

European Governance, Risk and Compliance Summit. **Don't miss it!**
Provides a 360° course for charting Risk Management in view of the current crisis.

 Mikael Frederiksen Microsoft	 Jan Nygaard Nielsen Netcompany	 Kersi F. Porbunderwalla GRC Controllers	 Jesper Lau Hansen Prof. Financial Markets Law	 Paul Grainger Resources Compliance	 Dr. Satish Mody IMBBS	 Tomas Hellum Thobias AP A/S	 Jaya Prakash Rao Voyona, Inc	 Frank Hailstones CAMSoft	 Frederik Fabricius Governance IT A/S	 Jesper Jarlbæk Nordic Private Equity Fund
--	--	---	---	--	---	---	---	--	--	---

Confessions from the psychologist's couch

(A psychologist views the May 2009 Copenhagen Compliance Conference on Governance, Risk and Compliance (GRC) and the current financial crisis)

By Arthur Buchman, M.A.

Kersi Porbunderwalla, the highly energetic and competent organizer of the Copenhagen Compliance GRC conference held 13 May 2009, suggested this title. I confess that I resisted for a while, but Kersi's persistence prevailed, and I have complied.

A further confession: I am a coach with a training company, NLP World, and a psychologist with a private practice, however, my first degree is in Economics (B.A, Cornell University, 1965). My advisor resisted my minor in Psychology, and I resisted the business world by changing careers when the economic theories from university bore no resemblance to the manufacturing conditions where I started as production manager after graduating.

Resistance is Sigmund Freud's concept from early in the last century. He believed that people attempt to prevent their analyst from uncovering hidden or unconscious material. In Jacques Lacan's modern view "resistance is not a question of the ill will of the [client]; resistance is structural, and it is inherent in the analytic process."

This means that it is natural for risk takers to resist complying with governance.

Freud's original thesis was that uncovering resisted material would produce insight leading to change. This is comparable to saying that if we sufficiently analyze the recent financial crisis, we will understand what new governance is needed. The modern approach, as exemplified by coaching, is to model success and facilitate the client's resourcefulness to adopt better strategies. In other words, make needed changes first, and then you will get insight about any needed new governance.

In this May's GRC conference, we heard examples of both approaches. The rich collection of speakers gave depth to the participants' understanding of GRC as they each attacked the important issues from a wide variety of industries and unique perceptions. This confession cannot summarize 13 logically intricate presentations, but it can describe many meaningful highlights. I apologize to the presenters omitted.

Mikael Frederickson, Director of Finance at Microsoft and Chair of the conference, stressed that software which is in itself compliant is just the beginning of a holistic approach which needs to include legal and financial concerns. Transparency for even the most complex data is required. He pointed out that 100 Danish CFOs have predicted the current financial crisis will last at least 12 months longer. In recovery, compliance is more important than ever and cannot be outsourced or delegated to auditors. Boards, CEOs, senior management and employees must all be involved because compliance is for everybody.

Jesper Lau Hansen, Professor of Financial Markets Law at Copenhagen University, cited Adam Smith's 1776 remark that people working with other people's money will not be as diligent as when working with their own money. GRC is therefore only half the story, because

European Governance, Risk and Compliance Summit. **Don't miss it!**
 Provides a 360° course for charting Risk Management in view of the current crisis.

 Mikael Frederiksen Microsoft	 Jan Nygaard Nielsen Netcompany	 Kersi F. Porbunderwalla GRC Controllers	 Jesper Lau Hansen Prof. Financial Markets Law	 Paul Grainger Resources Compliance	 Dr. Satish Mody IMBBG	 Tomas Hellum ThobiasAP A/S	 Jaya Prakash Rao Voyona, Inc	 Frank Hailstones CAMSoft	 Frederik Fabricius Governance IT A/S	 Jesper Jarlbæk Nordic Private Equity Fund
--	--	---	---	--	---	--	---	--	--	---

implementation must follow and will be only as good as the people implementing the GRC. Compliance must be seen as a *help* to keep employees doing what is right, and the 'them or us' theory of management is wrong. Whistle blowing is a part of compliance and is the essence of loyalty, *not* disloyalty. Laws alone are insufficient protection, so we need our GRC strategy to be well implemented.

Over breakfast and coffee, Mariano Davies, President and Acting CEO of the British Chamber of Commerce in Denmark, told me that compliance is now a more positive word. He said taking risks in business is necessary and also something positive, but taking risks is not equivalent to resting in security. Mariano presented the topic of whistle blowing, defined as "the provision of information by an employee where there could be concern for danger or illoyalty." There are European guidelines in place since 2006, but these are not laws, and there are no best practices agreed upon yet. Whistle blowers need protection against retaliation and protection of their identity. They should have high status & be acknowledged procedurally.

Lars Seier Christensen, CEO of Saxo Bank, insister that crises are a cleansing process, but increasing debt will not work this time. Inefficient (and corrupt) businesses will be weeded out by market forces, especially if they are not bailed out. Transparency and consequences (people taking responsibility) are more helpful than increasing regulations in an already very highly regulated industry. Uncertainty will continue, things will get worse and last longer than most predictions. Deterioration flattening out is *not* the same as recovery. The glass is indeed half full, but this crisis is much more than just a storm in a glass of water. The charts he displayed were powerfully convincing.

Paul Grainger, Managing Director of Resources Compliance, pointed out that the financial institutions that recently failed lost \$5 trillion (!), and we are still counting. These failures were caused by dominant personality CEOs riding roughshod over people in the company, thereby creating failures in risk approval, corporate governance and fundamental compliance. People resisted the question 'what could go wrong?' There was a lack of corporate but also societal leadership, and leaders in both sectors acted as if they could get something for nothing and that nothing could go wrong. He told us the strategy for containing risk appetite and expectation is to quantify risk with practical cost estimates.

The upside of risk is opportunity, and the cost of getting it wrong should be enough motivation to push for GRC with a zero tolerance standard. His solution: embed compliance in the corporate culture so it is a routine part of business, just like quality control in manufacturing. He reminded us that evolution leads to survival, but survival is optional.

Frank Hailstones, Director of Camsoft reported that 69% of fraud is uncovered by whistle blowing or accident. His simple formula: do what is necessary, do it right, do it once.

Frank Holzenthal, Vice President of Tonbeller, advised everyone to identify your risks before the regulators do. He showed a convincing photo of an iceberg with explicit costs of ineffective compliance above the water line and the dangerously huge mass of hidden costs submerged below visibility.

European Governance, Risk and Compliance Summit. **Don't miss it!**
 Provides a 360° course for charting Risk Management in view of the current crisis.

 Mikael Frederiksen Microsoft	 Jan Nygaard Nielsen Netcompany	 Kersi F. Porbunderwalla GRC Controllers	 Jesper Lau Hansen Prof. Financial Markets Law	 Paul Grainger Resources Compliance	 Dr. Satish Modi IMBBS	 Tomas Hellum ThobiasAP A/S	 Jaya Prakash Rao Voyona, Inc	 Frank Hailstones CAMSoft	 Frederik Fabricius Governance IT A/S	 Jesper Jarlbæk Nordic Private Equity Fund
--	--	--	--	---	---	--	---	--	---	--



He described 4 financial crime areas: money laundering, fraud, market abuse and management malfeasance. He presented compliance software solutions for monitoring each area of risk. The bottom line: implementation should solve your problems, not create new ones.

Thinking outside the box looks at successful models from non-related fields, and an excellent model of voluntary compliance was presented by Dr. Satish Modi, an ophthalmologist from the US. The intersection of money and medicine puts patients at risk. Therefore the Advanced Medical Technology Association in the US voluntarily created a written code of ethics with the highest standards. It contains member guidelines (not laws) for complying with anti-kickback laws, and it demands written transaction procedures, whistle blower policy and protection, consequences and transparency for royalty contracts, grants and donations. They forbid accepting entertainment and most free lunches. In the US it is 'comply or die!'

Jesper Jarlbæk, Business Angel and Professional Board Member, revealed the fascinating story of the IT Factory scandal. There was nothing innovative about the fraud, he said; it was executed mainly by extreme non-compliance. Governance provisions already in the law were violated, so there is no new regulation needed.

Stein Bagger's resistance fits the Freudian conception of active concealment. His confession to fraud in the amount of 831 million kroner cost him 7 years in jail and 50 million kroner in fines. In the US, Bernard Madoff's confession cost him 150 years in jail and a \$171 billion forfeiture. The most extreme non-compliance will mean death in prison.

Swedish ERP expert from SAP Lilliana Grbic presented SAP's highly successful and careful compliance and GRC strategy, showing that a proactive strategy can create a fiscally and psychologically secure environment for customers and employees alike.

Jan Nygaard Nielsen from Net Company presented a theoretical model for a center of excellence as a means to implement compliance. He described 4 errors: too much emphasis on risk management, too much emphasis on internal controls, too little emphasis on automation and too much unstructured information. And he had some good news: there is a Business

European Governance, Risk and Compliance Summit. **Don't miss it!**
 Provides a 360° course for charting Risk Management in view of the current crisis.

 Mikael Frederiksen Microsoft	 Jan Nygaard Nielsen Netcompany	 Kersi F. Porbunderwalla GRC Controllers	 Jesper Lau Hansen Prof. Financial Markets Law	 Paul Grainger Resources Compliance	 Dr. Satish Mody IMBBS	 Tomas Hellum ThobiasAP A/S	 Jaya Prakash Rao Voyona, Inc	 Frank Hailstones CAMSoft	 Frederik Fabricius Governance IT A/S	 Jesper Jarlbæk Nordic Private Equity Fund
--	--	---	---	--	---	--	---	--	--	---

Reporting Language, XBRL, which can share information between business units and public institutions.

In my review of the 28 November 2008 GRC conference also organized by Kersi Porbunderwalla, I wrote: "The road from golden handshake immunity to transparent accountability is apparently going to be forcibly paved by legislation of worldwide proportions." But many speakers during the May GRC conference said that existing laws were protection enough.

So what kind of legislative governance is needed? A poor example comes from a confession by Freud. He admitted that he was uncomfortable looking people in the eye all day, and so for his own comfort he sat behind his patients (and said as little as possible) while they reclined on his famous couch. His governance policy suited him more than his clients, who had no choice about complying with his methodology. So ideally, governance present and future should meet the needs of commerce, not primarily the regulators. (NB: my clients *sit* on the couch; we face each other and have an interactive dialogue.)

A final confession: GRC was also a part a presentation I attended by Maersk for the American Chamber of Commerce in Denmark. After 9/11, all other shipping companies were resisting the tough new regulations from the USA and petitioning for exceptions or deadline extensions. Maersk from the start invested in full compliance. The result was a hugely significant increase in market share for the Danish company. Compliance will have become a truly positive word when companies realize that compliance is the key to competitiveness and predictable risk.

About the author; Arthur Buchman is an American psychologist and leadership consultant living in Copenhagen since 1990. Born in 1942, he holds a B.A. in Economics and an M.A. in Psychology. Arthur teaches leadership, team building, communication skills and optimism in organizations whose leaders come from all over the globe. Industries where he has consulted and/or taught include consulting, delivery, education, foreign service, high technology, mental health, oil, pharmaceutical, retailing, and social services. Arthur is also a personal achievement coach.

Arthur Buchman is currently writing a book and presenting a workshop titled [The Instant Optimist](#). The Instant Optimist teaches you practical techniques for building and maintaining a permanently positive attitude.

Arthur Buchman, M.A. Psychologist
 Østerbrogade 210, 5th
 DK-2100 Copenhagen Ø, Denmark
 Phone & Fax (45) 39 27 44 99
 E-mail arthur@arthurbuchman.com
 Homepage www.arthurbuchman.com