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Globalisation risks

The threats facing companies in an increasingly globalised world

GLOBALISATION
REPORT 2011

Foreword & Contents

WELCOME

TWO YEARS AGO THE FEDERATION OF EUROPEAN Risk Management Associations entitled its biennial forum 'Global village: the future of risk management'. It was an apposite title. Almost all major European companies have become global organisations to some extent, selling and sourcing goods and services beyond the European boundaries.

For risk managers, this has led to the emergence of new challenges. They have had to learn to view risk globally with all the issues that different countries and cultures can present.

In the past few years, and particularly in 2011, these challenges have been very apparent. The period of recession in the west – which is still lingering for some countries – has been followed this year by political turmoil in North Africa and the Middle East and some significant natural catastrophes. The most devastating of the latter in terms of impact on western companies' supply chains was the earthquake and tsunami in Japan.

These events have highlighted that companies do indeed operate in a global village. And while European risk managers cannot prevent civil unrest and natural disasters happening thousands of kilometres away, they can put strategies in place to minimise the impact on their companies.

The most effective mitigation measures are those taken before disaster strikes. Planning for the unexpected has become crucial for companies. Those that do this successfully will be the winners in the global village.

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Expect the unexpected

Globalisation brings with it both positive and negative consequences for the companies and countries involved. It also means risk managers face a much more complex task

THE ADVANTAGES OF globalisation have come well and truly to the fore. Diversification into developing countries has helped large conglomerates weather the European and US recession. As one risk manager said in this year's StrategicRISK Report, *the ability to do "natural hedging" in terms of services and products provided – and the countries to which they are provided – gives economic resilience.*

KEY POINTS

01: Expanding into developing countries can provide economic resilience
02: But emerging regions have their own specific risks
03: Building local links highlighted as an essential step
04: Safety and exchange rate volatility identified as key risks
05: Classic risk strategies seen as outmoded

But there are big challenges. In the report another risk manager warned of the risks of diversifying into emerging markets without understanding them. Each has its own issues and risk managers must help their boards assess these issues to make the right choice for their business.

"The drivers of globalisation are alive and well, but executives are still grappling with how to seize the opportunities of an interlinked world economy," said a McKinsey global survey last year.

"There can be considerable variation in your risk exposures from one country to another," says Chartis European head of major accounts and multinational Philippe Gouraud. "It is vital that businesses understand which issues are unique to a country or region, and how they might be evolving, especially in the regulatory arena."

Talent hunt

Half the respondents to the survey were only somewhat optimistic they would be able to find the right talent to meet their companies' strategic goals. Likewise, only half the executives said their company had taken steps to address the shift in global economic activity from developed to developing economies.

To capture growth from emerging markets, the actions most often taken – each cited by about half the respondents – were building a local presence; developing partnerships or joint ventures locally; recruiting talent from emerging markets; and developing new business models. Executives representing Chinese and Indian companies are developing new business models at a significantly higher rate than companies from any other region.

On risks faced by their companies in emerging markets, executives cited as the top four: breach of intellectual property, or IP (40%); volatility of currency or exchange rates (38%); geopolitical instability (26%); and lower safety and quality standards (26%). Executives at US technology and telecomms companies were most concerned about IP, while companies in the financial sector worried most about currency volatility and energy companies about geopolitical instability.

The ongoing ability to source talented employees is a general concern. According to McKinsey, the greatest skills shortfalls were in management, R&D and strategy.

This is echoed in the Hiring Site blog, which lists 10 global HR trends for 2011 and how to manage them. "Finding and retaining talent continues to be essential to business sustainability, though its importance in relation to other challenges differs by location," says the blog.

It adds that retaining valued talent is more important, but the drivers to do so depend on the market.

Outsourcing looks set to continue and grow, says *Globalization Today* magazine. It quotes International Association of Outsourcing Professionals chairman Michael Corbett as saying people increasingly see outsourcing as "one of the most powerful tools today for building better companies and better economies".

Disaster alert

Political risks and natural disasters are two immediate concerns of global risk managers. In the wake of the Australian floods, the *Sydney Morning Herald* warned that urbanisation, climate change and globalisation are leading to more and bigger catastrophes.

It quoted Erwann Michel-Kerjan, managing director of the Wharton Business School's risk centre in the US and chairman of the OECD secretary-general's advisory board on financial management of catastrophes. He said that in the 21st century there has not been a six-month period without a crisis affecting several countries or industry sectors. The world has become an interdependent village.

The article commented that classic risk strategies are out of sync with the new interconnectedness of the global economy. "The conventional risk management approach lists possible events and determines the probability of their occurring based on experience.

"You measure the costs and benefits of specific risk protection measures and implement these measures for each risk. It assumes risks are local and routine and fails to take into account the impact they may have on different organisations and states."

Such comments suggest tomorrow's global risk manager may be a somewhat different animal from today's. Expecting the unexpected could be the norm. **SR**

Risk-free restructuring?

It's never been more important for risk managers to read between the lines when mergers and acquisitions are in the pipeline. Nor has it been more challenging

MERGERS AND ACQUISITIONS allow firms to break into new markets, introduce product lines, exploit economies of scale and boost market share. Divestments can increase capital, help fine-tune operations and increase focus on core products and services. But both must be managed carefully to achieve the desired outcome.

According to *Risk management in M&A transactions*, published on corporate board members site Boardmember.com, directors of acquiring companies are well served if they demand more extensive reporting on the risks associated with a target company's business and the acquisition.

"This can be a meaningful barometer of the potential for unexpected issues, which helps protect the company and directors from claims while maximising shareholder value. But completing such an assessment bears its own difficulties," say authors Lisa Fontenot, partner, and Brandon Loew, senior associate, at US lawyer Gibson, Dunn & Crutcher.

Marsh M&A head Daniel Max says the best starting point is drilling into the detail so companies understand exactly what they're trying to achieve from a merger, acquisition or divestment.

"A divestment may be planned to meet capital requirements or reflect a company's strategic shift, or be the result of regulatory requirements," he says. The latter tends to occur if a company is looking to make an acquisition but is required by anti-competition rules to divest something else.

He continues: "In most divestment situations the focus of the seller is on getting as much money as possible. Sometimes we see that falling foul around the terms and conditions. The sale might realise a lot of money but there could be draconian requirements to comply with warranties or indemnities."

An important consideration may be contingent liability. However good the price the seller receives, having to retain financial responsibility for that contingent liability for a period of time might restrict the seller's ability to use or invest that money in the way they would like.

Max emphasises that it's important to strike a deal that maximises the value the seller receives while ensuring the capital will be provided on an uncommitted basis.

A similar approach is needed where the situation is reversed and the company is looking to buy rather than sell. Once again, detailed information is important.

"The acquirer needs to understand the dynamics of the business it is trying to buy and why the seller is making the divestment," says Max.

Both buyers and sellers are also increasingly looking to the insurance markets for solutions to these contingent liability issues, according to Chartis European manager for M&A insurance Andrew Graham. "The M&A insurance market has really developed in the past five years, growing in both sophistication and responsiveness so that the products meet

KEY POINTS

01: Boards stand to gain from extensive risk assessments

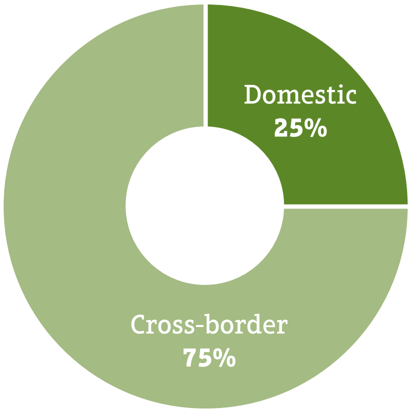
02: Companies must have a full understanding of what both sides want from a merger

03: The implications of contingent liability must be fully explored

04: Companies for sale may have issues to hide

05: Risk managers should be aware of possible supply chain conflicts

What deal type will present a more attractive proposition for buyers in 2011?



Source: *Bloomberg, 2011 M&A Outlook*

ASK THE RIGHT QUESTIONS

- What is the target company's existing risk management infrastructure?
- What is its ability to withstand unexpected economic pressure?
- How thoroughly has the acquiring company's management reviewed the risks affecting the target's business?
- What are the potential pressures on various types of expected synergies?
- What are the potential risks of the transaction itself?
- Do the transaction terms include risk mitigating features?
- Has the company involved independent expertise regarding the target's business and the acquisition process generally?

Source: *Risk management in M&A transactions* by Lisa A Fontenot and Brandon W Loew at Gibson, Dunn & Crutcher, www.boardroom.com

'Risk managers who get involved in the acquisition process early can generally achieve a great deal'

Daniel Max Marsh

the requirement of both the buyers and the sellers," he says.

Private equity consequences

There can be added complications where the business concerned has been funded by private equity investment. Max explains: "There may be a situation where the management team is staying with the business – quite possibly their quality has contributed significantly to the attractiveness of the purchase for the buyer.

"However, what that management team is looking to achieve with the sale may not be the same as the expectations of the private equity team." In such a case, the private equity team may not wish to give the kind of guarantees the buyer wants.

Risk managers have become increasingly involved in M&As in recent years. Max says this is the result of firms getting better at viewing risk holistically. "They understand that insurance is not necessarily the best way of dealing with a risk. The move is towards a more sophisticated approach, assessing what the business wants to retain, mitigate and/or transfer," he says.

Hidden dangers

Assessing a potential acquisition from a risk viewpoint may not be easy, particularly as transactions often happen quickly. Fontenot and Loew say takeover targets are not always forthcoming about the management of risks facing their business. "Information shared is frequently 'sugar-coated', and can downplay the probability and magnitude of potential risk, or oversell the effectiveness of risk management processes," they say.

It is not only the obvious risks that the risk manager needs to check out when assessing a potential acquisition. If the company concerned operates in the same or a similar industry sector as the acquirer, they may have suppliers in common. This could increase supply chain exposure and the likelihood of dependency for critical goods or services on single sources.

"Risk managers who get involved in the acquisition process early can generally achieve a great deal," says Max. "Joining two businesses together is always going to be complicated because different businesses have different risk appetites, particularly where there's a mismatch in size."

An international mismatch may also be exacerbated by cultural differences.

Assessing and advising on the risks of global transactions could become an increasingly important part of the risk manager's role. As Bloomberg's *2011 M&A Outlook* states, global M&A activity made a strong comeback last year, with aggregated volume and deals surpassing 2009 levels. **SR**

OUTLOOK FOR INTERNATIONAL INVESTMENT BRIGHTENS

THE LATEST DATA CONFIRMS THE RECOVERY OF foreign direct investment (FDI) activity in 2010 for the first time since the beginning of the global financial crisis in 2008.

After two years of sharp declines, international investment activity started to grow again in 2010 and continued to perform well going into the second quarter of 2011.

FDI outflows worldwide picked up in 2010 by around 7.5% from 2009 to $1,197bn (€887bn) in contrast to the sharp declines of previous years – 41% in 2009 and -12% 2008.

Organisation for Economic Co-operation and Development (OECD) investor countries accounted for about 85% of global FDI outflows (€737bn), an 11% increase on 2009. The top three investing countries were the USA (€251bn), France (€89bn) and Germany (€70bn). The UK, the second largest OECD investing country before the crisis, was in 10th position.

Investors from the EU as a whole accounted for 37% of global outflows in 2010 (€320bn). The G20 accounted for 72%.

OECD countries hosted only 55% (€410bn) of global FDI inflows. More than 40% of OECD FDI was outside the OECD area.

G20 countries received more than 70% of FDI inflows in 2010, reflecting the growing importance of the major emerging economies as hosts to FDI. The largest non-OECD recipients were China (€150bn), Brazil (€35bn), Russia (€30bn) and India (€17bn). Indonesia, Argentina and South Africa together received €15bn, up 40% on 2009.

In 2011, the global investment trend continues to be upward. Monthly international M&A activity in April reached its highest levels since October 2008, and was up 160% from the beginning of the year. Although various sources of economic and political instability present downside risks, this initial performance bodes well for the continued recovery of international investment activity in 2011.

Source: OECD, May 2011

An uncertain world

There's no one-size-fits-all risk strategy for a multinational company; organisations have no choice but to get to know each host country – and the people who live there – intimately

THERE HAVE BEEN RADICAL political changes as well as the growth of civil unrest in many countries in 2011. Even countries in Europe have not been immune from protests and riots. In addition to such threats, risk managers must be aware that cultural differences in some areas can affect employees' loyalties and policing policies.

KEY POINTS

01: Companies face multiple layers of risk as a consequence of global unrest

02: Robust and clear processes should be in place for staff and security

03: Managers should have an awareness of staff members' political links

04: Companies should be aware of local subtleties and their impact on another country

05: Law enforcement over issues such as copyright varies around the world

The *StrategicRISK Report,* published earlier this year, revealed European corporations' concerns about political developments in North Africa and the Middle East. Unrest on this scale in the countries affected had not been predicted and the speed of developments took the business world by surprise.

"Some companies with operations, outlets or suppliers in the countries concerned have been directly affected, facing serious challenges with respect to expatriates' safety and repatriation, tangible investments protection and continuity of supply. Others believe they may experience an indirect impact. And all are concerned that new turmoil in the Middle East could affect oil production, pushing up energy prices," says the report.

Any multinational that has property, projects, outlets and service contracts in countries with a potentially volatile political regime faces significant risk. Risk managers should have adequate processes in place for enforcing property security and protecting – or even repatriating – personnel, should civil unrest prove a threat. There is also a supply chain disruption risk for companies that source from such countries. And contracts with state-owned or quasi-state organisations may be threatened by government changes and possible repudiation.

Control Risks research director Michael Denison says the risks vary so widely from country to country that there is no one complete solution for companies. "We see the most important component as building resilience for both assets and personnel to as many different threats a company might face as possible. Often companies are dealing with very fast-moving and unexpected events where the political culture has not been transparent," he adds.

He also stresses the importance of focusing on the individuals in the country in question. "What political links do they have? Could they compromise your operation if the situation changes?" he says.

Social engagement

In addition to radical political changes, there are softer issues that can affect how a company is regarded in a country. Ignoring these could imperil a company's security when the going gets tough.

Denison says reputation and social engagement with the local community play an important part here. "Reputational issues are an increasing concern because issues are widely and quickly networked. Ecological fragility is a source of risk both to communities and companies themselves. And while you might wish to secure assets by building walls and fences, that might not be the best option. It might be better to have a low-key security presence but ensure a good relationship with the community – that in itself reduces the security risk."

Deloitte director Mark Naysmith suggests globalisation – and to some degree consolidation from an operational point of view – can increase companies' risks at both macro and micro levels.

On the macro level, consolidation of assets in a particular country may not be a concern for some industry sectors. "The extractive, energy and retail industries probably are naturally dispersed. But some of the service industries, particularly in technology, could face the biggest challenges here," he says. "Some of these service industries push to offshore, usually in pursuit of cheap labour, and can find they are operating in more dangerous regions, certainly in connection with natural catastrophes and social unrest."

The recent unrest in the Middle East and north Africa has certainly caused some reappraisal in the political risk insurance market, says Maggie Nicol, manager of political risks at Chartis. "We have seen a definite uplift in interest following the Arab Spring. Pricing for these risks will depend both on location and on how the claims experience develops country by country."

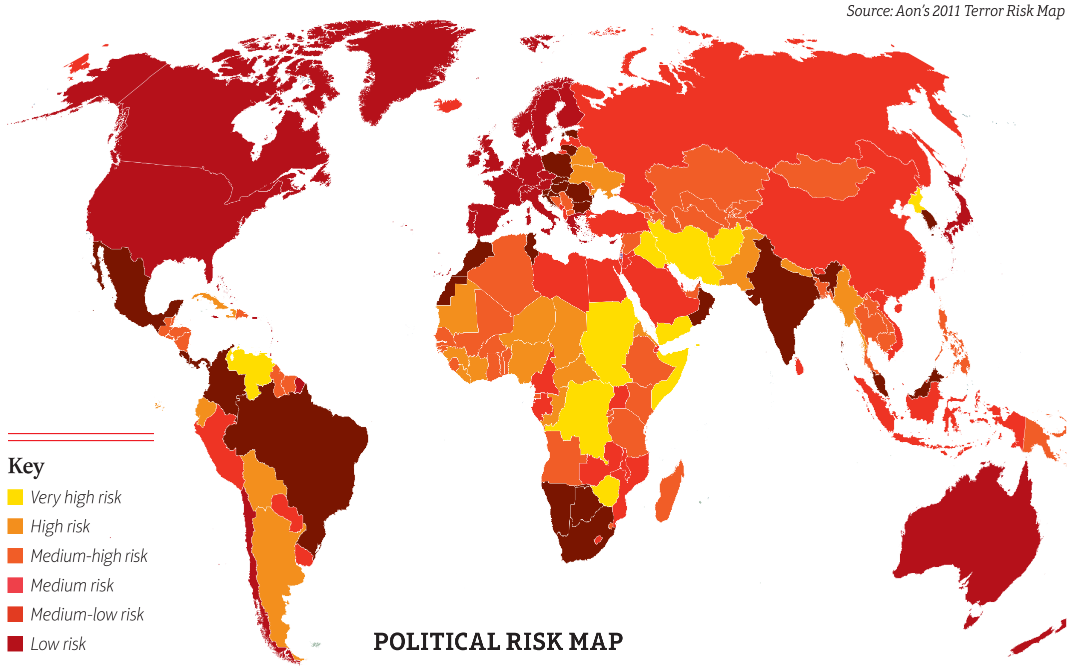
On the micro level, Naysmith advises that companies should look at the risks presented where they operate on a local basis. Some industries may not have much choice on where they operate globally – mining companies have to go where they can source raw materials. Other businesses want to be located closer to their customers in developing markets. There's also the draw of cheaper labour.

However, he warns that companies making these investment decisions are likely to be viewing them through Western eyes. As well as understanding at a high level what the regional risk is, they must also understand the cultural subtleties.

'In certain countries, telephone hacking may not be an offence that the law enforcement agencies will actively pursue'

Mark Naysmith Deloitte

Source: Aon's 2011 Terror Risk Map



POLITICAL RISK MAP

Naysmith cites the example of Africa. "Countries generally have a tribal structure, which is going to be a fairly key element of people's day to day life. In the West, we judge things in terms of loyalty to family and firm. In Africa loyalties are different because that is the way their society is based," he says.

These subtle cultural differences may often be overlooked by companies making investment decisions, but the tensions they produce can create risk, says Naysmith.

In China, there is a close link between government and Chinese-owned businesses and nationals operating abroad, which may lead to an exchange of information that is not in foreign investors' interests.

"It's important companies understand the potentially significant risks," Naysmith continues. Information is key. Some European governments provide free information for national companies looking to invest abroad. In addition, specialist consultancies offer information on country risk in various locations and also some specific regional analysis. "Those are good starting points but then it comes down to drilling into the detail," says Naysmith.

Down to detail

That detail may be crucial. For example, in the UK recently there has been public outrage – and police investigations – over telephone hacking by newspapers. Naysmith says: "In certain countries, telephone hacking may not be an offence that the law enforcement agencies will actively pursue. In some countries, it may even be state sponsored. It comes down to understanding what local attitudes are and how law enforcement operates in comparison with the values applied to our own operations."

This kind of cultural difference has long been an issue in countries such as China and Thailand in connection with intellectual property and brands. In China, copying was not seen as a major transgression – it is only recently that the Chinese authorities have stepped in to give protection to foreign companies.

Having made this kind of regional assessment, Naysmith says that it's then a question of deciding what the company can do to mitigate the risks.

It may be a question of physical security. For example, if a company suspects that its phones are being hacked, there are clearly countermeasures. However, the second requirement – trying to identify information needs – is more difficult.

Sourcing and using local intelligence in the region concerned to ascertain any specific risks your business may face can be helpful here. **SR**

TERRORISM RISK

IN AUGUST RISK ANALYSIS AND MAPPING firm Maplecroft reported that new research rated the fledgling state of South Sudan as being in the top five countries most at risk from terrorist attacks after Somalia, Pakistan, Iraq and Afghanistan.

"Data also reveals that terrorist attacks are on the increase globally," said the company.

The latest Terrorism Risk Index released by Maplecroft rates 20 countries and territories as being at extreme risk, including Somalia at number one, followed by Pakistan, Iraq and Afghanistan.

The extreme risk category goes on to include – in rank order – South Sudan, Yemen, Palestinian Occupied Territories, Democratic Republic of Congo, Central African Republic, Colombia, Algeria, Thailand, Philippines, Russia, Sudan, Iran, Burundi, India, Nigeria and Israel.

Following the country's formal secession from Sudan in July 2011, South Sudan (ranked fifth) makes its first appearance in the Terrorism Risk Index. The country is rated as extreme risk, primarily due to the intensity of terrorist attacks, with an average of 6.59 fatalities per terrorist incident – almost three times that of Somalia's figure of 2.23.

Despite ranking fifth in the index, South Sudan's death toll of 211 from terrorist attacks pales in comparison with the top four countries.

Over the same period, Somalia suffered 1,385 deaths, Pakistan 2,163 deaths, Iraq 3,456 deaths and Afghanistan 3,423 deaths – which together account for more than 75% of the world's 13,492 terrorist fatalities.

Globalisation considerations

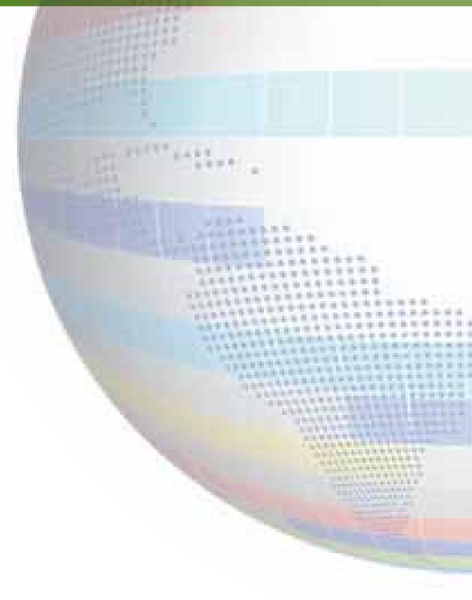
This pull-out summary presents a brief synopsis of the key points covered in this report. It is provided as a quick guide for risk managers and also as a tool to inform their board members of the considerations relating to globalisation

1 GROWTH AND TRENDS

- The trend for globalisation is gathering even greater momentum.
- The advantages of globalisation include the ability to offset the impact of Western recession by participation in growing developing markets.
- Successful expansion into new regions demands clear understanding of the risks involved.
- A shortage of an appropriately talented workforce is seen as a major risk for the future.
- Risks posed by participation in emerging markets include breach of intellectual property, volatility of exchange rates, geopolitical instability and lower safety and quality standards.
- Risk thinking has to embrace the impact of unlikely but potentially devastating events – expect the unexpected.

2 TRANSACTIONAL ISSUES

- M&As and divestments can both produce strategic advantages but need careful risk management.
- Boards should seek better information on risks associated with target acquisitions, including evaluation of their risk identification and management processes.
- With both acquisitions and divestments, companies should have a detailed understanding of what they are trying to achieve.
- Potential acquisitions are not always forthcoming about their risk management processes and possible risks.
- A high price paid for a divestment may be eroded if draconian terms and conditions limit use of the proceeds and/or impose responsibility for a historic liability that materialises post-divestment.
- Acquiring a company funded by private equity can produce additional complications as the ongoing management team's approach may not match that of the venture capital company involved.
- Getting the risk manager involved at an early stage in a deal adds value.
- An acquisition in the same industry sector could increase supply chain exposure.



3 GLOBAL UNCERTAINTIES

- Political risk and civil unrest are now key risks.
- Cultural differences can affect employees' loyalties and national law enforcement policies.
- Turmoil in the Middle East could push up energy prices.
- Companies need to have adequate processes for enforcing property security and protecting – or even repatriating – personnel in the event of civil unrest.
- Expect and plan for supply chain disruption in volatile regimes.
- Recognise the threats for government or quasi state contracts.
- Consider the political status and acceptability of the individuals your company deals with.
- Deal sensitively with local communities to protect your company against reprisals in a worsening political situation.
- Be aware of regional differences and local circumstances.
- Detailed information about the risks in different company locations is crucial.
- Determine what you know, what you need to know – and where you can get the missing information from.

4 EMBEDDING A GLOBAL RISK MANAGEMENT CULTURE

- An enterprise-wide risk management culture adds value but is hard to accomplish – most multinational companies are struggling with this.
- Be aware of cultural differences – some societies are more risk-averse than others, which could affect corporate strategy and implementation of a global insurance programme.
- Aim for full engagement and accountability at all levels of the organisation.

5 DEALING WITH NATIONAL CATASTROPHES

- Global major disasters appear to be increasing and risk management needs to reduce the impact.
- There has to be greater incentives for investment in improving resilience for companies, local communities' housing and infrastructure.
- Some large companies are re-assessing their approach to nat cats, moving away from insurance solutions to high-level protection strategies because they recognise that maintaining business continuity and retaining market share is more important to them than compensation for the loss of plant.
- Companies taking this route also need to take account of protection for employees' homes and surrounding infrastructure.

6 SUPPLY CHAIN ISSUES

- The growing trend to outsource supplies to producers in developing countries makes economic sense but adds to risk exposure.
- Western recession has put pressure on suppliers in developing countries. The result may be a cutting of corners in terms of quality or breaching ethical requirements.
- A supplier's breach of the company's ethical standards can produce widespread reputational damage.
- Failure of critical supply chain links can leave a company vulnerable when it comes to meeting customer demand.
- Suppliers suffering financial difficulties are often understandably reluctant to communicate problems to their customers.
- Large companies may consider buying a critical supplier in financial difficulties rather than risking disruption themselves.
- The Japanese earthquake, tsunami and nuclear reactor problems highlighted how even risk-savvy automotive and technological companies can be wrong-footed as regards their supplies in the event of a disaster.
- Recent research shows that most companies are weak when it comes to managing supply chain risk.
- Companies can exercise power over suppliers to improve their risk management practices if they are in a position to leverage purchasing power.
- Ideally, assess the entire supply chain, its vulnerabilities and risks, produce loss estimates and determine how long it would take to bring production back on stream.
- In a disaster situation that affects a number of companies, those that have invested in supply chain risk management will emerge the winners.

7 GLOBALISATION AND ETHICS

- The Organisation for Economic Cooperation and Development expects multinational companies to behave ethically – and has agreed new guidelines to promote more responsible business conduct.
- Setting standards has to start at the top with a charter that spells out the board's responsibilities.
- Corporate ethics should be regularly reviewed and monitored.
- Companies need to appreciate that investment in training and development is justifiable in terms of associated benefits.
- The Caux Round Table principles set the standard for global businesses.
- Ethical problems are currently more likely to arise from legal rather than cultural differences.
- Companies need to drive their ethical standpoint up through their supply chains.
- The public may be more forgiving of companies producing sought-after products.
- What boards say – and probably believe – in respect of the ethical standards their organisation have may not measure up to the reality.

Shaping a culture

When cultural dimensions come into play, communicating the importance of enterprise-wide risk management isn't so straightforward

AN ENTERPRISE-WIDE RISK management (ERM) culture has become the holy grail for many European companies. While risk managers may argue about the terminology – ERM is regarded with mixed feelings in some quarters – the general concept of a common risk management approach throughout an entire organisation is hard to disagree with. Unfortunately, it may also be hard to accomplish.

As western companies expand their operations across the globe, taking them to countries where risk management may be in its infancy, they need to communicate the value of ERM effectively. This can be particularly difficult where cultural differences play a part.

Dutch social psychologist Geert Hofstede conducted perhaps the most comprehensive study of how values in the workplace are influenced by culture. The result was provision of scores for the cultural dimensions of a considerable number of different countries. The most significant measure for risk managers is likely to be Hofstede's uncertainty avoidance index (UAI).

In Hofstede's study, UAI scores can range from zero (pure risk takers – such as gamblers) to 100 or more (pure risk avoiders – very cautious and conservative). Of all the nations, Americans ranked lowest, with a ranking of 46 compared with the world average of 64. A low score implies fewer rules, fewer attempts to control outcomes, and greater tolerance for a variety of ideas, thoughts, and beliefs.

KEY POINTS

01: ERM is being seen as a core business practice with broad implications for strategy

02: Operating in countries where risk management may be in its infancy, western companies need to communicate the value of ERM

03: In an uncertainty avoidance index study US companies ranked lowest

04: Latin American countries generally scored high on uncertainty avoidance

05: The analysis shows societies that are risk averse should embrace management strategies that are designed to mitigate the effects of risky events materialising

By contrast, Japan ranked high in its UAI score implying high levels of control in order to eliminate or avoid the unexpected. A type of culture such as Japan does not readily accept change and is risk averse.

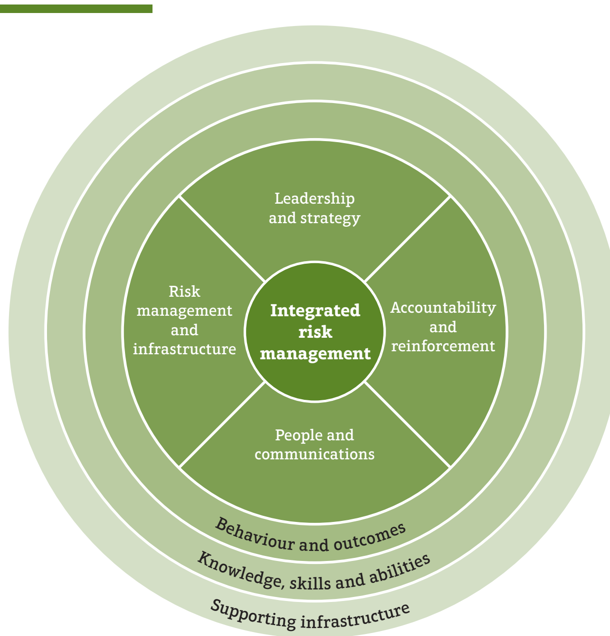
How does your country score?

The Latin American countries generally scored high on uncertainty avoidance. Guatemala has the highest UAI of all these countries at 101, indicating the society's extremely low level of tolerance for uncertainty. In an effort to minimise or reduce this level of uncertainty, strict rules, laws, policies, and regulations are adopted

'Increasingly ERM is being seen as a core business practice with broad implications for strategy as well as day-to-day operations. There is a need to educate the board, leadership and employees at all levels as to what this means'

Aon Global Enterprise Risk Management Survey 2010

THE KEY ASPECTS OF CORPORATE CULTURE THAT UNDERPIN EFFECTIVE RISK MANAGEMENT



and implemented. The Hofstede analysis is fascinating – visitors to www.geert-hofstede.com can check out how their own country's score compares with that of others. But how is it relevant to ERM?

The implications are two-fold. First, in theory at any rate, societies that are risk averse should embrace management strategies that are designed to mitigate the effects of risky events materialising. The extent to which they do this is likely to reflect the effectiveness of the risk manager's communication and ability to demonstrate by practical examples.

Second, the downside for many risk managers establishing a multinational insurance programme, subsidiaries operating in risk averse cultures may be unwilling to adopt the level of self-insurance that can underpin such a programme. This attitude can be particularly acute where national executives' reimbursement packages are linked to local profitability.

Companies cannot change a nation's culture but it will pay them to instil an ERM approach throughout their organisations. Aon's *Global Enterprise Risk Management Survey 2010* says that one of the hallmarks of advanced enterprise risk management is an ERM culture that encourages full engagement and accountability at all levels of the organisation.

"Increasingly ERM is being seen as a core business practice with broad implications for strategy as well as day-to-day operations. There is a need to educate the board, leadership and employees at all levels as to what this means," comments the report.

Companies still struggle

It goes on to say that instituting clear accountabilities for risk is important in changing or creating a risk culture. "While tailoring an ERM programme to each organisation's culture, processes and structure are important. Only 15% of all respondents indicate that their ERM programmes have been entirely adapted to suit their individual cultures, and only 33% of respondents have significantly adapted their programmes to their cultures," says the survey.

"Leveraging risk management to meet corporate objectives and integrating ERM into decision-making processes are important indicators that risk management is being embedded in the culture of an organisation."

It is clear that many companies are struggling with this. Accenture's 2011 *Global Risk Management* study says: "Another notable gap concerns the inability of many companies to infuse a risk culture throughout their organisation. Risk management cannot be merely a standalone function; it requires dedicated leadership,. But the entire organisation must act as effective stewards for risk.

"If a broader culture of risk awareness is not created, companies will struggle to realise the full benefits possible."

PricewaterhouseCoopers' report, *Building a risk-aware culture for success*, echoes the refrain.

"Many executives do not understand the impact of their organisation's culture," it says. "They simply assume that their employees know what sort of behaviour is expected. And even when a company formally articulates the values, beliefs and practices it espouses, it can unwittingly undermine them.

"So it is only possible to ensure that everyone adheres to the standards management wants by creating a culture that reflects and reinforces those standards." **SR**

> *'Many executives do not understand the impact of their organisation's culture; they simply assume that their employees know what sort of behaviour is expected. And even when a company formally articulates the values, beliefs and practices it espouses, it can unwittingly undermine them'*
>
> **PricewaterhouseCoopers** *Building a risk-aware culture for success*

HOW DOES A COMPANY INSTIL THE DESIRED CULTURE?

PRICEWATERHOUSECOOPERS GIVES the following pointers:

- Envisage your ideal organisational culture.
- Assess your existing culture against that ideal.
- Plot your position.
- Identify and prioritise what needs to be changed.
- Close the gaps.

Supply chain gains?

There are obvious fiscal benefits in sending manufacturing out of house, but what happens when companies are faced with a weak link in the supply chain?

SOURCING GLOBALLY CAN MAKE financial sense but may also present reputational and contingent business interruption issues. And recent research suggests that companies are generally still poor at managing their supply chains.

There is a growing trend among larger companies to reduce manufacturing inhouse and outsource much of their production operations. One of the main reasons for sourcing goods and services overseas is cost, says JLT partner Tim Cracknell. "Costs are crucial, particularly if there's not a lot of room for manoeuvre in your own pricing and you want to improve profitability," he explains.

If the cost is the plus factor, the downside is reduced control over production. "You can't just drive down the road and visit your supplier, so you have to rely on site visits and surveys to check capabilities and quality," warns Cracknell. "If the components concerned are non-critical and low value, you might be prepared to take some things on trust – for example, that the supplier concerned is not employing under-age workers."

If suppliers breach the company's code of ethics there is the potential for reputational damage. This can be particularly harmful where a supplier's workers in developing countries are earning what seems in western eyes a pittance to produce goods that have a comparatively high retail value in the developed world.

Product liability and recall issues caused by failure in the supply chain also pose a significant reputational risk, says Chartis European liability manager Gregg Piltch. "We are increasingly working with the insured to conduct audits of their supply chain to profile suppliers' strengths and weaknesses. The key is to track performance and help spot problems before, rather than after, the event."

KEY POINTS

01: Outsourcing manufacturing is on the rise

02: Though the costs of outsourcing are attractive, outsourcing brings a lack of control over production

03: Placing pricing pressure on suppliers may force them to cut corners in production

04: Natural catastrophes can limit availability of components for an entire global industry

05: Research found that 80% of companies are weak at managing supply chain risks

However, the greatest risk companies face is that circumstances may arise that affect suppliers' ability to deliver. For example, with the recession and financial pressures still continuing in some areas, there may be the danger that a supplier will go out of business, leaving its customers high and dry.

It can be difficult to ascertain the true state of a supplier's financial viability. The business concerned may be understandably reluctant to let a major customer know that it is struggling since losing a key customer. Cracknell comments: "A business in Asia in particular may not want to lose face, so it may give a very positive reading as to its situation when the reality is that it is in deep trouble."

The recession has made the situation worse. Western companies seeking to preserve profit margins may put additional pricing pressure on their suppliers. The result can be that these suppliers are tempted to cut corners – and that has implications for quality and, once again, adherence to ethical standards.

Catastrophic consequences

There are few recent natural catastrophes that have affected western companies' supply chains as devastatingly as the Japanese earthquake earlier in 2011. The disaster hit the automotive and technological industries particularly hard. Motor manufacturers across the globe had to reduce or suspend some plant operations as a result of lack of parts. Technological companies issued profit warnings.

ChainLink Research says that, speaking with companies about their response to the tsunami, it became apparent that some companies were much more proactive than others. "They swung into action based on up-to-date and recently validated/practised contingency plans they had in place. They already had agreements with alternate sources of supply upon which they could draw.

"In contrast, other firms were caught flat-footed and took longer to understand if,

CHANCES OF FAILURE

PricewaterhouseCooper's *KnowledgeLine* in 2009 gave some pointers for assessing and monitoring suppliers' likelihood of financial failure:

- Identify critical suppliers – pinpoint the supply chains and suppliers most critical to the business
- Review financial indicators – consider current and historical financial data. Reliance on Z and O scores (a measure used to summarise publicly available information about the probability of bankruptcy) and Dun & Bradstreet reports does not go far enough to predict financial instability
- Consider qualitative factors – analyse governance issues, leadership changes, litigation and investigations
- Look at privately owned suppliers – take additional steps to obtain quantitative and qualitative data on private companies critical to your supply chains.

and how, they were affected. They then had to compete with other companies scrambling for their share of limited supply on spot markets or secondary markets."

Managing the chain

How well are multinational companies managing their supply chains? Pretty poorly, according to ChainLink Research. The firm's 2011 supply chain risk survey, conducted in the wake of the Japanese tsunami, found that 80% of companies are weak at managing supply chain risks.

The other 20% are proactive in managing supply chain risk, says ChainLink. They often have a dedicated supply chain risk group. They have multi-faceted early warning systems in place to raise the red flag before disruptions occur. They recognise the need to understand and manage risk across multiple tiers of their supply chain.

A company's ability to persuade suppliers to change their practices and improve risk management is likely to depend on its purchasing power, says Cracknell. The bigger companies have the advantage, both when it comes to driving change and in terms of ability to spread their risk. They may be less dependent on volume discounts than their smaller counterparts and therefore better able to widen the number of suppliers they use for a particular commodity and/or negotiate 'spare' capacity should a disruption occur.

Companies should understand the risk profile of their entire supply chain and any vulnerabilities and risk issues attached to suppliers, advocates Cracknell. "You can then come up with loss estimates. How long would it take to bring production back on stream? What stocks are available to enable you to maintain output? How long will these last?" he says.

ChainLink chief research officer Bill McBeath adds: "Those who take the attitude: 'These same events are happening to everyone, so why should I spend time and money on this?' really miss the true opportunity. Disrupting events can be critical turning points in the evolution of a sector, determining the future winners and losers in an industry. Leaders will come out on top if they understand risk impacts and provide the leadership and investments needed for their enterprise to proactively deal with inevitable, disrupting events." **SR**

HOW DOES YOUR COMPANY MEASURE UP?

Other significant findings of the ChainLink supply chain risk management survey include:

- Supply chain resilience tended to be reviewed and managed 'down in the trenches' by the people with immediate responsibility for operational functions, as well as by the head of those functional units, such as the supply chain vice-president. Review by executives in charge of the business unit or by corporate executives is considerably less common. This shows that for about 80% of companies, supply chain resilience is not yet a priority at the executive level, except for those executives directly responsible for supply chain functions.
- There is generally a low level of investment in supply chain risk management, most companies spending less than $50,000 (€35,000) a year. Only about 5% spent more than €720,000 and none of those surveyed spent more than €2.16m. There was no strong correlation between company size and the amount invested. Some mid-size firms spent considerably more than many large firms.
- Almost 90% of respondents said that supplier risk was frequently or always part of their supplier selection process – but with varying degrees of thoroughness. And most companies did not consider risk beyond immediate suppliers.
- The frequency with which companies conduct assessments and audits of risk factors for their suppliers depends on how critical those suppliers are. Almost 40% of respondents never conduct assessments, or do so less than once a year, even for their most critical suppliers. About 10% of firms ran these assessments twice a year, or more often for important suppliers.
- Companies rate their ability to manage supply chain risk quite poorly. In only two areas (production reliability and business continuity) did more than half of the respondents say they are good or very good. The areas with the most 'poor' ratings were geopolitical risks, natural disasters, labour disputes, infrastructure risks (power, utilities), and demand forecasting. The areas in which respondents said they were doing the best are those that are somewhat under the direct control of the company – production reliability, business continuity, and IT security.
- The vast majority of respondents (nearly 80%) do not manage risks beyond their immediate first-tier suppliers. Instead, they rely on their immediate suppliers to manage those risks.

Disaster management

From Australia's floods to the Japanese earthquake, the risk of natural catastrophe is on the rise. Disasters are unavoidable but by improving risk management their impact can be reduced

SOME COUNTRIES – OFTEN those that have the most potential either financially or in terms of their indigenous market – are prone to natural catastrophes. How can risk managers plan to mitigate the effects?

For many European companies, 'going global' means having to come to terms with the likelihood of disruption from natural catastrophes. In recent years, Europe itself has experienced some climatic disasters – severe flooding has affected many different countries.

Major natural disasters have hit the headlines this year, with floods in Australia, New Zealand's earthquakes, the Japanese earthquake and tsunami, and US tornadoes, hard on the heels of last year's catalogue of catastrophes.

Aon's *Annual Global Catastrophe Report 2010* confirmed that nat cat activity in 2010 was far higher than in the previous three years, with 314 events causing significant damage in various parts of the world.

"These 314 events – defined as natural meteorological and climatological occurrences that have caused a significant impact in terms of insurance claims, economic loss or fatalities, or have had a large humanitarian effect – resulted in economic losses of $252bn (€182bn) and insured losses of €27.3bn," says the report. By comparison, 2009 tallied 222 events that combined to produce €42bn in economic losses and €14.4bn in insured losses.

Companies and countries can't prevent nat cats – but they can improve risk management and reduce the impact of natural disasters. A World Economic Forum report, *A vision for managing natural disaster risk*, published this year, outlines recommendations under three broad pillars:

- Risk awareness – create local-level community risk awareness projects to change behaviours through understandable risk data and correct risk pricing; collect and improve risk data to better communicate the changing risk environment.
- Risk reduction – establish incentive programmes to enhance resilience by investing in retrofitting buildings and strengthening infrastructure; establish a new urban planning process to include the knowledge and expertise of the engineering and insurance experts to ensure new structures are built in lower risk areas and adhere to sufficient codes for physical resilience.
- Risk management – build a coordinated approach to risk mitigation through a country risk manager from a central level to prevent a siloed approach; increase financial preparedness for the severe shocks that cannot be 'built for' through traditional insurance, catastrophe bonds and country-level funds.

KEY POINTS

01: There were 314 separate events causing significant damage across the world in 2010

02: These 314 events resulted in economic losses of $252bn

03: Due to population growth in vulnerable areas, increased urban development and climate change, natural disaster risk is increasing

04: Most countries that are prone to natural hazards have building codes designed to increase structural resilience

05: Managing natural hazard risk is a long-term development issue, not solely a set of actions taken before, during and after a disaster

Incentives for investment

"With natural disaster risk increasing due to population growth in vulnerable areas, increased urban development and climate change, there needs to be a change in incentives for investment in the resilience of homes and infrastructure, through programmes such as retrofitting existing structures and better land planning to ensure development of safe areas with high resilience structures," says the report.

It also highlights the role a country risk manager plays in improving coordination among resources to enable more effective mitigation across different government departments and to include external resources. "Such an approach may better anticipate complex secondary risks," it says.

Most countries that are prone to natural hazards have building codes designed to increase structural resilience. However, a recent report from the University of Colorado suggests these are often not followed in countries where corruption is rife. It cites the construction industry as one of the most corrupt sectors of the global economy.

A report from the Organization of American States (OAS) on natural hazards in the USA states that nat cat risk management consists of two phases:

- A post-disaster phase – emergency response, rehabilitation and reconstruction
- A proactive pre-event phase – risk identification, risk reduction, risk transfer and preparedness.

In connection with the latter, it says that each step involves tools, including hazard, vulnerability, and risk assessments, which aid decision-makers in selecting suitable measures and solutions.

"Such measures include insurance and pooled risk arrangements, strengthening of early warning systems, and incorporating natural hazard risk management into: zoning and land-use planning; national and sector policies; and engineering standards and codes relating to prevalent natural hazards," explains the report.

It cites the challenges of risk and vulnerability. "Managing natural hazard risk is a long-term development issue, not

'You can't mitigate 250- or 500-year return periods. I was more interested in identifying how vulnerable we are to the event'

Adrian Clements ArcelorMittal

solely a set of actions taken before, during, and after a disaster event. Nations, sectors, and communities can mitigate natural hazard risk in anticipation of such events through appropriate management of the conditions of vulnerability (physical, social, economic, and environmental) factors or processes that increase the susceptibility of a community to the impact of disasters."

Risk transfer has been a key tool in the risk manager's armory for dealing with nat cat risks. However, at least one of the largest multinational corporations is moving away from this approach. Steelmaker ArcelorMittal's general manager of asset risk management, Adrian Clements, says the company has increasing exposure to natural disasters. "Some of the greenfield projects we have going on are located in 'exciting' areas," he explains.

Clements says that even though the company transfers some financial risk, it needs to try to mitigate its market share risk. Initially, the consultants he spoke to were highly focused on insurance and hazard return periods.

"You can't mitigate 250- or 500-year return periods. I was more interested in identifying how vulnerable we are to the 250- or 500-year event so that I can manage that vulnerability. The aim is to be able to have the plant up and running again in four weeks," Clements says.

The project began with the company's plant in Mexico. In co-operation with risk management consultancy ABS, key risk drivers were defined to measure the plant's resilience to earthquake, hurricane and tsunami risk and identify any weak structural and managerial elements that needed improvement.

Vulnerability rating

But the vulnerability rating methodology goes wider than that, says Clements. "Importantly, we need people to run the plant. My plant can maybe survive but without the people it's just a steel and concrete structure.

"So the study also has to look at the resilience of their houses, infrastructure and important facilities such as hospitals. Would people be able to get drinking water, electricity and so on? Would they be able to get to work? ABS is also looking at the robustness and resilience of the city and its surroundings."

Clearly it is not feasible – or financially viable – to make a plant resilient to any earthquake that could ever occur. But it is cost-effective to protect it against an earthquake of up to say 7.5 on the Richter scale. Clements says the investment involved is relatively small compared with the total value of the plant.

It is true that huge multinational conglomerates have different needs from most other companies. They are also likely to have a far greater appetite for risk. Clements believes standard definitions of risk appetite are rather "wishy washy" and stagnant.

He says ArcelorMittal hopes to create a working model to better define its risk appetite, one of the inputs being its vulnerability to nat cat exposures.

Clements concludes: "You cannot change recurrence periods or acts of God – but you can manage the results." **SR**

TOP 10 INSURED LOSS EVENTS IN 2010

Date	Name or type	Location	No. of structures/ claims	Economic loss estimates	Insured loss estimates
27 Feb	Earthquake	Chile	1,500,000	$30bn	$8.5bn
27-28 Feb	Windstorm Xynthia	France, Portugal, Spain, Belgium	100,000	$4.5bn	$3.65bn
4 Sep	Earthquake	New Zealand	190,000	$3.81bn	$3.05bn
12-26 May	Severe weather	Plains, midwest, northeast, Tennessee valley USA	230,000	$2.75bn	$2bn
30 Apr-3 May	Severe weather	Mississippi valley, Tennessee valley, southeast USA	75,000	$3bn	$1.5bn
22 Mar	Severe weather	Western Australia	165,000	$1.25bn	$1.06bn
6 Mar	Severe weather	Victoria	105,000	$1.25bn	$10.2bn
12-16 Mar	Flooding	Northeast, mid-Atlantic USA	175,000	$1.5bn	$1bn
5-9 Jun	Flooding	France, Spain	45,000	$1bn	$0.87bn
5-6 Oct	Severe weather	Arizona USA	150,000	$1.25bn	$0.75bn

Raising the standards

Stakeholders expect multinational organisations to behave ethically and to be good world citizens – those that fail are likely to pay the price with their reputation

THE ORGANISATION FOR Economic Co-operation and Development (OECD) has agreed new guidelines to promote more responsible business conduct by multinational enterprises. These include new recommendations on human rights abuse and company responsibility for their supply chains.

The guidelines establish that firms should respect human rights in every country in which they operate. They should also act as partners in promoting free and open access to the internet. Appropriate due diligence processes should be in place to ensure international standards are respected – paying decent wages, combating bribe solicitation and extortion, promoting sustainable consumption.

The code is not just for advanced industrialised countries. OECD countries such as Chile, Mexico, Korea and Turkey have adhered to it. And in May, the OECD council decided to amend the code to make non-OECD countries' adherence possible.

The OECD's recent action confirms how important corporate social responsibility is becoming on the global scene. So how do multinational companies instil ethical principles throughout their worldwide operations and their supply chains?

PRINCIPLES FOR RESPONSIBLE BUSINESS

PRINCIPLE 1 – RESPECT STAKEHOLDERS BEYOND SHAREHOLDERS

- A responsible business acknowledges its duty to contribute value to society through the wealth and employment it creates and the products and services it provides to consumers.
- A responsible business maintains its economic health and viability not just for shareholders, but also for other stakeholders.
- A responsible business respects the interests of, and acts with honesty and fairness towards, its customers, employees, suppliers, competitors and the broader community.

PRINCIPLE 2 – CONTRIBUTE TO ECONOMIC, SOCIAL AND ENVIRONMENTAL DEVELOPMENT

- A responsible business recognises that business cannot sustainably prosper in societies that are failing or lacking in economic development.
- A responsible business therefore contributes to the economic, social and environmental development of the communities in which it operates, in order to sustain its essential 'operating' capital – financial, social, environmental and all forms of goodwill.
- A responsible business enhances society through effective and prudent use of resources, free and fair competition, and innovation in technology and business practices.

PRINCIPLE 3 – BUILD TRUST BY GOING BEYOND THE LETTER OF THE LAW

- A responsible business recognises that some business behaviours, although legal, can nevertheless have adverse consequences for stakeholders.
- A responsible business therefore adheres to the spirit and intent behind the law, as well as the letter of the law, which requires conduct that goes beyond minimum legal obligations.
- A responsible business always operates with candour, truthfulness, and transparency, and keeps its promises.

PRINCIPLE 4 – RESPECT RULES AND CONVENTIONS

- A responsible business respects the local cultures and traditions in the communities in which it operates, consistent with fundamental principles of fairness and equality.
- A responsible business, everywhere it operates, respects all applicable national and international laws, regulations and conventions, while trading fairly and competitively.

PRINCIPLE 5 – SUPPORT RESPONSIBLE GLOBALISATION

- A responsible business, as a participant in the global marketplace, supports open and fair multilateral trade.
- A responsible business supports reform of domestic rules and regulations where they unreasonably hinder global commerce.

PRINCIPLE 6 – RESPECT THE ENVIRONMENT

- A responsible business protects and, where possible, improves the environment, and avoids wasteful use of resources.
- A responsible business ensures that its operations comply with best environmental management practices consistent with meeting the needs of today without compromising the needs of future generations.

PRINCIPLE 7 – AVOID ILLICIT ACTIVITIES

- A responsible business does not participate in, or condone, corrupt practices, bribery, money laundering or other illicit activities.
- A responsible business does not participate in or facilitate transactions linked to or supporting terrorist activities, drug trafficking or any other illicit activity.
- A responsible business actively supports the reduction and prevention of all such illegal and illicit activities.

Source: The Caux Round Table *Principles for Responsible Business*

Global Governance Services chief executive Chris Pierce believes: "The board has ultimate responsibility for setting the tone, the culture and the values of the organisation."

Pierce suggests the starting point is a board charter that clearly spells out what their responsibility is. "That charter should clearly articulate that the board is responsible for the ratification of a code of conduct, ethics, standards, whatever they like to call it, within the organisation, which the board should ratify, monitor and regularly review. The board itself should be a role model within that code of conduct."

Global ethical programmes

Worldwide implementation might be expected to be difficult, but Pierce points out that it may not be easy to roll out governance standards, even in a European – or national – organisation. "There are going to be difficult dilemmas that exist within the organisation that will need to be resolved through a training and development programme," he says.

Pierce is critical of the minimal level of training and development associated with ethics. He cites a study by the UK Institute of Business Ethics that demonstrates such training and development is a justifiable investment in terms of associated benefits.

One of the problems with global ethical programmes is the need to embrace values understood in a multitude of different cultures and religions. However, there is a surprising similarity in standards. The Caux Round Table, an international network of business leaders working to promote a morally and sustainable way of doing business, has produced principles that should be globally acceptable.

Pierce believes that issues are more likely to arise regarding legal rather than cultural differences. He cites legislation relating to corruption. "The UK Bribery Act 2010, which came into force in July this year, does not allow facilitation payments, in contrast to the US Corrupt Practices Act, which does. So there's a clear difference as regards best practices.

"Another example is whether or not businesses are legally allowed to contribute to political activities and political parties. There is a wide difference between practices around the world concerning that," he adds.

As far as driving the ethical message down the supply chain is concerned, Pierce emphasises that companies' reputations are closely linked to those of their supply chains. However, he says that many leading multinational corporations do get involved in training and development associated with ethical issues down the supply chain.

For any company, be it national or global, the hit to its reputation from a breach of ethics is likely to vary according to public perception of factors such as the desirability of product and how serious its transgression is.

For example, Apple used Taiwanese electronics group Foxconn's Chinese operations to manufacture its iPod. Although Foxconn's human rights record has been extremely poor, there was no consumer backlash against Apple because of the huge demand for the product.

Conversely, in the case of News Corp's UK newspaper, *News of the World*, reports that a journalist had hacked into a missing girl's mobile phone, deleting messages so that the family and police thought she might be alive when in fact she wasn't, produced a huge public outcry, leading to the closure of the newspaper.

Maintaining ethical standards is a serious challenge for global companies. Says Pierce: "Directors are very aware that what they are saying at board level is not necessarily the reality. As a consultant, I am often asked by organisations to compare the rhetoric with the reality. Many organisations are taking this seriously now." **SR**

IBE SURVEY FINDINGS

The 2010 Institute of Business Ethics survey, published in May 2011, found that:

01: The boards of larger UK companies are increasingly involved in reviewing the effectiveness of their organisation's ethics policies and programme.

02: Bribery, corruption and facilitation payments along with discrimination issues and speak-up policies lead the list of 'significant issues' for UK companies. In 2007 it was 'safety and security' and 'environmental impact'.

03: Only six out of 10 UK companies provide training in business ethics for all their staff. The 2007 survey found that training was provided by seven out of 10 UK companies.

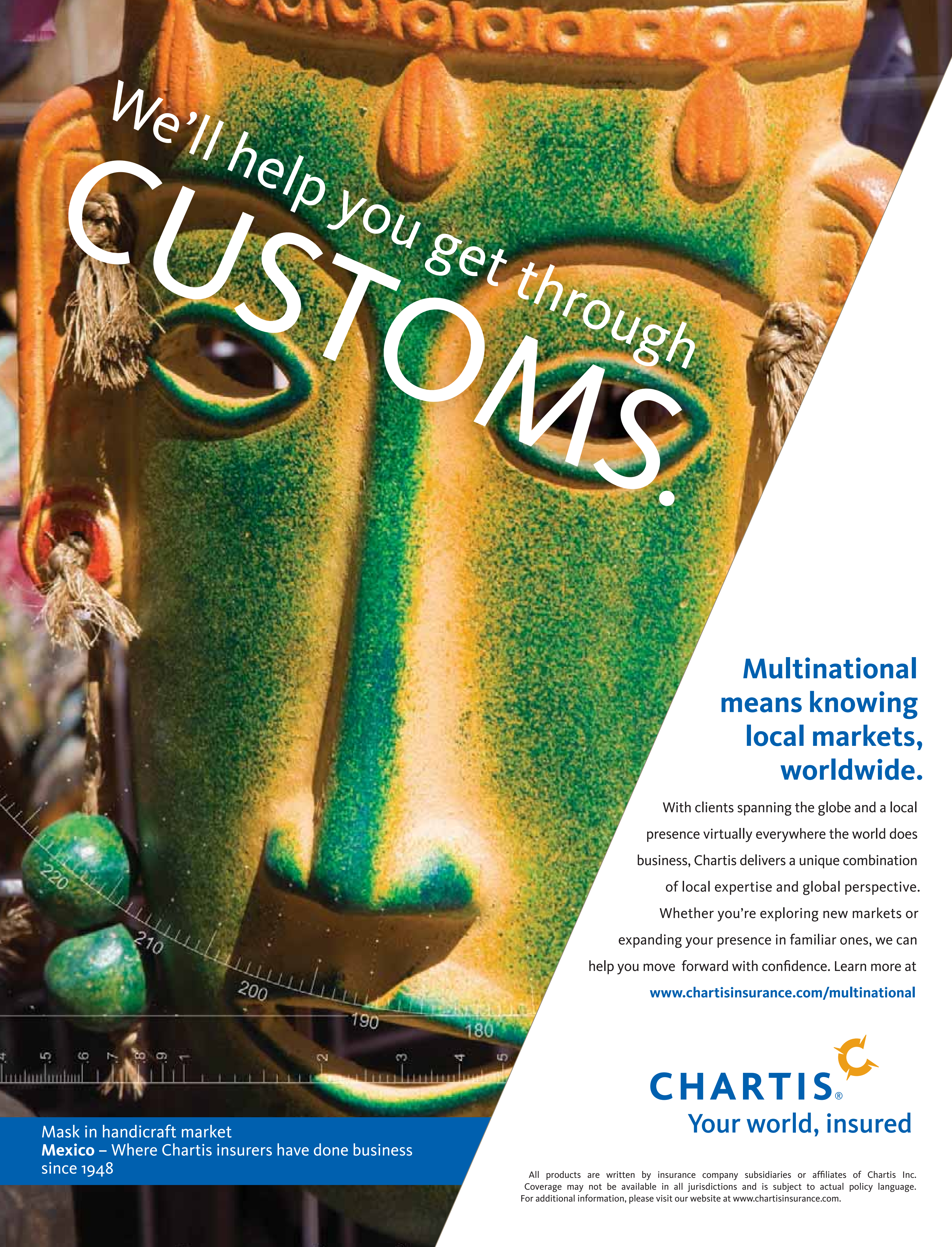
04: The method most favoured for ethics training among UK companies is an in-house seminar (78%) followed by e-learning (67%).

05: Nearly all UK and continental European companies surveyed said they provided a mechanism for raising ethical concerns.

06: 83% of responding UK companies screen suppliers and other business partners for ethical standards.

07: References to the corporate code of ethics in the recruitment process were found to be more likely among continental European companies than those in the UK.

08: Continental European companies are more likely to have a stand-alone ethics/compliance function with responsibility for the code and ethics programme than UK companies.



Mask in handicraft market
Mexico – Where Chartis insurers have done business since 1948