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Viewing the World through Risk-Coloured Glasses

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After managing a few unforeseen crises, Toronto Hydro reigned 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.

Risk a word that elicits different reactions from different people. As with mutual funds, adventure sports and insurance policies, there are those who are risk tolerant and those who are risk averse. Regardless of where one stands on the spectrum, risk is an important driver in decision-making.

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.

ERM has truly transformed our organization, helping us shift from reactive risk management to proactive governance. 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

Toronto Hydro was fortunate to have board and executive support from the start. In 2009, we created the Strategy and Enterprise Risk Management department and put together a dedicated risk team to drive the program forward. 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:

- Developing an ERM program from scratch takes patience and hard work. 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. In April 2010, we implemented a utility-wide governance structure to support the Risk Oversight Committee and the Board of Directors. During this process, forums were created to ensure that risk processes, assessments, treatment strategies and reports are applied consistently across the utility. By bringing representatives from across the organization together, we are breaking down silos and encouraging open and honest conversations about risks. The output from these groups continues to influence our corporate strategy, adding valuable insight for target-setting, decision making and risk reporting.

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

Like most things in the business world, success comes easier with a well-crafted plan. 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. This helps guide our decision-making.

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. This framework provided the rigour necessary to socialize the program throughout our

LOW		MEDIUM	HIGH	
1	2	3	4	5
The corporation is not willing to accept risks under any circumstances.	The corporation is not willing to accept risks in most circumstances.	The corporate is willing to accept risks in certain circumstances.	The corporation is willing to accept risks.	The corporation accepts opportunities that have an inherent high risk.

organization. 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

Employees share accountability for raising risks across the organization. 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. We developed posters, posted stories on our intranet and ran articles in our employee magazine to raise awareness about the program. The communications material educated employees about why ERM enhances decision-making processes across the organization, from vendor selection to safety protocols. We also met with managers and made presentations to various business units so that we could engage certain groups face-to-face.

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. In March 2011, we began to report risks to the Risk Oversight Committee on a monthly basis and update the Board of Directors on a quarterly basis.

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.

Risk plays an important role in managing projects, too. Here, risk assessments are used to evaluate the impact of a potential project on the corporate risk profile as well as its impact on other risks. These assessment results are part of formal business cases submitted for review to the ERM team. This has been highly effective in limiting negative impacts, change requests and scope creep in projects.

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.
- ERM encompasses the entire organization; look for opportunities to add value. This is a key component of ERM.

6) ENHANCE AND SUSTAIN THE ERM FRAMEWORK

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

In keeping with our motto for continuous evolution, we recently developed an ERM Health Check, our first annual analysis of the ERM program to determine its alignment with industry best practices and its effectiveness in Toronto Hydro.

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.

Rome was not built in a day, and neither is an ERM program. 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.



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