

Adaptive enterprises manage risk best

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Organisations that fail to adapt to rapidly changing community expectations, or that focus on one stakeholder such as shareholders over all others, can't effectively manage their risk, according to a research paper* prepared for the Actuaries Institute.

Andrew Brown, specialist consulting actuary, warns that the cultural failings identified in the Royal Commission into Australia's finance institutions will continue unless there is a holistic approach to evolving better corporate culture.

Mr Brown said findings from the Royal Commission and the 2018 report from the Australian Prudential Regulation Authority into the Commonwealth Bank, highlight two main issues:

- ▶ individual and collective greed that puts self-interest and the interests of shareholders ahead of customers; and
- ▶ a reliance on regulation and process alone to encourage and enforce the right conduct

Mr Brown also said organisations tend to stumble when people focus on processes rather than hold themselves accountable for outcomes.

"Organisations must have positive values that are embedded in day to day behaviour," Mr Brown said. "They should resist overly complex and bureaucratic decision-making processes, and reflection and questioning must be embedded in the culture." He said overcoming the shortcomings highlighted in the Royal Commission and APRA review will need:

- ▶ individual ability to see issues from more than one perspective and maintain ethical standards despite adversity;
- ▶ ways of working that allow groups to solve complex challenges; and
- ▶ systems, processes and structures that reinforce best behaviour.

The paper states that organisations must:

- ▶ understand the consequences of the ways in which employees think and behave;
- ▶ focus on building an environment where learning and responsibility are encouraged;



- ▶ intentionally enable intrinsic motivation, and review traditional incentives, rewards and recognition; and
- ▶ enable cultures that recognise and enable individual, group and organisational change.

“As organisations become more aware of the impact of their actions on key stakeholders, they begin to see how these impacts affect their brand, reputation and ultimately, their own success,” the paper states.

Evolving the right culture takes a long-term commitment, Mr Brown said. “And it involves a great deal of adaptive ability, from both individuals and teams.”

The full paper can be accessed [here](#).

*The Dialogue is a series of thought-leadership papers, written by actuaries, which aim to stimulate discussion on important issues. Opinions expressed are those of the authors and not necessarily those of their employers or the Actuaries Institute.

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