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management ethics

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ethicscentre.ca
Canadian Centre for Ethics & Corporate Policy

Report of the Chair

BY HENTIE DIRKER

Dear members,

It is with great pleasure that I am writing this report as the newly appointed chair for the centre. It is going to be an exciting year and I would hereby like to give you a glimpse of what has already happened and what we are planning over the next months to come. The Ethics Centre is a registered charity and not-for-profit organization governed by volunteers and supported by organizations and individuals who share a commitment to ethical values. We will be celebrating our 25 year anniversary in the coming year and are starting to plan activities accordingly.

We are a uniquely Canadian, independent ethics centre. We are dedicated to promoting and maintaining an ethical orientation and culture in Canadian organizations. Our mission is to champion the application of ethical values in the decision-making process of business and other organizations. We operate in a non-judgmental and inclusive way to explore and promote the positive role of ethical decision making. We serve as a forum and catalyst for constructive discussion and debate.

One of the core tasks for this year will be to re-focus on our core strengths and align our activities in such a way that we are true to our purpose as described above and fulfill the expectations of our members. At our recent board meeting we had lively discussions on how to ensure that we achieve this and over the next few months various new initiatives and themes will be explored by the various committees and tabled to the board for consideration.

We were fortunate to receive a $5,000 donation from Lenczner Slaght in honor of one of our board members — Simon Fish — being recognized as Canadian General Counsel of the year. This will fund a new Case Competition. See the picture and more details on page 8.

In line with our dedication to promoting and maintaining ethical orientation and culture in Canadian organizations, we have hosted a number of successful events since our last newsletter. We held two breakfast events that covered issues such as Ethics and Social Media by Julia Satov as well as a very insightful presentation by Brenda Swick on gift and hospitality compliance. Our breakfast sessions are typically more intimate and aim at engaging the attendees in discussion and promoting best practice sharing.

In May, we held a luncheon event which coincided with our annual general meeting and were very fortunate to have retired Justice of the Supreme Court of Canada Ian Binnie as our guest speaker. His reflections on human rights and corporate behaviour were excellent and well received. So much so, that as a call to action, Ryerson University in partnership with the Ethics Centre is planning a 2-day conference in May 2014 with a theme: Where to From Here: A Canadian Strategy for the UN Guiding Principles on Business and Human Rights.

At the end of September at a luncheon event sponsored by Siemens Canada Ltd, we had the opportunity to listen to Richard Ross, former CEO and chair of Inmet Mining on his thoughts in terms of a business case for sustainability in the global mining sector.

In line with extending our reach as an organization, we partnered with Transparency International Canada for a breakfast event on October 2. Frank Vogl, co-founder of Transparency International presented a talk around his new book — Waging War on Corruption.

We have a number of very interesting events planned around the very topical issue at the moment of outsourcing and the dangers thereof. Events will include hearing from Loblaw's in terms of their response to the Bangladesh tragedy as well as from a consulting perspective on auditing offshore outsourcing. Clearview Strategic Partners will also present their findings from a Canadian workplace ethics survey that they conducted in 2013.

We are looking forward to a very thought provoking 2014 for the Ethics Centre.

HENTIE DIRKER, CHAIR

Why “Tone at the Top” can be Off-Key

SOME PSYCHOLOGY BEHIND EFFECTIVE COMPLIANCE PROGRAMS

Rapidly increasing enforcement of bribery laws worldwide has, in the past ten years, led most major corporations in Canada and the U.S. to try to create robust anti-corruption compliance programs. A generally accepted fundamental pillar of good compliance programs is that the organization must have the correct “tone at the top”. This means that senior management has intellectually adopted an anti-corruption mentality.

Unfortunately, while senior management may espouse anti-corruption principles, often they do not achieve the requisite level of understanding and fail to accurately assess the risk to themselves as individuals and to their organization, if the compliance program fails. Without an accurate cognition of the risk by senior management, a compliance program will not receive the attention and funding necessary to ensure it will be effective.

This paper will explore some of the reasons, beyond the obvious ones of greed and stupidity, as to why failure occurs. It will identify barriers to change and will offer some suggestions for improving the likelihood of creating a truly effective program.

Corruption has been part of human interaction since at least the time of earliest writings. It exists whenever there is an inequality of power and flourishes when transparency is lacking. Although domestic anti-corruption laws have existed in most western countries for well over a century, corruption in international business was an accepted legal activity in most western countries until relatively recently. The U.S. banned foreign bribery in 1977, but for other countries, it took much longer. In Canada, for example, it was legal to deduct international bribes for tax purposes until 1990 , and it was not until 1999 that it became illegal for Canadian companies to pay bribes to foreign officials. Even then, it took twelve years thereafter for there to be a single significant foreign bribery conviction in Canada. In 2013, with a number of high-profile pending Canadian cases in the news, most large and medium-sized companies are finally acknowledging the risk and creating compliance programs to ensure lawful behaviour.

A long period of time when international bribery was part of accepted corporate culture has been followed by only a relatively short period during which the legal vista evolved. While some say that corporate culture is an important thing, savvy governance specialists agree that culture is "the only thing". Corporate culture is obliged to evolve with this change in legal obligations, and culture begins with "tone at the top".

But, how is this change effected? First, senior management has to recognize that change is required. Unfortunately, it is the rare organization that can change a primary element of its culture while retaining the same leaders. While leaders of international corporations now recognize that it is no longer socially acceptable to talk about their corrupt business practices, in markets where "everyone else is doing it", it is more difficult for a leader to be completely convinced that corruption in any form is unacceptable. For many, corruption is seen as a necessary tool for competitiveness.

There are a number of reasons why change is so difficult. These include the "foxhole dilemma", the fallacy of omniscience and the impact of a variety of biases, and the fallacy of omnipotence .

The "foxhole dilemma" suggests that leaders are often surrounded by sycophants, people who owe their livelihood to keeping the leader happy. As a result, leaders form an inaccurate view of a combination of facts and risk assessments because no one will tell them straight when they are off-base. By nature, it is very difficult for a sycophant to tell the leader "You are being a damned fool". Sometimes, however, that kind of tough talk is necessary to keep the leader out of jail! Unfortunately, not all leaders are willing to accept the counsel of a subordinate who is prepared to tell it straight, and it is the rare subordinate who will be prepared to risk future prospects on all-out honesty.

The best cure for the "foxhole dilemma" is to have independent advisors regularly challenge the leader's hypotheses and risk assessments. In large organizations, this can be accomplished by a strong board of directors. The audit committee of the board can engage outside advisors to critique risk assessment in the organization. In smaller organizations, this role is left to outside professional advisors, but it is the rare independent advisor whose relationship with the leader is strong enough to enable them to speak freely.

Sometimes, even where there is a person courageous enough to challenge the leader, the leader will still follow the wrong path, falling under the "fallacy of omniscience", believing that they know everything, and that everything is just fine. These leaders believe that their success is in part based on their superior intelligence, deep knowledge and critical assessment of all facts. This fallacy is fed by a number of thinking errors — "bias blindspots" — that affect how people process and recognize risk. Among others, these biases include outcome bias, anchoring bias, framing bias, and my-side bias . Leaders who fall under the spell of omniscience believe that they are able to overcome their biases better than can others, to make honest, unaffected decisions about risk. However, studies have shown that intelligence does not affect the persistence of many of these biases. In fact, the size of the bias blindspot increases with higher cognitive activity. One of the primary biases which demonstrates this phenomenon is the my-side bias.

"SOMETIMES, EVEN WHERE THERE IS A PERSON COURAGEOUS ENOUGH TO CHALLENGE THE LEADER, THE LEADER WILL STILL FOLLOW THE WRONG PATH, FALLING UNDER THE "FALLACY OF OMNISCIENCE", BELIEVING THAT THEY KNOW EVERYTHING, AND THAT EVERYTHING IS JUST FINE."

To test the my-side bias, U.S. test subjects were told that a German car was unsafe at certain speeds. They were asked if the car should thus be banned for sale in the U.S. A separate group of similar test subjects were told the same facts, with the exception that for them, the car was made in the U.S. and they were asked if the German government should ban its sale in Germany. While the results should have been the same, surprisingly, they were different, and, the results did not change if the test subjects had low or high intelligence (based on their SAT scores). Different studies have shown that education level does not affect other biases, so it seems that higher education may not prevent the fallacy of omniscience.

Combating the omniscience fallacy at the highest levels of an organization is a significant challenge for anyone trying to ensure that the "tone at the top" is fully in tune with the requirements of a robust compliance program. To get into tune, one must effectively inform the leader and successfully challenge the leader's pre-conceived assessment of the risk. The best technique involves inter-peer communication. Leaders need to realize from other leaders that the days of doing business in a corrupt manner are over. The challenge for the compliance professional is to create that inter-peer network.

The old corporate culture of tacit acceptance of corruption has similar parallels to the campaign against drinking and driving. Thirty years ago, although the penalties for doing so were similar, it was not considered a social faux-pas in Canada to drink and drive. Today, through public education and peer pressure, drunk driving is no longer culturally acceptable behaviour, either in business or social circles.

Sometimes, even when the leader is supported by courageous followers, and even when the leader recognizes the risks inherent in their own personal biases, leaders still succumb to the "fallacy of omnipotence" — they understand the risk, but believe that they are immune from it.

Examples of the fallacy of omnipotence can be found in many of the international corruption cases in both Canada and the U.S. In these cases, the leaders chose a path where the risk was unclear and where the consequences associated with potential penalties (jail, fines, public humiliation) were clearly unappreciated. Those leaders chose to believe that they would not suffer the consequence of their actions — either they would not be caught, or if they were caught, that their lawyers would be able to extricate them from the situation without severe penalty. This is a manifestation of either "optimism bias" or self-defeating trade-off.

In assessing the probability of an event occurring, studies have shown that leaders have a tendency to overestimate the likelihood of favourable future outcomes and to underestimate the likelihood of unfavourable future outcomes. This optimism bias can help explain why leaders may misjudge the likelihood of the risk occurring. When the risk does occur, research indicates that leaders also manifest "attribution biases", or tendencies to take credit for good outcomes and deny blame for bad ones.

"IT WAS NOT UNTIL 1999 THAT IT BECAME ILLEGAL FOR CANADIAN COMPANIES TO PAY BRIBES TO FOREIGN OFFICIALS"

The key feature of a self-defeating trade-off is short-term gains but long term costs. Many reasons have been identified as contributors to this counterproductive strategy. These include faulty knowledge, pressure for success, and excessive persistence, where the leader refuses to give up. Research shows a number of causes. For example, when under emotional distress, people shift toward favouring high-risk, high-payoff options, even if these are objectively poor choices. Similarly, people with large egos often get upset in response to a blow to their pride, and their rush to prove something great about themselves overrides their normal and rational decision-making process. Finally, leaders can suffer from "decision exhaustion", where the wear from making an excessive number of decisions causes subsequent decisions to be made poorly.

The most effective wake up call for those subject to the fallacy of omnipotence will be the successful prosecution of Canadian companies and individuals engaged in the practice of corruption. This work takes time. To date there have been only two major convictions: the Niko Resources case, where the company paid a fine less than the salary of the President of that company and no one went to jail; and the Griffiths Energy case, also involving a fine, but as yet no individual has been charged. Until respected Canadian businesspeople utilizing illegal business practices go to jail, it will be difficult to fully convince leaders of the risk that corruption brings to their organization, and to make them aware that corrupt practices will have an effect on them as individuals.

Finally, an interesting study may provide some useful insight into how to change the "tone at the top" through other means. In this study, two sets of test subjects were given an opportunity to self report the number of correct answers on a math quiz, for which they were compensated for each correct answer. Prior to taking the test, one group was first asked to list the names of 10 books they had read in high school, and the second group was asked to list the Ten Commandments. Interestingly, the second group consistently reported a lower number of correct answers, indicating that merely being reminded about their moral obligations may have been sufficient to cause them to report more honestly. Whose job is it to remind Canadian leaders of their moral obligation to counter corruption?

It takes a significant effort to ensure that the "tone at the top" is on-key. Corruption is a crime. To ensure that corruption does not take place, an organization's compliance program needs to be tuned at the top, by those who truly recognize the organizational risk of lingering cultural baggage that accepts corruption in any form.

JAMES M. KLOTZ, LL.B. is a partner at Miller Thomson LLP and Chair of its Anti-Corruption and International Governance Group. He is currently a member of the Independent Governance Committee of FIFA (Fédération Internationale de Football Association), a member of the Management Board of the International Bar Association, and a member of the Advisory Board, Allard Prize for International Integrity.

Giving Risk an Attitude

When routine compliance is not enough

How a grass-roots task force raised risk awareness and understanding at The Canadian Depository for Securities.

The Canadian Depository for Securities Limited (CDS) is not a household name, yet most Canadians have benefited from its services in the course of buying or selling securities, bonds or GICs.

CDS handles over 1.2 million settlement transactions daily for Canada's exchanges and investment dealers. CDS's role is to ensure that settlement between buyers and sellers of securities occurs efficiently and reliably. As Canada's securities depository, CDS safeguards over $4 trillion of securities for Canadian investors and ensures that dividends, interest and corporate actions transactions are handled flawlessly.

As a critical systemic component of Canada's financial infrastructure, CDS has in place a robust settlement services risk model that outlines the responsibilities of CDS as a central counterparty to trades as well as the responsibilities of its participants to protect the financial system from the risk of failed transactions or institutional defaults.

With these responsibilities, CDS has a very low risk tolerance for system failure and human error. Therefore it has a system of well-identified controls to mitigate risks and is recognized internationally for its effective risk management practices.

Yet, there is always room for improvement — so, in 2012 the focus of CDS's enterprise risk management (ERM) program shifted to the first line of defense at CDS, its employees.

RISK AWARENESS TASK FORCE

To raise the bar there needed to be a course of action that would be attention-grabbing and really drive home the message that an organization that prides itself on managing risk couldn't afford to rest on its laurels only to discover later that risks and risk mitigation were not really as well understood when it mattered most.

Starting with a 'tone from the top' message from the CEO and working tactically from the bottom up with a cross-functional team drawn from multiple departments and staff levels, CDS introduced a Risk Awareness Task Force with a clear mandate to develop a program that would: attract attention, resonate at a personal level, provide new ways of understanding risk and deliver sustainable programs that can live on after the task force finished its work. The task force reported directly to the CEO and reported regularly to the risk management and audit committee of the board of directors on its progress.

From CDS's perspective, the why/how/what was interpreted as:

Why — Mission/vision/values

How — Policies and procedures are how we manage risks

What — The clearing and settlement business must be reliable and efficient

The task force's call to action became the 'slogan' for the campaign: *Stop Think Ask Act.*

The risk awareness program became the top corporate priority for the remainder of the year. The desired outcomes were to achieve: individual awareness of risks and appropriate escalation; greater awareness of cross-functional dependencies and better decision-making when situations arise that bring risk to a business activity.

It was clear from the outset that training and performance management (PM) would be a large part of the awareness program. All employees needed to have the same level of understanding of their responsibilities as the first line of defense. To do that, a mandatory training program was needed.

The performance management component's objective was to create a reward system that clearly demanded accountability for identifying, monitoring, reporting and managing risk.

COMMUNICATIONS STRATEGY

The first step was to articulate the communication objectives for the task force and risk awareness program:

- Measurably raise staff awareness/understanding of risk — every employee should understand how their role brings risk to CDS, what those risks are and how those risks are mitigated
- Change behaviours that could put CDS at risk — when controls are not followed, or when individuals do not understand the reliances between one group's set of controls and their own controls — that contributes to a potential failure. Education about the rewards and consequences of behaviours that decrease or increase risk beyond CDS's appetite and tolerance would help this change take hold.
- Arm managers with tools and resources to effectively lead staff through this change — help them develop greater skill in talking about risk with staff.
- Break down knowledge barriers and make end-to-end processes/reliances more transparent — the functional structure of CDS does not help employees understand how one process affects another division's process. Additionally, information may be guarded within these functions, making it difficult to gain a holistic understanding of the business.

The objectives were a reflection of broader issues impacting employee engagement. Therefore, the concepts of sharing critical information and improving managers' ability to have open conversations with staff about mistakes and consequences became important sub-themes.

THE TACTICS

While the topic of risk is a serious one, the communications components were designed to be as conversational as possible to encourage the notion that risk is not a taboo topic, and needs to be more openly discussed. Throughout the program period there were supporting communications via email, posters and intranet.

Month 1 — Tone from the top (January)

- CEO address to senior management team
- CEO address via teleconference to all management levels. Senior management encouraged to hold staff meetings to discuss the previous day's messages from CEO and to use the video and other key message prompts from the CEO's sessions.
- CEO town hall (via conference call) to introduce the program to staff

Month 2 — Getting off the ground (February)

- Intranet mini-site launched
- Facilitated session for task force to prioritize and detail objectives and tactics
- Risk defender challenge announced at the kick-off breakfast. Designed as a weekly scavenger hunt contest (with prizes), the contest utilized existing information resources that related to risk management, which would be useful preparation for the training program to follow.

Month 3/4 — Keep it going (March/April)

- Feature story in the staff bi-monthly online newsletter
- Video of kick-off published to intranet
- Winners of risk defender challenge announced. Participation rates by division were communicated to executives. About one third of employees participated.
- Attitude survey "How's your attitude?" launched to obtain benchmark data. Regular updates to senior management on participation rates helped meet goal response rate of 70 per cent.
- Performance management program completed and rolled out to managers via an information session. Focus was on how to evaluate staff on risk awareness.

Month 5/6 — Readiness and roll out (May /June)

- Training modules piloted with task force members
- Podcast to managers on what to expect from the risk awareness training
- Intranet blog post shared the TED lecture that inspired the program
- Managers information session on the training program

Month 7 — Measurement, sustainability and evolution (July)

- Program deliverables completed
- Team participated in facilitated session to identify, scope and prioritize a second phase
- Recognition of the team and its efforts
- Message to staff via intranet regarding the program's success and plans for next phase (which was since postponed due to corporate merger)

- Follow-up attitude survey launched to assess if training had an impact.

The results

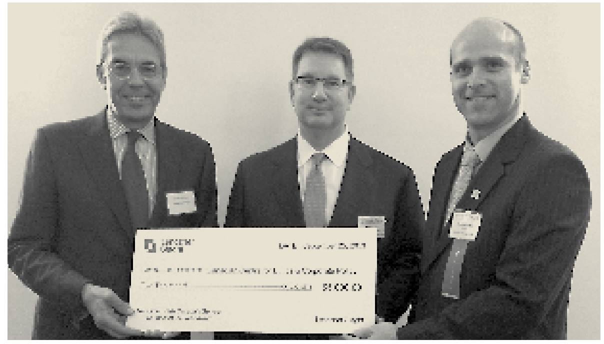
- Kick-off event deemed successful with high number of staff attending
- All employees successfully took the ‘Risk 101’ training
- Performance management plans included risk components and were evaluated in 2012 performance reviews
- Risk attitude survey met its objectives with over 70 per cent of employees responding to both surveys. Results objective was to have the percentage of responses above the mid-point (neutral attitude) increase. In the post-training survey, the benchmark scores rose by close to 20 per cent on average.

Some of the comments received were very telling in that they reiterated the need for more open discussion about risks with managers and supervisors as well as the need for better information sharing amongst departments. Honest and constructive criticisms of the program were offered as well. A third iteration of the survey is planned to gauge whether attitudes are holding well after the program ended.

JANET COMEAU is past Director of Communications for the Canadian Depository for Securities Limited.

ANNOUNCEMENT

Case Competition for the Simon Fish Ethics Case Award



FROM LEFT: Peter Griffin, Managing Partner of the law firm Lenczner Slaght Royce Smith Griffin LLP; Simon Fish, Executive Vice-President and General Counsel of BMO Financial Group and a member of the board of the Ethics Centre; and Hentie Dirker, Regional Compliance Officer, Siemens and chair of the board of the Ethics Centre.

The Canadian Centre for Ethics and Corporate Policy is pleased to announce a Case Competition to honour Mr. Simon Fish, Executive Vice-President and General Counsel, BMO Financial Group, and recipient of the 2013 General Counsel of the Year award.

This competition is generously funded by the law firm Lenczner Slaght Royce Smith Griffin LLP who presented a cheque in the amount of $5,000 to the Ethics Centre.

New EthicsCentre Members

Lenczner Slaght

Widely recognized as Canada’s leading litigation practice, **Lenczner Slaght** has successfully represented clients’ interests in some of the most complex, high-profile cases in Canadian legal history.

From commercial disputes and class actions to cross-border matters and professional regulation, Lenczner Slaght brings expert strategy to all areas of litigation.

TED ROGERS SCHOOL OF MANAGEMENT RYERSON UNIVERSITY

Ted Rogers School of Management at Ryerson University is Canada’s pre-eminent entrepreneurial-focused business management school, shaping the next generation of global innovators and leaders with a combination of experiential and theoretical learning.

It is also home to the Ted Rogers Leadership Centre, and the new Jim Pattison Ethical Leadership Research and Education Program.

Viewing the World through Risk-Coloured Glasses

After managing a few unforeseen crises, Toronto Hydro reined in business risks through the formalized adoption of Enterprise Risk Management (ERM). Here's how we developed our ERM program from infancy to what it is today — an industry-leading governance structure that permeates our corporate culture.

In the corporate world, determining an organization's risk threshold is not always black and white. Corporations are operating in increasingly complex environments where they are facing not one, but dozens of potential business threats.

That's why Toronto Hydro moved to implement a formal ERM program in early 2009. Faced with a contact voltage problem that exposed the public to electric shocks, an unstable economy and an aging infrastructure, our Board of Directors realized we needed help prioritizing and mitigating risks, and needed to establish accountability for managing them across our workforce.

Risks are aligned with our corporate strategy, captured through a defined reporting process, and monitored regularly. Here are the principles we followed to get here, and some important lessons learned along the way.

1: BUILD A FOUNDATION FOR SUCCESS

- Dedicate resources
- Conduct a gap analysis
- Develop a risk universe

The work began with a gap analysis to assess Toronto Hydro's risk management maturity. This helped us identify immediate areas for improvement and established a benchmark for future progress. We also developed an inventory of risks, known in the ERM world as a risk universe. The inventory includes:

1) **Operational Risks** — The risk of loss resulting from infrastructure or processes.
2) **Financial Risks** — The risk of loss resulting from performance of financial assets, or inadequate finance-related processes.
3) **Human Capital, Health and Safety Risks** — The risk of loss resulting from human performance or health and safety incidents.
4) **Strategic Risks** — The risk arising from Toronto Hydro's decisions regarding resource allocation.
5) **External Risk** — The risks arising from external and environmental factors that can negatively impact Toronto Hydro's ongoing operations.

What we learned:

- Implementing the program requires a sustained commitment, and it's important to have dedicated employees (with the right skill sets) to build the program and socialize it across the company.
- Organizational buy-in is critical. Management should understand what is involved in the implementation as well as associated impacts to the organization.

2: IMPLEMENT A FORMAL GOVERNANCE STRUCTURE

- Define board oversight
- Develop a risk ownership matrix

The Board of Directors is accountable for identifying principal risks and ensuring that appropriate systems are in place to manage them. To support the board with these responsibilities, we established a Risk Oversight Committee at the executive level in September 2009. The committee is comprised of the Chief Executive Officer and all Vice-Presidents.

This committee also plays an integral role in identifying, managing and monitoring risks.

What we learned:

- It is crucial to establish accountability for risk management at an early stage. This should be established at the executive level and only one person should be accountable for each risk.
- It is best practice to create a cross-functional structure to support the executive team in managing, monitoring and reporting on risks. Everyone should be at the table in order to capture risks effectively.
- Linking risk to strategy is vital to success.

3: DEVELOP A PLAN FOR IMPLEMENTATION AND A RISK MANAGEMENT PROCESS

- Establish an ERM charter
- Develop an organizational risk appetite
- Follow the ISO 31000 Risk Management Process

Building on our governance structure, we developed an ERM framework complete with a charter, risk appetite statement, and policy. The charter helps to define the purpose, objectives, guiding principles, roles, responsibilities and overarching framework of the ERM program. The risk appetite statement describes the level of risk our utility is comfortable entering into in pursuit of strategic objectives.

We established our risk appetite statement by plotting our organizational risks against a five-point scale, and then deciding upon the risk level that we were comfortable taking on. After completing this exercise, we noted that we were willing to accept low levels of risk for the majority of possibilities, thus, we declared Toronto Hydro a risk-averse corporation.

Risks are then prioritized by impact and their likelihood to take place. Soon after, we adopted the ISO 31000 Risk Management Process and its approach to assessing risks.

What we learned:

- This step can be completed while establishing a governance structure.
- Identifying risks that impact strategic objectives is an important step in the ISO 31000 process.
- Before organizational risks can be properly assessed, a framework based on best practices must be established. Starting simple is key. Once basic principles are implemented, enhancements can be made. This framework will ensure that risks are documented consistently across the organization.
- Adopting a risk management process goes hand-in-hand with developing plans to mitigate risks. Once again, this should be standardized across the organization and should also follow best practices.

4: INJECT RISK AWARENESS AND OWNERSHIP INTO CORPORATE CULTURE

- Educate employees about the program
- Raise awareness of employee accountability and ways to report risks
- Build risk into employee performance

Once appropriate risk owners have been identified and processes are in place, employee education can begin. We accomplished this at Toronto Hydro by issuing regular messages through our internal communications channels.

In January 2011, we introduced ERM into employee performance contracts and formed criteria for assessing overall employee performance.

What we learned:

- Building familiarity across the organization will foster acceptance and greater understanding of the ERM concepts.
- Embed risk management into employee performance contracts to gain buy-in and support. Educate staff about the processes and instill a culture of accountability at all levels of the business.
- Don’t forget, employees are the best allies for alerting management to new risks that have not yet been captured in the risk universe.

5: REGULARLY MONITOR AND REPORT RISKS

- Assess enterprise as well as business unit risks. Think big picture and small picture
- Consider emerging and interrelated risks
- Open up a risk dialogue
- Implement the project prioritization model to evaluate, select and prioritize risks

Risks need to be assessed and evaluated. To successfully achieve this, a well-defined risk assessment and risk reporting schedule must exist. Risk prioritization should consider all other related risks and must be linked to the achievement of strategic objectives. This gives a holistic picture of the true risk profile of the organization and reduces "narrow vision" or siloed risk reporting. Both enterprise as well as business unit risks must be assessed.

The resulting data provided Toronto Hydro's key decision makers with meaningful risk exposure information to develop appropriate steps and incorporate other impacted business units as required. It also assisted in effectively assigning accountability for risk management activities across the organization.

Regularly reporting our corporate risks has raised awareness of Toronto Hydro's risk profile and has served as a useful guide in setting and evaluating strategic direction. ERM has kept us nimble and helped us respond to our ever-changing business environment. We reevaluate our risk universe on a regular basis and reprioritize our risks as necessary.

What we learned:

- Ongoing risk reporting provides a snapshot of organizational risks at a specific point in time. Accurate reporting helps executives determine a corporation's risk threshold, fosters an open dialogue, and helps detect early warning signs of emerging risks so that the appropriate action can be taken.
- Risk assessment should be structured, follow a consistent approach, and can be performed at different levels across the organization with results being compared and analyzed. Consider risk interdependencies when assessing risks and in developing appropriate action plans.

6: ENHANCE AND SUSTAIN THE ERM FRAMEWORK

- Third-party assurance is recommended for program support
- Protect, Improve and Optimize

We will continue to build our program at Toronto Hydro by enhancing our processes and measurement tools. We are continuing our efforts to expand integration opportunities through regular engagement with business units across the utility.

What we learned:

- ERM is all about building and enhancing existing processes and tools. The ERM policy should be reviewed and updated as necessary. There are always opportunities to better align risk management with business strategy.
- Understand the various levels of risk maturity and define an end goal. There is no need to implement a complex program.
- Conduct third-party assurance for program support. These checks and balances are necessary to instill confidence among executive management and the board.

We built our program at Toronto Hydro over a period of four years. Regardless of an organization's industry or risk tolerance, ERM is an invaluable investment that continues to pay out.

ROBERT WONG is Vice President of Information Technology and Stategic Management at Toronto Hydro.

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MANAGEMENT ETHICS

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Back issues of Management Ethics are on-line at the Centre's web site. The opinions expressed in Management Ethics do not necessarily represent the opinions of EthicsCentre CA.

CALENDAR OF EVENTS

BREAKFAST EVENT

Tuesday, January 28, 2014
Breakfast – 7:45 A.M. to 8:15 A.M.
Presentation – 8:15 A.M. to 9 A.M.
Q&A – 9 A.M. to 9:30 A.M.
Deloitte LLP
2 Queen Street East, Suite 1200, Toronto

Auditing Off-shoring Activities
Peter Dent, Partner & National Practice Leader, Deloitte Forensic

LUNCHEON EVENTS

Tuesday, January 14, 2014
12:00 Noon
The Albany Club
91 King Street East, Toronto

Offshoring from a macro ethical perspective — balancing the economic advantages with the ethical decisions involved to offshore, and ethical factors to take into consideration when offshoring. Launch the 25th Anniversary of the Centre
Diane Francis, Editor-at-Large, National Post

Thursday, February 6
12:00 Noon
The Albany Club
91 King Street East, Toronto

Responding to the Bangladesh Tragedy
Bob Chant, Senior Vice-President Corporate affairs and Communication Loblaw Companies Limited

Tuesday, February 25, 2014
12:00 Noon
The Albany Club
91 King Street East, Toronto

Doing the "Right" Thing. Convincing directors and senior executives that doing the "right" thing is not so bad.
John Keefe, Partner, Goodmans LLP

Friday March 21, 2014
12:00 Noon
The Albany Club
91 King Street East, Toronto

Designing Cross-sector Social Partnerships for Local Sustainability
Dr. Amelia Clarke, Director, Master of Environment and Business (MEB) Program at University of Waterloo
A co-production with CBERN
A panel discussion will follow Dr. Clarke's presentation.