[Introduction]
With the rapid behaviour changing disruption of recent years, and the ongoing stream of corporate governance failures. ACCA has been digging deep into how interconnected risks such as climate change and geopolitical issues are influencing the way we approach risk management. This podcast series will look at what risk culture means and to what extent risk and accountancy professionals understand its impact on performance.

[Voiceover]
Human behaviour is a response to their environment. So risk and accounting professionals in their various roles of setting up the appropriate risk governance processes need to think more about the human beings they are trying to influence. But what do we mean by human risk? Christian Hunt a risk culture and conduct specialist and author of 'humanizing rules, bringing behavioural science to ethics and compliance'.

[Christian Hunt]
Human risk is defined as the risk of people doing things they shouldn't or not doing things they should. It's intentionally broad definition that covers everything from people deliberately setting out to commit fraud, through to 'I'm a bit tired, and I've made a mistake'. Because of that broad grouping, I think it's the largest risk facing all organizations and society as a whole. In the 21st century.

[Voiceover]
Accountants are used to dealing with numbers, statistics and data. But they're having to apply these to a world that is more nuanced and susceptible to variables far beyond what the data might indicate.

[Christian Hunt]
When I think about accountancy, I think about it as an attempt to codify something that's actually quite complex with a set of rules. And of course, we need that to be able to produce accounts and produce a view of the world. What I think is interesting about that is that we are codifying something that is highly complicated life is complex, full of nuance; and yet, we have to reduce it down to a set of numbers and a set of statements. In doing so what we're doing is taking something that's very nebulous and grey, and making it black and white. The challenge is, how do we take some of the complexity in the real world, and simplify that, and that can often be quite difficult. To do that effectively, we need to be thinking about the realities of the existence that we have and what real people do in the real world.

[Voiceover]
So how can a company and its financial professionals in particular, work with this uncertainty and respond to the needs of its employees and stakeholders, Christian explains.

[Christian Hunt]
Companies that are doing this well, I think recognize the fact that human beings are sentient, they will respond to being told to do things, they'll respond to policies and procedures that they need to follow. So if one is sensitive to that, and recognizes that one shouldn't just use what I call the employment contract fallacy. The employment contract fallacy is the idea that just because we employ people means we can tell them what to do, that's legally correct. But in practical terms, we shouldn't always be using that right to get people to behave in a particular way. If we want people to be ethical, we can't mandate them to be ethical or force them to be ethical. And so companies that respond well to the challenges in the 21st century are recognizing that their people are sentient and will have views on things. We need to work with the grain of human decision making. Companies that do badly presume that they can just tell people what to do. And that's legally correct, but doesn't always deliver the outcomes that we're looking for.

[Voiceover]
One of the key ingredients to success is to listen to your people and get risk into the conversations, Christian talks about engaging with employees in an informal and open way.

[Christian Hunt]
One of the things I think is very interesting is to use people as an early warning system, whenever something goes wrong within an organization, somebody somewhere new, something that could have helped prevent it, and we often don't capitalize on that. We have formal speak up programs where we want people to call things

out, but very often there is day to day knowledge, particularly on the ground in larger organizations that could be usefully used. One of the things that I work with clients on is how can we tap into the knowledge that our employees have the experience that they have on the ground, and that's often ignored; and in a world that's rapidly changing, where social trends and technological trends are shifting, things that we may have taken for granted principles of business may no longer apply. Having that opportunity for people on the ground to provide feedback can be incredibly powerful. I think often we missed that opportunity, so that we can get better decision making at high levels of the organization.

[Voiceover]
Lessons on how to get this right, and how that might work across different sectors, considering their own inherent threats can be applied.

[Christian Hunt]
There are certain industries that are really, really good at managing human risk. If we take safety critical industries, the airline industry, for example, it's very, very safe to get on a plane. In fact, it's safer to be on a plane in many respects than getting to the airport in the first place. That illustrates that we can get people to behave in a particular way and do the things that we want them to do not do the things that we don't. But of course, what you'll also be aware of if you've had recent experience of air travel is that there are many other aspects of that experience where there are clearly problems. In safety critical industries, I think we've got this right. But in many other aspects, you know, airlines, like other companies have all sorts of other challenges where people are not doing the things that we want, doing the things that we don't want them to do. We often draw distinctions between different industries. And so we might think about the public sector versus the private sector, we might think about the knowledge economy versus the what we might term the physical economy. In all of those cases, if we're employing humans, we are running human risk. And so there are techniques that we can borrow from one sector on one industry, and deploy in another. And often we think our industry or sector is so unique, that there can't be anything we can learn from somewhere else. And the good news is that because human beings are fairly similar, there are cultural differences and practical differences; but bottom line is, the human brain that we're all equipped with is the same, there's actually a lot that we can learn from different sectors.

[Voiceover]
Above all, we should all be mindful that we humans behave and work differently. And we need to recognize our differences when thinking about risk.

[Christian Hunt]
If there's one lesson that I want people to take away is that we need to think not how we would like people to behave, but how they are likely to behave. And very often we design systems processing has rules in a manner that is very, very optimistic. We presume that people have all the time in the world to read things that their priorities will be naturally focused on the ones we think are important. And therefore, we miss times when people may be tired or may not have the same priorities that we do. So we need to recognize the realities of human existence. If we're trying to influence people's behaviour, recognize what factors might be driving their decision making, that we wouldn't naturally think of.

[Voiceover]
These brief insights about human risk highlight just one aspect of risk culture. In our next episode, we'll be talking to another expert David Rodin, about integrating ethics and governance and culture

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