THE BOARD’S RESPONSIBILITY FOR ETHICS & RISK
IN A TIME OF CRISIS:

The (Hypothetical) Case of the XYZ Mining Company Disaster

James Jalil & Alex Plinio, acting as members of the XYZ Board of Directors
The Audience, acting as Senior Executives of XYZ
Andrea Bonime-Blanc, Facilitator

Rutgers Institute For Ethical Leadership - Newark, New Jersey - January 15, 2014
WHAT NOT TO DO IN RISK OR CRISIS MANAGEMENT...


Source: Facebook.
GOT AN ETHICS, COMPLIANCE OR REPUTATIONAL CRISIS?

<table>
<thead>
<tr>
<th>If you’re a shirt manufacturer outsourcing much of your sewing to subcontractors (or their unknown third parties) with small factories in remote locations that are visited rarely, if ever, with poor or non-existent environmental, health and safety protections, what is your potential reputational risk? <em>Ask Wal-Mart.</em></th>
<th>If you’re a financial institution that accepts deposits from and processes transactions for millions of customers around the world without institutionalizing and policing proper checks and balances in compliance with anti-money-laundering laws, what is your potential reputational risk? <em>Ask HSBC.</em></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply Chain</strong></td>
<td><strong>Money Laundering</strong></td>
</tr>
<tr>
<td><strong>Walmart</strong></td>
<td><strong>HSBC</strong></td>
</tr>
<tr>
<td>If you’re a technology company that invents new consumer devices to sell to the world and you enter into a contract with one of the largest suppliers of labor and manufacturing facilities and some of those facilities have a high rate of worker discontent, suicides and aberrant labor conditions, what is your potential reputational risk? <em>Ask Apple.</em></td>
<td>And if you’re an international infrastructure company that manufactures, supplies, acquires, builds, owns and/or operates large-scale utilities (such as electrical power plants) requiring a host of governmental authorizations, licenses, permits and other benefits – many of them from “non-transparent” regimes – what is your potential reputational risk? <em>Ask Siemens.</em></td>
</tr>
<tr>
<td><strong>Human Rights</strong></td>
<td><strong>Bribery &amp; Corruption</strong></td>
</tr>
<tr>
<td><strong>Apple</strong></td>
<td><strong>SIEMENS</strong></td>
</tr>
</tbody>
</table>

EDELMAN INDUSTRY TRUST BAROMETER 2013

SLIGHT UPTICKS IN MANY SCORES, FINANCIAL SERVICES AND BANKS REMAIN LEAST TRUSTED

TRUST IN INDUSTRIES

### 2012
- Technology: 79%
- Automotive: 66%
- Food and beverage: 64%
- Consumer packaged goods: 62%
- Telecommunications: 60%
- Brewing and spirits: 59%
- Pharmaceuticals: 56%
- Energy: 53%
- Media: 51%
- Banks: 47%
- Financial services: 45%

### 2013
- Technology: 77%
- Automotive: 69%
- Food and beverage: 66%
- Consumer packaged goods: 65%
- Telecommunications: 62%
- Brewing and spirits: 62%
- Pharmaceuticals: 58%
- Energy: 59%
- Media: 53%
- Banks: 50%
- Financial services: 50%

Technology #1 in all markets surveyed*

2013: Top 3 in Developed Markets
- #1 Technology
- #2 Automotive
- #3 Brewing & Spirits

2013: Top 3 in Emerging Markets
- #1 Technology
- #2 Automotive
- #3 Consumer Packaged Goods
- #4 Energy

*Please indicate how much you trust businesses in each of the following industries to do what is right. Again, please use the same 5-point scale where one means that you "do not trust them at all" and nine means that you "trust them a great deal".

Top 4 Bus Trust: Informed public ages 25-64 in 29-country global total (exudes Argentina, Hong Kong, Mexico, Singapore, Turkey, and UAE, only industries tracked from 2012 to 2013 included in analysis).
## BOARD & INVESTOR RISK MANAGEMENT DISCONNECT

### Board priorities relative to investor expectations

<table>
<thead>
<tr>
<th>Directors</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic planning</td>
<td>Risk management</td>
</tr>
<tr>
<td>Succession planning</td>
<td>Strategic planning</td>
</tr>
<tr>
<td>IT risks</td>
<td>Executive compensation</td>
</tr>
<tr>
<td>IT strategy</td>
<td>Succession planning</td>
</tr>
<tr>
<td>Risk management</td>
<td>Crisis management/planning</td>
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<td>Regulatory compliance</td>
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<tr>
<td>Executive compensation</td>
<td>Bribery and corruption concerns</td>
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<td>Regulatory compliance</td>
<td>Insider trading concerns</td>
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<td>Bribery and corruption concerns</td>
<td>IT risks</td>
</tr>
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<td>Director communication protocols</td>
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<tr>
<td>Insider trading concerns</td>
<td>IT strategy</td>
</tr>
</tbody>
</table>

*Source: PwC, What Matters in the Boardroom, 2013*
Q7a. If you believe there is not always appropriate time or focus given to risk discussions at your board meetings, which of the following reasons characterizes why this is the case?

- Many of our board members have a false sense of security with regard to our risk; the board often glosses over issues that could use additional analysis.
- Our board meetings are packed with so many agenda items and time is limited; therefore, the board does not drill down into deeper discussions.
- Our board members rely heavily on management’s assessment of risks and does not focus enough on challenging those assessments.
- The quality of information our board receives hinders our ability to focus on risk.

*Other

Source: NYSE Governance Services, 2013 Risk Oversight Survey.
TEN COMMANDMENTS OF BOARD RESPONSIBILITY FOR ETHICS & RISK

I. The Board sets the tone from the top on all things ethics, compliance, risk and corporate responsibility
II. The Board holds itself accountable
III. The Board holds the CEO and senior management accountable
IV. The Board sets the right tone through values in its own internal interactions
V. The Board creates the right compensation and performance incentives for the C-Suite
VI. The Board ensures that Senior Management has created a “safe to speak up” culture
VII. The Board has at least one director with deep expertise in ethics, risk, compliance and corporate responsibility
VIII. The Board has a committee that delves deeply into the company’s infrastructure and substance of risk, ethics and compliance
IX. The Board undertakes periodic and meaningful continuing education on corporate governance, ethics and other best practices (including crisis management exercises)
X. The Board isn’t afraid of & undertakes constructive change, internal renewal, lessons learned

November 26, 2008

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