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Does executive accountability enhance risk management and risk culture?

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Abstract

We evaluate a novel regulation designed to address ongoing risk management failures: Australia's Banking Executive Accountability Regime (BEAR). This mixed methods study draws on a survey and 41 interviews with accountable persons and their reports across 15 organisations. Consistent with theory and previous experimental research, the study demonstrates the benefits of enhanced accountability for promoting more diligent 'system 2' behaviour. We provide evidence that BEAR promotes greater felt accountability among senior executives which in turn stimulates more proactive and diligent risk management behaviour. This behaviour has the potential to attenuate many of the behavioural biases associated with risk management failures.

KEYWORDS

accountability, banking, regulation, risk culture, risk management, three lines model

JEL CLASSIFICATION

G21, G32, G34, G38, M12

> Clear accountability is the necessary foundation for any institution in establishing and promoting good governance and a strong risk culture (Australian Prudential Regulation Authority, 2018a, p. 6).

1 | INTRODUCTION

This paper evaluates a novel regulatory attempt to improve risk management through enhanced executive accountability. We investigate not just whether these new regulations cause an improvement in risk management practices and risk culture, as intended by the regulators (APRA, 2018a),

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but if so, *how* this is achieved. In so doing, we advance understanding of the relationship between accountability and risk management with implications for all organisations wishing to inculcate a sound risk culture.

Numerous corporate scandals have amply demonstrated the need for effective risk management (see Sheedy, 2021, chapter 1), including the 2010 Deepwater Horizon incident, the Dieselgate scandal that engulfed Volkswagen and its subsidiaries, as well as the financial crisis of 2007–2009 that led to the collapse of multiple financial institutions including Lehman Brothers. Poor risk management has been identified as a fundamental cause in these and many other incidents, causing significant harm to shareholders and other stakeholders. In contrast, the goal of risk management is 'the creation and protection of value. It improves performance, encourages innovation and supports the achievement of objectives' (ISO31000, 2018).[1]

To date, the risk management literature has primarily highlighted problems in the practice of risk management rather than offering solutions (see Kaplan & Mikes 2016; Mikes 2011; Power 2009; Stulz 2015 for examples). These authors describe risk management challenges due to the complexity of organisations, interactions between risks, the difficulty of quantifying risk, the relative invisibility of certain risks, the tendency for risk management to degenerate into a 'box-ticking' exercise and for risk managers to be ignored. At a fundamental level, firms typically fail at risk management because competing priorities prevail, especially short-term profits. The lack of priority accorded to risk management suggests that the risk culture is immature or flawed. To the extent that solutions have been proposed for improving practices and culture, such as the 'three lines model', these have rarely been tested empirically.[2] We respond to calls for research to investigate whether and how leaders can promote a strong risk oversight culture (Stein & Wiedemann, 2016) given the challenges experienced by many.

The Sarbanes-Oxley (SOX) reforms of the early 2000s brought much-needed changes to the operation of the audit committee and hence the management of fraud risk. But they were inadequate to prevent the global financial crisis of 2007–2009, and this event was a catalyst for further regulatory scrutiny of financial institutions, and attempts to instil risk culture (FSB, 2014; Power et al., 2013). Risk culture refers to the behavioural norms that either support or undermine risk management practices, that is, the identification, analysis, treatment and monitoring of risk.[3] A sound risk culture is considered essential by regulators for effective risk management, helping organisations achieve their objectives (see, for example, APRA, 2018c). This conclusion is supported in the academic literature (Sheedy & Griffin, 2018; Stulz, 2015).

Despite efforts since the crisis, attempts to improve risk management through enhanced culture have met with only moderate success (Bryce et al., 2019; Lim et al., 2017). Regulators report that management of non-financial risks such as conduct risk is often poorly executed (ASIC, 2019) and that large financial institutions have still not achieved a consistently favourable risk culture (APRA, 2019b), resulting in poor outcomes for customers and reputational damage. Notably, the Hayne Royal Commission shone a light on numerous cases of customer exploitation, which led, in many cases, to expensive remediation programmes (Hayne, 2019).

This has led to the introduction of executive accountability regulations in some jurisdictions as a possible antidote. Significant failures have often resulted in fines to organisations, but consequences for individual executives have been rare, and this has generated public anger

[1]ISO 31000 is an international risk management standard. ISO is an independent, non-governmental international organisation with a membership of 167 national standards bodies. Through its members, it brings together experts to share knowledge and develop voluntary, consensus-based, market-relevant International Standards that support innovation and provide solutions to global challenges.
[2]Section 3 explains the three lines model and describes the extant literature on this topic.
[3]This definition is consistent with Sheedy et al. (2017). It is also consistent with APRA (2018c), that is 'the norms of behaviour for individuals and groups within an organisation that determine the collective ability to identify, understand, openly discuss and act on the organisation's current and future risk'. This is in turn drawn from a 2009 document produced by the Institute of International Finance during the financial crisis: 'Reform in the financial services industry: Strengthening Practices for a More Stable System'.

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(Allen, 2018). The novelty of these accountability regimes lies in their focus on individual accountability, a focus that is likely to make accountability considerably more salient.

Starting with the Senior Managers and Certification Regime (SMCR) in the UK in 2016 and the Banking Executive Accountability Regime (BEAR) in Australia in 2018, feet of individual executives are now being held to the fire, preventing them from hiding behind ignorance and group decision-making. The exact accountabilities of each executive are clearly documented, creating the possibility of individual sanctions and reputational damage in the event that outcomes are unacceptable. The attempt to enhance individual accountability through regulation has been endorsed by the Financial Stability Board (FSB, 2018) and enacted in other countries such as Hong Kong (SFC, 2017) and Singapore (MAS, 2020), with ongoing consideration of adoption of similar accountability regimes in other jurisdictions, including more broadly in the EU (European Commission, 2019). These regulatory initiatives can be seen as a novel attempt to revitalise risk management in financial institutions, reducing the likelihood of scandals and insolvency.

Three recent industry evaluations of executive accountability regulations have been conducted (Australian Prudential Regulation Authority, 2020; Prudential Regulation Authority, 2020; UK Finance and Ashurst, 2019). All three studies, across two countries, find that the new regulations have produced risk management and culture benefits. We consider that an academic evaluation is also needed, not only because of the importance and novelty of the new regulations, but because of the relative independence of the research team, and the fact that we work under strict university ethics rules. We expect that we can therefore make more credible claims of anonymity, encouraging greater candour from participants. Further, unlike the practitioner studies, in this paper we explore the theoretical reasons why enhanced executive accountability might produce superior risk management practices and culture. The theoretical grounding builds confidence that the changes observed in the practitioner studies are likely to be sustained.

As explained by Kaplan and Mikes (2016), numerous behavioural biases interfere with risk management, so a critical goal is to activate more careful and deliberate 'system 2' thinking.[4] We hypothesise that enhanced executive accountability might achieve its risk management objectives through this mechanism. In other words, heightened accountability will mitigate behavioural biases that contribute to risk management failure, promoting greater care and diligence in senior executives. This supports better risk management practices and, as senior leaders model better risk management behaviour, a sound risk culture is disseminated throughout the organisation.

The introduction of new executive accountability legislation creates a unique opportunity to empirically investigate its impact on risk management in the field, something that has not previously been attempted in the academic literature. To date, much of the empirical research on individual accountability has been conducted in the laboratory (Hall et al., 2017; Lerner & Tetlock, 1999). Lab experiments may lack external validity for a range of reasons including: sample bias, observer bias and differences between the simulated and the real-world situation it is designed to imitate. Replication studies, especially those conducted in the field, are important for confirming whether results obtained in the lab generalise to the real world (McDermott, 2011). Unlike a lab study that invites participants to engage in a simulated business environment, we interact with individuals who are experiencing the phenomenon in the real world. Consistent with the exploratory nature of the study, we evaluate one of these new regimes, the BEAR, interviewing and surveying 41 registered accountable persons and their reports across 15 organisations.

Like the UK Finance and Ashurst (2019) and Prudential Regulation Authority studies, we have adopted a mixed methods approach. This allows for triangulation of survey and interview data, thus enhancing validity. In choosing a sample of only 41, we prioritise depth of under-

[4]Psychologists refer to two systems in the mind. System 1 is automatic and requires little effort, such as interpreting facial expressions in the people we meet. System 2 requires effort and concentration, and is used in tasks such as risk analysis. The system 1/2 dichotomy was popularised by Kahneman's, 2011 book *Thinking, fast and slow*" (Kahneman, 2011). System 2 thinking and its implications for risk management are both explained in Section 3.

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standing over breadth. Breadth is less important given the three industry studies that agree on the general benefits of enhanced executive accountability. We use one-on-one interviews to better understand *how*, and not just whether, accountability influences risk management. We consider this appropriate in what is essentially an exploratory study to investigate a new phenomenon. In addition, risk management behaviour is likely to be determined by a complex mix of personal and organisational factors. Interviews take into account the 'evolving, social and relationship-based nature of accountability within organizations' (Hall et al., 2017, p. 214). This approach also recognises that individual accountability is perceptual in nature and that individuals' perceptions of accountability are based on their social-psychological understanding of organisational reality (Ammeter et al., 2004). The study therefore provides grounded insights on how accountability mechanisms work within the context of large organisations.

The primary contribution of the study is to empirically identify a means by which organisational culture may be shifted to prioritise risk management, for the benefit of shareholders and society more broadly. This is novel in both the academic and practice literatures, with many organisations struggling to affect a sound risk culture. Our favourable findings in relation to the BEAR, backed by theoretical justification, suggest that enhanced executive accountability is a useful mechanism for producing cultural change. Greater clarity around individual accountabilities, invoked through reputational and compensation mechanisms, contributes numerous risk management benefits as senior leaders position themselves for evaluation and possible sanctions. Accountable executives demonstrate greater care and diligence and greater interest in risk management to ensure that satisfactory outcomes are achieved in their areas of individual accountability. This is consistent with theory and experimental evidence that enhanced accountability addresses behavioural biases such as overconfidence and availability bias and invokes system 2 thinking. As will be explained in Section 3, better risk management behaviour by senior leaders consequently encourages risk management norms, or risk culture, throughout the organisation. These insights are useful to regulators in refining and expanding the regulatory framework for banks and other financial institutions. The results will also be of interest to leaders of entities in other industries and jurisdictions wishing to enhance risk management.

We accept that a thorough evaluation of executive accountability regimes can only take place in the fullness of time when organisational and societal outcomes can be observed. Nevertheless, these favourable results suggest that the novel regulatory approach is having its intended effect on practices and culture. These findings provide some hope for future outcomes, deepen our understanding of how risk management and risk culture may be influenced for the better, and lay a foundation for future research endeavours.

2 | BACKGROUND: THE BEAR

The BEAR is an Australian legislative initiative introduced in early 2018, set out in Part IIAA of the Banking Act 1959 (Commonwealth). The BEAR came into force for the largest Australian banks from 1 July 2018. It was subsequently extended to all authorised deposit-taking institutions (ADIs) on 1 July 2019.

The BEAR was modelled on a similar accountability regime in the UK, the Senior Managers and Certification Regime (SMCR) that commenced in 2016. The SMCR was a significant regulatory innovation, born of public frustration after the global financial crisis of 2007–2009 and the conduct scandals that came to light shortly afterwards (Allen, 2018). Frustration and anger emerged because although some firms incurred fines following these events, executives hid behind ignorance and group decision-making processes, with few senior executives suffering personal consequences for their failings.

Similarly, the BEAR was the product of anger in the Australian community about a series of misconduct scandals that received publicity from 2014 onwards as the media uncovered many

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unsavoury practices designed to increase bank profits and boost the bonuses of their employees (Ferguson, 2019). These included unreliable financial advice, mis-selling of financial products and charging fees for no service. The BEAR, along with the Royal Commission[5] into Misconduct in the Banking, Superannuation and Financial Services Industry, was a response to public fury over these events.

One of the important recent events for the Australian financial industry was the Prudential Inquiry into the Commonwealth Bank of Australia (CBA) conducted by the Australian Prudential Regulation Authority (APRA, 2018b). The Final Report from the inquiry was released in late April 2018, just 2 months before the effective date of the BEAR for the first group of large banks. In this report, accountability failures were seen as an underlying cause of the scandals at the CBA, specifically 'lack of ownership of key risks at the Executive Committee level' (APRA, 2018b, p. 3).

APRA subsequently directed 36 financial institutions to conduct their own self-assessments of governance, accountability and culture. In May 2019 and just prior to the further roll-out of the BEAR to the next group of ADIs, APRA published a report summarising the findings of this exercise (APRA, 2019a). This report concluded that in many institutions 'accountabilities are not always clear, cascaded and effectively enforced' (APRA, 2019a, p. 4).

It is therefore worth noting that the BEAR was introduced during a tumultuous time for the Australian financial services industry. On the heels of the Royal Commission, prominent industry scandals and heightened regulatory activity, it would be fair to say that the BEAR was introduced in an environment of amplified interest in the issue of accountability, and acknowledgement that accountability was a widespread issue to be addressed within financial institutions.

In explaining the objectives of the BEAR, APRA (2018a, p. 4) stated that:

> Australia introduced the Banking Executive Accountability Regime to establish clear and heightened expectations of accountability for authorised deposit-taking institutions (ADIs), their directors and senior executives, and to ensure there are clear consequences in the event of a material failure to meet those expectations.

In establishing a class of 'accountable persons' (APs) comprising the directors and senior executives, the BEAR requires these APs to:

- act with honesty and integrity, and with due skill, care and diligence;
- deal with APRA in an open, constructive and cooperative way; and
- take reasonable steps when conducting their responsibilities as an AP.

Each AP must lodge an accountability statement with APRA, and have it approved, explaining the exact nature of their accountabilities. These could be: overall business activities of the ADI or ADI group (in the case of the Chief Executive Officer or CEO); financial resources of the ADI (Chief Financial Officer or CFO); overall risk controls and risk management of the ADI (Chief Risk Officer or CRO); operations of the ADI; information management of the ADI, including information technology systems; internal audit function of the ADI; compliance function of the ADI; human resources function of the ADI; and anti-money laundering function of the ADI. Joint responsibilities are strongly discouraged but one individual can have multiple accountabilities. In this way, blame for poor outcomes can be apportioned to a single individual.

ADIs also must provide an accountability map showing how the various accountabilities fit together as a whole. They must update APRA within 14 days following any change in accounta-

[5]A Royal Commission is a public inquiry governed by an Act of parliament. Typically led by a retired, eminent judge, a Royal Commission has very broad powers to gather evidence and compel individuals to testify. A Royal Commission into issues in the Australian financial services industry was conducted in 2018 (Hayne, 2019).

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bility statements, personnel or maps. The BEAR requires each ADI to take reasonable steps to ensure that each of its APs meets his or her accountability obligations.

The BEAR anticipates that executive accountability will be achieved primarily through financial consequences imposed by the board. To facilitate this, part of an AP's variable remuneration must be deferred for a minimum of 4 years. If, over the 4 years, any failure emerges in compliance with the accountability obligations, then there must be some direct and proportionate financial penalty. That is, some or all of the outstanding variable remuneration should be withdrawn by the board. It is likely that reputational consequences would also be important for APs following an adverse outcome.

In severe cases where an AP fails in their duties, APRA may disqualify an individual from being an AP. APRA can also apply to the Federal Court for civil penalties (fines) to be imposed on the ADI, but these would not apply to individuals.

2.1 | Relationship to SOX reforms

Executive accountability regimes differ significantly from SOX – a previous governance reform in the United States that was replicated in many other jurisdictions. According to Coates (2007), the SOX reforms were designed to address shortcomings in the audit of public firms, thus reducing the risk of fraud and theft. Section 404 required the CEO and the CFO not only to certify the financial reports, but also to evaluate and disclose weaknesses in the control system in relation to financial reporting. External auditors were required to then provide an attestation in relation to those disclosures. SOX thereby increased the possibility of criminal sanctions for fraud or theft against the CEO and CFO, by making it difficult for them to later claim that they were unaware of control deficiencies.

The BEAR, like SMCR, differs from SOX in that it covers all the significant risks of the affected institutions, not just fraud risk. Accountability extends to a larger group of executives and the primary accountability mechanism is executive compensation.

2.2 | Potential expansion of the BEAR

The Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hayne, 2019) was published in early 2019. It recommended that the BEAR be expanded in several respects. First, it should explicitly incorporate responsibility for the design, delivery and maintenance of all products offered to customers and any necessary remediation of customers in respect of any of those products (Recommendation 1.17). Second, it should apply not just to banks but also to superannuation licensees (Recommendation 3.9) and to insurers (Recommendation 4.12). While the government accepted these recommendations in principle, legislation has still not passed through parliament. In discussion papers, the expanded regime is referred to as the Financial Accountability Regime or FAR.

3 | RELATED LITERATURE

The empirical literature on risk management in financial institutions has established that better risk outcomes are associated with certain governance features. For example, better crisis outcomes were achieved in US banks having a CRO reporting directly to the board (Aebi et al., 2012). Ellul and Yerramilli's (2013) risk management index incorporates not just measures of CRO status but also indicators of board risk committee effectiveness, confirming the relevance of effective governance for improved US bank performance during the crisis. Magee et al. (2019) established

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similar findings supporting similar governance structures in an international sample of insurance companies. Not only did they deliver superior crisis outcomes, but also an advantage in the post-crisis years. Braumann (2018) demonstrates that adoption of a risk oversight framework and formal risk reporting structures contribute to risk management effectiveness through greater risk awareness.

The existence of these governance structures is helpful but does not guarantee good risk management. For example, a study of seven major commercial banks in Australia and Canada conducted in 2014–2015, demonstrated that banks with superficially equivalent governance structures can have substantially different cultures and risk management behaviours (Sheedy & Griffin, 2018).

The proliferation of risk management consultants and a vast normative practitioner literature on the subject is a sign that many organisations are struggling to implement effective risk management frameworks. A google search of the term 'risk management consulting' produces a vast array of possibilities.

One example is the challenge of implementing the three lines model. Advocated by the Institute of Internal Auditors, this model is a framework for assigning risk management responsibility in large organisations. It allocates the primary risk management responsibility to operational executives; risk/compliance and internal audit are the second and third lines of defence respectively (IIA, 2020). This approach is designed to maximise the effectiveness of the risk management system and provide assurance to directors that risk management policies are working as intended. Yet despite the apparent logic of this approach and the support of regulators for it (APRA, 2018c), the model has often disappointed observers. The 2013 UK Parliamentary Commission on Banking Standards criticised the model for creating a misplaced sense of security, for blurring responsibilities and for diluting the accountability of the first line (Parliamentary Commission on Banking Standards, 2013). Similarly, academic researchers have raised concerns regarding the blurring of responsibilities and failure of the first line (Davies & Zhivitskaya, 2018; Mabwe et al., 2017; Vinnari & Skærbæk, 2014).

The BEAR addresses these concerns relating to the three lines model head-on, by clearly establishing that senior operational executives are individually accountable for risk outcomes. Accountability is not shared with the second and third lines, although accountable executives can draw on these functions for advice and verification that systems are working effectively. We therefore anticipate that the BEAR will improve risk management outcomes by clarifying accountabilities that have become blurred under the three lines model and emphasising the primacy of the first line.

The challenge of risk management within organisations can be explained by various behavioural biases (Kaplan & Mikes, 2016). Too often risk managers fail adequately to respond to red flags due to confirmation, availability and overconfidence biases. For example, the failure by many organisations to adequately prepare for a global pandemic prior to 2020, despite numerous warnings about the inevitability of such an event, has been blamed on availability bias (Sheedy, 2021, chapter 1). Hughes and White (2010) point to groupthink as a fundamental cause of the space shuttle Challenger disaster. Managerial short-termism (myopia bias) has also been blamed for risk management failures such as the global financial crisis (Dallas, 2011). This is because many desirable risk management treatments involve short-term cost, or opportunity cost, in order to avoid a disastrous future outcome.

Therefore, a key challenge of risk management is to activate system 2 thinking about risk, the term popularised by Kahneman (2011) to describe a slow, effortful and analytical thinking style. System 2 is thought to be less prone to the biases often observed when humans apply the faster, more intuitive and automatic 'system 1' mode. The following section highlights the potential of enhanced executive accountability to achieve this goal.

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3.1 | Accountability and risk management

The literature on accountability is vast and the term itself has been defined in a variety of ways. This study investigates executive accountability in a context where financial rewards and sanctions for executives are determined by the board of directors and linked to pre-agreed individual outcomes. Our focus is on the potential for accountability, in this form, to enliven risk management. Therefore, we consider those parts of the literature related to this form of accountability and where there is a connection to risk management concepts. We adopt the following definition of accountability: 'the perception of defending or justifying one's behaviour to an audience with reward or sanction authority, and where rewards or sanctions are perceived to be contingent upon audience evaluation of such conduct' (Beu & Buckley, 2004, p. 73).

The link between accountability and risk management is clearly made in the regulatory literature. The Financial Stability Board (FSB, 2014) identifies accountability as one of four indicators of risk culture. 'The chief executive officer, senior management and employees throughout the institution, are held accountable for their actions and understand the consequences if they are not aligned with the institution's core values, risk appetite and risk culture, regardless of whether their actions or behaviours resulted in direct financial gain or loss to the financial institution' (FSB, 2014, p. 8).

In the academic literature, a number of papers have linked accountability and risk management, although not necessarily in the sense that we are using the term. Power (2004) positions risk management as a reaction by organisations to greater regulation and accountability in the legal sense. Palermo (2014) sees risk management as a response to greater expectations of public accountability in the context of a public service organisation. While our study considers whether enhanced executive accountability may improve risk management, Tekathen and Dechow (2013) investigate causality in the opposite direction. In a single organisation case study, the introduction of enterprise risk management is motivated by the pursuit of effective accountability, but the researchers find that it does not guarantee that outcome.

As noted in the previous section, behavioural biases are thought to contribute to the challenge of risk management in practice, so the literature on the attenuation of behavioural biases is relevant. A major review article in 1999 (Lerner & Tetlock, 1999) finds that accountability mitigates behavioural biases leading to better decisions. This is because those who anticipate evaluation wish to avoid appearing foolish in front of an audience and possible sanctions. They prepare for evaluation by surveying a wider range of relevant cues, paying more attention to those cues as well as monitoring them regularly, and anticipating and appropriately weighting counterarguments. In other words, accountability activates more effortful and analytical system 2 thinking as opposed to the intuitive and error-prone system 1 thinking of Kahneman (2011).

This conclusion has been supported in a range of experimental studies in the accounting literature. Kennedy (1993) finds accountability effective for addressing recency or availability bias in audit judgements while Hoffman and Patton (1997) show that it helps improve fraud risk judgements by helping auditors focus on relevant versus irrelevant information. Libby et al. (2004) confirm the link between accountability and the use of a wider range of information cues in performance measurement. Jermias (2006) finds that accountability can overcome overconfidence while DeZoort et al. (2006) demonstrate the benefits of accountability for stimulating greater effort in the preparation of audit judgements and more conservative materiality judgements. Accountability helps offset anchoring effects from prior year accounting treatments (Messier et al., 2014). It also promotes greater information search in a project funding decision (Dalla Via et al., 2019) and helps ameliorate the impact of affective reactions on capital budgeting decisions (Fehrenbacher et al., 2020).

While the above-mentioned papers are not specifically about risk management, the potential for accountability to temper biases closely associated with risk management is promising. We expect that enhanced accountability will benefit risk management by mitigating biases that have often thwarted its effectiveness.

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We anticipate that accountable executives will engage more actively in risk management. Anticipating future evaluation and possible sanctions, they will be less likely to ignore red flags that indicate problems in their area of accountability. They will seek out more risk information and evaluate it more carefully, consulting with appropriate experts. Under the BEAR, accountability cannot be delegated, and bad outcomes reflect badly on accountable executives themselves, so they will delegate tasks in a more rigorous fashion, monitoring progress and intervening if necessary. They will manage their reports more intrusively through questioning, coaching and constructive feedback. Poor performers are more likely to be moved on after appropriate efforts have been made to offer support. More care will be taken to prioritise initiatives and resource them appropriately, to ensure that accountabilities are met. In other words, system 2 thinking is activated in accountable executives who are then more likely to demonstrate 'due care, skill and diligence' in their management of risks.

3.2 | Implications for risk culture

According to Stulz (2015, p. 16) 'because of the limits of risk management and incentives, the ability of a firm to manage risk properly depends on its corporate culture as well'. Corporate culture matters because it shapes behaviour when no-one is watching and when there is no specific policy guidance. It may be defined in terms of behavioural norms which are shaped through habit and observation of respected peers and leaders (Ehrhart et al., 2013). When behaviours are repeated regularly, they become normalised – 'the way we do things around here'. Risk culture, an aspect of corporate culture, refers to the behavioural norms surrounding risk management. A sound risk culture makes the structures of risk management effective while a poor risk culture can undermine them (Institute of Internal Auditors Australia, 2021).

While understanding is growing regarding the importance of risk culture, it is not always clear how to instil it. Power et al. (2013) document the confusion in major UK financial institutions in the post-crisis environment. Institutions struggled to clarify risk appetite, and to understand and inculcate risk culture.

Risk culture research since then suggests it is a multi-dimensional construct (Sheedy et al., 2017). One of these dimensions, Proactive, refers to pre-emptive behavioural norms such as identifying, analysing and discussing risk. In a proactive risk culture, consideration of risk is a routine part of all key decision making; learning from past risk events is another sign of a proactive risk culture. Another dimension – Avoidance – refers to behavioural norms that undermine risk management and therefore is undesirable. Avoidance is indicative of a risk culture that puts form over substance, where the goal is to meet regulatory requirements, but no more. Employees are likely to perceive that senior leaders do not want to hear about bad news because this would require action to be taken. In a culture of avoidance, red flags are often ignored; poor risk management behaviour or non-compliance is excused.

Figure 1 illustrates how, according to prior literature, executive accountability regulations may potentially influence risk culture and outcomes. The immediate purpose of the regulation is to make individual accountability explicit, in turn producing greater 'felt accountability'. Felt accountability (Hochwarter et al., 2007) acknowledges that individuals' subjective experience of accountability can be very different, despite operating under the same regulations or working in the same organisation. To capture these differences in perceptions, felt accountability refers to the extent to which an individual feels scrutinised. Based on the arguments presented in Section 3.1, a stronger perception of felt accountability will be more likely to cause executives to engage actively in risk management. Using the nomenclature of the four-factor model, they will display more proactive and less avoidance behaviour.

Leaders and managers play a very significant role in determining how their subordinates will behave. We therefore expect that employee behaviour will respond to changes in executive behav-

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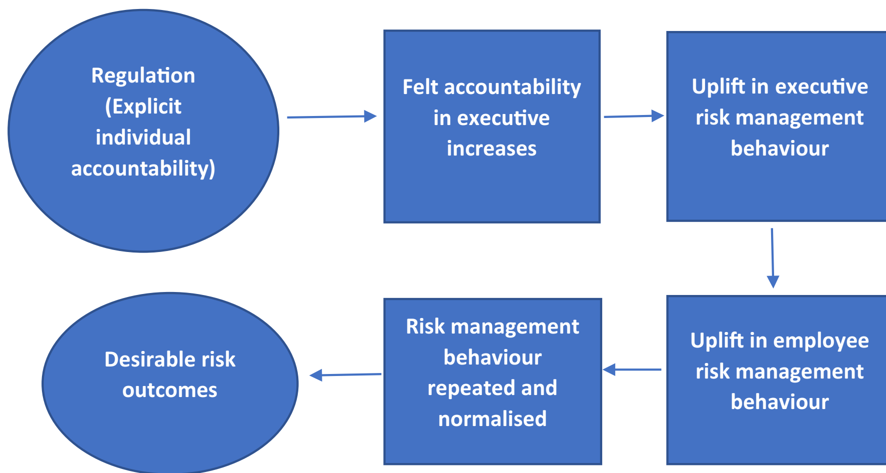

FIGURE 1 Hypothesised impact of BEAR on culture and outcomes.

iour. The regulatory literature has highlighted 'tone at the top' as crucial in risk culture (FSB, 2014), and this is also supported in the academic literature. In regulated industries, formal policies and statements about risk management may be seen by employees as mere window-dressing. Employees therefore observe the actions and the informal statements of their leaders to determine the true priorities of the organisation. This speaks to the Valued dimension of risk culture in the four-factor model. Gaps between what is espoused and what is enacted are particularly informative as employees discern which organisational goals are most important (Zohar, 2010). How leaders respond to critical incidents in the workplace, how they allocate resources and how they distribute rewards and sanctions are crucial signals in this regard. Schein (2017) refers to these elements as 'primary mechanisms for embedding culture'. The importance of managers for risk culture specifically is picked up by Sheedy et al. (2017); 'Manager' is one of their four risk culture dimensions.

Over time, if senior executives are consistent in their messaging and behaviour, desirable risk management behaviours are repeated and normalised. High felt accountability causes executives to provide regular and ongoing modelling and positive reinforcement of risk management behaviours. As risk management behaviour flourishes, the benefits of risk management ought to become clear to all; the organisation meets its objectives and avoids catastrophe, bringing benefits to employees and executives alike. In this way, risk management is viewed as a 'solution that has worked well enough to be considered valid' (Schein, 2017, chapter 1), becoming part of the identity of the group. As noted in the introduction and also at the start of this section, risk culture is ultimately a matter of behavioural norms relating to risk management and these norms are shaped by habit and observation. As this behaviour is repeated, risk management norms will become established, signalling the emergence of a sound risk culture. Excellent risk management will become 'the way we do things around here', producing desirable risk outcomes.

4 | RESEARCH DESIGN AND METHODS

The purpose of this paper is to determine whether the introduction of a new executive accountability regime within the banking sector in Australia led to better risk management practices and behaviour by senior executives, resulting in a more effective risk culture. An exploratory, mixed methods study, in the positivist tradition (Power & Gendron, 2015), was chosen in this context. This approach has the benefit of strengthening the validity of the findings (Grafton et al., 2011) as well as enriching the limited understanding that comes from the survey results alone.

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Another approach would be to examine the consequences of better risk management, such as better organisational outcomes, but these are only amenable to quantitative investigation in the long term. Given the importance of the financial services industry for society, it is essential to gain early insights into the impact of this novel regulatory approach. If executive accountability regimes are to produce better organisational outcomes in the long term, then we would expect to see changes to executive behaviour, risk management practices and enhanced risk culture now. If no such changes are observed, then this would cast doubt on the possibility that the regime will ever achieve its ambitions.

The methodology is further justified by the fact that risk management practices and risk culture are not easily assessed using quantitative methods. This is particularly true in a dynamic environment where behaviour is likely to be influenced by a complex set of organisational and personal factors (Birkinshaw et al., 2011). Survey methods are inadequate for teasing out such complexities and they are also exposed to social desirability and other biases which are likely to be important in a heavily regulated industry such as financial services (Keiser & Payne, 2019). The interview component of our study helps us to explore complexities and also to probe into issues that might be exposed to impression management. Finally, gaining access in large-scale employee surveys in multiple financial institutions is extremely challenging and we find such firms more receptive to involvement on a smaller scale.

We acknowledge that small samples raise concerns about the generalisability of the findings, but these concerns are tempered by recent favourable non-academic evaluations of executive accountability regimes. At the time we planned our study, UK Finance (an industry lobby group) had already published its own favourable evaluation of the comparable British accountability regime (UK Finance and Ashurst, 2019). One could argue that it is in the interests of an industry lobby group to make favourable findings, thus avoiding the need for further and potentially more intrusive regulation. Indeed, this was in part the motivation for our own study. But these favourable findings have since been confirmed by UK regulators (Prudential Regulation Authority, 2020). The Prudential Regulation Authority report was published in December 2020 after the completion and analysis of our interviews. In the same month, Australian regulators also produced a favourable evaluation of the BEAR regime implementation (Australian Prudential Regulation Authority, 2020). All these evaluations, across two countries, build the case that executive accountability regimes can be effective, and are not merely a product of our small sample and the Australian context.

Our own study makes an important contribution over and above the industry evaluations with its theoretical grounding, building on both the accountability and the risk culture literatures, notably applying the four-factor model due to Sheedy et al. (2017). There are also some important methodological differences compared to the industry evaluations. First, the independence of the research team from the industry is important. As researchers, we have no particular interest in demonstrating the efficacy of these regulations. As academics operating under strict university ethics, we can offer more credible claims of anonymity, potentially eliciting more candid interview responses. Second, we use one-on-one interviews rather than group interviews to avoid any potential peer pressure or groupthink. We intentionally favour depth over breadth to gain greater understanding. Our interest is not just *whether* enhanced executive accountability improves risk management and risk culture, but if so, *how* this is achieved. Finally, the pre-interview survey includes some measures which provide the opportunity to test hypotheses quantitatively.

The research was approved by the university's ethics committee and conducted under strict university guidelines. Participants gave their formal consent to be interviewed, subject to assurances of confidentiality, except as may be required by law. We recruited participants with assistance from industry partners who notified their members/clients of the study. In addition, we recruited participants from our personal contacts. A snowball sampling approach was subsequently used to recruit additional participants. No incentives were offered for participants' involvement.

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Data were collected using a qualitative, semi-structured interview in conjunction with a pre-interview survey and review of publicly available disclosures. Efforts were made to review all publicly available reporting (e.g., annual, risk management, corporate governance, remuneration reports, etc.) by participants' organisations on their corporate websites. This document review meant that interviews were more productive and informed, avoiding the need to request basic information about the risk management framework during the interview. The interview protocol is presented in Exhibit A in the Appendix 1.

In total, 41 interviews were conducted with participants from 15 ADIs in Australia. Table 1 presents the characteristics of each interviewee and the length of each interview, with the average interview length being 52 min. Nineteen of the participants were, or had recently been, accountable persons (APs), and of those four were non-executive directors. Eighteen participants were direct reports to APs. Three participants reported to someone who reported to an AP and one was a consultant on an extended advisory engagement with an ADI. We felt it was essential to gain the perspectives of those who are not APs themselves, but in a position to closely observe APs. This enabled us to triangulate the responses of APs, as well as to obtain an understanding of the insights on the experience of individuals working under APs. The interviewee codes 'AP' and 'O' refer to 'Accountable Person' and 'Other' respectively.

Both the review of publicly available disclosures and the pre-interview survey helped us to go into interviews with these very senior executives and directors with some understanding of the organisational context and the perceptions of the interviewee. This preparation helped us gain credibility with interviewees and it also meant that we could use the interview time more effectively, focusing on the most relevant issues.

Participant representation across a range of positions and organisation types and sizes allowed for a diversity of views in the interviews to facilitate investigation of the contextual influences on the experience of implementing the BEAR. As indicated in Panel B of Table 1, the majority of participating organisations (12 of 15) were 'for profit' and we had a mix of small, medium and large organisations.[6] Note that our sample included four of the five large banking organisations operating in the Australian market. We explicitly targeted participants in risk, compliance and internal audit so the majority (80%) of our interviewees are drawn from these functions. This choice reflected the research design which is to understand the impact of the regime on risk management practices and risk culture. Executives in line 2/3 roles are able to comment not only on their own behaviour and practices, but on the behaviour and practices of line 1 peers. While it is often difficult for executives to objectively assess their own risk management behaviour, risk/compliance experts are more likely to provide useful information. With visibility across the organisation, those in line 2/3 roles are ideally placed to gauge the urgency with which line 1 executives are responding to risk events and the strength of the voice of risk within the organisation. We also interviewed some executives in governance or human resources because the ongoing administration of the BEAR often sits in these functions.

Of the participants, 27 were male and 14 were female, with most (58%) having over 20 years of experience in the financial industry. Twenty-three percent of participants had moved between institutions in the last 2 years. This added to the richness of the data as these participants were able to draw comparisons between practices and organisational cultures.

The interview protocol and survey instrument were developed based on our literature review, including the early evaluation of the SMCR in the UK (UK Finance and Ashurst, 2019), as well as preliminary discussion with industry partners (senior representatives from governance, risk and compliance professional bodies and a service provider firm). The semi-structured interviews were conducted around the following broad target issues[7]:

[6]The boundaries for our small, medium and large categories are based on the BEAR regulations. These may be found in the determination available at: https://www.legislation.gov.au/Details/F2018L00651/Explanatory%20Statement/Text

[7]The interview protocol is provided in Exhibit A in the Appendix 1.

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TABLE 1 Participant details.

Panel A: Individual participants' details

Interviewee	Function	Gender	Experience in finance industry	Size of firm	Firm code	Interview length (min)
AP1	Risk	M	>20 years	Large	A	40
AP2	Internal audit	M	>20 years	Large	A	60
O1	Risk	F	>20 years	Large	A	58
O2	Internal audit	M	15–20 years	Large	A	67
O3	Internal audit	F	10–15 years	Large	A	54
O4	Internal audit	M	>20 years	Large	A	52
O5	Internal audit	F	15–20 years	Large	A	40
AP3	Risk	M	>20 years	Small	B	40
AP4	Internal audit	M	>20 years	Small	B	42
O6	Compliance	F	>20 years	Small	B	25
O7	HR	M	5–10 years	Small	B	58
AP5	Non-executive director	F	>20 years	Medium	C	58
O8	Risk	F	>20 years	Medium	D	45
O9	HR	M	5–10 years	Medium	D	48
AP6	Risk	M	>20 years	Small	E	51
O10	Risk	M	15–20 years	Large	F	56
AP7	Internal audit	M	15–20 years	Large	F	57
O11	Risk	M	>20 years	Large	G	59
AP8	Non-executive director	F	2–5 years	Small	H	61
O12	Compliance	F	>20 years	Medium	I	58
AP9	Risk	M	>20 years	Medium	J	50
AP10	Internal audit	M	10–15 years	Medium	J	50
AP11	Non-executive director	M	>20 years	Medium	J	61
AP12	Management	M	15–20 years	Large	K	60
O13	Risk	M	>20 years	Large	K	63
O14	Risk	M	>20 years	Large	K	54
O15	Internal audit	F	15–20 years	Large	K	32
AP13	Internal audit	M	15–20 years	Large	K	62
O16	Internal audit	M	>20 years	Large	K	53
AP14	Non-executive director	M	>20 years	Large	K	65
O17	Risk	F	5–10 years	Medium	L	48
O18	Risk	M	>20 years	Medium	L	64
AP15	Risk	M	>20 years	Small	M	41
AP16	Management	F	15–20 years	Medium	N	41
AP17	Internal audit	F	>20 years	Medium	N	56
O19	Compliance	M	15–20 years	Medium	N	59
O20	HR	F	10–15 years	Medium	N	50

(Continues)

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TABLE 1 (Continued)

Panel A: Individual participants' details						
Interviewee	**Function**	**Gender**	**Experience in finance industry**	**Size of firm**	**Firm code**	**Interview length (min)**
AP18	Compliance	F	15–20 years	Medium	N	37
O21	Risk	M	>20 years	Small	O	67
O22	Risk	M	>20 years	Large	G	59
AP19	Risk	M	>20 years	Large	G	44
Panel B: Participant organisation details						
Entity type	For profit	12 (80%)				
	Mutual	3 (20%)				
Entity size (based on total resident assets on 30 June 2020)	Small (<$10b)	4 (26.6%)				
	Medium	7 (46.6%)				
	Large (>$100b)	4 (26.6%)				

Note: Interviewee codes starting with 'AP' are accountable persons while codes starting with 'O' are others.

1. organisation's risk management structures;
2. implementation of the BEAR within the organisation;
3. experience and outcomes of implementing the BEAR, addressing first the positive and then the negative aspects.

The use of semi-structured interviews allowed for in-depth insights into and understanding of the perceptions of individual participants. Accordingly, questions around the target issues were designed to be as open-ended as possible to facilitate discussions with participants without imposing preconceived notions that might inhibit their responses (Beitin, 2012; Power & Gendron, 2015). This was consistent with our objective of understanding why and how the new regime might be exerting an influence on management practices and culture. Each section of the interview would begin with an open-ended question, e.g. 'what positive changes have you observed since the introduction of the BEAR?'. Where interview responses seemed to contradict survey responses, we sought clarification. For example, we would sometimes highlight a particular survey response and invite the participant to provide elaboration. Participants were also asked if they had any further relevant areas of interest that might not have been covered during the interview that they would like to discuss after broad questions around the target issues were covered.

It is important to highlight that we did not explicitly discuss behavioural biases during the interviews. We did not consider that to be a productive way of approaching the issue as biases are typically unconscious. Rather, we expected, based on the theory discussed in Section 3, that biases will be attenuated by more diligent and proactive attention to risk management practices, i.e. system 2 behaviour. Our focus is therefore on risk management practices and culture.

4.1 | Interview data collection

The interviews were conducted between June and October 2020. While cases were relatively low in number in Australia during the relevant period, lockdowns as a result of the COVID-19 pandemic meant that participants and researchers alike were working from home to a significant extent. All interviews were conducted remotely using video conferencing.

We attempted to establish rapport with the interviewees by commencing each interview with a general discussion while outlining the purpose of the research and providing assurance of the confidentiality of the interview. All interviews were recorded and transcribed for analysis.

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4.2 | Interview data analysis

Interview data was analysed based on the processes of data reduction and interpretation outlined in O'Dwyer (2004). Our analysis subsequently consisted of an iterative process during which interpretations were drawn, revisited, reflected on and challenged 'in a back-and-forth interplay' with the transcript data (Bowen, 2008, p. 144).

As the data were analysed through this process, it became evident that data saturation was reached following 30 interviews, with no additional themes emerging from the data collected in subsequent interviews from this point (Dai et al., 2019; Malsch & Salterio, 2016). Data from the remaining interviews served to provide depth and nuance to the identified themes. Following these processes, and at the end of the interviews, we were confident that no further themes were emerging and that we had obtained sufficient data to provide in-depth, reliable insights into the study's research questions (Lincoln & Guba, 1985; Power & Gendron, 2015).

4.3 | Survey instrument and measures

A pre-interview survey was administered to each interviewee using an online survey platform. The aim was to capture basic information about participants and their experiences of the BEAR to date, and to facilitate a more informed line of questioning in the interviews. Some questions were chosen from the evaluation of the SMCR reported in UK Finance and Ashurst (2019). These questions and the responses are presented in Table 2.

The survey also captured information on personality, capability, work stress and perceptions of accountability. In all cases we use multi-item scales that have been validated in the academic literature. For each scale we report values of Cronbach's alpha, an indicator of reliability as measured by mean inter-item correlation. Higher values indicate greater reliability, and values over 0.70 are generally considered desirable (Field, 2013, section 18.9).

Felt accountability refers to how individuals interpret and respond to their environment; the extent to which they feel scrutinised. We use the 8-item scale from Hochwarter et al. (2007), e.g. *I am held very accountable for my actions at work* and *In the grand scheme of things, my efforts at work are very important*. Cronbach's alpha was calculated as 0.70 for our sample. We expected that people in AP roles would have higher levels of felt accountability.

Previous research has identified a link between accountability and work stress (Hochwarter et al., 2007). Greater scrutiny can produce feelings of anxiety. We use the 7-item scale developed by House and Rizzo (1972), e.g. *My job tends to directly affect my health* and *I work under a great deal of tension*. Cronbach's alpha for our sample was 0.85. We expected that higher levels of felt accountability would be associated with higher levels of work stress.

The success of accountability for producing better outcomes assumes that those in senior roles possess the capability to produce those outcomes. In organisations, political skill is a crucial capability for influencing or controlling others and negotiating access to resources (Hochwarter et al., 2007). We use the 18-item scale from Ferris et al. (2005), e.g. *I am particularly good at sensing the motivations and hidden agendas of others* and *I am able to communicate easily and effectively with others*. Cronbach's alpha for our sample was 0.87. They define political skill as 'the ability to effectively understand other at work, and to use such knowledge to influence others to act in ways that enhance one's personal and/or organizational objectives' (Ferris et al., 2005, p. 127). We expected that those in AP roles would have higher levels of political skill.

Accountability is theorised to be effective because people care about their image and status and seek approval in the eyes of others. This suggests accountability will be more effective when applied to individuals who are more conscious of their own image and reputation. We use a 7-item measure of self-consciousness due to Fenigstein et al. (1975), e.g. *I'm concerned about the way I present myself*. Cronbach's alpha for our sample was 0.78.

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TABLE 2 Survey questions on BEAR: implementation and impact.

Question	Responses	Accountable persons (APs)	Others
1. Has the BEAR brought about a meaningful change in your role? Select one answer only (40 responses; 17 from APs)	• Yes, for the better • Yes, for the worse • Not at all	64.7% 0.0% 35.3%	52.2% 8.7% 39.1%
2. Has the BEAR changed your behaviour? Select one answer only (40 responses; 17 from APs)	• Yes, for the better • Yes, for the worse • Not at all	41.2% 0.0% 58.8%	30.4% 4.3% 65.2%
3. The following statements relate to clarity of responsibilities. Tick all statements that are true (40 responses; 17 from APs)	• I am very clear on my responsibilities • Shared/joint responsibilities have been reduced following the introduction of the BEAR • My responsibilities are clearer now than prior to the implementation of the BEAR • I am uncertain about some aspects of my responsibilities	76.5% 41.2% 41.2% 0.0%	82.6% 30.4% 17.4% 21.7%
4. In what ways has the BEAR changed your day-to-day working practices? Tick all statements that are true (40 responses; 17 from APs)	• I consider my Accountability Statement more frequently • I take more notes and records of meetings, calls, action points • I seek attestations/other assurance from my direct reports • It has not • I take or attend regular training on the BEAR and its associated rules • I require more/different management information before making decisions	47.1% 35.3% 35.3% 29.4% 11.8% 5.9%	4.3% 39.1% 13.0% 43.5% 21.7% 30.4%
5. How often do you consider what regulatory consequences could arise from the BEAR rules? Select one answer only (39 responses; 16 from APs)	• Never (0%–10%) • Sometimes (11%–40%) • About half of the time (41%–60%) • Most of the time (61%–90%) • Always (91%–100%)	18.8% 43.8% 18.8% 12.5% 6.3%	13.0% 43.5% 17.4 21.7% 4.3%
6. Has the BEAR changed the culture at your organisation? Select one answer only (40 responses; 17 from APs)	• Yes, for the better • Yes, for the worse • Not at all	82.4% 11.8% 5.9%	52.2% 21.7% 26.1%
7. Do decisions now take longer and/or are support/control functions more heavily involved in decision-making since the BEAR was implemented? Select one answer only (39 responses; 17 from APs)	• Yes • No	47.1% 52.9%	45.5% 54.5%
8. Is there greater involvement of compliance/legal/risk with decision-making? Select one answer only (39 responses; 17 from APs)	• Yes • No	64.7% 35.3%	63.6% 36.4%

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TABLE 2 (Continued)

Question	Responses	Accountable persons (APs)	Others
9. Which of the following did your organisation do in preparation for the implementation of the BEAR? Tick all statements that are true (40 responses; 17 from APs)	• Included Accountability Statements as part of contracts of employment • Provided structured training for individual/ business lines/divisions • Amended employee handbook and policies • Made a breach of regulatory duties a ground for the adjustment or claw-back of bonus and share awards • Reviewed and amended employment contracts • Incorporated compulsory handover arrangement in contracts of employment • Other/s ______ • Not sure • None of the above	70.6% 64.7% 58.8% 58.8% 52.9% 35.3% 23.5% 11.8% 0.0%	47.8% 60.9% 56.5% 43.5% 34.8% 17.4% 13.0% 17.4% 0.0%
10. Has your approach to performance management such as your appraisal process and disciplinary actions, changed in light of the BEAR? Select one answer only (40 responses; 17 from APs)	• Yes • No • Unsure	58.8% 41.2% 0.0%	34.8% 47.8% 17.4%
11. Has your organisation found it difficult to identify, recruit or retain accountable persons required under the BEAR? Select one answer only (40 responses; 17 from APs)	• Yes • No • Unsure	11.8% 70.6% 17.6%	0.0% 56.5% 43.5%
12. Have you/your organisation hired new employees to support the BEAR process? Select one answer only (40 responses; 17 from APs)	• Yes • No • Unsure	58.8% 41.2% 0.0%	60.9% 34.8% 4.3%
13. How would you describe the demands on your team since the implementation of the BEAR? Select one answer only (40 responses; 17 from APs)	• Some extra workload • Absorbed within normal workload • Significantly extra workload/new people hired	47.1% 41.2% 11.8%	47.8% 34.8% 17.4%
14. Do you perceive that the implementation of the BEAR has had an impact on the remuneration paid by the organisation? Select one answer only (40 responses; 17 from APs)	• No change • Impact on accountable persons only • Remuneration practices have changed for a range of roles including accountable persons • Unsure	41.2% 29.4% 23.5% 5.9%	39.1% 21.7% 13.0% 26.1%
15. 15. How burdensome do you consider the BEAR rules are for your organisation? Select one answer only (40 responses; 17 from APs)	• Not at all (0%–20%) • Slightly (21%–40%) • Moderately (41%–60%) • Very (61%–80%) • Extremely (81%–100%)	11.8% 52.9% 17.6% 17.6% 0.0%	17.4% 26.1% 21.7% 26.1% 8.7%

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TABLE 2 (Continued)

Question	Responses	Accountable persons (APs)	Others
16. Before becoming an accountable person, which of the following actions did you take? Tick all statements that are true. (Question applies only to accountable persons) (17 responses)	• Undertook training on the BEAR • Actively negotiated my Accountability Statement • Sought independent legal advice • Sought attestations from my direct reports • Sought specialist directors and officers cover/ changes from the organisation • Renegotiated division/area budget • Other/s ___ • None	58.8% 52.9% 35.3% 35.3% 17.6% 17.6% 17.6% 0.0%	
17. How was your Accountability Statement written? Select one answer only. (Question applies only to accountable persons) (17 responses)	• Collaboratively • It was given to me • I wrote it • Other	76.5% 23.5% 0.0% 0.0%	

Note: Throughout the table, percentage of respondents is calculated based on the number of responses to the relevant question.

Researchers have found that personality (especially conscientiousness) is a moderator of accountability (Hall et al., 2017). That is, accountability is more or less effective in producing outcomes depending on the personality of the individual. Not much is known about whether personality predicts, or is associated with, accountability.[8] It is possible that people with certain personalities might be attracted to, or recruited for, certain roles. According to the Big-Five model of personality traits (Digman, 1990), individual differences in human personality can be classified into five broad domains. Openness: open to new experiences, curious versus conventional, uncreative. Conscientiousness: dependable, self-disciplined versus disorganised, careless. Extraversion: outgoing, enthusiastic versus reserved, quiet. Agreeableness: sympathetic, warm versus critical, quarrelsome. Emotional Stability (sometimes known by its inverse, Neuroticism): calm, emotionally stable versus anxious, easily upset. We use the 10-item measure from Gosling et al. (2003). Cronbach's alpha for our sample was: 0.34 (Openness); 0.80 (Conscientiousness); 0.71 (Extraversion); 0.39 (Agreeableness); 0.59 (Emotional Stability). The values of Cronbach's alpha, a measure of mean inter-item correlation, are variable and sometimes low for this short personality measure, having only two items for each personality dimension. Our results are, however, consistent with those reported by Gosling et al. (2003) who show that the scale demonstrates adequate test–retest reliability. The same authors argue that while this brief personality measure has somewhat diminished psychometric properties compared with longer scales, its use can be justified in situations where personality is not the primary topic of interest, and survey length is a consideration.

5 | FINDINGS

Based on previous literature summarised in Section 3, we theorise that the introduction of more explicit individual accountability expectations for senior executives is likely to invoke greater felt accountability, causing an uplift in their risk management efforts. We in turn predict that as APs model better risk management behaviour, risk management norms will become better established, and risk culture will in turn thrive. These theoretical predictions are summarised in Figure 1. Our findings from both the interviews and the pre-interview survey support these predictions and are presented here.

[8]See discussion of antecedents of felt accountability in Hall et al. (2017).

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5.1 | Inducing felt accountability

The first step in this sequence is a shift in how accountable persons experience accountability following the introduction of the BEAR. It is instructive to consider the implementation process in this regard. According to our survey responses, participant organisations took multiple actions to prepare for the introduction of the BEAR (Table 2, question 9).

The regulator mandated the creation of accountability statements and maps in the implementation phase and this was seen by most participants as a worthwhile undertaking. This exercise, often conducted iteratively, drew out the problematic areas and prompted constructive discussion about grey areas. Technology and data management were two areas consistently brought up as problematic for allocating individual accountability. The use of scenario testing to understand how issues would play out was identified as being effective in clarifying accountabilities by some participants that had undertaken this approach.

> AP1We developed a series of case studies. We had five or six in total. We got a number of [accountable persons] to participate in those workshops. They went for a number of hours, and that actually helped us clarify for ourselves where there's some crossover of accountabilities as to who's responsible for what part. So I think that was incredibly beneficial.

Given the BEAR's focus on individual accountability, some respondents reported that responsibilities are now clearer (41% APs; 17% Others) and joint responsibilities have reduced (41% APs; 30% Others) since the BEAR was introduced. There was unanimous agreement that clarity of accountability is the primary consequence of BEAR, and that is a good thing. Greater clarity regarding accountabilities is particularly important in large organisations and those that have adopted agile working practices. Accountability can also be unclear or problematic in organisations with matrix structures, or where the three lines model has been adopted.

The BEAR has also contributed to a more concrete understanding of what accountability is, and the difference between accountability and responsibility. While a few participants indicated that some executives continue to question how they can be held accountable for things over which they do not have complete control,[9] there was general agreement that executives are now clearer on how to delegate responsibility while maintaining accountability. The following quotes typify these sentiments:

> AP17This is something that most executives don't get. But even when you … You can still be accountable if you're reliant on another party to do what they need to do, which is within their accountability statement. And the way you discharge that is by overseeing and monitoring and making sure they're doing it. And it could still fail but it will shoot home to them, not you because you did appropriate oversight monitoring to make sure it happened.

> AP13I think we all have to delegate. We cannot delegate accountability but we certainly delegate the responsibilities for doing these things and we have to be reliant on the people and the structures beneath us to do that.

To explore possible differences in the scores of APs versus Others, we use a one-sided t-test for differences in means as shown in Table 3. As expected, APs reported statistically significant higher rates of felt accountability (AP mean felt accountability score of 5.50/7 (SD: 0.68) vs. Others 5.07 (0.88)), suggesting that they experience or perceive a greater degree of scrutiny. Without pre-BEAR data, it is difficult to know whether such a statistical difference would have existed without the introduction of the BEAR. If there had been no significant difference in the felt accountability of APs versus non-APs, it would, however, have raised questions about the value of the BEAR.

We did not find significant differences for any of the other measures (personality, political skill and self-consciousness). This is perhaps explained by the fact that individuals who are

[9]See Zellars et al. (2011) for a discussion of accountability for the behaviour of others.

TABLE 3 Characteristics of accountable persons versus others.

Measures	Accountable persons Mean (standard deviation) $N = 17$[a]	Others Mean (standard deviation) $N = 23$	One-sided t-test p-Value
Felt Accountability (7-point scale)	5.50 (0.68)	5.07 (0.88)	**0.046**
Work Stress (7-point scale)	3.87 (1.64)	3.97 (0.85)	0.407
Political Skill (5-point scale)	4.03 (0.38)	3.92 (0.43)	0.201
Self-consciousness (5-point scale)	2.82 (0.65)	2.63 (0.53)	0.175
Personality: Openness (7-point scale)	5.44 (0.77)	5.28 (0.91)	0.278
Personality: Conscientiousness (7-point scale)	6.15 (0.66)	5.93 (1.15)	0.233
Personality: Extraversion (7-point scale)	4.79 (1.05)	4.41 (1.42)	0.167
Personality: Agreeableness (7-point scale)	4.88 (1.10)	5.17 (0.92)	0.191
Personality: Emotional Stability (7-point scale)	5.85 (0.58)	5.72 (0.96)	0.292

Note: All measures detailed in Section 4.3. We conduct a one-sided t-test for differences in means. Bold text indicates significance at 95% confidence.

[a]Throughout Table 3 there are 17 responses from accountable persons, with the exception of Self-consciousness and Agreeableness where we have 16 responses.

reports of APs are often themselves potential future candidates for AP roles. It is not too surprising, therefore, that they have similar characteristics. Interestingly, accountable persons in our study do not experience significantly higher levels of workplace stress than their peers. This might be explained by the fact that executives with temperamental aptitude and managerial capability are attracted to or recruited for such roles (Hochwarter et al., 2007).

A noticeable insight from the survey findings was that all participants, whether accountable or not, experience a high degree of felt accountability relative to previously published studies. Hochwarter et al. (2007) report a mean of 4.63 (converted for 7-pt scale) for 220 employees of a financial management firm in US; Hochwarter et al. (2005) report means of 4.99 ($N = 198$ across blue- and white-collar workers) and 2.75 ($N = 118$, white-collar hospital employees + other external constituents).

5.2 | Changing risk management practices and culture

Section 5.1 provided evidence that accountabilities were clarified and also that APs report relatively high levels of felt accountability following the introduction of BEAR. What are the implications of this for risk management practices and culture? To investigate this, we posed survey questions concerning both individual and organisational practices in the survey. We then probed these responses in the interviews to obtain a more detailed understanding of the contributing factors. We present the survey responses and analysis and triangulate this with the interview data below. Our findings are organised around the four-factor risk culture model of Sheedy et al. (2017): Proactive, Avoidance, Manager and Valued.

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5.2.1 | Proactive

Based on prior literature discussed in Section 3.1, an expected benefit of accountability is greater care and diligence in carrying out management responsibilities. This aligns neatly with the Proactive dimension of risk culture as managers would take steps to build resilience in an anticipatory fashion, rather than reacting to problems after the event. A diligent approach involves proactive behaviours such as identifying, analysing and discussing risks that might prevent targets from being achieved. From this would flow decisions to retain, mitigate, transfer or increase risk. In practice this could lead to changes to operations or launching new projects, ensuring they are adequately resourced, and monitoring their progress through to timely completion.

At first glance, the responses to question 2 of the survey (see Table 2) are discouraging. The majority (58.8% of APs and 65.2% of Others) say that their own behaviour has not changed. By contrast, in answering question 4 regarding work practices, many of the respondents (69.6% of APs and 56.5% of Others) admitted to changes in their work practices. Interviews provided an opportunity to explore this discrepancy.

Work practices such as note-taking and evidence gathering to support 'reasonable steps' may be seen as self-serving and wasteful of scarce managerial resources. Prior to the introduction of the BEAR, many concerns were raised about the possibility that executives might spend too much time documenting things and covering themselves against possible future scrutiny. We came across a few interviewees who had observed this problem, but the majority had not. More participants felt that the additional documentation had not been overdone but rather helped the decision-making process, causing executives to be more self-reflective.

> AP19We probably all focus much more on file notes and recording keeping and minutes and these sorts of things, and of course, that's good to an extent, but I think that's probably slightly over indexed, as well. It's a bit harder to get the job done. Of course, I've been around now long enough to have been involved in a few of these sort of reviews that get run, and I know how it plays out for people. Well, on the 19th of February, two years ago, you were CC'd on this email. What did you do with it? It's an absurd question. That's not quite fear. That's actually just makes the demands of the job more onerous. Particularly in a world of instant gratification and emails.

> O22Clearly the higher level of personal exposure by people, and the construct of reasonable steps translate to 'I must maintain materially more documentation of everything that I do'. So you do get a greater degree of … a bias to evidencing decision making and getting people to write things down and have references to BEAR and BEAR accountability and documents and agendas for meetings and actions emerging from meetings and so on. There is a bit of a mini-industry of evidencing activity… I do think some of it is wasteful.

The interviews brought out an alternative perspective of the BEAR, consistent with the Proactive theme, that the regime has had an empowering effect. Clarity of accountability has given the relevant executives permission to make decisions and initiate new projects that contribute to resilience. Decision-making has become easier for APs under BEAR because it is more obvious who the decision-maker is.

> AP14Well I think it's just having someone who is solely responsible for anything, and it needs doing, then they make the decision themselves and get on with it. It has not got to get 10 people on board to, or people are pointing at one another to go and fix it. It makes for that clarity of and immediateness of making decisions.

> AP19To the extent that the clarity comes with better transparency around your individual ability to drive a decision and an outcome, that's got to be a good thing. Because it empowers you. If it's opaque, or diffused, then what it can mean is that too many people who really should not feel empowered to participate in a particular decision will want to participate in a decision. Not as an opinion or an offerer or as an advisor, but someone who really wants to scrape into the process. Having a bit of clarity around that I think can be very, very helpful.

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Once projects are initiated, proactive behaviour involves active delegation to ensure that projects are proceeding to completion. APs must ensure that delegated tasks related to their accountabilities are being actioned effectively. Some of our interviewees reported a more rigorous approach to delegation, reflecting the understanding that tasks can be delegated but accountability cannot. Executives now monitor progress on delegated tasks more carefully; there is more questioning and coaching of subordinates. They dig into the detail to make sure they understand how operations work, whereas previously they would have taken more of the helicopter view. More care is taken to prioritise initiatives and resource them appropriately, to ensure that accountabilities are met. In other words, executives are more likely to demonstrate a proactive approach to management. In the words of APs:

AP10When you think like you are in control of a certain type of risk, you want to go and double check it a lot more times, when you personally are accountable for it.

O17[referring to previous role as AP] And I think the area where I've felt that was the greatest change, was around chain direction, and so the delegation of decision making on team activities, where I put more focus than I otherwise would have.

We confirmed this heightened diligence relating to delegation with numerous executives reporting to APs.

O12Every BEAR accountable person has their accountability statements, which in the case of my boss is a gigantic spreadsheet with hundreds of things in it. He's cleverly assigned all of us against all of these actions, these hundreds of things. So, that's how we are involved in the day-to-day running of it, is that we have to provide the evidence basically to give him comfort that he is complying with this accountability statement.

O14What I've noticed and I feel is good is that clarity on what are your particular responsibilities and how those are cascaded to your direct reports, right, or delegated if you have had the right expression … And now I can see which of those are direct to [our] division. What do I need to ensure that we are covering in terms of both our mandate resourcing, et cetera, to ensure that we can discharge those delegated responsibilities and give (CRO) comfort that we are doing those things?

The diligence relates not just to delegation but also to proactively getting to better quality decisions based on all available information and a thorough understanding of operations. This direct report to an AP observed the following:

O22Well I think the very fact that people are more self-conscious about, and explicitly discuss whose decision this is and who is accountable for an outcome or for a decision as itself has strengthened the quality of decision making and all that whole diligence [inaudible] that's definitely the case… And I think also that by writing down clearly what each executive is accountable for in every regard for the fact that many executives have not actually worked their way up through the operations underneath them to get to where they are, they often come from consulting, from other background work … There's been an effort, a pretty visible effort on the part of some of the executives, to understand better how things work.

This quote, also from a direct report, speaks to the fact that diligence is flowing down and is not just reflected in AP behaviour.

O5I'm talking about … the importance of making sure that the decisions we make are appropriately justified and we have considered all available information to us and I've sought the advice of the right people and I've documented that as well.

Another example of proactive management relates to the better functioning of committees since the introduction of BEAR. Some executives had observed more robust discussion at meetings, that is, less groupthink. One had observed people coming to meetings better prepared. Under the BEAR, there is a greater awareness that individuals, and not committees, are accountable. The chair of the committee may seek input from committee members, but ultimately the chair is held accountable. According to some direct reports, this understanding has changed committee dynamics for the better.

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O11Even if they are not using BEAR explicitly, you might now start to hear people mention a phrase like 'reasonable steps'. You'll certainly hear people stopping the conversation to ask about decision rights and accountability. And you'll certainly get more people concerned to think about what the governance mechanisms are around some of the decisions that they are taking.

O22The focusing of the mind, driven by the clarity of accountability, the knowledge that for posterity, you need to have been able to have demonstrated the reasons with which you approach the decision, and yes, some documentation of it. A clarification that in the end it does not really matter what everyone else says in the committee, it's what you decide that matters, I think in aggregate, has certainly sharpened it to a degree that has diminished to some degree group think.

5.2.2 | Avoidance

Proactive risk behaviours have to do with anticipating risk and making quality decisions to ensure that the organisation's goals are realised. By contrast, Avoidance refers to the way in which people respond to reported problems and critical incidents. When red flags are raised but not taken seriously, employees form the perception that leaders do not want to hear bad news. Lack of action after critical incidents is interpreted as a sign that risk management is not a genuine priority; that espousals of commitment to risk management are mere window-dressing for regulators.

When 'top performers' are excused for misconduct or poor risk outcomes, this is another sign of Avoidance risk culture. When misconduct and poor risk outcomes are swept under the carpet, it demonstrates that some other performance criterion, such as short-term sales or profits, is the real priority. The BEAR addresses this issue directly in the case of APs as variable remuneration is deferred and can be withheld if poor outcomes emerge. Our survey results (Table 2, question 10) suggest that in some organisations the BEAR has led to an increased focus on performance and consequence management more broadly.

Interviewer:What would be the chances of people getting away with something at [organisation] these days? Someone who was perhaps a top sales performer, but their compliance was a bit dodgy.

O22Close to zero. Close to zero. [Consequence management] is extremely robust and very industrialised. It has extensive scrutiny through multiple eyes. Different functions including risk are heavily involved in that process as well. It's far more edgy than it was even a couple of years ago, and it's exceptionally unlikely that anybody is going to get away with any materially inappropriate behaviour or risk management practice.

The finding that BEAR is contributing to sharper consequence management in some organisations is a sign that past Avoidance is being alleviated. In other words, the priority of risk management relative to other organisational goals has become clearer.

One of the most insidious problems in risk management is the tendency for issues to be raised but not resolved; or addressed in a half-hearted fashion with lengthy delays. When issues are ignored, or dealt with badly, people will then stop reporting them, believing it to be a waste of time. The BEAR was seen by some APs as a mechanism to focus executive attention and get faster resolution of issues.

AP14There's no ducking and weaving, 'Oh I'm not responsible for that part, that's somebody else.' It's very clearly, that's who you go to to get something fixed. So it makes it much more straightforward.

AP18It's improved accountability and given a frame of reference for those 'Oh' conversations.

This view was confirmed by those in a position to observe APs.

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O5Particularly at the more senior levels, I think they are a lot more conscious of what their responsibilities are … I think they are a lot more willing to talk about what's wrong as well as how to actually go about fixing it. 'Where do we need to improve?'

O11The accountability regime gives a framework and some muscle to deliver a better responsibility review after a crisis. It creates a language and it creates templates and a frame and some structure.

Clear accountabilities make it easier for those in oversight functions to perform their roles. In the past, directors have often found it difficult to impose consequences on underperforming executives due to claims of ignorance or group decision-making. Under the BEAR, this is no longer the case because executives cannot delegate accountability and they are held individually accountable. Illustrating this point, one of the Chief Audit Executives opined that the BEAR has made life easier, because there is greater clarity about who 'owns' issues to be resolved.

AP17I mean, with accountability I think comes ownership as well. And I see it through the audit lens. And I use it in my auditing to the extent that when we are auditing areas, I get the team to pull out that accountability statement for the relevant executive, and then to look through that. And then when we have findings we … use it in the conversations around why it's important and if all else fails, appeal to self-interest. In the past I'd escalate to the CEO and say 'it's yours until you tell me whose it should be.' And then they tell me someone, I go 'oh okay, he says you, it's you.' But that exercise has been done for me through these accountability statements.

5.2.3 | Valued and Manager

This sub-section combines discussion of two distinct but closely related dimensions. As leaders display more Proactive behaviour and less Avoidance behaviour, this sends a strong signal to employees about what the organisation truly *values*. Whereas employees may be cynical about espousals of commitment to risk management in the annual report, they look to the behaviour of leaders and managers to demonstrate the true priorities of the organisation. Employees are likely to notice change in the behaviour of their managers, and mimic it, causing the behavioural norms relating to risk management, i.e. risk culture, to shift. This highlights the importance of the *Manager* dimension for propagating a sound risk culture.

An example of this is the fact that APs are now consulting more closely with risk and compliance functions. This helps to raise the status of those functions throughout the organisation and makes it more likely that employees will treat those functions with respect.

The BEAR has also assisted by giving lines 2/3 a stronger voice and more resources. In the survey, 64.7% of APs and 63.6% of Others agreed that risk/legal/compliance functions now have a greater involvement in decision-making. In part, this is due to the fact that APs now consult more with the support functions as part of demonstrating reasonable steps.

AP19The legal function here always had a very strong voice and participated in almost all decision making … If the answer is does risk now participate more in decision making, then yes, absolutely.

The BEAR provides Chief Risk Officers and Chief Audit Executives with a very clear frame of reference that no one can argue with. It is important to note that the increased resourcing of lines 2/3 is not just down to the BEAR, but a combination of the regime with the events of the last 3 years (see Section 2.1).

O16BEAR has probably increased the focus on risk governance … it's actually really heightened the focus on resourcing and making sure we do have adequate resources to do the work we need to do … the requests for resources are listened to far more closely now and I do get the sense that the last thing one of the senior executives wants to have placed at their door is if someone asks for resources to address risk and they were told no.

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Not only are lines 2/3 getting more influence and resource, but line 1 is investing more in its own risk management systems. This is further evidence that the three lines model is becoming more effective as line 1 accepts its primacy for risk management.

O5We're seeing a lot of investment in first line assurance and governance teams.

Both the survey and interview data indicated that risk culture has benefitted from the implementation of the BEAR. When asked whether the BEAR had changed the culture at their organisations, the majority indicated it had changed for the better under the BEAR (82.4% of APs; 52.2% of Others). Many respondents saw a close connection between accountability and risk culture.

AP11You will ask questions around management's risk culture, and that's probably a surrogate for accountability culture as well. They're all, you know, hitting the same sort of spot.

Another reason for expecting that BEAR will enhance risk culture is that in some cases APs have been given specific accountability for it. Two APs from different participant organisations noted that this has contributed to much more discussion of culture and its measurement in the post-BEAR world.

AP2We have a [culture] team within internal audit who does culture assessment reviews … we have a culture assessment group, which is chaired by the CEO and we get together every half year, looking at leading and lagging metrics around culture and around risk culture. We have a consequential review group now, in each division and meets at the group level to [go] through all the issues through the lens of BEAR … All the accountable persons are responsible for the culture within our area of accountability so we all want to understand how best to measure, manage and then discharge that responsibility. So whether it's all due to BEAR, the discussion of that culture and risk culture is massively heightened.

While many participants perceived that organisational culture had improved since the introduction of the BEAR, it is worth commenting on the fact that 11.8% of APs and 21.7% of Others felt that the culture had deteriorated. This was something we explored during interviews. Some were concerned about the administrative burden of BEAR and the costs involved. A small number of participants were concerned about fear creeping into the culture as a consequence of BEAR and other recent changes. This was linked back to the fact that consequences are now much sharper for poor outcomes (see Section 5.2.2). The danger is that employees might be unwilling to speak up about issues, or to have issues identified in their business unit (e.g. audit issues).

AP19I do not think you have to necessarily be captured by the BEAR regime to be fearful of scrutiny. This is where the human dimension comes out of it … you have your skills, your attributes, your behavioural norms, but whatever you have at a personal level is also either promoted or constrained by organisational factors. Ultimately of course, organisations can screw up, but when the accountability reviews are done, they are of individuals … when an organisation feels the need to conduct the sort of depth and rigour of a review as triggered by the senior manager's regime, or BEAR, or what have you, the starting point is not the organisation's done collectively, got a very bad outcome. What contextual reflections do we need to bring to bear to the review? It's more what individual did a bad thing? Individuals feel exposed because of course, individuals act … Typically individuals act in congruence with behavioural norms of the organisation. But they are then judged in isolation of the organisation. That's the disconnect.

The issue of fear was also linked to management capability. In one case the direct report of an AP observed that their manager was making unreasonable demands on the team following the introduction of the BEAR. They attributed this to heightened stress levels for the AP which was being taken out on the team. This reflection suggests that the BEAR is unlikely to achieve its

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objectives if APs lack the temperamental aptitude or the technical or management capability for their demanding roles. In the memorable words of one AP:

AP17Accountability without capability is entrapment.

5.3 | Limitations and opportunities for further research

The purpose of this study was to obtain in-depth insights into the impact of the introduction of the BEAR for Australian ADIs. The use of a mixed methods approach for this study allows us to triangulate results from the survey and interviews, thereby increasing the reliability of the reported findings. Nevertheless, there are a number of limitations to consider in interpreting and generalising the findings of this study.

First, we draw attention to the Australian context of this study and its timing. Regulatory intervention might not be as effective if it were applied in other contexts. Consideration should also be given to differences in national culture and in the design and administration of accountability regimes across jurisdictions. While we recommend that caution should be exercised in generalising the results of the study, we note that the positive effect of an individual accountability regime is consistent with that reported under the SMCR in the UK context (PRA, 2020; UK Finance and Ashurst, 2019) and with theory.

Second, we note the potential for social desirability bias in the responses obtained in the survey and interviews. Assurances of anonymity were provided to participants in the survey and interviews to mitigate this. Where possible, efforts were also made to triangulate responses of participants from the same organisation as well as with publicly available information to assess their validity. The high level of consistency in this regard and the candour with which participants spoke during the interviews increase our confidence in the reliability of the data obtained for this study.

Self-selection bias may also be present in the study's sample of participants. This is exacerbated by the use of snowball sampling to build the participant pool. Finally, we acknowledge that the study is predominantly limited to the perceptions of individuals in risk, compliance and internal audit. It would be useful for future research to examine other perspectives, including of those line 1 APs and those who report to them, as well as of regulators. Alternative research methods such as case studies may also serve to provide complementary insights on the implementation of accountability regimes and their impacts.

6 | DISCUSSION AND CONCLUSION

The objective of this paper is to empirically investigate whether, consistent with theory, enhanced executive accountability can benefit risk management practices and risk culture. This is a question of vital importance given the disastrous outcomes experienced by firms with catastrophic consequences for shareholders, customers and society broadly. This is done through an examination of the introduction of accountability regulations within the Australian banking industry. The study draws on insights obtained from interviews and pre-interview surveys with 41 individuals across 15 institutions.

The findings represent a significant contribution to the academic literature. Previous academic research has hinted at the benefits of accountability for risk management as accountability attenuates a number of biases associated with poor risk management. This is achieved by invoking more careful and diligent system 2 behaviour. These studies have typically been conducted in the laboratory. Ours is the first academic study to provide similar findings in a field setting, focusing on risk management practices and risk culture.

We show that the regime has produced greater clarity for executives regarding their individual accountabilities and greater understanding of what accountability entails. We also observe

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significantly higher levels of felt accountability in registered accountable persons than in the others we surveyed, consistent with the intention of the regime. Interviews reveal that accountable persons prepare for future evaluation by more diligently managing risk in their area of responsibility.

The findings are consistent with three recent practitioner studies across two countries, and together the four evaluations provide some confidence that results may generalise to other contexts. Our study brings academic rigour to the evaluation methodology and, unlike the practitioner studies, also highlights the consistency of findings with theory. These are important elements of the current study because they give further comfort that the observed phenomena are real and likely to be sustained.

Theory predicts that accountability helps to overcome biases associated with the more reactive, lazy and less rigorous system 1 style. To avoid possible shame and financial sanctions, executives adopt a more rigorous and careful system 2 style. We evaluate the change in management practices using the four-factor risk culture framework of Sheedy et al. (2017): Proactive, Avoidance, Manager and Valued. The interviews and pre-interview survey produce evidence of more *proactive* management and less *avoidance* behaviour. Examples of this include consulting more widely, gathering more information, questioning and coaching subordinates, monitoring the progress of important projects and ensuring they are adequately resourced, taking steps to understand operations more thoroughly, improved consequence management and more effective response to emerging risks and red flags.

More proactive engagement in risk management induced by accountability is important for the three lines model. Much of the concern about the three lines model has related to blurred lines of responsibility and failure of line 1. BEAR speaks directly to these problems, making line 1 accountability more salient. In addition, as line 1 executives have consulted more widely, the line 2 risk and compliance functions have had a greater voice in decision making.

Accountability has an empowering effect, so decisions get made and problems get resolved. To avoid poor outcomes in their sphere of accountability, senior executives exert greater care and diligence in risk management. As senior executives model such behaviour, they demonstrate its value to the organisation far more powerfully than words on the company website. As employees observe proactive risk management behaviour from their leaders and managers, risk management practices flourish. As behaviours are repeated, they become normalised – 'the way we do things around here'. Not surprisingly, a majority of our survey respondents reported that the culture in their organisation had improved. The interview phase helped to illuminate this phenomenon, consistent with prior risk culture research that emphasises the important role played by leaders and managers.

Our participants reported that administrative burden is the biggest drawback of the BEAR. We failed to find any pervasive evidence that the BEAR is creating undue workplace stress for APs. This could be explained by the fact that people with (a) managerial capability and (b) temperamental aptitude are attracted to or recruited for such roles. We present some evidence to support this, but given the small sample of our study, we recommend this as an issue for future researchers.

The study has practical implications for many industries, not just financial services, where risk management plays an important role. It suggests that measures to enhance clear individual accountability in the senior executive are beneficial for risk management and should be embraced. Regulators in other jurisdictions and industries may consider adopting BEAR-like regulations to promote better risk management. We urge the Australian government to legislate the FAR as promised, extending the benefits of executive accountability to a wider group of financial institutions.

However, leaders of organisations in non-regulated industries need not wait for regulation if they wish to enhance risk management. They may choose unilaterally to adopt the principles of BEAR in order to instil a more effective risk culture. This would require boards of directors to impose genuine accountability on the executive to a degree that is often lacking in modern corpo-

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rate governance. To do this, directors could assign accountability for specific facets of operations to individual executives and make this assignment transparent to relevant stakeholders. Following the BEAR model, they could impose rewards and sanctions based on individual accountability through careful design of the reward system. Crucially, this would involve a system of deferrals combined with appropriate malus and clawback clauses to ensure that performance is evaluated over a sufficiently long period. In cases of particularly poor performance, directors could impose the ultimate sanction on executives – dismissal without entitlements. We urge boards of directors to take up this challenge.

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are not available. Under the ethics approval, we guaranteed participants anonymity except as required by law.

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APPENDIX 1: EXHIBIT A: INTERVIEW PROTOCOL

Pre-interview: Gather as much publicly available information as possible regarding the risk governance of the organisation (annual report, etc.).

1. Today we are going to be talking about the accountability regime. Can you tell us about the implementation process in your organisation?
   - When did it start? How far are you through it?
   - Who has been involved?
   - What external support have you received and was that useful?
   - Was the implementation a useful process?
   - What changed in terms of reporting lines, org charts, position descriptions, risk appetite?

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- Any challenges with implementing the BEAR?

2. Is BEAR fully embedded now? What else remains to further embed it? To what extent have you observed substantive change following the implementation of the BEAR?
   - Why or why not?
   - Is the regime making you, and other people around you, feel more accountable than you/they did before?
3. Is accountability at senior levels spilling over into more accountability lower down? What do you see as the favourable effects of the BEAR?
   - Is greater role clarity helping you/others manage risk better?
   - Has accountability brought more investment in risk-related resources or systems? Training/education programs?
   - Has accountability enhanced the risk culture? Explain.
   - Are senior leaders more responsive to 'bad news'?
   - Has reporting of risk changed?
   - Are executives/managers more likely to act on the reports they receive?
   - Is there any change in the approach to non-financial risks?
   - Are people in lines 2/3 working harder/smarter? Providing more challenge/issues? Explain.
4. Are people in line 1 taking more of a genuine interest in risk management? Explain. What do you see as the unfavourable effects of the BEAR?
   - Has the regime led to excessive workplace stress?
   - Have good staff left as a result of the accountability regime?
   - Have you seen any evidence of loss of collegiality/cooperation due to the regime?
   - Are you concerned about wasted resources or gaming behaviour as executives try to shore up their position?
5. Are executives/staff demanding higher remuneration to compensate for the greater accountability?To the extent that accountability is having significant effects, why do you think this is occurring? Are the regulators (APRA) now more effective? Are the accountable persons focused on getting their full bonus? Avoiding reputational damage? Avoiding significant fines? Avoiding going to gaol?
6. Overall, do you think the regime has been positive or negative for your organisation?

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