Abstract

**Purpose** – The purpose of the paper is twofold: first to add to the debate on good governance and ethics of Enterprise Risk management, second to describe an ethical maturity scale based on duty and responsibility for practical implementation to ensure better governance.

**Design/Methodology/Approach** – The methodology has centred on risk governance as a way for many organizations to improve their risk management practices from an ethical perspective based on responsibility and on fulfilling one’s duty within the organisation.

**Findings** - While companies in Australia, for example, are more mature than those in Russia in terms of governance systems life cycle, there are a number of common international challenges in risk governance implementation. These relate to a link between risk framework, enterprise value model and strategic planning; to a definition of risk appetite, the embodiment of risk management in organizational culture, internal audit and ERM function, the evolving role of a Chief Risk Officer (CRO), and senior management buy-in and sponsorship of the integrated ethical risk management from a CEO.

**Practical Implications/limitations** - Enterprise Risk management [ERM] - a way for many organizations to improve their risk management practices - is a key component of the applied ethics of corporate governance. It has developed into a philosophy to assist organizations with the process of protecting shareholders’ value while also increasing the bottom-line profitability. Effective ERM is based on ethical risk governance. Internal audit needs to be involved in the process of integrating risk management and compliance. It should maintain a degree of independence when assisting with ERM establishment. CRO is most effective when reporting to the Board.

**Originality/value** – Global companies are becoming more accountable to multiple stakeholders. It is the adoption of an ethical code to arrest the lack of clarity of roles ascribed to the audit committee and risk committee and management’s accountability that remains the challenge across different jurisdictions. In attempting to implement
good governance and meet the challenges, the paper introduces an ethical maturity scale as an internal measure that could be embedded in an organisation’s strategy.

Keywords - Governance, Accountability, Responsibility, Duty, Ethics, Enterprise Risk management, Chief Risk Officer, COSO ERM and ASNZ 4360:2004. 8th EU Directive.

Paper type – Conceptual type with practical application.

1. Introduction

Kant (1724-1804) believed that a rational being would conform to the dictates of reason. In the Kantian world humans are neither wholly determined to act by natural impulse, nor are free of non-rational impulse. Hence management need robust rules of conduct within the firm - where these (moral) rules are absent so too is responsibility. As humans, management are often found in the situation of possessing reason, being able to act according to their conception of the rules or framework. They have the ability to choose the ethical principle to guide the actions of the company or enterprise. They must exercise their will and their reason to act. Management possess more of this freedom to choose due to the more discretionary nature of management work. Management are not wholly rational beings, so are liable to succumb to their non-rational impulses. Equally, even when we exercise our reason fully, we often cannot know which action is the best. And this is more acute for management. Therefore a corporate governance code should be built on a proactive culture of ethics. “It should be adaptable in any situation irrespective of its complicated or inflexible nature” (McNutt and Batho, 2005).

It is internationally accepted that corporate governance is one key element in improving economic efficiency, which ultimately balances relationships between a company’s management, its Board, its shareholders and other stakeholders. Enterprise Risk management [ERM henceforth] is a key component of corporate governance. It provides a means of attaining an entity’s objectives and monitoring performance of (say) an agent by a principal and assurance of the principal’s (the stakeholders) interests via a diligent and efficient behaviour of the agent (the entity). A risk governance approach provides a sound foundation for an ethical ERM system and proffers a robust approach to manage an organisation’s risk profile. As required by various risk management standards this approach needs to contain a clear risk management strategy, a set of ethical objectives, supported by the business case, and clearly demarcated roles and responsibilities and support structure within the company [2]. There are key common challenges in developing and implementing risk governance in different jurisdictions. This paper, drawing on the international experience of the authors, focuses on business ethics and regulatory requirements.

Good governance ensures that ethical values, codes, roles and responsibilities are implemented in a clear risk management structure with a defined set of accountabilities. Audit committees focus on the challenge of overall risk profile and framework; internal audit focuses on assurance of effective risk management and maintains its objectivity consistent with its establishment. A Chief Risk Officer [CRO] vide section 5.1, can execute both consulting and executive duties, and is most effective when reporting to the Board. The effectiveness of risk management
therefore is closely connected with both the integrity and ethical values of senior management who set the ‘tone at the top’. It is a matter of understanding the culture of the organization and integrating a formal risk management approach into strategic decision-making. In doing so, risk management can become part of an organization's strategic thinking and ethical values.

1.1 Two frameworks

Two frameworks have emerged to assist companies in the implementation of requirements for risk management and internal control: COSO ERM and ASNZ 4360:2004. There are pros and cons for each of the frameworks to be addressed later. In the interim, we note that COSO ERM has been developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and issued in 2004 [3]. It is an adopted framework for risk management and internal control that has been deemed ‘suitable’ by both the Securities and Exchange Commission (SEC) and the Public Accounting Oversight Board (PCAOB). COSO ERM consists of two parts: Integrated Framework and Application Techniques.

ERM is presented by COSO as a system, consisting of eight interrelated components vide Figure 1, looking at the risks both within and outside an organisation from a wider ethical perspective. COSO ERM has provided key principles and concepts, a common language and clear direction and guidance to fulfil the need of investors, company personnel, and other stakeholders increase assurance in business operations. The Australian and New Zealand risk management standard ASNZ 4360:2004 in Figure 2 has become an accepted and proven better practice approach to risk management in Australasia[4]. The standard outlines a risk management process that contributes to good governance and provides some protection for directors and office holder. The protection occurs on two levels in the process: the adverse outcomes may not be as strict as they might otherwise have been; those accountable can, in their defence, demonstrate that they have exercised a proper level of diligence.

Figure 1 COSO ERM

<table>
<thead>
<tr>
<th>Internal Environment</th>
<th>Objectives Setting</th>
<th>Event Identification</th>
<th>Risk Assessment</th>
<th>Risk Response</th>
<th>Control Activities</th>
<th>Information &amp; Communication</th>
<th>Monitoring</th>
</tr>
</thead>
</table>

Figure 2 ASNZ 4360:2004

- Establish Context
- Identify Risks
- Analyse Risks
- Evaluate Risks
- Treat Risks

Context: Assess strategic organisational context
Identification: What can go wrong? Missed opportunities?
Analysis/Measurement: Assess risk likelihood and consequence, review controls
Evaluate: Compare risks, set risk priorities
Treatment Options: Reduce, avoid, transfer or retain
2. Definition of risk management

Comparing key provisions of each of the frameworks we have noted the following: COSO ERM defines enterprise risk management as a process designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. The process is effected by an entity’s Board of directors, management and other personnel, applied in strategy setting and across the enterprise [3].

COSO acknowledges that this definition is purposefully broad so it captures key concepts fundamental to how companies manage risk, providing a basis for application across organisations, industries and sectors. It focuses directly on achievement of objectives established by a particular entity and provides a basis for defining enterprise risk management effectiveness. In implementing ERM many companies find it useful to convert the COSO ERM cube in Figure 1 into a process in order to ascertain its inherent logic.

ASNZ 4360 states that risk management is an integral part of good business practice and quality management. It is an iterative process of continuous improvement that is best embedded into existing practices of business processes [4]. The standard further specifies that risk management means *inter alia* identifying and taking opportunities to improve performance as well as taking action to avoid or reduce the chances of something going wrong. The standard encourages an organization to manage proactively rather than reactively, facilitating a degree of accountability in decision making by balancing actions in terms of the cost of avoiding threats or enhancing opportunities and the benefits to be gained. Good governance would then ensure an improved effectiveness and efficiency of performance for the enterprise.

The definition by ASNZ 4360 is more explicit and brings forward some details which COSO ERM attends to in the content of its framework. Companies internationally have started to realize importance of the governance structures in increasing the value from ERM. 85% of the ERM programs of the companies observed by Demidenko (2007) include a governance structure to optimise managing key business and strategic risks and exploit opportunities. Management, for example, are carefully considering the transition from Sarbanes-Oxley [SOX] compliance to adoption of ERM strategies - integration of SOX and ERM may be possible under the established compliance process [5].

3. Regulatory requirements to risk governance

How organizations have perceived risk management in theory and applied it in practice has developed considerably over the past 15 years. ERM has been brought to the forefront. Regulatory changes have been crucial in providing that impetus coupled with growing concerns about fraud and responsibility to shareholders, and the activist call for greater transparency and disclosure to the market, and increased accountability of management and Boards.

In Australia as in many countries a number of regulatory changes and new disclosure requirements have driven risk management within many organizations. The introduction of principles of good corporate governance and better practice recommendations have influenced risk management practices in listed companies.
These changes have created expectation for risk management and subsequent implementation of formal risk management practices within many organizations that are both within and outside regulatory requirements.

An overview of the regulatory requirements at both the NYSE and LSE, and respective Codes for good corporate governance, enables us to conclude that all regulators identify a proactive Board, audit committee (and/or specialized risk committee), independent internal audit function, and management sponsorship as critical success factors to effective risk governance. Underlying management’s accountability, ASX regards the audit committee as a safeguard of integrity in financial reporting. The LSE and ASX requirements explicitly focus on the risk management being a primary value added system driving internal compliance, control and good governance, provide guidance to companies on value added features, such as ‘early warning’ mechanism, operational effectiveness and efficiency of the system.

The Russian Code of corporate governance principles focuses on ‘risk-averse and safe operations’ balancing interests towards shareholders. Under the Code an organisation ought not to participate in the operations which lead to greater risk to investors and capital loss. Hence, the ethical principles of ‘fairness and honesty’ to the shareholders are key underpinning requirements of the Code [6]. The initial focus of NYSE and SOX 404 has shifted towards internal control over financial reporting and transparency for shareholders. In addition, NYSE and SOX 404 are more prescriptive in terms of governance structure and public responsibility of the management requiring that CEO/CFO make public statements and report to the market on effectiveness of internal control over financial reporting; and the Board Committees comprise only independent directors. ASX and LSE, on the contrary, state that CEO / CFO reports to the Board on risk management and internal control, they do not require public statement and allow executive directors on the Boards. Therefore, ASX and LSE support corporate governance principles to balance the interest of both principals and agents (stakeholders and organizations) within an organisation.

4. Corporate governance developments in Russia & Ukraine

The goal of improving corporate governance can be driven by the competitive process amongst companies vide McNutt (2005). One of the directions for corporate development of Russian companies includes improvements to the system of corporate governance. This may provide an insight for recent improvements of corporate governance in the BRIC countries with growing economies [7].

The Russian Federal Commission for Stock Markets (the FCSM (2003)) has developed a Code for Corporate Conduct in collaboration with the representatives of international business, regulators, domestic private and public issuers and stock exchange professionals in 2002. The Code is based on the internationally recognized principles of OECD and is treated as the national standard for corporate governance and the FCSM has issued recommendations for its implementation.

Companies shall publicly disclose effectiveness of implementation of the FCSM Code for Corporate Conduct. Under the auspices of the Russian Institute of Directors (RID), for example, the Board of Directors will ensure that the shareholders rights are protected by executing the oversight over the system of risk management - the shareholders are the main parties affected by the company’s risks. The Code will be amended later in order to capture more elements of better practice, focusing on how
best to increase effectiveness of the Board by highlighting the strategic function of the Board. The embryonic Ukrainian corporate governance code, as well as the Russian one, is based on a variant of the German two-tier model, strictly separating monitoring functions (assigned to the supervisory Board) and executive functions (assigned to the management Board). Several major shareholders control managers through the supervisory Board.

The regulatory changes have prompted that ERM activities [driven by the Board, senior management and the internal audit] have often developed within a culture of ethical compliance, rather than within a culture of effective management of risk to improve organizational performance. Recently it has become apparent that in order to make compliance investments effective, organisations need to strengthen their ERM, first of all through a robust risk governance framework. Organisations implementing risk management in line with better practice often apply guidelines by COSO ERM. However, application of the latter can become a challenge in itself.

4.1 Governance challenges in Russia and Ukraine

The LSE and MICEX Stock Exchange signed a joint marketing agreement to promote Russian IPOs on their respective markets in January 2006 [8]. This is the result of a strong IPO process in Russia in 2005, when close to USD 5bn was raised by 13 Russian companies on exchanges both in Russia and abroad. Despite the country risks the capitalization of the Russian companies, the RTS Index grew by 1000 points comparing to the 150 points 10 years ago [7]. At the same time the MSCI World Index and MSCI Emerging Europe Index are at 200 and 400 respectively. The cost of loaned capital for the Russian companies on the international market has decreased from 20% p.a. to 6-7% p.a. All these developments will in our view force the Russian companies to pay even more attention to better governance of the business.

Key governance challenges in Russia are typical for those BRIC countries with transitional economies. Vladimir Potanin (RBCC 2006, p.25), Chairman of the National Council for Corporate Governance in Russia and President of ‘Interros’ company, considers the main challenges to be: (i) lack of transparency for the stakeholders; (ii) lack of internal control mechanisms, and (iii) lack of asset consolidation. In addition there are ethical challenges - the corporate governance law is behind the actual business development and the issue of minority shareholders’ rights coupled with a lack of minority shareholders on Boards have to be addressed.

Large and mid-sized Russian companies have started to work towards achieving transparency. The overall tendency is to improve effectiveness of the Boards which become the centre for the strategic decision-making. National Council for Corporate Governance hosted a roundtable on ‘Harmonization of corporate governance in European Union and in Russia’ in London in March 2006. The objective of the round table was to increase transparency of the Russian corporate governance for the business society in Europe. This will also help to improve image of the Russian business for the European investors. On the threshold of the Ukraine’s entry into the World Trade Organization, more and more companies are striving to follow the best global practices in corporate governance. It is our view that Ukrainian companies need some greater encouragement.
4.2 What the Russian companies are doing to improve their risk management and internal control systems

In Hofstede’s typology, the Russian culture is “distinctive at the authoritarian end on power distance and builds on collectivism” (Hickson and Pugh, 2003). Nevertheless, many Russian companies which pioneered implementation of comprehensive internal control projects (e.g. SOX 404) complying with NYSE listing requirements have perceived the system as too onerous for effective and flexible way of doing business. Some of these companies have followed a proactive business rationale to optimize internal controls based on key risks, prior to the recent refocus of SOX on the key risks.

Few key players [listed on NYSE or LSE] predominantly in the Russian steel, telecommunication, oil and gas industries, have already developed ERM frameworks and commenced their implementation. Other Russian companies inherently exposed to international industry specific requirements have perceived risk management and its ethical component as a key success factor to their business regardless of the recent compliance imperatives.

A leading Russian shipping company transporting bulk liquid cargo has been operating on the international shipping market, where risk management is critical, for 35 years. The company operates a young fleet of 21 vessels and has more than 2,000 personnel. The company is advanced in management of safety, quality and environmental risks. It has adopted robust quality control procedures enterprise-wide and pursues an effective alignment of opportunities and risk management for specific regions. However, the company does not have a holistic risk profile, the scope and intensity of control procedures is not based on prioritised risks.

By adopting a value driven risk governance the company will comply with tightening RTS governance requirements, increase effectiveness of internal environment, optimise costs of company level and functional internal controls, potentially optimise its borrowing costs to finance a shipbuilding program and obtain more flexibility on the market of capital finance [currently the company relies on long established relationships with few international banks] and more confidently explore commercial opportunities in risky regions. The company could address the governance issues by: (i) assigning roles, responsibilities and accountabilities for risk management; (ii) potentially aligning risk management and ethics, paying attention that the Board remains active but somewhat overriding the activity of the executives; (iii) introducing risk management as a performance measure not only for the company but for senior executives.

In general companies need to focus their efforts on realizing more value of existing ERM elements, prioritise risk management role in an organization and drive it further to a holistic system. Companies in Russia need to focus more on building and embedding better practice risk governance in their operations.

5. Common international ethical challenges in risk governance

Common international challenges in the implementation of ethical risk governance relate to the audit committee duties, risk committee, role of CRO, CEO sponsorship and SOX hurdles. The challenges are wide ranging but it is useful to focus on the role of an audit committee. Recent survey results, vide Demidenko
(2007), demonstrate that in 66% of USA and European companies surveyed, audit committee regularly discusses the company’s major financial risks exposures (including strategic risks with financial impact) and the steps management has taken to monitor and control such exposures.

Audit committees are still spending too much time focusing on risk assessment. At the same time, the 8th Directive Article 41 of the European Union (2006) requires audit committees to monitor the effectiveness of an enterprise’s internal controls and internal audit, where applicable, and its risk management systems [9]. There is no single view on splitting the responsibility for risk management oversight between audit and risk committees. The risk management committee in the USA and Europe exists on the Board and management level in 34% of the companies, Demidenko (2007). Many audit committees members and directors were not fully satisfied with their responsibility for oversight of risk management or the processes due to overload. Others believe that “multiplication of the Board committees” responsible for oversight of internal control and risk management functions is needless.

5.1 Chief Risk Officer [CRO]

To oversee ERM activities some companies are instituting a chief risk officer (CRO) role to coordinate enterprise-wide risk management processes. Responsibilities of ERM function are split between “advisory role” relating to facilitation of the process and recommendations, and approval (“management role”), with priority in the area of facilitation and recommendation. A survey conducted by Tapestry Networks and Ernst & Young (2006) among the executive in charge of risk management demonstrates that CROs believe their role to be primarily that of a process leader who ensures that risk is being identified at the senior executive level but managed effectively at the business unit level.

The majority of the CROs do not report directly to the full Board, but to the Committee charged with risk management. This creates the possibility that important details could be omitted, or that the presentation might unfairly skew the Board’s understanding of the risk priorities towards biases specific to the senior manager presenting. Only in 11% of the companies CRO reports to the Board demonstrates Economist Intelligence Unit (2005b). In our view it is necessary to establish an effective reporting line for the CROs to ensuring an effective governance of risk management. Many CROs have found value in adapting pre-existing frameworks such as COSO ERM.

6. Lessons learned: Building process and structure for ERM as way forward from “SOX myopia”

Risk governance helps to instil the ‘control environment’ - the company’s ethical values and integrity – and thus reinforcing the real purpose of risk assessment in making sure that senior management backs up an explicit, formal mechanism for collaboration. Lack of risk management structure, ongoing risk assessment and management process, expertise, and training in risk management has contributed to the misinterpretation of SOX 404 requirements relating to the risk-based internal control approach. This situation has commonly resulted in excessive focus on internal control for the sake of internal control compliance leading to an over-layering of...
controls and ineffective use of companies’ resources in many cases. As alluded to earlier in the paper, many companies have started to realize the importance of governance structures in increasing the value from ERM.

On SOX 404 compliance Tom Nardi, CFO of Peoples Energy Corp. in Chicago commented that ‘one slice of overall risk management has brought the entire issue of risk management to the forefront’ vide Sammer (2004, p.4). Companies are beginning to think about how to transition from SOX compliance to adoption of ERM strategies. Some top executives believe that executive management needs to push for a greater focus on risk management and provide additional resources to broaden the scope of these efforts into ERM.

6.1 COSO ERM v ASNZ

Both frameworks focus on good governance of the risk management process, enhancing decision-making and the selecting of alternative responses in order to help organisations to: reduce operational losses and errors; improve management and portfolio of risk; identify and seize opportunity and improve allocation of capital. Both frameworks underline importance of roles and responsibilities and provide better practice example of those of the participants of the risk management process.

Nevertheless, COSO ERM ‘Application Techniques’ do provide more examples of management techniques and templates that can be used to implement each of the element of the framework: reports, analytical techniques, reporting processes flows, etc. COSO ERM covers all essential reports to be developed by an organisation, distributed internally and externally.

Critique of COSO ERM is based on the level of practicality. Michael Rasmussen the leader of Forrester’s risk and compliance research division argued that ‘COSO ERM provides an obscure framework and provides little practical advice, often leaving the implementer in a bewildered daze of confusion. ASNZ 4360, on the contrary offers a holistic and flexible approach to risk management as it addresses all types of risk in all types of organisations and industries’, (2007 p. 14).

We would agree in part to the arguments that COSO ERM lacks external context for risk management and gives the impression that risk is an entirely internal dynamic that is not influenced by external factor. ASNZ 4360 emphasises the establishment of external context for risk management as well as internal. The standard underlines that ERM is not a siloed function. It can have a central head, such as CRO, to co-ordinate risk management across the organisation, but the ownership of risk falls across varying areas of the business and is influenced by external factors. The ASNZ standard starts with understanding the broad scope of drivers and influencers from both internal and external context.

It is also noted by practitioners that ASNZ 4360 will become the basis of a new international risk management standard from the International Organisation for Standardisation which would be published in 2008. Some surveyed companies in Australia note that COSO ERM fails to adequately address measurement of risks and historical losses, that COSO ERM offers the only measure for possible consequences of possible events - a scenario analysis and fails to examine risks via key risk indicators and self-assessment which is considered to be a more practical approach.

While we would agree that ASNZ 4360 has many beneficial features, however, we do not entirely agree with the critique of COSO ERM. Demidenko (2007) has
found that some of the critique seems to occur due to lack of sufficient level of familiarity with COSO ERM content, in particular the fact that COSO ERM consists of eight interrelated components which are designed to integrate with the management process [10]. The guidance on the integration may be limited: COSO ERM positions ERM as a business management discipline and implies application of the management processes relating to reporting, control and strategic and business management which have been practiced by the companies for many years COSO ERM is a philosophy and a vision of ERM. Nevertheless, Application Techniques described in part II of the framework, do provide management approaches to integrate ERM and value driven strategic management, and processes that can be implemented.

7. Risk governance ethical maturity framework

However, we agree that COSO ERM is presented on a more general level than ASNZ 4360 in order to fit any organisation, vide Demidenko (2007). Across both frameworks, there is a need to equip organizations with ethical tools which can help them understand how powerful good governance has become in driving the risk management. ERM is positioned as a key enabler of an organisation’s ethics, its strategy and performance. It evolves as an intelligent system from a which is embedded in the organisational practices of doing business and contributes to the development of an organisation’s competitive advantage, and thus maximising shareholder value as illustrated in Figure 3 [11]. Our risk governance maturity ethical framework consists of a maturity scale and criteria. It builds on the joint work of the authors. General characteristics of the risk governance maturity ethical objectives are presented in Table 1 below, while detailed criteria are available on http://www.patrickmcnutt.com [12].

Working from the premise that governance regulations on risk management brings forward the necessity to equip organizations with ethical tools which can help them understand how powerful good governance is in driving the risk management, we have developed a set of risk governance diagnostics tools for companies to apply in adopting a maturity ethical framework.

Our analysis of international implementation challenges has enabled us to make the tools more practical against a background wherein the European companies are more advanced in terms of ERM program development than the US companies and
driven by the ‘public image’ while the US companies are still very much driven by the regulations.

Table 1  Risk governance ethical maturity objectives

<table>
<thead>
<tr>
<th>Not in Compliance</th>
<th>Ethical Compliance</th>
</tr>
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<tbody>
<tr>
<td>Accountability ≠ Responsibility</td>
<td>Accountability = Responsibility</td>
</tr>
<tr>
<td>No Duties</td>
<td>Duties Fulfilled</td>
</tr>
<tr>
<td>Lack of RM structure, duties &amp; responsibilities.</td>
<td>Nominal RM structure, duties &amp; responsibilities at the top level.</td>
</tr>
<tr>
<td>RM activities depend on individual initiative and verbal knowledge.</td>
<td>Uncoordinated top down RM activities in some functional units.</td>
</tr>
<tr>
<td>Risk to organisational integrity &amp; ethics.</td>
<td>Risk to organisational integrity &amp; ethics.</td>
</tr>
</tbody>
</table>

The Australian companies have reached a more mature understanding of good Governance than the Russian companies vide Demidenko (2007). They do not follow blindly all the Principles of ASX but choose the relevant ones are able to explain how their practices accord with the spirit of the relevant Principle for good governance and risk management. As mature companies, Australian companies need to focus their efforts on realizing more value of existing ERM elements, prioritise the risk management role in an organization and drive it further towards a holistic system. On the other hand, companies in Russia need to put more focus more on building, improving and embedding better practice risk governance in their operations.

8. Concluding Comments

Internal audit needs to be involved in the process of integrating risk management and compliance. However, internal audit should maintain a degree of independence when assisting with ERM establishment to accord with requirements of the Institute of Internal Auditors. Companies with coordinated ERM (for example, in Australia) should be able to leverage their expertise and develop the role of CRO as a risk
management consulting function. Companies establishing ERM can utilize internal audit consulting expertise initially. However, when a risk management function is established it should not report to internal audit.

Corporations are becoming more accountable. Common international challenges indicate that companies need to shift their focus from compliance to a more rewarding risk-based ethical approach. The first step is to address governance structure challenges: confusion on the role of audit committee, risk committee, internal audit independence, CRO and ERM function, and sponsorship from CEO. Another common challenge is to adopt a set of guidelines the primary objective of which is to help companies implement ERM. Evaluating company internal procedures is only one way to monitor compliance with good governance. There are numerous arguments in favour of ASNZ 4360, Australian standard, and against COSO ERM, a US framework. We have alluded to those arguments.

Many of the arguments relate to lack of familiarity with COSO ERM. In addition, many Australian companies in the group of ASX 100 have successfully implemented ERM by applying COSO framework. In our view COSO ERM is practical enough to implement. By building a robust risk governance structure companies will be in a stronger position to meet compliance requirements especially those required by the Australian Securities Exchange and London Stock Exchange. They will be able to better transform their risk management into a business tool, an action that allows us to monitor how they achieve their key objectives in an ethical way, by fulfilling duties (as noted in Table 1) - maximize value of shareholders and balance the interests of all stakeholders - in a responsible manner so that they do not have to be held accountable. We need to talk sensibly about the role of ethical values in determining a company’s performance – it may be sufficient to adopt a particular framework; ASNZ 4360 and COSO ERM place a vague faith in the regulator’s ability to achieve governance goals, ultimately, it depends on management being able to act according to their conception of the rules or framework adopted.

**Notes**

1. Professor Patrick McNutt is Visiting Fellow at Manchester Business School and based in Dublin as a consultant t/a Patrick McNutt & Associates. Elena Demidenko, ACCA, MBA, a graduate of Manchester Business School vide [http://www.mbs-worldwide.ac.uk](http://www.mbs-worldwide.ac.uk), is based in Sydney specializing in governance, risk and compliance advisory. The authors may be contacted via [http://www.patrickmcnutt.com](http://www.patrickmcnutt.com).

2. Numerous risk management standards, such as ASNZ4360, have been developed worldwide. The release of the international ISO standard on Risk Management is planned for 2008. Electronic libraries of the standards are available at: [http://www.zurich.co.uk/strategicrisk/referencelibrary/Riskmanagementstandards](http://www.zurich.co.uk/strategicrisk/referencelibrary/Riskmanagementstandards).


5. The Sarbanes-Oxley Act of 2002 ("SOX"), is a United States federal law enacted on July 30, 2002 in response to a number of major corporate and accounting scandals. Section 404 of the Act requires companies listed on New York Stock Exchange are required to publish information in their annual reports concerning the scope and adequacy of the internal control structure and procedures for financial reporting, as well as assessment of the effectiveness of such internal controls and procedures.

6. The requirements of the FCSM Code is in line with the prerequisite of effective risk management, as noted by Lam (2003). Risk management requires that there should be a system of checks and balances to prevent any given individual, or group of individuals, from gaining excessive power to take risks on behalf of an organization. This correlates with the good governance principles of “fairness, balance and honesty” requiring that all transactions to be made to minimize inequality of power and all statements should be made and information to be disclosed honestly and accurately, so that they may be relied on (http://www.asx.com.au).

7. Main regulators on the Russian corporate governance market are the Russian Federal Commission for Stock Markets (the FCSM) and the Russian Trading System (the RTS) stock exchange. The main public structure supporting the development of good corporate governance is composed of the National Council for Corporate Governance and the Russian Institute of Directors (the RID).

8. MICEX is the Moscow Interbank Currency Exchange Group. It is the largest exchange in the Russian Federation with the total annual trading of USD 926 billion.


10. Elena Demidenko has some experience in COSO ERM implementation and contributed to its official translation into Russian.

11. A simple governance code can deliver value. This is the essence of the J-curve. Within the J-curve principles, a company with a narrow scope of activities, delivering value to a limited number of stakeholders, is positioned on the left of the J-curve. [e.g. private companies with a single owner]. As a company grows the number of stakeholders increases; the company implements some change management initiatives including adoption of governance codes, hence the stakeholders’ value may change, and ultimately the value to multiple stakeholders, including the shareholders, increases once the governance matures. As the number of stakeholders increase and as the activities become more complex, a maturity scale may be appropriate as an evaluation-performance tool.

12. The authors have developed a questionnaire – available at http://www.patrickmcnutt.com - to facilitate self-assessment by management of
the current situation and articulation of the future state of risk governance in an organization, with recommendation on areas for improvement. The questionnaire is based on the maturity ethical framework presented in this paper and the results first demonstrated by Demidenko (2007). The targeted audience of the questionnaire is senior management and non-executive directors. The self-assessment can be conducted as a survey or by an external facilitator during an interview session with directors and management. The answers to such questions are analysed after the interview/survey and the assessment of the current and future situation is completed based on the scores obtained from the questionnaire.

References


