The Impact of Risk Culture on Bank Sector Analytical Study on Cihan Bank

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Doi:10.23918/icabep2018p27

Abstract

This study reviews theories and models on risk culture, as well as the main frameworks and regulations on risk culture. The study focused on Cihan banks and the results were conclusive that risk culture impact on Cihan bank and the factors affecting on banks is leadership, accountability, culture change, incentives. We are distributing 40 questioners and obtain 30 only. The results and findings of this research are analyzed by SPSS to build analysis and draw conclusion. The research findings showed distinctive relation between measuring dimensions and risk culture.

Keyword: Risk culture, Type of risk culture, accountability, incentives, risk culture failure, compensation.

1. Methodology

1.1 Research Problem

The risk is very importance factor effect on banks, there are many risk factors. So the banks should understand this factors to understand the risk, the purpose of this research is to investigate the factors effect on the Cihan banks.

Therefore, the research problem is: how the factors of risk culture effect on banks?

1.2 Research Importance

1- To examine the relationship between the factors and risk culture.

2- To answer research question and test the hypothesis and give conclusion and recommendation.

3- To present a theoretical background of the risk culture and the factors.

1.3 Research Hypothesis

According to the research problem and importance, this study specified the basic hypothesis as below:

H0: There is a relationship between risk culture and factors.

H1: There is a relationship between leadership and risk culture

H2: There is a relationship between accountability and risk culture

H3: There is a relationship between culture change and risk culture.

H4: There is a relationship between incentives and risk culture

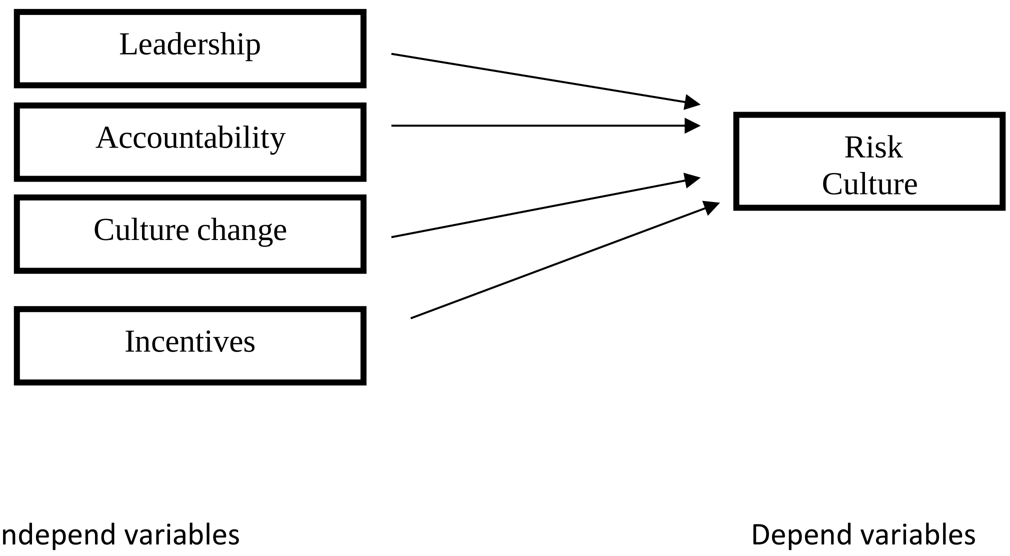
1.4 Research Methods

This research uses qualitative approaches on both primary and secondary data by use the (SPSS) program. The primary data was collected from questionnaires distributed aiming employees of Cihan Bank. The secondary data was collected from books, journals and websites.

1.5 Research Sample

The researcher selected banks, to see how banks deal with risk and how manage it. For adoption evaluation purpose, by determent some factors like leadership, accountability, culture change , incentives .

1.6 Conceptual Framework



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2. Overview of Theoretical

2.1 Define of Risk Culture

The first question in risk culture is: "what is risk?", and how we can define the risk and how to understand the impact in organization, and how will be managed. So we mention some definition about risk culture to see the impact on organization environment:

Risk culture can be defined as the characteristics, attitudes and social behaviors shared by people or employees inside companies, enterprises, organization towards (positive and negative) effects of objectives that they decided to do it (Schoenfeld , 23,2013) .

According to (BGLN,2 ,2014) risk culture is a subset of the broader culture, which is of most interest to organization to deal with the employees and environment.

Risk culture can be defined according to (EY, 2,2015) as a financial institution's standers and the collective attitudes and behaviors of its people that effect on outcomes.

Risk culture is a good indicator of how widely a bank's risk management policies and practices have been adopted (IFC,3,2015).

(Lamarre & Twining, 3, 2016) The standers of behavior for employees and managers within an organization that determine the collective ability to identify and understand, discuss and making decision on the organization's current and future risks.

A risk culture improves attention of employees (Cendrowski and Mair, 2009) and enables employees to speak and listened to by decision makers (Brooks, 2010).

(APRA ,7,2016) define the risk culture as a system of mutual values (that define what is main) and standers that define correct attitudes and behaviors for organizational members (how to feel and behave)

So, according to the definition above, we can define the risk culture as a behavior or thinking of employees in organization about what they like and see in organization environment.

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2.2 The Model of Risk Culture

There are many models about risk culture that describe it. So according to (IRM, 20,2012) & (OECD,7,2014) & (EYGM,4,2105) & (IFC,3,2015) the best model as following :

Source: IFC, 2015, Risk Culture, Risk Governance, and Balanced Incentives, 7.

1- Risk Competence: The bank can deal with its existing risk competence through:

- Skill: the manager, employees should have skill to know how to deal with risk and definition it by training, enhance their ability, having knowledge about it to improve their skill for future .
- Learning: the bank shares the knowledge about risk culture between the individual, groups (managers and employees) and make practices in the bank with risk management department for relevance the real risk.
- Recruitment and Induction: the bank should make training program for the new manager or employees to ensure they oriented toward risk.

2- Organization: It is about bank's operation and how it is organizing and value through:

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- Strategy and Objectives: the banks should be determining the strategy for achieve objectives to identify the risk and face it.
- Values and Ethics: the bank should consider about the behavior and ethics between the individual inside the bank and outside with others to keep the value that bank have it from them like ethic of obedience, ethic of care , ethic of reason such as, for example, outsourced service providers.
- Policies, Processes and Procedures: the manger should make some sufficient for the employees with regard to information of risk in the bank.

3- Relationships: the good relationship inside the bank make it face the risk more better, by make communication between the following area:

- Effective Communication: by encourage communication between staff, sharing information, to report the impotence subject about risk and for the top management to know how their staff having the right risk culture.
- Leadership: clarification the role, responsibility, behaviors' standards with the tone to the top and middle of the bank.
- Challenge: constructive between the individual in the bank (board to executive, manager to employee) to reduce the risk - related in the bank.

4-Motivation: the incentives is so importance for bank system to deal with risk through:

- Performance Management: the bank should train their managers and employees to ensure they get or effect with the right behavior.

- Risk Orientation: the bank most have advance knowledge about the risk and how to deal with it, how to implement the solution to prevents effecting on senior management and employees.

- Accountability: the bank determining constantly held liable on senior management, employees and held accountable any imprudent risk taken.

2.3 The Failure of Risk Culture

There are many causes make the risk culture fail in companies, banks. According to (Levy & Others, 5, 2010) & (Jackson,49,2015) there are 10 reasons make risk culture as following:

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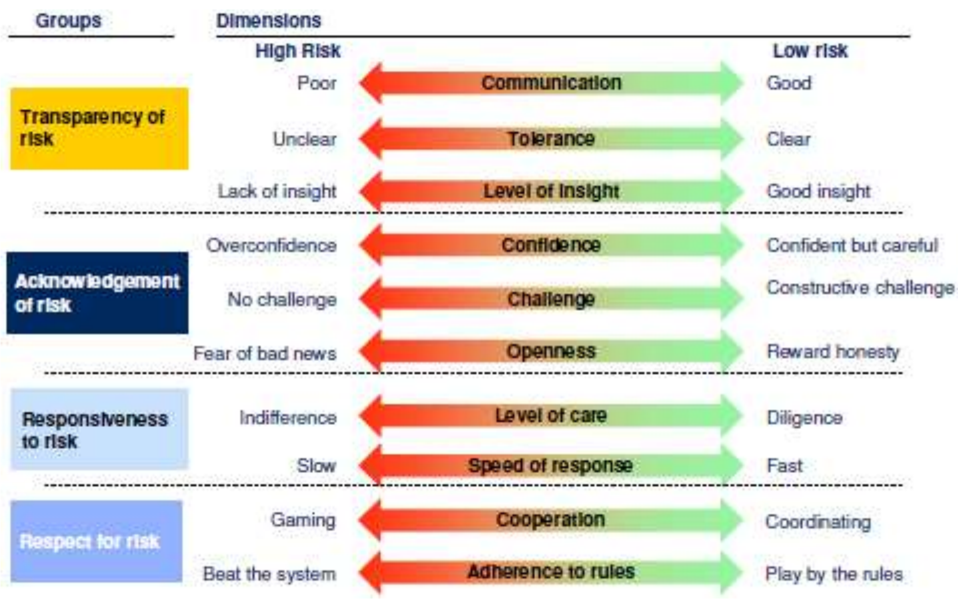

Source: McNish et al, 2010, Taking control of organization risk culture, 5.

1- Transparency:

- Poor communication: the weak communication in the bank about sharing risk information and culture with internal and external environment.
- Unclear tolerance: when the manager doesn't care how to arrives the information to employees, this produces a weak strategy to facing the risk.
- Lack of insight: it came from misunderstanding the risk information and not allow a specialist deal with risk.

2- Acknowledgement:

- Overconfidence: it happens when the bank believes they can solving any problem or risk event.
- No challenge: the individual in bank do not develop them self by training, learn new system, new IT , suggest ideas .
- Fear for bad news: managers and employees not share or translate the bad information or bad news to others for avoid inhibited morale.

3- Responsiveness:

- Indifference: a culture of lack of interest about implement the decision and what the outcome of it and how deal with it.
- Slow response: when the bank react response to the change and challenge of external environment so slowly, and not make fast impact to the change.

4- Respect:

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- Beat the system: preparing for the risk but not with bank orientation, that make the activities implementing in wrong way .
- Gaming: when individual take responsibility on specific project for their benefit and the same time it is not comply with the policy of the bank.

2.4 The Factors Effect on Risk Culture

According to (Kpodo & Agyekum, 685, 2014) & (FSB, 6, 2014) the factors as following:

1- Leadership: the manager should know how to leads the employees in organization and he need some qualities, according to (R. Kolzow, 17, 2014) there is a model for leadership theory in three steps from 1920s until now as following:

- **Leadership Trait Theory**: this theory gives the characters that should any leader have it to became different from the follower, like intelligence, creativity, self-confidence, task-relevant knowledge, credibility, flexibility, motivation.

- **Leadership Behavior Theory:** this theory contradicts the previous theory, trait theory said the leader born with leadership characters, behavior theory assume that anyone can became a leader by learning ability, actions, style, so according to The Blake and Mouton Managerial Grid (2010) there are five kinds of leadership behavior:

  1- Country Club Style: in this style the leader makes a good relationship with the other people (employees, followers).

  2- Impoverished Style: here the leaders avoid establishing a deep relationship with others (manager, employee, follower) and care only about themselves.

  3- Middle-of-the-Road Style: the leader give concern equally, between the task and the people who responsible about it, but without care about skills, ability, efficiency which lead to not do the task very well.

  4- Produce or Perish Style: this style focus on task more than employees and use hard treatment for employees like threat of punishment, being fired to make them do the task without wrong.

  5- Team Style: this style make attention on task and organize the group\ employees through communication focus on achieving the goals, according to The Blake and Mouton Managerial Grid this style is the best from the five styles.

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- **Contingency Theory or Situational Leadership Theory:** this theory assume that every situation need different ideas, Procedures, thinking, decision, because the leader cannot use the same tolls or Procedures with different situation. so according to (Hersey& Blanchard, 1982) there are four styles for this theory:

  1- Directing: some time call telling, here the leader tells the employee what should they do (one-way communication).

  2- Coaching: in this style the leader make communication with the employees tell them ideas, suggestion, and discusses all with them (two-way communication). but still responsible about decision making.

  3- Supporting: this style about relationship behavior, like listing to the employee opinion, courage the employee and give them incentive to do the work in best way.

  4- Delegating: the leader discusses the problem and the causes of it with the followers and what is the best solution for it, but the decision taken only by the subordinates who own the company.

2- Accountability: in organization, the employees held responsible about their duty, task, action and in return, the organization give them stimulate to do the work in best way (FSB ,8,2014). According to (EY,2,2015) there are three challenges in accountability as flowing:

- front-line accountability for risk: the first line usually focusses on day- by- day activity risk, problems, the routine and regular issues. But not the financial risk.
- The second line having limited scope and not sufficiently focusing on aggregate risks: this line often focusses on conduct, legal, IT risk and they don't have enough space and time to doing all analysis for risks.
- The third line: in this line there is three steps first, the internal audit implementing by front and second line, second, complying with new regulations, third, determining the new responsible for employees in third line.

And to solve these problem for the three lines (PwC ,14,2015) suggest some items for that:

- The board of company decided the behaviors that depends on it for risk culture.

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- The managers should make balance between the performance and what happens with it like pressure, actions, responsibility, and with reduce the effective of risk culture.

- The management make report daily for be sure that the performance and behavior is relating with risk culture.

- The manager should be clear about the penalty for not important risk and behavior that employees taken.

3- Culture Change: change culture need time to establishing new methods that can people accept it. So according to (Australian government- department of finance, 5,2016) there are three steps of culture change:

1-Building awareness of a culture of risk: making by establishing expectations and define the relevance information, role, behaviors, responsibility. On the other hand, the manger should make well commutation with employees to achieve all expectations.

2- Changing an entity's culture: in this step they start developing the implementing to reach to the goals. And to achieve this goal they depend four channels:

A- Role Models: every behavior has two effects positive and negative, the organization should understand these effects to have benefit from this behavior.

B- Explicit messages: the organization give orders, information, directive about the procedures, all these actions help the manager to decide how to manage the risk.

C- Incentives: any organization ask about the best of their employees should give them reword for their good risk management, otherwise the organization loses opportunities in risk management.

D- Symbols and actions: the positive action that taken by the top manager to the staff can great high impact and lead to share value in organization.

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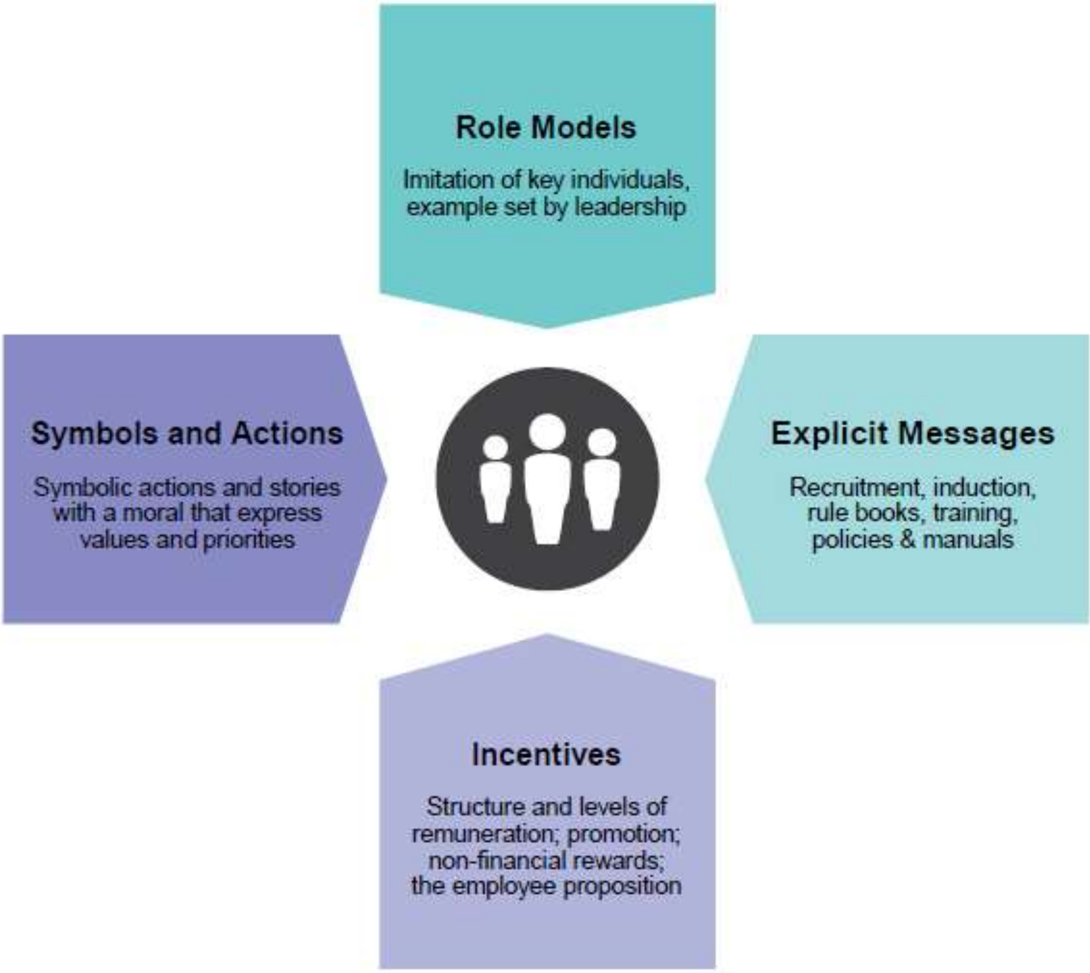

Source: Australian government- department of finance,2016, Developing a Positive Risk Culture,2.

3- Refining the entity's culture: in third step the organization start to monitoring and evaluate the performance and the behavior risk culture mange, measuring what they achieve through this period, and what risks they except it in the future.

4- Compensation: it came from the power of positive effect from the organization to the staff by finance reword, moral stimulation. All this have long- terms impact on the organization and it is representing by loyalty.

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3.Empirical Study

3.1 Data Collection and Analysis

Table (1)

Demographical Data

Factors	Factors	Percentage
Gender	Male	76%
	Female	34%
Age	Below 25	11%
	26 – 35	45%
	36-46	33%
5	Above 46	11%
Education	Diploma	5%
	Bachelor Degree	92%
	Master Degree	3%
	Doctorate Degree	0

Source: created by Researchers

3.2 Multiple Regressions:

These researches summarize the regression analysis results in table as below:

Table (2) Regression Analysis Result

R Square	**0.609**
Significant value	**0.045**

Source: by Researchers

In order to check dependency of risk culture, multiple regression analysis was done. R^2 is .609 this suggests that 60% of the variance factors can be explained. The significant value is 0. 045.so the first hypothesis is supported. It means 56% change occurring in dependent variable due to independent variable.

Table (3) Correlation Analysis Result

In depended Variable	Measuring Factors
Dependent	
Risk Culture	0.510*

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*p < (0.05)   N=100

In order to check dependency of factors, multiple regression analysis was done. R^s is .0.510 this suggests that of the variance of factors can be explained.

Table (4) Coefficients (a)

Standardized coefficient	Beta	P
Leadership	0.280	.046*
Accountability	0.170	.037*
Compensation	0.016	$.058^{N.S}$
Culture Change	0.349	.041*

Source: created by Researchers

*P<0.05   N.S= Not Significant

Independent Variable:

Beta indicates that (Beat = 0. 280) of Leadership is significant and positive, which supports hypothesis 1. (Beta = 0.170) of Accountability is significant and positive, which supports hypothesis 2. (Beta = 0.016) of Compensation is not significant and negative, which not supports hypothesis 3. (Beta = 0.349) of Culture Change is significant and positive, which supports hypothesis 4.

4. Conclusion and Recommendation:

4.1 Conclusion:

1-there is a weak in compensation that mean the senior official in bank not understand the positive effect on staff performance by give them reword for example.

2- the bank not make attention about staff and thinking for long term how to deal with staff in future.

3- ignore the staff efforts and not appreciation what they are doing for making behavior risk culture great a problem for the bank, and let the staff (manager or employee) thinking for other options.

4-the factors or variables are chosen here all cannot affect the overall risks culture.

4.2 Recommendation:

1- viewing the other risk or similar risk that happened in the past for make useful from it to deal with threats.

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2- the senior official should depend on past events and experience to know how to deal with the staff.

3- reword and moral stimulation make staff do his best for the bank.

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