ETHICS, GOVERNANCE AND ENTERPRISE RISK MANAGEMENT: A GLOBAL PERSPECTIVE

The 4th Bentley Global Business Ethics Symposium

Sponsored by the State Street Foundation

May 19, 2008

In Memory of Timothy B. Harbert '76

Chairman and CEO of State Street Global Advisors

Trustee and Alumnus of Bentley College

BENTLEY UNIVERSITY

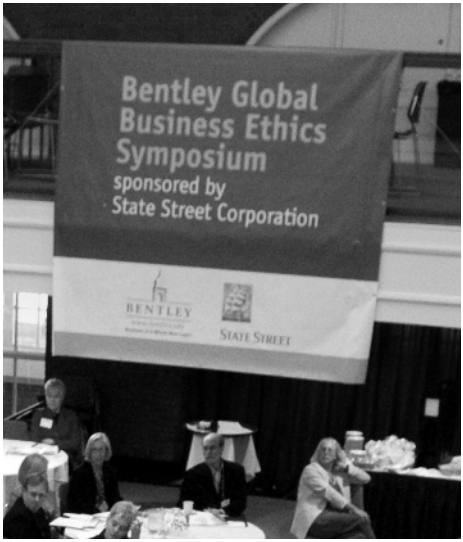
NOTE:
On May 19, 2008 the day of the conference, we were Bentley College.
On October 2, 2008, the institution became Bentley University.

The 2008 Bentley-State Street Symposium, the fourth in a multi-year partnership, returned to the Bentley campus in Waltham, Massachusetts. The program continued in its objective to unite business and higher education in the common goal of building a strong ethical foundation from which to serve our many constituencies and communities. Once again, the symposium brought together international experts and thought leaders from the academic, corporate, government and non-government organization (NGO) worlds for in-depth discussions of current practices and challenges in business ethics and corporate responsibility. The purpose of the daylong event was to both learn and inform by:

- exploring current practices in other institutions, countries and cultures
- identifying ways to enhance issues of ethics and corporate responsibility in business education and in outreach to the corporate community
- disseminating this experience throughout the academic and practitioner worlds.

With more than 30 speakers and panelists and an audience of approximately 130 academic, civil society and corporate participants, the May 19, 2008 symposium provided the opportunity to explore a wide range of issues related to ethics, governance and enterprise risk management in the current global environment.

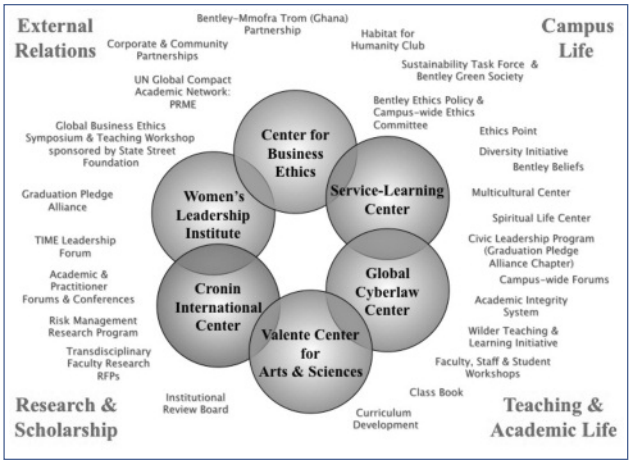
The symposium series is hosted by the Bentley Alliance for Ethics and Social Responsibility (BAESR). Formally launched in January 2004, the alliance's mission is to amplify and extend the work of the autonomous centers and initiatives on the Bentley campus, supporting and encouraging greater awareness of, respect for, and commitment to ethics, service, social responsibility and sustainability in faculty research, curricula and campus culture. Coordinated by Anthony F. Buono, professor of Management and Sociology at Bentley, a unique feature of the alliance is its integrative focus on ethics, social responsibility, sustainability and civic engagement. In pursuit of its mission, BAESR's efforts focus on:



- Supporting and encouraging collaborative and applied transdisciplinary research that has the potential to significantly affect current practice

- Influencing curriculum development and pedagogical innovations intended to make our students more ethically sensitive and socially aware
- Ensuring a broad application of these principles and ideals in campus life
- Attempting to foster lifelong civic engagement among our students
- Seeking to work closely with external organizations — partnering with academic and professional associations, corporations and not-for-profit organizations in pursuit of these goals

This collaborative effort is dependent on the commitment of a broad range of stakeholders, including Bentley faculty, staff, students and alumni, as well as business executives, corporate and community partners, and other relevant associations and colleges and universities.



The BAESR initiative is built on six "core pillars" in the Bentley community that continue to operate as autonomous entities, but collaborate under the aegis of the Alliance:

Center for Business Ethics: Founded in 1976, the Center for Business Ethics (CBE) is an internationally recognized center that promotes ethical leadership, conduct and cultures as critical to an effective and legitimate role for business. *(http://www.bentley.edu/cbe/)*

Cronin International Center: Created in 1987, the Cronin Center prepares students to be ethical and responsible participants in the global business environment, promotes faculty teaching and research in global issues, and fosters partnerships with universities, companies and governments around the world. *(www.bentley.edu/international/)*

Global CyberLaw Center: Established in 2002, the center focuses on exploring the vast legal, social and ethical issues relevant to cyberstudies and e-commerce. *(www.bentley.edu/cyberlaw/)*

Service–Learning Center: Established in 1990, the Bentley Service–Learning Center (BSLC) seeks to promote academic learning, to develop socially responsible working professionals, and to assist community partners in serving the human needs and interests of their constituencies. *(www.bentley.edu/service-learning/)*

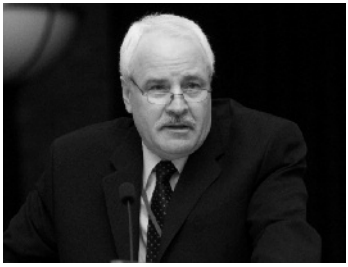
Valente Center for Arts and Sciences: Created in 2006, the Valente Center's mission is to help make the arts and sciences a vital, integral and challenging aspect of undergraduate and graduate education at Bentley, promoting research at the intersection of arts, sciences and business. *(www.bentley.edu/arts-sciences-center)*

Women's Leadership Institute: Founded in 2003, the institute focuses on strengthening the presence of women in society and fostering partnerships with the business community that highlight and address issues on women in leadership. *(www.bentley.edu/wli)*

Combined with a series of programs and activities across the institution, this initiative has led to a four-part approach that attempts to shape and influence a sense of ethics, service and responsibility throughout (1) the curriculum, (2) campus life, (3) the university's research agenda, and (4) in outreach to the academic, corporate and not-for-profit worlds.

SYMPOSIUM HIGHLIGHTS:
ETHICS, GOVERNANCE AND ENTERPRISE RISK MANAGEMENT:
A Global Perspective

The program began with welcoming comments from Anthony F. Buono, coordinator of the Bentley Alliance for Ethics and Social Responsibility, noting that the symposium is held in memory of Tim Harbert, a Bentley alumnus and trustee and chairman and chief executive officer of State Street Global Advisors. "As his colleagues at State Street have noted, under Tim's leadership, State Street Global Advisors became one of the world's premier asset managers, significantly expanding its portfolio of Socially Responsible Investment Funds … throughout his tenure with State Street, Tim was a major supporter of the firm's community outreach programs … and he would be very proud of this symposium and the focus of our discussion today." Pointing to State Street's "long-term commitment to these ideals," he thanked the firm and its members for their ongoing support of the symposium series and follow-on faculty development teaching workshop.



Anthony F. Buono,
Bentley University

In 2008, the program returned to the theme of our inaugural 2005 symposium, when we focused on "Ethics and Risk Management in a Global Environment." As Buono explained, "Roughly a year and a half ago, when we were deciding on the subject matter for this year's symposium, we clearly thought the topic sufficiently important to address once again, but I don't think any of us realized just how timely the theme would be."

Gloria Cordes Larson,
Bentley University

Bentley University president **Gloria Cordes Larson** continued the welcoming comments, underscoring that "Today's discussions will directly confront the daunting challenges — from the current recession and the restructuring of the Treasury, to the Bear Stearns bailout and our credit crisis, to reputational risk and the challenge of creating ethical global organizational cultures — that face us today as we continue to move toward a broader, more holistic view of enterprise risk management." Pointing to the broad corporate and academic participation in the program, she noted "I would also like to single out two special guests with us today — two talented scholars from Afghanistan who fled the violence of their country, obtained U.S. citizenship and university degrees, and returned to help rebuild their homeland: Professor Hamidullah Farooqi, CEO of the Afghanistan International Chamber of Commerce International Chamber of Commerce and a member of the economics faculty at Kabul University; and Professor Obaid Adnan Nejati, director of the Professional Development Institute at the American University of Afghanistan in Kabul."

Hamidullah Farooqi, Kabul University and Obaid Adnan Nejati, American University of Afghanistan

Enterprise Risk Management at State Street

Nancy Loucks, State Street's executive vice president and head of Enterprise Risk Management, began the program by focusing on the issues that most organizations face when establishing and then monitoring an effective and efficient Enterprise Risk Management (ERM) program. Drawing on examples of the practices developed at State

Street, she underscored that State Street prides itself on being a "quality institution that investors can trust their assets to." She added, "As a global leader in financial services, with $14 trillion in assets under custody and $2 trillion of assets under management, our reputation is a critical factor in our success."

As part of the company's effort to ensure its reputation, she pointed to several new policies that State Street has created focused on "upholding several inherent values." In 2003, for example, State Street developed an Environmental Policy aimed at helping to preserve the world's resources through day-to-day operations. To uphold this policy, an Environmental Management System was created, which Loucks explained "systematically tracks and reports State Street's carbon emission, energy and water usage, recycling, and business travel."

Nancy Loucks, State Street

In a similar effort to uphold the value of transparency, Loucks mentioned that in 2007 State Street created a Corporate Social Responsibility Working Group. This company-wide team, which consists of middle- and upper-level managers, is responsible for keeping State Street "abreast with current trends and practices in corporate social responsibility." Loucks stressed that everyone — including customers, shareholders and employees — benefits when a company relies on an ethical foundation in its decision making. At State Street, she noted that all corporate strategies are based on the attitudes and conduct that are important to State Street's "stakeholders — our shareholders, customers, employees and communities." She cautioned, however, that establishing a set of ethics within an organization is a separate matter from communicating those standards to an organization's stakeholders. State Street established this communication process by developing a Standard Code of Conduct, which as Loucks explained "applies to all employees globally," and requires every employee to understand and comply with the code as well as all laws and regulations.

The Code of Conduct aims to provide structure and guidance for proper business protocols as well as employee behavior. State Street's Code of Conduct covers such topics as confidentiality and property ownership, the use of information for personal gain, State Street's commitment to competing in a lawful manner, and the proper respect of various cultures and customs in every jurisdiction in which State Street operates.

Loucks noted that simply having a code of conduct in place does not guarantee that it is followed. "The ethical standing of organizations is tested during the making of day-to-day business decisions," she pointed out, adding that "no code

can conceive or anticipate every situation." To ensure that decisions are made ethically within the organization, it is vital to continually ask a series of questions: "How comfortable are you with the integrity of the decision? Is the decision consistent with the organization's long-term goals or simply a way to meet the quarterly reviews or targets? Will the decision still withstand criticism several years down the line?"

To ensure that these questions are answered whenever a decision is made, State Street established an ERM system and compliance program, noting that "ERM is a process whereby risk management becomes the responsibility of everyone within the organization and is aligned with the corporate strategies with the ultimate goal of achieving corporate objectives." The main output of an effective ERM system, she continued, is to inform business decision-making and facilitate executive oversight.

With regard to the recent financial crisis, Loucks explained that there is a general consensus about the leading factors that contributed to the market situation, pointing to "low credit ratings and interest rates coupled with the adoption of a new banking philosophy and the deterioration of underwriting standards." These issues all stem from "deficiencies" in the risk management approach of those organizations in question, pointing to such problems as aggressive asset valuation practices and a lack of transparency.

Loucks concluded by noting that at State Street upholding the company's reputation "is an extremely important goal … and we do this by setting the tone at top. Sometimes this means disassociating oneself from a risky relationship. We will walk away from business that does not meet our risk management standards … [stressing that] success depends on using sound judgment again and again. Our ability to make good decisions depends on defining and clearly communicating the values and expectations that are to be upheld by everyone within the organization."

In conclusion, Loucks expressed her wish that the current attention given to risk management, ethics and governance "will not be just a passing fad. Risk management is an evolving art that should continue to be a priority of every organization."

ENTERPRISE RISK MANAGEMENT: THE STATE OF THE ART


Donna Fletcher, Bentley University

The program's initial panel was moderated by **Donna Fletcher,** associate professor of finance and director of the Risk Management Research Program at Bentley. The first panelist, **Sridhar Ramamoorti,** partner, National Corporate Governance Group, Grant Thornton, LLP, began his comments by noting that as a former principal at Arthur Andersen he is only too familiar with the serious ethical lapses surrounding the Enron/WorldCom/Andersen scandals that led to a "wake-up" call regarding governance and accountability issues in corporate America (ergo Sarbanes-Oxley Act of 2002). Reflecting on his doctoral studies in quantitative psychology at The Ohio State University, he realized that "there are many important things, in fact more important things, in life and in business that cannot be measured." The culture of an organization and the values upheld by its people are examples of such important, immeasurable things that are not necessarily reflected in stock prices. So, the all-consuming focus on stock prices, including for assessing corporate performance and determining executive compensation, is wrong-headed, myopic, and severely problematic. Using the Organization for Economic Co-operation and Development (OECD) definition of Corporate Governance as a set of relationships among a company's management, board, shareholders and other stakeholders, he highlighted the importance of vital non-quantitatively measurable elements such as governance and stewardship, culture, values, ethics, and accountability. Ramamoorti pointed out that the single major challenge addressed by corporate governance is how to grant managers enormous discretionary power over the conduct of the business while holding them accountable for the use of that power (in an ethically appropriate way).

Ramamoorti continued by pointing out that the "existence of fraud, misstatements or [even] the complete failure of the business model is incompatible with effective corporate governance," since governance cannot be honestly declared in the face of such circumstances. Ramamoorti explained that after the collapse of Enron and WorldCom the auditing profession was primarily blamed for not finding and stopping the unsettling behaviors within these organizations that ultimately led to their demise. However, he explained that there are several parties, including senior management, boards of directors, financial analysts, lawyers, bankers, as well as the federal standard-setting bodies and the government that should be held accountable for their actions. For example, Ramamoorti cited congressional interference with the Financial Accounting Standards Board (FASB) standard-setting agenda, explaining that the FASB was "working on changing accounting standards about option expensing rules since the early 1980s, but every time they attempted

to adopt these rules they were thwarted typically through political influence and lobbying — in many cases threatening the FASB's very survival as an independent standard setter." Consider that that it wasn't until Section 303 of the Sarbanes-Oxley Act of 2002 that "lying to the auditor or improperly influencing the auditor became illegal." As he lamented, it is only logical to ask "So before 2002, it was legal?"

Sridhar Ramamoorti, Grant Thornton LLP

In regard to stock options, Ramamoorti drew attention to research findings that approximately "31.5 percent of all financial restatements are related to improper stock options accounting," adding that this is not a phenomenon occurring only in the United States. As an example, he cited Canada's Research in Motion (the makers of the Blackberry PDA) that recently "took a $250 million charge for stock option accounting abuses." More importantly, Ramamoorti stressed the shocking disconnect between executive management's pay and performance, highlighting that although CEOs are departing because of lackluster performance, any attempts in enforcing "clawback provisions" (i.e., demanding they return their lavish, undeserved pay to the shareholders) have been spectacularly unsuccessful. In order to put into perspective the obscene amounts granted to some executives, he pointed to United Healthcare and its ex-CEO, Dr. William McGuire, who received $1.5 billion in stock-options-based compensation between 1993 and 2006. Although following his termination McGuire was asked to return some of this money, he still left with a whopping $800 million!

Based on the SEC's federal mandate of "investor protection," Ramamoorti raised the question "but investors are not the only ones getting hurt — what about employees? As an ex-Arthur Andersen employee, my professional career was derailed. Yet, I never got a call from anybody in government to explain why I was let go, without being at fault. I never worked on the audit teams of either Enron or WorldCom." Organizations must be placed within the context of culture, values and ethics, as they all work together as part of the "social fabric." With this in mind, Ramamoorti pointed out that it is fundamentally wrong "with creating a federal organization, like the SEC, that cares only about investors and not about employees, suppliers and customers. We must consider the entire capitalist ecosystem in a holistic fashion and look to the rights of all concerned stakeholder constituencies." As he concluded, "we must embrace an enlightened notion of corporate governance. It is vital to consider an organization's actions on the triple bottom line, focusing on economic performance, environmental performance and social performance."

Reflecting on his former position as chief risk officer and head of Enterprise Risk Management for two of the world's largest banks, **Michael Ong,** currently professor of finance at the Stuart School of Business, Illinois Institute of Technology, continued the discussion by noting "the severity of a market crisis can always be measured by how seriously trust and confidence have been compromised." You have to be able to "trust that your counterparty will not treat you unfairly and have full confidence that your counterparty will fulfill its obligations — regardless of market conditions." Good corporate governance, he continued, promotes both trust and confidence.

The main theme of Ong's presentation centered around three simple words — transparency, responsibility and accountability — all of which are essential to a good risk management framework and corporate governance. Ong explained that the lack of good corporate governance "typically rears its ugly head during a time of crisis," at which point the worst aspects of mismanagement within institutions are highlighted. Additionally, the negative aspects of ancillary functions that support the markets — regulatory supervisors, central banks, rating agencies, consultants and auditing/accounting firms — are also made visible to the public.

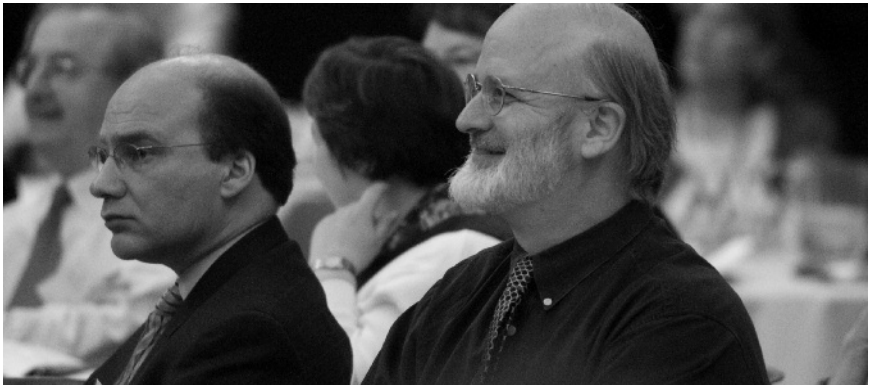
Michael Ong, Illinois Institute of Technology

One aspect that most individuals do not consider is that, as with most things in life, financial markets constantly evolve. Ong explained that in the past decade, the U.S. and the global economy have been affected by many different crises, which in effect have elevated the risks that organizations face and the importance of how these risks are managed. He attributed the rapid evolution of risk to three core factors — an extended period of low interest rates, a sharp increase in complex credit instruments, and the market-entrance of new players who are either completely unregulated or lightly regulated. The result of these three factors led to what Ong referred to as an "incestuous relationship" within the banking industry.

To begin with, Ong explained that low interest rates caused a higher appetite for riskier investments, which provide higher yields. "This chase for higher yields, in turn, tempted investors to add larger volumes of very complicated and highly illiquid assets to their portfolios that were financed by cheap short-term profits." At the same time there was a significant paradigm shift in the banking industry, from an "originate and hold" philosophy to "originate, securitize and distribute." The complex securitization instruments led to a false perception of risk, which was not contained within the sphere of the banking industry but spread to new entrants to the market. This dynamic was promoted by the rating agencies, which priced these securitized products in a deceptively favorable manner. The "incestuous relationship"

arose when banks acted as product originators and distributors, while the rating agencies facilitated the pricing and interpreting of risk that was then sold to new entrants. The overall result was not only a dispersion of risk, but also the dispersion of ignorance and complacency.

"It has been argued," Ong continued, "that risk-taking is a fundamental tenant of financial intermediation, however, because of a significant paradigm shift in business philosophy in the past decade the financial industry has fallen short of the noble ideals established in the early days of risk management." In fact, he argued that risk management became an enabler of risk-taking, where too much risk was undertaken by participants who were not equipped to handle it, and dispersed to industries and even countries that should not have been affected by it in the first place. In effect, the long-term hypothesis held by both banks and regulators that "it is beneficial for banks to spread their risk widely among other market participants" is being tested during this financial crisis.



Ong concluded that ethics, governance and risk management go hand in hand, that risk is a dynamic concept that changes with time, and that a good risk management framework is adaptive to these changes and "allows one to be nimble in times of calm and quick to react in times of crisis." He added that "risk offers both challenges and opportunities. Good risk management is about understanding risks and their challenges. The ability to understand, examine and evaluate risks in their proper context ultimately allows one to participate in the opportunities."

The final panelist, **Geoffrey Buswick,** managing director, Boston office head, Corporate and Government Ratings, Standard and Poor's, centered his presentation on S&P's rating system and how ERM implementation is changing this process. He began by explaining that a rating is S&P's evaluation of a company's risk based on its respective industry. The rating itself is S&P's opinion about the organization in question, which is largely based upon historic data. As he underscored, that rating is "not a recommendation to buy or sell" a company's shares.

In addition, Buswick pointed out that in their risk assessments S&P relies on data that is provided by the rated company, which means that there is an additional amount of risk in regard to the accuracy and honesty of the data that is used to reach a conclusion.

Geoffrey Buswick, Standard and Poor's

In establishing a company rating, Buswick noted that many factors are taken into consideration, not all of which can be numerically quantified. Therefore, he argued that S&P will rely on ERM to get a "sense of what management is doing, what their future objectives are and what is being done to reach those expectations." Among the many perspectives on ERM, he highlighted it as a "way to work over time toward lower losses compared to average earnings." Enterprise Risk Management provides a change of thinking for the organization, from a cost versus benefit approach to one of risk versus reward. As a ratings agency, S&P analyzes how companies evaluate and manage risk and what rewards are sought in undertaking specific risks.

Buswick also stated that ERM is not a method to eliminate all risks or a rigid set of rules that must be followed under all circumstances. He further noted that ERM is different not just for each industry but that it also differs from year to year in any single market segment. He underscored that organizations undergoing rating-analysis are usually in the best situation for identifying their key risks. The rating agency's role is to see what is being done to prepare for the identified risks and more importantly what plans are made for the "worst case scenario."

Currently, S&P employs ERM in the rating of financial institutions, however, there is work in process to expand ERM across all sectors. Buswick explained that this will be a slow expansion that will require S&P's analysts to collect data by asking ERM-related questions and then comparing individual results to rate companies within their respective industries. The actual ratings will take place in late 2009.

Closing his remarks, he pointed out that in analyzing ERM, S&P looks for several factors within organizations. Buswick noted that management's allocation of sufficient resources — both monetary and in terms of human capital — for risk management to reasonably achieve set objectives is a key factor. Speaking from his personal experience, Buswick stated that "Enterprise Risk Management is undervalued, underfunded and under-integrated in most sectors." Thus, bringing this issue to the

forefront of discussions between senior management and the board will be "beneficial for all stakeholders." Pointing to the board of directors, Buswick also mentioned the importance of an active board role in making and/or approving decisions regarding the management of risk as well as creating policies with regard to risk evaluation. Additionally, because it is very hard to assess the culture of an organization, an evaluation of the board's role within the company provides a glimpse of the "tone at the top," which is a valuable indicator of culture that permeates throughout the organization at large.

Panelists Donna Fletcher, Sridhar Ramamoorti, Geoffrey Buswick and Michael Ong

ENTERPRISE RISK MANAGEMENT IN PRACTICE

Jean Bedard, Timothy B. Harbert Professor of Accountancy at Bentley, moderated the morning concurrent panel on "Enterprise Risk Management in Practice." The first panelist, **John Phelps,** director of Business Risk Solutions, Blue Cross and Blue Shield of Florida, Inc., focused on the advantages of risk. Drawing on more than 20 years of experience in health care as a commercial accounts underwriter, broker and risk management practitioner, he argued that "risk is good … and companies should appreciate their risks as opportunities," noting his self-proclaimed nickname as the Evangelist for ERM. He explained that, at its most elemental level, everyone in the company is managing risk every day. "If we didn't have everyone in our companies managing risk, there would be no companies," he explained, adding that "ERM supports their role as risk takers and managers."

As he continued, in comparison to traditional risk management, ERM provides a multi-divisional view of risk in terms of identifying, analyzing and assessing the risks facing each organization. If implemented correctly, ERM establishes risk management as the responsibility of each department and every employee, yet it still holds the chief risk-takers responsible for ethical decision-making.

Panel: Hamidullah Farooqi, Kabul University, John Farrell, KPMG and Jean Bedard, Bentley University

Management also comes to understand how interrelated their risks are with those in other departments. The traditional "silo" approach to risk management cannot exist within a company with an ERM program.

John Phelps, Blue Cross and Blue Shield of Florida, Inc.

Concerning accountability, Phelps stressed that he does not believe in the role of a chief risk officer, simply stating that "the CEO always has been and always will be the chief risk-taker. … Anything that dilutes that basic premise is fundamentally flawed." In order to take full advantage of ERM, Phelps explained that it must be aligned with existing corporate strategies, objectives and mission. A fundamental premise for an ERM program is to establish "risk ownership" as well as to limit the authority for risk-taking decisions within the company's risk appetite. Full ERM integration can be achieved by "un-complicating risk for people who love to make it complicated" as well as "getting people to think about how they are taking risks." In order to assist employees in reaching these goals, he suggested that providing access to decision-making resources — including company-wide risk assessment tools, internal consulting, and training on the process to identify and assess risk — are key success factors.

He concluded by noting that any organization implementing ERM must overcome the idea that "all risk is bad" since all risks have an upside that, if handled appropriately, can optimize the reward while minimizing the cost.

John Farrell, national lead partner for Enterprise Risk Management Services at KPMG, discussed how to implement an ERM program within existing business processes. Drawing on his client experience at KPMG, he underscored that most

organizations decide to implement ERM in an attempt to improve governance, corporate strategy and performance. Farrell noted that while ERM can help organizations comply with SEC regulations, prioritize risk strategies, improve accountability and transparency, and establish that all departmental functions have a common risk and control language (definition, standard, methodology), ERM can also help consolidate risk management responsibilities by implementing a "no surprises" culture. Creating a risk-aware culture within the organization is especially important in meeting credit-rating agencies' requirements that a robust risk management program is in place.


John Farrell, KPMG

In discussing how an ERM program might be effectively structured, Farrell recommended the "three lines of defense" model. This structure allows for independence and accountability for the content, process and compliance with the company's ERM policies. The first line consists of management, which should be responsible for executing risk assessments, and identifying, managing and mitigating risks. The second line of defense consists of the standard setters, predominantly the chief risk officer and legal team, who are responsible for creating the risk management process and policies for the firm. Finally, the third line of defense, which usually consists of the internal audit department, ensures that the first and second lines of defense are functioning according to the risk management policies, and that processes are working adequately.

Farrell suggested that it is vital for organizations to regularly review which risks are actually controllable by management, and how management is dealing with those risks. He recommended a five-point scale that can be used to evaluate the effectiveness of the organization's reactions to specified risks. Identifying emerging risks and their likelihood, and understanding how the occurrence of one high-level risk event affects others, are key to a strong risk assessment process. This process allows the organization to not only determine how well it identifies potential risks, but also how it manages them.

Closing the panel, **Hamidullah Farooqi,** CEO of the Afghanistan International Chamber of Commerce, concentrated on the range of risks that are being dealt with at the country level rather than by individual organizations. The magnitude and complexity of these challenges become all too clear when looked at in the context of Afghanistan. As Farooqi explained, working with a nation that is going through significant transition and post-Soviet reconstruction one encounters considerable obstacles and ethical dilemmas.

Farooqi noted that that there are many "implications [placed] on the physical and financial existence of [Afghan] businesses," most of which come in the form of indirect controls that operate through various forms of prejudice and discrimination. As an example, corruption, which can be found at every level of Afghan society, is considered by Farooqi to be the most serious challenge, since it leads to an "unclear social structure as well as poverty." Many organizations violate and exploit their employees and engage in environmental pollution, which makes "launching ethically clean businesses" an extremely difficult proposition. Additionally, Farooqi argued that "when it comes to business, politics precede economic considerations … and that's because politics is an economic means in the hands of some."

Hamidullah Farooqi, Kabul University

On a positive note, Farooqi also believes that "where there is a problem, there is a solution." In this instance, the solution must come from within Afghanistan as well as from the international community. The new social system is improving "toward a horizon of democracy with free and fair market arrangements," Farooqi noted, adding that there are still many ways to help small- and mid-sized Afghan businesses by directing the attention to investment and away from consumption. Accordingly, Farooqi explained that it is vital for the government to "translate the needs of the private sector into laws … and to involve the people in the creation of [these] laws" through the use of "a private sector feedback mechanism." Similarly, developing a systematic and reliable way of gathering and disseminating information will produce a better decision-making process. Finally, Farooqi stressed the importance of academia in the national transition and reconstruction, stating that "no institution better than the university campus can correct the mindset" of Afghanistan's future generations.

Panel: Obaid Nejati, American University of Afghanistan, Michael Duffy, OpenPages, Inc. and Robert Frederick, Bentley University

IMPLEMENTATION CHALLENGES IN ENTERPRISE RISK MANAGEMENT

The second morning panel was moderated by **Robert Frederick,** professor and chair of the Philosophy Department at Bentley University. **Michael J. Duffy,** president and CEO of OpenPages, Inc., began by reflecting on his company's experience in developing software designed to provide management with the "necessary visibility of risk that occurs within organizations." Working with high-profile customers such as Barclays, Capital One and Carnival Cruises, Duffy argued that one of the most important factors that is essential to effective ERM implementation is "support from the top." As he underscored, "we are talking about a cultural change in the way companies are managed … it is very difficult to get the right management culture in place if you don't have the commitment from the top." After the board of directors and CEO show their support for an ERM initiative, he recommended that management be provided with the appropriate education and training, which begins to imbed risk management thinking within the culture. Duffy explained that this step "is not a one-time thing" and that "to enable managers to manage risk properly, [training] must be an ongoing, multiyear commitment." Based on the successful practices of his clients, Duffy noted that scenario-planning exercises for key managers were an excellent starting point for answering the basic question of "where do we have risk in the business and what could go wrong?"


Michael Duffy, OpenPages, Inc.

Duffy pointed, in the spirit of best practice, to several concerns that should be avoided by companies interested in establishing ERM programs. The idea of "silo implementation," he noted, should be avoided. Without thoughtful planning, companies

often end up with overlapping risk management processes, resulting in duplicate effort, errors and waste. Also, these different processes typically are supported by risk systems, each based on a unique technological footprint. Over time, this can create significant problems since risks are interdependent and this approach can cause "management to fail to see how a key risk in one silo [department] creates or relates to other risks in other silos." Duffy recommended that standard taxonomies and languages be established from the onset of the ERM implementation process, which enables cross-functionality and visibility when individual departments are connected.

With respect to technology, Duffy recommended a strategic approach, "thinking about technology that can scale across the business" to meet each department's needs. He noted that it is vital to "invest the time up front to determine what you want out of the system … what information you need to run the business, and what information you want to share with your board."

In terms of actual project implementation, Duffy warned about the "Big Bang approach," where huge solutions are implemented across large organizations. This approach rarely addresses all concerns in every area of the business. Instead, he recommended working on specific areas of risk. Once management becomes proficient with each success they can expand to other areas with an increased base of knowledge and expertise, getting "the benefit of interrelationships over time."


Mary Culnan, Bentley University

Mary Culnan, Slade Professor of Management and Information Technology at Bentley University, spoke about risk, ethics and information security, focusing on security breaches. She argued that "companies have a moral responsibility to protect personal information that they collect from or about individuals above and beyond what is required by law." According to Culnan, the recent media attention dedicated to security breaches does not stem from the fact that they occur more frequently today than in the past. In fact, as she argued, "security breaches have always been around; we just didn't know about them." Culnan noted that between January 2005 and May 2008, "more than 200 million records containing sensitive personal information have been exposed due to security breaches of various kinds." This increase in reporting is largely due to a 2003 California law requiring organizations that suffer security breaches that meet certain criteria to provide notice to the public. Most states, including Massachusetts, have subsequently enacted similar breach notice laws.

As examples, Culnan pointed to two infamous breaches — ChoicePoint and TJX — that resulted in approximately 145,000 consumer reports and at least 46.2 million credit card numbers respectively being fraudulently accessed and

exposed to the potential of identity theft. As she pointed out, such security breaches were much easier to prevent before the Internet, since companies needed to mount a "perimeter defense" and physically protect their own systems. However, today the risk is much greater as "anyone who is connected to the Internet can potentially be attacked by anyone else connected to the Internet." As she added, the intent for such attacks is more likely to be truly malicious and fraud related, rather than simply a source of entertainment.

Culnan underscored that information is becoming even more susceptible to misuse since many companies outsource or off-shore some of their business processes. This strategy creates situations where customers' information becomes available to individuals in other countries, where it may be difficult to prosecute these crimes. Mobile computing represents yet another challenge as many employees within the U.S. telecommute using unsecured home computers or use unsecured wireless connections in public places. This also poses new risks in addition to the potential for physical theft or loss of a laptop or other mobile devices.

The challenges of the current business environment create situations where organizations cannot afford to respond to every kind of risk. Culnan, however, emphasized that the focus should be on risk trade-offs — and deciding how to address security issues should be a main priority for any business that collects personal information about their customers or employees. As she argued, the effects of security breaches can be devastating. Not only will companies incur significant costs, such as those faced by ChoicePoint ($30 million) and TJX ($156 million), but there is also a significant potential for reputation damage. There is also the added possibility of government intervention and spill-over effects, where new regulations or laws are enacted for an entire industry based on the actions of a single firm. As a result, breaches pose a threat to an organization's legitimacy and the way various stakeholders view and respond to the organization.

She concluded that the main lesson from the recent security breaches is that information age companies need to manage the personal information in their custody as responsibly as they manage their money. The best way to accomplish this is to go beyond merely complying with the law and to create an ethics-based culture as part of their information risk management programs. Building a culture of integrity requires leadership from the organization's top executives, and includes developing and implementing appropriate policies, structures, controls and processes. Finally, organizations need to put in place monitoring programs to ensure they comply with their policies. (Note: Her remarks were based on research she is conducting with Bentley University Assistant Professor Cynthia Clark Williams.)

Shifting the focus, **Obaid Adnan Nejati,** director of the Professional Development Institute at the American University of Afghanistan, pointed to the large disconnect between practice and theory in applying statistical theories of risk in his home country of Afghanistan. Although "statistical theories always leave room for outliers that don't conform to the model," Nejati explained, "in Afghanistan, those

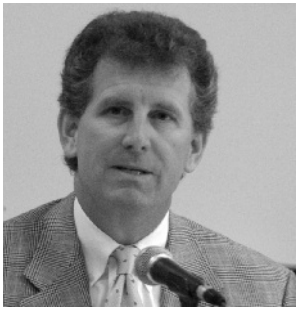
outliers are the actually norm." Noting that ERM takes on a different meaning in his country, largely due to "the past 30 years of warfare," he argued that ERM implementation in Afghanistan "cannot rely on the body of knowledge acquired in the West" since the targeted population does not behave in expected ways.

Obaid Nejati, American University of Afghanistan

As an example, Nejati discussed what he referred to as the "reversal of labor force productivity." During the Soviet-Afghan war approximately five million civilians were forced out of Afghanistan, taking refuge in neighboring countries. Over time, these Afghan refugees slowly developed into a productive and resourceful labor force, which became the targeted population of Afghan and UN policymakers, who believed that once these individuals returned to Afghanistan they would "become the engine of growth and business development." However, contrary to these expectations, as the refugees returned to Afghanistan they became "the victims of group conformity" and lost any gains they had attained, both in business ethics and work-related productivity. As a result, Nejati believes that the cultural values that prevail in Afghan society are a major obstacle in the country's development.

When thinking about risk management in a country like Afghanistan, Nejati argued that the key challenges are embedded in an overall mentality of subsistence versus development, an orientation toward tactical gain versus strategic growth, and an emphasis on short-term gains versus long-term profitability. He concluded by saying that these challenges reflect the most detrimental effects of the post-war society that currently exist in Afghanistan.

Mark Beasley, Deloitte Professor of Enterprise Risk Management and Professor of Accounting, North Carolina State University, drew on his experience in mediating more than 30 Enterprise Risk Management (ERM) roundtables, working with chief risk officers from such leading companies as Bank of America, Fidelity Investments, Microsoft, Delta Airlines and Home Depot. Based on this experience, Beasley focused on several challenges that are quite common in ERM implementation. Organizational culture, for example, is a major stepping stone for full and effective ERM implementation. Beasley argued that the ultimate success factor related to culture is "the tone at the top." As he noted, "If the board and C-suite do not buy into ERM, it will fail." If culture is not addressed from the very top of the organization, emphasizing the need to be transparent about risk, organizational members may feel that they will be penalized for identifying risks that they do not have under control. The idea of sharing risk, he suggested, "needs to be backed from the very top, or managers will be afraid to share their concerns."



Mark Beasley, North Carolina State University

A second challenge encountered by many business leaders is a poor positioning of ERM within the existing business framework. Beasley noted that when initially introduced to the concept of ERM, many managers feel that it is "just another system of bureaucracy, where entrepreneurial spirits are stifled with 'can't do's'." As a result, justifying the additional expenses can be a challenge. It is vital to understand that although ERM is a value-adding concept, there is no easy formula to document the extra value that is being created with the extra costs. He added the "goal of ERM should not be to reduce risk. … ERM should be designed to make management more intelligent about risk so it can become smarter in deploying its strategies." Since strategies deal with making assumptions based on future events, ERM can provide managers with a better understanding of how risks evolve and what the necessary impact could be on the existing business strategy.

Further complicating the implementation process is a third challenge common to ERM initiatives, where companies "want to go from 0 to 60 overnight, so that by the next board meeting they can report 'We've done it!'" In reality, however, effective implementation can take from three to seven years. Referring to the cohort of ERM roundtable speakers at North Carolina State, he noted that these individuals provide a necessary reality check, pointing out that "none of them would say that they've got it all figured out." Beasley advised companies to start simple and to leverage existing risk management programs by bringing together managers who work within these areas and starting a dialogue.

Finally, Beasley addressed the issue of communication, underscoring that establishing a common language is necessary to ensure that employees communicate effectively. As he concluded, the definition of risk "can be different for different people." Some organizational members are risk-averse, while others are risk-seeking. Determining what risk means to an individual and to the organization are also key elements in deciding the appropriate level of risk appetite for an organization, making sure that it is at an acceptable level for all stakeholders.

RISK MANAGEMENT AT DELOITTE & TOUCHE

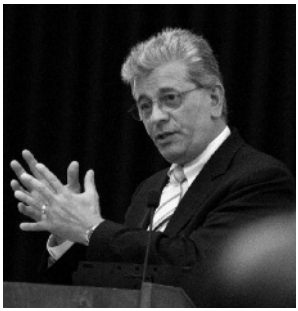
The symposium's luncheon speech was delivered by **Nick Tommasino,** chairman and CEO, Audit and Enterprise Risk Management, Deloitte & Touche LLP. He began his comments by noting that like most large accounting firms, Deloitte & Touche analyzes and provides guidance to its many clients on issues dealing with effective risk management. Drawing on almost 30 years of experience as a leader

in the fields of risk management and auditing, Tommasino discussed the main issues faced by organizations and how Deloitte & Touche has managed to "identify, manage and control the risks they face in the extremely competitive and stringently regulated world of accounting."

Tommasino underscored that ethics is the foundation upon which governance and risk management are built. "Proper governance and risk management cannot be implemented appropriately unless ethics are strongly upheld by the organization." The challenge with ethics, however, is that it is extremely difficult to regulate. "You know when ethics doesn't exist, but it's usually too late," Tommasino explained, pointing out that before its collapse Enron was hailed as one of America's ten best companies in terms of corporate governance. The downfall of ethics came into effect when Enron's board of directors waived the code of ethics in order to allow management to participate in questionable transactions. Tommasino stressed that "ethics has to be uncompromising" and that setting the tone at the top is the best way to enforce the moral fibers within all sectors of the organization. In essence "the leaders of the organization have to walk the talk every day."

Defining governance as "the process by which risk management is overseen and monitored," he stressed that, just like ethics, good governance also begins with the leaders of the organization. At Deloitte & Touche, the board of directors is "charged with ensuring that the firm has an appropriate set of risk management policies that are discharged to people with the appropriate level of responsibility." In order to create successful governance policy, the firm is required to establish a strategy by focusing on "what the company wants to be, where it is going and what it wants to accomplish." Determining a corporate strategy involves making decisions about investing options as well as what lines of service to offer. Tommasino pointed out that Deloitte's Audit and Enterprise Risk Services branch identified "quality, growth, employees and operational excellence as our four main strategic focuses" and "all actions within the firm are undertaken in an effort to meet one or more of these objectives."

A critical step in the process is to identify risks based on the established corporate strategy. "This is a vital step in the process of establishing a strong governance system," said Tommasino, noting that "the criteria for determining risky behaviors vary not just within individual companies but across entire industries." As an example, he explained that prior to the collapse of Enron, most people believed that the "Big Six accounting firms were immune from the blockbuster-type case, since they were self-regulated." After the Enron and WorldCom debacles, however, "every accounting firm had to



Nick Tommasino, Deloitte & Touche LLP

react and each firm looked at risk very differently. … Several years ago, when the opportunity for a multi-million dollar client came about, it was a very easy decision to go after the client. Today we routinely turn down clients that do not meet established risk profiles." Deloitte regularly depends on its internal forensic group to conduct analyses of potential clients, which include background checks of key players like the members of the board.

After the key risks have been identified and measured, Tommasino explained that it is necessary to create a plan of action to respond to the various risks. For Deloitte & Touche, this means complying with new regulations, such as the Sarbanes-Oxley Act as well as the requirements set forth by the Public Company Accounting Oversights Board. Additionally, like most firms, Deloitte has been forced to change the cost of the audit services offered.

Tommasino concluded that the work related to ethics, governance and risk management can never be completely finished. "The focus must be on continuous improvement, where progress is constantly monitored, sustained and improved. It is essential to constantly keep an eye on the corporate strategy," understanding the inherent risks in the surrounding environment.

MONITORING CHALLENGES IN ENTERPRISE RISK MANAGEMENT

Mohammad Abdolmohammadi, John E. Rhodes Professor of Accountancy at Bentley University, moderated the afternoon concurrent panel, focusing on ERM-related monitoring challenges. The first panelist, **Denise Drace-Brownell,** an attorney and senior managing director with Epsilon Securities and a board member of ZS Genetics, Inc., began her remarks by noting that during different stages of growth and development, companies are characterized by diverse weaknesses, opportunities, objectives and strategies. As a result, organizations may find themselves facing different risks as they progress from one stage of growth to the next.

Panel: Laurence Stybel, Suffolk University; Kent Kendall, IBM Global Financing; Mohammad Abdolmohammadi, Bentley University; Lawrence Harrington, Raytheon Company; and Denise Drace-Brownell, Epsilon Securities

Emerging growth companies, which Drace-Brownell categorized as having revenues less than $100 million, often exhibit "entrepreneurial zeal" with a goal of attempting to displace existing industry giants. A key risk of such emerging growth companies involves the choice of advisers and the (sometimes) over-reliance on legal advisers for matters that relate primarily to business risks. In these firms, additional care needs to be taken in the termination of key employees whose expertise might put them in a position to "make or break the company." With the right CEO and board, risk management programs can be easier to implement and monitor, in comparison to larger businesses. Emerging growth companies have the ability to gather the entire operations team in one office to discuss and analyze all the risks concerning the business.

Mid-market companies, with revenues between $100 million and $1 billion, are "transitioning from youth to adolescence." Business issues become more complex and companies in this stage are most likely dealing with multiple products and multiple markets. Drace-Brownell argued that in these companies the entrepreneur founders and early management typically need to be replaced, which can be difficult, since it is harder for these companies to attract and retain talented employees. "Mid-market companies do not have the compensation rewards of emerging companies, and they don't have the resources and opportunities for professional development of larger companies." Drawing on a 2007 mid-market study, she noted that "the number one reported challenge is delivering steady profits." Drace-Brownell explained that this is due to external changes, such as more stringent regulations and global competition that companies have to deal with once they reach this stage of growth.


Denise Drace-Brownell, Epsilon Securities

Drace-Brownell noted that there are several steps that can mitigate the risks of mid-market companies. "Lessons Learned Meetings" can give managers of different departments the opportunity to discuss any errors that occurred in their departments, as well as how these problems were resolved. These sessions can also help provide an overall environment that does not punish mistakes, but rather one in which mistakes are seen as learning experiences. Drace-Brownell pointed out that the board is essential in promoting this type of culture, arguing that "procedures are not enough … culture is king." Just as the board is responsible for directing the organization toward the creation of such a culture, "senior management needs to lead the initiatives and ensure that the culture is pervasive."

Finally, Drace-Brownell discussed the challenges faced by large companies — those with revenues greater than $1 billion. In such organizations, there is a greater chance of losing the overall strategic focus, which is spread not only across divisions

but also across continents. The costs and time to implement an ERM program are greater. Setting an adequate "tone at the top" continues to prevail as a major success factor; however, the board's expertise in dealing with the complexities of the business is also vital. Drace-Brownell quoted Emerson's dictum, "as soon as there is life, there is risk," and concluded that in a business context, ERM integrates and coordinates risk management with the strategic planning process, producing better business results.

Lawrence Harrington, vice president, Internal Audit, Raytheon Company, focused on the role and responsibilities of internal auditors in the enterprise risk management process. As chairman of the Professional Issues Committee for the Institute of Internal Auditors, Harrington stated that internal auditors have been encouraging their companies to implement Enterprise Risk Management for some time. With the exception of financial services, however, he noted that not many industries had fully embraced ERM. "Today most companies are even more reluctant to implement ERM due to the negative experiences the financial industry has had," Harrington explained, adding that many do not see ERM as a worthwhile investment.

Harrington provided an overview of the role played by internal auditors in the implementation of ERM as well as the benefits ERM can provide in defining risk responsibility between the internal audit department, management and the board. Traditionally, management has questioned the value of ERM, claiming that it was a bureaucratic exercise of managing risk. This view, he suggested, can be explained by the typical cost/benefit mentality that managers commonly use in analyzing potential strategies. This type of cost/benefit approach to evaluation does not provide an adequate way of judging ERM, since many of ERM's benefits do not come with an associated dollar-value benefit, while the costs can be extensive.

Lawrence Harrington, Raytheon Company

Harrington noted that "between 1993 and 1998, 10 percent of Fortune 1000 companies lost 25 percent of market value … between 1998 and 2003, 10 percent of Fortune 1000 companies lost 55 percent of market value." As boards of directors became increasingly aware of this information, questions arose whether management of these organizations not only failed to mitigate the risks appropriately, but in many instances did not even anticipate these risks. In an effort to understand risk — especially in terms of how risk in different business processes interrelate and affect one another — boards turned to their management, asking about overall risk, risk appetite and risk tolerance. Internal auditors went from merely being a bridge of communication between management and the board, to helping management and the board

comprehend that ERM is a way to understand the goals and objectives of the organization as well as the risks that can prevent their successful accomplishment.

Harrington pointed out that "if you look at most of what fails, boards come back and say 'you should have known that' because it's hard to say 'I should have known that' as a board member." Implementing ERM, however, helps the board understand risk as well as management's mitigation strategies. With ERM, the board becomes more involved in managing risk because it is placed in the position of assessing management's determination of an acceptable level of risk for their organization. Internal auditors can play a crucial role in this process, presenting a plan to the board and asking such critical questions as: "Do you, as a board, feel that I, as the internal auditor, am providing enough coverage for you? Does the internal auditing plan align with the objectives and goals of the company? Where are the holes in the audit plan and how can we cover them?" He concluded, "Internal auditors are by no means experts in any one type of risk, but a good internal auditing team can audit the right things at the right time."

Kent Kendall, manager of Business Controls, Americas, IBM Global Financing, focused his comments on challenges in international Enterprise Risk Management. Noting that there are two main difficulties associated with ERM implementation — properly identifying the risks and then managing them — he argued that they are that much harder to deal with when companies span national borders.


Kent Kendall, IBM Global Financing

Kendall explained that legal and regulatory compliance is essential, since breaking the law can result in penalties, fines or legal action. As an example, he discussed the Foreign Corrupt Practices Act, which was created to prohibit the bribing of international officials by U.S.-based companies. Although this law has been in existence for more than three decades, some foreign companies are unaware of it. Such limited awareness, however, does not change the fact that companies are still subject to the law if they wish to do business in the United States or if U.S. subsidiaries do business in other countries. Therefore, it is essential to have lawyers around the world who understand how different foreign environments operate. Just as important, American businesses need to be aware of the geopolitical status of the nations they may consider doing business with or in. As he argued, "any company that only has a U.S.-centric view will eventually face severe consequences of the markets." In addition to creating a globalization strategy, companies need to think about emerging markets, such as those of the BRIC (Brazil, Russia, India, China) nations. The challenge, he noted, is that "companies that are now just starting to think about BRIC have [essentially] missed 50 percent of the game."

Kendall continued by pointing out the importance of culture, stressing that businesses operate very differently in different nations. U.S. companies interested in operating on a global scale need to be "cognizant of the cultural norms" and it is advisable to create cultural training programs for American employees who are responsible for making the appropriate connections abroad. Expanding into foreign countries creates a multitude of additional risks that must be managed appropriately, partly through financial hedging. Similarly, companies need to be aware of the accounting requirements of different foreign nations since not all companies conform to U.S. Generally Accepted Accounting Principles (GAAP).

Kendall also noted that that technology and infrastructure are extremely important in deciding whether business can be conducted in a profitable manner. Kendall explained that it may be cheaper to export manufacturing to a nation with lower labor costs, but if the nation does not have an established railroad or seaport system, transporting the products will add significant costs to operations. In regard to labor costs, he also pointed out those countries that have historically been known to provide "cheap labor" may experience an overall increase in salaries. India's salaries, for example, are expected to be up to par with U.S. salaries in five years, and Kendall stressed that companies "have to be thinking about that today!"

Kendall concluded that in regard to ERM it is essential to create and implement one good global strategy, supported by constant information flows, coordination and monitoring.

Laurence Stybel, co-founder, Boardoptions.com and executive-in-residence at the Sawyer School of Business at Suffolk University, began his presentation by pointing out that "it doesn't count, if you don't measure it," which he believes to be a common theme in today's business environment. Given this reality, Stybel noted that the Corporate Governance Quotient (CGQ) is one of the most significant measuring tools available today. Created by the Institute of Shareholder Services (ISS), the CGQ is a global measure based upon 7,500 companies worldwide.

Stybel explained that the first version of the CGQ began in June 2002, when ISS invited governance experts to discuss the elements that comprised good corporate governance. The second CGQ version was created in 2003 and aimed to align the first version with the Sarbanes-Oxley Act of 2002. The third version of the CGQ, which was created in 2005, was a large step in comparison to previous versions, since it was statistically driven. The newest version was based on approximately 4,000 statistical tests conducted by the ISS, which


Laurence Stybel, Suffolk University

established 77 factors and 16 performance measures. In effect, Stybel pointed out, the latest version established a relationship "between low scores and certain bad things that investors do not want to see, as well as positive relationships between high scores and certain things that investors do want to see."

Stybel stated that the CGQ provides two measures: a comparison between an individual organization and the Fortune 500 companies, and a comparison between the individual company and its respective industry. Based on CGQ data, Stybel explained that "the bottom 10 percent of most industries had return on investments that were 5 percent lower than the industry average, while the top 10 percent of the industry had investments that were 19 percent above the industry average." The difference in performance is a significant 24 percent. This information, he pointed out, can guide investors away from bad investments as well as towards better-than-average investments.

Stybel also proposed a hypothesis about the CGQ and its future use. Stybel explained that trends suggest the "nominating and governance committee of boards of directors will expand its mission to annually review the ISS ratings and report to the board about whether or not this score is acceptable or if the company can do better." The concept clearly ties into the firm's culture and how companies carry out their business processes. As he concluded, the CGQ is the type of measure that will be "used by investors and management alike in an ongoing effort for improvement."

BUILDING A GLOBAL ETHICAL CULTURE

John Hansen, director of Member Services and Government Affairs for the Ethics & Compliance Officer Association, moderated the other afternoon concurrent panel focusing on creating global ethical cultures. **Patricia Ellis,** vice president of Business Ethics and Compliance at Raytheon Company, began the discussion by providing insight into the defense industry. She looked back to the mid 1980s, when the defense industry voluntarily joined together to establish and promote a

Panel: Deborah Vidaver-Cohen, Florida International University; Mark Rowe, SAI Global; John Hansen, Ethics & Compliance Officer Association; Perry Minnis, Alcoa Inc.; and Patricia Ellis, Raytheon Company

common set of ethical standards to avoid "having more and more government regulation." As a result, the Defense Industry Initiative (DII) was formed, which today obligates its members to adopt a code of conduct, to provide reporting systems for their employees to surface concerns and to educate employees about the industry's risks, compliance issues, and the company code of conduct. Additionally, Ellis noted that DII member companies investigate noncompliance, take corrective action and are accountable to the public, publishing an annual report that describes best practices in ethics and compliance programs.

Reflecting on current initiatives, she noted that there is a major effort, supported by the DII and the Aerospace Industry Association, to strengthen corporate self-governance in the global defense business. Ellis explained that a key challenge is to "obtain a clear consensus of ethical standards from the many companies within the global defense industry."

The initial focus of this effort is on anti-corruption. "Everyone believes in a level playing field and for this reason everyone should adhere to a common set of standards with regard to anti-corruption." The next step in this global implementation is ensuring respect for each other's intellectual property and establishing quality requirements as well as environment, health and safety standards. Ellis concluded by emphasizing the importance of cooperation in today's global economy, noting that "industries are painted with the same brush … and one player's missteps can quickly cause others to be perceived by the public in the same light."

Patricia Ellis, Raytheon Company

Perry A. Minnis, director of Ethics, Compliance and Advisory Services at Alcoa Inc., began by noting that Alcoa is a $30 billion organization that operates in more than 500 locations across 45 nations. It is his responsibility to travel to many of these destinations in an effort to clarify the Alcoa values and standards of performance. As he noted, "there are some basic truths that will hold up under any environment we are in, and we are in just about every environment you can think of." Reflecting on his experience, he underscored that "I have never been to a country that outlaws acting with integrity, being truthful or honest. … Every culture values treating employees fairly, being honest and holding people responsible for their actions." Although he pointed out that there are some cultural differences, for example, in regard to gift-giving, "the majority of these values coincide with the values that Alcoa wants to institute across its global locations."

Minnis continued by focusing on the importance of the Partnering Against Corruption Initiative, which has the ultimate goal to "bring industry competitors together in an effort to fight against corruption." Although there are many similar

initiatives, there is still a need to establish global norms to which everybody can ascribe, to be able to deal with even small variations.

John Hansen, Ethics & Compliance Officer Association, and Perry Minnis, Alcoa Inc.

He stressed that there are three distinct areas that establish culture within an organization. The first area, the tone at the top, has been associated with the biggest risk, "because this is the level where the mega-frauds are concocted." As he added, however, "personally, I believe that risk escalates as you go down the chain," noting that "the tone at the middle is an even bigger risk" because this is the area that influences the greatest number of people within an organization. "It really doesn't matter what the leaders at corporate headquarters are saying. … The vast majority of people are going to see how their immediate leaders behave and that is what will set the tone."

The biggest problem in implementing the appropriate "tone at the middle" is a fear of retaliation. Employees are often afraid to report violations, which in effect helps the violations continue to take place. Minnis noted that "if our employees are afraid to report something for fear of retaliation, then we are going to lose a significant area of culture in doing things the right way." One way that Alcoa has been attempting to deal with the issue of retaliation is through communication, providing middle management with "Be a Role Model" pamphlets that provide examples of incorporating ethics into their daily activities. And he added, "we do not expect them to be experts … but the 'Role Model' initiative, along with a training program, provides places within the company to turn to for help."

The final area that Minnis believes to be of greatest concern deals with employees. This area possesses a significant risk because this is where corruption is more often discovered. Minnis stressed in Alcoa's situation "as a provider of supplies for the construction of airplanes, it is the frontline employees who know when they are asked to skip inspections or to speed up the production process." In these situations, it is absolutely mandatory to have a culture in place that "allows issues to be raised before serious problems result in irreparable damage."

Continuing the discussion, **Mark Rowe,** director of Compliance and Ethics Advisory Services, SAI Global, an Australian-based company helping organizations in more than 40 countries to ensure compliance with legal and ethical standards and better manage risk, began by speaking of the need for companies to "embed good ethical practices and legally compliant conduct into their businesses processes and culture." When asked whether it is possible to establish a global ethical culture, Rowe replied that it is feasible but an extremely challenging proposition. He referred to a study by the Institute of Global Ethics, which found a surprising commonality of fundamental values in people around the world, especially connected

with honesty, fairness, compassion, responsibility and respect. Organizations can seek global consistency of standards by tapping into those shared values, Rowe noted. If an organization violates ethical principles and values that its stakeholders regard as important, the organization is likely to undermine stakeholder trust and corporate reputation; conducting business and preserving shareholder value becomes that much more difficult in those circumstances.

Rowe remarked that a loss of public trust in business has become a global phenomenon, noting that "Australia, Europe and Asia have had their Enron and WorldCom equivalents." Rowe stressed that "public trust in corporations starts on the inside. For example, customer service representatives who are treated well by organizations with a positive workplace culture are more likely to be motivated to show the same fairness and consideration to customers."

Mark Rowe, SAI Global

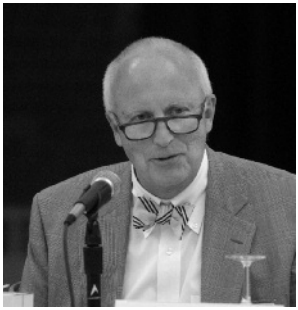
Rowe mentioned that "one of the fundamental aspects of establishing ethics within an organization is creating a consistent sense of what the core values are and backing that up with formal systems or structures that promote those values." Additionally, informal structures should be established in order to facilitate communication among and across different corporate functions, organizational levels and locations. Rowe concluded by pointing out that companies cannot choose who their stakeholders are and, as a result, they cannot fully control the full ramifications of bad decisions.

Deborah Vidaver-Cohen, associate professor of Management at Florida International University, reported results of her recent research investigating motives for corporate citizenship across various industries headquartered in Scandinavia. She noted significant industry differences with respect to both principles and practices. As most major industries are now global in scope, she argued that "industry-driven ethics initiatives may be the key to creating a global ethical business culture — bridging regional differences in values and beliefs with shared industry perspective."

In reviewing research by other scholars who explored similarities and differences in ethical culture among companies around the globe, she noted the consistent finding that Northern European firms typically appear "at the top of the scale," whereas "scores drop as one heads to Southern and Eastern Europe." Pointing to "likely hurdles," such as government corruption, she noted that these obstacles make establishing strong ethical standards within an organization "all the more problematic." In such instances, Vidaver-Cohen suggested, "it becomes even more important for global industries to implement an ethically driven culture among their members because there is no governmental body to monitor what occurs."

Concluding her comments, she proposed that adoption of robust ethical standards by globally influential industries could potentially counteract regional or national cultures of corruption. "The path to a global ethical culture," she maintained, "is through industry leadership." When powerful global industries take the lead in ethical business practice, other industries will follow — "raising the bar for ethical behavior worldwide."

CREATING, MAINTAINING AND ENFORCING A GLOBAL RISK MANAGEMENT STRATEGY



W. Michael Hoffman, Bentley University

The day's concluding plenary panel was moderated by **Michael Hoffman,** executive director of the Center for Business Ethics and Hieken Professor of Business and Professional Ethics at Bentley University. **Timothy Smith,** director of Socially Responsive Investing and senior vice president, Walden Asset Management, framed his comments from the perspective of socially responsible investors who hope to "make a difference" in business through their investment decisions. Drawing on more than 25 years of experience at the Interfaith Center on Corporate Responsibility and almost a decade of work at Walden Asset Management, Smith provided a unique glimpse of the way in which investor behavior was changing. He began by pointing out that there is a "new breed of investors" who focus on the environmental, social and governance (ESG) issues that these investors raise when choosing and monitoring their investments. "Their goal," Smith added, "is to hold companies accountable for ESG issues just like they [are held accountable] for the bottom line." The roots for many of these investors stem from religious organizations that seek to align their values and social commitments with investment opportunities. As an example, Smith explained that organizations like the United Methodist Church would never consider investing in tobacco or gambling organizations since this "would compromise their values of promoting healthy living."

The main question for these investors comes down to investing in companies that reflect the ethical standards and practices that they value. He underscored the significant influence that large corporations have on "just about every aspect of our immediate lives as well as the lives of people halfway across the world … from the air we breathe to the types of employment opportunities available to us, to what is happening in Chinese factories." In order to truly affect such issues as the global environment, equal rights and healthy living, investors need to be in a position to influence the power centers of our society and "corporations are clearly an important part of that."

Smith argued that the major difference between the morally driven investors of the previous decade and those of today is the sheer magnitude of their monetary power, which is in the trillions of dollars. As an example, he noted the Carbon Disclosure Project, which was established in 2002. The goal of this project is to send questionnaires to companies asking them to disclose their carbon emissions and what these companies are doing to reduce their carbon footprint. Because this project is endorsed not just by smaller green activist organizations, but by industry giants such as JPMorgan Chase, large corporations are listening to what their investors demand in regard to environmental, social and governance issues.

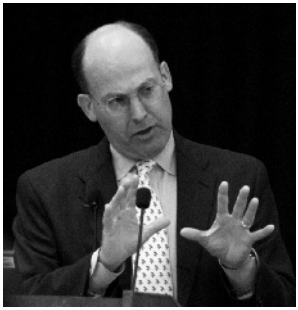
Timothy Smith, Walden Asset Management

CEOs are constantly "talking about being a leader in corporate governance because they believe it is the right thing to do, because it is important to have a meaningful social contract with consumers and because in the long run it is [simply] good business practice," Smith explained. In effect, "there is no conflict between being a good corporate citizen and maintaining long-term profitability." Industry leaders such as Duke Energy and American Electric Power (which has been one of the nation's biggest polluters) are standing up and saying that they want to be leaders when it comes to monitoring and reducing gas emissions and, most importantly, being held accountable for such plans. As he concluded, these are obvious steps toward the alignment of investors' moral values with the establishment of ethical policies and operations in the corporate world.

Jeffrey Oak, vice president, corporate responsibility officer, Bon Secours Health Systems Inc., began his presentation by drawing an analogy between business practices and the sport of competitive sailing. Oak noted that in sailing a concept known as the "Corinthian Spirit" dictates that a "good sailor will use the rules to his advantage but will not take advantage of the rules." With this theme in mind, Oak focused his comments on corporate governance, it relationship to the ERM process, and how it is positioned at Bon Secours.

Oak noted that there are four main areas that best exemplify the overall culture at Bon Secours. The first area focused on structure, exploring how Bon Secours could best position itself to give proper governance oversight to ERM. As he noted, "The initial response was to delegate this responsibility to the Audit Committee," however, as risks were identified it became evident that only a small number of Bon Secours' risks "were financial in nature." Since only a small number of the identified risks "lined up with the core competencies of the Audit Committee," a Governance Committee was established. The Governance Committee is composed of chairs from all other committees and is headed by the chair of the board. "Risks across the organization go directly to the Governance Committee and are 'dispatched' to other committees based upon their competencies."

The second concern that was raised at Bon Secours stemmed from strategic considerations and emphasized the need to align the company's identified risks with its strategic plan. The third issue revolved around engagement, focusing on how the chair of each committee could ensure that the board members were appropriately engaged in the board's activities. He continued, at Bon Secours, all boards and board members are required to complete an annual survey that evaluates themselves as individuals and the committee as a whole. Open-ended questions provide the opportunity for feedback to fellow board members. The outcome of this process is a written plan that is created by the committee in order to improve its overall efficiency.



Jeffrey Oak, Bon Secours Health System Inc.

The final issue raised by Bon Secours concerns the board's fiduciary duties. According to the legal definition, Oak argued that the fiduciary duty of care asserts that "directors must act in an informed manner, in good faith with the care of an ordinarily prudent person." He continued, "the duty of care is the foundation of the business judgment rule," which states that "so long as directors have engaged in an appropriate deliberative process in good faith, in general a court will not second-guess the board's decision-making, even if it is determined down the road that the decision was a bad one."

Oak concluded by citing examples of Caremark and the Disney Company in their understanding and interpretation of the business judgment rule. Caremark's focus was aimed at ensuring that the board had access to information, which it used to make appropriate decisions. The Disney Company, on the other hand, maintained that it was essential for the board to "understand best practices and to ensure that business decisions are taken in light of widely recognized corporate governance standards." Both approaches have relevance. Oak noted that the reigning philosophy within Bon Secours is focused on the implementation of governance best practices, as the board assumes ultimate oversight for Enterprise Risk Management.

Barbara Kipp, partner, Governance, Risk and Compliance Practice at PricewaterhouseCoopers, began with a brief overview of the evolution of ERM initiatives. She noted that a decade ago risk management was largely centered on compliance. Today, in contrast, risk management has expanded and is now closely tied to corporate culture and in the "near future" risk management will be irrevocably tied to corporate reputation.

Reflecting on her experience, Kipp noted that when embarking on the "journey of ERM implementation" organizations often forget about goals when certain risks are considered. Organizations become so consumed in identifying and evaluating risk that the associated objectives themselves are often ignored. As a result, it is

important to carefully think through the particular risk in the context of the corporate objective in question. On the concept of silos,, she explained that eliminating the separate risk management responsibilities of each unit is not always the best solution, since this approach will also eliminate the expertise that is maintained within each domain. However, Kipp stressed that it is essential for all parts of an organization to work together in an effective manner toward the objectives set by the company as a whole. This leads to efficiency and helps to ensure adequate coverage. "You'll never be successful until you figure out how all components of ERM can work together," she said.

Barbara Kipp, PricewaterhouseCoopers

Concluding, she argued that ERM will ultimately create "more nimble organizations that are naturally more prepared to handle risk, by using the power of information to analyze emerging risks based on information available through such online resources as internet blogs and even Facebook." Organizations will be able to recognize future trends and their associated risks before they pick up full speed in economic markets. Moreover, company employees will take on greater ownership of risks and become more interested in the successful operations of their companies. As Kipp noted, "employee loyalty is expected to increase as employee reputation become more closely tied to the company's reputation."

Panel: Timothy Smith, Jeffrey Oak, W. Michael Hoffman and Barbara Kipp

ACKNOWLEDGMENTS

As coordinator of the Bentley Alliance for Ethics and Social Responsibility, I wish to, once again, express my gratitude to the State Street Foundation for its continued support and multi-year commitment to this venture. I would also like to thank the speakers, panelists and moderators in our fourth symposium for their willingness to share their work in the risk management, business ethics and corporate social responsibility arena, and, most of all, for their good-natured colleagueship and support. Among my many Bentley colleagues, without whose effort and support the symposium would not have been possible, I would, once again, particularly like to thank Michael Hoffman, Robert Frederick, Robert Galliers, Donna Fletcher, Mary Chiasson, Michele Walsh, Steven Salina, Terry Tierney and Gail Sands. Special thanks also go to Bentley University's president Gloria Larson for her ongoing support and Robert McNulty of our Center for Business Ethics — his tireless "behind the scenes" effort made it possible for our colleagues from Afghanistan to join us for the symposium program and teaching workshop.

Similar to previous years, some difficult choices were made in capturing the essence of the ideas exchanged during the program. As we did with the Proceedings for our earlier Symposia — "Ethics and Risk Management in a Global Environment" (2005), "Corporate Social Responsibility in the 21st Century: Coping with Globalization" (2006), and "Business Ethics and Corporate Social Responsibility: Different Sides of the Same Coin? A Comparison of European and North American Perspectives" (2007) — we chose to focus on the remarks made by and exchanges between our panelists, unfortunately bypassing a wealth of ideas that were raised during the interaction with the audience. Leah Bourak, my graduate research assistant, provided invaluable assistance in viewing tapes of the different sessions, culling key points and ideas, and helping to edit the proceedings.

Obaid Nejati, American University of Afghanistan, Robert McNulty, Bentley University and Hamidullah Farooqi, Kabul University

Finally I would also like to note the wonderful colleagueship and thoughtful participation of the faculty who stayed for the remainder of the week, working as part of our Teaching Business Ethics Faculty Development Workshop — Carolyn Erdener (Middle East Technical University, Northern Cyprus), Francy Milner (University of Colorado), Bruce Paton (San Francisco State University), Isidoro Talavera (Franklin University, Ohio), and Maaja Vadi and Anne Reino (Tartu University, Estonia), and Bentley colleagues Shawn Hauserman, John Lesko, Marcy Marcel, Vin Puglia and Linda Senne.

Looking ahead to next year's program, I look forward to sharing many of the thoughts and ideas that will be exchanged during the 2009 Symposium — Building Responsible Global Cultures: The Role of Ethics, CSR and Sustainability — which will be held on May 18, 2009 on the Bentley campus in Waltham, Massachusetts. I also hope that you will be able to join us for what promises to be another thought-provoking day.

Anthony F. Buono
Bentley University
Waltham, Massachusetts

Anne Reino, Tartu University, Sridhar Ramamoorti, Grant Thornton LLP, Michael Ong, Illinois Institute of Technology, and Maaja Vadi, Tartu University

Further information on the Bentley Alliance for Ethics and Social Responsibility can be found online at:
www.bentley.edu/alliance

Further information on the Bentley Global Business Ethics Symposium series sponsored by the State Street Foundation may be found at:
www.bentley.edu/symposium

Speakers and Panelists

Nancy Loucks, Executive Vice President, Head of Enterprise Risk Management, State Street Corporation

Luncheon speaker:
Nick Tommasino, Chairman and CEO, Audit and Enterprise Risk Management Services Program, Deloitte & Touche LLP

Enterprise Risk Management: The State of the Art

Moderator:
Donna Fletcher, Director, Risk Management Research Program, and Associate Professor of Finance, Bentley University

Panelists:
Geoffrey Buswick, Managing Director, Boston Head Office, Corporate and Government Ratings, Standard and Poor's

Michael Ong, Professor of Finance, Stuart School of Business, Illinois Institute of Technology

Sridhar Ramamoorti, Partner, National Corporate Governance Group, Grant Thornton LLP

Enterprise Risk Management in Practice

Moderator:
Jean Bedard, Timothy Harbert Professor of Accountancy, Bentley University

Panelists:
Hamidullah Farooqi, CEO, Afghanistan International Chamber of Commerce and Professor, Kabul University

John Farrell, Partner, Internal Audit Regulatory & Co., KPMG

John Phelps, Director, Business Risk Solutions, Blue Cross and Blue Shield of Florida, Inc.

Implementation Challenges in Enterprise Risk Management

Moderator:

Robert Frederick, Professor and Chair, Department of Philosophy, Bentley University

Panelists:

Mark Beasley, Deloitte Professor of Enterprise Risk Management and Professor of Accounting, North Carolina State University

Mary Culnan, Slade Professor of Management and Information Technology, Bentley University

Michael J. Duffy, President and CEO, OpenPages, Inc.

Obaid Adnan Nejati, Director, Professional Development Institute, American University of Afghanistan

Monitoring Challenges in Enterprise Risk Management

Moderator:

Mohammad Abdolmohammadi, John E. Rhodes Professor of Accounting, Bentley University

Panelists:

Denise Drace-Brownell, Senior Managing Director, Epsilon Securities

Lawrence Harrington, Vice President, Internal Audit, Raytheon Company

Kent Kendall, Manager of Business Controls, Americas, IBM Global Financing

Laurence Stybel, Co-Founder, Boardoptions.com and Executive in Residence, Sawyer School of Business, Suffolk University

Building a Global Ethical Culture

Moderator:

John P. Hansen, Director of Member Services and Government Affairs, Ethics & Compliance Officer Association

Panelists:

Patricia Ellis, Vice President of Business Ethics and Compliance, Raytheon Company

Perry A. Minnis, Director of Ethics, Compliance and Advisory Services, Alcoa, Inc.

Mark Rowe, Director, Compliance and Ethics Advisory Services, SAI Global

Deborah Vidaver-Cohen, Associate Professor of Management, Florida International University

Creating, Maintaining and Enforcing a Global Risk Management Strategy

Moderator:

W. Michael Hoffman, Executive Director, Center for Business Ethics, and Hieken Professor of Business and Professional Ethics, Bentley University

Panelists:

Barbara Kipp, Partner, Governance, Risk and Compliance Practice, PricewaterhouseCoopers

Jeffrey Oak, Vice President, Corporate Responsibility Officer, Bon Secours Health System Inc

Timothy Smith, Director of Socially Responsive Investing and Senior Vice President, Walden Asset Management

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