

Section Six

Governance: Managing Integrity and Citizenship in a Globally Integrated Enterprise

OUR CHALLENGES

Maintaining the highest standards of ethics and corporate governance wherever we operate

Ensuring privacy protections in the context of technological advances

OUR OPPORTUNITIES

Integrating diverse stakeholder perspectives into our decision-making

Improving our efficiency and security as an organization

Responding to market needs for security- and privacy-related capabilities

OUR STRATEGY

Developing innovative approaches to stakeholder engagement

Aligning our public policy and corporate citizenship approaches

Positing IBM as a resource to those developing laws and practices that govern information use and protection

Managing disparate operations, expertise and capabilities in order to connect more intimately with partners, suppliers and customers is not an easy proposition for any global enterprise. This includes the challenge of how to sensibly regulate intellectual property worldwide and maintain trust even when business models become increasingly distributed and dispersed.

At IBM, we believe that maintaining the highest standards of global corporate governance is essential to our growth worldwide, especially in emerging markets. And we maintain a disciplined approach to corporate governance that shapes decisions in four areas:

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Public Policy

In July 2007 IBM Chairman Samuel Palmisano launched a dialogue with about 500 leaders from government, business, universities, nonprofits and other leaders from across the U.S. at IBM's first-ever Forum on Global Leadership in Washington D.C. This dialogue, which continued at a second forum in London in May 2008, considered the implications of two overarching realities that face every organization today: the need for global integration and the imperative of innovation. We are witnessing how the convergence of information technology, global economic integration and innovation are opening up all sorts of new opportunities and challenges. IBM believes that the best way to respond to today's economic, social and environmental challenges is by working collectively with partners throughout the world.

As a globally integrated enterprise, IBM maintains an approach to public policy that is both globally consistent and locally relevant. We work with governments, regulators and standard setters at global and local levels on key economic, governmental and societal issues, and we are dedicated to policy approaches that foster innovation, enable growth and address key societal challenges.

IBM executes public policy in compliance with applicable laws and IBM's Business Conduct Guidelines, which provide direction on Political Contributions and Employee Participation in Politics. We do not make contributions or payments—or give any endorsement of support—that would be considered a direct or indirect contribution to political parties or candidates, including intermediary organizations such as political action committees or campaign funds.

During 2007 we had eight public policy focal points:

INTELLECTUAL PROPERTY REFORMS AND OPEN STANDARDS

As prolific creators of intellectual property, we believe in a strong and global intellectual property system that fosters innovation. To be effective, such a system must strike the appropriate balance between protecting the economic rights of inventors and advancing the progress of science.

At IBM, we strongly support the development of open industry standards as a key to competition and innovation in the IT sector. We believe that IP laws should further that goal—and that open source and commercial software are both important parts of a contemporary IT marketplace. (For details on how we are implementing open approaches to IP, see pages 80-81.)

POLICY-DRIVEN GROWTH

We identify the most challenging social and economic policy issues facing governments and societies today, and then determine how and whether IBM is in a position to help address them. We are currently focused on policy-related projects for healthcare, energy and utilities, and traceability.

INNOVATION LEADERSHIP

Innovation is the means by which new industries are created, science is advanced and societal goals are served. Advancing innovation in the integrated global economy requires a flexible, highly skilled and technologically adept workforce that is supported by continuous learning and market-oriented transition assistance. Businesses and communities will benefit if their workforce has the skills, creativity and flexibility to respond to a world of competition. For this reason we believe that the public and private sector should work together to ensure the proper investment in human capital.

GLOBAL WORKFORCE FLEXIBILITY

Rapid changes in technology and international trade are reshaping contemporary business and the 21st century workforce. To respond to global workforce challenges, we focus on: formulating human resources policies that reflect IBM's changing workforce; driving global strategies to improve regulatory frameworks supporting workforce flexibility; enabling IBM's transition to a globally integrated enterprise with flexible sourcing options by preventing new national barriers; and winning support for IBM investments.

OPEN MARKET AND GLOBAL INTEGRATION POLICIES

To better serve our global clients, we must be able to locate and operate in close proximity to them. Trade barriers, cumbersome customs procedures, unnecessary supply chain or other regulations, and underdeveloped telecommunications infrastructure can deny access to, or artificially raise, the cost of our services.

EXPORT COMPLIANCE

We devote significant resources to comply with a complex system of export controls that are administered by the U.S. and other nations. Given the breadth of our global operations and dependence on exports, it is vital that we conduct operations with minimal delays.

ENTERPRISE PRIORITIES

We believe that green technology can help governments address global environment and energy challenges, so we advocate policies that promote energy efficient information technologies.

We also support tax policies that promote technological advancements that enhance the overall well-being of society and help to create an expanded network of bilateral income tax treaties, particularly in high growth markets.

Our other areas of focus include corporate social responsibility, corporate governance, financial reporting requirements, health and safety issues, and issues related to business transactions, strategic business locations and business incentives.

Governmental Programs
ibm.com/ibm/governmentalprograms

GOVERNMENT RELATIONS AND MARKET SUPPORT

Our goal is to increase the overall capability, capacity and effectiveness of our government relations in diverse political environments around the world such that we achieve our worldwide policy priorities. We also work with governments to determine the most contemporary and constructive public policy related to public sector procurement of information technology, services and products.

Industry Associations

We only belong to organizations whose priorities reflect IBM’s values and priorities, as outlined above. Our Industry Association memberships include: the Business Roundtable, Information Technology Industry Council, Technology CEO Council, and American Chambers of Commerce around the world.



2 Corporate Governance

Members of our Board of Directors collectively represent a variety of skills, backgrounds and perspectives. We consider this diversity to be essential to the growth and success of our company in an integrated global economy.

More information about our corporate governance can be found on our Website, including:

- › Membership of Board of Directors
- › Board Committees
- › Director Compensation
- › Executive Compensation
- › Director Independence Standards
- › Business Conduct Guidelines
- › Corporate Governance Guidelines

Corporate Governance
ibm.com/investor/governance

Business Conduct Guidelines

Our Business Conduct Guidelines define the standards of business conduct, ethics and integrity for all of our directors, executive officers and employees worldwide.

These guidelines address more than just compliance with the law and general standards of ethics. They also guide our actions to ensure that our relationships with clients, investors, colleagues and communities are built on trust. As such, they are a tangible example of our values and an expression of the responsibility of every employee to uphold them. For this reason, IBM employees globally are asked to certify to the Business Conduct Guidelines. In addition, we provide an online Business Conduct Guidelines course that more than 325,000 employees have successfully completed each year for the past two years.

As we grow in emerging markets and develop new products and services, however, our compliance risk profile also changes. Our employees must have the confidence to report concerns about legal violations or practices that are contrary to our Business Conduct Guidelines—without fear of retaliation. They must also know that appropriate remedial action will be taken as a result of such violations.

Prompt corrective action and discipline by IBM are critical. For this reason, during 2007 IBM launched an enhanced Web-based “Concerns and Appeals” program through which employees can raise their concerns at any time. This includes:

- › **CONFIDENTIALLY SPEAKING:** A channel for employees to communicate concerns when they believe the Business Conduct Guidelines have been violated. This online program is the latest evolution of IBM’s 45-year-old Speak Up program.
- › **OPEN DOOR:** A channel for employees to request reviews of management actions that have personally affected them, such as pay or discrimination.

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Governance of Corporate Responsibility

IBM Senior Management is ultimately responsible for our economic, environmental and social performance, as well as compliance with the law and our various codes of conduct. The IBM Board and its Committees oversee these efforts and review performance and compliance periodically.

Corporate citizenship at IBM is integrated across the business through the following two forums:



CORPORATE CITIZENSHIP STEERING COMMITTEE

Our Corporate Citizenship Steering Committee is comprised of senior executives from functional areas across the business and chaired by the vice president for Corporate Citizenship. The Committee meets periodically to provide leadership and direction on key citizenship issues. Each functional area is responsible for the development of its own corporate citizenship goals and strategy, with organizational-wide goals approved by the Steering Committee.

CORPORATE CITIZENSHIP WORKING GROUP

Our Corporate Citizenship Working Group consists of representatives from 11 functional areas (including global representation) and meets at least monthly to manage IBM’s corporate citizenship activities, reporting and stakeholder engagement across the company. The Working Group reviews key policy and strategic decisions with the Steering Committee throughout the year.

On a day-to-day basis our activities are managed in a vertical organization called Corporate Citizenship & Corporate Affairs, which reports to the senior vice president for Communications and Marketing.

Stakeholder Engagement

Stakeholder engagement is about far more than communications or consultation. It is fundamentally about partnership and collaboration. It is how we work shoulder to shoulder with communities, governments and the social sector. A few examples:

- › Our Global Innovation Outlook brings together a significant number of thought leaders from business, academia, government and the social sector to uncover breakthrough opportunities for business and societal partnerships.
- › Jams, our large-scale electronic conversations, garner stakeholder input and engagement on a scale previously not possible in real time, accelerating the development of new business and societal solutions to problems such as water quality or healthcare.
- › We use a variety of social media to help us more deeply engage with our extended IBM workforce and community. This includes our retirees through the IBM On Demand Community, our online system of community engagement, and a range of in-depth social partnerships as we beta test technology breakthroughs with community organizations, teachers, students and parents worldwide.

We actively seek out organizations that are taking similarly innovative, global, open and collaborative approaches to corporate citizenship and sustainability. Our memberships include:

- › Boston College Center for Corporate Citizenship (IBM is a Board Member)
- › Business for Social Responsibility
- › China Corporate Citizenship Committee
- › Chinese Federation for Corporate Social Responsibility
- › Confederation of Indian Industry National Committee on CSR
- › AmCham-China CSR Committee
- › CSR Europe (IBM is a Board Member)
- › Electronic Industry Citizenship Coalition (IBM is the Chair)
- › European Academy of Business in Society (IBM is a Board Member)
- › Global Leadership Network (IBM is an initiator and founding member)
- › World Business Council for Sustainable Development

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Privacy and Security

Privacy-related challenges cross policy, business and technology domains. Advances in technology, such as those that enable individuals to publish and disseminate information widely, are driving heightened interest in privacy. The distribution of business processes among multiple entities — and frequently across legal jurisdictions — has accentuated this trend.

As a global company that helps organizations make the most of technology, we have a leadership role to play in engaging with the private, public and civil sectors to develop new thinking and practices that help meet society's expectations of privacy and data protection — and to set exemplary policies and practices within our own enterprise. At the same time, we recognize that privacy is a responsibility that is shared by everyone — governments, industry and individuals.

IBM as a Privacy Leader

A variety of external groups have recognized IBM as a privacy leader. In 2007 our chief privacy officer won the Vanguard Award for leadership and innovation in privacy, and a consumer survey by TRUSTe and the Ponemon Institute ranked IBM as the top business-to-business brand for privacy in the U.S. Our objective is to drive sustainable progress via a mix of internal programs, technological innovations and external engagement.

PROGRAMS

- › Establishing global policy and supplemental guidelines and standards for the collection, use, disclosure, access, storage, retention and protection of personal information
- › Achieving qualification under the E.U.-U.S. Safe Harbor for cross-border data transfer as it relates to certain IBM operations
- › Requiring all IBMers to regularly review our business conduct guidelines, including those related to privacy and security

- › Making privacy and security education and training available to all employees, and requiring their participation depending on their specific job responsibilities
- › Providing an online privacy self-assessment tool for all our business process owners, including information about each country's relevant privacy regulations
- › Supporting advanced research and development in “privacy-by-design” and privacy-enabling technologies
- › Applying a data-incident response process to all operations

PRIORITIES

- › *Operating as an efficient and trusted globally integrated enterprise*
Increasingly the data necessary for business operations is exchanged and processed across multiple organizations and national borders. This requires an ability to dynamically access and move information across borders. It also demands a globally consistent approach to data protection—and laws that minimize procedural restrictions while expecting accountability. Via its internal programs and external engagement, IBM is working toward strengthening international standards for data flows.
- › *Enabling the privacy and security of “cloud computing” and social software*
New models of computing are emerging: In “cloud computing” personal data can be processed by computing capability that may reside in various places—and often in countries far from the location of the person or entity processing the data. With Web 2.0, “social software” enables individuals to collaborate—and share data—more easily and fluidly than ever before. All stakeholders must work together to enable privacy and security as these models mature.
- › *Protecting IBM, clients and individuals from data breach-related risk*
IBM recognizes that, due to regulatory and cyber-crime trends, the risks associated with the collection and use of personal information have increased. Via our internal programs and collaboration with clients, partners and vendors, we are committed to continuous improvement in data protection.
- › *Responding to market opportunities*
Institutional focus on security and data protection is increasing as organizations confront regulatory and societal expectations for privacy and security of all kinds. IBM has invested billions of dollars in our technology and capabilities so that we can be a valued partner to clients and society at large in addressing these challenges.