

# Senior management operational risk accountability at a South African bank

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**Classified**

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## **PREFACE**

This mini-dissertation is the final deliverable for the Master of Commerce (MCom) in Applied Risk Management. The mini-dissertation was written in article format and consists of three sections: Research project overview, Article, and Reflection.

This mini-dissertation is the student's work. The student was responsible for the final concept, set up, execution of the research project and writing of the mini-dissertation. The members of the supervisory team contributed in an advisory and technical support capacity to the study's conception and design, analysis and interpretation of data, and critical revision of the manuscript. The mini-dissertation was language edited before submission for examination. However, the student is responsible for undertaking these edits, and for the grammatical correctness of the final document

The main study supervisor gave the student permission to submit this mini-dissertation for examination.

## ABSTRACT

Effective operational risk management is required for all banking products, activities, processes, and systems, and is therefore critical to achieving objectives. Although banks record and monitor operational disruptions and losses, accountability for operational risk management has not been well defined in academic literature, in regulatory documents, nor by the South African bank studied here. This study investigated how a sample of senior managers at a South African bank believe they should be held accountable for managing operational risk, with the aim to identify their operational risk accountability challenges and proposed improvement. The study consisted of semi-structured interviews aimed at obtaining consolidated views of these managers' operational risk accountability opinions and experiences. The interviews were followed by a focus group discussion representing risk managers and the bank's internal audit function with the aim to obtain their views on study findings. A risk culture approach was used to analyse the study data. The main study findings are: the senior managers reported that they understand their responsibilities towards managing operational risk; inefficiencies in the structural control environment complicate proactive management of operational risk; and although accountability for managing operational risk is implied as a senior management function, they do not feel actively held accountable for managing operational risk. Risk culture-related areas of improvement include risk-based incentives, risk information and communication, risk management framework, and senior management risk roles. These findings contribute to academic literature by providing a novel insider view of operational risk accountability based on actual experiences of senior managers at a South African bank. Even though this study concerns one bank, one would expect that these experiences are not unique to this bank and provide useful indicators of challenges that other banks may face, thereby adding valuable insights to operational risk accountability in other financial institutions and their regulatory bodies.

**Keywords:** *operational risk, risk accountability, banks, risk culture, South African bank*

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## RESEARCH PROJECT OVERVIEW

A sound risk culture is essential for effective implementation of risk management programmes in financial organisations such as a bank (FSB, 2014). This study focuses on accountability, more specifically how senior managers viewed and experienced accountability for managing operational risk at a South African bank. Although academic literature on accountability at board and senior management levels has been published, there is little reporting on *risk* accountability, and I could not find any published research on operational risk accountability. This study fits into the field of risk management by providing novel, practice-based findings on operational risk accountability obtained through interviewing senior managers at a South African bank.

These findings are expected to be beneficial to risk practitioners in the financial sector by highlighting senior management accountability challenges in managing operational risk and suggest ways to improve such accountability. Insights gained in this study are also expected to allow financial services regulators to increase their understanding of how operational risk accountability is implemented in practice.

I have selected the *Journal of Risk Research* for potential publication of this study, as it publishes qualitative and quantitative research on risk communication, regulation, and management. A recently published study by Osman and Lew (2020) indicates that further work on risk accountability in a risk culture frame may be expected to be of interest to this journal. My study therefore adds to this by exploring accountability in more detail, also by relating to the journal's focus areas:

- Interrelationships between risk, decision making and society.
- Promotion of better risk management practices.
- Contribution to the development of risk management methodologies.

The *Journal of Risk Research* is indexed in reputable academic databases including the Web of Science (WOS), Scopus and the International Bibliography of the Social Sciences (IBSS). I also considered the *Journal of Management and Governance* as an option as it too is indexed by IBSS, and Scopus and addresses matters of corporate governance. Both journals are suitable options for publication of this article; however, I selected the *Journal of Risk Research* because it has a higher citation index and focuses on risk management-specific research.

The guides for authors for both journals are available at:

*Journal of Risk Research:*

<https://www.tandfonline.com/action/authorSubmission?show=instructions&journalCode=rjrr20>

*Journal of Management and Governance:*

<https://www.springer.com/journal/10997/submission-guidelines?IFA>

Additionally, this study provided me with an opportunity to learn how to conduct an applied research project and to demonstrate mastery of research at master's degree level within a research team context. I discuss my experiences of this process in the Reflection section. The responsibilities of the different role players in this research project are described in Table 1.

**Table 3: Role players in this study**

#	Team member	Role
1	Researcher: N.P. Mlanduli	Determined area of study. Collected, recorded, and analysed study data. Presented study findings.
2	Supervisor: H. Zaaiman	Provided guidance and input to the study – from planning, method determination, writing and data analysis. Provided guidance on academic writing.
3	Editor: G.S. Baker	Advised during article writing workshops and undertook a pre-final, grammar-only edit of the dissertation.

## References

FSB (2014). *Guidance on supervisory interaction with financial institutions on risk culture: a framework for assessing risk culture*. Retrieved 07 November from [https://www.fsb.org/2014/04/pr\\_140407/](https://www.fsb.org/2014/04/pr_140407/)

Osman, A., & Lew, C. C. (2020). Developing a framework of institutional risk culture for strategic decision-making. *Journal of Risk Research*, 1-14. <https://doi.org/10.1080/13669877.2020.1801806>

# ARTICLE

## Senior management operational risk accountability at a South African bank

### Abstract

Effective operational risk management is required for all banking products, activities, processes, and systems, and is therefore critical to achieving objectives. Although banks record and monitor operational disruptions and losses, accountability for operational risk management has not been well defined in academic literature, in regulatory documents, nor by the South African bank studied here. This study investigated how a sample of senior managers at a South African bank believe they should be held accountable for managing operational risk, with the aim to identify their operational risk accountability challenges and proposed improvement. The study consisted of semi-structured interviews aimed at obtaining consolidated views of these managers' operational risk accountability opinions and experiences. The interviews were followed by a focus group discussion representing risk managers and the bank's internal audit function with the aim to obtain their views on study findings. A risk culture approach was used to analyse the study data. The main study findings are: the senior managers reported that they understand their responsibilities towards managing operational risk; inefficiencies in the structural control environment complicate proactive management of operational risk; and although accountability for managing operational risk is implied as a senior management function, they do not feel actively held accountable for managing operational risk. Risk culture-related areas of improvement include risk-based incentives, risk information and communication, risk management framework, and senior management risk roles. These findings contribute to academic literature by providing a novel insider view of operational risk accountability based on actual experiences of senior managers at a South African bank. Even though this study concerns one bank, one would expect that these experiences are not unique to this bank and provide useful indicators of challenges that other banks may face, thereby adding valuable insights to operational risk accountability in other financial institutions and their regulatory bodies.

**Keywords:** *operational risk, risk accountability, banks, risk culture, South African bank*

## Introduction

Inadequate risk management due to a deficient risk culture was identified by regulators and researchers as one of the root causes of the Global Financial Crisis (GFC) of 2007/8. For example, Gendron et al. (2016) and Kashyap (2010) reason that poor risk management culture informed and contributed to the protracted negative fallout of the GFC. In addition, the Financial Stability Board (FSB) (FSB, 2014) identified risk-based accountability as one of four key indicators of a sound risk culture in their risk culture guidelines developed in response to the GFC. Accordingly, effective risk management relies on clearly defined and adopted risk accountability measures that hold employees at all levels accountable for their organisational risk-taking actions (FSB, 2014). South African banks participate in global financial markets and are therefore subject to international regulatory principles and guidelines such as those issued by the Basel Committee on Banking Supervision (BCBS) and the FSB.

Banks' risk universes comprise multiple risk types, such as liquidity risk, credit risk, market risk, operational risk, reputational risk, and business risk. Operational risk permeates all banking products, activities, processes and systems (BCBS, 2021). This implies that inadequate management of operational risk played a substantial role in driving the length and severity of the GFC, as argued by De Jongh et al. (2013) and Aloqab et al. (2018). Although banks record and monitor operational breaches and losses, I could not find any academic literature or regulatory documents where management accountability for managing operational risk has been clearly defined. In a recent South African banking study, Kalima (2016) found that some bank employees believed that risk was owned by the risk department in a bank that had to address accountability and responsibility to improve its risk management, thereby revealing inadequate understanding of risk accountability. Similarly, Padayachee (2016) found that an improvement in the areas of risk accountability and responsibility would improve risk management in a South African bank. In addition, the study by Osman and Lew (2020) revealed that the board influences risk culture by driving risk behaviour through holding individuals accountable. Although their study was in the South African automobile industry and focused on board-level accountability in strategic decision making, their findings underscore the importance of risk accountability in a successful risk management programme. The present study therefore investigated how senior managers at a South African bank view and experience accountability for managing operational risk, with the aim of identifying operational risk management challenges and of proposing areas for

improvement. Thus, the study's main research question was: how do senior management at a South African bank believe they should be held accountable for managing operational risk?

A semi-structured interview protocol was used to gather primary data on how senior managers consider risk in making decisions which may give rise to operational risk. These managers represent the first line of risk defence, as defined by the Institute of Internal Auditors (2020). The interview data were analysed thematically by the author and discussed with a focus group comprising the second line of defence, which in this bank consisted of the risk (operational risk, risk modelling, legal risk, financial crime risk, innovation risk) and compliance management functions. In the bank studied, internal audit, which is viewed as the third line of defence (Institute of Internal Auditors, 2020), forms part of the Risk Department. The focus group served to obtain non-business manager inputs on senior management's views of operational risk accountability. To analyse the study data, I used the Zaaiman et al. (2021) approach to risk culture, which provided a systemic view of attributes that may influence risk accountability in organisations. The study findings are expected to be used by the bank as input to improve its risk culture programme, which is largely focused on embedding risk ownership and accountability in the first-line functions.

The rest of this article is structured as follows. The background section provides a brief overview of the basis for the study as well as of the available academic literature on accountability. The method section details the research method followed. The findings from the study are reported in the results and discussion sections. I then conclude with how the research objective was achieved.

## Background

### *Operational risk*

According to the BCBS, operational risk is the only risk type present across all banking levels and products, and its appropriate management should provide a good indication of an organisation's risk culture (BCBS, 2021). The BCBS defines operational risk as the "risk of loss resulting from inadequate or failed internal processes, people and systems or from external events" (BCBS, 2021, p. 2).

### *Risk accountability*

The FSB (2014) acknowledges that culture is a complicated subject, but also attests that "a *sound* risk culture consistently supports appropriate risk awareness, behaviours and judgements about risk-taking within a strong risk governance framework" (FSB, 2014, p. 1). The FSB identified four indicators that can demonstrate a sound risk culture, namely: (1) tone from the top; (2) accountability; (3) communication and challenge; and (4) incentives. In addition, they expect a financial institution's board and senior management to establish a policy of risk ownership where every employee is answerable for their actions and be subject to penalties for not adhering to the institution's desired behaviours towards risk. They also identified three accountability-related indicators:

- *Risk ownership*: all employees are responsible for their actions, and consequences are in place for non-adherence to acceptable risk appetite and tolerance.
- *Escalation process*: suitable escalation processes are in place to report risks and a culture of transparency (and speaking up) is encouraged.
- *Clear consequences*: consequences for non-adherence to acceptable risk appetite and tolerance are known, communicated, and equally applied across the organisation.

Accountability is defined in King IV as the duty to answer for the execution of responsibilities (IODSA, 2016).

### *Senior management risk management role*

The BCBS (2015) advises that a well-defined governance framework distinguishes organisational responsibilities according to three lines of defence, where the first line refers to managers who should own the risks taken during business operations; the second line is made up of risk management and compliance functions, responsible for providing expertise, support, monitoring

and challenge related to the management of risk; and the third line of defence is the internal audit function, independent of the first and second lines of defence, tasked with objectively assessing the bank's risks and the effectiveness of its risk management efforts. The King Report on Corporate Governance (King IV) (IODSA, 2016), a set of voluntary principles and practices for corporate governance, places emphasis on the first-line functions for risk ownership and accountability. Senior managers are responsible for planning and directing employees in the first-line functions. According to King IV (IODSA, 2016), the board is responsible for risk management, but delegates this to senior management as they are responsible for the day-to-day running of an organisation. In agreement with King IV, Jackson (2018) acknowledges that the emphasis for risk management should lie with the first-line functions as they are closest to risks.

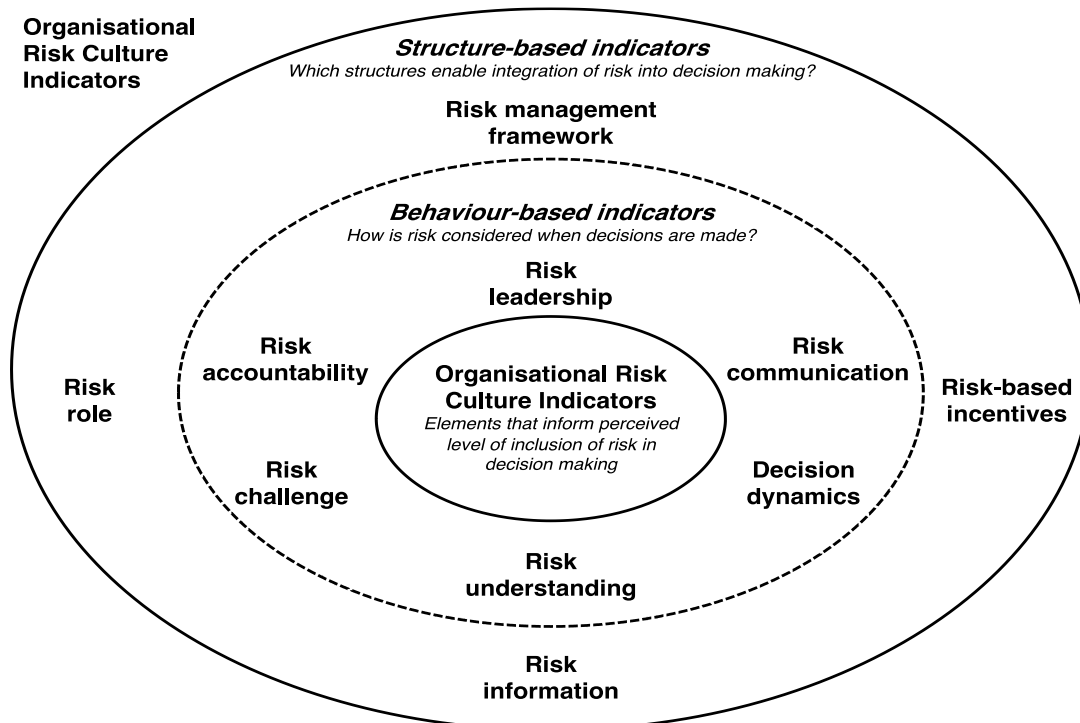
Based on the above, this study investigated senior management accountability for managing operational risk at a South African bank with both retail and business bank offerings. This was not previously investigated by this bank. In this study, senior management refers to heads of departments within the bank who report to executive management.

#### *Risk culture and risk accountability*

The FSB (2014) recognises the interdependent nature of organisational risk culture indicators and warns that considering each indicator in isolation ignores the multi-faceted nature of risk culture. One may therefore expect that the perceived accountability for risk management will be influenced by some of the other FSB risk culture indicators, such as tone at the top, communication and challenge, and incentives. In addition, the FSB points out that its indicator list is not supposed to be exhaustive. Accordingly, Zaaiman et al. (2021) use a systems approach to risk culture in their risk-informed decision culture (RiDC) model, shown in Figure 1. This model features additional indicators based on the risk culture-related work performed by the Central Bank of the Netherlands (DND, 2015), namely, group-based decision dynamics, risk role, and risk information. The Zaaiman et al. (2021) decision-focused approach to risk culture states that:

An organisational group's risk culture manifests in typical approaches to including risk when group members make decisions, as such characteristic approaches communicate how much the group values considering possible negative impacts of uncertainty on achieving organisational objectives.

As shown in Figure 1, the RiDC model distinguishes between organisational structure- and behaviour-based indicators, with risk accountability as one of risk culture's behaviour-based indicators critical to enabling risk-informed decisions.



**Figure 1: The risk-informed decision culture (RiDC) model (Zaيمان et al., 2021)**

Although this study did not specifically focus on the inclusion of risk during decision making, this view of the FSB- and DNB-informed indicators provided a useful structure for analysis of the study data, by allowing for a systemic view of organisational aspects influencing senior management operational risk accountability at the bank studied.

### *Literature review*

My research focused on the academic literature published after the GFC, with a specific focus on risk culture and accountability in banks. In selecting articles to review, I searched EBSCOHost and Google Scholar, using the key words 'operational risk accountability', 'accountability', 'senior management accountability' and 'risk accountability'. The corresponding articles used in this study are summarised in Table 1. The corresponding RiDC themes are shown in Table 2. These themes cover both accountability and non-accountability-related risk culture indicators and provided initial literature-based expectations of the kinds of accountability-related challenges that could be expected in the data reported, as explained in the Method section.

**Table 1: Summary of risk accountability-related literature analysed**

No.	Author and title	Findings	Contribution to risk culture literature	Journal	Indexed by
1	Double-bind accountability dilemmas: Impression management and accountability strategies used by senior banking executives  <i>Stapleton and Hargie (2011)</i>	In attempting to mitigate or deny accountability in the 2009 financial crisis, bankers generated a further set of conflicting impression management tasks specifically, a tension between moral or ethical integrity on the one hand and professional credibility on the other.	Specific analysis of banking executives' attitude towards risk and accountability during the GFC.	Journal of Language & Social Psychology	Scopus, WoS, IBSS.
2	Risk-taking for others under accountability.  <i>Pahlke et al. (2012)</i>	Managers who are held accountable for their decisions consider the options at their disposal more carefully.	Managers who are held accountable apply themselves prior to making decisions.	Economics Letters	Scopus, WoS, IBSS.
3	Reining in excessive risk-taking by executives: the effect of accountability  <i>Lefebvre and Vieider (2013)</i>	CEOs who had to justify their decision-making process to shareholders reduced excessive risk-taking and improved company performance.	Empirical evidence based on a controlled study of the effects of explicit accountability on risk taking in companies.	Theory and Decision	Scopus, WoS, IBSS
4	Board accountability and risk taking in banking: evidence from a quasi-experiment.  <i>Körner (2017)</i>	Laws designed to improve corporate governance by tightening accountability and liability of outside directors are effective in changing banking risk.	Contributes to the empirical literature on the relationship between board governance and risk taking of banks. Designing board-level governance is a promising approach for future policies that aim at safeguarding financial stability.	Journal of Financial Services Research	Scopus, WoS, IBSS
5	Transparency and accountability influence of regulation on risk control: the case of a Swedish bank.  <i>Kashyap and Iveroth (2021)</i>	<ul style="list-style-type: none"> <li>Accountability channels underwent a change across both vertical and horizontal dimensions.</li> <li>Reporting and reflexive connectivity between the Board, senior management, and the compliance function increased.</li> </ul>	Reflects on the impact of regulation on risk culture: transparency and accountability.	Journal of Management and Governance	Scopus

No.	Author and title	Findings	Contribution to risk culture literature	Journal	Indexed by
		<ul style="list-style-type: none"> <li>Horizontal accountability to the first line, and to different areas of risk and business activities similarly increased after the changes caused by regulation.</li> </ul>			

**Table 2: Accountability-related risk culture themes from the academic literature.**

Risk culture indicator	Theme	Source	Theme description	Quotes
Risk accountability	Risk ownership	<i>Lefebvre and Veider (2013)</i>	The CEO, senior management and all employees are held accountable for their actions.	“Making executives accountable in front of their shareholders is an effective mechanism to rein in excessive risk-taking.”
		<i>FSB (2014)</i>		“All employees are responsible for their actions and consequences are in place for non-adherence to acceptable risk appetite and tolerance.”
	Transparency	<i>Stapleton and Hargie (2011)</i>	Being honest and open when communicating with stakeholders about matters.	“In particular, they also claim that there was, prior to the Crisis, a set of <i>extraordinary</i> conditions and circumstances, which made the eventual outcome of their actions both unforeseeable and unpreventable.”
		<i>Lefebvre and Veider (2013)</i>		“The excessive risk taking observed for unaccountable subjects is reduced substantially when executives face the possibility that they may need to justify their decision in front of a shareholder reunion.”
		<i>Kashyap and Iveroth (2021)</i>		“The establishment of communication, reporting, and feedback channels across vertical and horizontal dimensions within the bank laid the foundation for increased transparency.”

<b>Risk culture indicator</b>	<b>Theme</b>	<b>Source</b>	<b>Theme description</b>	<b>Quotes</b>
	<b>Risk attitude</b>	<i>Pan et al. (2017)</i>	Chosen state of mind concerning risk.	“Persistent commonality in attitudes toward risk and uncertainty arises through the selection of corporate leaders.”
	<b>Clear consequences</b>	<i>Körner (2017)</i>	Consequences are clearly established, articulated, and applied for anyone engaged in, or supporting, risk-taking that is excessive relative to the financial institution’s risk appetite statement, regardless of whether positive revenue or net income was generated.	“Consequently, the new rules make it easier to identify breach of duty. These rules explicitly state that outside directors are obliged to pay compensation for damages to the savings bank that arise from the breach of duty.”
		<i>FSB (2014)</i>		“Consequences for non-adherence to acceptable risk appetite and tolerance are known, communicated, and equally applied across the organisation.”
		<i>Pahlke et al. (2012)</i>		“Subjects take risky decisions that affect themselves and a passive recipient. Adding a requirement to justify their choices significantly reduces loss aversion.”
	<b>Escalation process</b>	<i>(FSB, 2014)</i>	Suitable escalation processes are in place to report risks and a culture of transparency (and speaking up) is encouraged	“Appropriate escalation processes are established to support risk management and clear consequences for non-compliance with escalation procedures are defined.”
		<i>Stapleton and Hargie (2011)</i>		“When the tripartite authorities came before us—the Bank of England and the FSA in particular—they said they had sent warnings out to the banks, and they cited January 2007 and April 2007. Sir Fred, why do you think that those warnings were not heeded?”
<b>Risk-based incentives</b>	<b>Remuneration</b>	<i>FSB (2014)</i>	Remuneration and rewards support the organisation’s risk-taking behaviour	“Remuneration and performance metrics consistently support and drive the desired risk-taking behaviours, risk appetite and risk culture of the financial institution, and encourage employees to act in the interest of the greater good of the company, rather than for themselves or their business line.”

<b>Risk culture indicator</b>	<b>Theme</b>	<b>Source</b>	<b>Theme description</b>	<b>Quotes</b>
		<i>Körner (2017)</i>		“Depending on the complexity of the firm’s business operations (the marginal costs of monitoring), this might include stricter monitoring of the management and/or changes in the management compensation scheme towards lower risk-taking incentives.”
<b>Risk challenge</b>	<b>Alternate views</b>	<i>FSB (2014)</i>	Critical discussion and debate on risks related to decisions	“In order to promote a culture of effective communication and challenge, mechanisms are established to facilitate communication, bring alternate views to the decision-making process”
		<i>Stapleton and Hargie (2011)</i>		“Because they were not blindly following the prevailing “doctrine” or accepted views, they took decisions (e.g., to lower their share of the housing market) wherein they can be seen to have exercised caution and responsibility.”

## Method

This was a qualitative, exploratory study grounded in the interpretive research paradigm, which is a method that focuses on the way people interpret and make sense of their lived experiences (Scotland, 2012). A select group of senior managers at a South African bank were interviewed to investigate how they believe they should be held accountable for managing operational risk, with the aim of understanding how they consider operational risk when making decisions that impact the achievement of the bank's objectives.

### *Study population*

Convenience sampling based on the availability of the participants was used, which is useful when the researcher has limited resources, time, and where senior participants may not have time to participate in such a study. The advantages of convenience sampling are easy accessibility, geographical proximity, availability at a given time, and the willingness to participate (Etikan et al., 2016).

The study's target population consisted of 22 senior managers comprising 11 from the retail bank and 11 from the business bank divisions of the bank. After all these senior managers were invited to participate in the study, 15 (68% of the study population) agreed to the semi-structured, one-on-one interviews conducted by the researcher. This group consisted of eight (53%) senior managers from the business bank and seven (47%) from the retail bank. This high level of participation and almost even split between the retail and business bank divisions in terms of participant representation provided a reasonable degree of confidence that the study findings represent the views of senior managers across the bank. These study participants represented the first line of defence as defined by the Institute of Internal Auditors (2020) and first assurance providers in an effective control environment as indicated by King IV (IODSA, 2016). Accordingly, these senior managers lead and direct employees' actions – including managing risk – and are responsible for applying financial and human resources to achieve the bank's objectives. The bank's first-line functions include operations, sales, finance, project management, human resources, merchant services, rental finance, and payment services.

A focus group representing the second and third lines of risk management defence (Institute of Internal Auditors, 2020) served as a check on the representativeness of the senior management-based study findings. This group consisted of eight senior managers, representing the bank's specialist functions that facilitate and oversee risk management and compliance – specifically, operational risk, compliance management, risk modelling, legal risk, financial crime risk, innovation risk and internal audit. The focus group provided non-business manager views and opinions on the

study findings. These discussions were guided and monitored by the researcher (Barbour & Schostak, 2005).

#### *Interviews and focus group discussion*

The semi-structured interviews and the focus group discussions were conducted online on the Microsoft Teams platform. Participants' responses were transcribed by the researcher and the recordings deleted thereafter. Although this was a study limited to one bank in South Africa, I optimised the generalisability of the study findings by avoiding leading questions. Participants were asked open-ended questions, which assisted in minimising the impact of my bias on the study findings. This also permitted participants to articulate their own views and experiences clearly and independently. Because interviews and focus groups are time consuming, especially for senior personnel working at a bank, the interview questions (see Table 3) were sent to participants beforehand to allow them time to prepare. This allowed for more comprehensive discussions during the interviews.

**Table 3: Interview questions**

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<b>A) Your operational risk management role</b>
1. Please describe the operational risk management role of senior managers in this organisation, i.e., what are your operational risk management responsibilities?
2. How do you manage operational risks as part of your role? I am interested in practical examples of operational risk events that have materialised in your area.
3. What makes it difficult for you and your team to adequately manage operational risk?
4. What will make it easier for you to fulfil your operational risk management role?
<b>B) Accountability for operational risk management</b>
5. In your opinion, what are you held accountable for when managing operational risk?
6. How do you believe you should be held accountable for managing operational risk?
7. In your opinion, what must change/improve in the organisation to be able to improve operational risk management accountability?

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#### *Data analysis*

Data collected for this article were analysed thematically with the aim of achieving thematic data saturation, which is when additional interviews do not reveal new themes (Green & Thorogood, 2018). Data were coded according to the accountability-related themes provided in Table 2. The RiDC codebook was used further to frame the study findings, based on the interview data gathered. Whereas all the interviews were analysed, data saturation was achieved after the 11th interview, with no new study-related themes found. There was consensus about the accountability-related themes and some participants pointed out themes that had not been identified in the literature as

seen in Table 4. This data saturation and theme-related consensus indicate that the reported experiences were shared by the interviewees, increasing my trust that the findings represent common experiences in the bank.

#### *Ethical considerations*

Approval for data collection was granted by the bank's Risk Executive, who sponsored the study together with the Head of Operational Risk. All members of the study population provided written consent as a condition of participation, with the option to quit the study at any time. Neither the bank nor the participants are identified in the study transcriptions, which constitute the raw data for this study. The transcriptions will be stored safely by the researcher. The interview content was reported anonymously, and the interview recordings were deleted after transcription.

## Results and Discussion

### *Results*

This section discusses the study findings from individual interviews with the bank's senior managers, complemented by views from risk managers obtained in the focus group session.

### *Operational risk responsibilities*

Senior managers acknowledged that managing operational risk formed part of their responsibilities, as by virtue of their positions as heads of departments, their responsibilities included protecting the bank's assets and preventing losses. They also recognised that managing operational risk is not a standalone activity, and that optimal operational risk management requires integrating such potential risks in all decisions taken. The focus group comprising risk managers and internal audit function agreed with this view based on their interaction with senior managers and other employees at the bank.

Although operational risk responsibilities were seen as known and acknowledged, active emphasis on operational risk or risk in general within the bank's governance structures, such as the weekly executive committee meetings, was viewed as lacking. For example, one senior manager noted that such meetings focused more on strategy delivery than on risks that could prevent the achievement of that strategy. Correspondingly, feedback and discussions by senior managers at these governance structures were perceived as geared towards meeting delivery deadlines and milestones. Operational risks usually receive attention only when they had already materialised. Such practices do not allow for proactive risk management in a sound risk culture environment.

*"90% of the time the emphasis is on how we can grow and grow fast. But one needs to keep 10% in mind that something could go wrong. .... So, the responsibility is to always take a step back to reflect what could go wrong?" SM02*

The focus group opined that the understanding of operational risk responsibilities by the first line of defence was mainly a result of risk awareness campaigns and engagements by the second line of defence in recent years. Had the interviews with senior management been conducted 18 months previously, the response may have been drastically different as the understanding of risk ownership was not as clear and top of mind in the first line of defence.

### *Operational risk challenges*

Operational control environment inefficiencies were identified by senior managers as challenges to managing operational risk proactively. Because operational risk is the risk of loss as a result of people, systems, processes and external events (BCBS, 2011), senior managers advised that the control environment has to improve so they can proactively identify, investigate and quickly mitigate operational risks.

Table 4 shows some of the inefficiencies in the control environment identified by senior managers that are hindering them from proactive and effective management of operational risk. Although the hurdles identified are known to senior and executive management, and there are projects under way to remediate some of the shortcomings, senior managers identified inadequate clear ownership of operational processes as a challenge. In some cases, there was dual ownership and that created confusion regarding who was accountable for what. In addition, working in silos and an inconsistent risk culture were identified as underlying root causes of why some of the challenges prevailed.

**Table 4: Summary of interview information and focus group discussions: challenges preventing senior managers from proactively managing operational risk mapped to risk culture indicators, and proposed solutions**

No.	Operational risk challenge	Risk culture indicator	Proposed solution/improvement
1	Delayed processes make it hard to identify materialised risks (sometimes bank is alerted by customers and not internal processes).	Risk management framework	<ul style="list-style-type: none"> <li>• System integration.</li> <li>• Automated processes.</li> </ul>
2	Takes a long time to get to the root cause and/or full extent of materialised risks because the systems are not fully and/or properly integrated.	Risk information	<ul style="list-style-type: none"> <li>• Knowledge/processes fully documented and known by all team members.</li> <li>• Carefully designed preventative controls with early warning alerts.</li> <li>• Scenario analysis per division/area/business unit – these make risks and failures real to each senior manager and give an opportunity to design playbooks to respond to identified scenarios.</li> </ul>
3	Lack of proactive risk management and risk identification.	Decision dynamics	<ul style="list-style-type: none"> <li>• Make risks visible – a risk committee exists but other than its members no one else knows what risks are faced across the bank. Quarterly updates on overall risks in the bank should be considered.</li> </ul>
4	Manual processes.		
5	Dependence on key personnel.		
6	Operational risk is a side topic, it is not front of mind for senior managers; priority and emphasis are on how the bank can grow and grow fast.	Risk leadership	<ul style="list-style-type: none"> <li>• Define the bank’s risk culture and cascade that from leaders to all employees.</li> <li>• Integrated way of working – eliminate silo approach to managing business and risk.</li> </ul>
7	Inconsistent risk culture, the bank has not defined its risk culture, therefore application of risk standards varies across the bank.		
8	Inability to make quick process changes (e.g., IT systems, this is due to dependence on external vendors).		

The focus group noted that there needed to be proper root cause analysis of materialised risks or risk events, so that the appropriate remediation actions can be implemented; this will assist in reducing repeat risk events and other operational inefficiencies. An inefficient and ineffective control environment facilitated reactive risk management.

#### *Operational risk accountability*

Zaaiman et al. (2021) focus on risk accountability in the context of perceived and real accountability for successfully considering risk when making decisions that will have a direct bearing of an organisation's risk culture. The bank's owner-managed culture, where each senior manager is encouraged to be entrepreneurial and run the department as if it is their own company, enabled ownership and accountability for all decisions taken by senior managers. There were pockets of views among the senior managers interviewed that operational risk accountability has not been formalised, but implied. However, senior managers could not identify instances where they were actively held accountable for managing operational risk.

*"There is nothing in my guidelines or my way of working or IPA [performance contract] that says I'm actively held accountable." SM09*

Using incentives and reward programmes to hold senior managers accountable for risk-related decisions made, seemed to be the preferred practice. Senior managers advised that there were no explicit accountability measures specific to operational risk management in their performance contracts. However, as senior managers are held accountable for the successful implementation of strategy, this implies that if significant operational risks materialised, it would have a bearing on the senior managers' remuneration and reward. Senior managers believe that this is the correct and appropriate way to hold them accountable for managing operational risk. This observation was supported by the shared view that, as implementors of strategy, the 'buck stops with them', therefore they should be held accountable for the successful *and* the unsuccessful implementation of strategy. Such unsuccessful implementation of strategy was seen to imply inadequate or inappropriate management of operational risk and other risk types.

The senior managers advised that operational risk accountability can be improved by implementing the following:

- Include measurable risk goals, not just operational risk, in senior managers' performance contracts.
- Make transparent exactly what one is accountable for – and specifically who is accountable for what. Accountability works well when one person is accountable and not when multiple people or positions are accountable for the same thing.
- Include general risk accountability in the job descriptions of lower-level employees.

- The second and third lines of defence should perform regular risk management reviews as these are expected to strengthen the culture of accountability.

*“I’m a firm believer that ‘what gets inspected gets respected’ and this will eventually drive behaviour.” SM05*

Senior managers also indicated that accountability for operational risk management should cascade to all levels of employment and not just the heads of departments. Although lower-level employees execute processes that can either prevent or give rise to operational risk, they are usually not aware that they are actively managing operational risk. Education and more regular, risk-related engagements should therefore also happen at lower levels.

*“It [operational risk accountability] needs to be at a level where people who work with processes are also aware of their accountability...be on top of mind (risk consideration) and not only for the HODs. Yes, HODs are ultimately responsible, but all employees should be held accountable for considering operational risk in their daily tasks.” SM06*

The focus group’s experience that in some instances business expects the risk functions to manage specific risks, leading them to be accountable for operational risk events. This inappropriate role assignment and understanding of risk accountability speak to an aspect of the bank’s risk culture that requires some improvement. The second line of defence also agreed that including explicit goals in all employees’ performance contracts would go a long way in fostering a culture of accountability. Internal audit expressed the view that, in their experience, senior managers received were punished for internal audit findings (which imply materialised risk or break down in the control environment) raised in their areas and this perpetuated a stigma and negative connotations towards risk management.

#### *Risk-informed decision culture (RiDC) model*

Applying the coding methodology explained earlier, interview results were analysed and coded to reflect themes based on the RiDC model, to obtain a systemically interlinked view of organisational characteristics expected to influence risk accountability at senior management level in the bank. Table 5 illustrates quotes of the interview-based themes on accountability and risk culture.

**Table 5: Interview-based accountability and risk culture themes, with example quotes. Four thematic organisational attributes, additional to those identified in the accountability literature, were found in the interview data**

<b>Risk culture indicator</b>	<b>Theme</b>	<b>Selected illustrative quote from interview</b>	<b>Code found in literature (LC) or additional code (AC)</b>
<b>Risk accountability</b>	<b>Risk ownership</b>	“The ones we identify in the organisation you then need to assign responsibility and ownership to the area head, so they are aware that it exists.” SM01	LC
	<b>Transparency</b>	“There needs to be transparency around what are operational risks currently throughout the organisation.” SM03	LC
	<b>Risk attitude</b>	“There needs to be a shift and positive attitude towards risk, and we can see that from CEO and Exco discussions.” SM07	LC
	<b>Escalation process</b>	“Risks identified by my team are escalated to me and logged onto the risk register for resolution.... we’ve built good mechanism to identify risks over the years...and if critical or...rather high risks are identified they are escalated to Exco immediately.” SM14	LC
<b>Risk-based incentives</b>	<b>Remuneration</b>	“Accountability for risk management comes with the territory...senior managers need to own up. If you want to earn the benefits and reap the rewards you must be able to take the heat.” SM11	LC
<b>Risk communication</b>	<b>Risk reporting</b>	“Lack of visibility of threats and alerts – where should we be focusing on as an organisation?” SM13	AC
<b>Risk information</b>	<b>Risk identification</b>	“Tools and systems that can give us information quickly – for the example, it took us half a day to get raw data which still needed to be vetted. Data feeds from source systems are not slick enough...a lot of manual intervention required before we get to the correct and trusted data to be able to manage risks.” SM15	AC
<b>Risk management framework</b>	<b>Operational risk framework</b>	“Informing the HODs once of the risk framework is a starting point but we need to reinforce that message and define the practical implementation.” SM07	AC
<b>Risk role</b>	<b>Risk function role</b>	“In our bank there is less emphasis on the role of risk as a department/function.” SM04	AC

## ***Discussion***

### *Characteristics of risk accountability*

This study's findings provide a view of characteristics of risk accountability as experienced by senior managers at a South African bank. The first characteristic noted is that, for risk accountability to exist, there needs to be clear ownership of risk and associated processes. The ownership of risk cannot be implied as this may create confusion and result in inadequate and ineffective risk management. Although it is implied that heads of department are responsible and own the consequences of all decisions taken within their departments, there is, however, a need to be explicit about risk ownership. Not being explicit about risk ownership may result in inconsistent application of the risk programme, which may eventually deter the achievement of the organisation's objectives.

The second attribute of risk accountability is the need to be clear on what senior managers are held accountable for. Creating parameters on what everyone is held accountable for speeds up the process of remediating breaches of operational risk and losses when they occur. In a complex and multi-level organisation, such as the South African bank in this study, being explicit about what each manager is held accountable for creates an environment where discussions about risk can happen quickly and openly across the organisation. Clarity of what senior managers are accountable for also facilitates a clear escalation process and allows for consequences to be applied for inappropriate risk-taking behaviour.

The third element of risk accountability is that it needs to be present at all levels of the organisation. Senior managers are ultimately responsible and accountable for all risk decisions; however, all employees play a role in executing processes that may or may not give rise to risk and therefore should be held accountable. The level of accountability may differ based on sphere of responsibility, but each employee should be aware of what risk management is and how they are held accountable for it.

Lastly, accountability should be formalised for all levels of employment through performance management. Linking risk accountability to a well-defined and embedded process such as incentives and rewards should provide clarity on the ownership of risks and processes and for what exactly employees are held accountable.

### *Related suggested solutions for the bank in the study*

Operational risk management has to do with the functioning of the bank and making everyday decisions using systems, processes, and people. The challenges identified impact all causes of operational risk, which include people, systems, processes and external events (BCBS, 2021). The

challenges and suggested solutions highlighted by senior managers are not unique to this bank; they emphasise the complexity of risk management. In trying to understand risk management, Power (2004) referred to the risk of everything where he surmised that risk management as a discipline emerged from accounting and auditing requirements. Power (2009) went on to acknowledge that the current way of managing risk was not working well, by referring to the discipline as the risk management of nothing. By 2021, Hardy et al. (2021) note that over the years risk management has become a significant part of organising across different entities and industries and that the concept of risk management is not always consistently applied.

*Systemic indicator-based organisational aspects that influence accountability in the organisation and contribution to literature-based codes*

Four structure-based indicators were noted during the interviews, namely, risk management framework, risk-based incentives, risk information, and risk role. Senior managers indicated that inadequate risk information and communication prevented them from considering operational risk fully when making decisions and that risk accountability becomes more visible and active when it is linked with remuneration and reward. Commentary on all themes noted is presented in Table 6.

The new codes identified during the interviews and noted in Table 5 highlight the influence of a holistic approach to risk management as experienced by senior managers at the bank in the study. The real experiences reported in this study suggest that risk communication, risk management framework, risk information and the role of risk management are important aspects of defining and embedding risk accountability at a bank. This insight is new and complements indicators found in the literature review. The additional insights are valuable in a relatively understudied area of operational risk accountability in an evolving banking environment.

**Table 6: Risk-related information, research commentary and quotes from study findings**

Risk culture indicator	Theme	Research commentary	Illustrative quote
<b>Risk accountability</b>	<b>Risk ownership</b>	Senior managers at this bank acknowledge that they own risk within their areas. They are responsible for the day-to-day decisions that require considering risk and they provide direction to lower-level employees. They note that lines are sometimes blurred regarding ownership of certain process that overlap across more than one department. This overlap in process ownership creates challenges in managing risks. That then makes it difficult to make changes in the control environment to prevent the risk from materialising. This also makes it difficult to implement leading early warning alerts that would notify the responsible senior manager if a risk is about to materialise.	“The ones [risks] we identify in the organisation you then need to assign responsibility and ownership to the area head, so they are aware that it exists.”  SM01
	<b>Transparency</b>	Operational risks that have materialised or that the bank is susceptible to are not widely known across the bank. Risks are discussed and managed in silos. The bank has very distinct divisions, namely shared services, business bank, and retail bank and there is no visibility of overall risks that face the bank across the three divisions. Executive management and risk heads of departments are aware of these risks as they are discussed at the group risk committee; however, senior managers that are not part of the group risk committee have no access to the risks discussed, their quantum, how they are currently managed and how other areas can prevent such risks from materialising.	“There needs to be transparency around what are operational risks currently throughout the organisation.”  SM03
	<b>Risk attitude</b>	Executive management has set the tone by encouraging and actively focusing on risk management. That behaviour and attitude still needs to filter to all senior managers and all employees. Risk management should be viewed as a business enabler and embraced as such.	“There needs to be a shift and positive attitude towards risk, and we can see that from CEO and Exco discussions.” SM07

<b>Risk culture indicator</b>	<b>Theme</b>	<b>Research commentary</b>	<b>Illustrative quote</b>
	<b>Escalation process</b>	There are pockets of instances where risks that materialised were escalated internally and, where necessary, to the relevant governing structures. However, there seems to be lack of understanding of 'near misses', which are risk events that do not result in an actual loss. Senior managers and other staff members do not always know when and where to escalate near misses. Near misses are indicators that there could be weaknesses in the control environment, therefore not reporting and performing root cause analysis may result in actual losses in the future.	"Risks identified by my team are escalated to me and logged onto the risk register for resolution.... we've built good mechanism to identify risks over the years...and if critical or...rather high risks are identified they are escalated to Exco immediately." SM14
<b>Risk-based incentives</b>	<b>Remuneration</b>	Because the three divisions in the bank operate differently, some divisions have included risk-related goals in senior managers' performance contracts, but others have not. However, there is a general understanding that even though risk-related goals are not specified in the performance contract, the non-achievement of departmental and bank objectives implied inadequate management of risk, and this is reflected in the remuneration and reward system. This practice may be responsible for perpetuating the need for senior managers to be more focused on delivery deadlines and milestones rather than risks faced by the department. The recommendation from senior managers was to include explicit risk-related goals across the bank in all employees' performance contracts; in this way you are measured on achieving strategy <i>and</i> on managing risk. This distinction becomes important when the departmental objectives were perhaps not achieved but no significant risks materialised.	"Accountability for risk management comes with the territory...senior managers need to own up. If you want to earn the benefits and reap the rewards you must be able to take the heat." SM11
<b>Risk communication</b>	<b>Risk reporting</b>	The bank has key risk indicators and key risks reported to the group risk committee and individuals responsible for mitigating those risks. Senior managers noted the lack of visibility of risk reporting across the three divisions; this approach makes it appear as if risks are managed in silos. Unless you are directly responsible for remediating a risk or are part of the group risk committee, as a senior manager	"Lack of visibility of threats and alerts – where should we be focusing on as an organisation." SM13

<b>Risk culture indicator</b>	<b>Theme</b>	<b>Research commentary</b>	<b>Illustrative quote</b>
		you do not know what risks the bank faces across all products and business lines.	
<b>Risk information</b>	<b>Risk identification</b>	<p>Because of the inefficient control environment, it becomes difficult to identify risks fully. A risk may be known but its quantum may take a while to be fully comprehended. There are many factors contributing to this. Some are dependent on key personnel – only certain people know the processes well enough to be able to extract the required data and provide the insight required, so that decisions can be made on the appropriate response to risk.</p> <p>The processes are manual, which results in delayed or protracted investigations to understand fully how and why a risk materialised.</p>	“Tools and systems that can give us information quickly – for the example it took us half a day to get raw data, which still needed to be vetted. Data feeds from source systems are not slick enough...a lot of manual intervention required before we get to the correct and trusted data to be able to manage risks.” SM15
<b>Risk management framework</b>	<b>Operational risk framework</b>	<p>Although an enterprise risk management framework exists and there has been awareness training on it, this alone is not enough. The practices and principles detailed in the framework should be reinforced to facilitate a universal approach to risk management. Some senior managers were not aware of the bank’s operational risk framework and recommended that there be better visibility of the operational risk department as well as of the applicable framework.</p>	“Informing the HODs once of the risk framework is a starting point but we need to reinforce that message and define the practical implementation.” SM07
<b>Risk role</b>	<b>Risk function role</b>	<p>The role of the operational risk management department was not fully understood and there were views that this function needed to be a lot more pronounced. Some senior managers opined that having embedded risk resources within business units and not as a shared service may be beneficial to the first line in cementing the role of risk management. It is probably a natural inclination that focus areas, such as the drive for financial performance, sales and the drive to deliver exceptional service to clients, sometimes meant that conscious operational risk management took a peripheral position and only recognised when it is too late or managed on an ad hoc “diarised” checklist basis.</p>	“In our bank there is less emphasis on the role of risk as a department/function.” SM04

## Conclusion

This study involved investigating how senior managers at a South African bank believe they should be held accountable for managing operational risk. The main study findings are these senior managers reported that they understand their responsibilities towards managing operational risk; inefficiencies in the structural control environment complicate the proactive management of operational risk; and although accountability for managing operational risk is implied as a senior management function, they do not feel actively held accountable for managing operational risk. These findings are expected to be beneficial to risk practitioners in the financial sector by highlighting senior management accountability challenges in managing operational risk and suggest ways to improve such accountability. Insights gained in this study are also expected to allow financial services regulators to increase their understanding of how operational risk accountability is implemented in practice. This study was conducted at only one bank in South Africa; therefore, its findings should be considered within that context. However, the empirical evidence provides insights into operational risk accountability in the banking sector, as I believe these results are not unique to this one bank. Owing to this limitation, the study can be extended to more banks in Africa and other parts of the world. There is limited academic literature on risk accountability – studies on other types of risk accountability could add value to the findings of this study.

**Number of words:**

*Abstract: 299 (max: 300 words)*

*Article: 7 423 (max 8,000, excluding abstract and references)*

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## REFLECTION

This study's objective was to explore how senior management at a South African bank believe they should be held accountable for managing operational risk. A qualitative study was conducted with the aim of answering the research question: how do senior managers at a South African bank believe they should be held accountable for managing operational risk?

In the context of risk culture studies, risk accountability has always been fascinating to me, specifically in my previous role as divisional operational risk manager at a South African bank, where, in my role to assist management remediate operational risk events that had materialised, I witnessed a culture of no, to few, consequences for inadequate management of operational risk. There were not proper escalation processes and, as an operational risk manager, one had to have a good network to find out when significant risks materialised. On the back of that personal experience, I set out to understand how senior managers believe they are held accountable for managing operational risk and if that is the most appropriate way.

The research journey has been fascinating, to say the least! The actual journey started in 2020 with the smaller master's degree assignments designed to lay the foundation leading to this final mini-dissertation. I experienced a very steep learning curve amid personal challenges as well. This exercise, combined with the smaller assignments completed in 2020, has taught me a lot about risk data collection, interacting with other disciplines within my organisation and presenting findings in a coherent manner. For example, for the first time this year, I experienced the term "marketing" being used in conjunction with and in relation to risk management – which was unexpected to me. Writing this study has taught me the value of clarity and communicating your ideas in a manner that makes it easy for your audience to understand and eventually buy into your message. This skill is most useful in life and the working environment, especially as one moves up the corporate ladder where there are requirements to relay information to the likes of a board of directors, regulators and even industry peers.

Going into the research, I had my own understanding and expectation of how risk accountability is viewed by senior managers. I was absolutely impressed in the interactions I had with senior managers on their understanding of operational risk and risk accountability. The challenges reported by senior managers to manage operational risk demonstrated to me that these managers have a thorough understanding of their role in risk management. The fact that they view an inefficient control environment as a barrier to managing operational risk indicates that they fully understand their role as risk owners and require tools and systems that can facilitate effective risk ownership. The summary of the findings are reflected in Appendix B.

The writing process itself was challenging as much as it was enriching. Frustrations crept in along the way, up to the point where I neglected my writing for a while in the hope that I would get inspiration and return to it. The lesson I got from that was one needed to be committed and dedicated

and not only do things because one feels like it. There will be many times when one cannot find inner motivation and inspiration at those times – it is important to remember why you started and continue with putting in the hours as planned. The initial plan I had made became null and void at some point and I had to motivate myself and rework it, so that I could finalise work in time within agreed timelines.

My supervisor, Hermien Zaaiman, and the Kerlick writing team played a big role in re-igniting my motivation, even though after some of the interactions I felt disheartened because I felt they did not understand what I was trying to say or where I was coming from. This perceived lack of understanding helped me to refine and be methodical in how I communicated my study. The writing process is iterative and receiving feedback on feedback is part of the process. A sample of my reflection diary is in Appendix A.

# APPENDICES

## Appendix A: Reflection Summary

Table 1: Summary of reflection journal

Category	What struck me	Outcome
Research proposal	I'm feeling overwhelmed - the volume of work from the Online SLP Research Methodology and planning for the mini-dissertation. Pace of the SLP is slower than where I am on my planning The SLP has a LOT of work, I need to find a system/process and balance.	Improved my time allocation between the two projects. Supervisor gave the team permission to drop out of the Research Methodology module – I took that opportunity.
Research questions and participants planning	My bias is creeping into the questions I'm proposing for the study. I need to engage my supervisor so we can work on the questions to minimise my bias.	Hermien provided input into the interview questions, her direction was that I go back to the research objective and question.
Data collection	Interviews with senior management going well, however there is a clear difference on the engagement or level of detail provided by the "older" senior managers than the "newer" ones. I sense a level of loyalty to the bank; I need to find a way to have more probing follow up questions for the remaining sessions.	Discussed my observation with my supervisor, I did include a lot more follow up questions which helped.
The writing process	This is proving to be challenging. My workload has increased at work, and I find that the writing is falling behind. The Kerlick workshops are helping in pushing me forward (although sometimes frustrating). I changed employment before finishing the mini-dissertation, I had a bit of a block in writing the findings plainly - have a bit of conflict with how I phrase the findings in the final paper.	Re-did my planning document to accommodate the time lost. I discussed my reservations with my supervisor – she suggested a solution that will address my fears, maintain the integrity of the study and maintain the bank's anonymity.

## Appendix B: Summary dashboard

### 1. Operational risk role and responsibilities understanding

1.1 Protect the bank and not incur losses (for bank and customers).

1.2 Risk is not a standalone activity– it must be integrated in all decisions made.

### 2. What makes it difficult for senior managers to manage operation risk and how it can be improved?

**Table 2: Summary: operational risk challenges and suggested improvements**

No.	Operational risk challenge	Risk culture indicator	Proposed solution/improvement
1	Delayed processes make it hard to identify materialised risks (sometimes bank is alerted by customers and not internal processes).	Risk management framework	<ul style="list-style-type: none"> <li>• System integration.</li> <li>• Automated processes.</li> </ul>
2	Takes a long time to get to the root cause and/or full extent of materialised risks because the systems are not fully and/or properly integrated.	Risk information	<ul style="list-style-type: none"> <li>• Knowledge/processes fully documented and known by all team members.</li> <li>• Carefully designed preventative controls with early warning alerts.</li> <li>• Scenario analysis per division/area/business unit – these make risks and failures real to each senior manager and give an opportunity to design playbooks to respond to identified scenarios.</li> </ul>
3	Lack of proactive risk management and risk identification.	Decision dynamics	<ul style="list-style-type: none"> <li>• Make risks visible – a risk committee exists but other than its members no one else knows what risks are faced across the bank. Quarterly updates on overall risks in the bank should be considered.</li> </ul>
4	Manual processes.		
5	Dependence on key personnel.		
6	Operational risk is a side topic, it is not front of mind for senior managers; priority and emphasis are on how the bank can grow and grow fast.	Risk leadership	<ul style="list-style-type: none"> <li>• Define the bank's risk culture and cascade that from leaders to all employees.</li> <li>• Integrated way of working – eliminate silo approach to managing business and risk.</li> </ul>
7	Inconsistent risk culture, the bank has not defined its risk culture, therefore application of risk standards varies across the bank.		
8	Inability to make quick process changes (e.g., IT systems, this is due to dependence on external vendors).		

### 3. Senior management understanding of current operational risk accountability

3.1 By virtue of their position as senior managers – the 'buck stops' with them. Owner managed culture enables ownership and accountability for all decisions and risks within their areas.

3.2 Accountability not formalised/tangible – there is implied and assumed responsibility.

#### **4. Should the current accountability model be changed?**

4.1 Consensus is NO – the current way is correct, however can be enhanced with the following:

- 4.1.1 Include risk aspects not just operational risk in senior manager's performance contracts.
- 4.1.2 Make it transparent on what exactly one is accountable for and who (be specific) is accountable.
- 4.1.3 General risk accountability in the job descriptions of lower-level employees.
- 4.1.4 Regular reviews by 2<sup>nd</sup> of 3<sup>rd</sup> line of assurance

## Appendix C: Informed Consent

MCom Applied Risk Management

UARM Mini-dissertation

Senior management operational risk accountability at a South African bank

Interview informed consent form

**Student** (also called 'the researcher' in this form): Nokukhanya Pat Mlanduli

**Module leader:** Prof Hermien Zaaiman

**Module leader contact details:** hermien.zaaiman@nwu.ac.za

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### **Document aim**

The aim of this document is to provide potential interview study participants the opportunity to give formal informed consent to participate in this study, as part of one of the MCom Applied Risk Management modules.

### **Why this interview?**

This is a limited academic study at master's degree level, which provides the student the opportunity to learn how to do an interview-based study. The study findings will not be published and will only be shared with the study supervisor and relevant bank management. You may ask to see the final assignment, should you be interested in the study results.

### **Informed consent process**

The researcher will obtain written consent from participants before performing the interviews. Written consent is given by completing and signing this form.

### **Study aim**

Operational risks inherent in organisational processes threaten the achievement of objectives. Although banks record and monitor operational breaches and losses, management accountability for managing operational risk is not well defined in academic literature, supervisory instruments or the bank policies. The aim of this study is to investigate how senior management at a South African bank believe they should be held accountable for managing operational risk.

### **Why have you been invited to take part?**

Heads of departments who make up the senior management category at the bank have been invited to participate in the study. Senior management form part of the first line of defence as defined by King IV. Study findings will be discussed and analysed by a focus group made up of heads of the second line of defence functions (compliance, legal, AML, model risk, innovation risk, forensic and internal audit). The purpose of the focus group would be reviewing the study findings and create programmes to address gaps that may be identified by the study.

### **Interview process – what to expect from the interview**

The scheduled interview will last **20 minutes**. I may request more information from you post interview if necessary for clarifying study data. However, I shall endeavour to keep post-interview follow-up questions to a minimum.

The interviews will be run in a semi-structured manner, meaning that I shall ask a set of open-ended questions and may ask additional questions to clarify my understanding of your response.

Below are the base questions to be discussed at the interview:

### **Demographic questions**

In which division of the bank do you work:

1. Retail Bank
2. Business Bank
3. Shared Services

### **A) Your operational risk management role**

- a. Please describe the operational risk management role of senior managers in this organisation, i.e., what are your operational risk management responsibilities?
- b. How do you manage operational risks as part of your role? I am interested in practical examples of operational risk events that have materialised in your area.
- c. What makes it difficult for you and your team to adequately manage operational risk?
- d. What will make it easier for you to fulfil your operational risk management role?

### **B) Accountability for operational risk management**

- e. In your opinion, how are you held accountable for managing operational risk?
- f. How do you believe you should be held accountable for managing operational risk?
- g. In your opinion, what must change/improve in the organisation to be able to improve operational risk management accountability?

I need to record your interview to allow me to transcribe and analyse your responses post-interview. This will allow me to give full attention to your responses during the interview and not get side-tracked by multiple note-taking. I therefore kindly request that you consent to such recording on Teams based on the requirement that the recordings be deleted after transcribing (see Study data management).

### **Study data management**

The audio-recordings will be deleted after the information has been transcribed by the researcher.

Neither the interviewee, nor the organisation she works for, will be identified in the study transcriptions. The interview content will be analysed and reported on anonymously. The study supervisors may be given access to the anonymised data for advice on, and evaluation of, the research project.

The researcher may wish to directly quote some of your responses in the study report, without identifying you. If you wish, you may ask to check such quotes before the study is sent for examination.

### **Publication of the study results**

The study will be written up as a confidential study report in the researcher's mini dissertation. The report will be made available to the organisation in which the study was done. Post examination, the study may be published as an academic article if formal permission to do so has been received from the organisation.

**Potential risks to you and the organisation in taking part in this study**

The table below shows risks involved in taking part in this study and the measures I will apply to mitigate them:

**Table 3: Study risks and mitigation plan**

No.	Risk Description	Mitigation Measures
1.	Possible data leakage of either the transcribed or recorded interview.	Interview recordings will be deleted as soon as I have transcribed. Transcribed interview will be stored on my personal computer which has standard security measures, including 2 Factor Authentication.
2.	Participant privacy and confidentiality may be compromised in the study.	Participant identifiable information is only known to the researcher and will be anonymised in the final research paper to be submitted to the university.
3.	The organisation's private and confidential data may be revealed to the general public and possibly competitors.	The organisation and participants will be anonymised in the report. The study will be classified as confidential for two years and will only be made publicly available after that period. The organisation may request further classification of the findings if necessary. However, this is usually not needed due to the anonymous and confidential nature of academic study findings. Organisation-sensitive information can be reported and discussed internal to the organisation.

Should you have any other concerns about taking part in this study, please contact the researcher or study supervisor to discuss your concerns.

Should you have any other concerns about taking part in this study, please contact the researcher or study supervisor to discuss your concerns.

**Potential benefits to you in taking part in this study**

- Contribute your voice to this important issue in the organisation, especially as the risk department is rolling out and embedding the first line of defence responsibilities in this financial year.
- Assist the risk department to shape and inform how the risk agenda / programme is improved going forward.

**Should you have concerns on this study**

The interviewer has been trained to do the interview in an ethical and academically sound manner. Should you have any concerns about the interview that cannot be allayed by the researcher, either before or after the interview, you are welcome to contact the module leader, Prof. Hermien Zaaiman at [hermien.zaaiman@nwu.ac.za](mailto:hermien.zaaiman@nwu.ac.za) (082 921 0463).

**Informed consent**

yes/no
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I have read and understood this consent form.	
I have had a chance to ask the researcher questions on the study.	
These questions have been adequately answered for me to be able to provide informed consent to participate in this study.	
I understand that taking part in this study is voluntary.	
I have not been pressurised to take part in this study.	
I understand that I may exit the study at any time without being penalised or prejudiced against in any way.	
I hereby provide consent to contribute to this study under the conditions explained in this form.	

Initial each page and sign

Participant name:

Signature:

Date:

## Appendix D: Research Permission and Classification

Center for Applied Risk Management  
North-West University  
Vanderbijlpark Campus  
Hendrik Van Eck Blvd.  
Vanderbijlpark  
1900

Dear Prof. Hermien Zaaiman

### **RE: PERMISSION TO CONDUCT A RISK-CULTURE-RELATED STUDY WITHIN XXX BANK LIMITED**

Permission is hereby granted to Nokukhanya Mlanduli, ID no. 801124048086 to conduct a risk-culture-related study within the Operational Risk Management area of XXX Bank Limited. The study will form the basis of the mini-dissertation in her master's degree (MCom in Applied Risk Management). The study will be executed as described in the attached research proposal.

In addition to the permission, I declare that I understand and accept the following:

1. The organisation and participants will not be identified in the research report.
2. The organisation is aware that staff members and other stakeholders will be asked to participate in the study according to the study approach described in the study proposal.
3. For the UARM Risk Culture Indicator Model qualitative studies: The raw interview data belongs to the organisation and will be kept safely by the researcher. Only data summaries and anonymised quotes, for which permission have been obtained, will be used in the research report. Where data is collected during office hours, the organisation has consented to this, without penalty to the researcher or study participant.
4. The organisation may be requested to recommend possible suitable internal examiners when the University has not already identified someone suitable. Such a person should have at least a master's degree and have sufficient exposure to the study area without being actively involved, so as to understand the area covered and be able to examine the dissertation in an impartial manner.
5. The mini-dissertation could be classified as confidential within the university's classification system, implying that the mini-dissertation will not be made public for two years. If classified as confidential, the examiners will be notified that the report is confidential and will not receive a copy of the post-examination final report.

*(Note: Confidential classification is a risk mitigation action that allows the organisation to decide whether further classification is required based on the contents of the research report after the research has been completed. However, classification is usually not necessary as the organisation and participants are not identified in the research results and the results are presented in an organisation-agnostic manner.)*

We require this mini-dissertation to be classified as confidential for two years: Yes

Sincerely

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Executive: Risk