participate. If you say no, this will not affect you negatively in any way whatsoever. You are also free to withdraw from the study at any point, even if you do agree to take part.

This study has been approved by the Research Ethics Committee of the Faculty of Economic Sciences and Information Technology of the North-West University Vaal Triangle Campus (NWU) and will be conducted according to the ethical guidelines and principles of the International Declaration of Helsinki and the guidelines of the Research Ethics Committee of the North-West University. It might be necessary for the research ethics committee members or relevant authorities to inspect the research records.

Is there anything else that you should know or do?
• You can contact GS Naidoo at [Redacted] or [Redacted] if you have any further queries or encounter any problems.
• You can contact the Research Ethics Committee via Dr S Gilliland at Sonja.Gilliland@nwu.ac.za or 016 910 3281 if you have any concerns or complaints that have not been adequately addressed by the researcher.
• You may make a copy of this information and consent form for your own records.

The research topic is: Risk culture at management level in a South African government institution. This research study has been approved by the Director General of the [Redacted] under the condition that your identity will remain anonymous and all information furnished will be treated as confidential.

Your contribution to the study will provide important information that will assist the organisation to improve the risk culture. The results of the study may be published in an academic journal.

The objectives of the study are:
• To assess the current risk culture of the organisation.
• To determine steps to embed a risk culture in the organisation.

Please note the following:
1. Your name does not appear on the questionnaire and the answers you give will be treated as strictly confidential.
2. The data will be reported in aggregated format. Responses are required from all levels of the organisation.
3. The results of the study will be used for academic purposes only and may be published in an academic journal. The findings of which may be used by the Department of [Redacted] to inform the risk management strategy.
4. Please answer the questions as completely and honestly as possible.
5. It should take less than 15 minutes to complete.

1. I have read the information above and consent to participate in this study on a voluntary basis
   ○ Yes
   ○ No

**Risk Culture Survey**

2. Biographical information

This section asks for information about yourself. This information will be used in the analysis of the data and not to identify you.

Please select the option that best describes yourself.

2. How old will you be at the end of 2015?
   age in years

3. Your gender
   ○ Male
   ○ Female

4. Your ethnic group
   ○ Black
   ○ Coloured
   ○ Indian
   ○ White
   ○ Other
   Other (please specify)

5. Your nationality
   ○ South African
   ○ Other
   Other (please specify)
6. The level of your current role in your organisation
- Executive Management
- Senior Management
- Middle Management
- Non-management

7. Your current role in your organisation
- Internal Audit
- [ ]
- Policy and Regulation
- Regions
- Finance
- Corporate Services
- Other
Other (please specify)

8. Highest level of formal education completed
- No formal education
- Primary school
- Secondary school
- Diploma
- Bachelor's degree
- Honours degree
- MBA
- Master's degree
- Doctorate degree
- Other
Other (please specify)
Which of these options best describe your experience of the statements about the status of risk management within the Department of [Redacted]?

Kindly tick the appropriate box for question 9 to 37. Question 38 requires you to provide suggestions on how to improve the risk culture of the organisation. It is optional, but we would greatly appreciate your suggestions.

9. Management provides visible leadership on how employees should behave and respond to risk

10. Management provides consistent leadership on how employees should behave and respond to risk

11. Risks are considered when management decisions are made

12. Risks are considered when operational decisions are made

13. Managers take ownership of the risks that they are responsible for

Risk Culture Survey

14. Risks are managed in the organisation

15. Top down communication on risk management is effective
16. Bottom up communication on risk management is effective
   
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17. Risks are proactively identified on an annual basis by management
   
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18. Risk management is implemented consistently throughout
   
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19. The organisation conducts training in risk management
   
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20. The risk management training provided by the organisation was adequate
   
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21. Risk assessments are conducted on a quarterly basis
   
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22. The organisation encourages managers to take risks
   
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23. I understand the term ‘risk management’
   
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24. I understand the risk management process as implemented in
   
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### Risk Culture Survey

**25. I understand my role in the risk management process**

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**26. My concerns about risks are taken seriously by my line manager**

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**27. I feel comfortable to inform management of risks**

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**28. I have been trained to manage my risks in the organisation**

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### Risk Culture Survey

**29. The training I have received to manage my risks in the organisation was adequate**

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**30. I understand the risk appetite of**

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**31. There is sufficient risk management capacity to manage risks in the organisation**

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32. I understand the risk management policy of the organisation

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33. My performance agreement includes the management of risks

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<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
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### Risk Culture Survey

8.

34. I am measured on risk management during performance reviews

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
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35. I understand the risk management framework of the organisation

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
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36. Risk management is integrated into strategic planning process

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<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
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37. Managers are held accountable for the management of their risks

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
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### Risk Culture Survey

9.
38. What do you think should be done to improve the risk culture within the organisation?

(Risk culture refers to the collective ability to manage risk; Decisions taken are risk based; Management are held accountable for the management of their risks; The ‘tone at the top’ where management lead by example in the management of their risks; There is ownership and commitment to the management of risks; Risk culture includes the communication on risk in its daily activities, the values, beliefs, knowledge about and the understanding of risk by employees, management and leadership of the organisation.)

Risk Culture Survey

10. Thank you!

Your participation in this survey is much appreciated.

Should you have any questions or comments regarding the study, please contact the study supervisor:
Dr Sonja Gilliland, Sonja.Gilliland@nwu.ac.za

OR

GS Naidoo, naidoog@nwu.ac.za

Risk Culture Survey

11. Goodbye

So sorry that you must go. Maybe next time!
Should you have any questions or comments regarding the study, please contact the study supervisor:
Dr Sonja Gilliland, Sonja.Gilliland@nwu.ac.za

OR

GS Naidoo, naidoog@nwu.ac.za

<table>
<thead>
<tr>
<th>Risk Culture Survey</th>
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<tbody>
<tr>
<td>12. End of Survey</td>
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</table>