

## Managing Employee Risk Culture towards Increasing Employee Performance (Staff Morale)

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### Abstract

An employee risk culture survey is one way to determine the staff morale in organizational performance. Therefore, this study is conducted to identify action that can be taken by organization to improve the effectiveness of its risk culture. The determinants of risk culture towards organizational performance (employee morale) of ABC Company are tone at the top, accountability, effective challenge and compensation with organizational performance (staff morale) is taken as the dependent variable. The research approach undertaken was quantitative research and self-administered questionnaire had been used as the mean of data collection. The data was collected at a percentage of 62% or amounted to 95 respondents out of suggested sample which was 108 respondents that was derived from the total population of 153. In addition, this research used simple random sampling method as sample selection and data collected was being analyzed by using Statistical Package for the Social Science (SPSS) Version 20 Software. The results of this research indicated that all determinants of risk culture have shown a significant relationship with organizational performance (staff morale).

**Keywords:** Risk Culture, Tone at the Top, Accountability, Effective Challenge, Compensation

### Introduction

As culture involves behaviors and attitudes, this term could be a very complex issue. However, efforts should be done by an institution as well as by supervisors to have an understanding about an institution's culture and how it gives impacts on safety and soundness. In addition, risk culture is considered as one element of broader organizational culture.

In all parts of the institution, employees should be expected to conduct business in a legal and ethical manner. Supervisors should consider whether an institution's risk culture is appropriate for the scale, complexity, and nature of its business and based on sound, articulated values which are carefully managed by the leadership of the financial institution (Ashby & Power, 2014). Due to this situation, supervisors should set expectations for the board to oversee management's role in fostering and maintaining a sound risk culture.

Supervisors are required to effectively articulate these expectations to the board and senior management and ensure ongoing follow-up on whether these expectations are being fulfilled. In the ABC Company, the revenue in the previous year had decreased to 13.54%. However, the increasing value in staff cost increase by 48% and this indicates that additional staffs are unable to contribute to increase in revenue. According to Barlow (2016), exposures to financial loss can affect real and personal property, as well as property that is tangible and intangible as well as personnel losses. The outcome of not managing risks can quickly reduce an organization's reserves. Thus, this study is to identify the relationship between determinants of risk culture towards organizational performance (staff morale). This study is to test how suggested determinants of risk culture could influence organizational performance (staff morale) as well as offer a useful guideline to be followed. Besides, it also contributes to increase the practice of risk-aware culture in the organization which eventually, will influence its performance. Thus, having a better understanding of what risk culture meant to Malaysian companies and how it contributes towards organizational performance (staff morale).

### **Organizational Performance**

As studied by Gavrea, Ilies & Stegorean, (2011) showed that successful organizations play an important role as a key ingredient in developing the nations. Organizations and institutions have been considered, by many economists, as similar as an engine in determining the social, economists and political progress. There were six (6) Nobel prizes awarded to researchers who have focused on the analysis of organizations and institutions in the last 22 years. Thus, organizational performance is one of the most important variables in the management research.

### **Risk Culture**

According to IIF (2009), risk culture is "the norms and traditions of behavior of individuals and of groups within an organization that determine the way in which they identify, understand, discuss and act on the risks the organization confronts and the risks it takes". Also, it is a key element of a company's enterprise risk management framework, although one that exists more in practice than in codification. It necessarily relates to risk taking by individuals and teams (at all levels of seniority), as well as to commitments to risk awareness and mitigation. Besides, a company's risk culture should be aligned with, but different from, its risk appetite, which represents the willingness of the firm to take risks against a backdrop of known and assumed tolerances.

### **Tone at the Top, Accountability, Effective Challenge, Compensation**

According to Kpodo (2015), tone at the top is defined as leadership example of the organization. Top management (the board and senior management) of an organization, as argued by FSB (2013) is responsible for communicating the values of the organization which drives its risk culture. This is usually done by demonstrating desired behaviors as well as ensuring that staff are held accountable for their behavior and continuous monitoring of behavior at all organization levels. FSB (2013) states that tone at the top is the ethical atmosphere created by the leadership of an organization.

This relates to Ernst and Young (2014) where accountability for risk which includes reputational and operational, rests with the whole management chain. For example, business units, committees and individuals. In addition, according to the GRN Executive Briefing (2014,

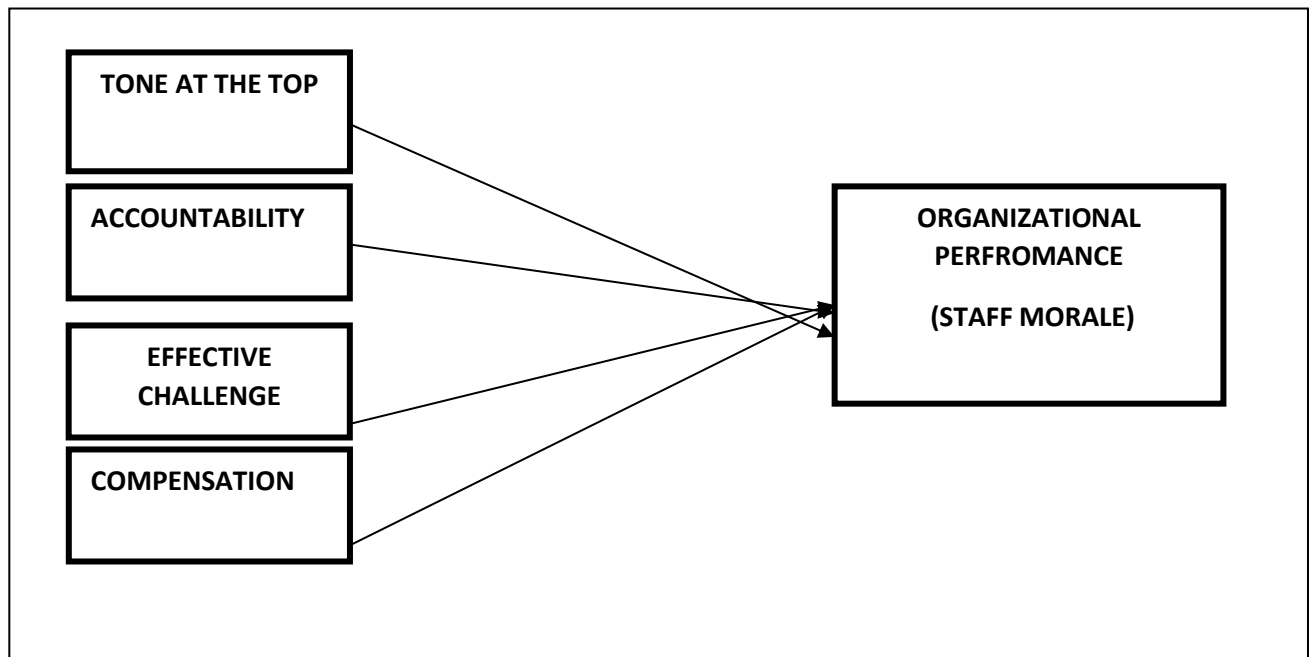
cited from Kpodo, 2015) indicated that expectations should be cleared regarding the identification, assessment, monitoring, reporting and response to, new and existing risks across the organizations. To add, employees must be held accountable for their conduct, irrespective of whether the conduct led to gain or loss of monetary to the organization. They also must be penalized for not aware the expected of risk management behaviors. This can be supported by Culture. (n.d.) where it defines accountability as taking ownership of actions, committing to decisions made and well as have an understanding of consequences and responding to issues.

As indicated by FSB (2013), a strong risk culture enables constructive opposition in each area of the business which includes control functions. This indicated that employees must be empowered to challenge long held positions and new decisions. Deloitte (2012) also mentioned that people are comfortable to challenge others including authority figures without having the fear of retribution. Those who are challenged respond positively. Furthermore, employees and groups should be encouraged to provide alternate views or questions and should be allowed to occur in practice.

Besides, Protiviti (2014) mentioned that a sound risk culture encourages an effective challenge environment where decision-making processes promote a range of views, allow for current practices testing and encourage a positive, critical attitude among employees and open and constructive engagement environment. The example is illustrated as follows: the board of directors needs to ask the right questions when CEO is driving a deal. Nonetheless, Directors do not have the necessity to understand every single thing about certain products and be engaged in overall details of running a lending operation. However, they have to ask questions focused on the underlying economics, changes to the profile of risk, ability to manage the risks and other fundamentals that have been assumed.

Kpodo (2015) stated that compensation is a reward system used by the organization to pay it employees. One old adage quoted by FSB (2013, cited from Kpodo, 2015) ,“if you want to understand why people behave the way they do, ask how they are paid?” The board argued that this is as relevant as it has ever been. Hence, an effective risk culture in a company, remuneration and performance as well as professional growth and development is seen in the long term organization’s objectives. The board listed remuneration and performance as well as talent development and succession planning as the two main indicators under compensation .This study coincides with FSB (2013) where motivation of employees to manage risks is influenced by the power of a positive culture in risk management. Is also added that to comply with the overall risk management framework is a significant part of the professional development, appraisal evaluation, promotions and compensation programs of the institution.

### Theoretical Framework



Sources: Kpodo, B (2015). *The Effects of Risk Culture on Organisational Performance The Some Selected Financial Institutions in Ghana Kwame Nkrumah University Of Science And Technology*

Thus, the purpose of the research is to identify how risk culture contributes towards organizational performance. As derived from various sources (Padayachee, 2016; Ashby et al , 2014; Kpodo, 2015), this set of independent variables is expected to have a direct relationship on organizational performance.

### Methodology

This research adopted a quantitative approach. 108 questionnaires have been distributed among the employee of ABC Company. Out of 108 questionnaires, 95 questionnaires were returned. For this research employees from executive and nonexecutive level in ABC Company have volunteered to participate in the study. The survey consisted of a series of 35 statements to which respondents were required to indicate based on a 5 point scale from strongly disagree to strongly agree and strongly dissatisfied to strongly satisfied. The responses to the survey were entered into a database and analyzed in a variety of ways using the Statistical Package for the Social Sciences (SPSS) analysis software.

**Findings**

Table 1.0

*Mean Analysis*

<b>Variables</b>	<b>Total Mean</b>	<b>Total Standard Deviation</b>
Tone at the Top	2.9389	0.67166
Accountability	2.8421	0.52914
Effective Challenge	2.7278	0.54739
Compensation	2.8632	0.66924
Organizational Performance (Staff Morale)	2.9242	0.43704

The table above had shown the total mean and standard deviation for each of the variables in the study. Referring to the table, the highest total mean was recorded by tone at the top with the total mean of 2.9389 and a standard deviation of 0.67166. This had meant that majority of the respondents agreed with the statements. Second highest was shown by organizational performance (staff morale) at the value of 2.9242 as well as 0.43704, for the value of standard deviation.

Table 2.0

*Results of Cronbach's Alpha*

<b>Variables</b>	<b>No.of item</b>	<b>Cronbach's Alpha</b>
Tone at the top	5	0.915
Accountability	8	0.834
Effective Challenge	7	0.851
Compensation	5	0.886
Organization Performance (Staff Morale)	10	0.801

The table above depicts the result of internal consistency of all variables. As indicated, all variables had achieved a value above 0.60. Thus, all variables are deemed to be reliable and possess internal consistency.

Table 3.0

*Results of Correlation*

<b>Variables</b>	<b>Pearson Correlation</b>	<b>Sig. (2-tailed)</b>	<b>Internal Consistency</b>
Tone at the top	0.627**	0.000	Moderate Correlation
Accountability	0.639**	0.000	Moderate Correlation
Effective challenge	0.657**	0.000	Moderate Correlation
Compensation	0.585**	0.000	Moderate Correlation

Referring to the result in the above table, effective challenge with ( $r=0.657$ ,  $p<0.000$ ) showed the highest correlation to organizational performance (staff morale) as compared to the other

three independent variables. The relationship between effective challenge and organizational performance (staff morale) is positively significant and moderately correlated with each other. Next in line is accountability which recorded as the second highest correlation to the organizational performance (staff morale) proves that this variable has a significant relationship with organizational performance (staff morale) and the strength of correlation is moderate. For the next variable which is tone at the top also displays a positively significant relationship with organizational performance at ( $r=0.627$ ,  $p<0.000$ ) besides moderately correlated with each other. Lastly, the least correlation was shown by compensation at 0.585 with  $p<0.000$  demonstrates that compensation also has a significant relationship with organizational performance with moderate correlations strength.

### Discussion and Conclusion

Based on the study of determinants of risk culture towards the organizational performance (staff morale) in the ABC Company, it can be concluded that all independent variables are having significant relationship towards organizational performance. The result gained from Descriptive Statistical Analysis proves that all variables above could influence the organizational performance (staff morale). Another objective which was to examine correlation or relationship between tone at the top, accountability, effective challenge and compensation with organizational performance (staff morale) of ABC Company is successfully achieved. This can be supported by the result received from Pearson Correlation's Analysis as it shows that all variables involved are significant as well as have a moderate correlation with organizational performance (staff morale). It can be concluded that, employees' morale could be determined and influenced by providing challenging work to the employees (where they can test their own ability), making them accountable for their action to promote responsibility, tone at the top which represent the leadership of the leaders or organization and also compensation that is influenced how well they perceived they are being valued by the organization. This study is not without limitations. First, being a cross sectional study, the finding only represent a snapshot of the situation. To overcome this, a longitudinal study is proposed. Second, this study used a census sampling due to small population. Thus, it limits the generalizability of the findings towards larger population.

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