

The Risk Culture Survey

PwC's Risk Culture Survey (RCS) is a proprietary, web-based diagnostic tool that can help any organization gauge the effectiveness of its enterprise-wide risk management culture, a key foundation of sustainable risk management and compliance programs.



Benefits of the risk culture survey

The results of the risk culture survey provide:

- Powerful information on key indicators of effective risk management that have historically not been measured.
- Enhanced awareness and understanding of business risks throughout the enterprise.
- Establishment of a cost-effective baseline that can be measured regularly as part of a compliance management system to identify any issues and monitor an organization's risk culture and practices.
- A mechanism for employees to raise issues of improper ethics and compliance practices.
- Validation directly from managers and employees as to whether the organization's strategy is understood and aligned at all levels.
- A blueprint for developing a robust business risk management framework.
- Ability to operationalize risk management strategies through action plans that align key business initiatives with systemic risks.
- Ability to link business risk and control perspectives at the 'top' to the perspectives of people on the front lines.
- Direct input on how well the company's people strategy is working.

Key opportunity indicators for using the risk culture survey:

- Management is initiating implementation of enterprise risk management.
- Gain an understanding of the control environment as part of Sarbanes-Oxley 404 compliance, and then using the baseline data to monitor the organization's control environment on an ongoing basis.
- Considerable growth being experienced by the organization.
- An accelerated pace of change in the company's business.
- Negative publicity related to control failures of major incidents.
- Senior management wants to ascertain the depth of knowledge and understanding of risks within the organization.
- Management interest in creating a common risk language.
- Accountability for risk unclear within the organization.
- Mergers and acquisitions.
- Ethical concerns within the company.

The value of the risk culture survey

Within the past few years, Standard & Poor's (S&P) began considering the effectiveness of a company's Enterprise Risk Management (ERM) efforts in evaluating credit ratings. As a part of S&P's approach, the risk governance and culture of the organization are considered. This new focus challenges companies to more formally assess and document the risk management culture of the organization as part of an overall enterprise risk management program.

Failure by management to foster an environment or culture that promotes integrity will be a significant detriment in creating the cultural change needed to comply with regulatory requirements such as Sarbanes-Oxley on a sustainable basis. Without a clear understanding of how employees perceive management's efforts to mitigate risk and operate in an ethical manner, implementation of a solid compliance program focused on internal controls will not be effective.

The Risk Culture Survey is a web-enabled technology solution that PwC offers to clients to poll employees confidentially and provide feedback in the following areas considered to be the key attributes of effective risk management:

- **Leadership and Strategy** – how well does leadership demonstrate ethics and values and communicate its mission and objectives throughout the organization.
- **Accountability and Reinforcement** – the ability of the organization to assign individual accountability within the organization and the ability to measure and reward performance.
- **People and Communication** – how well does the organization share knowledge and information and promote and develop employee competence.
- **Risk Management and Infrastructure** – the ability of the organization to assess and measure risk and establish processes and controls to mitigate that risk.

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How can the RCS help?

Assessing the effectiveness of ERM program:

Risk management culture is a key element to effective and sustainable Enterprise Risk Management (ERM). It consists of organizational behaviors and processes that enable the identification, assessment and management of risks relative to objectives ranging from compliance to operational, financial and strategic. When effective, it empowers employees to understand what constitutes risk, how much risk is acceptable, how risk information flows into decision-making, and how risk/reward decisions are made. Studies have found that a strong risk management culture generally correlates with fewer losses beyond risk tolerances and enhanced performance management.

Assessment tools such as the PwC Risk Culture Survey provide a means for evaluation against key attributes of an effective risk management culture. Such assessments help organizations evaluate the effectiveness of their ERM programs, which is not only leading practice but is also an input into Standard & Poor's (S&P) credit ratings process.

Sarbanes-Oxley 404 compliance:

The Risk Culture Survey is commonly being used for Sarbanes-Oxley compliance and other internal control projects as one of the first steps in the risk assessment process. This diagnostic survey tool allows management to measure some of the "softer" components of COSO (i.e., the Control Environment), which can be difficult to measure outside of a survey-type process.

Results from the RCS can be incorporated into the "Risk Assessment" COSO component. The RCS can help identify areas of potential risks and challenges to the organization, while also highlighting those areas where the organization is doing well. Management can focus on the results that warrant additional attention and develop and implement action plans around those areas. Once an organization has established a baseline measurement, repeating the survey on an annual basis can provide valuable insight into the effectiveness of the organization's efforts to enhance those areas needing improvement and maintaining those areas where the organization is doing well.

Key attributes of effective risk management

The Risk Culture Survey questions are categorized and analyzed along the following Key Attributes, Sub-Attributes and Key Indicators of effective risk management and control.



Leadership & strategy

Integrity & ethical values

- Tone at the Top
- Personal ethical practices

Communicate mission & objectives

- Policies & procedures
- Top-down alignment of strategy

Accountability & reinforcement

Assignment of authority & responsibility

- Assignment of ownership
- Demonstrated accountability

Human resource policies & practices & performance measurement

- Performance indicators
- Incentives & discipline

People & communication

Commitment to competence

- Employee competence
- Training

Information & communication

- Information quality
- Top-down communication
- Communication across processes

Risk management & infrastructure

Identify & assess risk

- Risk assessment practices
- Risk tools & processes

Establish processes & controls

- Process reliability & efficiency
- Control effectiveness & efficiency
- System access & security

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Examples Of issues identified by the RCS

Leadership and strategy:

- Inconsistent direction from management
- Lack of awareness among employees of long-term and short-term strategies and objectives
- Misalignment of objectives between corporate and business units
- Unethical or non-compliant practices identified

Accountability and reinforcement:

- Unclear individual accountability for objectives
- Lack of understanding of policies
- Incentive focus on short-term objectives
- Disciplinary actions are not consistently being reinforced

People and communication:

- Messengers of bad news are not well received by management
- Lack of training on risk management
- Insufficient skilled resources/ high turnover
- Inconsistent execution of performance review process
- Inadequate inter-departmental or cross organizational communication

Risk management and infrastructure:

- Understanding of risk is inconsistent or non-existent
- Absence of emphasis on risk management or control by management
- Absence of processes to manage change
- Inadequate controls or controls not working
- No performance measures in place

RCS deliverables:

The following information is contained in the reports:

I. Results of the survey – Data report:

- Mean and standard deviation for each scaled question.
- Breakdown of survey results for each demographic segment represented (i.e., hierarchy, geography, business unit, etc.).
- Complete respondent comments provided for each question.

II. Analysis provided by PwC professionals:

- An Executive Summary, including identification of key themes emerging from the survey.
- Summary of the employees' comments.
- Overall averages for the Key Attributes, Sub-Attributes & Key Indicators of risk and control.
- Identification of the highest and lowest scoring questions.
- Identification of the highest and lowest standard deviation questions.
- Analysis of the key areas where significant variances exist between stratification levels.

To learn more about the Risk Culture Survey visit our website at:

www.pwc.com/riskculturesurvey

The RCS process:

Survey development

The employee population to be polled is selected. The standard Risk Culture Survey questionnaire can be modified to meet the unique cultural and language requirements of your organization

Survey implementation

The Survey is set up on our secure, proprietary website. An email announcement is then distributed to your target managers and employees, instructing them how to get to the website and complete the survey.

Report delivery

Once the Survey closes, the Risk Survey Center will generate two reports: a Data Report and an Analysis Report. The RCS Data Report provides the detailed results of the survey, including comments made by participants. The RCS Analysis Report provides a summary of the key strengths and potential challenges and analysis of survey results, based on a structured framework.

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PwC senior manager testimonial:

“First, the RCS is a great first step in implementing a full-fledged Enterprise Risk Management program - it helps identify strengths that the company can build on as well as "soft spots" that should be understood in greater detail. For a large Atlanta CIPS client we paired the RCS with a high-level risk assessment, helped the company establish a Risk Council (a committee version of a Chief Risk Officer), and then facilitated prioritization and action planning around themes identified in the RCS and the risk assessment.

Second, many companies are using the RCS today as part of their risk assessment efforts for Sarbanes. Information from the RCS is incorporated into the "Risk Assessment" COSO component (and possibly Control Environment and Monitoring, depending on how they use it. They build a process to identify RCS results (key indicators, etc.) that warrant additional attention, to develop action plans around those questions, and then to implement those plans. These companies then document this process as support for their Sarbanes assertion...”

— Assurance Senior Manager, Atlanta

Client testimonial:

“Our company utilized the PwC Risk Culture Survey as part of the Sarbanes-Oxley 404 project. It has proved invaluable in helping identify our strengths and weaknesses against the key attributes of effective risk management and in helping us assess ourselves against the various elements of the COSO framework, which would otherwise be difficult to capture. The survey was easy to use for our employees and the feedback from PwC was both timely and easy to interpret. We will be using this again next year!”

— Sarbanes-Oxley 404 Project Manager, Global Public Manufacturing / Engineering Company