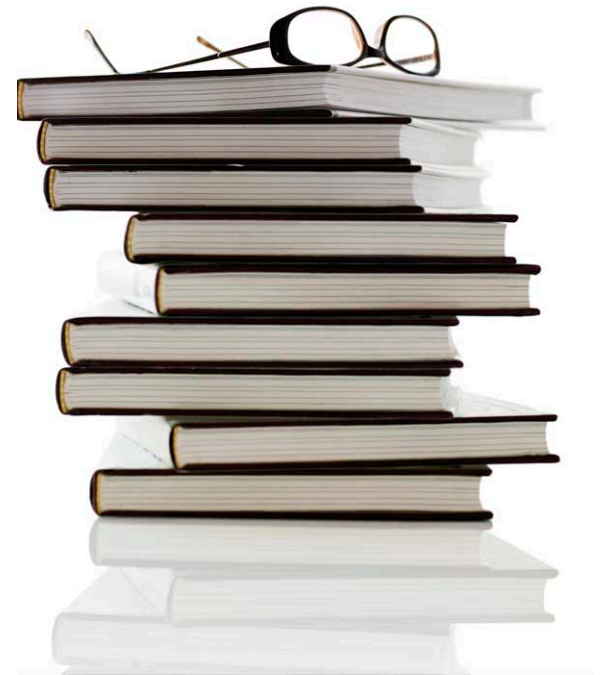# Deloitte.

Ethics & Enterprise Risk Management

Elaine Hultzer

Partner, Assurance and Advisory

Leader :Own Risk and Solvency Assessment

Agenda

- The world we live in – the new norm?

- Enterprise Risk Management ("ERM")

- Ethics

- Ethics & ERM

- Risk Culture

- The Future Influencers

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The world we live in – the new norm?

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Corporate failures and deception

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Wide reaching market and economy impacts

Investor deception

Madman Madoff

Ponzi scheme netted Jones $12 million:

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Other "new norms"?

Anti-money laundering

External and employee Fraud

Anti-fraud and corruption legislation

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The world we live in - who's to blame ?"

"the answer has nothing to do with economics or regulations or finance - It is about the desire of leaders to avoid interpersonal discomfort," *Patrick Lencioni*

Most leaders rarely have the kind of uncomfortable discussions that prevent people from doing stupid and harmful things. "Instead, they are polite and guarded and collegial with one another, even when what is called for is passionate disagreement or even outrage,"

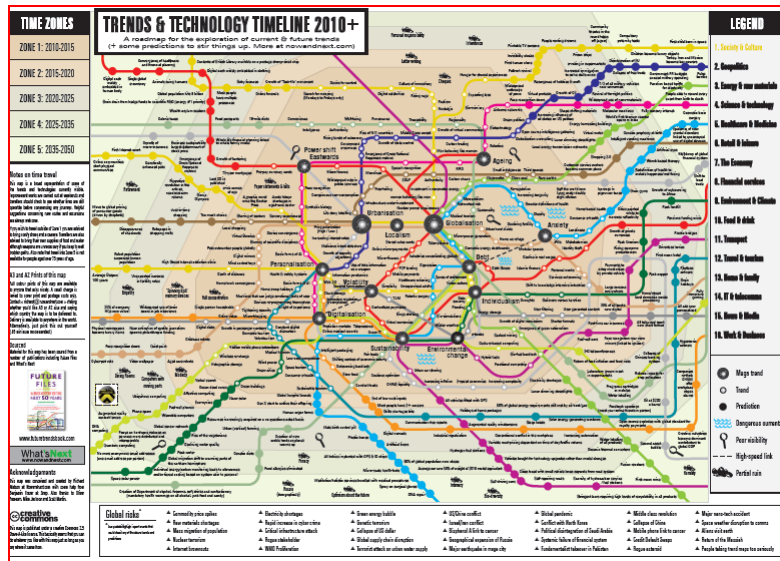Plenty of people in the various companies must have known that something was wrong…

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www.flickr.com/photos/inthepicturedesign/2075885412

38% of people trust business

Economic Crisis = Crisis in Values

Socio-economic challenges and emerging ethics requirements

- Business Ethics
- Ethical investing
- Ethical tourism
- Bioethics…

The need for ethical-based decision making

The world we now live in

A failure of risk management

"The fact is, too few people in life have the courage and clarity of thinking to stand up at the right time and say what needs to be said. And that's what makes real leaders different. They are ready and willing to do what is unseemly, uncomfortable, and even personally risky for the sake of what is right,"

Harvey Schachter   Globe & Mail Oct 13, 2008

A failure of ethics…………   or both?

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A Shift in Focus

Governance Reform
- Ethical Decision Making
- Risk Management
- Reputation Risk

Perception is Reality

Shift in Focus	FROM	TO
Respect for Compliance	Little regard	Increased emphasis
Operational Mode	Secrecy	Transparency
Criteria for Success	Profit/Value-Add	How you earn profit
Focus	Short term profit	Sustainability
Accountability	Shareholders	Stakeholders
Reputation	Profit Driven	Profit & Value Driven

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Enterprise Risk Management

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Enterprise Risk Management – a strategic imperative

Focus on what is easy vs. important

Risks managed as single impact events within various organizational silos

Models based on past events

FOCUS

Board of Directors

Executive Management

Information flow and continuous improvement

Risk Governance

Tone at the top

| Risk appetite | Strategy & performance | Stakeholder expectations |

Risk Management Enablers/Infrastructure

| Framework & methodology | Policies | Capability & culture | Information & reporting | Tools & technology |

Risk Management Processes

Risk identification → Risk measurement → Risk assessment → Risk response → Escalation & monitoring

Integration with the business

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Enterprise Risk Management framework

The ERM framework should:

- Contain the key capabilities to support the optimization of risk and capital

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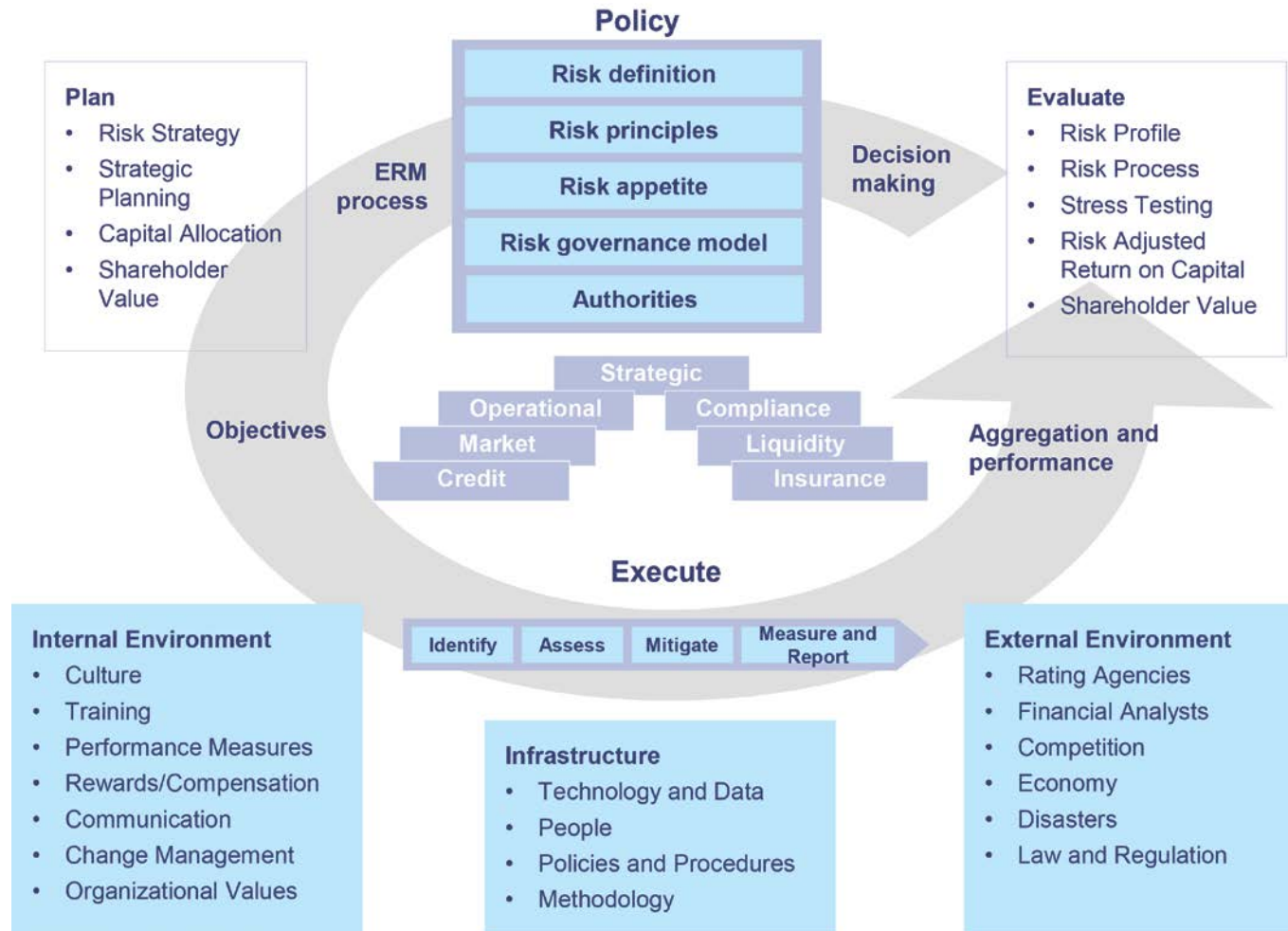
What happened with Risk Management…

Risk Governance

	Rate of change increased exponentially

Rate of change increased exponentially

Risks were no longer only visible, local or containable

Increased complexity from globalization and convergence

Tone at the top

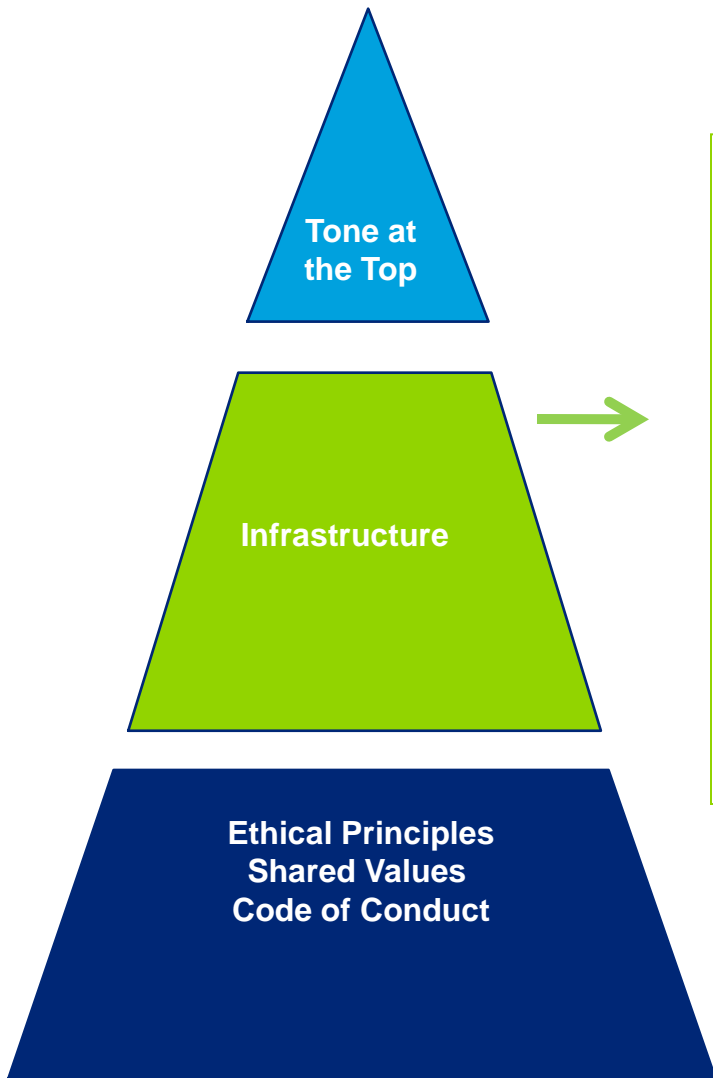| Risk appetite | Strategy & performance | Stakeholder expectations |

- Insufficient attention to Governance Component
- Lack of an integrated Enterprise Risk Management model
- Values and risk philosophy were not articulated or communicated
- Linkage between strategy, performance and risk unclear
- Risk capacity and appetite not duly considered

Good risk management is about people, values and culture

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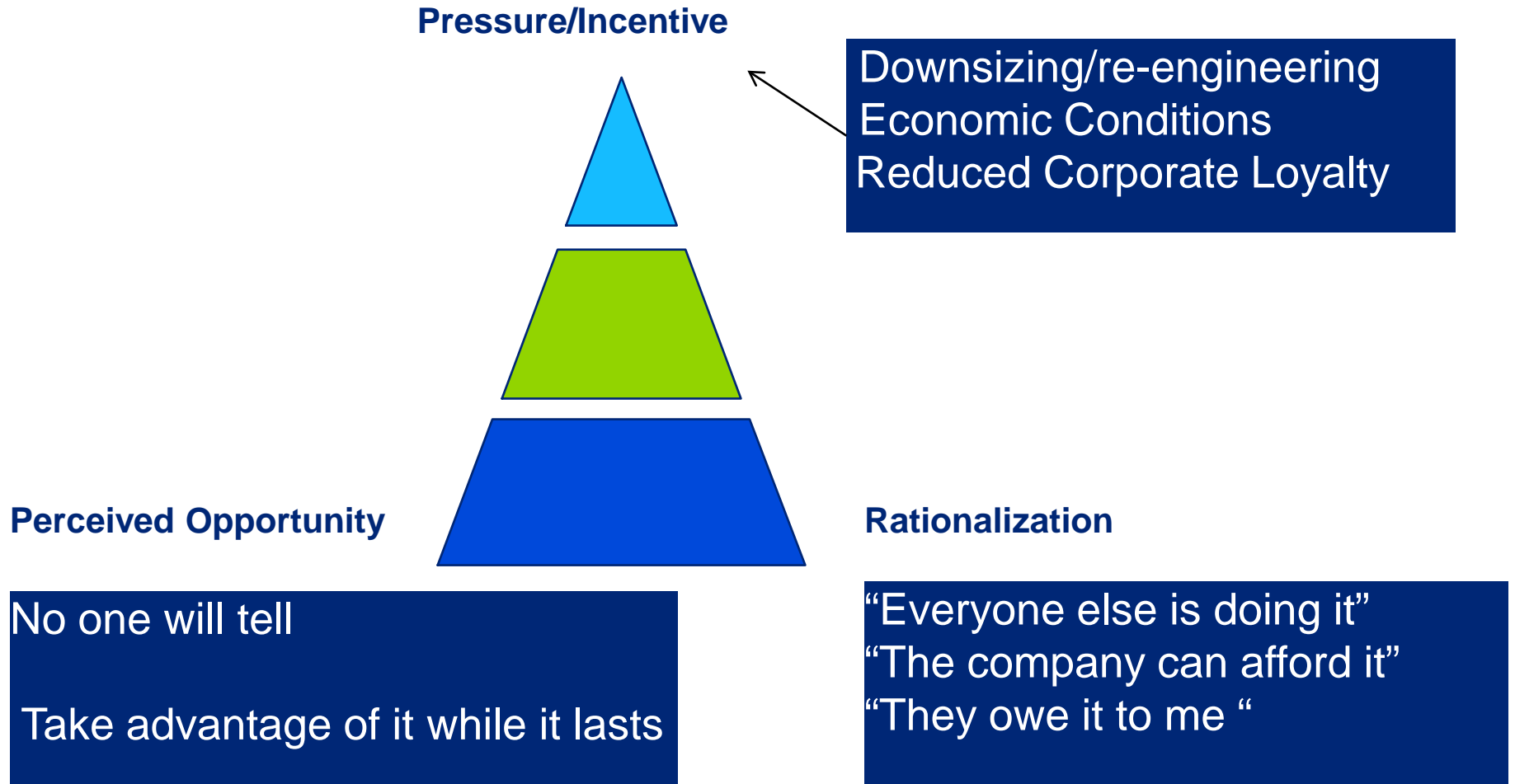
Ethics

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Business Ethics

- Ethics Officers

- Ethics Helplines/hotlines

- Ethics Programs (awareness, training)

- Ethical Decision Making Frameworks
  - ❑ Risk to you
  - ❑ Risk to others
  - ❑ Risk to the organization

Pyramid labels (top to bottom):
- Tone at the Top
- Infrastructure
- Ethical Principles / Shared Values / Code of Conduct

What happened with Ethics…

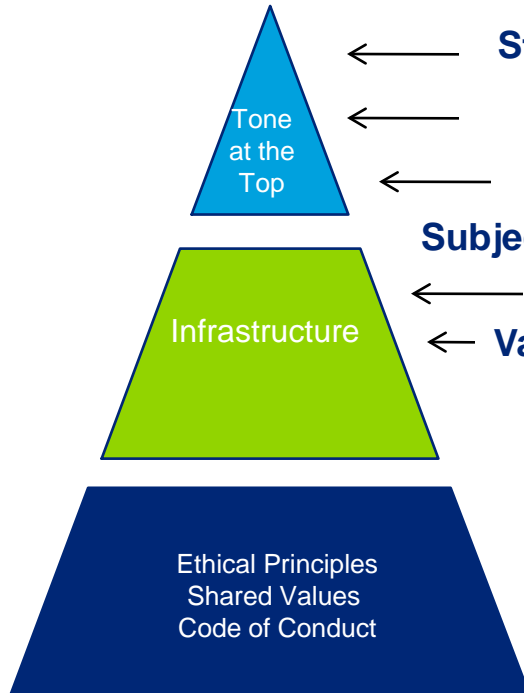**Triggers for unethical behaviour remained and arguably were increased by the current economic environment**

Pressure/Incentive

Downsizing/re-engineering
Economic Conditions
Reduced Corporate Loyalty

Perceived Opportunity

Rationalization

No one will tell

Take advantage of it while it lasts

"Everyone else is doing it"
"The company can afford it"
"They owe it to me "

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Ethics & ERM

Mutual Support

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Ethics & ERM- Commonalities

The Ethical Organization

The Risk Intelligent Organization

Structure & Responsibilities

Art vs. Science

Shades of Grey

Subjective - Based on experience and background

Value of consultation

Tone at the Top

Infrastructure
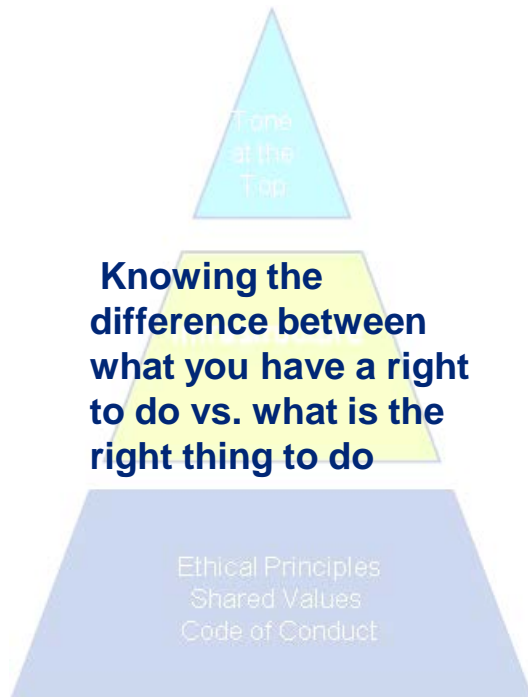
**Ethical Principles
Shared Values
Code of Conduct**

Board of Directors

Executive Management

Business units and supporting functions

Information flow and continuous improvement

Risk Governance

Tone at the top

| Risk appetite | Strategy & performance | Stakeholder expectations |

Risk Management Enablers/Infrastructure

| Framework & methodology | Policies | Capability & culture | Information & reporting | Tools & technology |

Risk Management Processes

Risk identification / Risk measurement / Risk assessment / Risk response / Escalation & monitoring

Integration with the business

A desire for certainty

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All about people – making the right decisions

The Risk Intelligent Organization

The Ethical Organization

Knowing the difference between what you have a right to do vs. what is the right thing to do

Tone at the Top

Ethical Principles
Shared Values
Code of Conduct

Helping people make decisions in the face of uncertainty

An ethical culture will mitigate risk and support behaviour necessary for success

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Risk Culture

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Culture

- How many of you include "organization culture" as part of our risk profile?

- How do you define it?

- How do you measure it?

- How many of you include "strategic change" management?

> **In many companies, risk management policies are just that; formal statements of intent that do not always translate into expected behaviour**
>
> **Towers Perrin**

Emergence of the Risk Culture

- Regulatory interest and recognition of the value of culture
- Advantage of risk considerations as an input vs. a consequence

Companies need to nurture a culture that takes risk more seriously… the most effective companies will be those that have not only developed the best integrated structures internally but that have equipped their risk managers to lead and influence the company's cultural approach to risk Adrian Cox FT.com

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Value of a Risk Culture…The desire for certainty

Whether an ethical dilemma or an impending risk, without a culture of openness and transparency, there is a risk of …

- Availability bias
- Illusion of control
- Confirmation bias
- Group Think
- Dread ------ panic actions

Emerging Risk - Strategic Change Management

Assessing a Risk Culture

- Organization Structure and Values
  - Leadership
  - Communication

- Interaction amongst people
  - Teamwork
  - Collaboration on problem solving

- What motivates people
  - Rewarding the right behaviours

- Risk Competence
  - Appropriate risk taking
  - Appropriate controls in place

Advantages
 Understand the drivers of behaviours

 Identify emerging trends

Disadvantages
Subjective
Overlaps with other surveys

Restore trust - Create an ethical culture

As we face the far-reaching ethical challenges of a post-crisis globalized economy in a changing world we need to create a culture of ethics and restore public trust.

Employees with integrity are the ones who build a company's reputation

Roberto Goizueta former CEO Coca Cola

Key characteristics of a strong risk culture

- Commonality of purpose, values and ethics
- Universal adoption and application
- A learning organization
- Timely, transparent and honest communication
- Understanding of the value of effective risk management
- Responsibility – individual and collective
- Expectation of challenge

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The Future Influencers

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Will the roles of the Board and CEO be re-defined?

- **Sustained economic performance, sound risk management and high integrity**

Risk Taking
Innovation & Creativity

Risk Management
Financial & Operational Discipline

High Performance

High Integrity

Sustained value for all stakeholders

- **High integrity means a commitment to law, ethics and values internally, in the marketplace and in global society**

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It is all about People

- Will the new generation maintain their oath of business ethics?

Ethical based-decision making

- What are the risks…..
  - To me
  - To my department
  - To my organization
  - To my stakeholders
  - To those impacted by my actions or decisions (society)
  - To the future sustainability

Builds trust

The Importance of Ethics & ERM

Goodwill like a good name
is got by many actions,
and lost by one.

Lord Jeffrey
1773–1850, Scottish critic and judge

Personal accountability

Recognizing the power of one.

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A final call……….

"You have to be *courageous*;
you have to learn to take advantage of
change. Be *non-conventional*; don't fritter your
energies—be *focused*; remember to share. Most
important, use the biggest weapon of all weapons,
the least appreciated yet the most important tool
for success, and this is *moral integrity*; and don't
be afraid to dream and don't be
afraid to *dream big*."
—PETER MUNK

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