

Creating Strategic Vision: The Intersection Between Culture and Risk

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Agenda

- What is *Culture*?
- Characteristics of a *Strong* Culture
- Challenges and Opportunities
- Role of the Board and Management
- Culture + Risk = Harmonious Convergence?



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But first, my backstory...

- Governance, Risk and Compliance (GRC) – 30 years
 - Industry Practitioner – 18 years
 - Risk career began as the first Disaster Recovery Analyst for a \$25B Super-Regional Bank
 - Aviation (Commercial), Banking, Credit Union (Corporate), Hospitality, and Manufacturing
 - Senior executive (C-Suite) over Administration, Compliance, Legal, Risk and Technology
 - Advisory / Consulting Professional – 12 years
 - Disaster Recovery Consultant for a former “hot site” provider and “Big 4” Practice Leader
 - Audit, Compliance (SOX), Business Continuity (BCM), Data Privacy, Enterprise Risk (ERM), Information Security, Insurance, Program Management, and Technology Implementation
 - Over a dozen industries and local/state/federal governments, both domestic and global
 - Board Member – 9 years
 - Healthcare (Insurance Provider) – Recruited to be the Board’s Risk and Technology SME



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...and Currently

- SVP and Chief Risk Officer for Volunteer Corporate Credit Union (VolCorp)
 - Newly-created position as of February 2018
 - Responsible for Asset-Liability Management (ALM)/Credit, BCM, Compliance (BSA/OFAC), ERM, Information Security, Legal, Privacy, and Vendor Management
 - Executive Sponsor – Culture Enhancement Project (#1 Strategic Initiative)
- Other Professional Tidbits
 - Advisory Board Member – *ERM Initiative* @ North Carolina State University
 - *Risk Manager in Residence* – Spencer Education Foundation
 - DRJ *Executive Council* Member & former *Editorial Advisory Board* (EAB) Chairman
 - Master Business Continuity Professional (MBCP) – First certification class (!!)
 - Founding Member of BCM information exchange groups (BRAV, MADRA, SCPA)



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What is Culture?

- **Corporate Culture**
 - “The set of shared attitudes, values, goals, and practices that characterize an institution or organization.” – ~~Merriam-Webster~~
- **Risk Culture**
 - “The set of encouraged and acceptable behaviors, discussions, decisions, and attitudes toward taking and managing risk within an institution.” – *The Risk Management Association (RMA) Journal*, December 2013 – January 2014
 - “The norms, attitudes, and behaviors related to risk awareness, risk taking, and risk management.” – Financial Stability Board, *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture*, 2014



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Characteristics of a *Strong Culture*

- “Tone at the top” and *Core Values* practiced in daily actions (Behavior)
- Transparent and coordinated decision-making (risk-based, calculated)
- Continuous challenge of preconceptions, decisions, and actions (Courage – healthy conflict, professional skepticism)
- High-level of information sharing and communication (Across the “T”)
- Rapid escalation of threats & concerns (Proactive vs. Reactive, 3LOD)
- Failures are critical learning opportunities (Iterative, “Fall Forward”)
- Encouragement to “Do the right thing” (Ethics/Integrity)
- Focus on internal and external stakeholders (Accountability, RACI)



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What is *Risk Culture*?



- The *Financial Stability Board* considers **risk culture** effective when it...
 - promotes sound risk-taking
 - addresses emerging risks beyond risk appetite
 - ensures employees conduct business in a “legal and ethical manner”

There are 2 types
of people in this world



Don Pagach, NC State ERM Initiative, 2018

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Characteristics of a *Strong Risk Culture*

- *Consistent* behavior
 - Spot and discuss industry trends and emerging risks in RMCO and BOD
 - Challenge a peer when they state “it’s always been done that way”
 - Choose to walk away from a critical vendor due to non-performance or unethical business practices
 - Pursue non-traditional business opportunities within stated appetite
 - Support investment to treat a key risk owned by another department
- *Inconsistent* behavior
 - Sandbag initiatives in order to ensure your chosen issue is addressed first
 - Select a vendor solely because the owner is your neighbor’s brother
 - Implement a new product or service without considering potential regulatory or reputational impact
 - Allow others to miss critical deadlines because “they always help out”
 - Remain silent with the CFO “adjusts” the financials to exceed expectations



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Challenges and Opportunities

- It’s H A R D
- Too time-consuming or complex (KISS)
- Individualism – Knowledge is power, “I can fix it,” bad behavior, Me > We
- Diverse work and communication styles
- “Analysis Paralysis” vs. “Fail Fast”
- “Tone at the top” alignment with “the middle” and front-line
- Corporate mindset – Compliance- or Business-first, appetite/tolerance
- Transparency – How much is “too much”



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Role of the Board and Management

- Board of Directors
 - Set direction
 - Ask questions
 - Establish executive accountability
- Management
 - Walk the Talk
 - Remove barriers
 - Care and Feed
 - Exercise managerial courage
 - Celebrate successes



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Culture + Risk = Harmonious Convergence?

- Foundational values are similar for Culture and Risk
- Desired behavior of a Strong Culture is modeled by Risk
- Strong Corporate Culture → Strong Risk Culture → Strong Business
- Win/Win for the business and all stakeholders



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Bonus!!

- How did 80's rock band "Culture Club" get its name?
 - Original name – "The Sex Gang Children"
 - New name captured the multi-cultural background of its band members: Irish, Jamaican, Jewish, English



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Questions?

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