Risk & Culture

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Organisational Culture is Central to Risk Management

The strongest risk planning and systems can fail if the organisation's culture does not support them. Examples of risk and governance failures continue to dominate business headlines, highlighting how critical organisations culture is to effective risk management.

Regulators such Australian Securities and Investments Commission (ASIC) and Australian Prudential Regulation Authority (APRA) have increasingly focused on organisational culture, requiring frameworks that foster and maintain a culture aligned with strong risk management practices. Both regulators have stated they will monitor culture as early warning signs of potential issues, including misconduct.

A supportive organisational culture is not just a safeguard—it is integral to identifying, managing, and mitigating risks effectively.

What is Culture?

There is no shortage of definitions for culture. In the context of corporate culture, two examples stand out:

"Culture is made up of the values, beliefs, underlying assumptions, attitudes and behaviours shared by a group of people. 'Corporate culture' is used to describe the underlying values, beliefs and norms of an organisation".[1]

"These will tend to be implicit and govern 'the way we do things around here'".[2]

Culture, together with the organisation's values, determines what behaviours are acceptable and what are not.

A Shift in the Question

The focus of organisations is shifting from simply asking, "Can we?" to asking the more ethically grounded question, "Should we?".[3]

Organisational culture is pushing corporate governance beyond compliance, requiring not just that organisations do things correctly, but that they also do the right thing.

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1. H Schien 1999, the corporate culture survival guide, Jossey-Bass Publishers San Francisco
2. T Deal and A Kennedy, 1982, Corporate cultures: The rites and rituals of corporate life. Penguin Books Massachusetts.
3. Australian Institute of Company Directors (AICD), 2019, "Governing organisational culture".

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Examples of Governance Failures Attributed to Corporate Culture

There are countless instances where poor organisational culture has led to failures in risk management.

Below are a few examples.

In many of these cases, the Boards of these organisations were unaware of the issues until it was too late. However, the ultimate responsibility always lies with the Board, both individually and collectively.

Company	Issue & Causes
Volkswagen[4]	Cheated on emissions testing. Two factors were found: 1. Single focus on becoming the largest car maker in the world 2. A management style described as climate of 'fear'
National Australia Bank (NAB)[5]	$360M of foreign exchange losses. Issues included: 1. Bad news supressed not passed onto the Board 2. Culture worked against risk management policies and processes
Collingwood Football Club[6]	Racism was found within the culture of the club was found by an independent review to be systemic.
Commonwealth Bank of Australia (CBA)[7]	The APRA inquiry into banking found in the CBA case: 1. Widespread sense of complacency from the top down 2. A reactive culture 3. An insular culture that did not learn from experience and mistakes of their own and others. 4. A collegial and collaborative environment impeded accountability and individual ownership of risk issues. There was no healthy challenge or oversight.
Cricket Australia (CA)	The independent review into CA was scathing as to the win-at-all-costs culture that contributed to the ball tampering scandal in March 2018.[8]
Crown Casino[9]	NSW Government enquiry into Crown Casino found that the organisation's culture was poor along with deficiencies in risk management systems and processes.

4. A Cremer and T Bergin, 2015, "Fear and respect: VWs culture under Winterkorn' Reuters.
5. PricewaterhouseCoopers, 2004, "Investigation into foreign exchange losses at the National Australia Bank", *Blowing-the-whistle*.
6. T Holmes, 2021, ABC News, Collingwood Football Club is guilty of systemic racism, review finds
7. Australian Prudential Regulation Authority (APRA), 2018, *Prudential Inquiry.*
8. The Ethics Centre, 2018, "A matter of balance", a report commissioned by the board of Cricket Australia.
9. D Himbrecht, 2021, "Not suitable: where to now for James Packer and Crown's other casinos?, The Conversation.

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A series of Royal Commissions and government inquiries have highlighted the critical role of directors in defining and overseeing safe organisational cultures.

These include:

- Royal Commission into Institutional Responses to Child Sexual Abuse

- Royal Commission into Aged Care Quality and Safety

- National Inquiry into Sexual Harassment in Australian Workplaces

These findings underscore the responsibility of Boards to establish and monitor cultures that prioritise safety and accountability.

Focus Areas

Organisations should pay attention to the following areas, as they may indicate cultural issues:

- Remuneration structure

- Conflicts of interest

- Complaints handling

- Treatment of whistleblowers

- Timelines in reporting breaches
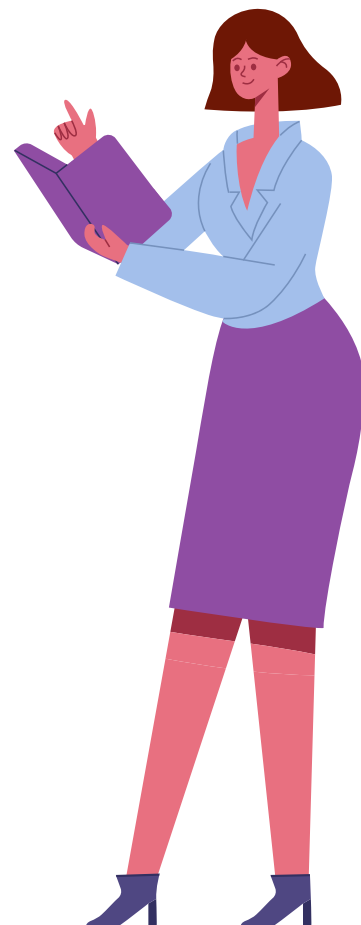
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Code of Conduct & Whistleblowing

A well-defined and regularly communicated Code of Conduct is critical to fostering a positive organisational culture. Policies supporting upward reporting should ensure a safe environment, free from retaliation or victimisation. The Code of Conduct should not be a "set-and-forget" document—it requires regular review, reinforcement, and alignment with behaviours that are actively rewarded.

Organisations must also demonstrate a strong commitment to protecting individuals who report issues when normal channels fail. Establishing a whistleblower hotline or alternative reporting mechanism can help achieve this. For the not-for-profit (or for-purpose) sector, ASIC has provided specific guidelines for charities on implementing and maintaining whistleblower policies.

As of 1st July 2019, the *Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019* expanded protections for whistleblowers, including the scope of who can report and the types of misconduct that can be raised. Under the *Corporations Act*, all public companies and large propriety companies are required to have a whistleblower policy.

Whistleblowing, while beneficial for good governance and risk culture, is complex and often resisted internally. It is sometimes misused and can bring statutory challenges under laws like the *Corporations Act*. Organisations considering whistleblower policies should seek expert advice.

Effective Risk Management in Practice

When risk is managed effectively, it often goes unnoticed—operating quietly behind the scenes, as it should. Organisations with strong governance, risk management, and culture assess risks alongside opportunities, enabling them to drive strategic success and achieve their objectives.

Other Harmony Alliance Guides in the Risk Management Series

- Risk Management
- Identifying, Analysing & Evaluating Risk
- Crisis Management
- Emerging Risks
- Business Continuity Planning - Overview
- Pandemic Planning