“There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. For the reformer has enemies in all who profit by the old order, and only lukewarm defenders in all who would profit by the new order, this lukewarmness arising partly from fear of their adversaries. . . and partly from the incredulity of mankind, who do not truly believe in anything new until they have had actual experience of it.”

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Abstract
The study of culture in organizational studies has dramatically increased since the 1990’s. The study of culture for financial services organizations in terms of the balance between risk taking and risk control on the other hand, has been subject of scrutiny primarily by the regulators since the 2008 crisis, when the weaknesses in risk culture started to be considered as a root cause of the global financial crisis and the compliance events. A financial institution’s risk culture plays an important role in influencing the actions and decisions taken by individuals within the institution and in shaping the institution’s attitude toward its stakeholders, including its supervisors. (FSB, 2014). The aim of this research is to provide an insight into the cultural transformation efforts of the financial institutions on the post 2008 crisis world by exploring the role perceptions of the risk managers and the dynamics of change regarding risk culture of a selected number of commercial banks in Turkey, currently under regulatory pressure to institute transformation programs to become compliant with Western prudential regulations.

The research is based on semi-structured interviews and with heads of risk management and business lines of the largest 7 banks (by asset size) in Turkey to explore how the risk manager role is perceived within the organization and the risk managers themselves evaluate the gap between their “desired” roles and the current state of affairs. Based on the described (informal) roles obtained by the interview data, a collective immunity map is developed to help evaluate the dynamics of the resistances to change to create strong risk culture organizations. Finally, social defence approach is employed in order to interpret the causes of resistances to change. With this research I develop a framework that relates the described roles to
the resistances to change that hinder an effective cultural transformation based on the preposition that effective cultural transformation rests on behavioural change which in turn depends on redefining the roles and rules and relations. I further argue that one possible measure of effective cultural change is the change in the described roles towards the change objective.

Keywords

Risk culture, organizational role analysis, cultural change, formal organization, informal organization, organizational role analysis, immunity to change, social defences.

Introduction

“Trying to change something is like moving a cemetery. Change is not easy. People have a tendency to hold on to the dysfunctional patterns. The reason why they cling to the status quo is not easy to determine.”

(Kets de Vries, Balazs, 2009)

The 2008 financial crisis occurred despite the fact that significant prudential regulatory framework (Basel 2 regulation of the Bank of International Settlements and adopted into European legislation) was in place and the fact that the financial institutions had significant investments beforehand in their risk management frameworks. However, there were significant issues regarding incentives of the Banks vis-a-vie the interests of the customers or acting with integrity in general. As Clive Adamson, Director of Supervision, the UK Financial Conduct Authority, put it: “Firms have designed, manufactured and sold products not always with the needs
and interests of their customers in mind but instead, seeing the customer as somebody to maximize profit from. This has been accentuated by a view that disclosure at the point of sale absolves the seller from a real responsibility of ensuring that the product or service represents a good outcome for the customer. This, in turn, has led in many cases to a tick-box and overly legalistic compliance culture within firms, encouraged by what has been seen as a tick-box regulatory approach.” (Adamson, 2010, p.1). The regulators then focused on the cultural characteristics of the financial services organizations as key drivers of potentially poor behavior. To this purpose, the regulators started to conduct risk culture audits of the financial services organizations in Europe. It was understood that enhancing risk management in order to prevent future crises would require an approach that would go beyond demanding regulatory compliance. A ‘risk culture’ approach started to find emphasis, the dynamics of leadership and organizational culture became salient features of the post crises supervisory efforts. It is now recognized that financial performance of the banks and the financial stability of the system as a whole are also critically determined by the ‘soundness’ and ‘rightness’ of the leadership and culture of the organization as these shape the organizational outcomes. This realization and additional emphasis on the proper supervision of organizational culture bring new scope and required perspective changes to the risk management functions of the financial institutions and the audit agendas of the supervisors. It is implied by the new regulations and realized by the banks that the game of bank management has been changing in the post crisis world and consequently in Turkey, despite a certain time lag due to the delay in the adaptation of regulation. Banks need to become “risk conscious” organizations with a strong risk culture. A “risk conscious” financial services organization (FSO) can be defined
as an organization where risk management is considered as a value driver and integrated into strategy development. Risk conscious FSOs have integrated risk management in the main processes including pricing and product development as well as capital management. For this to happen, the enablers (data, system, models) must be in place in conformity of the leading practices; processes should enable the target FSO operating models; the required compliance controls must be in place. However, as the FSO becomes more complex, adherence to the policies relies more on the embedded risk culture, where risk culture is defined as the norms of behaviour of the individuals and groups within an organization that determine the collective ability to identify and understand, to openly discuss and act on the organization’s current and future risks. (Mc Kinsey, 2010). As an effective and strong risk culture can deliver a number of significant benefits, including intelligent risk taking and return optimization, forward–looking mindset and effective responses to risk, the relevant questions that the Boards need to ask include: “What is the current risk culture in our organisation and how do we improve risk management within that culture? How do we want to change that culture? How do we move from where we are to where we want to be?” In order to understand the journey of the FSOs towards becoming risk conscious organizations with a strong risk culture, one needs to understand the dynamics of the interaction between the formal and the informal organizations. At the formal level, the organization is characterized by structure, rules, procedures, division of work, reporting lines, policies, targets, technology, finance, products. At the informal level, on the other hand, the properties of the organization are leadership and leadership styles, convictions and values held by staff, the openness with which issues are discussed, unconscious group behavioural patterns, coalitions, psychological needs, power, informal leadership, conflict,
morals, informal standards, sensitivities, social codes, loyalty, friendships, emotions, perceptions, and risk appetite. (DNB, 2009). In our opinion, it is the particular interaction between the formal and informal organizations that determines the organizational outcomes.

Additionally, one needs also to understand the reasons that make the transformation towards a strong risk culture difficult to happen: Some of the the forces that work against change and in favor of the status-quo stem from the tactical orientation and little long term committment of the FSOs that are inherent in doing business in a country like Turkey which is characterized by high volatility of the market environment and the consequent opportunistic culture: “Opportunity is here and now to seize, otherwise it is gone!”. Other reasons include the particular risk governance structures prevalent in Turkey that situates risk management as solely a control function and also the intra group dynamics of relative power that the governance structures support.

Organizational theory provides a number of frameworks through which one can explore the interaction between the formal and the informal organizations and the resistances encountered in the cultural transformation process. In this paper, we have made use of the Organizational Role Analysis (Borwick, 2005), Immunity to Change methodology (Kegan, 2004), and social defences (Krantz, 2010). In the background we have made use of the Schein’s organizational culture framework. (Schein, 2002)

Kotter (1996) found that only 30% of change programs succeeded. A 2008 McKinsey survey of 3,199 executives around the world similarly reported that only one transformation in three succeeds (Aiken & Keller, 2009). It is estimated that
somewhere between 70 and 80 percent of the attempts at organizational transformation fail (Latham, 2013). Motivated by this observation, and the question of why so many risk transformation programs have also failed led us to explore the risk culture domain from an organizational theory perspective.

We propose that for the organizations to become more risk conscious organizations, it is not the point that the personalities of the employees change in favor of more prudence and integrity. Rather, what is needed is that the role definitions and the associated renumeration structures change such that prudent behaviour with integrity receives due recognition and is rewarded properly. Additionally, the increasing complexity of organizations lead to a situation where internal control processes and risk metrics by themselves become insufficient for monitoring policy compliance, hence voluntary participation of the individuals and groups within the organization to the new ways of conduct is required. This means the fundamental dynamics of behaviour change need to be addressed in risk culture change programmes.

**Research Aims and Objectives**

We have developed the following hypothesis:

1. Risk transformation programs can only succeed, i.e., achieve their objective of transforming a given FSO into a more risk conscious organization, if an effective cultural transformation occurs within the organization. This, in turn, implies that the “described roles”, hence the “role experiences” (Borwick, 2005) of the stakeholders of the three lines of defense organization, i.e. the business lines, risk control function and internal audit, change in the
direction that produces behaviours consistent with a strong risk culture environment.

In the light of this hypothesis, my research question is threefold:

1- What does the role perception of Risk Officers reveal about the risk culture in a FSO?

2- What are the forces that impede or delay the FSO’s in Turkey to become strong risk culture organizations?

3- How can organizational theory lenses help us understand these dynamics?

The question is original since in the organizational culture literature, not much attention has been given so far to the analysis of risk culture. And in the risk management related literature, formal approaches that take the organizational psychodynamics into account have not been employed so far.

**Literature Review**

On culture and cultural change...

“Culture is like DNA. It shapes judgements, ethics and behaviours displayed at those key moments, big or small, that matter to the performance and reputation of firms and the service that it provides to customers and clients”.

*(Adamson, 2010)*

**What is culture?**

One of the simplest ways to approach culture is to equate it with the norms and values of the society. Norms are specific standards of behaviour to which we generally adhere, while values are wider beliefs about what is right or wrong. *(Gabriel, 2004).* Norms and values are part of the processes of social control,
wherby individuals come to regard as natural and normal. Culture includes all material and spiritual heritage of an organization, its myths and stories, artistic and craft artifacts, buildings, tools, laws, institutions, rituals and customs. What makes these ingredients cultural products is not their physical substance but the meanings attached to them, and the ways in which they infuse people’s lives with meaning. (Gabriel, 2004).

**Cultural ego-ideal and the ‘described role’?**

According to the Freud’s theory of culture, cultural phenomena have deeper meanings that are linked to the unconscious desires and processes of individuals. Culture is a force that works inside each person. Rather than from the outside. It offers narcissistic compensation. People incorporate into their mental personality a “cultural ego-ideal”, a symbolic nexus which includes elements of family, class or nation, against which they measure their own ego. At the organizational level, this leads to the incorporation of an organization-ideal into the individual ego-ideal. (Gabriel, 2004). One can then argue that the mechanism by which the organizational ideal gets incorporated into the individual ego-ideal is through the ‘described role’ as conceptualized in the individual-role-organization framework. (Borwick, 2005) The individual-role-person framework argues that the role is the connection between the character, or personality and the system. The system defines the roles, and the individuals take up the roles, refining and redefining the role further. One of the implications of this approach is that behaviour is a consequence of the role definition and its relation with the system rather than its being a function of character and personality. Therefore change in behaviour requires redefining of the role, the rules and the relations rather than personality and character change. The implications of this are important in the context of organizational culture change and in risk culture
change in particular: For the organizations to become more risk conscious organizations, it is not the point that the personalities of the employees change in favor of more prudency and integrity. Rather, what is needed is that the role definitions and the associated renumeration structures change such that prudent behaviour with integrity receives due recognition and is rewarded properly. Therefore, risk governance change is a precondition for cultural transformation. The question then is “how does the defined role get internalized?”. Individual-role-organization framework provides us with an additional concept which is the “described role”: Described role is how the role is perceived by the performer herself. It is the role performer’s own understanding of what the role’s purpose is. The described role determines the behaviour of the individual at the role. Then, one can argue that it is essential to understand the perceived roles of the stakeholders in the organization as compared to the desired roles in order to pinpoint the underlying forces that govern a given organizational culture transformation effort. The paper that follows rests on this preposition.

How is cultural change conceptualized?
Regarding the conceptualization of the transformation process, Kurt Lewin laid out what has become a cornerstone model for understanding organizational change in the late 1940’s. His model of the change process involved three stages: Unfreeze – Change – Refreeze. From an organizational change point of view, the “unfreezing” stage requires creating dissatisfaction with the status quo and involves overcoming inertia, bypassing defense mechanisms, and dismantling the existing mindset. This typically leads to a period of confusion and transition as people become aware that the old ways are being challenged. It is during this “change” phase that the replacement new way is introduced and sold. The final stage (refreeze) involves
activities designed to help crystallize the new mindset and to restore a person’s comfort level with doing things the new way (Makinsa, Nagaob and Nathan, 2012). In 1996, John Kotter introduced what has become one of the more popular and influential approaches for leading change as an eight step process. (Kotter, 1996).

**Readiness for change.** Later, Herold and Fedor offered a model which asserts that perceptions about whether a change is needed – and what exactly it is that needs to be changed – are personal to each leader, shaped by individual needs and biases. Herold and Fedor model requires that these assessments be done as a “readiness for change” assessment so as to provide a firm idea of whether or not the change itself is even a viable effort (Herold and Fedor, 2008).

**Components of Change Framework.** Regarding organizational culture transformation, this study recommends the use of Schein’s cultural elements framework as the basis. (Schein, 2004). According to Schein, an organization’s culture can be described in terms of elements, comprising artifacts, espoused beliefs/values and underlying assumptions. Cultural artifacts may be visible structures and processes, dress, observable rituals and ceremonies. Espoused beliefs and values are consciously developed formal organizational practices such as strategies, goals and policies, and informal practices like implicit norms. Underlying assumptions are unconscious thoughts, beliefs, expectations and theories. Armenakis, on the other hand, contributes to the culture transformation literature by distinguishing between what is to be changed and how such that organizational transformation consists of a change content (i.e. what is to be changed) and change process (i.e. how the change is to be implemented). One way to transform an organizational culture is to change the artefacts, espoused
beliefs/values and underlying assumptions (i.e. change content). In order to implement a cultural transformation, a process model can be used to plan and guide the cultural change (i.e. change process). (Armenakis, and Bedeian, 1999)

On the question of what to change in the case of cultural transformation, Schein offers us certain primary and secondary “mechanisms” which can be used by the leaders to embed cultural change in the organization. (Schein, 2004) The primary mechanisms include: 1- What leaders pay attention to, measure, and control on a regular basis with consistency of message and behaviour. 2- Leader reactions to critical incidents and organizational crises. 3- Deliberate role modeling, teaching, and coaching by leaders. 4- How leaders allocate rewards and status. 5 - How leaders recruit, select, promote, and excommunicate.6- How leaders allocate resources.

Schein (2004) notes that the primary mechanisms operate simultaneously and reinforce each other. Furthermore, there are secondary mechanisms that tend to reinforce the primary mechanisms. These include organizational design and structure, organizational systems and procedures, rituals of the organization, design of the physical space, facades and buildings, stories about important events and people, and statements of the organizational philosophy (Schein, 2004).

**Internalization of the change mandate.**

Another relevant dimension to consider when thinking about organizational change, especially when the change is triggered by external forces such as regulatory compliance requirements, is the degree by which the change mandate is internalized by the change recipients. In this context, it is important to understand that the change message should influence five beliefs of change recipients, namely, discrepancy, appropriateness, efficacy, principal support and valence. (Armenakis and Harris, 2002). Discrepancy is why the change is needed or necessary.
Appropriateness is important because it is based on logic that should communicate that the proposed change is right for the organization. Efficacy is necessary because change recipients must have confidence that they can acquire the knowledge, skills and abilities to successfully perform the tasks required from the organizational change. Principal support transmits the message to change recipients that change agents are walking the talk. And finally, valence is important because change recipients should be able to answer the question: ‘what's in it for me?’ On the internalization of the change mandate question, Kelman and Becker further argue that change recipients can commit to the change mandate in different levels, namely compliance, identification and internalization levels. Compliance commitment is achieved when change recipients adopt the change in order to avoid punishment. Identification commitment is the level of commitment that describes that change recipients will adopt an organizational change because they want to identify with the organization. When change recipients internalize the values of the organizational change, they have experienced internalization commitment. (Kelman, 1958; Becker, 1992).

Resistance to change...
Yet another dimension to consider is the resistances to change. Because organizations are collections of people, the successful implementation of organizational change is dependent on an understanding of the individual reactions to the change process. In the opinion of the organizational psychologists, a lack of attention to the inner experience of the individual person will abort the process. (Kets de Vries, Balazs, 2010). Addressing resistance to change, Kets de Vries argues that organizational change process mirrors individual change. In the case of individuals, people resist change in order to cope with the anxiety associated with embarking into
something new or becoming exposed to previously known dangers and risks. As a coping mechanism people develop avoidance behaviours including regressing into past behaviours. In many instances, people seem to prefer what is familiar and painful to the promising unknown. In the case of organizations, stress in a current situation raises resistance due largely to that the individuals would not consider the change to their self-interest, they would fear of the loss of security of their jobs. The fear that the proclaimed benefits of change would not outweigh its costs triggers a set of unconscious defenses in motion in the organization. These unconscious defenses include fear of loss of authority and stature, good working conditions, sense of freedom etc. For organizational change to be successful, those managing the change need to deal with the employee resistances such that the individual employees should understand the cost to them personally of not changing. (Kets de Vries, 2010). Situated close to organizational psychologists’ approach, one finds Kegan, arguing that the “mindset” of the individual is what matters most in understanding behavioural change (Kegan, Lahey, 2009). Kegan starts by observing that many of the change challenges are of an adaptive as opposed to a technical nature. The skill set necessary to perform the transformation is not well known and requires a change in the mindsets of the individuals towards a higher mental complexity that better suits the complexity of the world’s demands. (Kegan, 2009). Kegan then explores ways of helping the individuals and the organizations to attain a higher level of mental complexity. In order to do this, one needs to formulate an adaptive challenge in a way that reveals the ‘emotional ecology’ that underlies the challenge. According to Kegan, resistance to change does not reflect opposition, nor is it merely a result of inertia. Instead, even as they hold a sincere commitment to change, many people are applying unwittingly productive energy toward a hidden
“competing commitment” (Bochman, Kroth, 2010). Kegan offers the famous “immunity map” approach in order to analyze this problem. This approach is applicable to individuals and groups. It is applicable to the groups as collective immunity to change especially when the group has an important goal it knows it is not accomplishing or for which the progress seems too slow, or where there is a collective dysfunction. (Kegan, 2009) An immunity map identifies behavioral goals, the behaviors that work against the goals, the reasons for the behaviors that work against the goals (competing commitments) and the assumptions that underlie the competing commitments. Kegan believes that the most difficult change challenges can be dealt with using this approach: Firstly, individuals can work on their personal immunity to change as it relates to a group improvement aspiration. Secondly, the group as a whole can develop a picture of its collective immunity to change around this same aspiration. (Kegan, 2009). In developing an individual’s immunity map related to a group’s improvement goal, it is valid to distinguish between the role vs the person. In our opinion, the immunity to change in this case, relates to the role characteristics as perceived by the person rather than to the personality that is in question.

Is resistance to change dysfunctional behaviour? Change cannot occur unless the forces promoting change overcome the forces resisting it. The forces promoting change, or driving forces, include emerging technologies, improved raw materials, increased competitive pressures, and added organizational pressures. The forces resisting change, or restraining forces, include the fear of change, complacency of workers, reliance on current skills, and the need to maintain current performance norms (Lewin, 1951, Cummings and Worley, 2005). Restraining forces resist change by preventing or delaying adoption of new methods
or practices needed for the change, attempting to return to the previous practices or methods, or creating social pressure ostracizing organizational members who support the change effort. Senge further argued that resistance to change is not "capricious or mysterious". Organizations' feedback systems resist change because they are attempting to meet objectives of old routines that are not relevant to the post-change process. Change will be resisted until new objectives are set that require new routines (Senge, 1990). From an emotional perspective, resisting change is a defense against fear of loss and a fear that one will not survive the change without something familiar being lost. From a behavioral perspective, Lawrence suggested that resistance to change may not be as dysfunctional a behavior, since it may express employee beliefs that management has violated "personal compacts" with employees — mutual explicit and implicit commitments between manager and employee (Lawrence, 1954). The commitment of management to change and the commitment of employees to honor personal compacts may create "competing commitments" (Kegan and Lahey, 2001). These competing commitments are a form of personal and organizational protection and represent major assumptions that must be addressed if change efforts are to succeed (Bolognese, 2002).

Resistance to change as political behaviour...
Resistance to change can also be in the form of political behavior as strong forces attempt to prevent those who need to change from changing or attempt to change efforts on personal or political grounds (Zander, 1950). Pinto studied the role of power and political behavior in organizations and, specifically, in project management. Change projects typically involve a degree of complexity not found in functional areas due to the cross-functional requirements.
Political behavior is more common when organizational changes signal the potential for a significant shift in power relationships. Any form of organizational change has the potential to alter the power landscape" (Pinto, 1998). Change efforts that are directed from the top of the organization rely on political processes and may be more subject to resistance than guided change. Guided change engages all levels of the organization to generate learning, innovation, and development to continuously improve existing processes and generate new ones and outcomes (Kerber and Buono, 2005). However, guided change efforts may lack strong central direction and become chaotic over time (Kerber and Buono, 2005).

**Overcoming resistance to change.**

Overcoming resistance to change requires empathy and support to those engaged in the change, communicating the reason for the change to reduce unfounded fears and curb rumors, and involving those affected in the planning and implementing of the change effort (Kirkpatrick, 1985). Another way to deal with forces opposing change is to increase those promoting change and *overwhelm* rather than *overcome* the resistance (Lewin, 1951). Pro-change driving forces may be bolstered by heightening the awareness of such forces, such as the competitive environment, emerging technologies, or improved input materials (Burke, 1987). Or, forces promoting change can be increased by real or perceived shifts in the organization’s willingness to use reward or coercive power (French and Raven, 1960). The use of such political forces may be more likely if the change effort is directed or guided by top management (Kerber and Buono, 2005). The result of increasing the forces promoting change to be greater than those resisting it in force-field terms is that forces promoting change succeed. Efforts to overwhelm resistance to change may pressure a system to operate at disequilibrium if the necessary processes and
procedures are not in place. Operating at a point of disequilibrium requires greater resources than operating at equilibrium (Senge, 1990). Kotter on the other hand, argues that there are four most common reasons people resist change: a desire not to lose something of value, a misunderstanding of the change and its implications, a belief that change does not make sense for the organization and a low tolerance for change. (Kotter, Schlesinger, 2008). Yet another angle to explain why certain change agents can deal with resistance better, one needs to consider the characteristics of the informal networks that these agents operate as part of. Battilana and Casciaro found that change agents would be more successful when they were central in the informal network, regardless of their position in the formal hierarchy or when the nature of their network (either bridging or cohesive) matched the type of change they were pursuing or when they had close relationships with people ambivalent about the change. (Battilana, Casciaro, 2013). A cohesive network works well when the change is not particularly divergent. Most people in the change agent’s network will trust his or her intentions. Those who are harder to convince will be pressured by others in the network to cooperate and will probably give in because the change is not too disruptive. But for more-dramatic transformations, a bridging network works better — first, because unconnected resisters are less likely to form a coalition; and second, because the change agent can vary the timing and framing of messages for different contacts, highlighting issues that speak to individuals’ needs and goals.

How is organizational culture related to organizational transformation?
Latham argues that organizational culture change is the ultimate manifestation of organizational transformation. Often, organizations will change but then revert back to the original habits once the emphasis on the new practice is removed. It seems
that maintaining the pressure on the organization is required, at least until the new ways become ingrained habits (Latham, 2013). As to the question of “how can one measure the success of a cultural transformation, i.e. how can one understand that ‘the new ways have become ingrained habits’?”, one can approach it from the angle of role perception. Surveys conducted with the change recipients at sufficiently distant points in time can reveal the degree by which the role perceptions and hence the role experiences have changed within the organization and relate these changed experiences back to the transformational goals. McKinsey’s Lawson and Price argue that changing employee mindsets (e.g., how they think about their jobs) is a key part of being able to persuade large numbers of groups and individuals in an organization to change the way they work. They suggest four necessary conditions before employees will change their behavior: 1) a compelling story – provides a motivating purpose they can believe in, 2) consistent role models – at every level who “walk the talk”, 3) reinforcing mechanisms – to ensure that systems, processes, and incentives are in line with new behaviors, and 4) capability building – to assure that employees have the skills required to make the desired changes. (Lawson and Price, 2003).

On risk culture...

“Risk culture is not about excessive risk taking but rather about transparency in risk taking and organizational self knowledge.”

(Palermo, 2013)

When profit making organizations are considered, organizational culture operates in a tradeoff environment of risk taking and risk control and risk culture relates how the organization situates itself in this tradeoff. The risk culture debate is symptomatic of a desire to make risk and risk management a more prominent feature of
organisational decision-making and governance. In the literature, various definitions of risk culture are available. IIF defines risk culture as the norms of behaviour for individuals and groups within an organisation that determine the collective ability to identify and understand, openly discuss and act on the organisations current and future risks (IIF, 2009). Along these lines, Jackson defines risk culture as the creation of an environment where decisions by individuals or business lines and by the executive management committee will be in tune with the risk goals of the board (Jackson, 2014). A sound risk culture, in turn, consistently supports appropriate risk awareness, behaviours and judgements about risk-taking within a strong risk governance framework. There are three lines of literature on risk culture in financial services organisations in the post 2008 world: the regulatory literature regarding the need for cultural change in the financial services sector, the academic literature, and the approaches of the consultancy companies to risk culture transformation programs. A summary of these approaches is presented below: To date, there has been limited academic research on risk culture in the financial organisations. One of the most widely quoted is (Palermo, Power, Ashby, 2014.), which asserts that risk culture is a series of tradeoffs between risk taking and risk control activities, such that at any given instance the organization can be situated on this spectrum. According to this research, the most fundamental issue at stake in the risk culture debate is an organisation’s self-awareness of its balance between risk-taking and control. It is clear that many organisational actors prior to the financial crisis were either unaware of, or indifferent to the actual risk profile of the organisation as a whole. A combination of control functions being ignored or fragmented and of revenue-generating functions being given a star status rendered the actual trade-offs involved in this balance institutionally invisible, both internally and externally, until
disaster struck. For this reason, the prescriptions arising from the research essentially point towards recovering the organisational capability to make visible, to understand, and to accept or change the actual control-risk trade-off. One limitation of Palermo’s research is the extent to which individual organisational efforts in the space of risk culture are in fact overshadowed by a trans-organisational regulatory culture. On the regulatory literature side, to effectively deal with the compliance and conduct risks, the importance of promoting a ‘values-based corporate culture’ is often stressed (DNB 2009), with the elements delineated as follows:

- Balancing of interests/balanced actions: identifying all relevant interests and demonstrably taking them into account
- Consistent actions: acting in line with objectives and choices,
- Openness to discussion: encouraging employees to take a positive, critical approach and giving scope for discussing decisions, other views, errors and taboos,
- Leading by example: good behaviour at the top (personal integrity, including the prevention of an (apparent) conflict of interests)
- Feasibility: setting realistic targets and removing adverse incentives and temptations
- Transparency: determining and communicating targets and principle choices to all stakeholders.
- Enforcement: attaching consequences to non-compliance.

Financial Conduct Authority (FCA) of UK, on the other hand, stresses the importance of culture and incentives as incentive structures often enable
conflicts of interest to become profitable and entrenched in firms’ businesses and processes. (FSA, 2013). A change in culture is required that refocuses financial firms on their responsibilities to the long-term interests of consumers, shareholders and the broader economy. Regarding incentives, FCA argues, by rewarding high-risk, short-term business development strategies or putting implicit or explicit pressure on the sales force to promote particular products, regardless of differences in consumer needs and demands. Incentives can increase misalignments between firms and consumers.

It is to be noted that we have not met so far a regulatory document that provides guidelines for the organizations as to how to enable effective cultural transformation. On this note, the leading consultancy companies offer solutions that can be described as technical approaches to cultural transformation. These approaches generally rely on surveys, assessment tools and performance enhancing interventions with the assumption of the existence of a target culture with particular characteristics, such as:

- A clear and well communicated risk strategy,
- High standards of analytical rigor and information sharing across the organization,
- Rapid escalation of threats and concerns,
- Visible and consistent role modelling of desired behaviours by senior managers,
- Incentives which encourage people to do the right thing and think about the overall health of the organization,
- Continuous and constructive challenging of all actions and preconceptions all across the organization. (McKinsey, 2010).

Then they develop a risk culture framework as the basis for intervention design. In neither approach, however, are the underlying dynamics of behaviour modification and change resistance addressed. This is necessary because the increasing complexity of organizations lead to a situation where internal control processes and risk metrics by themselves become insufficient for monitoring policy compliance, hence voluntary participation of the individuals and groups within the organization to the new ways of conduct is required. This means the fundamental dynamics of behaviour change need to be addressed in risk culture change programmes. This is in line with Huy’s observation that theoretical attempts to link large-scale organizational change to changes in intraorganizational processes of thought, feeling, and action have been modest. (Huy, 1999) Thus there is room in the risk culture literature to apply the organizational theory approaches to explore the immunity to change and the mechanisms whereby change is internalized.

**The Conceptual Framework**

Based on the starting hypothesis and going through the literature both on the risk regulatory/consultancy/academic side and on the organizational theory side on cultural change and risk culture, our synthesis yielded the following conceptual framework:
Figure 1: Risk Culture and Governance Relationship

Figure 1 depicts the relationship between the governance framework and the corporate culture. The assertion is as follows: The strategic objectives of an organization imply a certain governance framework that would enable the tasks required for the implementation of the strategy. Corporate culture forms the milieu in which this governance framework operates and the particular dynamics of how a certain culture comes about and effects the implementation of corporate strategy are determined by the inner theathers, agendas, of the people involved with the various
roles in the governance framework.

Figure 2: Relationship between governance, culture and role experience

Figure 2 depicts the relationship between the components of a top down determination of the risk operating model whereby the Board’s formal roles and responsibilities are transformed into a risk governance framework shaping the formal roles of the three lines of defence (business lines, risk management, and internal audit) organization. At the same time, the “tone at the top” emanating from the Board help shape the risk culture, whereby the espoused values of Schein are reflected in the stated authority and stature of each line of defence vis-a-vie each other and communication patterns across the organization. These espoused values operate in an environment that shapes and is shaped by the role perceptions of the three functions within the organization, which in turn reflect the relative perceptions of authority and stature. The resulting role experiences reveal a particular cultural make-up. It is to be noted that this is a generic framework. It can be applied at a
given instance, to an AS-IS situation or to describe a target state, depending on how one characterizes the formal roles and responsibilities and the consequent relative power of the three lines of defence functions. Consequently, the exploration of the current role perceptions would reveal the status of the organization regarding risk culture.

For the question of cultural transformation and resistance to change, we have developed Figure 3.

![Figure 3: Potential Stages of Resistance in Cultural Transformation](image)

Figure 3 rests on the idea that organizational change in the risk domain is often triggered by external forces, especially in countries like Turkey where the financial institutions are generally followers of the Western best practices, which in turn usually are reflected in the new regulatory requirements as the consensus view. We assert that markets also increasingly value sound risk culture organizations. Thus, market discipline acts as an additional and complementary force that creates a business case for change towards a stronger risk culture. We conceptualize that once the change mandate is there, the interaction between the formal and informal organizations that will result in the cultural transformation can be thought to follow certain stages as described in Figure 3: Typically, the regulatory requirements define new ways of conducting risk management which brings new responsibilities to
the Board at the formal level. The pace at which these new responsibilities get adopted by the Board determines the change in the “tone at the top” since at this stage there usually kicks in a “wait and see” defence mechanism on the part of the Board until the Regulator makes it explicit what the penalty will be in case of non-compliance. Until this stage the change mandate is usually weak and not acted upon, hence not cascaded down the organizational units. Therefore, we say, until the Board is ready or forced to adopt change, the “tone at the top” is the same as before not having been impacted by the newly required ways of doing business. When the Board adopts the “spirit” of the new regulation, usually the espoused values are revised such that the discourse of “the way we do business around here” gets modified by means of the the inclusion of new tasks and processes. This in turn implies the reshaping of the relative authority levels of the stakeholders as well as the communication patterns among them. This usually requires a revision of roles and responsibilities of the various functions within the organization and in due time leads to a change in the role perceptions of the individuals enabling a transformed role experience. This framework is not a prescriptive approach for change implementation. Rather, it is intended to serve as a conceptual guideline to relate the resistances to change to the proposed framework for cultural transformation based on the interaction between the formal governance and perceived roles. As such, this approach is the basis for the questionnaire that follows in the rest of the paper.

In the analysis of resistances to change, we have employed the social defence and immunity to change approaches. At each indicated stage, at the Board and the lower organizational levels, the defence mechanisms kick in creating immunity to change. These are either organization specific political forces at play that govern the relative power of the different functions in the organization, or similar trans-organizational
forces that relate to the local cultural elements or system wide governance structures that had been put in place as the system’s defence against imprudent behaviour but became off-task in the current environment. Given these resistances, the success of a transformation programme would usually require a Kotter type of approach. (Kotter 1996) starting from creating a sense of urgency. However, how to conduct a successful change program is out of scope of this framework.

Methodology

The methodology applied in this research is qualitative approach based on semi-structured interviews composed of open-ended questions with risk managers. This methodology suits the purpose of the research, which is eliciting the perception of the role of the risk managers by themselves in order to reveal the characteristics of risk culture within the organization and the areas of resistance to change. Regarding the lens we used for the research, we can say that our research comes close to grounded theory as grounded theory is most suitable when a researcher wants to explore a new field or provide a new perspective on a well established theory or area or study. It does not test a given theory to find out if it is valid or not but explains raw data to discover new patterns (Hylander, 2003). The grounded theory approach requires investigators to approach their data without preconceived ideas, theories or hypothesis about what they will find (Larsson, 2006). Our research aims to bring a new perspective on the risk culture studies from an organizational theory lens, incorporating organization-role and immunity to change approaches in the analysis of risk culture and cultural change process within a financial services organization.

To this end, we designed the interview questions in two sections. The first section aims at eliciting the role perception of the Heads of Risk Management in terms of
how they see their function vis-a-vie the “desired” cultural characteristics of a risk conscious organization. These characteristics are derived from the risk culture literature regarding effective governance and guidelines by the regulators. In this section we identified the following questions:

*Part 1: Perception* by Head of Risk Management of the current state of the risk culture within the organization and her role in terms of desired risk culture characteristics:

<table>
<thead>
<tr>
<th>#</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>What do you think as the most important values for Senior Management?</td>
</tr>
<tr>
<td>2</td>
<td>How do you feel about the risk organization in the entire organization?</td>
</tr>
<tr>
<td>3</td>
<td>How do you feel about the 'tone at the top', management's attitude towards risk organization?</td>
</tr>
<tr>
<td>4</td>
<td>How do you feel whether decision-making is not dominated by any one individual or small group of individuals in the organization?</td>
</tr>
<tr>
<td>5</td>
<td>How would you feel about the relationship between the risk organization and the business lines? Open communication? Bureuratic and formal? Partnership?</td>
</tr>
<tr>
<td>6</td>
<td>How do you perceive your role to challenge business decisions?</td>
</tr>
<tr>
<td>7</td>
<td>How do you perceive the business lines’s are held accountable in terms of risk taking behaviour? Ownership, escalation, consequences?</td>
</tr>
<tr>
<td>8</td>
<td>How do you feel about the support of the Board to the resolution of the issues raised by you?</td>
</tr>
<tr>
<td>9</td>
<td>What is your role in times of critical incidents and organizational crises?</td>
</tr>
<tr>
<td>10</td>
<td>What would you think the degree by which sound risk taking is valued and enforced?</td>
</tr>
<tr>
<td>11</td>
<td>What do you like the least about your role? What do you like most?</td>
</tr>
<tr>
<td>12</td>
<td>Where would you fit your organizational culture in the weak-strong risk culture space?</td>
</tr>
</tbody>
</table>

These questions are chosen based on the likelihood that they would reveal the relative status of the risk function within the organization in terms of the desired risk
culture characteristics. In the risk culture literature, among the useful indicators of a desired cultural environment, the following are cited (Jackson, 2014):

- Ease at which employees are able to speak out if they are concerned,
- Clarity on understanding of risk tolerances,
- Consistency of practice between the top and the bottom of organization,
- Collaboration between the parts of the organization,
- Proposals argued from evidence base,
- Transparency if things are going wrong,
- Taking accountability for mistakes,
- Single rule for all,
- Strength of managerial role models.

At the same time (FSB, 2013) identifies the following as indicators of a sound risk culture:

- Tone from the top,
- Accountability,
- Effective communication and challenge,
- Incentives.

The second part consists of questions to determine the immunity to change map of the organization regarding cultural change as perceived by the risk managers. The following questions were asked:

**Part 2: Identifying resistances to change as perceived by Chief Risk Officer (CRO)**

<table>
<thead>
<tr>
<th>#</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Think about 3-4 most challenging aspects of the ‘desired’ role of a CRO under a strong risk culture framework. What would be most important for your role now that needs to change in order for you</td>
</tr>
</tbody>
</table>
to perform any or all of these aspects significantly better?

14 What do you think the organization is doing or not doing that work against the desired changes?

15 Why do you think the organization is behaving the way it does?

16 What are the assumptions we must be taking as true underlying this behaviour?

The answers to the first section were interpreted to determine the current state of the risk culture in the respective organizations and common themes were identified across the organizations. The answers to the second section were interpreted to generate the collective immunity maps of the representative banks Turkey in the face of a risk transformation challenge based on the perceived role of the CRO’s.

The semi-structured interviews were not recorded. The reason for this is because interviewees revealed their preferences for an unrecorded interview. They clearly stated that they would feel more comfortable in revealing their true emotions and thoughts regarding how they actually perceive their roles and the dynamics of change if the interviews are not recorded.

**Description of the Research Setting**

My research setting is the Turkish banking sector. The reason I chose this setting is because the Turkish banking sector is following the European prudential regulation compliance and the associated risk transformation experience with a 10 year lag and is currently undergoing the change process to adapt to the new ways of doing business under the new Basel regulatory environment. This 10 year lag offers a number of limitations and opportunities to the Turkish banks in their journey to enhance their risk management frameworks and risk cultures. On the one hand, many challenges that have been experienced by the European banks in the past 10 years can serve as lessons learned for the Turkish banks, on the other hand, the
post 2008 crisis challenges of the European banks are on the current agenda of the Turkish banks as well. So, the Turkish banks now in effect face a double challenge and the change mandates are pressing, and timelines are tight. In this sense, “doing things right the first time” becomes very important. From an organizational theory perspective, this transition challenge necessitates identifying the dynamics of change in the current environment and revisiting the immunities to change. Such an understanding would help to lead a transition process more effectively. It is with these considerations that I think Turkish banking sector offers a rich analysis environment for exploring the area of risk culture.

The study was conducted by interviewing Heads of Risk Management Departments and/or Chief Risk Officers of 7 leading Turkish banks, all in the top 10 bank category by asset size and altogether 12 one-hour interviews.

The sample of the selected banks included Turkish owned private and state banks and partially foreign owned banks. As such the sample represents 60% of the asset size of the whole banking sector as of 31.12.2013 and the issues the banks in the sample deal with are representative of the sector as these constitute the relatively complex structures, the remaining banks experience transition issues on a reduced scale. The interviewees are a mixed sample of men and women and age composition is between 35 - 55. As a risk management consultant, the risk functions of these banks are my clients. For this reason, I am on the one hand very much on the solution provider and advisory side of the table, on the other hand, as an outsider without any vested interest in any insider political dynamics, I can compare the banks to each other and offer an objective view on their maturity levels regarding the solidness of their risk frameworks.
The interviews were designed to elicit CRO’s own views of their roles in relation to their organizations and the dynamics of the resistances to change. The questions were chosen to reveal the relative status of the risk function within the organization in relation to the desired cultural characteristics.

**Data Gathering and Analysis**

The chosen questions and the purpose of each question are described below:

Part 1: Perception by CRO of the current state of the risk culture within the organization and her role in terms of desired risk culture characteristics:

**Question 1:**

<table>
<thead>
<tr>
<th>Question</th>
<th>What do you think as the most important values for Senior Management?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>The purpose of this question is to reveal the perception of the espoused values of Senior management by the risk management function with regard to the balance between risk taking and risk control in particular.</td>
</tr>
</tbody>
</table>
| Answers  | • “Foundation culture - duty to manage the borrowed funds for customers’ interests, continue to serve stakeholder interests”.  
• “Conservatism, calculated risk taking, Customer interests and satisfaction”  
• “Institutionalism, prudence, leadership”.  
• “Innovation, teamwork, creativity, leadership, respect, loyalty”  
• “Trust, quality, risk consciousness”. |
| Observations | The majority of the banks in our sample have in the past 5 years been acquired by foreign banks and the merger process also strengthened the risk management frameworks at these banks by Western standards by introducing the previously unknown risk management techniques and infrastructure. Consequently the espoused values reflect prudence, risk consciousness and customer satisfaction at the Board level, primarily driven by the inclusion of foreign Board members in the Audit Committee. |
### Question 2:

<table>
<thead>
<tr>
<th>Question</th>
<th>How do you feel about the risk organization in the entire organization?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>The purpose of this question is to elicit the overall perception of the risk officers’ function in the organization. The intention is to reveal their true sense by focusing on the way they formulate their role, the words they choose etc.</td>
</tr>
</tbody>
</table>
| Answers  | - “I have a role in the strategic decision making including granting of large loans and decisions related to derivative transactions since the 2008 crisis”.  
- “I have spent significant effort to create risk awareness related to the actions of the senior management”.  
- “I feel bad, always second priority and the interest in risk management is compulsory and regulatory driven”.  
- “As the owner family is part of the audit committee, there is a very strong risk control function.”  
- “I perceive risk management function as a “science laboratory” in the organization with a selective impact on a number of topics.”  
- “I perceive risk management function as a NASA – “technical guys” – detached from the day to day decision making at the bank with a selective impact. It is a function that needs to be taken seriously but not at the desired level at the moment”  
- “Risk management function does not decide on loan granting thus the roles and responsibilities of the risk management function are not well known within the organization however it has a good image in the eyes of the Senior Management.”  
- “I perceive risk management function as an insurance mechanism for the Treasury operations – it is an independent party to assess and report the risks facing the organization”. |
| Observations | The general tone is that risk management function is less empowered than it should be for effective risk management. It is typically regarded as a highly technical independent department not as part of the day to day decision making process. |
**Question 3:**

<table>
<thead>
<tr>
<th>Question</th>
<th>How do you feel about the 'tone at the top', management's attitude towards risk organization?</th>
</tr>
</thead>
</table>
| Purpose  | The purpose of this question is to elicit the support of the Senior Management as perceived by the risk management function.  
The board and senior management are the starting point for setting the financial institution’s core values and expectations for the risk culture of the institution, and their behaviour must reflect the values being espoused. |
| Answers  | • “There is sensitivity to understand current risks, regulatory compliance, capital adequacy and leverage. There is concern about the level of capital required when a loan is sold. However, there is not an adequate perception of future risk. There is not adequate interest in strategic capital planning.. The Economic research, strategy and risk management department should work together in order to effect the essential function of risk management but this is not happening.”  
• “The tone at the top is indifferent. Risk management is regarded as something to call for if it is absolutely obligatory otherwise can be dispensed with”.  
• “The Board is control oriented- always in favour of more limits”  
• “The CEO has an attitude of calling Risk Management function for supporting him and wants to be in good terms with Risk Management”.  
• “At the EVP level, the attitude towards the Risk Management function depends on the department: The Loan department is indifferent because of the situation that transaction level decision making on loan granting is their not risk management’s. On the other hand the Treasury is partnering with Risk Management. In other words traditional approaches coexist with modern risk management approaches. There is not a unified risk language and vocabulary. What prevails is more of an audit culture”.  
• “The shareholder is represented in the Board. The mandate is strong. There is buy-in at the level of the Board. There are
hish expectations from the Risk Management function.”

- “At the EVP level on the loans business, risk management function is perceived as an audit/police role. Treasury considers risk management more as a partner.”

- “The CEO perceives risk management as a necessary function while at the EVP level – the perception is different: “we do the business – we take the risks- risk management does not understand us” attitude.”

- “The tone at the top is favourable for risk management functions The risk management function has been strengthened with the foreign ownership of the Bank.”

Observation

Risk management function is now considered more seriously compared to the past. However, still regarded as a “warning” function rather than a “participant in the decision making – let them show the situation and let them not be part of the decision making” As such, risk management is not a business partner at the Bank. Senior management’s position regarding this situation going forward is not very clear.

**Question 4:**

<table>
<thead>
<tr>
<th>Question</th>
<th>How do you feel whether or not decision-making is dominated by any one individual or small group of individuals in the organization?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Strong risk culture requires participative decision making and transparency. This question aims at revealing the degree of participative decision making in the organization.</td>
</tr>
</tbody>
</table>
| Answers  | • “It is very difficult for the CEO to become risk conscious. The primary concern is regulatory compliance. The legal limits are taken care of. In fact, there needs to be a joint risk perception among the risk function, the audit committee, and ALCO and marketing. While at the moment, the annual budget decisions are driven by the CEO within the legal limits.”

• “The CEO and the Board are equivalent in power and share opinions.”

• “The main shareholder is very active in the Board so the dominates the decisions.” |
- “After the foreign ownership, the decisions are increasingly taken at the Committees, where all stakeholders are present and openly discuss positions. The EVP’s have comparable power, the shareholder is significantly risk conscious, the marketing departments are not overly empowered.”

**Observations**

It is observed that the degree of participative decision making is correlated with the degree of foreign ownership. Otherwise, the CEO is not significantly challenged by the risk committees and the risk appetite of the organization seems to be determined by the personal risk perception of the CEO, in the absence of an organization wide risk appetite framework.

**Question 5:**

<table>
<thead>
<tr>
<th>Question</th>
<th>How would you feel about the relationship between the risk organization and the business lines? Open communication? Bureuratic and formal? Partnership?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Cultural position of CRO in relation to front line – this is regarded as an indicator of the quality of risk culture for the business as a whole</td>
</tr>
</tbody>
</table>
| Answers  | - “Open communication and partnership”.

  - “Open communication and partnership- for market risk and liquidity risk, the only counterpart of the Treasury function is risk management, hence we observe strong partnership, while for the loans business, credit allocation function is responsible for credit risk on a transaction basis so Risk Management function is left out of such decisions. For operational risk internal control function is responsible.”  

  - “Open communication”  

  - The amount of cooperation between the business lines and the risk management function is dependent upon the risk perception of the heads of departments. Currently, risk management function is considered a business partner for market risk but not for credit risk. On the credit risk side, there is an attitude of “we know it all, we know what needs to be controlled” The Senior Management handles credit risk management through the “old school” approach, especially for corporate and commercial credits. For retail credit, we observe a more quantitative approach.
| Observations | It is observed that there are two main subcultures that characterize the relationship between the business lines and the risk management function- a partnership culture with Treasury and a “we know it all, we do not need risk management” culture with the Credits business. This perception also reflects the anxiety of the traditional Credit granting business in the face of modern risk management approaches. |

| Question 6: | **Question**: How do you perceive your role to challenge business decisions? **Purpose**: Risk management function’s ability and room for challenging business decisions reflects the degree of risk conscious decision making in the organization. Sound risk culture promotes an environment of open communication and effective challenge in which decision-making processes encourage a range of views; allow for testing of current practices; stimulate a positive, critical attitude among employees; and promote an environment of open and constructive engagement. |

| Answers | • “Adequate perception.”  
• “The issues that are escalated to the Board are challenged by the Risk Management function. At lower levels in the organization, Risk Management function is outside of the business decision making process.”  
• “The critical matters such as the impact of the transactions on the capital of the Bank are escalated. The large projects, critical policies etc. are escalated on a case by case basis. However, risk management function can still not be considered a business partner. The only legitimacy of risk management’s challenges is the regulation. There is expected a change in this attitude with the acquisition of the Bank by the foreign parent. “  
• “As Head of Risk Management; I do not feel myself powerful in impacting business decisions. My power is derived from either the Regulator or my good relations with the shareholder representative at the Board. The Board’s expectation is that there should be Risk Management’s consensus in the decisions. At the EVP level, however, the attitude is ”if we send the issue to Risk Management, they will block it!”” |
- “Risk Management function performs the role of the secretary at the Committees. Offers opinion. The products that the Risk Management function refuses are not launched, e.g. Treasury products or credit policies. However, the CRO does not have a voting right due to the Turkish regulation.”

**Observations**

It is observed that currently it is not expected from the Risk Management function to challenge business decisions. Rather, it is expected that they comment on the consequences of the decisions already taken.

### Question 7:

<table>
<thead>
<tr>
<th>Question</th>
<th>How do you perceive the business lines are held accountable in terms of risk taking behaviour? Ownership, escalation, consequences?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Accountability of the business lines with respect to the risk taking behaviour is a sign of strong risk culture as stressed by post 2008 regulations: Relevant employees at all levels understand the core values of the institution and its approach to risk, are capable of performing their prescribed roles, and are aware that they are held accountable for their actions in relation to the institution’s risk-taking behaviour.</td>
</tr>
</tbody>
</table>
| Answers  | • “The CEO’s will have a forward looking risk perception only when the stress test results become public information, currently there is no long term planning longer than one year”.  
• “The consequences of the actions to be taken on the solvency ratios of the Bank are simulated therefore are foreseeable.”  
• “Credit officers are accountable within their authorised limits. Each officer has a non-performing loan limit. Risk Management comments on the NPL limits.”  
• “There is no penalty so long as there is no deliberate breach of the policies”. |
| Observations | It is observed that it is the Risk Management’s function’s responsibility to ensure the risk limits are not breached. The business lines work on a limit compliance culture. And compliance with risk policies is also not under the responsibility of the business lines but a separate internal control unit. |
**Question 8:**

<table>
<thead>
<tr>
<th>Question</th>
<th>How do you feel about the support of the Board to the resolution of the issues raised by you?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>This question aims to reveal the relative importance assigned to the Risk Management function by the Board.</td>
</tr>
</tbody>
</table>
| Answers        | • “Good.”  
|                | • “Depends on the subject but the CRO does not contradict the CEO in almost any decision.”  
|                | • “The Board members challenge the CEO: “The Risk Management Department says something, why don't you do it?”  
|                | • “For the issues raised by the CRO, approval of the Board members is sought before the Committees.” |
| Observations   | It is observed that the Boards where shareholder is represented in a control capacity or where foreign parent Bank influence is higher, have a stronger support for the resolution of the issues raised by the Risk Management function, while the dominantly Turkish Boards, CRO’s are traditionally more reluctant to raise issues other than purely regulatory compliance issues. |

**Question 9:**

<table>
<thead>
<tr>
<th>Question</th>
<th>What is your role in times of critical incidents and organizational crises?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>The actual involvement of the Risk Management function in times of crisis reveals the level of criticality of the function for the organization.</td>
</tr>
</tbody>
</table>
| Answers        | • “With 2008 crisis, the role of adequately calculating the capital requirements as part of the contingency plans is understood. Treasury, CFO and CRO worked together.”  
|                | • “The Board is supportive – there are 2-3 significant incidents per year”.  
|                | • “None.”  
|                | • “More role and impact on the critical incidents related to operational risks.” |
- “During the 2008 crisis, a daily management committee was held. “Risk management has made a revolution” perception within the organization”
- “The times of critical incidents are managed by the CEO.”
- “The Risk Management function is part of the actions to manage the critical incidents together with the CEO, as it is regarded as the department which can holistically evaluate the Bank’s direction.”

| Observations | Risk Management is part of the management of the operational crises however not so much for the liquidity and credit crises because it is not part of day-to-day decision making in these areas |

### Question 10:

<table>
<thead>
<tr>
<th>Question</th>
<th>What would you think the degree by which sound risk taking is valued and enforced?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>This question intends to elicit the Board’s attitude towards risk taking behaviour as perceived by the Risk Management function.</td>
</tr>
</tbody>
</table>
| Answers  | • “High degree.”
• “Sound risk taking is positively encouraged – There are risk adjusted performance measures that are part of management reporting.” |
| Observations | There is a general perception among the interviewees that although rules and relations of the Risk Management function are yet to be improved, there is an increasing tendency to report risk based performance metrics but usually for monitoring purposes only. |

### Question 11:

<table>
<thead>
<tr>
<th>Question</th>
<th>What do you like the least about your role? What do you like most?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>This question seeks for common patterns regarding the role perception of risk managers.</td>
</tr>
<tr>
<td>Answers</td>
<td>• “I like to make forward looking analysis and forecasts, I do not like to try to convince the Senior Management in risk related matters.”</td>
</tr>
</tbody>
</table>
- “I do not like the fact that you are seen as always bringing in the bad news. Nobody likes bad news.”
- “I do not like the fact that I do not feel as an integral part of the Bank, as part of the strategy meetings.”
- “I do not feel as an integral part of the Bank.”
- “I like that the job content is changing and dynamic.”
- “I do not like the fact that I have to give negative messages to the organization – more courage is needed.”

**Observation**
The general observation is that risk managers do not feel themselves as an integral part of the Bank, rather as a specialist department with highly technical skills which the rest of the bank has little understanding of.

**Question 12:**

<table>
<thead>
<tr>
<th>Question</th>
<th>Where would you fit your organizational culture in the weak-strong risk culture space?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>The purpose of this question is to elicit the overall evaluation of the current risk culture by the risk managers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Answers</th>
<th>“Our risk perception is strong, legal, compliance and control centered.”</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“Strong risk culture by executioners – not by the strength of the independent risk management department”</td>
</tr>
<tr>
<td></td>
<td>“Risk control oriented culture”</td>
</tr>
<tr>
<td></td>
<td>“Strong risk culture as represented by the EVP level CRO”</td>
</tr>
<tr>
<td></td>
<td>“There is a risk portal in order to embed risk culture in the organization – there is “lessons learned” culture emanating from the foreign owned parent bank – risk awareness surveys are conducted on an annual basis for the last two years.”</td>
</tr>
<tr>
<td></td>
<td>“I would say we are on the strong half of the scale in terms of the strength of risk culture.”</td>
</tr>
</tbody>
</table>

**Observation**
It is observed that the risk culture prevalent at the Turkish Banks today is more oriented to ex-post risk control as opposed to an ex-ante risk based decision making. As the business decisions are ultimately made by the CEO, it the CEO’s own risk perception that rules rather than an existing common risk language that
reflects the organizations’ risk appetite. This situation is being weakened by the increase in the foreign ownership of the Turkish banks.

Part 2: Identifying resistances to change as perceived by CRO

*Question 13-16:*

<p>| 13 | Think about 3-4 most challenging aspects of the ‘desired’ role of a CRO under a strong risk culture framework. What would be most important for your role now that needs to change in order to for you to perform any or all of these aspects significantly better? | The 3-4 most challenging aspects of the ‘desired’ role of a CRO: 1- Increased importance to be given to the role of CRO and the risk management function by the shareholders and increase in their understanding of risk adjusted profitability. 2- Increased partnership with business lines, more impact on decision making, 3- To be part of bank’s management. |
| 14 | What do you think the organization is doing or not doing that work against the desired changes? | 1- There is regulatory pressure but the regulator should be more imposing and binding since the risk culture perception has not been internalized yet – maybe risk culture audits can serve towards this purpose. 2- Risk management function should report to the CEO. 3- Risk Management function should merge with the Credits department at the EVP level. 4- The CRO should have loan granting authority. 5- Risk management should be part of strategy discussions. 6- The Board should be composed of members with background in risk |</p>
<table>
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<th></th>
<th>Why do you think the organization is behaving the way it does?</th>
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| 15 | The short term profit making motive – just complying with the legal limits. | 1-  
   - There is a perversity in governance – the independence of risk management function precludes its being part of day-to-day decision making. |
|   | The regulator, by structuring an independent risk management function, separated risk management from the execution totally. | 2-  
   - The attitude and mindset that “we have survived without the risk management techniques so far, why should we adopt them now?” |
|   | The attitude and mindset that what is working is not to be changed. | 3-  
   - The bank is well capitalized, liquidity is adequate, but there is pressure on profitability. |
|   | The future will be like the past. We have survived the past since 2001 under this governance structure with so little knowledge about risk and capital management internally at the banks that we can survive the future as well. |   |
|   | Markets will reward short term profit making. |   |

Findings and Discussion
1- What does the role perception of Risk Officers reveal about the risk culture in a FSO?

In the literature review section, we argued that “For the organizations to become more risk conscious organizations… what is needed is that the role definitions and the associated remuneration structures change such that prudent behaviour with integrity receives due recognition and is rewarded properly. Therefore, risk governance change is a precondition for cultural transformation.” Our interviews revealed that the perverse nature of system wide regulatory driven governance structure in the Turkish Banking system that separates the risk management function from the decision-making processes of the Bank is the fundamental source of discomfort regarding the relative power and stature of the function within the organization. Consequently, the risk management function has not been an integral part of the Bank, nor the risk managers powerful figures. The question is, how did this structure come about? This structure was instituted after the 2001 banking crisis in Turkey as a social defence against the crisis to strengthen the control functions at the banks. This governance structure, which made risk management solely a control function and took the accountability for risk policy non-compliance away from the business lines supported the departmental defences against a separate yet strong risk management function. Consequently, the role perceptions of the risk managers reveal a rather compliance oriented risk culture that is backward looking or with a short term horizon. Risk managers themselves feel unempowered despite being respected and considered as a science laboratory. However, this defence mechanism has become off-task in the post 2008 world because of the need for forward-looking risk management. In the West, the response to this governance failure has been to consolidate and raise the profile of
the risk management function through the establishment of a group-wide CRO. The CRO and the risk management function generally have been given more stature, authority and independence compared to the pre-crisis period. Another aspect of the risk culture that is revealed by the role perception of the risk managers relates to the lack of a common understanding and awareness of risk in the organizations. As risk managers see themselves as isolated units within the organization, risk management language does not diffuse into the non-risk departments and management level. Risk managers speak the language of regulation while dealing with the traditional ways of doing business and try to impose their language from outside, which is regarded as a highly technical approach to the business lines. (E.g. It is indicative of risk culture how many times the first line business owner seeks advice from CRO And their colleagues). The focus then has been on ensuring compliance with a set of rules rather. This reveals the denial of the emerging new bank management language based on risk management methods and goals. It is a social defense and it amounts to refusal to accept the emerging approaches as long as possible. The postponement contains the organizational anxiety – the “wait and see” game- however it also delays the organization’s readiness for the new market environment – such that the market increasingly rewards strong risk culture.

Regarding the relationship between the risk managers to the lines of business, our interviews reveal that restricting risk management formally to an oversight role hence reducing it to a compliance function has started to change by the influence of the foreign parent banks in the industry. We now observe that there is - at least partially- a partnership type of relationship with the Treasury function, including representation in the decision making committees. On the loan granting side the role is still much of
an oversight role. Hence, there are sub cultures in the risk domain within the same organization in general.

2- What are the forces that impede or delay the FSO’s in Turkey to become strong risk culture organizations?

In what follows, we will attempt to derive the generic immunity map of a CRO in Turkey based on the collective evidence we generated by the interviews. In the literature review, we noted that Kegan argues as follows regarding the power of immunity map approach: Firstly, individuals can work on their personal immunity to change as it relates to a group improvement aspiration. Secondly, the group as a whole can develop a picture of its collective immunity to change around this same aspiration. (Kegan, 2009). On that note we identified the group improvement aspiration as “to more effectively protect the bank from unexpected losses by strengthening the risk management culture across the organization”. Then the generic CRO’s immunity map derivation will start from the translation of the group improvement aspiration to the CRO role such that the improvement aspiration becomes “to make the CRO more influential within the organization”.

<table>
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<tr>
<th>CRO role improvement aspiration</th>
<th>What needs to change in the current role</th>
<th>Why not changing? Competing Commitments</th>
<th>Hidden assumptions</th>
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<tr>
<td>To make the CRO more influential within the organization</td>
<td>• Increased importance to be given to the role of CRO and the risk management</td>
<td>• Status quo since 2001 has not resulted in major bank failure. • Pressure is on</td>
<td>The future will be like the past.</td>
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<td>function by the shareholders and increase in their understanding of risk adjusted profitability.</td>
<td>profitability rather than on capital and liquidity, i.e. there is no need recognized by the Banks’ management – regulatory demands are pressing recently but wait and see policy is more rational.</td>
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<td>• Increased partnership with business lines, more impact in decision making</td>
<td>• The prospect of a stronger CRO is unknown to the organization. The organization is not equipped to deal with this new role.</td>
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<td>• To be part of bank’s management.- rather than only oversight function</td>
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3- How can organizational theory lenses help us understand these dynamics?

In this research, we have made use of the and organizational role analysis and immunity to change approach to the interpretation of resistances to change.

**Limitations**
The major limitation of this study is that it is based on a single country sample of banks which are at similar stages of cultural transformation. A second limitation is that one needs to have a longer stay for observation in the organization to properly identify the organization specific change impediments from a psychodynamic perspective. However, we think that that would have been possible through a case study approach.

**Future Research**

We can think of possible ways of extending research on risk culture based on organizational theory and psychodynamics approaches.

One possible venue would be an intervention design for a risk culture transformation program based on our conceptual framework that also includes the intervention techniques such as group coaching, which would be effective to generate a bank-wide risk vocabulary and eliminate isolative behaviour between the risk management function and the business lines. Group coaching creates the awareness that without alignment, strategy execution suffers or fails because executives will not know what steps to take and when to take them. The creation of a clear roadmap through group coaching will positively affect a company’s success in execution. (Kets de Vries, 2010).
Conclusion

Our research revealed that Turkish banking system is somewhere between the change in the Board’s responsibilities and the change in the tone at the top stages of the proposed cultural transformation process. The resistances to change are related to systemic (system wide anomaly in risk governance) and organization specific (degree of foreign ownership and merger status). The perception of the CRO role is far from the desired role characteristics on a formal level. At the informal level, there seems to have emerged sub-cultures in the organizations regarding the relative power of the CRO role. The immunity map of a generic CRO suggests that a role can have as much influence as the organization permits and individual efforts to increase the influence depend heavily on the internal alliances that the person at the role is able to manage. That is, the power is not derived from the CRO role but the role holders’ alliances with the Senior Management on a case by case basis. In this sense, if one measure of effective cultural transformation is the change in role perception, our interviews suggested that the risk managers in Turkey have not felt much of a transformation in the past 10 years.

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