

# Behavioural drivers in Risk, Compliance & Assurance



## The importance of behavioural drivers & controls in risk, compliance and assurance functions

People are at the heart of every organisation, and it is the human factors that drive decision-making and organisational performance. It is necessary to consider the human factors that influence attitudes and behaviours (so called '**behavioural drivers and controls**') to really understand what is happening within an organisation.

Behavioural drivers and controls, their presence and their absence, have a major impact on the operating effectiveness of hard controls (such as processes, policies and rules) and are usually the root causes of non-compliances, misconduct, financial, operational and reputational risks.

Over the course of the last few years we have seen an increase in recommendations and standards that promote the need to understand, manage and where necessary address culture and behaviour within organisations. Risk, compliance and assurance functions have a critical role in understanding and reporting on the human factors that impact on the processes, risks and the overall control environment.

## Why the 'soft stuff' matters



The discussion around corporate culture has increased around the globe, with **regulators** focused more and more on **entities responsibility to assess the entity's culture and its governance**; identify any problems with that culture and governance; deal with those problems; and determine whether the changes it has made have been effective.<sup>1</sup>



Integrity has been found to be positively **related to financial performance**.<sup>2</sup>



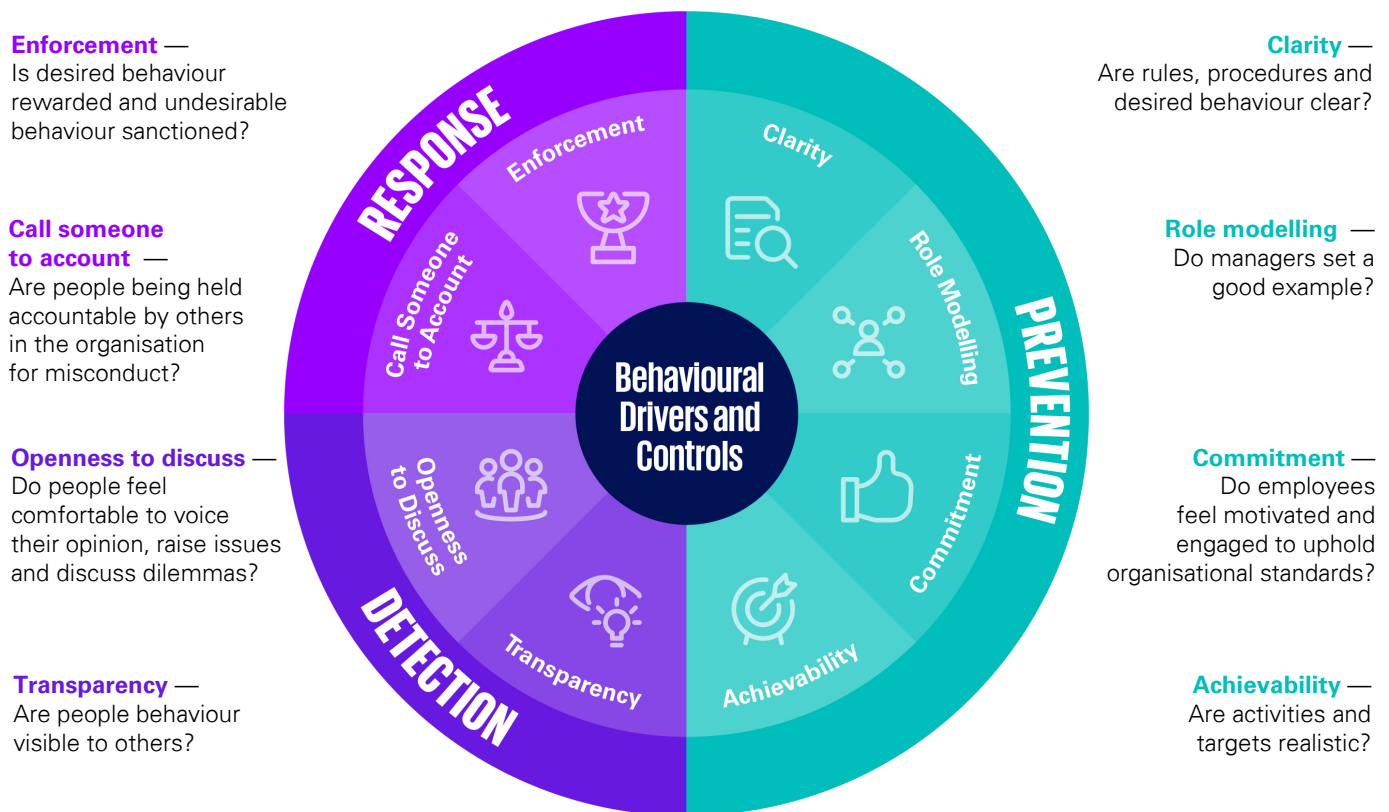
Over 90 percent of CEOs and CFOs believe **that improving culture would improve the value of their company**. Only 15 percent believe their culture is where it needs to be.<sup>3</sup>

1. Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019, 377
2. 'The value of corporate culture', Luigi Guiso, Paola Sapienza & Luigi Zingales, Journal of Financial Economics, July 2015, [www.sciencedirect.com/](http://www.sciencedirect.com/)
3. 'Corporate culture: Evidence from the field', John Graham, Campbell Harvey, Jillian Popadak & Shiva Rajgopal, Federal Reserve Bank of New York, October 2015, [www.newyorkfed.org](http://www.newyorkfed.org)

# Behavioural drivers and controls in risk, compliance and assurance

## How can behavioural drivers and controls be 'measured'?

KPMG has developed a model that help us to understand, identify, measure, and monitor behaviour and its impact on the control environment. The model is based on extensive scientific research by Prof. Muel Kaptein, a Partner from KPMG Netherlands and global subject matter expert and has been in use in the Netherlands for over 15 years.

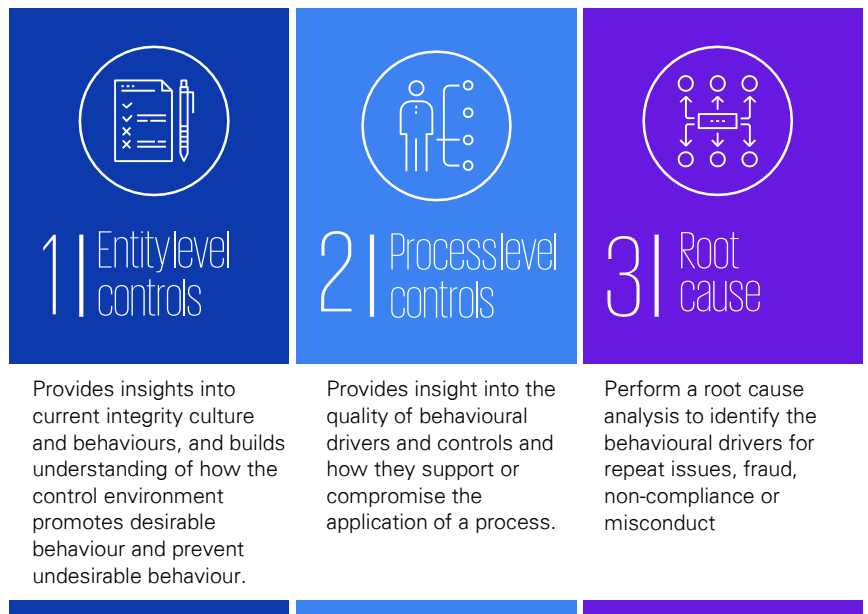


KPMG's Soft Controls model, developed by Prof. Muel Kaptein, KPMG Netherlands Partner

# Behavioural drivers and controls in risk, compliance and assurance

## There are three pathways available in embedding behavioural drivers and controls within risk, compliance and assurance functions.

Each pathway can be used independently or in combination with any of the other two. As each pathway is structured around our central model, the approach and output remains consistent and enables the identification of repetitive themes across time.



## Benefits of the KPMG approach

### Uncover hidden behavioural drivers to key issues

By applying a behavioural lens we can trace identified process or hard controls gaps or weaknesses to a root cause/s of behaviour to enable management to develop specific and impactful actions.

### Provide thematic analysis

Performing behavioural analysis over time will show trends and themes to highlight where human factors may need strengthening and greater management focus.

### Get answers to the 'hard' questions about 'behavioural drivers'

Considering behavioural drivers and controls will enable management to understand what is 'really' going on in the business in a more structured and objective way than has been historically possible.

### Challenge management insights

Behavioural drivers can be used as a validation tool to:

- determine whether existing processes, structures and controls support desirable behaviour, despite significant gaps in the control environment or
- identify behavioural issues despite structured processes and controls being in place – increasing the risk of something going wrong.



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