Risk Management Framework

for the Gove

February 25, 2002

Modern Controllership
MINISTRY OF FINANCE

Version 2.1

This document is to be used with the How-to-Guide, Risk Management Glossary Risk Management Policy and Risk Management Resource Guide

Modern Controllership
MINISTRY OF FINANCE

This document was prepared for OPS employees as a guide to the Risk Management Policy.

We recommend that you read this document with the Policy and the How-to Guide.

The risk management field is extensive, as a discipline it spans several centuries of practice. The beneficiaries of the basic concepts are found in a multitude of professional functions including: science, engineering, policy, medicine and finance. Some practices are intentionally simplistic, others are very complex. This guide is for organizations in the OPS and their teams who want to realize the strategic benefits of a systematic and integrated approach to risk management. It is a beginning.

For more information and resources contact The Office of the Provincial Controller, FFPD (416) 325-8084, and review the Risk Management Policy, Risk Management Resource Guide and the Risk Management How-to Guide and Risk Management Glossary of Terms as well as inter-active versions of this document.

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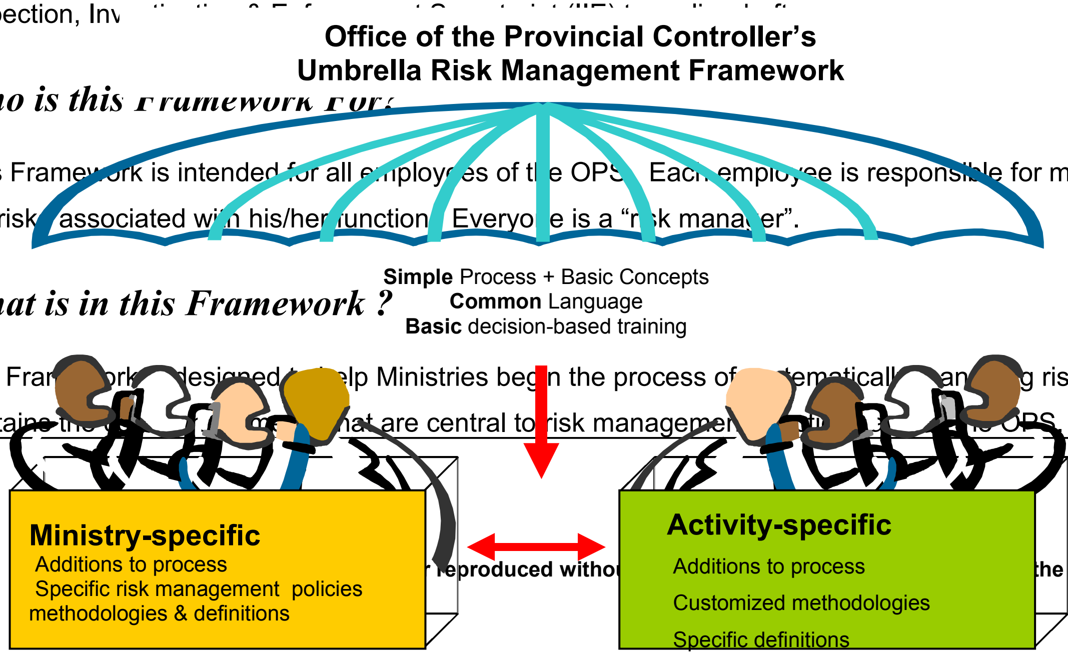
Preface

Background to the Framework

This document is an umbrella Framework for ministries and agencies in the OPS. It contains common elements central to all risk management activities in the OPS, and is designed to help begin the process of understanding and systematically managing risk.

In January 2000 the Office of the Provincial Controller issued a discussion draft for a risk management framework (Version 1.0) in response to the need to strengthen risk management in the Ontario Public Service (OPS), expressed in the government management agenda. Version 1.0 introduced a basic framework for implementing risk management in the OPS with the objective of fostering dialogue. It provided a basic risk management framework that included a common language, a systematic approach to decision-making and an outline of appropriate risk management practices. The next stage was to hold consultations with stakeholder groups inside and outside the OPS (including MBS, Internal Audit, Inspection, Investigation and Enforcement Secretariat, and various Ministries). Subsequently, the Framework was expanded to include a set of practical tools and practices. The purpose of these additions was to facilitate the OPS's transformation to a risk smart corporate culture. This revised version (2.1) of the Office of the Provincial Controller's Risk Management Framework (Framework) incorporates the comments and suggestions of those OPS managers, Internal Audit Division (IAD) and Inspection, Inv[illegible]

Figure 1



Who is this [illegible]

This Framew[illegible]rk is intended for all employ[illegible]es of t[illegible]e OPS. Each employee is responsible for managing the risk[illegible] associated wi[illegible]h his/her function. Everyo[illegible]e is a "r[illegible]k mana[illegible]er".

What is in this Framework ?

The Fra[illegible]ork [illegible] designed [illegible] help Ministries beg[illegible]n the process of [illegible]ematicall[illegible] [illegible]g risk. It contai[illegible] [illegible] that are central to risk managem[illegible] the OPS. Version

2.1 expands on concepts introduced in Version 1.0, and provides tools and practices to support the OPS commitment to results-based modern management practices including Modern Controllership and Quality Service initiatives.

The Framework presents key concepts and a language that are common to most of the risks managed by most OPS ministries. Each ministry is responsible for developing an appropriate risk management policy tailored to the unique nature of its activities and stakeholders, within the context of this Framework. Ministries are also charged with the responsibility of taking these common terms and concepts and adapting them to their needs as shown in the following diagram:

Figure 1

Modern Controllership is a set of management functions that ensures:

- *Ethical behaviour*
- *Conscious managing of risks*
- *Clear lines of accountability*
- *Stewardship of resources*
- *Reporting and evaluation of results against stated objectives*

Example of a ministry integration of the Framework:

MOE developed templates to identify risks to their quality service objectives.

Example of a Activity Specific Enhancement of the Framework:

The epidemiologists at OMAFRA add additional steps to the risk management process that reflect the practices of their international professional affiliations.

Who Supports Risk Management?

Risk management concepts are central to the public sector management practices advocated by the OPS in: Ontario Financial Review Commission Recommendations (1995, 2000), *Vision for a new OPS* (1995), *Framework for Action* (1997), *Quality Service Directives* (1998), *Learning Organization* (1999), and *Working Together* (2000).

At the federal level in Canada, the *Integrated Risk Management Framework* initiative is an important part of the federal government's *Results for Canadians.* Many of the provinces are also introducing these concepts. Various foreign jurisdictions are also implementing risk management on either an enterprise-wide integrated basis or in individual ministries and agencies. Leaders in the public sector application of risk management principles can be found in Australia, New Zealand, the United Kingdom and some Departments of the US Government. (See Resource Guide for links)

The management of risks affecting citizen's health and safety (hazards) has been a feature of public administration throughout the world for some time. International standards (e.g. World Trade Organization, International Standards Organization) apply to this type of risk. Similarly, many professional groups advocate standards and practices for the management of specific risks (e.g. Bank of International Settlements, Global Association of Risk Professionals, Canadian Centre for Occupational Health and Safety, International Labour Organization, World Heath Organization, Canadian Institute of Chartered Accountants and many more). These organizations serve as forums for the exchange of best practices, data and standards for the inter-related categories of financial, hazard and operational risk management.

The vision of risk management outlined in this document supports an enterprise-wide view of government grounded in rational priority setting and principles of responsible spending.

" I want us to be a place of ideas, not position," says Andromache Karakatsanis, Secretary of Cabinet. *"I want us to be an employer of choice for dynamic, creative people. A learning organization that recognizes and rewards achievement."* She challenges managers *"to become radicals, revolutionaries and risk-takers."*

Topical, June 22, 2001

Good public performance reporting should put results in their proper context by explaining what the key risks are and how risk has influenced choices made in relation to policy goals and performance expectations; and by relating results achieved to the risks and level of risk accepted.

Public Performance Reporting: Management Perspective CCAF 2001 (Task Force included OPS representatives) *www.ccaf-fcvi.com*

1.0 What Is Risk?

Risk is the chance of something happening that will impact on the achievement of objectives.

Everyone encounters and deals with risk every day. It is present in virtually every human situation. Although there is discussion in the public sector as to the best definition of risk, most people would agree that "uncertainty about future events" is central to the definition of risk. "Risk" is a word whose meaning has evolved as human understanding about the world has grown. In the adjacent sidebars we show how the definition has changed with time and professional perspective.

This Framework describes risk as the potential variance of outcomes from a ministry's objectives. The stated objectives are the starting point. The definition of risk includes the possibility that the risk could be a negative variance or threat to the achievement of objectives, or alternatively a positive variance or opportunity for achieving objectives**.** This definition can be illustrated by the following drawing, where the grey line represents an uncertain outcome that varies from a defined objective:

Figure 2

Variance of an Outcome from the Objective

This Framework recognizes the importance of defining risk relative to a ministry's objectives.

The definition that you use in your ministry will be a function of your objectives. For the definition to encompass all Government activities and objectives, it must include the possibility of both negative and positive outcomes. For example, a group whose objectives include public safety could identify risks

The English word "risk" comes from the Italian, riscare, meaning to dare. This meaning implies at least two outcomes; an upside risk and a downside to the risk. Both outcomes are unknown.

Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with potential to influence the achievement of an organization's objectives

Government of Canada, Integrated Risk Management Framework ***2001***

Risk can be defined as uncertainty of outcome (whether positive opportunity or negative threat).

HM Office of Government Commerce UK, ***2001***

A foregone opportunity is a risk

PriceWaterhouse Coopers Canada, **2002**

The chance of something happening that will have an impact

Examples:

Opportunity (positive variance from objectives): Objectives: increase customer satisfaction, and reduce costs**.** Last year, one of the 20 Amethyst Awards went to the Ministry of Labour / Ministry of Finance. By joining forces with an established call centre, staff in both Ministries cut the response times to telephone inquiries about salary rates, working hours, maternity leave and other work questions from 30 minutes to 30 seconds and slashed the hang-up rate from 50% to five percent. They combined call centre expertise and subject expertise to exceed objectives. Learn more at: http://intra.gov.on.ca/CFL/extra/amethyst/index.htm

Threat (negative variance from objectives): Objective: ecological sustainability. The Ministry of Natural Resources identifies the Barn Owl as a "threatened" species in this province, and this status as a threat to the Ministry's ecological sustainability objectives. In Ontario the Barn Owl is protected under the Fish and Wildlife Conservation Act. In addition, the Natural Heritage component of the Provincial Policy Statement under the Planning Act provides for the protection of significant portions of the habitat of threatened species. A Recovery Group also has erected nest boxes for the Barn Owl in suitable habitat. Learn more at: http://www.rom.on.ca/ontario/risk.html, a site built in partnership with the Royal Ontario Museum.

QUIZ: Identify the following risks as opportunities or threats:

	Threat	Opportunity	Both
1. A new strain of flu virus.			
2. Technology that permits secure, on-line tax filing.			
3. Growth in visitor numbers in provincial parks.			
4. High quantities of pathogens in the water supply.			
5. Extended hours at regional licensing offices during fishing season.			
6. Increases in youth unemployment levels.			

1, 2, 3, 5 are both opportunities and threats; 4 and 6 are threats

2.0 The Risk Management Framework

Risk is part of every service and outcome that we deliver in the public interest. These uncertainties are opportunities or threats to our ability as public servants to achieve the Government's objectives. Our understanding of the risks to our objectives, whether in terms of standards of public safety, financial market volatility, or e-commerce opportunities for more efficient service delivery, is a critical part of the decisions we make as OPS managers.

This Framework is for thinking managers. It is not a checklist. As an implementation guide for OPS staff, it provides definitions for a common risk language, key concepts, recent best practice examples and suggestions on how to apply the risk management practices. The Framework builds on existing risk management practices, reflects current thinking, best practices and the value of well-recognized principles for risk management. It is a critical component of other results-focussed OPS initiatives including Quality Service and Modern Controllership. In addition, the Risk Management Framework complements the concepts and approach described in the inter-government task force report Public Performance Reporting: A Management Perspective. Collectively, these initiatives contribute to strengthening risk management across the Ontario Government.

2.1 Purpose of the Risk Management Framework

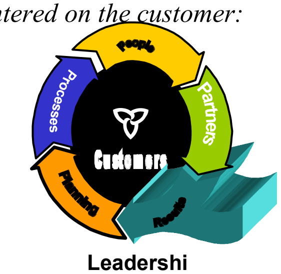
Each ministry is responsible for developing an appropriate risk management policy tailored to the unique nature of its activities and stakeholders, within the context of this Framework. The Framework :

- Provides a common language to communicate about risk;
- Provides a common systematic approach to managing risk;
- Contributes to building a risk-smart workforce and environment that allows for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence;

The Risk Management Framework describes high-level policies, strategies, processes and responsibilities required for the development of effective risk management practices across government. It is a conceptual structure for action.

The Framework is about thinking: it is not a checklist.

Risk Management supports the Quality Service Model that is centered on the customer:



• Customers

• Results •
Partners

• Planning • Processes

• People • Leadership

3.0 Key Risk Management Concepts for the OPS

3.1 Everyone has a role in risk management

All OPS employees are responsible for following sound risk management practices and are accountable to the public for achieving results. This means that all employees should have the capacity (skill, training, knowledge and access to information) and resources to carry out his or her risk management responsibilities.

See Appendix 1 for details of the specific roles of OPS staff in risk management.

Deputy Ministers are ultimately accountable for whatever goes on in their ministry, including ensuring efficient and effective management practices (including risk) are in place. To be effective risk managers, the Deputy and the senior executive level must establish a risk management philosophy in each ministry. The tone must be set at the top that systematic and integrated risk management is valuable for understanding uncertainty in decision-making and for demonstrating accountability. The Deputy must establish a culture that encourages managers to accept informed risk decisions, emphasizing that informed risk acceptance could turn an exposure into opportunity. Every speech delivered, every meeting held should include a few words on the importance of adopting risk management in day-to-day management of program delivery. Our leaders should be supportive of a learning environment that includes sensible risk taking and learning from experience. They can demonstrate their commitment and support to employees through the provision of resources, training and tools. Including risk management in every employee's performance appraisal is another key step in the approach to support a continuous risk management environment. See Appendix 1: Roles (page 38)

"…Think about how you will encourage and reward staff who come forward with bold and creative ideas—even if it doesn't quite work out."

Andromache Karakatsanis,
Secretary of Cabinet, July 2001

3.2 What is Risk Management?

Risk management *is a systematic approach to setting the best course of action under uncertainty by*

The Controller's Capacity Checklist helps ministries to access their risk management *identifying, assessing, understanding, acting on and communicating risk issues.*

Risk management is not new to the Ontario Public Service. For example, our engineers have stress tested our bridge designs for over a century. Our highways are built to high safety standards. We have a fleet of water bombers on call to save our forest resources should lightning strike. What is new is that many of our identified risks must be managed with fewer resources and in some instances fewer rules and regulations. This reality, coupled with a desire for greater accountability, innovation and an awareness of the complex inter-relationship of these threats and opportunities, makes a common language to talk about risk and a systematic process to manage risk, critical to achieving objectives and maintaining public trust.

Risk management is an integral component of good management and decision-making at all levels. All Ministries and Agencies manage risk continuously whether they realize it or not—sometimes more rigorously and systematically, sometimes less so. This Framework advocates that risk management become ingrained in the organization's way of doing business on a day-to-day basis. In such a "risk-smart" organization, each person should be encouraged to integrate risk management into his or her work processes and practices. Risk management is also a continuous improvement process. This is accomplished through repeated application of the risk management process outlined in this document. Risk Management is one of the key elements in supporting effective decision making and strengthening accountability.

Risk does not disappear: Risk management strategies such as insurance, contingency planning, etc. can mitigate, hedge or transform risk, but it is never completely avoided or eliminated.

processes and areas for improvement. How did your ministry rank itself?

Ignoring risk is not an acceptable risk management strategy.

The Ministry of Health's free flu vaccine program was a risk management strategy that transformed one type of risk into another. The impact of the virus on the health of Ontarians, and our hospitals was uncertain. The free vaccine program transformed a health risk into a budget risk that was more acceptable to the public.

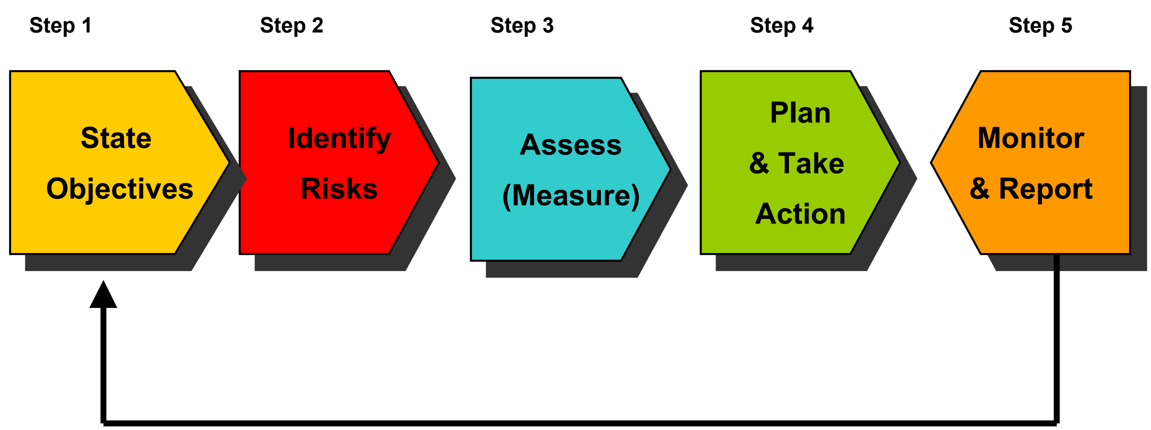
The Ministry of Natural Resources has used public communication as a risk management strategy with regards to the condition of Ontario's many aging dams.

2.2 What is the Risk Management Process?

Risk management is not a separate management process, but part of an overall management philosophy that is used every day, in all activities. In the following diagram we illustrate a simple but systematic series of activities for incorporating risk management into the decision-making process for all public sector activities. As this is a very basic process, individual ministries and activity groups may wish to adapt the process to their needs by augmenting the following five stages:

Figure 3

Basic Risk Management Process for the OPS



The stages, and a synopsis of the activities for each, are presented below. The *How-to Guide* provides detailed information on how to use the process.

It works!

Try the risk management process on decisions at home too. Whether deciding on a vacation or day care for your children the risk management process is a basic tool to making better decisions.

Do not confuse an objective with an outcome or an output. They are different.

*An **objective** is the measurable goal of the program or ministry.*

*An **outcome** is the intended benefit to the customer or citizen.*

*An **output** is what is produced.*

1. **Objectives:** Explicitly stating your ministry's or agency's objectives provides a context to determine the risks to meeting those objectives. We start by defining the organization's objectives that flow from Government priorities and ministry objectives. The objectives are the reference point for determining the performance of our strategies and service delivery. See How-to Clarify Your Objectives in the How-to-Guide.

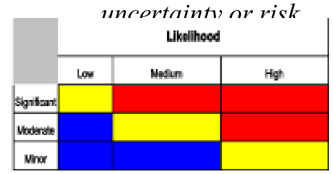
One challenge that we face in the public sector is that often we have many objectives. Some of these objectives may be in conflict unless they can be prioritized.

2. **Identify the risks:** The potential opportunity or threats that may impact on an organization's ability to meet its objectives are identified (See How-to identify Your Risks, in the How-to Guide). Identification of risk is often driven by management's definition of its risk tolerance (see How-to Determine Risk Tolerance in the How-to Guide). Individual Ministries may find it helpful to develop their own risk assessment tools to help them understand the sources or drivers of a risk and the links between risks. See How-to Identify the Source's of Risk and the Links Between Risks in the How-to Guide.

Tip: *Your ministry's objectives are usually stated in the business plan on its website and in its enabling legislation.*

3. **Assess risk:** Measuring the likelihood of the occurrence of the risk and the impact of the risk on our ability to meet our objectives, over time, is critical to determining our risk management strategy. Risk assessment also helps us prioritize risks and allocate resources to managing the risk. It is important to document your risk assessment to aid in communication, support the planning stage, facilitate monitoring, and to provide an accountability mechanism. Examples of risk assessment methodologies are discussed in *How-to Assess Risk* and *How to Develop a Risk Profile* in the *How-to Guide.*

To develop effective risk management strategies it is very important to identify the source of uncertainty or risk



variance?

Risk Management Impact-Likelihood Matrix:

4. **Plan and take action:** The fourth stage in the risk management process is to analyse the acceptability of the risk, the risk management alternatives, determine a strategy and to act upon it. Even an "acceptable" risk, (relative to stated risk tolerance levels) requires action such as monitoring. The impact –likelihood matrix is <u>one</u> tool that can suggest appropriate strategies. The matrix suggests that "acceptable risks" (blue and yellow zone within risk tolerance levels) be managed by

policies and limits and monitoring for blue zone risks, and very specific monitoring for yellow zone risks. (See *How-to Guide).* Risks assessed as unacceptable (red zone) require detailed plans in consultation with senior management. **Most risk management strategies for unacceptable risks can be grouped into the following categories:**

- **Risk Mitigation:** Reduce/ Increase the likelihood and/or impact of the risk with strategies such as: supplier diversification, policy and regulation and its enforcement;
- **Risk Hedging or Insurance**: sharing risk such as with insurance can offset Some risks. Pilot projects, contingency plans, offsetting real or financial options and derivatives are also a means of hedging a risk. When a risk is hedged, both the upside and downside outcomes are limited by the offsetting strategy. Indifference to the impact of a risk may suggest an opportunity.
- **Transform the Risk into a More Acceptable Risk:** Sometimes there are opportunities to transfer risk. By providing free flu vaccines, the operational and political risks of over-crowded emergency rooms were transformed into a budget risk. For more information on risk management strategies see *How to Develop a Risk Management Strategy* in the *How-to Guide*. This Framework views so-called "risk avoidance" strategies as risk transformation. A risk is avoided only with the acceptance of another risk.

5. **Monitoring:** Monitoring risk is critical to the process not only because few risks or circumstances remain static over time, but also because monitoring is how we learn and improve. It is also a risk management tool. Monitoring is not a passive recording of observations. It requires both evaluation against our stated objectives and organizational risk tolerance, and the adjustment of strategy and tactics to manage the impact and probability of the risk event. Monitoring completes the loop in the risk management process and links our performance measurement systems and quality service cornerstones as the outcomes of our strategies. See *How-to Monitor Risk* in the *How-to Guide*.

This is a skeletal risk management process. It presents the minimum steps. This Framework encourages Ministries to add steps to the process that are appropriate to their mandates.

This is one tool for assessing identified risks and suggesting a risk management strategy. See How-to-Guide for detailed explanation of the matrix.

Risk management is already a part of most managers' "day-to-day" responsibilities. Risk assessments are being made intuitively every time a decision is being made…the risk management process is a more formal method.

Risk is never completely avoided: it can be transformed to a more acceptable form, mitigated or hedged.

A pilot study is a risk management strategy that is a "real option." The information we gain from the study reduces the uncertainty of the results. The value of *the real option is the time and money we could potentially save.*

Benefits of a Systematic Risk Management Process:

Risk management is already a part of most managers' "day-to-day" responsibilities. Risk assessments are being made intuitively every time a decision is made. Adopting a more formal process of explicitly identifying and documenting risks, and developing plans to manage risks, will take time. The resources applied should be in proportion to the assessment of the risk and the ministry's risk tolerance. (See "Risk Tolerance") This Framework stresses that to make decisions without the knowledge or analysis of the possible risks to objectives is not an acceptable practice.

Two psychologists, Tversky and Kahneman, have studied how people make decisions under conditions of risk and uncertainty. They found that framing, reference points and cognitive illusions influence our judgements. In some circumstances a risk avoider will become a risk seeker…our judgement is not always "rational".

Some professional groups within and outside the OPS have elaborated upon this basic process: World Trade Organization, International Standards Organization, Group of Thirty, as well as the Inspection, Investigation and Examination Secretariat and the Internal Audit Division.

QUIZ: Identify the following risk management strategies as: Hedging Risk Mitigation Transformation

1. Health Insurance
2. Contingency plans
3. Pilot studies
4. Policies
5. Customer surveys
6. Audits
7. Communication
8. Driver Testing

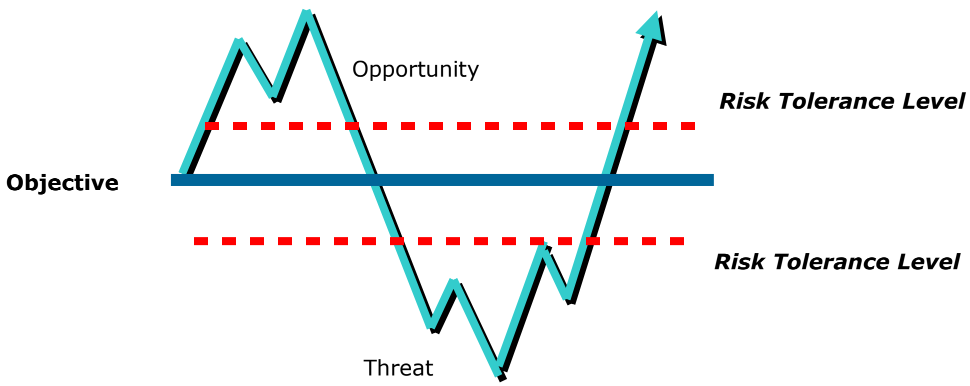
Hedge: 5,3 Mitigate: 2,4,6,8 Transform: 1,7

3.5 Risk Tolerance

Risk tolerance is the degree of comfort with various levels of risk.

In Figure 4 we illustrate risk tolerance levels relative to the organization's objectives:

Figure 4



Determining and communicating an organization's risk tolerance is an essential part of defining a risk profile and of managing risk. When we define organizational risk tolerance we identify risks, for which there may be no risk tolerance (or risks as well as risks that should be managed to higher, yet reasonable levels of risk tolerance. In the public sector, risk tolerance is a function of:

- The impact of the identified risk on (ministry) objectives,
- Our organizational ability and capacity to influence the outcome of the risk, and
- Consultation with internal and external stakeholders.

Risk tolerance varies with the nature of the risk and can change over time. For example, most citizens would likely have a low risk tolerance for public health and safety issues (injuries, fatalities). Thus, regulation and enforcement, as in the case of mandatory automobile driver testing manage these risks. Similarly, citizens would likely have a higher risk tolerance for disruption to the delivery of a non-essential service. For example, the opportunity for the Land Registry Office to provide around the clock service to

Next time you cross the street, when the warning lights are flashing ask yourself: Can I live with the possibility of injury? 20/80? 01/99? That is your risk tolerance for that circumstance. Most people would have a risk tolerance of zero. A quick assessment of the probability of injury is usually made before the decision to cross .

Unless risk is identified and communicated, there is a danger that the risk tolerance will be ambiguous, or not defined.

Even when we cannot influence a risk e.g. weather, forest fires, we need to identify them, communicate them, citizens with e-commerce solutions is an opportunity that is managed within budget constraints, in relation to the expected benefits of the service to the citizens. We have a greater risk tolerance for the benefits and disruption of 24-7 service as long as it is within budget. Where citizen risk tolerance is higher, the day-to-day uncertainties of the related systems implementation are managed with more managerial discretion. Conversely, where risk tolerance for the uncertainty is low, the assessment of the risk usually requires more senior management involvement and stringent controls in the management of possible outcomes.

and develop a strategy for minimizing their impact on our objectives.

Sometimes a risk, or variance of outcomes from objectives, can be both an opportunity (positive variance) and a threat (negative variance). For example, the opportunity to increase economic productivity with the building of highways may also result in the threat of environmental pollution. Our risk tolerance for the opportunities associated with a network of highways is balanced by budgetary and environmental objectives. In this example, the threat to one government objective can be the by-product of an opportunity for another government objective. Thus, the complex relationships between risks must be appreciated when determining risk tolerance.

See How to Define Risk Tolerance in the How-to Guide for a step-by-step approach.

Recognition of the limits of our influence does not mean that the risk and the risk tolerance are ignored. For example, risks resulting from natural phenomena may have a significant impact on objectives. Although our risk tolerance must be accepting of the reality that we cannot limit snowfall, we can mitigate the impact of extreme weather on Ontario citizens and businesses. Similarly, the increasingly international character of some risks can limit our management strategies, as in the case of global financial market volatility. However, the risk is still managed within the limits defined by stakeholder/representative risk tolerance.

Remember that although your personal risk tolerance is important, it is not necessarily the best gauge of other stakeholders' risk tolerance.

Assessment of risks to ministry or agency objectives will determine, even subjectively, the impact and likelihood of the risk on a particular objective, and suggest the level and degree of consultation required to define the risk tolerance level. These limits can be defined by regulation or policy, Government prioritization of objectives, and by consultation with stakeholders. For risks with a significant impact, consultation with stakeholders, senior managers, the Deputy and in some cases, the Minister, can be a useful method of estimating stakeholders' needs and expectations. Deputy Ministers have responsibility for articulating risk tolerance in relation to the Government's agenda. All risk limits approved or implied by business plans and programs should reflect this risk tolerance.

Risk tolerance is not static. They may change over time as new information and outcomes become available, as societal expectations evolve and as a result of stakeholder engagement on trade-offs.

Example: The Ministry of Agriculture, Food and Rural Affairs identified that food safety was a risk to their objective of improving the quality of life for all Ontarians. Given the impact of this threat to objectives, OMAFRA has emergency preparedness and response arrangements for agri-food contentious issues and emergencies on a 24 hour, 7 days a week basis. The Ministry's research mitigates the risk, and their emergency plans hedge the risk.

Example: The Ontario Financing Authority (OFA) determined in consultation with senior government officials that it had neither the appetite nor the resources for the risk of foreign exchange fluctuations. Subsequently a policy was approved that prohibited transactions that were not hedged against fluctuations in the Canadian dollar. The policy mitigates the risk.

Example: The OPS is implementing Common Service Standards (CSS) as part of our commitment to the delivery of quality service to the public. The level of customer satisfaction with our service is an uncertainty that could be both a positive and negative risk to our quality service objectives. One of the service standards is the availability of walk-in services (e.g. license renewals) during defined core hours. Access in some locations is extended seasonally to meet citizen demand for certain services (e.g. fishing and hunting licenses). Although there might be a marginal increase in customer satisfaction, we would not optimize resources if all walk-in services had extended hours throughout the year. There is a risk tolerance limit on this opportunity because it would transform an operational risk into an unacceptable financial risk. Instead, we define an optimal level of service that balances our objectives and defines the risk tolerance level for service.

4.0 Becoming *Risk Smart*

4.1 You Know Your Organization is Risk Smart When:

- The corporate culture is such that everyone is encouraged to be a good risk manager.
- An organization's strategic, operational, financial and information objectives are clearly stated.
- Risk taking is supported within pre-established and communicated guidelines.
- Risks facing the organization are explicitly stated and action plans are developed, implemented and monitored.
- The organization adopts a simple, common business risk language, enabling open discussion at all levels.
- Information on risks is shared through open communication channels, up, down, and across all parts of the organization.
- Training in risk management is provided to all employees
- Innovation is celebrated: Teams and committees are created to bring together diverse risk knowledge, practices, attitudes and fresh thinking to issues and solutions.
- Risk management performance is communicated and effective risk management is supported.
- A corporate risk management function exists within the organization.
- Your ministry or agency risk management framework is approved and implemented.
- Team members regularly say: "what are our risks?" Risk management is included in all your business processes including strategic planning, project management, communications planning and performance measurement.

How many of these risk smart characteristics are found in your organization?

What would it take to make this cultural shift?

Where is the resistance in your organization?

Who are your supporters?

4.2 Key Success Factors for a Risk Smart Culture

If we are going to realize the benefits of systematic risk management as described in the Framework, we need a shift in our corporate culture. We need to become "Risk Smart." Moreover, that change in our culture will need to be supported by other changes in our organizations and in the way we achieve our objectives. To achieve a risk smart corporate culture each organization needs:

- Leadership
- Communications
- Establishment of a Risk Management Function or Task Force
- Development of a Risk Profile
- Organizational Alignment & Continuous Improvement

4.2.1 Leadership

Leadership that fosters a risk management culture, and rewards informed risk-taking is central to becoming a risk smart organization. Leaders must champion the implementation of risk management if they expect their teams to be risk smart. This means that leaders must show visible support as role models for the change and as orchestrators of the change process.

Deputy Ministers are ultimately accountable for whatever goes on in their ministry. To be effective, a risk management philosophy must be established by the Deputy and the senior executive level in each ministry. Senior levels of management must establish a culture that encourages staff at all levels to accept informed risk decisions. The tone must be set at the top, that systematic and integrated risk management is valuable for understanding uncertainty in decision-making, and for demonstrating accountability. Every speech delivered, every meeting held should include a few words on the importance of adopting risk management in day-to-day management of program delivery. It should be emphasized that informed risk acceptance can turn an exposure into opportunity. An implementation

Words from the Secretary of Cabinet…

"So I look to you, not only to be risk takers yourselves – but to help build a culture of risk taking. Think about how you will encourage and reward staff who come forward with bold and creative ideas – even if it doesn't quite work out.,… Taking risks also means we must accept the possibility of failure...We must not fear that we will be judged harshly for failing -–provided that we did our best for all the right reasons and that by failing we learn and become still more accountable."

Andromache Karakatsanis, July 2001

vision of risk management should be communicated to all ministries where questions such as how *will we work differently? and how will we benefit?* are clearly addressed.

Our leaders should be supportive of a learning environment that includes sensible risk taking and learning from experience. They can demonstrate their commitment and support to employees through the provision of resources, training and tools. Including risk management in every employee's performance appraisal is also a key step in the approach to support a continuous risk management environment. See Appendix 1: Roles (page 38)

4.2.2 Risk Communications

Communication is also a risk management tool: Clear, open lines of communication are vital to the success of risk management in any organization. Discussion at all levels is enabled with the adoption of a simple, common business risk language. Information on risks can then be shared through open communication channels, up, down, and across all levels of the organization and with stakeholders.

Ministries are encouraged to develop risk communication guidelines specific to their activities, risks and stakeholders. This Framework suggests that the following principles serve as a guide for risk communications.

1. Follow Your ministry's Communication Process and Policy

1. Integrate communication into the risk management process

- Communicate ministry and program objectives and risk tolerance levels to managers;
- Document risk assessments and action plans;
- Use a common language about risk will facilitate internal communications;
- Communicate risks assessed as critical to objectives (red zone in matrix) should be communicated to senior managers as soon as they are anticipated or known. These risks

"And today I'm asking you to join me in this challenge. The Ontario Public Service will fulfill its full mandate only if we become radical revolutionaries and risk takers."

Andromache Karakatsais, Secretary of Cabinet, July 17, 2001

A citizen's request for information presents an opportunity to communicate about risk and the management of risk.

Government of Canada: Integrated Risk Management Framework

Communication should be routinely considered within risk analysis rather than waiting for an obvious communications issue to arise.

should then be regularly monitored and their status should be communicated to senior management.

1. ***Manage the process of risk communications***

- Who are the key stakeholders? What are their communication needs and expectations?
- Tailor the messages to the audience e.g. how much statistical information is required?
- Evaluate the effectiveness of your risk communications.

1. ***Practice two-way communication***

- Listen to stakeholders;
- For risks managed by stakeholder decision-making (e.g. prevention programs, new services); support stakeholder decision-making by providing sufficient and appropriate information.

Example: The Ministry of the Environment used risk communications as a strategic tool to mitigate or reduce the probability of harm to citizens from contamination of the Moira River. The risk communications strategy included regular public updates on the quality of the water and its suitability for drinking and recreational use. The Ministry also released a draft of the river study and an action plan for public comment before remedial action was finalized.

Example: The Ministry of Agriculture and Rural Affairs regularly distributes research findings to the public to manage both opportunities and threats to agricultural productivity. For example, providing scientific research information about reproductive efficiency, feedlot performance and carcass composition of lambs from prolific and standard breeds of sheep enhanced the probability of increasing livestock production.

Ignoring risk is not an acceptable risk management strategy. No one likes surprises and few people want to hear bad news. It is therefore not easy at times to communicate negative risks as they occur. However, to develop effective action plans it is crucial to communicate risks as soon as they are

"Communicating About Risks to Public Health" UK Gov't

To be clear and effective, risk communications should be addressed or included at the earliest possible stage of risk assessment.

Risk communication <u>*is not*</u>*:*

- *A set of gimmicks or techniques to avoid debate or criticism;*
- *A collection of unclear messages;*
- *An afterthought during the final stage of risk assessment;*
- *A promise of general agreement or consensus about risk management actions.*

US Coast Guard Risk-based Decision-making Guidelines

Communication is of fundamental importance in the regulation of risks. It allows people to participate in, or be effectively represented in, decisions about managing anticipated or known. Your organization will then be able to take appropriate actions to plan and manage risk more effectively.

It is also important that management direction (vision, policies and operating principles) on risk management is communicated. This includes establishing a corporate focus and communicating internal parameters, priorities and practices. It is equally critical that corporate direction on acceptable levels of risk (i.e., risk tolerance) is communicated. The ministry's business plan may be a good place for this information.

4.3 Establishment of a Risk Management Function

Some Ministries have found it helpful to establish a risk management function or a task force to initiate the change to a risk-smart organization. Ideally, participants would have a strong knowledge of the organization's activities, stakeholders, and the risks to the ministry's objectives. This Framework advocates that members of the risk management team include qualified risk managers as appropriate to the ministry's activities. The function's objective would be to implement and adapt the risk management Framework to the ministry's needs and to align the organization with its risk management objectives. This team would facilitate the implementation of risk management principles by:

- Developing a ministry or agency risk management framework based on this Framework and adapted to the activities and risks of the ministry or agency;
- Becoming a resource for risk management information, coaching and promoting training consistent with the OPS Risk Management Framework;
- Acting as a leadership link with the branches, projects and teams as role models, and communicators of risk management best practices;
- Ensuring that the language, definitions and processes used by the ministry are consistent with the OPS risk management Framework and recognized risk-specific bodies (e.g. World Trade Organization, International Society for Risk Analysis, Global Association of Risk Professionals);
- Developing or adapting risk management assessment tools and process appropriate to the

risks.

Dr. Jim McQuaid, Chair Inter-Departmental Liason Group on Risk, *Risk Communication, A Guide to Regulatory Practice*

In developing public policy, input from both the empirical and public contexts ensures that a more complete range of information is available, therefore, leading to the development of more relevant and effective public policy options.

Government of Canada: Integrated Risk Management Framework

A key component of risk management is identifying stakeholders/risk receptors; understanding their needs and concern; and taking into account these needs and concerns when making decisions which balance stakeholder needs.

IIE, Protecting the Public Interest

Several professional groups enforce standards of risk management practice for their discipline by testing and awarding designations to qualify members as risk managers:

FRM: *Global Association of Risk Professionals (GARP)* organization.

4.4 Development of a Risk Profile

A risk profile is a document that summarizes your risk analysis. It identifies key risk areas that cut across the organization (functions, programs, systems), as well as individual events, activities or projects that could significantly influence the overall management priorities, performance, and realization of organizational objectives. The purpose of the risk profile is to prioritize the risks and focus the planning to manage the risks. It is a living document and not a static report. It should be continuously reviewed and updated. The method follows the risk management process. (See How-to Develop a Risk Profile in the How-to Guide).

4.5 Align & Improve

In order to sustain the change and fully benefit from risk management implementation, the risk management culture must be supported by the behaviour of its leaders and organizational congruence with objectives and strategy. This means aligning the organization's leadership, policies, controls, performance metrics, planning methods, training and personnel policies. Linking risk management with planning, budgeting, and performance and quality management will enhance the effectiveness and efficiency of those tools and the decisions they support. Implementing risk management into existing decision-making and reporting structures will also hasten the benefits and communicate that risk management is part of all decisions in the OPS.

The development of evaluation and reporting mechanisms for risk management activities provides feedback to management. Reporting facilitates learning and improved decision-making by assessing both successes and failures, monitoring the use of resources, and disseminating information on best practices and lessons learned.

"CPRM"Professional Risk Management International Association (PRMIA)
***CRM:** National Alliance for Insurance Education & Research*
***CPHRM:** American Hospital Association*
***CRP:** Bank Administration Institute*

Please see How to Develop a Risk Profile in the How-to Guide for a step-by-step approach to developing a risk profile.

The UK government uses a similar methodology to Ontario's. See http://www.ogc.gov.uk/handbook/content/parta/a8.html for a description and links to their spreadsheets.

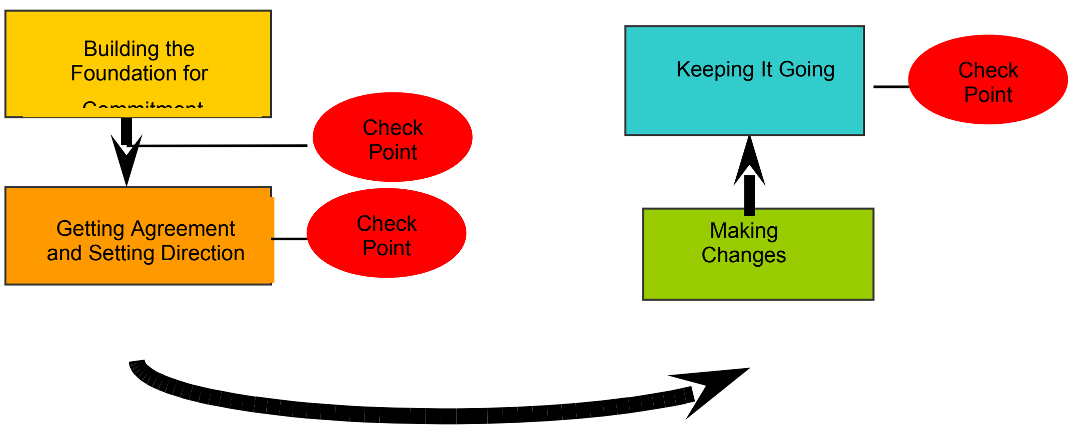
Unless we align the organization, our changes will not be *sustained. There is no cultural shift without organizational congruence. A good theoretical source is Dr. David Nadler's "Champions of Change."*

4.3 The Change Process

Becoming a risk smart organization will require building support for the need to change, planning the change, implementing the change, and learning and checking change readiness throughout the process. The change model might look like this one developed by Dr. Harvey Kolodny.

Figure 5

Strategic Change Design: ***Where is your Ministry in the Process?***



Strategic Change Model developed by Dr. Harvey Koldny oft the Rotman School of Management at the University of Toronto.

There are many change models. We have listed some resources for leaders and change agents in The Resource List in the How-to Guide. The model is like a map. It is important to know what stage your organization is at in their "risk smart" change. Leaders and senior managers are advised to talk about their commitment to risk management right from the beginning. Use the words, insist on a risk analysis for projects…be a risk smart role model. A wait-and-see approach will not build commitment. Training is an effective tool when you are setting direction and implementing this change.

What can I do to be risk smart today?

- ***Learn:*** *read what you can about risk management.*
- ***Clarify Objectives:*** *Find out what the objectives of your ministry and program are. What do those objectives mean for you?*
- ***Communicate:*** *start talking about the threats and opportunities to the objectives, projects and programs for which you have responsibility. Ask: "Have we considered the risks to the project objectives?" Document the process.*
- ***Practice:*** *Use the risk management process to help you and your team manage risks systematically.*
- ***Support*** *your manager and colleagues who are practising risk management.*
- ***Celebrate*** *your successes and good decisions…*
- ***Monitor:*** *revisit those decisions from which you could learn.*
- ***Keep it Going:*** *be patient, this will take time.*
- ***Use the words,*** *insist on a risk analysis for projects…be a risk*

smart role model.

4.3.1 Risk Management Implementation:

We envisage that the actual tasks of this change and the supporting organizational congruence of leadership, task, formal and informal organization will follow four stages:

Change Stage	Change Management Action	Risk Management Action
Building the Foundation for Commitment	Understand the need for change Enlist a core change team	• Review the Policy, Framework and How-to Guide • Evaluate your team's risk capacity • Develop a risk management function or task force • Secure leadership support
Getting Agreement and Setting Direction	Develop vision and strategy Create a sense of urgency Communicate the Vision	• Train • Develop a common language. Communicate • Customize the risk management process • Develop ministry specific risk management policies • Communicate. Leader's show visible support
Making Changes	Act: Implement the vision	• Identify and assess risks for each branch or project • Aggregate the risks across your ministry • Develop a risk map • Define risk tolerance • Review alternative risk management strategies and take action
Keeping it going	Consolidate the Change Align and build congruence	• Monitor, learn and improve • Link and build infrastructure support: strategic planning, performance measurement, organizational architecture, IT systems • Refine assessment methodologies for use in your ministry

- Share best practices, compare risk information, aggregate risks across ministries.

Quiz: How risk smart is your team?

	Circle Current Level (Never – Sometimes – Always)				
	Never		Sometimes		Always
1. We (regularly) identify the risks to ministry and project objectives	1	2	3	4	5
2. We have risk management polices and guidelines in place for specific operational areas	1	2	3	4	5
3. We use several methods to assess the identified risks to our objectives	1	2	3	4	5
4. Everyone speaks the same language when it comes to risk	1	2	3	4	5
5. Major risks are highlighted in strategic and business plans	1	2	3	4	5
6. Systems and processes are in place to monitor risks and to determine acceptable risk tolerance levels	1	2	3	4	5
7. Organization-wide risks are monitored (on an on-going basis.	1	2	3	4	5
8. We have a risk management function in place	1	2	3	4	5
9. Significant risks are communicated to our customers and stakeholders (regularly)	1	2	3	4	5
10. We evaluate the effectiveness of our controls and risk assessment methodologies (periodically)	1	2	3	4	5

If your team score is 45 or higher, please share your best practices with us; 21-44 keep the change going; less than 20 there is a problem, perhaps we can help.

4.4 The Future: What is Integrated Risk Management?

What is the vision of risk management in the future for the OPS? If we extend the benefits of risk management from the ministry to the enterprise, we can envision informed future decision-making facilitated by integrated risk management:

> *Integrated risk management is a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization's overall corporate objectives.*

When we managed the Y2K risk we assessed and coordinated the risk management across ministries.

The identification, assessment and management of risk across an organization helps reveal the impact of risk on the whole organization and the interdependence of risk management strategies across it. Integrating this information at a corporate level helps us to optimize our resources (by preventing the over-hedging of risk) through the identification of inherent or natural hedges. Integrated risk management can be implemented once systematic risk management, such as we have described in this document, becomes embedded in the organization's corporate strategy, performance measurements and shapes the organization's risk management culture.

Do you manage risks that other managers in other activity groups or other Ministries may also manage? Are there threats to your programs that may be opportunities for other programs?

Global private sector corporations such as Shell have led the implementation of integrated risk management. In the public sector, the Government of Canada initiated implementation with the publication of Integrated Risk Management Framework (April 2001). The need to integrate risk management across these organizations stems from the realization that:

- Some risks are complex: mitigating a risk in one ministry may create a more significant risk in another ministry;
- Hedging all risks is expensive in both economic and policy terms. If the same risk is hedged across several ministries we may be unnecessarily compounding the expense.
- Many risks are linked by the same source risk;
- Integrated risk management can supports activities that foster innovation; and

Appendix 1: *Roles and Responsibilities*

All OPS employees are responsible for following sound risk management practices and are accountable to the government for achieving results. These responsibilities are outlined as follows:

Deputy Minister:

The Deputy Minister is responsible for:

- Ensuring that ministry or agency programs are effectively managed including the management of risk;
- Setting the tone from the top that systematic and integrated risk management is valuable for understanding uncertainty in decision-making and for demonstrating accountability to stakeholders; and
- Communicating corporate direction on acceptable levels of risk (risk tolerance levels).

Executive Management Committee (including Deputy Minister):

Is responsible for:

- Integrating risk management in the planning, monitoring and reporting processes of the ministry or agency;
- Ensuring that risk management is practiced in the daily management of programs and activities within the ministry or agency;
- Approving the risk management framework and reviewing it's effectiveness periodically;
- Creating a culture that encourages, practices and rewards risk management;
- Providing managers and employees with learning opportunities and training to build competencies; and
- Allocating resources for investment in more systematic risk management where necessary.

Chief Administrative Officers

Are responsible for:

- Establishing and communicating a ministry or agency risk management framework that reflects the business of the ministry or agency in a form and approach consistent with the Risk Management Framework for the Province of Ontario;
- Integrating risk management into existing strategic planning, communications, performance and operational processes;
- Ensuring, from a corporate perspective, that risks are prioritized, documented and that appropriate risk management strategies are in place to respond to identified risks;
- Ensuring the capacity to report on the performance of the risk management function (i.e., knowing how well the department or agency is managing risk);
- Ensuring the effectiveness of the ministry or agency risk management framework; and
- Ensuring that a supportive learning environment exists for risk management, including training, sensible risk taking and learning from experience.

Managers

Are responsible for:

- Identifying and documenting all significant risks that could affect program objectives;
- Assessing risks by estimating their likelihood, impact on objectives and time horizon;
- Managing risks within stated risk tolerance levels using available tools and strategies;

- Reporting risks assessed as critical to the achievement of ministry objectives to senior management on a regular and timely basis; and
- Monitoring and reporting the effectiveness of implemented risk management strategies.

All Public Servants

Are responsible for:

- Identifying and managing risks to the achievement of ministry objectives as appropriate to his or her role;
- Following the Risk Management Framework for the Province of Ontario, and their ministry risk management framework and applying its practices in everyday management activities;
- Continuous learning about risk management and implementation issues; and
- Documenting risk assessments and management strategies.

Office of the Provincial Controller- Fiscal and Financial Policy Division

Is responsible for:

- Developing, communicating and explaining the Risk Management Policy and Framework for the Province of Ontario;
- Providing guidance, training and a centre of expertise in support of the Risk Management Framework for the Province of Ontario; and
- Periodically examining and evaluating the effectiveness of the Risk Management Framework for Ontario, tracking implementation progress and reporting on best practices.

Internal Audit

Is responsible for:

- Reporting on the consistency of the ministry or agency risk management framework with this policy and its alignment with the Risk Management Framework for the Province of Ontario;
- Helping managers identify and assess risk and the effectiveness, efficiency and economy of existing measures to manage risk;
- Helping managers assess and design action plans for more effective risk management;
- Helping the Deputy Minister, Executive Management Committee and the Chief Administrative Officer to meet their requirements under this policy; and
- Providing assurance about the effectiveness of the ministry or agency risk management framework.

Program Management and Estimates Division (PMED)

Is responsible for:

- Providing central agencies with integrated risk management information; and
- Determining specific corporate risk reporting requirements for the Business Planning and Allocations (BPA) and MB20 submissions.