streetwise

BY STEPHEN BARLAS, KAREN L. JETT, KATHY WILLIAMS

[NEWS]

Supply Chain Risks: Are You Prepared? | KATHY WILLIAMS

Companies are faced with a growing number of supply chain risks almost daily, but most aren't prepared to deal with them, a recent study of North American risk managers found. Although 73% of the respondents said their supply chain risk level had increased since 2005, none of the respondents reported that their company was highly effective at managing such risks, and only 35% said their company was moderately effective at doing so. Also, 65% said the risk management programs they had in place had "low" or "unknown" effectiveness or said they didn't even have a formal program. All this was despite the fact that 71% reported that the financial impact of supply chain disruptions—such as hurricanes, floods, labor issues, raw material costs, shifting production to one plant or another, and a variety of others—is damaging bottom lines, customer retention, and brand equity.

These are some of the findings of a survey of 110 North American risk managers conducted by Marsh, Inc., in conjunction with *Risk & Insurance* magazine. Participating organizations were primarily in the manufacturing, distribution, and retail businesses, as well as some government entities. Fifty-one percent of the respondents were from large enterprises ($1 billion or more in annual revenue), 30% were from midsize enterprises ($50 million–$999 million), and 19% were from small businesses (less than $50 million). Supply chain is defined as including all processes involved in making, moving, storing, or servicing physical goods across the end-to-end supply chain from raw material producers through to the end customer. Activities include internal processes—such as manufacturing, purchasing, warehousing, transportation, and inventory management—as well as external activities by suppliers, logistics partners, distributors, service organizations, and others.

Survey respondents said the greatest risks are pricing risks; risks and delays with suppliers; risks with their own plants, warehouses, and stores; logistics delays and disruptions; and natural disasters. Although these risks have always been present, they are being exacerbated by the move to leaner supply chains holding less inventory and the move to increased outsourcing, according to the survey report. Yet even though 75% of the respondents said these risks are among their top 10 issues to

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KEITH RUSSELL, 1946–2008

Keith Russell, CMA, dean of the Bill Greehey School of Business at St. Mary's University in San Antonio, Texas, and former member of the IMA Executive Committee, died April 9, 2008, at the age of 61.

He had been at the University since January 2005 and had already made a great impact, the school said. He had raised the standards in the business school through the introduction of the Greehey Scholars Program and the one-year MBA program, had led it through the AACSB reaccreditation process, and was involved in the creation of the Bill Greehey School of Business trading room and its attendant student-managed portfolio investment course. An advocate of internationalization at the business school, he created initiatives that led to cooperative exchange agreements with universities in Germany, China, and Taiwan, and he introduced a certification program for Mongolian business executives.

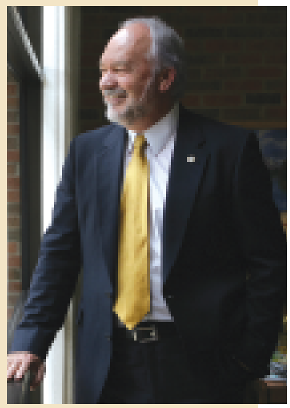

IMAGE COURTESY OF ST. MARY'S UNIVERSITY

Before going to St. Mary's, Keith had been with Southeast Missouri State University

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[KEITH RUSSELL] *cont'd from p. 23*

from 1985 through 2004.

A devoted IMA member, Keith joined the association in 1977 when it was NAA. A lifelong advocate of education and certification, he earned his Certified Management Accountant (CMA®) designation in 1986 and served as chair of the ICMA Board of Regents in 2002 and 2003. He also served two terms as IMA's second Professor-in-Residence from 1997 through 1999. As PIR, Keith initiated a host of programs, including the $150,000 Ph.D. Project sponsorship, the academic mentor program, and the $100,000 faculty enhancement program. He also served as chair of IMA's Academic Relations Committee and was a member of numerous other IMA committees. In addition, he was involved in IMA chapter work throughout his career, serving in a variety of officer and director roles, including chapter president.

A devoted family man, Keith relished time spent with his wife, Margaret Robinson Russell, and his children, Keith II, Kelly, Wade, Elizabeth, and James.

St. Mary's has established a scholarship fund in memory of Keith. Checks should be made payable to St. Mary's University and should note that the funds be directed to the Keith Russell Scholarship Fund. Or members can call Ronan McAshan at (210) 436-3802 or visit http://amgtech.readyhosting.com/secure/stmu/stmu_gift_form.asp.

If you would like to make a donation to IMA's Memorial Education Fund in Keith's name, please send donations to the attention of Lorraine Lupinski, IMA, 10 Paragon Drive, Montvale, NJ 07645. Checks should be made payable to the IMA Memorial Education Fund. ■

[GOVERNMENT]

Democrats Want Tougher Reviews of Investments by Sovereign Wealth Funds

STEPHEN BARLAS, EDITOR

At a time when corporations have to pay higher interest rates on corporate bonds in order to attract investors, sovereign wealth funds have in some instances been just what the doctor ordered. Ethiopis Tafara, director of the office of international affairs at the Securities & Exchange Commission (SEC), told a House Financial Services subcommittee in March, "Through their competition for investments in the United States, sovereign wealth funds can help offer U.S. companies a lower cost of capital and a more liquid market for their securities than might otherwise be available." But the fact that sovereign wealth funds may be extending a lifeline to some U.S. companies these days hasn't quieted concern in Congress about the potential for some of those foreign funds—particularly those controlled by foreign governments, which most are—to use their investments in U.S. companies for questionable political purposes. Funds backed by China, Saudi Arabia, and other oil-rich Arab nations fit into that category. A second concern about sovereign wealth funds stems from the fact that sovereign wealth funds have some of the same opaque characteristics as hedge funds, according to Linda Chatman Thomsen, director of the division of enforcement at the SEC. She explains, "There is the potential for these powerful market participants to obtain material nonpublic information, either by virtue of their financial and governmental powers or by use of those powers, to engage in illegal insider trading using that information."

> **...sovereign wealth funds have some of the same opaque characteristics as hedge funds...**

Both those concerns explain why top congressional Democrats want Secretary of the Treasury Henry Paulson to make it clear that the Committee on Foreign Investment in the United States (CFIUS) can and will review potential investments in U.S. companies by sovereign wealth funds where that investment accounts for less than 10% of the U.S. company's value. CFIUS is the committee composed of U.S. federal agencies that reviews proposed sales of or investments in U.S. companies to foreign buyers. A letter from senior Democrats on the House Financial Services Committee made it clear that "investments from a pension fund owned by a democratic government with a long track record of investment in the United States, such as Canada or Norway, are not likely to raise the same degree of concern as some others." CFIUS shouldn't have to do a full investigation in

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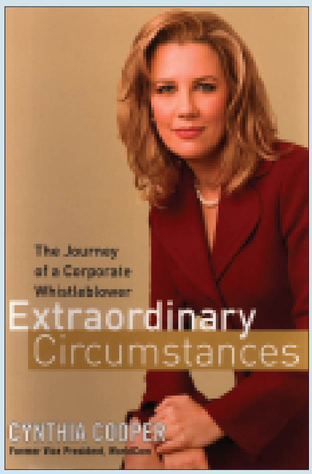
[BOOKS]

A Whistleblower's Story

I still clearly remember the first time I heard Cynthia Cooper speak. It was at the Institute of Management Accountants (IMA®) 85th Annual Conference and Exposition in Chicago, Ill., on Monday, June 28, 2004. Cooper was the speaker at a general session, giving a presentation titled, "Our Responsibility in the New Era of Corporate Integrity."

It was early in the morning, and I sat in the second row, just feet from the stage. The ballroom slowly filled up to near capacity, with hundreds of people waiting to hear her speak. After her introduction, Cooper walked onto the dais with a stack of papers and stood in the single spotlight, just to the right of the lectern. After a moment of silence, she began in her quiet voice to tell the tale of her experiences at WorldCom.



She spoke for more than an hour. As a speaker, she admittedly lacked the finesse of some of the more experienced presenters at the Conference. She paused at odd times, referred frequently to her notes, and rarely moved. Yet she was riveting.

As she spoke, I imagined what I might have done had I been in her shoes, and my compassion grew for a very private, regular person who had unexpectedly been thrust into the limelight—all because of a simple decision to do what she felt was the right thing.

I call it a simple decision, but it's obvious from her speech that morning and from her book, *Extraordinary Circumstances: The Journey of a Corporate Whistleblower*, that the decision was anything but.

In *Extraordinary Circumstances*, Cooper chronicles the rise and fall of WorldCom. At times, the story unfolds like a John Grisham novel. Cooper provides a comprehensive background of WorldCom and all of the company's key players, and, despite the key role she played in revealing the fraud, her objectivity is remarkable.

Not only is Cooper's book a good read, but it's also an excellent instructional tool for ethical business behavior. It shows how easily anyone can make one bad decision from which it is difficult to recover. At WorldCom, that one unremarkable moment was when the first illicit journal entries are booked to ensure the company meets market expectations. Cooper depicts the people involved in that moment as painfully real. Again, I felt myself wondering what I would have done in their shoes, asking myself, "Would I have made the entries?"

Cooper points out how the company's "cowboy" culture may have contributed to its downfall. Growing as quickly as it did, with top management's eye always on the next acquisition, WorldCom was awash in a myriad of systems with very few controls in place. Each acquisition, every high-level decision, was based on whether it would increase earnings per share.

Cooper also shares the challenges and emotions that she struggled with as she became a "whistleblower." Despite the loving support from her family and friends, she was left feeling isolated due to the uniqueness of her experiences. Her meeting in 2002 with other famous whistleblowers—Sherron Watkins from Enron and Coleen Rowley from the FBI—served as a key turning point. It helped her to move beyond the pain of her experience and realize that what happened to her could have happened to anyone, which motivated her to consider how sharing her story might help others.

Since leaving WorldCom in 2004, Cooper has devoted her time to sharing her story, especially with associations and students. In fact, I was privileged to hear her story a second time, and have a brief conversation with her, at a dinner meeting for the IMA Lehigh Valley Chapter in October 2005.

Cooper ends *Extraordinary Circumstances* by discussing the ethical implications of the events at WorldCom. She aptly points out, "We all face ethical choices and pressures daily: Give the

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[GOV'T] *cont'd from p. 24*
those cases, the Democrats said.

SEC Taking Second Look at Credit Rating Agencies

After being a touch "soft" on credit rating agencies, the SEC is now thinking about making a U-turn in the wake of the subprime mess. Last year the SEC wrote rules implementing the Credit Rating Agency Reform Act, which Congress passed in late 2006. That law aimed at cleaning up some of the ambiguities in SEC regulation of those agencies, breaking the "stranglehold" over credit ratings held by Moody's and S&P, and allowing competitors such as A.M. Best and Fitch to get into the game. But when the SEC wrote the final version of those rules, which came out last July, it bowed to Moody's and S&P in one important instance by allowing them to "notch" corporate debt—that is, downgrade it one level—if that corporation didn't give a sufficient level of other business to them. Now SEC Chairman Chris Cox has directed his staff to develop proposals for new, more detailed rules under the new Credit Rating Agency Reform Act that "respond directly to the shortcomings we have seen through the subprime experience." Among the proposals that the Commission may consider as early as this spring are rules that would require credit rating agencies to make disclosures regarding past ratings in a format that would improve the comparability of track records and promote competitive assessments of the accuracy of the agencies' past ratings. In addition, new rules could be aimed at enhancing investor understanding of important differences between ratings for municipal and corporate debt and for structured debt instruments. ■

[BOOKS] *cont'd from p. 25*
money back to the cashier who gave too much change or keep it? Cheat on an exam or take it honestly? Fudge an expense report or tax return or file it truthfully? Keep our word or break a promise? The list is endless."

I agree with Cooper when she talks about the importance of educating people about recognizing ethical situations and about the importance of incorporating ethics into school curriculums. If you read nothing else in this book, flip to the Epilogue, titled "Shaping the Next Generation," and review the 10 tips she provides to help people "sort through tough issues and make the right choices."

Extraordinary Circumstances isn't a story of corporate greed, it's a story of human frailty. It asks, "How prepared are you to face extraordinary circumstances in your own life?"—*Karen L. Jett, CMA, Jett Excellence, Kjett@JettExcellence.com*

[NEWS] *cont'd from p. 23*
address, they are a top-three priority for only 20%.

How can companies improve their supply chain risk management? The report offers several suggestions, including:

- Create a cross-functional supply chain risk team that looks end-to-end. Charge them with looking at insurable and uninsurable supply chain risks; increase the scope of risk assessments across the external supply chain; maintain senior management support through risk reports and other means; and hold regular conversations about risk.
- Embed risk management activities and responsibilities into existing supply chain processes and functions, and create consistency across the organization. For example, create a center of risk excellence that can provide the templates, methods, and tools for all employees involved in the process to use, the report advises. Without these templates, each business unit or function will probably do what it wants to do, and there will be little coordination. Also, review processes and policies annually, and include risk management in supply chain managers' job descriptions.
- Build up analytics and risk metrics.
- Extend the role of the risk manager so they will be a key advisor for strategic supply chain decisions and can find better ways to spot and mitigate risks.

These are just some of the findings from the in-depth report. For a copy of the report, titled *Stemming the Rising Tide of Supply Chain Risks: How Risk Managers' Roles and Responsibilities Are Changing*, visit http://global.marsh.com. Click on News and then Businesses See Supply Chain Risks Rising, Study Finds. ■