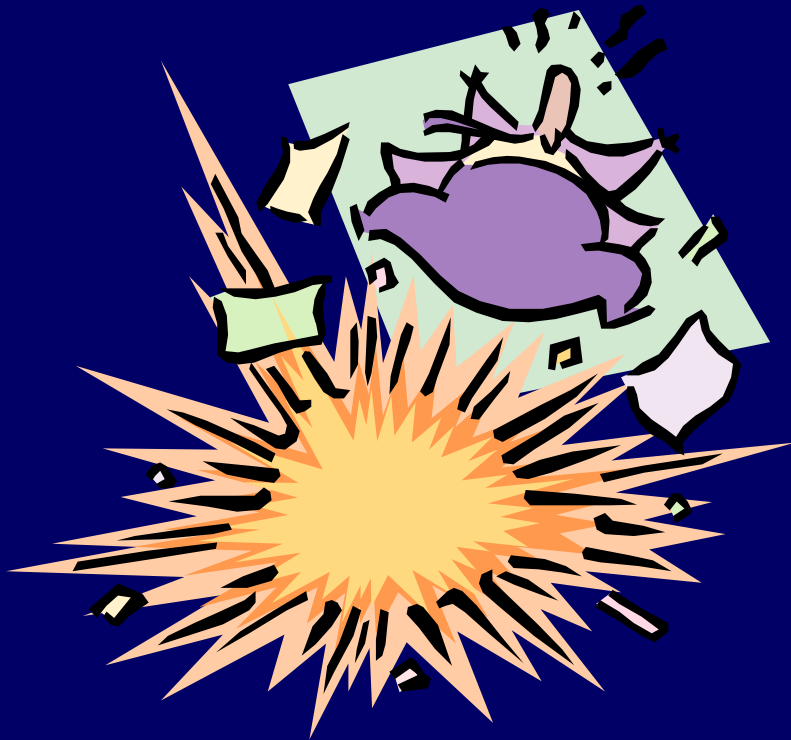


Governance, Ethics and Strategy Risks

IRM NW Hot Topics

3rd December 2007

The WorldCom scandal



§ >\$10 billion fraud

§ Filed for bankruptcy
July 2002

§ Biggest Chapter 11
filing in US history

WorldCom: How could it happen?

'..complying with the formalities of governance administration is not enough to produce a good outcome. WorldCom met the formal standards, and yet the board did not take action to limit Ebbers' powers.....

The Board failed to understand WorldCom's risks....or to design adequate risk control policies.'

'Restoring Trust', Breeden Report on Corporate Governance for the future of MCI Inc, August 2003

Top corporate risks in UK

1. Loss of reputation
2. Business interruption
3. Failure to change
4. Product liability/tamper
5. Impact of regulation/legislation
6. Physical damage
7. Employee incidents
8. Terrorism
9. Corporate governance
10. Professional indemnity

AON biennial UK survey 2005

Top ten global threats

1. Damage to reputation
2. Business interruption
3. Third party liability
4. Distribution or supply chain failure
5. Market environment
6. Regulatory/legislative changes
7. Failure to attract or retain staff
8. Market risk (financial)
9. Physical damage
10. = Merger/acquisition/restructuring
= Failure of disaster recovery plan

Aon Global Risk Management Survey 2007

Key causes of corporate success and failure

- § Quality and integrity of Chief Executive & Board
- § “Tone at the top” and corporate culture
- § Selection, clarity & implementation of strategy
- § Ability to change when required
- § Ability to undertake successful mergers and acquisitions
- § Strength of corporate oversight and challenge

Enterprise Governance: Getting the Balance Right
CIMA/IFAC 2004

Corporate governance - a definition

'...a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders should facilitate effective monitoring.'

Revised OECD Principles of Corporate Governance 2004, p 11

The core components of corporate governance

- § Board composition and skill base (balance, independence, roles and responsibilities, training)
- § Board committees (membership, terms of reference, skills etc)
- § Board processes (e.g. succession planning; board performance assessment)
- § Executive remuneration and incentives
- § Tone setting / ethics
- § Strategy development, implementation and monitoring

Are you in the right business or pursuing the right strategy ?

§ Polaroid

§ Kodak

§ High street travel agents

§ NHS electronic records project

§ Etc

Is PESTLE analysis or similar used to help develop strategic options?

Risk assessing strategic options



The core components of corporate governance (2)

- § Corporate policies and procedures (e.g. code of conduct; fraud; whistleblowing)
- § Board reserved powers/delegation of authority
- § Performance management system
- § Risk management and internal control systems
- § Oversight and assurance
- § Management of relationships with investors and other stakeholders
- § Corporate responsibility
- § Transparency, communications and crisis management

Are governance, ethics and strategy risks identified?

- § Do they appear on your corporate risk register?
- § Are they managed actively?
- § If not, what can be done about it?

