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Bridging the gap: Understanding behavioral risk in organizational culture

by Vera Cherepanova

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In today's landscape, the spotlight on integrity and ethical culture within organizations is relentless. Wrongdoing and adverse outcomes are often rooted in behavioral issues, pointing to deeper cultural concerns.

There is an increasing trend from regulators worldwide to expect businesses to manage organizational culture. Although regulation has a limited role in mandating a certain culture, it does serve as a potent catalyst for cultural improvement, drawing organizations' attention to and expectations regarding culture and conduct.

Regulatory bodies such as the U.K.'s Financial Conduct Authority[1] and De Nederlandsche Bank in the Netherlands[2] have emphasized the necessity for cultural change within the financial services industry. The U.S. Department of Justice's *Evaluation of Corporate Compliance Programs* guidelines address how an organization measures its culture of compliance and which steps it takes in response to the measurement.[3] Moreover, financial authorities require internal auditors to evaluate and comment on behaviors and culture in countries like the U.K., Singapore, and Australia.

Regardless of your industry, addressing ethics and organizational culture is a fundamental requirement for an effective ethics and compliance program.

But here's the crux: how can organizations move beyond superficial culture assessments and generic employee surveys to harness advanced techniques for measuring and improving their cultures?

The answer lies at the intersection of effective ethics and compliance programs and enhanced risk management, where organizations shift their focus toward understanding behavioral risk.

This article offers a framework to set up a behavioral risk assessment capability, including identifying areas prone to behavioral risks, carrying out subculture audits, and developing an organization's behavioral anchors. These steps provide a strong foundation for sustainable cultural change.

The concept of behavioral risk

At its core, human behavior is a means of achieving a goal. Over time, behaviors that prove most effective in reaching goals become automatic patterns or routines. When asked about the drivers behind such behaviors, people often say: "This is how things are done here," which is also a popular definition of organizational culture.

Within organizational culture, behavioral risk is broadly a risk of unwanted behaviors resulting in poor decisions or adverse outcomes for the organization and its stakeholders. While it is easy to focus on the observable behaviors, the real challenge is delving deeper into the drivers that shape them. These drivers, known as behavioral risk factors, are the true keys to effecting change.

Behaviors don't exist in isolation. They result from various drivers and are strongly influenced by the social context and group affiliations.[4] Changing behavior, therefore, means transforming the environment in which individuals operate.

Consequently, managing behavioral risk is not only about assessing individual traits but also examining group norms and habits. It involves looking into the heart of organizational culture and understanding "how things are done here."

The process of assessing behavioral risk follows a pattern similar to managing any other risk and involves three key stages:

1. Identifying areas susceptible to behavioral risk.
2. Assessing behaviors and their underlying drivers through data collection and analysis.
3. Formulating recommendations to management for risk-mitigating efforts.

Let's explore each of these steps in more detail.