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Section Five: Governance

Managing risk, maintaining trust

On the Web

For Web-exclusive content and more on our efforts around governance, visit us online at ibm.com/responsibility/governance

The economic news of the past several months has provided a compelling reminder of the importance of trust and personal responsibility for our company, our industry, business at large — and the health of the global economy.

When transparency, accountability and trust break down, a lot breaks down with them. The enormous promise of a smarter planet rests not most importantly on technology, but on increasingly open, collaborative and trust-based relationships spanning vast global systems—systems that, by definition, cannot be controlled by a single entity.

At a time when public confidence in business has been seriously diminished, IBM believes more than ever that maintaining the highest standards of ethics, transparency and accountability are essential to our continued growth worldwide. Fundamental to maintaining those high standards is effective enterprise risk management.

Enterprise Risk Management for the Globally Integrated Enterprise

As IBM pursues major growth opportunities—as we open new offices, hire new employees, establish new relationships with customers and business partners—risks are inherent. To assure these risks are identified and handled appropriately throughout the enterprise, IBM has developed a consistent, systemic and fully integrated approach to Enterprise Risk Management (ERM). Using a clearly defined risk assessment methodology and risk management metrics, we identify, define and prioritize risks, analyze their causes, and assess their enterprise-level implications. This approach helps us determine how best to manage and mitigate risks to ensure consistent growth and economic return longterm.

For instance, IBM continues to invest significantly in growth opportunities, including dozens of emerging countries, including Brazil, China, India and Russia, to drive revenue growth and market share gains. Client adoption rates and viable economic models are uncertain in these high-value and rapidly growing market segments. In addition, as our company expands to capture emerging growth opportunities, we need to rapidly secure the appropriate mix of trained, skilled and experienced personnel. The developing nature of emerging growth markets presents potential political, social and economic risks from inadequate infrastructure, creditworthiness of customers and business partners, labor disruption and corruption. This could impact our ability to meet our growth objectives and to deliver to our clients around the world.

The systematic approach to Enterprise Risk Management allows us to take advantage of the scale and scope of the company to improve performance through better identification and management of enterprise risk. It is designed to help IBM:

- › ensure strategic decisions are informed with appropriate consideration of risk
- › anticipate issues and prepare for them in the execution of strategy
- › analyze ongoing operations and take action to improve performance and increase consistency
- › monitor risks and feedback to the business more effectively

To further enhance our risk management capabilities, IBM recently established the role of vice president of financial management and chief financial risk officer whose purview includes Enterprise Risk Management.

The Corporate Trust and Compliance Web site

357,000

employees successfully completed IBM's annual online Business Conduct Guidelines course and re-certified their commitment to follow the guidelines in 2008.

In February 2009, IBM launched what we believe will serve as a valuable resource for IBM managers and their teams around the world. The new Corporate Trust and Compliance Web site, is designed to foster a culture of trust and personal responsibility throughout the company.

Among other things, the site highlights IBM's online reporting system that allows IBM employees around the world to report concerns and possible violations of company policies and its longstanding Business Conduct Guidelines. The system is available on demand and in multiple languages. Employees can raise concerns related to everything from workplace conditions to concerns about pay and performance ratings to known or suspected employee misconduct.

Reported violations of IBM's Business Conduct Guidelines are reviewed and, as appropriate, investigated. Where allegations of misconduct are substantiated, corrective actions, including appropriate disciplinary actions, are taken.

The IBM Business Conduct Guidelines, to which IBMers certify annually, spell out the ethical business practices that apply to employees worldwide. These Guidelines remain the foundation of our compliance management system—and IBM has controls in place to help ensure that we all adhere to them, at every level of the company.

However, no matter what processes are established, what values we instill or how open and transparent our management practices are, people will make mistakes and do things that aren't right. When that happens, leadership becomes crucial.

These online resources can help strengthen the very bedrock of IBM, helping to ensure that our relationships—with clients, investors, colleagues and the communities in which we live and work, in every part of the world—are truly built on trust.

On the Web

For information on IBM's policies and procedures related to Corporate Governance, Governance of Corporate Responsibility and Stakeholder Engagement, visit ibm.com/responsibility/governance