

**Governance, Corporate Governance & Risk Management
(Gathered Articles): A North America, Europe, Africa, Middle East,
South America, Oceania & Asia Perspective 1st Edition**



Rudolph. Patrick. T. Muteswa

ISBN: 978-1-77927-902-6

EAN: 9781779279026

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ISBN: 978-1-77927-902-6

EAN: 9781779279026

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TABLE OF CONTENTS

Copyrights Notice..... 2

Author Biography..... 4

Preface: 8

Chapter 1: What is governance..... 10

Chapter 2: Corporate governance..... 27

Chapter 3: Risk management..... 81

Chapter 4: Operational risk management..... 102

Chapter 5: Risk management related topics..... 114

LIST OF FIGURES:

	Page
Figure 1.1 Two leading governance training and education institutions.....	15
Figure 1.2 Two principles of democracy.....	20
Figure 2.1 The seventeen examples of global organizations with a remarkable exemplary ethical leadership, code of ethics and conduct.....	37
Figure 2.2 Royal House of The Netherlands: King Willem-Alexander and Queen Máxima – 2018.....	39
Figure 2.3 KLM Royal Dutch Airlines Airplane Photo.....	51
Figure 2.4 Deutsche Lufthansa AG Airplane Photo.....	54
Figure 2.5 Swiss International Air Lines Airplane Photo 1.....	56
Figure 2.6 Swiss International Air Lines Airplane Photo 2.....	56
Figure 2.7 Brussels Airlines Airplane Photo	59
Figure 2.8 Air Canada Airplane Photo	61
Figure 2.9 Air India Airplane Photo	63
Figure 2.10 International Airlines Group Airplane Photo	67
Figure 2.11 Alaska Airlines Inc. Airplane Photo	71
Figure 2.12 Delta Air Lines Airplane Photo	74
Figure 2.13 British Airways Airplane Photo	77
Figure 3.1 Three steps of the risk management process	85

LIST OF TABLES

	Page
Table 2.1 Differences between ‘governance’, ‘corporate governance’, ‘a stakeholder’ and ‘a shareholder’	28
Table 3.1 Risk Analysts & Risk Managers.....	92
Table 4.1 Types of risk.....	110

PREFACE TO THE FIRST EDITION

In general there are many terms that are associated to governance namely: democracy, human rights, freedoms, public affairs, access to information, standards, compliance, integrity and accountability. Governance is now a top priority for many organizations, institutions and governments around the world. One of the main aims of this book is to educate readers about how the world economy is evolving on a daily basis and this is a result of governance principles being implemented by various countries. Typical examples of countries with good governance principles include: Switzerland, The Netherlands, the United States of America, Norway, Canada, France, Italy, Germany, Belgium, Denmark, Portugal, India, Zambia, Malawi, South Africa, Namibia, Botswana, Nigeria, Spain, Senegal, Brazil, The Gambia, Mauritius, Japan, South Korea, Kenya, New Zealand, the United Kingdom, Ireland, Australia, the European Union Member States and many others. In addition another key aim of this textbook is to educate readers that when there is rule of law, transparency, accountability, ethical practices and the proper functioning of democratic institutions in a society then governance exists. Another key aim of this textbook is to educate readers about the fact that corporate governance is a system that helps to regulate and provide guidance to an organization's board of directors, management and employees on how to conduct transparent, fair and credible business practices. In addition corporate governance plays a critical role in an organization since it positively impacts the organization's operational activities and relations with its external stakeholders. Furthermore, another key aim of this textbook is to highlight the general fact that the ability of an organization to properly manage business risk helps to enhance its integrity and market value. This book specifically targeted people on the continents of Africa, North America, Latin America, Europe, Oceania, Middle East and Asia in order to provide them with basic knowledge about governance, corporate governance and risk management.

Acknowledgement:

I would like to thank my 6 siblings (*four brothers & two sisters*) for tirelessly supporting me towards my education and personal life goals. I would also like to take this opportunity to greatly thank my late parents, aunties and uncles for the great role they played in my childhood. Furthermore, I shall forever be grateful to the great men and women on the continent of Africa, North America, Europe, Latin America, Middle East, Oceania and Asia who contributed towards the writing of this book in particular all the named leading 'iconic' entrepreneurs, business leaders, governments, organizations & the various information sources cited in this book.

Chapter 1: What is governance

After reading this chapter you should be able to:

- Define the following terms ‘democracy’ and ‘freedom of expression’. Explain what is governance.
- Explain what is good governance. Highlight the various principles of good governance.
- Explain why governance is interrelated to democracy.
- List the common myths about governance.

1.1 Introduction

Various terms are interrelated to governance namely: democracy, human rights, freedoms, public affairs, access to information, standards, compliance, integrity and accountability. Many organizations, institutions and governments around the world are now making ‘governance’ related matters a high priority since they pave the way to the gateway of success or prosperity. “Governance also represents the norms, values and rules of the game through which public affairs are managed in a manner that is transparent, participatory, inclusive and responsive. Governance therefore can be subtle and may not be easily observable. In a broad sense, governance is about the culture and institutional environment in which citizens and stakeholders interact among themselves and participate in public affairs. It is more than the organs of the government”¹ (UNESCO International Bureau of Education, 2022, <http://www.ibe.unesco.org/en/geqaf/technical-notes/concept-governance>). ²The world economy is evolving on a daily basis and this is a result of governance principles being implemented by various countries. Some of the typical examples of countries with good governance principles

¹ From [*Concept of Governance*], by [UNESCO International Bureau of Education, <http://www.ibe.unesco.org/en/geqaf/technical-notes/concept-governance>]. © UNESCO-International Bureau of Education [2022]. Reprinted with the permission of the UNESCO International Bureau of Education.”

² Rudolph. Patrick. T. Muteswa (2022) *Boards Thrive via Effective Communication (Gathered Articles): A North America, Europe, Middle East, South America, Africa, Oceania & Asia 21st Century Perspective*, 1st Edition, Self Published Educational Ebook, ISBN: 978-1-77927-320-8 EAN: 9781779273208, p1-91

include: Switzerland, The Netherlands, the United States of America, Canada, France, New Zealand, Italy, Germany, Belgium, Denmark, India, Zambia, Malawi, South Africa, Namibia, Botswana, Nigeria, Spain, Senegal, Brazil, The Gambia, Mauritius, Portugal, Japan, South Korea, Kenya, Norway, Ghana, the United Kingdom, Ireland, Australia, the European Union Member States and many others. The following section will cover the definition of terms in-depth.

1.2 Definition of terms

³“*What is Democracy?* The word democracy comes from the Greek words "demos", meaning people, and "kratos" meaning power; so *democracy* can be thought of as "power of the people": a way of governing which depends on the will of the people. There are so many different models of democratic government around the world that it is sometimes easier to understand the idea of democracy in terms of what it definitely is not” (Council of Europe, 2021, <https://www.coe.int/en/web/compass/democracy>). ⁴“*Freedom of expression* refers to the ability of an individual or group of individuals to express their beliefs, thoughts, ideas, and emotions about different issues free from government censorship” (Freedom Forum Institute, 2021, <https://www.freedomforuminstitute.org/about/faq/what-is-freedom-of-expression/>). The following section will cover aspects about the meaning of governance.

1.3 What is governance?

Generally the term ‘governance’ is broad. ⁵“Conceptually, governance (as opposed to “good” governance) can be defined as the rule of the rulers, typically within a given set of rules. One might conclude that governance is the *process* – by which authority is conferred on rulers, by which they make the rules, and by which those rules are enforced and modified. Thus,

³ Council of Europe (2021) *Democracy*. Available from: <https://www.coe.int/en/web/compass/democracy> [Accessed March 20, 2021] © Council of Europe

⁴ Freedom Forum Institute (2021) *What is Freedom of Expression?* Available from: <https://www.freedomforuminstitute.org/about/faq/what-is-freedom-of-expression/> [Accessed March 20, 2021]

⁵ World Bank Group (2009) *What is Governance – Arriving at a Common Understanding What is Governance*. Available from: http://web.worldbank.org/archive/website01020/WEB/0__CON-5.HTM [Accessed September 30, 2022] © 2009 [The World Bank Group](http://www.worldbank.org/), All Rights Reserved.

understanding governance requires an identification of both the rulers and the rules, as well as the various processes by which they are selected, defined, and linked together and with the society generally” (World Bank Group, 2009, http://web.worldbank.org/archive/website01020/WEB/0_CON-5.HTM). The following section will cover aspects about good governance.

1.4 What is good governance?

⁶According to the World Bank Group (2009) Nonetheless, within this concept of governance, the obvious second question is: **What is good governance?** Again, the debate on the quality of governance has been clouded by a slew of slightly differing definitions and understanding of what is actually meant by the term. Typically, it is defined in terms of the *mechanisms* thought to be needed to promote it. For example, in various places, good governance has been associated with democracy and good civil rights, with transparency, with the rule of law, and with efficient public services (World Bank Group, 2009, http://web.worldbank.org/archive/website01020/WEB/0_CON-5.HTM). ⁷**What is Governance. Governance today is more important than ever.** It builds citizen trust in our democratic institutions. It builds social cohesion. It is the foundation for economic growth and stability. It is also founded on the rule of law. **Good governance draws on four key dimensions**

- Who has power
- Who makes decisions
- How stakeholders make their voices heard
- How account is rendered. *Easy to layout, these four dimensions contain so much when unpacked.*
- How are decisions made?
- Who has a voice in making these decisions?
- Ultimately, who is accountable? *Adding to these questions are new challenges arising all the time:*
- How can we achieve effective representation of a diverse population?
- How should we control government data?
- How can we adequately prepare for the effects of climate change?
- ...And so much more. The answers to these questions aren't always easy. But they do exist. We can help you get

⁶ World Bank Group (2009) *What is Governance – Arriving at a Common Understanding What is Governance*. Available from: http://web.worldbank.org/archive/website01020/WEB/0_CON-5.HTM [Accessed September 30, 2022] © 2009 [The World Bank Group](#), All Rights Reserved.

⁷ Institute on Governance (IOG) (2022) *What is governance*. Available from: <https://iog.ca/what-is-governance/> [Accessed September 30, 2022] © Copyright 2022 Institute on Governance.

answers that work for you and the people counting on you. **The relationship between governments and citizens is changing.** If the world of distributed governance wasn't difficult enough to navigate in the first place, the rapid evolution of technology, changing economies, socio-economic upheaval, and new institutional demands have made it more complicated than ever before. That's why it's our specialty. We can help you stay up-to-date on best practices and better prepared to manage challenges that didn't exist five years, six months, or even two weeks ago” (Institute on Governance, 2022, <https://iog.ca/what-is-governance/>). The following section will cover the principles of good governance in-depth.

1.5 Principles of good governance

⁸“**The five principles of good governance.** We subscribe to the United Nations Development Program's (UNDP) principles of good governance, because we believe there is strong evidence that they can claim near-universal acceptance. To better understand them, we've grouped them into five distinct principles:

1.5.1 Legitimacy and Voice

Based on the UNDP's principles of participation and consensus orientation, legitimacy and voice require that a broad consensus which considers the best interests of the group be accounted for, and that through free association and speech, everyone must have the opportunity to participate in reaching that consensus.

1.5.2 Direction

Based on UNDP's principle of strategic vision, good governance requires a broad perspective and fundamental understanding of the cultural, historical, and social complexities that exist alongside directional vision.

1.5.3 Performance

Based on UNDP's principles of responsiveness and effectiveness and efficiency, organizational performance must meet the needs of stakeholders while best utilizing resources.

⁸ Institute on Governance (IOG) (2022) *What is governance*. Available from: <https://iog.ca/what-is-governance/>
[Accessed September 30, 2022] © Copyright 2022 Institute on Governance.

1.5.4 Accountability

Based on UNDP's principles of accountability and transparency, internal and external accountability must exist alongside a free flow of information. This accountability is becoming increasingly premium in an increasingly democratized society.

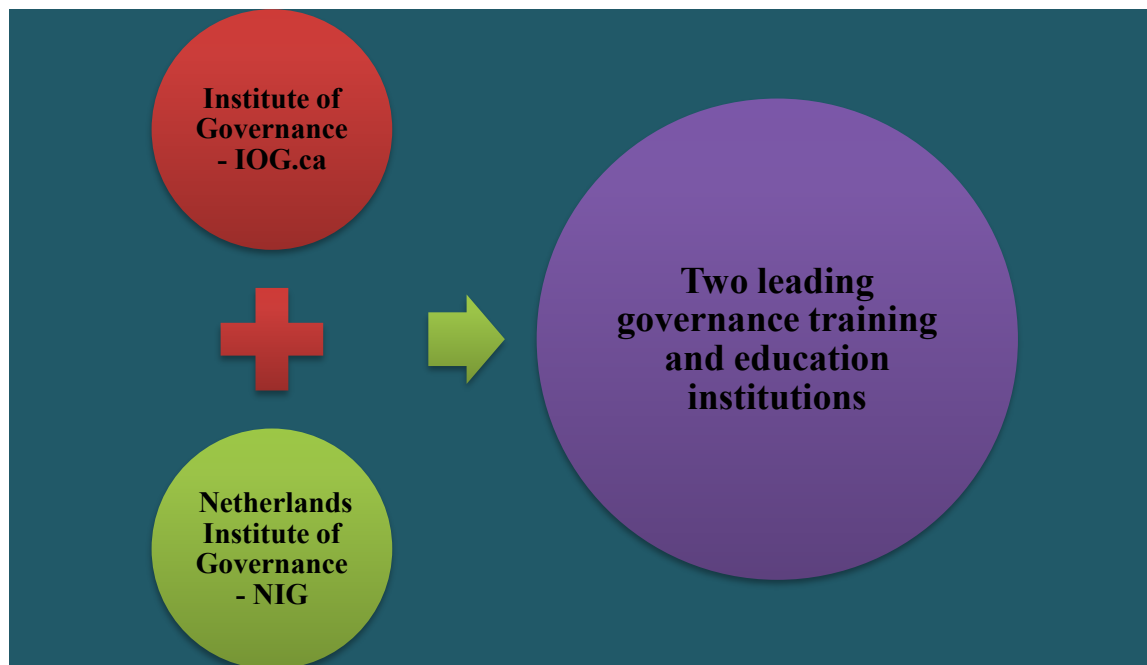
1.5.5 Fairness

Based on UNDP's principles of equity and rule of law, good governance must consider the opportunities for everyone to maintain and improve their well-being, while impartially enforcing legal frameworks”” (Institute on Governance, 2022, <https://iog.ca/what-is-governance/>). The following section will cover information about the typical examples of leading governance organizations in the world.

1.6 Typical examples of leading governance organizations in the world

Governance is a necessary ingredient towards achieving prosperity in each and every organization, institution and or country. Therefore, many more governance training and education based organizations are still needed to help maintain good governance principles in both the public and private sector enterprises around the world. Some of the two leading governance institutions in the world are depicted in Figure 1.1 below.

Figure 1.1 Two leading governance training and education institutions



Source: Modified: Diagram Created By The Author Using Information From (Institute of Governance – IOG, 2022, <https://iog.ca/> & Netherlands Institute of Governance – NIG, 2022, www.nigovernance.nl/).

As depicted by Figure 1.1 the two leading governance training and education organizations include the following:

1.6.1 Institute of Governance – IOG.ca

⁹“**About Us. The IOG is dedicated to improving public governance in Canada and around the world.** Our experts have extensive experience at senior levels of the public service and of public life. Our courses offer public servants everywhere opportunities to learn and grow. Our research and advisory services drive change and solve problems. Over our three decades, we have worked with federal, provincial, municipal, and Indigenous governments, and not-for-profit organizations. Our networks have taken us to three dozen countries worldwide, including with recent projects in Iraq, and Botswana. Today, we are focused on the 21st century challenges to

⁹ Institute on Governance (2022) *Our Team*. Available from: <https://iog.ca/our-team/> [Accessed October 03, 2022]

© Copyright 2022 Institute on Governance.

good governance that governments and their citizens face. Public servants at all levels turn to us for assistance in meeting their immediate professional needs, and in getting to the next level of their careers. **We are also passionate about opportunities to work on the big issues of our time.** Our work is marked by independent thought, innovation, collaboration, and excellence. We are uniquely positioned, as a truly independent, public purpose organization, to fill the need for knowledge, research, and advice on good public governance. We are a registered charitable organization overseen by a Board of Directors. **Practice Areas.** [BOARD GOVERNANCE](#), [DIGITAL GOVERNANCE](#), [INTERNATIONAL GOVERNANCE](#), [PUBLIC GOVERNANCE](#), [SCIENCE & INNOVATION GOVERNANCE](#). **Vision.** Our vision is to fuel positive change in Canada and around the world, beginning in spheres of public service, not-for-profit work, and bold projects, ultimately shaping the leaders of tomorrow and through them reaching the millions of citizens who rely on the benefits of good governance. **Mission.** Our mission is advancing better governance in the public interest. We accomplish this by exploring, developing, and promoting the principles, standards, and practices which underlie 21st century good governance in the public sphere. **What is Governance?** Governance today is more important than ever. It builds citizen trust in our democratic institutions. It builds social cohesion. It is the foundation for economic growth and stability. It is also founded on the rule of law”” (Institute on Governance, 2022, <https://iog.ca/our-team/>). The **Institute of Governance (IOG)** has an exemplary leadership team which includes the following: Mr. David McLaughlin (*President and CEO*), Mr. Stephen Van Dine (*Senior Vice-President, Public Governance*), Mr. David Murchison (*Vice-President International*), Mr. Francois Gagnon (*Vice-President Learning*) and Mr. Brad Graham (*Vice-President, Toronto*). Furthermore, the highly distinguished board of directors of the Institute of Governance (IOG) include the following: Mr. Aurèle Thériault (*Chair of the Board at IOG; Co-President, Interlocus Group*), Ms. Aneeta Bains (*Partner, Public Sector at IBM Canada*), Mr. Brian Bost (*Partner, Advisory Services, KPMG*), Mr. Malcolm Brown (*Senior Strategic Advisor with PricewaterhouseCoopers LLP*), Ms. Julie Di Lorenzo (*President, Diamante Urban Corp.*) and Dr. Martine Durier-Copp (*Academic Dean, NSCAD University*)¹⁰ (Institute on Governance, 2022, <https://iog.ca/our-team/>). © Copyright

¹⁰ Institute on Governance (2022) *Our Team*. Available from: <https://iog.ca/our-team/> [Accessed October 03, 2022]

2022 Institute on Governance. The following section will cover information about the Netherlands Institute of Governance in-depth.

1.6.2 Netherlands Institute of Governance (NIG)

¹¹According to the Netherlands Institute of Governance (2022) Netherlands Institute of Governance (NIG) is a joint research school of 13 universities offering PhD-courses and a research network. NIG connects junior and senior scholars in public administration and political science in the Netherlands and Flanders. NIG has 9 full members: Delft University of Technology, Erasmus University Rotterdam, Leiden University, Maastricht University, Radboud University Nijmegen, Tilburg University, University of Twente, Utrecht University, Vrije Universiteit Amsterdam; and 4 associated members: Ghent University, University of Antwerp, Wageningen University & Research and the KU Leuven. NIG offers a post graduate program for PhD candidates who can enroll for the full program (30EC) or for single courses (read more [here](#)). In 2019 the program has been accredited by the European Association for Public Administration Accreditation (EAPAA) for a term of seven years. NIG is also a vibrant research network with several [research colloquia](#) and a popular [annual conference](#) (Netherlands Institute of Governance, 2022, <https://www.nigovernance.nl/about/>). ¹²“**We are a Research School for Public Administration & Political Science in the Netherlands and Flanders. We Teach.** We offer high quality PhD education on core- and cutting-edge themes in public administration and political science. [We Research.](#) We offer a vibrant, ready-made research network with numerous research colloquia you can join and possibilities to discuss and develop research interests. [We Meet.](#) We offer one of the most prominent annual work conferences in our field connecting senior and junior scholars” (Netherlands Institute of Governance, 2022,

¹¹ Netherlands Institute of Governance (2022) *About Us*. Available from: <https://www.nigovernance.nl/about/> [Accessed October 03, 2022]

¹² Netherlands Institute of Governance (2022) *We are a Research School for Public Administration & Political Science in the Netherlands and Flanders*. Available from: <https://www.nigovernance.nl/> [Accessed October 03, 2022]

<https://www.nigovernance.nl/>).¹³“The Netherlands Institute of Governance (NIG) is a joint research school of 12 universities offering PhD-courses and a research network. NIG has 9 full member universities and 3 associated member universities. NIG offers high quality courses for PhD candidates in public administration and political science. Additionally, NIG is part of the research infrastructure in our fields connecting younger and more senior scholars in the Netherlands and Flanders. NIG’s partnership strategy stimulates collaboration and formal partnerships with others where this contributes to shared goals: high-level PhD-education and a vibrant research infrastructure” (Netherlands Institute of Governance, 2022, <https://www.nigovernance.nl/partners/>).¹⁴“**NIG Management.** The NIG management is currently located at Utrecht University. The management team is responsible for daily management of NIG and aims to further develop NIG, together with all partners” (Netherlands Institute of Governance, 2022, <https://www.nigovernance.nl/nig-directorate/>). The exemplary management team of NIG include the following: Dr. Noortje De Boer (*Managing Director*), Prof. Dr. Thomas Schillermans (*Scientific Director*), Dr. Sjors Overman (*Managing Director*), Ms. Esther Verheijen (*Office Manager*), Ms. Tara Tankink (*Student Assistant*) (Netherlands Institute of Governance, 2022, <https://www.nigovernance.nl/nig-directorate/>). **The Netherlands Institute of Governance Board (NIG).**¹⁵“The Board of NIG consists of representatives of the member universities. The board is in charge of the overall strategy and decisions regarding NIG’s future. Also, they determine the annual budget and annual reports” (Netherlands Institute of Governance, 2022, <https://www.nigovernance.nl/board/>). The list of the outstanding board of directors of The Netherlands Institute of Governance (NIG) include the following: Prof. Dr. Barbara Vis (*Utrecht University*), Prof. Dr. Martijn Groenleer (*Tilburg University*), Prof. Dr. Erik Hans Klijn (*Erasmus University Rotterdam*), Prof. Dr. Ellen Mastenbroek (*Radboud University Nijmegen*), Prof. Dr. Esther Versluis (*Maastricht University*), Dr. Wijnand Veeneman

¹³ Netherlands Institute of Governance (2022) *Partner*. Available from: <https://www.nigovernance.nl/partners/> [Accessed October 03, 2022]

¹⁴ Netherlands Institute of Governance (2022) *NIG Directorate*. Available from: <https://www.nigovernance.nl/nig-directorate/> [Accessed October 03, 2022]

¹⁵ Netherlands Institute of Governance (2022) *Board*. Available from: <https://www.nigovernance.nl/board/> [Accessed October 03, 2022]

(Delft University of Technology), Prof. Dr. Caelesta Braun (Leiden University), Dr. Duco Bannink (VU University of Amsterdam) and Prof. Dr. Ariane Need (University of Twente) (Netherlands Institute of Governance, 2022, <https://www.nigovernance.nl/board/>). The following section will cover information about why governance is interrelated to democracy.

1.7 Why governance is interrelated to democracy

¹⁶“**Governance and democracy.** A peaceful and productive society is based on effective state institutions. Good governance in this sense means effective and efficient structures which provide optimal support to citizens in leading a safe and productive life in line with their desires and opportunities. Essentially, involves a combination of democracy, the social welfare state and the rule of law. Promotion of good governance goes beyond the government sector and includes all relevant actors from the private sector and society. The aims: To balance interests and focus on common goals, particularly reducing poverty and providing access to state services for all. To make administrative structures participative, efficient and solution oriented” (Deutsche Gesellschaft für Internationale Zusammenarbeit – GIZ, GmbH, 2022, <https://www.giz.de/expertise/html/59888.html>). ¹⁷Today some of the countries that are recognized by the global humanitarian book author Rudolph. Patrick. T. Muteswa as the “**Ten Global Hybrid Stars of the Continent of Africa’s Economy, International Relations & Trade – Zambia, Namibia, Malawi, Botswana, The Gambia, Ghana, Kenya, South Africa, Nigeria and Mauritius**” are making tremendous progress towards achieving good governance on the continent of Africa. ¹⁸“When people have freedom they practically possess enormous power to choose

¹⁶ Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (2022) *Governance and democracy*. Available from: <https://www.giz.de/expertise/html/59888.html> [Accessed September 30, 2022]

¹⁷ Rudolph. Patrick. T. Muteswa (2022) *Boards Thrive via Effective Communication (Gathered Articles): A North America, Europe, Middle East, South America, Africa, Oceania & Asia 21st Century Perspective*, 1st Edition, Self Published Educational Ebook, ISBN: 978-1-77927-320-8 EAN: 9781779273208, p1-91

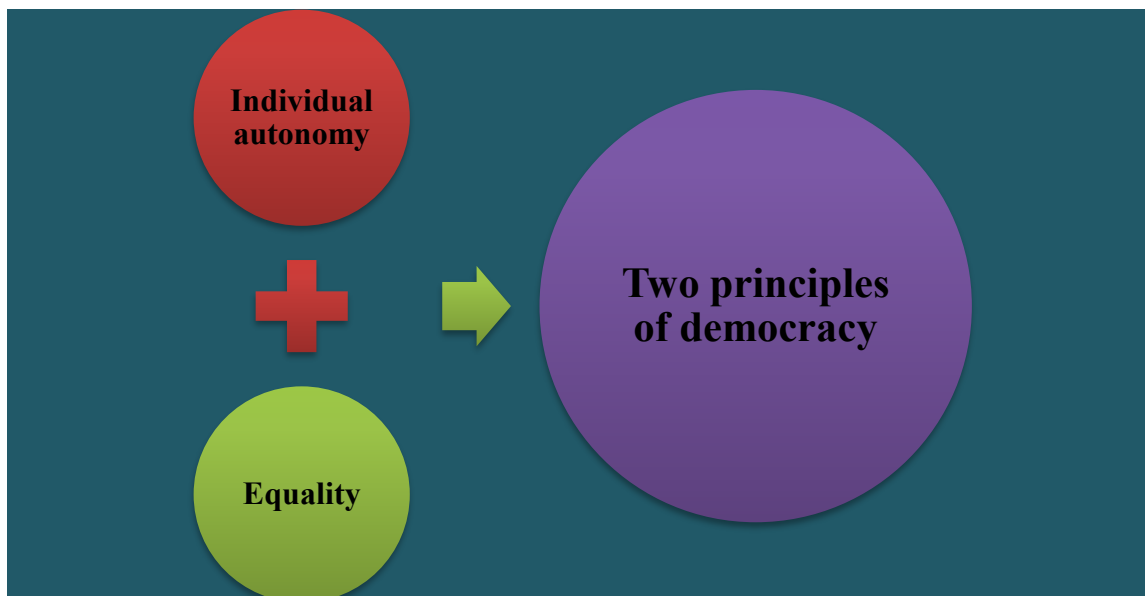
¹⁸ Muteswa, R.P.T. (2021) *The Magnificence of Respecting Human Rights, Democracy & Freedoms in a Country & Organizations: (Gathered Articles): A North America, Asia, Africa, Oceania & Europe a 21st Century Perspective*. 1st Edition, ISBN 978-1-77921-415-7, Self Published Book.

anything that relates to their way of life. Human rights are the gateway to unquestionable freedom of people in society. *‘A free society is one that enjoys unrestricted freedoms, unselective rule of law and dignity’*. *‘Democracy is the tool that is used to develop all the basic freedoms society desires and it helps entrench the value of liberty amongst the cultural beliefs, norms and opinions of people in general’*” (Rudolph. Patrick. Tawanda. Muteswa, 2021:149). The following section will cover the principles of democracy.

1.7.1 Two principles of democracy

The various principles of democracy are depicted by Figure 1.2 below.

Figure 1.2 Two principles of democracy



“Author’s diagram inspired by website of Council of Europe <https://www.coe.int/en/web/compass/democracy>”

¹⁹“The idea of democracy derives its moral strength – and popular appeal – from two key principles:

1. **Individual autonomy**: The idea that no-one should be subject to rules which have been

¹⁹ Council of Europe (2021) *Democracy*. Available from: <https://www.coe.int/en/web/compass/democracy>

[Accessed March 20, 2021] © Council of Europe

imposed by others. People should be able to control their own lives (within reason).
2. **Equality**: The idea that everyone should have the same opportunity to influence the decisions that affect people in society.

These principles are intuitively appealing, and they help to explain why democracy is so popular. Of course we feel it is fair that we should have as much chance as anyone else to decide on common rules! The problems arise when we consider how the principles can be put into practice, because we need a mechanism for deciding how to address conflicting views. Because it offers a simple mechanism, democracy tends to be "rule of the majority"; but rule of the majority can mean that some people's interests are never represented. A more genuine way of representing everyone's interests is to use decision making by consensus, where the aim is to find common points of interest” (Council of Europe, 2021, <https://www.coe.int/en/web/compass/democracy>). The following section will cover the common myths about governance in-depth.

1.8 Common myths about governance

Today there are many myths circulating in both the private and public sectors globally relating to governance and good governance. Some of the myths were properly highlighted and discussed in an article authored by Kaufmann, D. (2005) titled “10 Myths About Governance and Corruption” published by *Finance & Development (A Quarterly Magazine of the IMF)*, Volume 42, Number 3 (September) via <https://www.imf.org/external/Pubs/FT/fandd/2005/09/basics.htm>.²⁰ According to Kaufmann, D. published in the *Finance & Development: A Quarterly Magazine of the IMF* (2005) Governance—which remains a sensitive and misunderstood topic—is now being given a higher priority in development circles. A few donors and international financial institutions (IFIs) have begun to work with some emerging economies to help reduce corruption, and encourage citizen voice, gender equality, and accountability. But is good governance and controlling corruption really so fundamental for development? The explosion of empirical research over the past decade, coupled with lessons from countries’ own experience, have given

²⁰ Kaufmann, D. (2005) Back to Basics—10 Myths About Governance and Corruption. *Finance & Development (A Quarterly Magazine of the IMF)*, Volume 42, Number 3 (September). Available from: <https://www.imf.org/external/Pubs/FT/fandd/2005/09/basics.htm> [Accessed September 30, 2022]

us a more solid basis for judging the effect of governance on development, and the effectiveness—or lack thereof—of strategies to improve it. **Let us therefore go back to basics and address some prevailing "myths" about governance and corruption.**

²¹Myth #1: Governance and anticorruption are one and the same. We define governance as the traditions and institutions by which authority in a country is exercised for the common good. This includes the process by which those in authority are selected, monitored, and replaced (the political dimension); the government's capacity to effectively manage its resources and implement sound policies (the economic dimension); and the respect of citizens and the state for the country's institutions (the institutional respect dimension). By contrast, corruption is defined more narrowly as the "abuse of public office for private gain."

Myth #2: Governance and corruption cannot be measured. It is true that less than a dozen years ago virtually no internationally comparable measures of governance or corruption existed. But in recent years, the World Bank and others have sought to remedy this. At the World Bank, we have constructed aggregate governance indicators that cover more than 200 countries, based on more than 350 variables obtained from dozens of institutions worldwide. Our indicators cover the following six dimensions of governance: voice and accountability; political stability and the absence of major violence and terror; government effectiveness; regulatory quality; rule of law; and control of corruption.

Myth #3: The importance of governance and anti-corruption is overrated. Thanks to these and other advances in empirical measurement, a number of researchers have examined the impact of governance on development. The research generally shows that countries can derive a very large "development dividend" from better governance. We estimate that a country that improves its governance from a relatively low level to an average level could almost triple the income per capita of its population in the long term, and similarly reduce infant mortality and illiteracy. Such a relative improvement (by one standard deviation) would correspond, for instance, to a move up in our ranking for the "control of corruption" dimension in our database. Governance also

²¹ Kaufmann, D. (2005) Back to Basics—10 Myths About Governance and Corruption. *Finance & Development (A Quarterly Magazine of the IMF)*, Volume 42, Number 3 (September). Available from:

<https://www.imf.org/external/Pubs/FT/fandd/2005/09/basics.htm> [Accessed September 30, 2022]

matters for a country's competitiveness and for income distribution. To make matters worse, aid-funded projects tend to fail in corrupt settings. And corruption undermines fledgling democracies. Of course, governance is not the *only* thing that matters for development.²² Macroeconomic, trade, and sectoral policies are also important. But when governance is poor, policymaking in other areas is also compromised.

Myth #4: Governance is a luxury that only rich countries can afford. Some claim that the link between governance and incomes does not mean that better governance boosts incomes, but the reverse—higher incomes automatically translate into better governance. However, our research does not support this claim. It is thus misleading to suggest that corruption is due to low incomes, and invent a rationale for discounting bad governance in poor countries. In fact, the evidence points to the causality being in the direction of better governance leading to higher economic growth.

Myth #5: It takes generations for governance to improve. While it is true that institutions often change only gradually, in some countries there has been a sharp improvement in the short term. This defies the view that while governance may deteriorate quickly, improvements are always slow and incremental.

Myth #6: Donors can "ringfence" projects in highly corrupt countries and sectors. With the possible exception of some humanitarian aid projects, the notion that the aid community can insulate projects from an overall corrupt environment in a country is not borne out by the evidence. The data suggest that when a systemic approach to governance, civil liberties, rule of law, and control of corruption is absent, the likelihood of an aid-funded project being successful is greatly reduced.

Myth #7: Fight corruption by fighting corruption. A fallacy promoted by some in the field of anticorruption, and at times also by the international community, is that one "fights corruption by fighting corruption"—through yet another anticorruption campaign, the creation of more

²² Kaufmann, D. (2005) Back to Basics—10 Myths About Governance and Corruption. *Finance & Development (A Quarterly Magazine of the IMF)*, Volume 42, Number 3 (September). Available from:

<https://www.imf.org/external/Pubs/FT/fandd/2005/09/basics.htm> [Accessed September 30, 2022]

"commissions" and ethics agencies, and the incessant drafting of new laws, decrees, and codes of conduct. Overall, such initiatives appear to have little impact, and are often politically expedient ways of reacting to pressures to do something about corruption, substituting for the need for fundamental and systemic governance reforms.

Myth # 8: The culprit is the public sector in developing countries. A common fallacy is to focus solely on the failings of the public sector. The reality is much more complex, since powerful private interests often exert undue influence in shaping public policy, institutions, and state legislation. In extreme cases, "oligarchs" capture state institutions. And many multinational corporations still bribe abroad, undermining public governance in emerging economies. There are also weaknesses in the nongovernmental sector. Further, traditional public sector management interventions have not worked because they have focused on technocratic "fixes," often done through technical assistance importing hardware, organizational templates, and experts from rich countries²³.

Myth #9: There is little countries can do to improve governance. Given the long list of interventions that have not worked, as well as the role often ascribed to historical and cultural factors in explaining governance, it is easy to fall into the pessimist camp. That would be a mistake. First, historical and cultural factors are far from deterministic—witness, for instance, the diverging paths in terms of governance of neighboring countries in the Southern Cone of Latin America, the Korean peninsula, the transition economies of Eastern Europe, and in Southern Africa. Second, there are strategies that offer particular promise. The coupling of progress on improving voice and participation—including through freedom of expression and women's rights—with transparency reforms (see box) can be particularly effective.

Myth #10: There is not much the IFIs can do. Some development experts are skeptical about the ability of IFIs and donors to help countries improve their governance—either because of a conviction that "the 'macro' matters more," a mistaken belief in historical "determinism," or a view that the interventions needed to improve governance are politically sensitive and thus

²³ Kaufmann, D. (2005) Back to Basics—10 Myths About Governance and Corruption. *Finance & Development (A Quarterly Magazine of the IMF)*, Volume 42, Number 3 (September). Available from:

<https://www.imf.org/external/Pubs/FT/fandd/2005/09/basics.htm> [Accessed September 30, 2022]

difficult for outsiders to encourage. Surely, there are areas that fall outside the mandate of IFIs, such as promotion of fair multiparty elections. But initiatives to encourage transparency, freedom of information and an independent media, participatory anticorruption programs led by the country, and gender equality—all of which have been underemphasized so far in the fight against corruption—may well be within the ability of IFIs and donors to do something about. Such initiatives, complemented by supporting targeted reform of highly vulnerable institutions (which often include procurement, tax, customs, or the judiciary) offer much promise²⁴ (Kaufmann, D. published in the *Finance & Development: A Quarterly Magazine of the IMF*, 2005, <https://www.imf.org/external/Pubs/FT/fandd/2005/09/basics.htm>). The following section will cover the conclusion of this chapter.

1.9 Conclusion

It can be concluded that governance is related to democracy, human rights, freedoms, public affairs, access to information, standards, compliance, integrity and accountability. Governance is now a top priority for many organizations, institutions and governments around the world. It can be concluded that governance helps to create a pathway that can be used to administer public affairs in such a way that promotes openness, democracy, inclusiveness and responsiveness. In general governance is not restricted to government organs but it also encompasses the private sector as well. Many organizations, institutions and governments are now creating job titles of governance practitioners as they play a critical role in helping them to achieve good governance standards. It can therefore be concluded that when there is rule of law, transparency, accountability, ethical practices and the proper functioning of democratic institutions in a society then governance exists.

1.10 Review questions

1) Define the following terms ‘democracy’ and ‘freedom of expression’? Explain what is governance?

²⁴ Kaufmann, D. (2005) Back to Basics—10 Myths About Governance and Corruption. *Finance & Development (A Quarterly Magazine of the IMF)*, Volume 42, Number 3 (September). Available from: <https://www.imf.org/external/Pubs/FT/fandd/2005/09/basics.htm> [Accessed September 30, 2022]

- 2) Explain what is good governance? Identify the principles of good governance?
- 3) Explain why governance is interrelated to democracy?
- 4) List the common myths about governance?

Chapter 2: Corporate governance

After reading this chapter you should be able to:

- Define the following terms ‘principle’ and ‘responsibility’. Explain what is the difference between ‘governance’, ‘corporate governance’, ‘a stakeholder’ and ‘a shareholder’.
- Identify the parties responsible for corporate governance in an organization.
- Highlight the advantages of corporate governance to an organization.
- Explain the eight guiding principles of corporate governance identified by Business Roundtable.

2.1 Introduction

Corporate governance guidelines are the ‘tool’ that is used to help reduce the negative impact of the organization’s day-to-day activities on other individuals or organizations in all the geographical areas it carries-out its business operations. The fact that corporate governance is a system that helps to regulate and provide guidance to an organization’s board of directors, management and employees on how to conduct transparent, fair and credible business practices plays a critical role on the positive impact the organization’s operational activities have on its external stakeholders. ²⁵Traditionally good governance is critical in the business world since it is a key determinant that helps to layout the infrastructure that is needed to enhance the quality of choices that are made by business leaders in organizations on a day-to-day basis (ICSA The Governance Institute, 2019, www.icsa.org.uk/). “Good quality, ethical decision-making builds sustainable businesses and enables them to create long-term value more effectively” (ICSA The Governance Institute, 2019, www.icsa.org.uk/). The involvement of everyone in the organization in implementing the corporate governance guidelines and standards is critical. In the following section the definition of terms will be covered in-depth.

²⁵ ICSA The Governance Institute (2019) *What is Corporate Governance?* Available from: <https://www.icsa.org.uk/about-us/policy/what-is-corporate-governance> [Accessed December 30, 2019]

2.2 Definition of terms

²⁶“A *principle* refers to a rule, norm, a habitual belief that shapes behavior in a manner that upholds what a individual, society or organization strongly values. In the context of this book ‘principles’ are the rules or guidelines of corporate governance. *Responsibility* refers to having the duty to conduct a specific action, task, role or obligation as expected over a specific period of time” (Rudolph. Patrick.T. Muteswa, 2019:50). The following section will cover the differences of terms in-depth.

2.3 What is the difference between ‘governance’, ‘corporate governance’, ‘a stakeholder’ and ‘a shareholder’

Surprisingly, some of the business professionals and owners still make the mistake of confusing the meaning of the terms governance, corporate governance, a stakeholder and a shareholder altogether. Table 2.1 will help depict the differences that exist between ‘governance’, ‘corporate governance’, ‘a stakeholder’ and ‘a shareholder’.

Table 2.1 Differences between ‘governance’, ‘corporate governance’, ‘a stakeholder’ and ‘a shareholder’

Governance	Corporate Governance
“ <i>Governance</i> at a corporate level includes the processes through which a company’s objectives are set and pursued in the context of the social, regulatory and market environment. It is concerned with practices and procedures for trying to make sure that a company is run in such a way that it achieves its objectives, while ensuring that	Furthermore, according to ICSA The Governance Institute (2019) <i>corporate governance</i> is the system of rules, practices and processes by which a company is directed and controlled. <i>Corporate Governance</i> refers to the way in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes

²⁶ Rudolph. Patrick .T. Muteswa (2019) *Corporate Governance (Gathered Articles): A North America, Europe, Africa, Oceania & Asia 21st Century Perspective* 1st Edition, Educational Ebook, ISBN 978-1-77920-212-3 EAN 9781779202123

stakeholders can have confidence that their trust in that company is well founded” ²⁷ (ICSA The Governance Institute, 2019, www.icsa.org.uk/).	decisions (ICSA The Governance Institute, 2019, www.icsa.org.uk/).
Stakeholder	Shareholder
“A stakeholder is not necessarily a shareholder” ²⁸ (“Corporate Finance Institute. <i>Stakeholder vs Shareholder..</i> ”). “A stakeholder is an interested party in the company’s performance for reasons other than capital appreciation ” (“Corporate Finance Institute. <i>Stakeholder vs Shareholder..</i> ”).	“A shareholder is a stakeholder of the company ” (“Corporate Finance Institute. <i>Stakeholder vs Shareholder..</i> ”). “A shareholder is any party, either an individual, company or institution that owns at least one share of a company and, therefore with a financial interest in its profitability . Shareholders may be individual investors who are saving part of their salaries in preparation for retirement or large corporations and who hope to exercise a vote in the management of a company” (“Corporate Finance Institute. <i>Stakeholder vs Shareholder..</i> ”).

Source: (ICSA The Governance Institute, 2019, www.icsa.org.uk/ & “Corporate Finance Institute. *Stakeholder vs Shareholder..*”)

The following section will cover aspects about the parties responsible for governance in an organization.

2.4 Parties responsible for corporate governance in an organization

²⁹“Our members include professionals with positions such as Corporate Secretary, Corporate and General Counsel, Manager Corporate Governance, VP/Director/Officer Compliance, Risk, Legal or Regulatory Affairs, Associate/Assistant Corporate Secretary and Board Administrator, CEO, CFO, Board Chair, Director, Committee Chairs” (Governance Professionals of Canada, 2022,

²⁷ ICSA The Governance Institute (2019) *What is Corporate Governance?* Available from:

<https://www.icsa.org.uk/about-us/policy/what-is-corporate-governance>

²⁸ “Corporate Finance Institute. *Stakeholder vs Shareholder..*”

²⁹ Governance Professionals of Canada (2022) *About Us*. Available from:

<https://gpcanada.org/Public/Public/About/About-GPC.aspx> [Accessed October 21, 2022] © Governance

Professionals of Canada

<https://gpcanada.org/Public/Public/About/About-GPC.aspx>).³⁰According to the Business Roundtable (2016) Effective corporate governance requires a clear understanding of the respective roles of the board, management and shareholders; their relationships with each other; and their relationships with other corporate stakeholders. Before discussing the core guiding principles of corporate governance, Business Roundtable believes describing the roles of these key corporate actors is important.

- The board of directors has the vital role of overseeing the company's management and business strategies to achieve long-term value creation. Selecting a well-qualified chief executive officer (CEO) to lead the company, monitoring and evaluating the CEO's performance, and overseeing the CEO succession planning process are some of the most important functions of the board. The board delegates to the CEO — and through the CEO to other senior management — the authority and responsibility for operating the company's business. Effective directors are diligent monitors, but not managers, of business operations. They exercise vigorous and diligent oversight of a company's affairs, including key areas such as strategy and risk, but they do not manage — or micromanage — the company's business by performing or duplicating the tasks of the CEO and senior management team. The distinction between oversight and management is not always precise, and some situations (such as a crisis) may require greater board involvement in operational matters. In addition, in some areas (such as the relationship with the outside auditor and executive compensation), the board has a direct role instead of an oversight role.

- Management, led by the CEO, is responsible for setting, managing and executing the strategies of the company, including but not limited to running the operations of the company under the oversight of the board and keeping the board informed of the status of the company's operations. Management's responsibilities include strategic planning, risk management and financial reporting. An effective management team runs the company with a focus on executing the company's strategy over a meaningful time horizon and avoids an undue emphasis on short-term metrics.

³⁰ Business Roundtable (2016) *Principles of Corporate Governance*. Available from: <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf> p3-26 [Accessed October 26, 2022] Copyright © 2016 by Business Roundtable

• Shareholders invest in a corporation by buying its stock and receive economic benefits in return. Shareholders are not involved in the day-to-day management of business operations, but they have the right to elect representatives (directors) and to receive information material to investment and voting decisions. Shareholders should expect corporate boards and managers to act as long-term stewards of their investment in the corporation. They also should expect that the board and management will be responsive to issues and concerns that are of widespread interest to long-term shareholders and affect the company's long-term value. Corporations are for-profit enterprises that are designed to provide sustainable long-term value to all shareholders. Accordingly, shareholders should not expect to use the public companies in which they invest as platforms for the advancement of their personal agendas or for the promotion of general political or social causes³¹ (Business Roundtable, 2016:5, <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf>). The next section will cover the advantages of corporate governance in developing, emerging and transitional economies.

2.5 Advantages of corporate governance to organizations & countries

“How can corporate governance help companies and national economies? Corporate governance helps companies and economies to attract investment and strengthen the foundation for long-term economic performance and competitiveness in several ways. First, by demanding transparency in corporate transactions, in accounting and auditing procedures, in purchasing, and in all of the myriad individual business transactions corporate governance attacks the supply side of the corruption relationship. Corruption drains companies’ resources and erodes competitiveness driving away investors. Second, corporate governance procedures improve the management of the firm by helping firm managers and boards to develop a sound company strategy, and by ensuring that mergers and acquisitions are undertaken for sound business reasons, and that compensation systems reflect performance. This helps companies to attract investment on favorable terms and enhances firm performance. Third, by adopting standards for transparency in dealing with investors and creditors, a strong system of corporate governance

³¹ Business Roundtable (2016) *Principles of Corporate Governance*. Available from: <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf> p3-26 [Accessed October 26, 2022] Copyright © 2016 by Business Roundtable

helps to prevent systemic banking crises even in countries where most firms are not actively traded on stock markets. Taking the next step and adopting bankruptcy procedures also helps to ensure that there are methods for dealing with business failures that are fair to all stakeholders, including workers as well as owners and creditors. Without adequate bankruptcy procedures, especially enforcement systems, there is little to prevent insiders from stripping the remaining value out of an insolvent firm to their own benefit. This happened on a wide scale during many of the privatization efforts in transitional and emerging markets with disastrous results”³² (Center for International Private Enterprise, 2002:3, <https://www.cipe.org/legacy/publication-docs/CGHANDBOOK.pdf>).

According to Palmer, J. cited in the Corporate Governance Institute (2019) *holding directors accountable*. A clearly defined and tailored Corporate Governance Framework® enables the board to quickly adopt a stakeholder-inclusive approach, by overseeing the opportunities and risks within the organisation. Board members are required to evaluate and consider the legitimate and reasonable needs of all stakeholders when establishing and identifying those governance components which are important to the organisation. The governance framework provides a mechanism for stakeholders (in particular investors) to more easily hold the board accountable for managing the organisation in a responsible and sustainable manner. *Improves enterprise wide risk management*. Although the Corporate Governance Framework® helps to identify governance components requiring urgent attention, it should not be substituted for a corporate risk register. The latter is integrated into a Corporate Governance Framework® as a subset of each governance component. The risk register records the granular details of the risks, impact thereof and associated action plans for each governance component and area of business – as such it can inform the RAG status of a governance component. The Corporate Governance Framework®, however, provides a holistic structure for governance processes starting with the board and strategic management, and extending to operations via the management level and the supply chain. The governance framework presents a singular high level view of the concentration of risk within the organisation. Such information can also be invaluable when evaluating an

³² Center for International Private Enterprise (2002) *Instituting Corporate Governance in Developing, Emerging and Transitional Economies: A Handbook*. Available from: <https://www.cipe.org/legacy/publication-docs/CGHANDBOOK.pdf> [Accessed 2019, 10 August] p1-25

acquisition, or preparing for the organisation’s next phase of growth. *Facilitates integrated reporting*. The availability of a Corporate Governance Framework® makes it much easier for an organisation to provide relevant, concise, holistic and timeous information on the strategic direction, performance, risks and opportunities facing the business. By focusing and reporting on material items — and how these are inter-linked — the board is able to foster a culture of transparent and meaningful communication and in so doing, continuously build a relation of trust with each of its key stakeholders³³ (Palmer, 2019, <https://corgovinstitute.com>). In the following section eight guiding principles of corporate governance identified by Business Roundtable will be covered in-depth.

2.6 Eight guiding principles of corporate governance identified by Business Roundtable (United States of America)

³⁴“**Guiding Principles of Corporate Governance Business Roundtable** supports the following core guiding principles:

1. The board approves corporate strategies that are intended to build sustainable long-term value; selects a chief executive officer (CEO); oversees the CEO and senior management in operating the company’s business, including allocating capital for long-term growth and assessing and managing risks; and sets the “tone at the top” for ethical conduct.
2. Management develops and implements corporate strategy and operates the company’s business under the board’s oversight, with the goal of producing sustainable long-term value creation.

³³ Palmer, J. (2019) *Tangible Benefits of a Corporate Governance Framework*. Available from: <https://corgovinstitute.com/tangible-benefits-corporate-governance-framework/> [Accessed 2019, 10 August] The Corporate Governance Framework® is a registered trademark of CGF.

³⁴ Business Roundtable (2016) *Principles of Corporate Governance*. Available from: <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf> p3-26 [Accessed October 26, 2022] Copyright © 2016 by Business Roundtable

3. Management, under the oversight of the board and its audit committee, produces financial statements that fairly present the company's financial condition and results of operations and makes the timely disclosures investors need to assess the financial and business soundness and risks of the company.

4. The audit committee of the board retains and manages the relationship with the outside auditor, oversees the company's annual financial statement audit and internal controls over financial reporting, and oversees the company's risk management and compliance programs.

5. The nominating/corporate governance committee of the board plays a leadership role in shaping the corporate governance of the company, strives to build an engaged and diverse board whose composition is appropriate in light of the company's needs and strategy, and actively conducts succession planning for the board.

6. The compensation committee of the board develops an executive compensation philosophy, adopts and oversees the implementation of compensation policies that fit within its philosophy, designs compensation packages for the CEO and senior management to incentivize the creation of long-term value, and develops meaningful goals for performance-based compensation that support the company's long term value creation strategy.

7. The board and management should engage with long-term shareholders on issues and concerns that are of widespread interest to them and that affect the company's long-term value creation. Shareholders that engage with the board and management in a manner that may affect corporate decision making or strategies are encouraged to disclose appropriate identifying information and to assume some accountability for the long-term interests of the company and its shareholders as a whole.³⁵ As part of this responsibility, shareholders should recognize that the board must continually weigh both short-term and long-term uses of capital when determining how to allocate it in a way that is most beneficial to shareholders and to building long-term value.

³⁵ Business Roundtable (2016) *Principles of Corporate Governance*. Available from: <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf> p3-26 [Accessed October 26, 2022] Copyright © 2016 by Business Roundtable

8. In making decisions, the board may consider the interests of all of the company's constituencies, including stakeholders such as employees, customers, suppliers and the community in which the company does business, when doing so contributes in a direct and meaningful way to building long-term value creation”” (Business Roundtable, 2016:3, <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf>). The following section will cover information about board functions in-depth.

2.7 Board functions are part of corporate governance

Functions of a board were clearly highlighted in an article by the Business Roundtable (2016) titled ‘*Principles of Corporate Governance*’ published via <https://s3.amazonaws.com/brt.org>.³⁶“Senior Management Development and Succession Planning. Succession planning. Planning for CEO and senior management development and succession in both ordinary and emergency scenarios is one of the board’s most important functions. Some boards address succession planning primarily at the full board level, while others rely on a committee composed of independent directors (often the compensation committee or the nominating/corporate governance committee) to address this key area. The board, under the leadership of the responsible committee (if any), should identify the qualities and characteristics necessary for an effective CEO and monitor the development of potential internal candidates. The board or committee should engage in a dialogue with the CEO about the CEO’s assessment of candidates for both the CEO and other senior management positions, and the board or committee should also discuss CEO succession planning outside the presence of the CEO. The full board should review the company’s succession plan at least annually and periodically review the effectiveness of the succession planning process. Management development. The board and the independent committee (if any) with primary responsibility for oversight of succession planning also should know what the company is doing to develop talent beyond the senior management ranks. The board or committee should gain an understanding of the steps the CEO and other senior

³⁶ Business Roundtable (2016) *Principles of Corporate Governance*. Available from: <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf> p3-26 [Accessed October 26, 2022] Copyright © 2016 by Business Roundtable

management are taking at more junior levels to develop the skills and experience important to the company's success and build a bench of future candidates for senior management roles. Directors should interact with up-and-coming members of management, both in board meetings and in less formal settings, so they have an opportunity to observe managers directly and begin developing relationships with them. **CEO evaluation.** Under the oversight of an independent committee or the lead director, the board should annually review the performance of the CEO and participate with the CEO in the evaluation of members of senior management in certain circumstances. All nonmanagement members of the board should have the opportunity to participate with the CEO in senior management evaluations if appropriate. The results of the CEO's evaluation should be promptly communicated to the CEO in executive session by representatives of the independent directors and used in determining the CEO's compensation"³⁷ (Business Roundtable, 2016, <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf>). The following section will cover information about the various examples of leading organizations with good corporate governance standards in-depth.

2.8 Examples of leading organizations with good corporate governance standards and their exemplary leadership

³⁸Effective leadership assists an organization to achieve its goals and objectives. The objectives of leadership are vital as they form the basis of linking and attaining an organizational purpose. ³⁹“*Leadership at a Glance.* A leader is crucial to the success of every team. Take an orchestra, for instance, one that consists of all the best musicians in the world but lacks a conductor. Even though every member of the orchestra can play perfectly by themselves, they will only produce an incompatible melody in the absence of a conductor. The same concept applies to

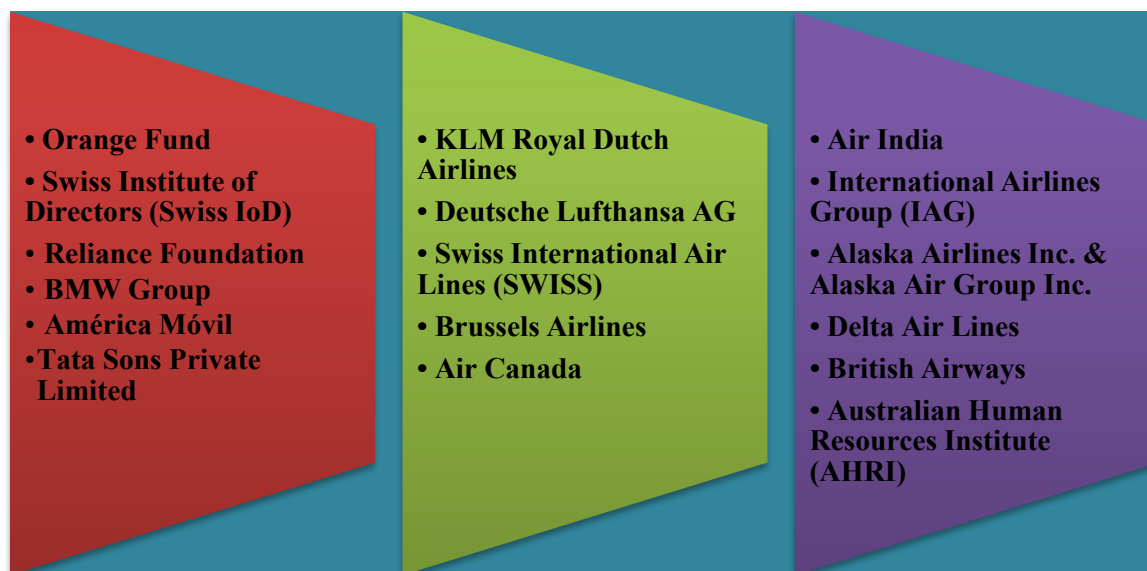
³⁷ Business Roundtable (2016) *Principles of Corporate Governance.* Available from: <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf> p3-26 [Accessed October 26, 2022] Copyright © 2016 by Business Roundtable

³⁸ Rudolph. Patrick. T. Muteswa (2020) *Leadership (Gathered Articles): A North America, Europe, Africa, Oceania & Asia 21st Century Perspective 1st Edition,* Self Published Educational Ebook, ISBN 978-1-77921-414-0 EAN 9781779214140

³⁹ “Corporate Finance Institute. *What Are Leadership Theories..*”

communities, **companies**, and countries. Without a leader, nothing will ever run smoothly. So, what makes leaders who they are?” (“Corporate Finance Institute. *What Are Leadership Theories..*”). Effective leaders tend to: (1) improve the performance of an organization, (2) improve the corporate and employer brand status of the organization, (3) they help to establish proper communication channels in the organization and so on. Transparent and effective corporate governance standards are a result of effective leadership and some of the leading organizations with good corporate governance principles are depicted in Figure 2.1 below.

Figure 2.1 The seventeen examples of global organizations with a remarkable exemplary ethical leadership, code of ethics and conduct



Source: Modified: Diagram Created By The Author Using Information Inspired From (Royal House of The Netherlands, 2022, <https://www.royal-house.nl/>; Swiss Institute of Directors, 2022, www.siod.ch; Reliance Foundation, 2022, www.reliancefoundation.org; BMW Group, 2022, <https://www.bmwgroup.com/en/company/>; América Móvil, 2022, <https://www.americamovil.com/>; KLM Royal Dutch Airlines, 2022, <https://www.klm.com/>; Tata Sons Private Limited, 2022, <https://www.tata.com/>; Deutsche Lufthansa AG, 2022, <https://investor-relations.lufthansagroup.com>; Swiss International Air Lines, 2022, <https://www.swiss.com>; Brussels Airlines, 2022, <https://www.brusselsairlines.com>; Air Canada, 2022, <https://investors.aircanada.com>; Air India, 2022, <https://www.airindia.in/>; International Airlines Group, 2022, <https://www.iairgroup.com>; Alaska Airlines, Inc., 2022, <https://www.alaskaair.com>; Delta Air Lines, 2022, <https://www.delta.com/>; British Airways, 2022, <https://www.britishairways.com>; Australian Human Resources Institute, 2022, <https://www.ahri.com.au>).

As depicted by Figure 2.1 the various leading organizations with effective corporate governance practices are further discussed as follows:

2.8.1 Orange Fund

One of the most effective non-profit organization with good corporate governance practices is the Orange Fund of the Royal House of The Netherlands.⁴⁰The exemplary leadership and highly distinguished leaders of this independent charity organization includes: His Royal Majesty The King of The Netherlands King Willem-Alexander and Her Royal Majesty The Queen of the Kingdom of The Netherlands Queen Máxima (*both currently serving as patrons of The Orange Fund*) (Royal House of The Netherlands, 2022, <https://www.royal-house.nl/topics/orange-fund>). Figure 2.2 below will help depict the Royal House of The Netherlands King Willem-Alexander and Queen Máxima – 2018.

⁴⁰ Royal House of The Netherlands (2022) *Orange Fund*. Available from: <https://www.royal-house.nl/topics/orange-fund> [Accessed October 04, 2022]

Figure 2.2 Royal House of The Netherlands: King Willem-Alexander and Queen Máxima – 2018



Source: Royal House of The Netherlands Official Photographs: (King Willem-Alexander and Queen Máxima – 2018. Image: © RVD - Erwin Olaf) [Download larger size \(9.3 MB\)](#) “Used With Permission”

⁴¹“**Orange Fund.** The Orange Fund was founded in 2002 as the National Wedding Gift from the people of the Netherlands to the Prince of Orange and Princess Máxima on the occasion of their marriage. As its patrons, King Willem-Alexander and Queen Máxima are closely involved with the Fund. In the same year the Orange Fund merged with the Juliana Welfare Fund. An

⁴¹ Royal House of The Netherlands (2022) *Orange Fund*. Available from: <https://www.royal-house.nl/topics/orange-fund> [Accessed October 04, 2022]

independent charity organisation in the field of social welfare, the Orange Fund supports thousands of initiatives in the Netherlands and the Caribbean part of the Kingdom that aim to promote social engagement. The Orange Fund supports projects relating to social cohesion and participation, such as small-scale community initiatives, mentoring projects for young people and meeting places. In addition to supporting projects, the Fund encourages organisations to acquire knowledge and skills and to exchange experiences. Not only do King Willem-Alexander and Queen Máxima regularly visit projects that receive support from the Fund, they are also present on festive occasions such as the launch or closure of programmes. Every year Queen Máxima presents the Appeltjes van Oranje awards at Noordeinde Palace to three outstanding or innovative projects that have succeeded in bringing different groups of people together. King Willem-Alexander is also present at the award ceremony. The award is a bronze sculpture of an apple, designed by Princess Beatrix” (Royal House of The Netherlands, 2022, <https://www.royal-house.nl/topics/orange-fund>). ⁴²“**King Willem-Alexander (b. 1967)**. Prince Willem-Alexander succeeded his mother, Queen Beatrix, in 2013. In 2002 he married Máxima Zorreguieta. They have three daughters: Catharina-Amalia, the Princess of Orange (b. 2003), Alexia (b. 2005) and Ariane (b. 2007). In 2003 the family moved to Eikenhorst on the De Horsten estate in Wassenaar. Like his mother, the King uses Noordeinde Palace in The Hague as his place of work. Before ascending the throne, King Willem-Alexander held a number of posts and was involved in a range of activities reflecting his commitment to Dutch society, including water management, infrastructure and ICT, sport and defence” (Royal House of The Netherlands, 2022, <https://www.royal-house.nl/topics/kings-and-queens/king-willem-alexander-b.-1967>). The following section will cover aspects about the Swiss IoD in-depth.

2.8.2 Swiss Institute of Directors (Swiss IoD)

⁴³The exemplary and highly distinguished leadership and board of management of the Swiss Institute of Directors (SIoD) includes the following: Prof Martin Hilb (*President*), Prof Hilbert

⁴² Royal House of The Netherlands (2022) *King Willem-Alexander (b. 1967)*. Available from: <https://www.royal-house.nl/topics/kings-and-queens/king-willem-alexander-b.-1967> [Accessed October 04, 2022]

⁴³ Swiss Institute of Directors (2022) *Board of Management*. Available from: <https://www.siod.ch/en/contact#board-of-management> [Accessed October 03, 2022] © 2022 Swiss Institute of Directors SIoD

Probst (*Vice President*), Dr. Monica Duca Widmer (*Member as representative of Italian-speaking Switzerland*), Prof. Rolland Müller (*Member as representative of German-speaking Switzerland*) and Prof. Marie-Noelle Zen-Ruffinen (*Member as representative of French-speaking Switzerland*) (Swiss Institute of Directors, 2022, <https://www.siod.ch/en/contact#board-of-management>). **Swiss Institute of Directors (Swiss IoD)**.⁴⁴ We are the leading network of boards of directors in Switzerland and the Swiss representative on the [Global Network of Director Institutes \(GNDI\)](#) and the [European Confederation of Directors Associations](#) (ecoDa). In cooperation with the [International Board Foundation and the Swiss Board Institute](#), we offer our members the following services: [SWISS BOARD SCHOOL](#). Members of the Swiss Institute of Directors benefit from a 10% discount on all BoD seminars organised by the Swiss Board School and the BoD programme of the Swiss Board Institute. [SWISS BOARD NETWORK](#). Members of the Swiss Institute of Directors can become members of the Swiss Board Network. [SWISS BEST PRACTICE](#). Recommendations for the direction and control of small and medium-sized enterprises with free, tried-and-tested board tools. [SWISS BOARD POOL](#). Members are informed about vacant board positions and companies and organisations are supported in finding competent board members from the Swiss Board Pool. **PURPOSE**. The purpose of the Association is to enable the targeted sharing of knowledge and experience between active members of boards of directors of companies and organisations in Switzerland and associations; the development and review of best practice governance guidelines for various economic sectors; the representation of Swiss board practice in international associations; governance course certification and accreditation in Switzerland; and the development of other board-related areas that are not already offered or planned by the Board Foundation. The SIoD Association is the Swiss representative on the [Global Network of Director Institutes \(GNDI\)](#) and the [European Confederation of Directors Associations](#) (ecoDa). The Association uses the services of the Board Foundation and the Swiss Board Institute in board research, BoD training and BoD services. **GLOBAL NETWORK**. The Swiss Institute of Directors (SIoD) is a member of the [Global Network of Director Institutes](#) and the [European Confederation of](#)

⁴⁴ Swiss Institute of Directors (2022) *Swiss IoD*. Available from: <https://www.siod.ch/en/siod> [Accessed October 03, 2022] © 2022 Swiss Institute of Directors SIoD

Directors Associations. The President of the SIOD, Prof. Martin Hilb, is a member of the Executive Committee of the GNDI”” (Swiss Institute of Directors, 2022, <https://www.siod.ch/en/siod>). The following section will cover information about the Reliance Foundation in-depth.

2.8.3 Reliance Foundation

⁴⁵**Chairperson’s message:** *“I assure you that in every challenge that India faces, Reliance Foundation has and will continue to stand with every Indian. Together, we shall overcome as we always have.”* – Smt. Nita M. Ambani, Founder Chairperson Reliance Foundation (Reliance Foundation, 2022, <https://www.reliancefoundation.org/>). ⁴⁶””**About the Chairperson – Nita Ambani.** Nita Ambani is an educationist, philanthropist, businesswoman, patron of arts and sports, and champion of women and children’s rights. Through various initiatives of Reliance Foundation, of which she is founder and chair, she seeks to empower millions of Indians with resources and opportunities. On International Women’s Day 2021, she launched an inclusive and collaborative digital movement for women called Her Circle. She is the owner of Mumbai Indians, the most successful cricket team in the Indian Premier League, the founder chairperson of Football Sports Development Limited, which launched the Indian Super League, and the head of the Education and Sports for All initiative for children. Through Sir H N Reliance Foundation Hospital and Research Centre in Mumbai, she is committed to making affordable world-class medical care available to all Indians. She is the first Indian woman to be elected as a member of the International Olympic Committee, and the first Indian to be elected an Honorary Trustee of the Board of the Metropolitan Museum of Art, New York. US magazine Town and Country recognised her as one of the world’s top philanthropists in 2020, Forbes listed her among the 50 most powerful businesswomen in Asia in 2016, and Fortune India has ranked her as India’s Most Powerful Woman. - **Nita M. Ambani, Founder and Chairperson, Reliance Foundation””** (Reliance Foundation, 2022, <https://www.reliancefoundation.org/who-we-are>). **“About Reliance**

⁴⁵ Reliance Foundation (2022) *Chairperson’s message*. Available from: <https://www.reliancefoundation.org/>
[Accessed October 03, 2022]

⁴⁶ Reliance Foundation (2022) *Who We Are*. Available from: <https://www.reliancefoundation.org/who-we-are>
[Accessed October 03, 2022]

Foundation. Reliance Industries Limited (RIL), through Reliance Foundation, has significantly contributed to and made measurable progress toward its vision of an inclusive India. Moving well beyond its business activities, the RIL Group contributes to a positive societal impact through diverse community engagement initiatives. Led by Founder Chairperson Smt. Nita M Ambani, Reliance Foundation was set up in 2010 to provide impetus to various philanthropic initiatives of Reliance Industries Limited. The efforts of the group have already touched the lives of more than 63 million people across India in more than 50,800 villages and several urban locations. At Reliance Foundation, our vision is to build an inclusive India by pioneering a holistic model to address our nation’s multifaceted development challenges, and contribute to its collective aspirations. Central to our philosophy is the commitment to enhance the quality of life of people from marginalised and vulnerable communities, by empowering them and catalysing change through innovative and sustainable solutions. Our steadfast endeavour is to create replicable and scalable models of development through an integrated approach in the true Reliance spirit of maximising societal value for all, and making it a movement.

⁴⁷The Foundation has a comprehensive development approach.

Its prime objective is to create and support meaningful activities through innovative institutions to address some of India’s most pressing developmental challenges.

The three-pronged strategy of Reliance Foundation includes direct engagement, collaborations through partnerships and leveraging technology to create an ecosystem of development, comprising leaders of tomorrow who nudge communities to a more sustainable future.

Over the years, Reliance Foundation’s initiatives have continued to evolve, while remaining responsive to the ever-changing needs of society.

The Foundation is currently focusing on Rural Transformation, Health, Education, Sports for Development, Disaster Management, Women Empowerment, Arts, Culture & Heritage and Urban Renewal.

⁴⁷ Reliance Foundation (2022) *Who We Are*. Available from: <https://www.reliancefoundation.org/who-we-are>

[Accessed October 03, 2022]

To maximise its reach and improve outcomes, Reliance Foundation has also established strategic partnerships with organisations that have the technical expertise and experience to undertake various programmes in the identified focus areas of operation” (Reliance Foundation, 2022, <https://www.reliancefoundation.org/who-we-are>). The next section will cover information about BMW Group.

2.8.4 BMW Group

⁴⁸**BMW Group Profile.** The outstanding and highly competent **Board of Management Team** of BMW Group includes the following: Oliver Zipse (*Chairman of the Board of Management*), Ilka Horstmeier (*People and Real Estate, Labour Relations Director*), Dr. Milan Nedeljkovic (*Production*), Pieter Nota (*Customer, Brands, Sales*), Dr. Nicolas Peter (*Finance*), Dr. Joachim Post (*Purchasing and Supplier Network*) and Frank Weber (*Development*). Furthermore, the highly distinguished and exemplary **Supervisory Board of BMW AG** includes the following: Dr. Norbert Reithofer (*Chairman of the Supervisory Board, former Chairman of the Board of Management*), Manfred Schoch (*Deputy Chairman of the Supervisory Board*), Stefan Quandt (*Deputy Chairman of the Supervisory Board, Entrepreneur*), Stefan Schmid (*Deputy Chairman of the Supervisory Board, Chairman of the Works Council Dingolfing*), Dr. Kurk Bock (*Deputy Chairman of the Supervisory Board, Chairman of the Supervisory Board of BASF SE*), Christiane Benner (*Second Chairwoman of IG Metall*), Dr. Marc Bitzer (*Chairman and Chief Executive Officer of Whirlpool Corporation*), Bernhard Ebner (*Chairman of the Works Council Landshut*), Rachel Empey (*Supervisory Board Member*), Dr. Heinrich Hiesinger (*Chairman of the Supervisory Board of ZF Friedrichshafen AG*), Johann Horn (*District Manager of IG Metall Bavaria*), Dr. H.C. Susanne Klatten (*Entrepreneur*), Jens Kohler (*Chairman of the Works Council Leipzig*), Gerhard kurz (*Head of Purchasing, Quality Management Powertrain at BMW AG*), Andre Mandl (*Chairman of the Works Council Regensburg/Wackersdorf*), Dr. Dominique Mohabeer (*Member of the Works Council Munich*), Anke Schaferkordt (*Supervisory Board Member*), Prof. Dr. Christoph M. Schmidt (*President of RWI – Leibniz Institute for Economic Research e.V.; University Professor*), Dr. Vishal Sikka (*Founder and CEO of Vianai Systems,*

⁴⁸ BMW Group (2022) *Leadership and governance*. Available from: <https://www.bmwgroup.com/en/company/leadership-and-governance.html#acedown-1295255972> © Copyright BMW AG, Munich, Germany. All rights reserved.

Inc.) and Sibylle Wankel (First Representative and Managing Director of IG Metall Munich) (BMW Group, 2022, <https://www.bmwgroup.com/en/company/leadership-and-governance.html#acedown-1295255972>).⁴⁹“**CORPORATE GOVERNANCE. CORPORATE GOVERNANCE AT THE BMW GROUP.** For the BMW Group, corporate governance is an all-embracing topic which involves all areas of the company. Transparent reporting and a corporate governance policy aimed at the interests of stakeholders are well-established traditions within the BMW Group. Cooperation between the Board of Management and the Supervisory Board, in an atmosphere of commonly shared trust and responsibility has long been the basis for managing the BMW Group. The underlying corporate culture at BMW is based on the principles of transparency, placing trust in others and taking responsibility for one's own actions. The BMW Group believes that the recommendations and suggestions contained in the German Corporate Governance Code help make the German financial market more attractive, in particular for international investors” (BMW Group, 2022, <https://www.bmwgroup.com/en/company/leadership-and-governance.html#acedown-1295255972>).⁵⁰According to the BMW Group (2022) The BMW Group aspires to be the most successful, most sustainable premium manufacturer for individual mobility. To achieve this ambitious goal, we are creating more and more, increasingly comprehensive sustainability solutions. At the same time, we aim to meet our responsibility for compliance with social and ethical standards. It is goals like these that our Board of Management and top managers are measured against. Because for the BMW Group, one thing is certain: We aspire to lead the way in sustainability. That is why we are taking responsibility here and now and putting these issues at the centre of our future strategic direction (BMW Group, 2022, <https://www.bmwgroup.com/en/sustainability/our-goals.html>). *“We aim to extend our leading position in resource efficiency in production to the entire life cycle of our vehicles. The New Class is the latest large stride in this process.” - Oliver Zipse Chairman of the Board of*

⁴⁹ BMW Group (2022) *Leadership and governance*. Available from: <https://www.bmwgroup.com/en/company/leadership-and-governance.html#acedown-1295255972> © Copyright BMW AG, Munich, Germany. All rights reserved.

⁵⁰ BMW Group (2022) *Our Goals*. Available from: <https://www.bmwgroup.com/en/sustainability/our-goals.html> [Accessed October 03, 2022] © Copyright BMW AG, Munich, Germany. All rights reserved.

Management of BMW AG (BMW Group, 2022, <https://www.bmwgroup.com/en/sustainability/our-goals.html>). ““**OUR DECLARED GOALS.**

Our concrete goals are focused on reducing CO₂ emissions, increasing resource efficiency and substantially improving social and environmental standards. For this reason, we already established clearly defined targets in July 2020 that we intend to implement by 2030. The spectrum ranges from areas such as CO₂ reduction and electromobility, through circularity and environmental and social standards, all the way to social responsibility. What unites all these topics is our strong commitment to achieving the goals we have set together. **CO₂ REDUCTION.** We are focusing our efforts on realising another, even bigger reduction in CO₂ emissions of over 40 percent by 2030 – spanning the entire lifecycle, from the supply chain, through production, to the end of the use phase. Our goal is for the BMW Group business model to be climate-neutral no later than 2050. **ELECTROMOBILITY.** We are focusing on massive expansion of electromobility. Around ten million fully-electric BMW Group vehicles should be on the roads by 2030. Reaching this goal will involve all areas of the BMW Group – from production to charging station infrastructure. **CIRCULARITY.** Our vehicles are developed in such a way that their components can be fully recovered and reused. We call this concept “design for recycling”. It means we are able to utilise valuable materials from the recycling process and thereby avoid consuming primary materials. **ENVIRONMENTAL AND SOCIAL STANDARDS.** As a global company, we are committed to the highest environmental and social standards – within our own company and in cooperation with our suppliers worldwide. Our own guidelines, as well as international human rights and occupational safety conventions, are set out in the BMW Group Sustainability Standard for the Supplier Network. **EMPLOYEES.** We know how invaluable our employees are – and we show it. With our wide range of development and advancement opportunities, attractive workplaces, health initiatives and varied diversity programs, we offer our employees an environment that authentically reflects our high regard for them. ⁵¹**SOCIETY.** As a global player, we are acutely aware of our responsibility towards society. Our targeted sustainable, social and intercultural commitment is designed to help people and cultures around the world come closer together and build a more effective understanding of social issues

⁵¹ BMW Group (2022) *Our Goals*. Available from: <https://www.bmwgroup.com/en/sustainability/our-goals.html>
[Accessed October 03, 2022] © Copyright BMW AG, Munich, Germany. All rights reserved.

worldwide”” (BMW Group, 2022, <https://www.bmwgroup.com/en/sustainability/our-goals.html>). The next section will cover information about Tata Sons Private Limited.

2.8.5 Tata Sons Private Limited

⁵²“**Tata Group. The Leadership Team.** Ratan N. Tata (*Ratan N Tata, Chairman Emeritus, was the Executive Chairman of Tata Sons, one of the two promoter holding companies of the Tata group*). N. Chandrasekaran (*Natarajan Chandrasekaran is Chairman of the Board at Tata Sons, the holding company and promoter of all Tata Group companies*)” (Tata Sons Private Limited, 2022, <https://www.tata.com/management-team>). The outstanding and exemplary **board of directors** of the Tata Group include the following: N. Chandrasekaran (*Executive Chairman*), Venu Srinivasan (*Director*), Ajay Piramal (*Director*), Dr Ralf Speth (*Director*), Bhaskar Bhat (*Director*) and Harish Manwani (*Director*) (Tata Sons Private Limited, 2022, <https://www.tata.com/management-team>). ⁵³According to Tata Sons Private Limited (2022) **About Us. Tata Sons. Tata Sons Private Limited is the principal holding company of the Tata group.** Tata Sons is the principal investment holding company and promoter of Tata companies. 66% of the equity share capital of Tata Sons is held by philanthropic trusts, which support education, health, livelihood generation, and art and culture. Each Tata company or enterprise operates independently under the guidance and supervision of its own Board of Directors. **Governance Philosophy.** “The Tata philosophy of management has always been, and is today more than ever, that corporate enterprises must be managed not merely in the interests of their owners, but equally in those of their employees, of the consumers of their products, of the local community and finally of the country as a whole.” *JRD Tata, 1973*. Our Governance Philosophy is to ensure fair, transparent, accountable and ethical management in order to protect the interests of all stakeholders, including shareholders, employees, customers, vendors, regulators and society. As a responsible corporate citizen, Tata Sons follows the laws of the land in letter and spirit. Tata Sons also goes beyond mere compliance to highlight certain behaviours

⁵² Tata Sons Private Limited (2022) *Management Team*. Available from: <https://www.tata.com/management-team> © 2019-2022 Tata Sons Private Limited. All Rights

⁵³ Tata Sons Private Limited (2022) *About Us*. Available from: <https://www.tata.com/business/tata-sons> © 2019-2022 Tata Sons Private Limited. All Rights

and norms to Tata group operating companies. Our Governance Philosophy is based on resilience. Globally, organisations are becoming vulnerable as businesses become complex, virtual and interdependent. It is imperative to build a sustainable and resilient enterprise. Tata Sons' relationship with the group operating companies is governed by:

Shareholding in the group companies: Tata Sons is the principal investment holding company and the promoter of its group operating companies.

Brand Equity & Business Promotion (BEBP) agreement: Every company that uses the 'Tata' brand is a signatory to the Tata Sons' BEBP agreement. The agreement confers upon the operating companies the right to use the Tata brand in return for a commitment from them to run their businesses ethically and with excellence. As part of the BEBP agreement, the operating companies must adopt: • Tata Code of Conduct (TCoC) • Tata Business Excellence Model (TBEM).

Tata Code of Conduct

⁵⁴[The Tata Code of Conduct](#) provides an ethical road map and guidelines for Tata employees and companies. All full-time employees of the Tata group are obliged to follow the tenets of the code of conduct. It encapsulates our values of integrity, responsibility, excellence, pioneering and unity. It lays down the principles of:

- the highest moral and ethical standards;
- highest standards of corporate governance;
- respect for human rights and dignity;
- professionalism, honesty, fairness and integrity

in all interactions with employees, customers, communities and the environment, partners, financial stakeholders, government and regulators and other group companies.

⁵⁵It also reaffirms our commitment to:

⁵⁴ Tata Sons Private Limited (2022) *About Us*. Available from: <https://www.tata.com/business/tata-sons> © 2019-2022 Tata Sons Private Limited. All Rights

⁵⁵ Tata Sons Private Limited (2022) *About Us*. Available from: <https://www.tata.com/business/tata-sons> © 2019-2022 Tata Sons Private Limited. All Rights

- the economic development of communities;
- highest standards of safety;
- maintaining a balance in the interest of stakeholders and treating them fairly to avoid discrimination;
- not engaging in unfair or restrictive trade practices, and compliance with applicable laws, rules and regulations;
- creating an environment free of the fear of retribution; thereby allowing all stakeholders to raise ethics-related queries or concerns

Tata Business Excellence Model (TBEM)

The Tata Business Excellence Group (TBExG) promotes business excellence in group companies by bringing in best-in-class processes and facilitating the sharing of best practices. The TBExG facilitates TBEM assessments in group companies to assess their process maturity levels, and overall performance. These assessments are conducted by trained and certified assessors who keep the context of the company in mind while applying the holistic TBEM criteria within the company and industry. The TBEM criteria includes deployment of business practices for excellence in leadership and strategy and deployment of operational excellence. It reviews the approaches by which the company understands its customers and employees. It also examines the usage of data systems to measure, analyse and generate reusable knowledge assets. The TBEM assessment process, while corroborating the company's strengths and practices, identifies opportunities for improvement and imperatives to enhance business performance. TBExG also shares best practices across group companies and encourages their adaptation for quicker learning and results⁵⁶ (Tata Sons Private Limited, 2022, <https://www.tata.com/business/tata-sons>). The following section will cover information about América Móvil in-depth.

⁵⁶ Tata Sons Private Limited (2022) *About Us*. Available from: <https://www.tata.com/business/tata-sons> © 2019-2022 Tata Sons Private Limited. All Rights

2.8.6 América Móvil

⁵⁷The outstanding and exemplary **leadership and board of directors** of América Móvil includes the following: Carlos Slim Domit (*Chairman of the Board and Executive Committee*), Patrick Slim Domit (*Vice Chairman and Member of the Executive Committee*), Daniel Hajj Aboumradi (*Director and Member of the Executive Committee*), Luis Alejandro Soberon Kuri, Francisco Medina Chavez, Ernesto Vega Velasco, Rafael Moises Kalach Mizrahi, Antonio Cosio Pando, Oscar Von Hauske Solis, Vanessa Hajj Slim, Pablo Roberto Gonzalez Guajardo, David Ibarra Munoz, Claudia Janez Sanchez and Gisselle Moran Jimenez (América Móvil, 2022, <https://www.americamovil.com/English/investors/leadership/board-of-directors/default.aspx>).

⁵⁸“**ABOUT US. OUR COMPANY.** América Móvil is the leading provider of integrated telecommunications services in Latin America. Excluding China and India, is the largest company in terms of wireless subscribers. Through the development of a world-class integrated telecommunications platform, we offer our customers a portfolio of value added services and enhanced communications solutions in 23 countries in Latin America, Central and Eastern Europe **MISSION.** We provide the best service and customer experience with state-of-the-art communications solutions, information technology and digital content to bring people closer together, accelerate the development of the countries where we operate and promote equal opportunities among people. **VISION.** Consolidate the company as an agent of change by providing connectivity and advanced technology services, maintaining our leadership in the telecommunications industry and confirming our commitment to our stakeholders to make the world more promising for everyone. **VALUES.** + Customer experience + Innovation + People/Human development + Sustainability + Integrity + Efficiency + Collaboration”” (América Móvil, 2022, <https://www.americamovil.com/English/about-us/our-company/default.aspx>). The following section will cover information about KLM Royal Dutch Airlines in-depth.

⁵⁷ América Móvil (2022) *Board of Directors*. Available from: <https://www.americamovil.com/English/investors/leadership/board-of-directors/default.aspx> [Accessed October 03, 2022]

⁵⁸ América Móvil (2022) *Our Company*. Available from: <https://www.americamovil.com/English/about-us/our-company/default.aspx> [Accessed October 03, 2022]

2.8.7 KLM Royal Dutch Airlines

⁵⁹“**Koninklijke Luchtvaart Maatschappij N.V. (also known as KLM Royal Dutch Airlines)**” (KLM Royal Dutch Airlines, 2022, <https://www.klm.com/information/legal/copyright>). Figure 2.3. below will help to provide an example of the various types of aircraft used by the KLM Royal Dutch Airlines to transport its passengers.

Figure 2.3 KLM Royal Dutch Airlines Airplane Photo



Source: (KLM Royal Dutch Airlines, 2022, <https://www.klm.com/information/sustainability>).

⁶⁰“**Management of KLM.** Meet the management of KLM: our Executive Committee, Supervisory Board, and directors. **Executive Committee.** KLM’s management is in the hands of its Executive Team. The statutory Managing Directors are President and Chief Executive Officer Marjan Rintel and Managing Director and Chief Financial Officer Erik Swelheim. **Supervisory Board.** The Supervisory Board supervises the management by the Board of Managing Directors and the

⁵⁹ KLM Royal Dutch Airlines (2022) *Legal Copyright*. Available from: <https://www.klm.com/information/legal/copyright> [Accessed October 28, 2022] © 2022 KLM

⁶⁰ KLM Royal Dutch Airlines (2022) *Management of KLM*. Available from: <https://www.klm.com/information/corporate/management-klm> [Accessed October 29, 2022] © 2022 KLM

general performance of KLM. The Supervisory Board consists of Cees 't Hart (chair), François Enaud, Jan-Kees de Jager, Christian Nibourel, Marjan Oudeman, Fleur Pellerin, Pierre-François Riolacci, Benjamin Smith and Janine Vos” (KLM Royal Dutch Airlines, 2022, <https://www.klm.com/information/corporate/management-klm>). ⁶¹“**KLM company profile.** KLM was established on 7 October 1919, making it the world’s oldest airline still operating under its original name. **KLM Group.** Carrying 34.1 million passengers and 621,000 tonnes cargo, KLM and KLM Cityhopper form the heart of the KLM Group. Via a vast network of 92 European cities and 70 intercontinental destinations, KLM offers direct services to key economic centres all over the world. KLM is a partner in the SkyTeam Alliance, which offers passengers even more possibilities, jointly serving 1,063 destinations in 173 countries. The KLM Group also includes the wholly-owned subsidiaries Transavia and Martinair. Transavia is the leading low-cost airline in the Netherlands, carrying almost 9 million passengers in 2018, operating out of Amsterdam, Eindhoven and Rotterdam. Based on the principle that our people are the key to our brand, we are convinced that we can make the difference by consistently offering our customers a memorable experience. This ambition is in our DNA. Thanks to the sincere attention we give our passengers, they feel acknowledged, contented and at ease. Following the merge with Air France in 2004, KLM has pursued the concept of 1 Air France-KLM Group, 2 airlines, and 3 core activities (passengers, cargo and engineering & maintenance). Together with Air France, KLM plays a pioneering role in the European air transport industry. KLM pursues profitable growth in order to achieve its own commercial objectives as well as more general economic and social objectives. KLM is actively driving sustainable growth at Amsterdam Airport Schiphol and seeks to gain access to any market that will improve the quality of its network. In addition, KLM endeavours to ensure a level playing field for all participants in the sector”” (KLM Royal Dutch Airlines, 2022, <https://www.klm.com/information/corporate/company-profile>). ⁶²**About Air France-KLM.** A global player with a strong European base, the Air France-KLM Group’s main areas of business are passenger transport, cargo transport and aeronautical maintenance. Air France-KLM is a leading airline Group in terms of international traffic on departure from

KLM Royal Dutch Airlines (2022) *Company Profile*. Available from:

<https://www.klm.com/information/corporate/company-profile> [Accessed October 29, 2022] © 2022 KLM

⁶² KLM Royal Dutch Airlines (2022) *About Air France KLM*. Available from:

<https://www.klm.com/information/corporate/about-air-france-klm> [Accessed October 29, 2022] © 2022 KLM

Europe. It offers its customers access to a worldwide network, covering over 310 destinations thanks to Air France, KLM Royal Dutch Airlines and Transavia, mainly from its hubs at Paris-Charles de Gaulle and Amsterdam-Schiphol. Its Flying Blue frequent flyer programme is one of the leaders in Europe with over 17 million members. Together with its partners Delta Air Lines and Virgin Atlantic, Air France-KLM operates the largest transatlantic joint venture, with more than 340 daily flights in 2019. Air France-KLM is also a member of the SkyTeam, the alliance dedicated to providing passengers with a more seamless travel experience at every step of their journey 18 member airlines working together across an extensive global network. Recognized for 18 years as an industry leader in sustainable development, the Air France-KLM Group is determined to accelerate the transition to more sustainable aviation. Since 2003, the Air France-KLM Group has been a member of the United Nations Global Compact. The aim is to make a significant contribution to the UN Sustainable Development Goals in connection with the Group's activities (KLM Royal Dutch Airlines, 2022, <https://www.klm.com/>). The following section will cover information about Deutsche Lufthansa AG in-depth.

2.8.8 Deutsche Lufthansa AG

⁶³The exemplary and outstanding members of the Luftansa Executive Board include the following: Carsten Spohr *Chief Executive Officer*, Christina Foerster *Member of the Executive Board Brand & Sustainability*, Harry Hohmeister *Member of the Executive Board Global Markets & Network*, Dr. Detlef Kayser *Member of the Executive Board Fleet & Technology*, Dr. Michael Niggemann *Member of the Executive Board Chief Officer Human Resources & Infrastructure* and Remco Steenbergen *Member of the Executive Board Chief Financial Officer* (Deutsche Lufthansa AG, 2022, <https://investor-relations.lufthansagroup.com/en/corporate-governance/executive-board.html>).⁶⁴“COMPLIANCE.

Compliance describes all measures taken to ensure the correct conduct of companies, their management and staff with respect to statutory and the Company's own obligations and

⁶³ Deutsche Lufthansa AG (2022) *Executive Board*. Available from: <https://investor-relations.lufthansagroup.com/en/corporate-governance/executive-board.html> [Accessed October 29, 2022]

⁶⁴ Deutsche Lufthansa AG (2022) *Company*. Available from: <https://www.lufthansagroup.com/en/company.html> [Accessed October 29, 2022]

prohibitions. The Lufthansa Group Compliance Program is intended to prevent staff and the Company from coming into conflict with the law and to help them apply statutory regulations correctly. Compliance Comprehensive programme helps to ensure compliance [read article](#). **Code of Conduct**. Responsible and lawful behaviour is a prerequisite for the sustainable economic success of the Lufthansa Group. [read article](#)” (Deutsche Lufthansa AG, 2022, <https://www.lufthansagroup.com/en/company.html>). Figure 2.4 below will help to provide an example of the various types of aircraft used by the Deutsche Lufthansa AG to transport its passengers.

Figure 2.4 Deutsche Lufthansa AG Airplane Photo



Source: (Deutsche Lufthansa AG, 2022, <https://www.lufthansagroup.com/en/company/business-segments/network-airlines.html>).

⁶⁵ **COMPANY PORTRAIT**. The Lufthansa Group is an aviation group with operations worldwide. With 105,290 employees, the Lufthansa Group generated revenue of EUR 16,811m in the financial year 2021. The Lufthansa Group is composed of the segments Network Airlines,

⁶⁵ Deutsche Lufthansa AG (2022) *Company*. Available from: <https://www.lufthansagroup.com/en/company.html> [Accessed October 29, 2022]

Eurowings and Aviation Services. Aviation Services comprises the segments Logistics, MRO, Catering and Additional Businesses and Group Functions. The latter also include Lufthansa AirPlus, Lufthansa Aviation Training and the IT companies. All segments occupy a leading position in their respective markets. **KEY FIGURES.** The Lufthansa Group generated revenue of 16.8 billion euros in the fiscal year 2021, around 24 percent more than in the previous year (previous year: 13.6 billion euros). An increase in passengers, the transformation and restructuring of the company, and the associated cost reductions contributed to a significant improvement in earnings. The company returned to profit in the third quarter due to strong summer travel months. For the full year, the operating loss was significantly reduced, despite the third and fourth pandemic wave and the resulting travel restrictions. **Key figures 2021.** 105,290 **Employees** 302 **Subsidiaries and equity investments** 16,811 **Total revenue** €m 1,329 **Capital expenditure** €m. **BUSINESS SEGMENTS.** Network Airlines, Eurowings, Logistics, Maintenance Repair Overhaul, Catering. **ALLIANCES AND PARTNER AIRLINES** Alliances are fundamental to Lufthansa's success. As a founding member of Star Alliance, Lufthansa offers innumerable advantages in the world's biggest global network. Its regional strategy under the Lufthansa Regional brand connects Europe's regions with one another and with the world beyond. Bilateral partnerships augment and enhance the services portfolio. **Star Alliance.** The Star Alliance network is the leading global airline network. It was established in 1997 as the first truly global airline alliance to offer customers convenient worldwide reach and a smoother travel experience”” (Deutsche Lufthansa AG, 2022, <https://www.lufthansagroup.com/en/company.html>). The following section will cover information about Swiss International Air Lines Ltd in-depth.

2.8.9 Swiss International Air Lines (SWISS)

⁶⁶“**Company profile.** Swiss International Air Lines (SWISS) is The Airline of Switzerland, serving over 100 destinations worldwide from Zurich and Geneva. SWISS is part of the Lufthansa Group, and is also a member of Star Alliance” (Swiss International Air Lines, 2022, <https://www.swiss.com/corporate/en/company/about-us>). Figure 2.5 and 2.6 below will

⁶⁶ Swiss International Air Lines (2022) *About Us*. Available from:

<https://www.swiss.com/corporate/en/company/about-us> [Accessed October 28, 2022] © Swiss International Air Lines

help to provide an example of the various types of aircraft used by the Swiss International Air Lines Ltd to transport its passengers.

Figure 2.5 Swiss International Air Lines Airplane Photo 1



Source: (Swiss International Air Lines, 2022, <https://www.swiss.com/ch/en/discover/fleet/boeing%20>) © Swiss International Air Lines

Figure 2.6 Swiss International Air Lines Airplane Photo 2



Source: (Swiss International Air Lines, 2022, <https://www.swiss.com/>) © Swiss International Air Lines

“**Board of Directors.** There are five members on the Board of Directors of Swiss International Air Lines (SWISS). Reto Francioni has been Chairman of the Board since 2016” (Swiss International Air Lines, 2022, <https://www.swiss.com/corporate/en/company/about->

[us/board-of-directors](#)).⁶⁷Members of the SWISS board include the following: Reto Francioni *Chairman*, André Blattmann *Member*, Christina Foerster *Member*, Doris Russi Schurter *Member* and Remco Steenbergen *Member* (Swiss International Air Lines, 2022, <https://www.swiss.com/corporate/en/company/about-us/board-of-directors>).⁶⁸“**Environmental responsibility**. SWISS is fully aware of its responsibility towards the natural environment and to future generations, and pursues a comprehensive environmental strategy. Air transport is a global catalyst for growth, providing access to markets, creating jobs and promoting tourist travel. And civil aviation is of vital importance to Switzerland’s appeal as a place to live, work and visit. In addition to its many positive economic effects, though, air transport does have a negative impact on the natural environment. SWISS is fully aware of its environmental responsibilities, however, and makes great efforts to minimize the impact on the climate of its business and operations. **Our environmental goals**. Together with the Lufthansa Group, SWISS has set itself ambitious targets for reducing CO₂: **Flight operations** By 2030: 50% reduction in net CO₂ emissions compared to 2019. By 2050: CO₂-neutral aviation (‘net zero’)” (Swiss International Air Lines, 2022, <https://www.swiss.com/corporate/en/company/corporate-responsibility/environmental-responsibility>). The following section will cover information about Brussels Airlines in-depth.

2.8.10 Brussels Airlines

⁶⁹“**OUR COMPANY**. As Belgium’s national airline, Brussels Airlines was founded in 2002 and has its base at Brussels Airport. The airline operates flights to Europe, Africa and North America and is one of the hub airlines of the Lufthansa Group” (Brussels Airlines, 2022,

⁶⁷ Swiss International Air Lines (2022) *Board of Directors*. Available from: <https://www.swiss.com/corporate/en/company/about-us/board-of-directors> [Accessed October 28, 2022] © Swiss International Air Lines

⁶⁸ Swiss International Air Lines (2022) *Environmental Responsibility*. Available from: <https://www.swiss.com/corporate/en/company/corporate-responsibility/environmental-responsibility> [Accessed October 29, 2022] © Swiss International Air Lines

⁶⁹ Brussels Airlines (2022) *Our Company*. Available from: <https://www.brusselsairlines.com/be/en/our-company> [Accessed October 31, 2022]

<https://www.brusselsairlines.com/be/en/our-company>).⁷⁰“ORGANISATION. Shareholders. Brussels Airlines is for almost 100% owned by the SN Airholding (1,811,308 shares out of 1,811,309 actions). Since December 2016, SN Airholding is 100% owned by Deutsche Lufthansa AG” (Brussels Airlines, 2022, <https://www.brusselsairlines.com/be/en/our-company/organisation>). The outstanding Management of Brussels Airlines includes the following: Christina Foerster (*Chairwoman of the board*), Peter Gerber (*Chief Executive Officer*), Nina Owerdieck (*Chief Financial Officer*), Tilman Reinshagen (*Managing Director Operations*) (Brussels Airlines, 2022, <https://www.brusselsairlines.com/be/en/our-company/organisation>). Figure 2.7 below will help to provide an example of the various types of aircraft used by the Brussels Airlines to transport its passengers.

⁷⁰ Brussels Airlines (2022) *Organisation*. Available from: <https://www.brusselsairlines.com/be/en/our-company/organisation> [Accessed October 31, 2022]

Figure 2.7 Brussels Airlines Airplane Photo



Source: (Brussels Airlines, 2022, <https://press.brusselsairlines.com/>).

⁷¹ **ABOUT BRUSSELS AIRLINES.** Brussels Airlines is the home carrier of Belgium and one of the four network airlines of the Lufthansa Group. It connects the European capital from Brussels Airport with over 85 destinations, 17 of which are in Sub Saharan Africa. The company employs 3,200 people and operates 40 aircraft. Brussels Airlines aims to emit 50% less CO₂ by 2030 compared to 2019 and plans to be carbon neutral by 2050. The airline is participating in the Stargate Project led by Brussels Airport and is therefore part of the testing ground for sustainable aviation at its home base. In addition, the airline signed the Circular Economy agreement of the Antwerp Management School in 2021. In 2023, Brussels Airlines welcomes three state-of-the-art Airbus A320neo allowing the airline to significantly lower its CO₂- and noise-emissions on its medium-haul network. Next to that, the airline aims to operate its first flight using Sustainable Aviation fuel (SAF) by 2023. As an ambassador of its country, Brussels Airlines brings the world to Belgium and the best of Belgium to the world, among others through collaborations

⁷¹ Brussels Airlines (2022) *About Brussels*. Available from: <https://press.brusselsairlines.com/> [Accessed October 31, 2022]

with Belgian Star Chefs, Belgian culinary products and the Belgian Icons, specially painted aircraft that honor a Belgian iconic person, team or event to promote Belgian culture worldwide. More information on brusselsairlines.com. **About Star Alliance.** The Star Alliance network was established in 1997 as the first truly global airline alliance, based on a customer value proposition of global reach, worldwide recognition and seamless service. Since inception, it has offered the largest and most comprehensive airline network, with a focus on improving customer experience across the Alliance journey. Overall, the Star Alliance network currently offers more than 10,000 daily flights to almost 1,200 airports in 184 countries”” (Brussels Airlines, 2022, <https://press.brusselsairlines.com/>). The following section will cover information about Air Canada in-depth.

2.8.11 Air Canada

⁷²“**About Air Canada.** Air Canada is Canada's largest airline and the latest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market and in the international market to and from Canada. In 2019, it was among the top 20 largest airlines in the world. Air Canada is a founding member of Star Alliance™ providing the world's most comprehensive air transportation network” (Air Canada, 2022, <https://investors.aircanada.com/>). Figure 2.8 below will help to provide an example of the various types of aircraft used by the Air Canada to transport its passengers.

⁷² Air Canada (2022) *About Air Canada*. Available from: <https://investors.aircanada.com/> [Accessed October 31, 2022] © 2022 Air Canada

Figure 2.8 Air Canada Airplane Photo



Source: (Air Canada, 2022, <https://www.aircanada.com/ca/en/aco/home/fly/onboard/fleet.html#/>).

⁷³The following members make up the Air Canada Board of Directors. [Ameé Chande](#) West Vancouver (British Columbia), [Christie J.B. Clark](#) Toronto (Ontario), [Gary A. Doer](#) Winnipeg (Manitoba), [Rob Fyfe](#) Auckland, (New Zealand), [Michael M. Green](#) East Hampton (New York), [Jean Marc Huot](#) Montreal (Quebec), [Madeleine Paquin](#) Montreal (Quebec), [Michael Rousseau](#) Saint-Lambert (Quebec), [Vagn Sørensen](#) London, (England), [Kathleen Taylor](#) Toronto (Ontario), [Annette Verschuren](#) Toronto (Ontario) and [Michael M. Wilson](#) Bragg Creek (Alberta” (Air Canada, 2022, <https://investors.aircanada.com/board-of-directors>). ⁷⁴**Management Team.** [Michael Rousseau](#) President and Chief Executive Officer, [Marc Barbeau](#) Executive Vice President and Chief Legal Officer, [Lucie Guillemette](#) Executive Vice President and Chief Commercial Officer, [Amos Kazzaz](#) Executive Vice President and Chief Financial Officer, [Craig](#)

⁷³ Air Canada (2022) *Board of Directors*. Available from: <https://investors.aircanada.com/board-of-directors> [Accessed October 31, 2022] © 2022 Air Canada

⁷⁴ Air Canada (2022) *Management Team*. Available from: <https://investors.aircanada.com/management-team> [Accessed October 31, 2022] © 2022 Air Canada

[Landry](#) Executive Vice President and Chief Operations Officer, [Arielle Meloul-Wechsler](#) Executive Vice President, Chief Human Resources Officer and Public Affairs, [Mark Galardo](#) Senior Vice President, Network Planning and Revenue Management, [Mark Nasr](#) Senior Vice President, Products, Marketing and eCommerce, [Richard Steer](#) Senior Vice President, Operations and Express Carriers, [Murray Strom](#) Senior Vice President, Flight Operations and [Carolyn M. Hadrovic](#) Vice President and Corporate Secretary (Air Canada, 2022, <https://investors.aircanada.com/management-team>).⁷⁵“**Governance.** Best in class corporate governance. The Company’s Executive Team and Board of Directors are committed to sound principles of corporate governance. This section provides information pertaining to our Board, our ethical values and our policies. **Code of Conduct.** Air Canada’s Corporate Policy and Guidelines on Business Conduct sets out guiding principles and ethical standards that apply to our corporate activities. The Code addresses conflicts of interest, use of company assets, confidential information, fair dealing with other people and organizations, compliance with laws, rules and regulations, employment policies, computer, e-mail and internet policies, and reporting suspected non-compliance” (Air Canada, 2022, <https://investors.aircanada.com/governance>). The following section will cover information about Air India in-depth.

2.8.12 Air India

⁷⁶“**About Air India Brand. Logo.** The Air India logo features a red swan (symbolising flight) with spokes in orange placed inside. The wheel is inspired by the Ashoka Chakra - depicting the wheel of righteous duty, which also features in the Indian Flag and underlines the deep-rooted connect to India’s cultural heritage” (Air India, 2022, <https://www.airindia.in/about-airindia.htm>). **Board of Directors.** Mr. N Chandrasekaran CHAIRMAN, Mr. Sanjiv Mehta INDEPENDENT DIRECTOR, Mrs. Alice Vaidyan INDEPENDENT DIRECTOR (Air India, 2022, <https://www.airindia.in/about-airindia.htm>). “**Our Fleet.** Air India has a state-of -the-art fleet, comprising of Boeing (777-200LR, 777-300ER and 787-800 Dreamliner) and Airbus (319, 320, 320Neo and 321) aircraft” (Air India, 2022, <https://www.airindia.in/about-airindia.htm>).

⁷⁵ Air Canada (2022) *Board of Directors*. Available from: <https://investors.aircanada.com/governance> [Accessed October 31, 2022] © 2022 Air Canada

⁷⁶ Air India (2022) *About Air India*. Available from: <https://www.airindia.in/about-airindia.htm> [Accessed October 31, 2022] Copyright © 2022 Air India Ltd. All rights reserved.

Figure 2.9 below will help to provide an example of the various types of aircraft used by the Air India to transport its passengers.

Figure 2.9 Air India Airplane Photo



Source (Air India, 2022, <https://www.airindia.in/on-ground.htm>).

⁷⁷ **About Air India.** Air India's journey took off in 1932, when Bharat Ratna J.R.D Tata formed an Airline, realising his dream. The first Indian to receive a commercial pilot's license, it was his passion for flying that had sparked Air India's origins - with the launch of an Airmail service from the then Bombay to Karachi via Ahmedabad. Nationalized in 1953, Air India has been spreading its wings over the years to become a leading domestic and global brand. Air India's international connectivity, spanning cities in Europe, USA, UK, Africa, the Gulf, Asia and Australia, was strengthened after joining Star Alliance – the largest global air consortium – in July, 2014. The airline also covers every remote corner of our country. It has always stood by the Nation and its people during the hour of need and has played a key role in evacuation

⁷⁷ Air India (2022) *About Air India*. Available from: <https://www.airindia.in/about-airindia.htm> [Accessed October 31, 2022] Copyright © 2022 Air India Ltd. All rights reserved.

missions during crises like the Gulf War, the Covid pandemic and the recent Ukraine conflict. On 27th January, 2022, Air India has been welcomed back to the Tata Group and is poised to soar high - redefining its goals & approach with focus on overall excellence & customer-centric processes. *"The Tata group welcomes Air India's new customers and is excited to work together to make Air India the airline of choice in terms of passenger comfort and service."*, remarked Mr. Ratan Tata, Chairman Emeritus, Tata Sons on the occasion. **About Tata Group.** Founded by Jamsetji Tata in 1868, the Tata Group is a global enterprise, headquartered in India, comprising 30 companies across 10 verticals. The group operates in over 100 countries across six continents, with a mission 'To improve the quality of life of the communities we serve globally, through long-term stakeholder value creation based on Leadership with Trust'. Tata Sons is the principal investment holding company and promoter of Tata companies. Sixty-six percent of equity share capital of Tata Sons is held by philanthropic trusts, supporting education, health, art and culture. **Our People - The Air Indians.** Air India has a dedicated and skilled workforce from all over India and abroad united by the spirit to connect homes and hearts - offering world class service to our global guests. Pilots, cabin crew, aircraft & ground engineers, flight dispatchers, simulator maintenance engineers, flight safety, safety auditors, catering and ticketing and reservations and customer services, ground handling, security teams function with clockwork precision backed by software technologists, information technology, Market Planning, Route Planning, Finance, Personnel, Materials Management departments etc to make our fleet fly high. ⁷⁸However, Air India is not just an airline transporting people and cargo, it serves as the Wings of the Nation with each and every Air Indian rising to the occasion putting the interest of our Nation & its people ahead of their own concerns during any crisis. Team Air India has scripted many an epic evacuation all over the world from the Gulf or Yemen, Wuhan or Ukraine over the last so many decades. The Vande Bharat mission during covid times was very challenging. The AI group operated 58,895 flights bringing 8,077,755 people home. A galaxy of sportspersons amongst the Air India workforce has done Air India and India proud - winning laurels for the country at prestigious global events. Air India has been nurturing budding talent - many of whom matured into champions and honoured with the highest national sports awards. Many legends in Cricket,

⁷⁸ Air India (2022) *About Air India*. Available from: <https://www.airindia.in/about-airindia.htm> [Accessed October 31, 2022] Copyright © 2022 Air India Ltd. All rights reserved.

Hockey, Carom, Chess, Shooting & other sports are Air Indians, the organization feels proud of. Air India is proud of its women workforce excelling in every area of operation – from the cockpit to the aircraft cabin, engineering units, ramp, office desks and the board room across our network. Women comprise over 30% of our total strength, including pilots (over 200), aircraft engineers & senior directors. Women pilots & crew in Air India hold the distinction of flying the longest around-the-world all-women flight on the Delhi-San Francisco-Delhi sector. Women in Air India have been leaving their mark in every area of functioning to reiterate that hands which rock the cradle can also make an airline soar high. In their pursuit of excellence to offer a world class service to our guests, every Air Indian is driven by the conviction "If I don't do it then who will?"⁷⁹ (Air India, 2022, <https://www.airindia.in/about-airindia.htm>). The following section will cover information about the International Airlines Group (IAG) in-depth.

2.8.13 International Airlines Group (IAG)

⁸⁰**IAG Overview.** International Airlines Group (IAG) is one of the world's largest airline groups, with a fleet of 531 aircraft. Before the impact of the COVID-19 pandemic it operated to 279 destinations and carried around 118 million passengers each year. It is a Spanish registered company with shares traded on the London Stock Exchange and Spanish Stock Exchanges” (International Airlines Group, 2022, <https://www.iairgroup.com/en/the-group/iag-overview>).

⁸¹The highly distinguished board of directors of the International Airlines Group (IAG) include the following: Nicola Shaw *Non-Executive Director*, Javier Ferrán *Chairman*, Luis Gallego *Chief Executive Officer*, Heather Ann McSharry *Senior Independent Director*, Giles Agutter *Proprietary*, Peggy Bruzelius *Non-Executive Director*, Eva Castillo *Non-Executive Director*, Margaret Ewing *Non-Executive Director*, Robin Phillips *Proprietary*, Maurice Lam *Non-Executive Director*, Emilio Saracho *Non-Executive Director* (International Airlines Group, 2022,

⁷⁹ Air India (2022) *About Air India*. Available from: <https://www.airindia.in/about-airindia.htm> [Accessed October 31, 2022] Copyright © 2022 Air India Ltd. All rights reserved.

⁸⁰ International Airlines Group (IAG) (2022) *IAG Overview*. Available from: <https://www.iairgroup.com/en/the-group/iag-overview> [Accessed October 29, 2022] Copyright © 2022. All rights reserved.

⁸¹ International Airlines Group (2022) *Board of Directors*. Available from: <https://www.iairgroup.com/en/investors-and-shareholders/corporate-governance/board-of-directors> [Accessed October 29, 2022] Copyright © 2022. All rights reserved.

<https://www.iairgroup.com/en/investors-and-shareholders/corporate-governance/board-of-directors>).⁸²The exemplary and outstanding **Management Committee** of the International Airlines Group (IAG) include the following: Marco Sansavini *Chairman and CEO of Vueling*, Luis Gallego *Chief Executive Officer*, Nicholas Cadbury *Chief Financial Officer*, Fernando Candela *Chief Transformation Officer*, Adam Daniels *Chairman and CEO of IAG Loyalty*, Sean Doyle *Chairman and CEO British Airways*, Lynne Embleton *Chairman and CEO Aer Lingus*, John Gibbs *Chief Information Officer*, Chris Haynes *General Counsel*, Carolina Martinoli *Chief People, Corporate Affairs and Sustainability Officer*, David Podolsky *Chief Strategy Officer and Chief Executive IAG Cargo*, Javier Sanchez-Prieto *Chairman and CEO of Iberia* and Marco Sansavini *Chairman and CEO of Vueling* (International Airlines Group, 2022, <https://www.iairgroup.com/en/investors-and-shareholders/corporate-governance/management-committee>). Figure 2.10 below will help to provide an example of the various types of aircraft used by the International Airlines Group to transport its passengers.

⁸² International Airlines Group (IAG) (2022) *Management Committee*. Available from: <https://www.iairgroup.com/en/investors-and-shareholders/corporate-governance/management-committee> [Accessed October 29, 2022] Copyright © 2022. All rights reserved.

Figure 2.10 International Airlines Group Airplane Photo

Aer Lingus



British Airways



Iberia



Level

Source of Photos: (International Airlines Group, 2022, <https://www.iairgroup.com/en/the-group/our-fleet>).

“How we’re organized. IAG is the parent company of the Group and actively engages and works collaboratively with its portfolio of operating companies to drive synergies and maximise performance. Its independence from the operating companies allows for objective, flexible and rapid decision-making and enables IAG to implement the strategy to deliver the long-term vision for the Group. The operating companies are in turn able to focus their efforts on their target customers, competitive environment and their people. The portfolio sits on the Group’s common integrated platform which drives efficiency and simplicity while allowing each operating company to achieve individual performance targets and maintain its unique identity. **History. Explore our history.** Since our launch in 2011, we’ve increased our global presence so that we now reach over 268 destinations globally, carrying 113 million passengers each year. The alliance between British Airways, Iberia and American Airlines completes after getting the go-ahead from regulators in the European Union and the U.S. British Airways and Iberia merge, creating the International Airlines Group (IAG). Shares in IAG start trading. **Our vision.** IAG’s purpose – ‘To connect people, businesses and countries’ - underpins the Group’s vision to be the

world's leading airline group, maximising sustainable value creation for its stakeholders. IAG will continue to use its unique business model to pursue this purpose and vision and always aims to deliver sustainable value for its customers, its people, its shareholders and the communities it serves”⁸³ (International Airlines Group, 2022, <https://www.iairgroup.com/en/the-group/iag-overview>). ⁸⁴“**What we do.** In 2021, IAG’s network continues to reflect COVID-19’s impact and associated government travel restrictions, with the impact of the COVID-19 pandemic felt across all regions. However, the Group progressively started operating a larger network than in 2020, as global travel restrictions began to ease as vaccine programmes advanced. Capacity was increasingly restored during the year, in line with the easing of travel restrictions, although with some impact of the Omicron variant of COVID-19 felt in December. **A combined network for cargo and passengers.** Our roster of renowned airlines and product/service-providing brands combine to create an international network, one able to serve customers from all over the world” (International Airlines Group, 2022, <https://www.iairgroup.com/en/the-group/what-we-do>). ⁸⁵“**Business model.** Our business model is built to maximise choice and value creation. IAG’s vision is to be the world’s leading airline group, maximizing sustainable value creation for its shareholders and customers. Its business model makes it well positioned to achieve this in an increasingly competitive and fast paced environment. At IAG we don’t believe in one-size-fits-all and, through the Group structure, IAG’s diverse set of airlines and associated businesses can together deliver an unrivalled customer proposition across the full spectrum of travel occasions. The Group portfolio sits on a common integrated platform driving efficiency and simplicity while still allowing each operating company to achieve its individual performance targets and maintain its unique identity” (International Airlines Group, 2022,

⁸³ International Airlines Group (IAG) (2022) *IAG Overview*. Available from: <https://www.iairgroup.com/en/the-group/iag-overview> [Accessed October 29, 2022] Copyright © 2022. All rights reserved.

⁸⁴ International Airlines Group (IAG) (2022) *What We Do*. Available from: <https://www.iairgroup.com/en/the-group/what-we-do> [Accessed October 29, 2022] Copyright © 2022. All rights reserved.

⁸⁵ International Airlines Group (IAG) (2022) *Business Model*. Available from: <https://www.iairgroup.com/en/the-group/business-model-and-strategy> [Accessed 0October 29, 2022] Copyright © 2022. All rights reserved.

<https://www.iairgroup.com/en/the-group/business-model-and-strategy>).⁸⁶“**Our network.** IAG holds attractive leadership positions in each of its home markets Barcelona, Dublin, London and Madrid, with a major presence in the North Atlantic, South Atlantic and Intra-Europe. The Group portfolio consists of unique operating companies, from full service longhaul to low-cost shorthaul carriers, each targeting specific customer needs and geographies. IAG has been reinforcing its leadership positions since its creation in 2011 through both organic growth in these markets and also through the acquisitions of bmi, Vueling and Aer Lingus. The development of **joint businesses** has also helped the Group to grow its global reach. These relationships with business partners offer customers better frequencies and easier connections in the markets they serve. **Our routes.** In 2021, IAG’s network continues to reflect COVID-19’s impact and associated government travel restrictions, with the impact of the COVID-19 pandemic felt across all regions. However, the Group progressively started operating a larger network than in 2020, as global travel restrictions began to ease as vaccine programmes advanced. Capacity was increasingly restored during the year, in line with the easing of travel restrictions, although with some impact of the Omicron variant of COVID-19 felt in December” (International Airlines Group, 2022, <https://www.iairgroup.com/en/the-group/our-network>).⁸⁷“**Our fleet.** IAG combines leading airlines in the UK, Spain and Ireland, operating a fleet of 531 aircraft. A closer look at recent fleet developments. 2021 saw the continued replacement of the IAG fleet with new generation aircraft but at a slower pace reflecting both capital deferrals and production and delivery delays in the airframe manufacturers. A total of 8 new aircraft were delivered in 2021, comprising 5 A320s and 3 A321LRs. The new aircraft are up to 20% more fuel efficient than the aircraft they replace. Fleet modernisation will continue in coming years with further deliveries of 56 Airbus A320neo series aircraft, 26 Airbus A350s, 10 Boeing 787s and 18 Boeing 777-9 aircraft” (International Airlines Group, 2022, <https://www.iairgroup.com/en/the-group/our-fleet>). The following section will cover information about Alaska Airlines Inc. in-depth.

⁸⁶ International Airlines Group (IAG) (2022) *Our Networks*. Available from: <https://www.iairgroup.com/en/the-group/our-network> [Accessed October 29, 2022] Copyright © 2022. All rights reserved.

⁸⁷ International Airlines Group (IAG) (2022) *Our Fleet*. Available from: <https://www.iairgroup.com/en/the-group/our-fleet> [Accessed October 29, 2022] Copyright © 2022. All rights reserved.

2.8.14 Alaska Airlines Inc. and the Alaska Air Group Inc.

⁸⁸**Board of directors.** The highly distinguished and exemplary board of directors of Alaska Airlines Inc. include the following: Patricia M. Bedient *Non-executive Board Chair, Alaska Air Group Inc., Alaska Airlines, Horizon Air Industries*, James A. Beer *Former CFO, Atlassian Corporation*, Raymond L. Conner *Former Vice Chairman, The Boeing Company*, Daniel K. Elwell *President, Elwell & Associates, LLC*, Dhiren R. Fonseca *Partner, Certares LP*, Kathleen T. Hogan *Chief People Officer and Executive Vice President of Human Resources, Microsoft*, Jessie J. Knight, Jr. *Managing Director, Knight Angels LLC*, Susan J. Li *Vice President Finance, Facebook, Inc.*, Adrienne R. Lofton *Vice President, Global Brand Marketing Google*, Benito Minicucci *President and CEO Alaska Air Group, Inc. and Alaska Airlines, Inc.*, Helvi K. Sandvik *President, Kidways LLC*, J. Kenneth Thompson *President and CEO, Pacific Star Energy LLC* and Eric K. Yeaman *Founder and Managing Partner, Hoku Capital LLC* (Alaska Airlines, Inc., 2022, <https://alaskaairgroupinc.gcs-web.com/corporate-governance/board-of-directors>). Figure 2.11 below will help to provide an example of the various types of aircraft used by Alaska Airlines Inc. to transport its passengers.

⁸⁸ Alaska Airlines, Inc. (2022) *Board of Directors*. Available from: <https://alaskaairgroupinc.gcs-web.com/corporate-governance/board-of-directors> [Accessed October 29, 2022] © 2022 Alaska Airlines, Inc. All rights reserved.

Figure 2.11 Alaska Airlines Inc. Airplane Photo



Source: (Alaska Airlines, 2022, <https://www.alaskaair.com/content/travel-info/our-aircraft/airbus>).

⁸⁹ **Alaska Airlines history. The Alaska Spirit is born.** For 90 years, Alaska Airlines and the people who make us who we are, have been guided by integrity, caring, ingenuity, professionalism, and a unique spirit—a spirit that has grown out of our geographical roots. Who we are today is a direct result of our history and the amazing people involved in it; a long list of aviation milestones, paired with countless stories of people being remarkable to help others. All these milestones, good deeds, and community involvement have helped us grow us from a small regional airline to an international carrier. With more than 44+ million customers a year, our route system spans more than 120 destinations and five countries. We trace our roots back to 1932, when two companies started flying in Anchorage: McGee Airways, and Star Air Service. In December 2016, Virgin America [was acquired by Alaska Airlines](#) to create the West Coast’s premier airline. The two airlines were granted a single operating certificate by the FAA in 2018 and now operate as a single airline under the Alaska brand. Alaska is a member of the oneworld® global alliance. With the alliance and our additional airline partners, guests can

⁸⁹ Alaska Airlines, Inc. (2022) *History*. Available from: <https://www.alaskaair.com/content/about-us/history>

[Accessed October 29, 2022] © 2022 Alaska Airlines, Inc. All rights reserved.

travel to more than 1,000 destinations on more than 20 airlines while earning and redeeming miles on flights to locations around the world. Reducing our environmental impact to protect the beautiful places in which we live, and fly, is part of our DNA. We were the first airline to compost and remove single-use plastic straws and citrus picks from planes and our lounges, and have been champions of sustainable aviation biofuels since 2011. Whenever the history of commercial aviation is written, people ask how an obscure little airline in America's hinterland has continued to survive and thrive while once-proud giants disappeared. Grit and determination will be part of the answer. However, more than that, it's our people. Their caring, their resourcefulness, their integrity, their professionalism, and their spirit. The unique spirit of The Great Land where our airline was born”” (Alaska Airlines, Inc., 2022, <https://www.alaskaair.com/content/about-us/history>).⁹⁰“**Customer service commitment.** Thank you for being our guest. Our goal is to always provide safe, reliable transportation for a reasonable price, along with the caring, friendly and professional service that we are known for. This section of our website outlines some of the ways we intend to meet this commitment every day. Sincerely, The Employees of Alaska Airlines” (Alaska Airlines, Inc., 2022, <https://www.alaskaair.com/content/about-us/customer-commitment/customer-commitment-overview>).⁹¹““**Alaska Care Report. Caring for the long haul.** Each year, we share the journey of our environmental and social impact in an annual report, sharing data, progress, learnings, and stories. We share where we’re hitting our targets, areas of improvement, and what we’ve learned throughout the previous year. We know there will always been more work ahead – there is no “mission accomplished” when it comes to our environmental and social impact. We’ll keep pushing forward, with care, innovation, pragmatism, accountability, transparency, and partnership to ensure that aviation is a positive force in our world. **Our Values.** • Own safety • Do the right thing • Be kindhearted • Deliver performance • Be remarkable. **Corporate giving.** For over 35 years, Alaska Airlines has been committed to investing in the communities where we

⁹⁰ Alaska Airlines, Inc., (2022) *Customer commitment Overview*. Available from: <https://www.alaskaair.com/content/about-us/customer-commitment/customer-commitment-overview> [Accessed October 29, 2022] © 2022 Alaska Airlines, Inc. All rights reserved.

⁹¹ Alaska Airlines, Inc., (2022) *Alaska Care Report*. Available from: <https://www.alaskaair.com/content/about-us/esg> [Accessed October 29, 2022] © 2022 Alaska Airlines, Inc. All rights reserved.

live, work, and fly. **Alaska Airlines Foundation.** Our Foundation's grants focus on supporting educational opportunities for young people in the communities where we fly — enabling careers in aviation and more, with a focus on equity”” (Alaska Airlines, Inc., 2022, <https://www.alaskaair.com/content/about-us/esg>). The following section will cover information about Delta Air Lines in-depth.

2.8.15 Delta Air Lines

⁹²“**About Delta. OUR DESTINATIONS.** Everything we do creates a more connected world. That's why nearly 200 million travelers fly up to 275 destinations in 50 countries, with up to 4,000 daily departures” (Delta Air Lines, 2022, <https://www.delta.com/mea/en/about-delta/overview>). The highly distinguished and exemplary board of directors of Delta Air Lines Inc. include the following: Edward H. Bastian, Francis S. “Frank” Blake, Ashton B. Carter, Greg Creed, David G. Dewalt, William “Bill” Easter, Leslie D. Hale, Christopher A. Hazleton, Michael P. Huerta, Jeanne P. Jackson, George N. Mattson, Sergio Rial, David S. Taylor and Kathy Waller (Delta Air Lines, 2022, <https://ir.delta.com/governance/#board-directors>).

⁹³“**Governance Documents.** At Delta, we are proud of our history of good corporate governance. Use these links to learn more about our independent board of directors and [key committees](#) and to contact our [nonmanagement directors](#) . Also view the following: **Board of Directors.** The Board of Directors holds regular meetings at least four times a year, schedules special meetings when required, and regularly meets in executive session without management. The Board and its committees also meet informally from time to time. The Board believes sound corporate governance practices provide an important framework in assisting the Board to discharge its responsibilities. Accordingly, the Board has adopted corporate governance principles relating to its functions, structure, and operations” (Delta Air Lines, 2022, <https://ir.delta.com/governance/#board-directors>). Figure 2.12 below will help to provide an example of the various types of aircraft used by Delta Air Lines to transport its passengers.

⁹² Delta Air Lines (2022) *Overview*. Available from: <https://www.delta.com/mea/en/about-delta/overview> [Accessed October 30, 2022] © 2022 Delta Air Lines.

⁹³ Delta Air Lines (2022) *Board of Directors*. Available from: <https://ir.delta.com/governance/#board-directors> [Accessed October 29, 2022] © 2022 Delta Air Lines, Inc.

Figure 2.12 Delta Air Lines Airplane Photo



Source: (Delta Air Lines, 2022, <https://news.delta.com/delta-joins-first-movers-coalition-drive-breakthrough-technologies-and-sustainable-fuels>).

^{94cc} **About Delta. OUR PEOPLE AND CULTURE.** We're not just an airline. We're 75,000+ people passionate about how travel brings us together, encourages appreciation and creates a better world for all of us. **Our Purpose.** As a purpose-driven brand, we connect people to opportunities while expanding the understanding of our planet and the people within it. Both in the air and on the ground, we are focused on lowering our carbon footprint, furthering an equitable work environment that values diversity and inclusion and living these values in the communities where we live, work and serve. **Sustainability.** Become Net Zero. Reduce Waste. Create Circular Solutions. There is no substitute for the power of travel to connect people, so we've committed to investing \$1 billion by 2030 to reduce carbon emissions and waste, and establish new, innovative projects for a more sustainable future. **Diversity, Equity & Inclusion.** Connect the world. Reflect the world. Respect the world. Our purpose is beyond flight. We have set clear goals of actively seeking diversity, boldly pursuing equity, and consciously promoting inclusion. In 2020, Delta committed to equity and being an anti-racist,

⁹⁴ Delta Air Lines (2022) *Overview*. Available from: <https://www.delta.com/mea/en/about-delta/overview> [Accessed October 30, 2022] © 2022 Delta Air Lines, Inc.

anti-discrimination organization. To achieve this goal, we are removing barriers, building equitable systems, and being transparent about our progress. **Community Engagement. Invest in Progress. Cultivate Relationships. Be a Strong Partner.** As a global airline, we connect with the communities where our employees live, work, and serve. Through strategic nonprofits in these communities, we foster meaningful partnerships to help drive change by focusing our resources on the environment, equity and education” (Delta Air Lines, 2022, <https://www.delta.com/mea/en/about-delta/overview>).⁹⁵“**Corporate Stats and Facts. NO ONE BETTER CONNECTS THE WORLD.** More than 4,000 Delta Air Lines (NYSE: DAL) flights take off every day, connecting people across more than 275 destinations on six continents with a commitment to industry-leading customer service, safety and innovation. More than 80,000 Delta people lead the way in delivering a world-class customer experience, and we're continuing to ensure the future of travel is personalized, enjoyable and stress-free. Our people's genuine and enduring motivation is to make every customer feel welcomed and respected across every point of their journey with us. Delta has served as many as 200 million customers annually. Headquartered in Atlanta, Delta operates significant hubs and key markets in Amsterdam, Atlanta, Boston, Detroit, London-Heathrow, Los Angeles, Mexico City, Minneapolis-St. Paul, New York-JFK and LaGuardia, Paris-Charles de Gaulle, Salt Lake City, Seattle, Seoul-Incheon and Tokyo. Whether transporting life-saving pharmaceuticals, organs for transplant, fresh flowers, or seasonal produce, Delta Cargo provides world-class service, offering industry-leading shipping solutions and transporting on average 2.2 billion cargo ton-miles* every year. As the leading global airline, Delta's mission to connect the world creates opportunities, fosters understanding and expands horizons by connecting people and communities to each other and their potential. We believe social responsibility lies at the intersection of our values and expertise, guiding our work in sustainability, our communities, and diversity, equity and inclusion, including:

- Working toward more sustainable aviation by leveraging existing solutions and technologies, investing in the future of sustainable aviation fuel and actively engaging with next-generation

⁹⁵ Delta Air Lines (2022) *Corporate Stats and Facts*. Available from: <https://news.delta.com/corporate-stats-and-facts> [Accessed October 30, 2022] © 2022 Delta Air Lines.

solutions – because our customers should not have to choose between seeing the world and saving it.

- Returning 1% of the company's annual profits to the communities where we live, work and serve. Even more importantly, Delta people are making a difference in their communities by devoting their time and talents to a wide array of Delta's nonprofit and charitable partners.
- Developing a workforce that is more inclusive and equitable for everyone so that we reflect the diversity of the world we serve. Our anti-racism action plan and Close the Gap strategy work to increase the representation of women, Black talent and other underrepresented racial and ethnic groups to ensure leaders are more reflective of our frontline workforce. Our skills-first talent programs work to remove unnecessary barriers, like four-year-degree requirements, to certain roles across the organization. By promoting inclusion, Delta's Business Resource Groups provide perspective and help drive strategies and solutions that have a significant impact on Delta people, its customers and the communities we serve”” (Delta Air Lines, 2022, <https://news.delta.com/corporate-stats-and-facts>). The following section will cover information about British Airways in-depth.

2.8.16 British Airways

The highly distinguished and exemplary leadership team of British Airways includes the following: ⁹⁶Claire Bentley (*Holiday's Managing Director of British Airways*) and Sean Doyle (*Chief Executive Officer and Chairman of British Airways*). (British Airways, 2022, <https://mediacentre.britishairways.com/>). Figure 2.13 below will help to provide an example of the various types of aircraft used by British Airways to transport its passengers.

⁹⁶ British Airways (2022) *Management Team*. Available from: <https://mediacentre.britishairways.com/factsheets/details/86/Management-Team-23/214?category=23&pgck=L2ZhY3RzaGVldHM~bW9kZT1pbmNsc3ViJmNhdGVnb3J5PTIz> [Accessed October 29, 2022] © British Airways - all rights reserved

Figure 2.13 British Airways Airplane Photo



Source: (British Airways, 2022, <https://www.iairgroup.com/en/our-brands/british-airways>).

⁹⁷“**ABOUT BA.** *Connecting Britain with the world and the world with Britain.* British Airways is a global airline, bringing people, places and diverse cultures closer together for more than 100 years. Serving our community and planet is at the heart of everything we do, and we look forward to sharing our exciting sustainability initiatives with you. **Message from Sean Doyle, our CEO and Chairman.** British Airways exists today because of you. This is why we want to make every trip you take with us a great experience. Our entire team is here to provide exceptional service – from our signature warm welcome to ensuring that you arrive at your destination safely. As the UK’s flag carrier, we have a responsibility to help create a sustainable future for our planet, and we’re on a mission to be carbon net zero by 2050. **BA Better World.** Flying is magic – connecting us to our world and bringing people, places and communities closer together. We recognise that it has an environmental cost, which is why we’re taking urgent action to tackle the effects it has on our planet. This is our most important journey yet – one that leads to a better, more sustainable future. We call it BA Better World. **Our business. 100+ years of service. 30,000 dedicated people. Flying newer, more fuel efficient aircraft**” (British Airways, 2022,

⁹⁷ British Airways (2022) *About BA*. Available from: https://www.britishairways.com/en-us/information/about-ba?source=BOT_about_ba [Accessed October 28, 2022] © British Airways - all rights reserved

https://www.britishairways.com/en-us/information/about-ba?source=BOT_about_ba). The following section will cover information about the Australian Human Resources Institute in-depth.

2.8.17 Australian Human Resources Institute (AHRI)

⁹⁸“**History.** AHRI was formed in 1943 as the Personnel and Industrial Welfare Officers Association. Since formation, the Institute has been known as:

- Personnel Officers Association of Australia (1949-1954)
- Institute of Personnel Management Australia (IPMA) (1954-1992)
- Australian Human Resources Institute (AHRI) (1992 and continuing)” (Australian Human Resources Institute, 2022, <https://www.ahri.com.au/about-us/history>). ⁹⁹“**About us.** The Australian HR Institute (AHRI) is the professional body that supports HR in Australia. AHRI sets HR standards and certifies HR professionals across Australia – we strongly believe that uplifting the practice of HR benefits our people, our workplaces, and our organisations’ outcomes. HR standards are set through the internationally benchmarked Australian HR Capability Framework, which sets out the six capabilities that are essential for best practice HR. AHRI Certification is a practical demonstration that HR professionals meet these standards. Our professional members undertake continuing professional development to maintain their professional status, so that they are up to date with regulatory requirements, HR best practice, and emerging HR and workplace issues. AHRI provides insights, formal and informal learning to the HR profession across Australia, and members have access to [specialist research](#), [insights](#) and [practical HR tools and advice](#) to stay current and upskill, while solving current workplace issues. AHRI is an active partner in a global network of HR associations that

⁹⁸ Australian Human Resources Institute (AHRI) *History*. Available from: <https://www.ahri.com.au/about-us/history> [Accessed November 10, 2022]

⁹⁹ Australian Human Resources Institute (AHRI) *About Us*. Available from: <https://www.ahri.com.au/about-us> [Accessed November 10, 2022]

enables the open sharing of research and issues affecting human resource management worldwide. AHRI is owned by its members and governed by a [Board of Directors](#) with a [Council of State Presidents](#) that consists of elected councillors representing each Australian state and territory” (Australian Human Resources Institute, 2022, <https://www.ahri.com.au/about-us>). “**Board of Directors.** AHRI is governed by a Board of Directors, which is vested with the overall responsibility of governance of AHRI Limited and executes this responsibility independently, in the best interests of the company. Key functions

- Set strategies, goals and objectives in conjunction with management, as part of an institutionalised strategic planning process
- Appoint the CEO, approve appointment of the National President; and manage their performance
- Approve operational and capital budgets; and, monitor organisational performance” (Australian Human Resources Institute, 2022, <https://www.ahri.com.au/about-us/ahri-structure/board-of-directors>). ¹⁰⁰The highly distinguished and exemplary members of the AHRI Limited Board include the following: Michael Rosmarin FCPHR (*Chair of the Board and National President*), Sarah McCann-Bartlett (*Executive Officer of the Australian HR Institute*), Carmel McGregor (*Adjunct Professor at the University of Canberra*), Matt Connell FCPHR (*State Director, AHRI*), Fiona Michel FCPHR (*Non-executive Director, AHRI and current Chief Executive Officer, Braemar Hospital*), Jonathon Woolfrey FCPHR (*State Director, AHRI and current Managing Partner, Talenting*), Dr Ben Hamer CPHR (*Lead, Future of Work, PwC Australia*) and Shirley Liew (*Chairs AHRI’s Finance and Risk Management Committee*) (Australian Human Resources Institute, 2022, <https://www.ahri.com.au/about-us/ahri-structure/board-of-directors>). The conclusion of this chapter will be covered in the following section.

2.9 Conclusion

Organizations that are well known in the global market for being ethical, transparent and fair have a well established foundation of good corporate governance. The involvement of everyone

¹⁰⁰ Australian Human Resources Institute (AHRI) *Board of Directors*. Available from: <https://www.ahri.com.au/about-us/ahri-structure/board-of-directors> [Accessed November 10, 2022]

in the organization in implementing the corporate governance guidelines and standards is critical. In general the key components of corporate governance that organizations must implement in order to attain effective corporate governance rules and practices include: fairness, accountability, responsibility and transparency. It can therefore be concluded that corporate governance helps the leadership of an organization to better manage the day-to-day issues faced by the organization in its operational activities.

2.10 Review questions

- 1) Explain the definition of the following terms ‘internal’ and ‘external’?
- 2) Discuss the difference between ‘governance’, ‘corporate governance’, ‘a stakeholder’ and ‘a shareholder’? Identify the parties responsible for corporate governance in an organization?
- 3) Explain the advantages of corporate governance to an organization?
- 4) List the eight guiding principles of corporate governance identified by Business Roundtable?

Chapter 3: Risk management

After reading this chapter you should be able to:

- Define the following terms ‘risk’ and ‘risk management’. Explain what is ‘risk management’. Describe the ‘risk management process’. Highlight the advantages of risk management.
- Explain what is risk analysis. Discuss the risk analysis process. Discuss the purpose of risk management structures.
- Describe how to be responsive towards risks. Explain the job roles of risk analysts and risk managers in organizations.
- Discuss why risk management requires commitment and adequate training & development resources. Identify the common myths associated with risk.

3.1 Introduction

Risk will consistently be associated with human beings, society, organizations, institutions and governments’ day-to-day activities in each and every country in various parts of the world.

¹⁰¹According to the United Kingdom-based The Institute of Risk Management (IRM) (2022) Risk is part of all our lives. As a society, we need to take risks to grow and develop. From energy to infrastructure, supply chains to airport security, hospitals to housing, effectively managed risks help societies achieve. In our fast paced world, the risks we have to manage evolve quickly. We need to make sure we manage risks so that we minimise their threats and maximise their potential (The Institute of Risk Management, 2022, <https://www.theirm.org/what-we-do/what-is-enterprise-risk-management/>). It has become a necessity for organizations, institutions and governments to create risk management processes in order for them to be able to reduce the negative impact of loss or injury in their operational activities. Detailed knowledge in risk management ultimately leads to the proactive management of risk (Association for Project

¹⁰¹ The Institute of Risk Management (2022) *Enterprise Risk Management*. Available from: <https://www.theirm.org/what-we-do/what-is-enterprise-risk-management/> Copyright © The Institute of Risk Management

Management, 2022, <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/>).¹⁰² Reducing uncertainty is the cornerstone of risk management since the organization is required to make an effort to foresee what might not be achieved by its operational activities and creating countermeasures that will help the organization lower the negative impact of failure to optimum levels. In general risk can be categorized as good or bad. The mere fact that a certain incident or event can obstruct the attainment of expected results by the organization is referred to ‘risk’ (Association for Project Management, 2022, <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/>).¹⁰³ According to CFA Institute (2022) Broadly, businesses employ risk analysts and managers in activities aimed at reducing the likelihood of negative effects from a variety of sources, including event risks like natural disasters, operational risks like unethical human behavior, and financial risks, like credit and interest rate risk (CFA Institute, 2022, <https://www.cfainstitute.org/en/programs/cfa/charterholder-careers/roles/risk-analyst-risk-manager/>). The following section will cover the definition of terms in-depth.

3.2 Define the following terms

¹⁰⁴“**Britannica Dictionary definition of RISK.** 1: the possibility that something bad or unpleasant (such as an injury or a loss) will happen” (Encyclopædia Britannica, Inc, 2022, <https://www.britannica.com/dictionary/risk>). © 2022 Encyclopædia Britannica, Inc.

¹⁰⁵¹⁰⁶Generally when individual risk situations and risk as a whole are continuously well directed

¹⁰² Association for Project Management (2022) *What is risk management?* Available from: <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/> [Accessed October 03, 2022] © 2022 Association for Project Management

¹⁰³ CFA Institute (2022) *What Are Risk Analysts & Risk Managers?* Available from: <https://www.cfainstitute.org/en/programs/cfa/charterholder-careers/roles/risk-analyst-risk-manager> [Accessed October 02, 2022] © 2022 CFA Institute. All Rights Reserved

¹⁰⁴ Encyclopædia Britannica, Inc. (2022) *Risk*. Available from: <https://www.britannica.com/dictionary/risk> © 2022 Encyclopædia Britannica, Inc.

¹⁰⁵ The APM Body of Knowledge 7th edition. © 2022 Association for Project Management

in a manner that is simple to grasp, coordinate and manage whilst simultaneously lowering threats and increasing opportunities it means that risk management is taking place (Association for Project Management, 2022, <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/>). Definition from *APM Body of Knowledge 7th edition*. The following section will cover aspects about the meaning of risk management in-depth.

3.3 What is risk management and enterprise risk management (ERM)?

¹⁰⁷“**What is Risk Management?** Risk management encompasses the identification, analysis, and response to risk factors that form part of the [life of a business](#). Effective risk management means attempting to control, as much as possible, future outcomes by acting proactively rather than reactively. Therefore, effective risk management offers the potential to reduce both the possibility of a risk occurring and its potential impact” (Corporate Finance Institute. *Risk Management*). ¹⁰⁸“Risk management involves understanding, analysing and addressing risk to make sure organisations achieve their objectives. So it must be proportionate to the complexity and type of organisation involved. **Enterprise Risk Management (ERM)** is an integrated and joined up approach to managing risk across an organisation and its extended networks. Because risk is inherent in everything we do, the type of roles undertaken by [risk professionals](#) are incredibly diverse. They include roles in insurance, business continuity, health and safety, corporate governance, engineering, planning and financial services” (The Institute of Risk Management, 2022, <https://www.theirm.org/what-we-do/what-is-enterprise-risk-management/>). The following section will cover aspects about risk management process in-depth.

¹⁰⁶ Association for Project Management (2022) *What is risk management?* Available from: <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/> [Accessed October 03, 2022] © 2022 Association for Project Management

¹⁰⁷ “Corporate Finance Institute. *Risk Management*....”

¹⁰⁸ The Institute of Risk Management (2022) *Enterprise Risk Management*. Available from: <https://www.theirm.org/what-we-do/what-is-enterprise-risk-management/> Copyright © The Institute of Risk Management

3.4 Risk management process

¹⁰⁹“**The risk management process.** At the broadest level, risk management is a system of people, processes and technology that enables an organization to establish objectives in line with values and risks. A successful risk assessment program must meet legal, contractual, internal, social and ethical goals, as well as monitor new technology-related regulations. By focusing attention on risk and committing the necessary resources to control and mitigate risk, a business will protect itself from uncertainty, reduce costs and increase the likelihood of business continuity and success. Three important steps of the risk management process are risk identification, risk analysis and assessment, and risk mitigation and monitoring” (IBM Cloud Education, 2020, <https://www.ibm.com/topics/risk-management#anchor-279116915>). “**Reprint Courtesy of IBM Corporation ©**". IBM, the IBM logo, and [ibm.com](https://www.ibm.com) are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide. The three steps involved in the risk management process identified by the IBM Corporation are clearly highlighted by Figure 3.1 below.

¹⁰⁹ IBM Cloud Education (2020) *What is risk management?*. Available from: <https://www.ibm.com/topics/risk-management#anchor-279116915> [Accessed October 03, 2022] “**Reprint Courtesy of IBM Corporation ©** ". IBM, the IBM logo, and [ibm.com](https://www.ibm.com) are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide.

Figure 3.1 Three steps of the risk management process



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As depicted by Figure 3.1 the three steps of the risk management process include the following:

3.4.1 ¹¹⁰“**Identifying risks**.” Risk identification is the process of identifying and assessing threats to an organization, its operations and its workforce. For example, risk identification may include assessing IT security threats such as malware and ransomware, accidents, natural disasters and other potentially harmful events that could disrupt business operations.

3.4.2 Risk analysis and assessment. Risk analysis involves establishing the probability that a risk event might occur and the potential outcome of each event. Risk evaluation compares the magnitude of each risk and ranks them according to prominence and consequence.

¹¹⁰ IBM Cloud Education (2020) *What is risk management?*. Available from: <https://www.ibm.com/topics/risk-management#anchor-279116915> [Accessed October 03, 2022] “Reprint Courtesy of IBM Corporation ©”. IBM, the IBM logo, and ibm.com are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide.

3.4.3 Risk mitigation and monitoring. Risk mitigation refers to the process of planning and developing methods and options to reduce threats to project objectives. A project team might implement risk mitigation strategies to identify, monitor and evaluate risks and consequences inherent to completing a specific project, such as new product creation. Risk mitigation also includes the actions put into place to deal with issues and effects of those issues regarding a project.

Risk management is a nonstop process that adapts and changes over time. Repeating and continually monitoring the processes can help assure maximum coverage of known and unknown risks” (IBM Cloud Education, 2020, <https://www.ibm.com/topics/risk-management#anchor-279116915>). “Reprint Courtesy of IBM Corporation ©”. IBM, the IBM logo, and [ibm.com](https://www.ibm.com) are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide. The following section will cover aspects about the advantages of risk management.

3.5 Advantages of Risk Management

“**Importance of Risk Management.** Risk management is an important process because it empowers a business with the necessary tools so that it can adequately identify and deal with potential risks. Once a risk has been identified, it is then easy to mitigate it. In addition, risk management provides a business with a basis upon which it can undertake sound decision-making. For a business, assessment and management of risks is the best way to prepare for eventualities that may come in the way of progress and growth. When a business evaluates its plan for handling potential threats and then develops structures to address them, it improves its odds of becoming a successful entity. In addition, progressive risk management ensures risks of a high priority are dealt with as aggressively as possible. Moreover, the management will have the necessary information that they can use to make informed decisions and ensure that the business remains profitable” (Corporate Finance Institute. *Risk Management*).¹¹¹ According to the IBM

¹¹¹ IBM Cloud Education (2020) *What is risk management?*. Available from: <https://www.ibm.com/topics/risk-management#anchor-279116915> [Accessed October 03, 2022] “Reprint Courtesy of IBM Corporation ©”. IBM, the IBM logo, and [ibm.com](https://www.ibm.com) are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide.

Cloud Education (2020) Risk management is the process of identifying, assessing and controlling financial, legal, strategic and security risks to an organization’s capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters. If an unforeseen event catches your organization unaware, the impact could be minor, such as a small impact on your overhead costs. In a worst-case scenario, though, it could be catastrophic and have serious ramifications, such as a significant financial burden or even the closure of your business. To reduce risk, an organization needs to apply resources to minimize, monitor and control the impact of negative events while maximizing positive events. A consistent, systemic and integrated approach to risk management can help determine how best to identify, manage and mitigate significant risks¹¹² (IBM Cloud Education, 2020, <https://www.ibm.com/topics/risk-management#anchor-279116915>). “Reprint Courtesy of IBM Corporation ©”. IBM, the IBM logo, and ibm.com are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide. The following section will cover aspects about risk analysis in-depth.

3.6 Risk analysis

¹¹³ The various areas where the organization is most vulnerable as a whole are easily identified and highlighted by a ‘risk analysis’. Risk analysis processes are very dependent on opinions thus this makes the involvement of stakeholders (*either internal/external*) very important during the initial stages of highlighting the various risks that will negatively or positively impact the activities of the organization. The actual meaning of the various opinions of stakeholders involved in a risk analysis can only be produced when the following is done: (1) risk situations are properly explained in a precise and simple manner, (2) clearly differentiating the factors that

¹¹² IBM Cloud Education (2020) *What is risk management?*. Available from: <https://www.ibm.com/topics/risk-management#anchor-279116915> [Accessed October 03, 2022] “Reprint Courtesy of IBM Corporation ©”. IBM, the IBM logo, and ibm.com are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide.

¹¹³ Association for Project Management (2022) *What is risk management?* Available from: <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/> [Accessed October 03, 2022] © 2022 Association for Project Management

may cause risk (*in the present moment in time*) from risk situations that are more likely to happen, (3) differentiating the factors that may cause risk from outcomes that have an influence on any of the organization's or projects key performance evaluation areas. Therefore, this helps to facilitate risk analysis and risk management in an effective and continuous manner. Risk analysis that is well implemented and that is accompanied by proactive planning is guaranteed to achieve its set time frames and countermeasures effectively (Association for Project Management, 2022, <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/>).¹¹⁴“Unused contingency is most likely caused by overestimation, luck or the efficient management of risk. Insufficient contingency is most likely caused by optimistic estimation, bad luck or inefficient management of risk” (Association for Project Management, 2022, <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/>). The following section will cover aspects about the risk analysis process in-depth.

3.7 The risk analysis process

¹¹⁵“**Risk Analysis Process.** Risk analysis is a qualitative problem-solving approach that uses various tools of assessment to work out and rank risks for the purpose of assessing and resolving them. Here is the risk analysis process:

3.7.1. Identify existing risks

Risk identification mainly involves brainstorming. A business gathers its employees together so that they can review all the various sources of risk. The next step is to arrange all the identified risks in order of priority. Because it is not possible to mitigate all existing risks, prioritization ensures that those risks that can affect a business significantly are dealt with more urgently.

3.7.2. Assess the risks

¹¹⁴ Association for Project Management (2022) *What is risk management?* Available from: <https://www.apm.org.uk/resources/what-is-project-management/what-is-risk-management/> [Accessed October 03, 2022] © 2022 Association for Project Management

¹¹⁵ “Corporate Finance Institute. *Risk Management...*”

In many cases, problem resolution involves identifying the problem and then finding an appropriate solution. However, prior to figuring out how best to handle risks, a business should locate the cause of the risks by asking the question, “What caused such a risk and how could it influence the business?”

3.7.3. Develop an appropriate response

Once a business entity is set on assessing likely remedies to mitigate identified risks and prevent their recurrence, it needs to ask the following questions: What measures can be taken to prevent the identified risk from recurring? In addition, what is the best thing to do if it does recur?

3.7.4. Develop preventive mechanisms for identified risks

Here, the ideas that were found to be useful in mitigating risks are developed into a number of tasks and then into contingency plans that can be deployed in the future. If risks occur, the plans can be put to action”” (Corporate Finance Institute. *Risk Management*). The following section will cover the purpose of risk management structures.

3.8 Purpose of risk management structures

¹¹⁶“**Risk Management Structures.** Risk management structures are tailored to do more than just point out existing risks. A good risk management structure should also calculate the uncertainties and predict their influence on a business. Consequently, the result is a choice between accepting risks or rejecting them. Acceptance or rejection of risks is dependent on the [tolerance levels](#) that a business has already defined for itself. If a business sets up risk management as a disciplined and continuous process for the purpose of identifying and resolving risks, then the risk management structures can be used to support other risk mitigation systems. They include planning, organization, cost control, and [budgeting](#). In such a case, the business will not usually experience many surprises, because the focus is on proactive risk management” (Corporate Finance Institute. *Risk Management*). The following section will cover how to be responsive towards risks.

¹¹⁶ “Corporate Finance Institute. *Risk Management*....”

3.9 How to be responsive towards risks

¹¹⁷“**Response to Risks.** Response to risks usually takes one of the following forms:

- **Avoidance:** A business strives to eliminate a particular risk by getting rid of its cause.
- **Mitigation:** Decreasing the [projected financial value](#) associated with a risk by lowering the possibility of the occurrence of the risk.
- **Acceptance:** In some cases, a business may be forced to accept a risk. This option is possible if a business entity develops contingencies to mitigate the impact of the risk, should it occur.

When creating contingencies, a business needs to engage in a problem-solving approach. The result is a well-detailed plan that can be executed as soon as the need arises. Such a plan will enable a [business organization](#) to handle barriers or blockage to its success because it can deal with risks as soon as they arise” (Corporate Finance Institute. *Risk Management*).

¹¹⁸Furthermore, according to the IBM Cloud Education (2020) **What are the most common responses to risk?**

- **Risk avoidance.** Avoidance is a method for mitigating risk by not participating in activities that may negatively affect the organization. Not making an investment or starting a product line are examples of such activities as they avoid the risk of loss.
- **Risk reduction.** This method of risk management attempts to minimize the loss, rather than completely eliminate it. While accepting the risk, it stays focused on keeping the loss contained and preventing it from spreading. An example of this in health insurance is preventative care.

¹¹⁷ “Corporate Finance Institute. *Risk Management*....”

¹¹⁸ IBM Cloud Education (2020) *What is risk management?*. Available from: <https://www.ibm.com/topics/risk-management#anchor-279116915> [Accessed October 03, 2022] “Reprint Courtesy of IBM Corporation ©”. IBM, the IBM logo, and [ibm.com](#) are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide.

- **Risk sharing.** When risks are shared, the possibility of loss is transferred from the individual to the group. A corporation is a good example of risk sharing — a number of investors pool their capital and each only bears a portion of the risk that the enterprise may fail.
- **Transferring risk.** Contractually transferring a risk to a third-party, such as, insurance to cover possible property damage or injury shifts the risks associated with the property from the owner to the insurance company.
- **Risk acceptance and retention.** After all risk sharing, risk transfer and risk reduction measures have been implemented, some risk will remain since it is virtually impossible to eliminate all risk (except through risk avoidance). This is called *residual risk* (IBM Cloud Education, 2020, <https://www.ibm.com/topics/risk-management#anchor-279116915>). “Reprint Courtesy of IBM Corporation ©”. IBM, the IBM logo, and [ibm.com](https://www.ibm.com) are trademarks or registered trademarks of **International Business Machines Corporation**, registered in many jurisdictions worldwide. The following section will cover the various roles of risk analysts and risk managers in-depth.

3.10 Job roles of risk analysts and risk managers in organizations

According to CFA Institute (2022) Together, the broader risk management team implements techniques that avoid future problems and keep a business in good standing (CFA Institute, 2022, <https://www.cfainstitute.org/en/programs/cfa/charterholder-careers/roles/risk-analyst-risk-manager>). The various roles of risk analysts and risk managers are clearly highlighted by Table 3.1 below.

Table 3.1 Risk Analysts & Risk Managers	
Risk analysts	Risk managers
<p>¹¹⁹“Risk analysts are professionals who support the technical side of an organization's holistic risk management approach. Once risk data has been compiled and evaluated, analysts share their findings with managers who use those insights to decide among possible solutions.</p>	<p>“Risk managers develop plans to minimize and mitigate negative financial outcomes through a combination of project management and proposal development.</p>
<p>What Does a Financial Risk Analyst Do? What exactly does a risk analyst do? In the day-to-day, a risk analyst's job looks much like that of a financial data analyst but with a focus on understanding potential risk. Life as a risk analyst can be challenging, as risk management is filled with inherently difficult decisions, and risk-related data does not always entail straightforward solutions. Nevertheless, this career offers the opportunity to make a direct impact on an organization's success. Risk analysts get the chance to collaborate across the organization to make important business decisions. Job Description. In the finance industry, risk analysts are typically employed by investment banks, insurance companies, and organizations responsible for large sums of money like hedge funds and investment firms. While a risk analyst may play a part in the company's enterprise risk management program, working to minimize overall risk across a variety of categories, a financial risk analyst typically focuses on reducing negative financial outcomes related to market risk, credit risk, insurance risk, tradeable risk, and more. Key Responsibilities</p>	<p>What Does a Financial Risk Manager Do? While a financial risk analyst compiles and evaluates data, managers apply the analysts' findings on the level of risk involved to make decisions and create strategies. Risk managers develop plans to minimize and mitigate negative financial outcomes through a combination of project management and proposal development. Some of the areas of risk in which financial risk managers may specialize include:</p> <ul style="list-style-type: none"> • Credit Risk • Transaction Fraud Risk • Liquidity Risk • Tradeable Risk • Interest Rate Risk • Market & Price Risk <p>More so than risk analysts, risk managers are experts on the regulatory and compliance standards in the financial</p>

¹¹⁹ CFA Institute (2022) *What Are Risk Analysts & Risk Managers?* Available from: <https://www.cfainstitute.org/en/programs/cfa/charterholder-careers/roles/risk-analyst-risk-manager> [Accessed October 02, 2022] © 2022 CFA Institute. All Rights Reserved

<ul style="list-style-type: none"> • Manipulating and interpreting risk-related data using risk information management software (RIMS) • Quantifying the potential negative effects of risk-related activities • Identifying practices within the organization that contribute to increased financial risk • Compiling reports, summaries, and presentations to communicate findings to key stakeholders within the business • Collaborating with risk managers on reporting and evaluation techniques to support the ongoing collection and interpretation of risk management data” (CFA Institute, 2022, https://www.cfainstitute.org/). <p>Typical Salary. ¹²⁰According to a 2019 CFA Institute compensation study of charterholders and members, financial risk analysts and managers reported a typical, global total compensation of US\$129,000 (US\$105,000 base salary) (CFA Institute, 2022, https://www.cfainstitute.org/).</p>	<p>field and draw on years of experience navigating risk-related scenarios. While risk analysts provide data that can help risk managers explore all possible solutions to minimize risk, risk managers have a greater degree of responsibility and accountability in how an organization moves forward with a risk management strategy” (CFA Institute, 2022, https://www.cfainstitute.org/).</p>
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Source: Modified: Table Created By The Author Using Information Inspired From (CFA Institute, 2022, www.cfainstitute.org).

The following section will cover aspects about the example of a leading organization that invests in the education of analysts.

¹²⁰ Coburn, M. (2019) *CFA Institute Compensation Study: Exploring Industry Trends in Recruiting and Compensation*. Available from: <https://www.cfainstitute.org/en/research/multimedia/2019/cfa-institute-compensation-study-exploring-industry-trends> [Accessed October 02, 2022] © 2022 CFA Institute. All Rights Reserved

3.11 A typical example of a leading organization that invests in the education of financial risks and investment analysts is the CFA Institute based in the United States of America

A typical good example of an organization that helps to promote knowledge and education in the career field of risk analysts (for example financial analysts) and risk management is the United States of America based CFA Institute. **CFA Institute.** ¹²¹CFA Institute has a renowned exemplary leadership team and these include the following: Ms. Margaret Franklin CFA (*President and CEO*), Mr. Paul P. Andrews (*Managing Director for Research, Advocacy, and Standards, CFA Institute*), Mr. Marty P. Colburn (*Chief Operating Officer*), Mr. Steven Hendry (*Chief Financial Officer*), Ms. Sheri Littlefield JD (*Managing Director and Chief Legal Officer and General Counsel, Corporate Advisory Services*), Mr. Paul Moody (*Managing Director, Regions, Marketing & Customer Experience and Societies*), Ms. Barbara S. Pettitt CFA (*Managing Director, Professional Learning*) and Mr. Chris Wiese CFA (*Managing Director, Credentialing*) (CFA Institute, 2022, <https://www.cfainstitute.org/en/about/governance/leadership/team>). ¹²²According to the CFA Institute (2022) **Mission & Vision.** To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. **Mission.** The mission of CFA Institute is served by generating value for investment management professionals and engaging with the investment industry to advance ethics, market integrity, and professional standards of practice, which collectively contributes value to society. In 1947, analyst societies of Boston, Chicago, New York, and Philadelphia joined forces in realizing their shared commitment to bringing higher standards to the investment profession. On 11 June 1947, a national federation was formed and together these pioneer societies defined the role of the investment professional as one steeped in research and critical thinking. The

¹²¹ CFA Institute (2022) *Leadership Team*. Available from:

<https://www.cfainstitute.org/en/about/governance/leadership/team> [Accessed October 03, 2022] © 2022 CFA Institute. All Rights Reserved

¹²² CFA Institute (2022) *Vision*. Available from: <https://www.cfainstitute.org/en/about/vision> © 2022 CFA Institute. All Rights Reserved.

Singapore society launched in 1987, the first society outside of North America, thereby beginning the international expansion of the CFA Society network, which now links more than 190,000 members in 160 markets around the globe. Investment analysis became a credentialed profession in 1963, when 284 candidates sat the inaugural CFA Program exam. A first edition of today's [Standards of Professional Conduct](#)—introduced in 1969—set the first global benchmark for the professional conduct of the investment professional, bringing ethics directly to the heart of the CFA Program and CFA charterholder community. **Vision.** Empowering the investment industry to realize the world's greatest possibilities. **Values.** We believe that financial markets and services should operate in the following ways:

- Investment professionals contribute to the ultimate benefit of society through the sustainable value generated by efficient financial markets and by effective investment institutions.
- Good stewardship and high ethical standards are necessary for trust and confidence to be secured and for society to be served. Financial markets should afford every investor the opportunity to earn a fair return.
- Financial markets are more effective with knowledgeable, diverse participants.
- High ethical principles and professional standards are essential to positive outcomes; rules and regulations, while necessary, are not sufficient by themselves.

¹²³Our own cultural values at CFA Institute - Curiosity, Inclusion, Trust, and Service - guide our behaviors and bind us together in passionate pursuit of our mission.

Strategy. Our strategy is: *Shape the Future of the Industry and the Profession* - In a continually evolving market, policymakers, organizations, and the investment industry are looking for a clear, unbiased, and authoritative voice. We hold an influential position on investment practices and outcomes. With that responsibility, we must advocate for the professionalism and ethics that drive investor trust. *Modernize and Grow the CFA Program* - We will develop a candidate

¹²³ CFA Institute (2022) *Vision*. Available from: <https://www.cfainstitute.org/en/about/vision> © 2022 CFA Institute. All Rights Reserved.

experience that is modern and personalized. By incorporating digital study and peer interaction, elevating instructional design, and enhancing content relevance and practical application, we will build candidates' professional competence while extending our global reach (CFA Institute, 2022, <https://www.cfainstitute.org/en/about/vision>). © 2022 CFA Institute. All Rights Reserved. The following section will cover aspects about the need to consistently train when managing risk.

3.12 Risk management requires adequate commitment, training & development resources

¹²⁴Risk management can be effectively carried-out if perpetual training is undertaken in the organization. Consistent education and training associated with risk management was clearly highlighted in an article authored by Stephen Sidebottom (*Chair of IRM*) (2022) titled '*Outstanding risk management means continuously unlearning, learning, and relearning*' published via www.theirm.org/. According to Stephen Sidebottom (*Chair of IRM*) (2022) The only way to stay relevant is to keep on unlearning, learning, and relearning. The pandemic continues to shape our lives, the climate emergency is upon us, war in Europe threatens energy security, and inflation undermines our economic stability. What skills do you and your organisation need to meet and succeed against such radical challenges? Being prepared for an exponentially different future requires having both a road map of the skills needed and the ability to adapt, change, and respond in new ways. We know how to do things now, and most organisations have a strategy to identify and address current skill shortages, but we have no idea how the world will change, how people, organisations, and communities will adapt, and what skills we need beyond a very short-term planning horizon. This means our approaches to learning must anticipate the next big shift – whether in digital technology, climate, medical science, or some other field - and be fast, very fast, in responding to new challenges and

¹²⁴ Sidebottom, S. (2022) *Outstanding risk management means continuously unlearning, learning, and relearning*. Available from: <https://www.theirm.org/news/outstanding-risk-management-means-continuously-unlearning-learning-and-relearning/> Copyright © The Institute of Risk Management

opportunities as they happen. ¹²⁵The traditional learning system is based on a model of people completing their formal and technical or professional education early in their lives and assumes these skills will be sufficient to support a lifetime career. This approach to learning can't keep up with rapid changes and the instant demand for new and emerging skills. It also ignores the reality that people are changing jobs and careers with increasing regularity and working far longer. Lifetime learning should be at the heart of your personal risk management strategy. Rather than becoming an expert in one thing, which may well (or is very likely to) become obsolete, you need to plan to develop a series of specialisms. If you can connect these areas of expertise and focus through a passion for one consistent theme, so much the better. If you can reinvent yourself completely and operate in brand new areas, so much the richer in terms of experience and perspective. For organisations, developing effective learning systems to identify emerging skill requirements and create rapid response frameworks will become a competitive differentiator. This requires high participation in learning, so people become adept at unlearning past ways of thinking and relearning how to apply their skills in adaptive ways. Your learning strategy should deliver highly visible and easily accessible learning that is valued for the future benefit it will bring. A sea change is needed in how most organisations think about their investment in training and adult development, and a more explicit articulation of the new skills and approaches required. Greater clarity about the needs of employers can help shape government thinking about how the education system trains for current and identified future skills gaps. ¹²⁶The UK Government's Skills and Post-16 Education Act 2022 specifically sets out to address education and training to meet local needs and to support lifelong learning. This will help employers but is

¹²⁵ Sidebottom, S. (2022) *Outstanding risk management means continuously unlearning, learning, and relearning*. Available from: <https://www.theirm.org/news/outstanding-risk-management-means-continuously-unlearning-learning-and-relearning/> Copyright © The Institute of Risk Management

¹²⁶ United Kingdom Government Legislation.gov.uk (2022) *Skills and Post-16 Act 2022*. Available From: <https://www.legislation.gov.uk/ukpga/2022/21/enacted#:~:text=An%20Act%20to%20make%20provision,mak e%20provision%20about%20student%20finance> [Accessed November 25, 2022] © Legislation.gov.uk, 2022. All content is available under the [Open Government Licence v3.0](#) except where [otherwise stated](#). This site additionally contains content derived from EUR-Lex, reused under the terms of the [Commission Decision 2011/833/EU](#) on the reuse of documents from the EU institutions. For more information see the [EUR-Lex public statement on re-use](#).

not enough to ensure the supply of skills needed. Employers must also invest in the large-scale reskilling of existing employees and creating a culture of lifetime learning and rapid skill development¹²⁷ (Sidebottom, S., 2022, <https://www.theirm.org/news/outstanding-risk-management-means-continuously-unlearning-learning-and-relearning/>). The following section will cover aspects associated with the myths of risks in-depth.

3.13 Common myths associated with risk

Today there are various myths related to risk in both private and public organizations. Some of the common types of myths associated with risk were clearly highlighted in an article authored by Dr. David Hillson (2015) titled '*Top 10 Myths of Risks*' published by the Association for Project Management (APM) via <https://www.apm.org.uk/>.¹²⁸ According to Hillson, D. (2015) myths help us to make sense of the uncertainty that surrounds us. In the world of business and projects, risk management performs the same role. Unfortunately there are also myths about risk management. These are often partly true, but they do not represent reality. Here are the top ten risk myths, and how to counter them.

Myth 1: All risk is bad. Risks are potential problems, and if they happen then we are in trouble.

- *Risk includes both threats and opportunities, and both need to be managed proactively. Opportunities can save time or money, enhance performance, and help us to achieve objectives.*

Myth 2: Risk management is a waste of time. Most risks are outside our control, and it is impossible to address them in advance. Instead we will deal with any issues that arise.

- *If we deal with risk effectively, then we will not have so many issues to tackle!*

Myth 3: What we do not know will not hurt us. Maybe we will be lucky and risks will not affect us. Ignorance is bliss!

¹²⁷ Sidebottom, S. (2022) *Outstanding risk management means continuously unlearning, learning, and relearning*. Available from: <https://www.theirm.org/news/outstanding-risk-management-means-continuously-unlearning-learning-and-relearning/> Copyright © The Institute of Risk Management

¹²⁸ Hillson, D. (2015) *Top 10 myths of risk*. Available from: <https://www.apm.org.uk/blog/top-10-myths-of-risk/> [Accessed October 02, 2022] © 2015 Dr David Hillson

□ *Risks can hurt us, our business or our projects. Avoidable problems will happen and benefits that could have been captured will be missed. Not knowing about risk can be very costly.*

Myth 4: The Risk Manager manages risk. We don't need to manage risk - we have a Risk Manager.

□ *Every member of the team should be a "risk manager", tackling risks that affect their area of responsibility. The Risk Manager should facilitate the risk process to ensure that it is effective.*

Myth 5: All risk can and should be avoided. We will do whatever it takes to ensure that risk cannot happen, no matter what cost or effort is involved.

□ *Not all threats can be avoided, and sometimes avoidance is too expensive or takes too long, so another strategy is required, such as transfer, reduction or acceptance.*

Myth 6: Our business and projects are not risky. Absence of risk is a sign of success. Where risk appears, it needs to be removed as quickly as possible.

□ *Risk is built into all business and projects, linked to reward, as we take risk to create value.*

Myth 7: Risk management requires numbers. Only quantitative risk analysis can reveal the true level of risk exposure.

□ *Quantitative risk analysis is powerful, but it is often not cost effective. Many risks cannot be easily quantified either, so a qualitative approach is always needed.*

Myth 8: Risks are covered by existing processes. We have processes to deal with all our routine risks, so we do not need to do risk management.

□ *What about risks that we have never experienced? The risk process should identify novel risks, assess their importance, and develop targeted responses.*

¹²⁹**Myth 9: Contingency is for weak people.** A strong manager meets all targets, and does not need extra time or money for things that might never happen.

¹²⁹ Hillson, D. (2015) *Top 10 myths of risk*. Available from: <https://www.apm.org.uk/blog/top-10-myths-of-risk/> [Accessed October 02, 2022] © 2015 Dr David Hillson

□ *No-one can foresee the future and including a risk budget for known risks and contingency for unforeseen risks is a sign of wisdom not weakness.*

Myth 10: Risk management does not work. The risks we identified never happened, and our responses made no difference, so we gave up.

□ *Perhaps we missed the real risks, had ineffective responses, or failed to implement agreed actions. Done properly, risk management always works!*

Tackling these ten risk myths and implementing the proposed solutions will ensure that your risk management is grounded in reality, giving you the best chance of success (Hillson, D., 2015, <https://www.apm.org.uk/blog/top-10-myths-of-risk/>). The conclusion of this chapter will be covered in the following section.

3.14 Conclusion

It can be concluded that risk is part of human beings, society, organizations, institutions and governments' day-to-day activities in various parts of the world. Risk management processes have become a necessity as they help organizations, institutions and governments to prepare for risk and how to deal with risk events that are more likely to negatively affect operational activities. The employment of both risk analysts and managers in organizations, institutions and governments has become a high priority for businesses that are committed towards reducing the negative impact of risk events in their operational activities. Effective leadership in organizations, institutions and governments is consistently a step ahead when it comes to identifying risk in their operations.

3.15 Review questions

1) Define the following terms 'risk' and 'risk management'? Explain what is 'risk management'? Describe the 'risk management process'? List the advantages of risk management?

2) Explain what is risk analysis? Discuss the risk analysis process? Discuss the purpose of risk management structures?

3) Describe how to be responsive towards risks? Explain the job roles of risk analysts and risk managers in organizations?

4) Identify the common myths associated with risk?

Chapter 4: Operational risk management

After reading this chapter you should be able to:

- Define the following terms ‘*business/operational risk*’ and ‘*risk management*’. Explain what is ‘operational risk management’. Describe how operational risk management functions in an organization .
- Identify the main goals of operational risk management in an organization. Describe the theories of operational risk management.
- Discuss how to assess and measure risk in an organization. Highlight the key benefits of operational risk management.
- Describe the different types of operational risk management. Explain how an organization can effectively manage operational risk.

4.1 Introduction

In general the ability of an organization to properly manage business risk helps to enhance its integrity and market value. An organization’s operational activities can only be successful when its structures, systems and processes are functioning properly despite the fact they will be exposing the organization to business risk. ¹³⁰“**History of Operation Risk**. Over the last two decades, the methodology for evaluating internal controls and risks has become more and more standardized. The standardization has been in response to government regulators, credit-rating agencies, stock exchanges, and institutional investor groups demanding greater levels of insight and assurance over risks and the effectiveness of controls in place to mitigate them. In the U.S. the greatest pressure for increased involvement of senior executives in risk oversight comes from the audit committee. Senior Management has two perspectives on risk. In the traditional [Enterprise Risk Management](#) (ERM) view, the goal is to find the perfect balance of risk and reward. Sometimes the organization will accept more risk for a chance at growing the

¹³⁰ AuditBoard (2018) *Operational Risk Management*. Available from:

<https://www.auditboard.com/blog/operational-risk-management/> [Accessed October 04, 2022]

organization more quickly and at other times the focus switches to controlling risks with slower growth. The Operational Risk Management (ORM) perspective is more risk-averse, and focuses on protecting the organization. **How Does Operational Risk Management Work?** When dealing with operational risk, the organization has to consider every aspect of all its objectives. Since operational risk is so pervasive, the goal is to reduce and control all risks to an acceptable level. Operational Risk Management attempts to reduce risks through risk identification, risk assessment, measurement and mitigation, and monitoring and reporting while determining who manages operational risk”” (AuditBoard, 2018, <https://www.auditboard.com/blog/operational-risk-management/>). The following section will cover information about the definition of terms in-depth.

4.2 Definition of terms

Several definitions have been published by academics, industry experts and so on over the past years in the field of ‘operational risk’ and ‘risk management’. “‘What is business/operational risk? ‘*Business/operational risk* relates to activities carried out within an entity, arising from structure, systems, people, products or processes.’ *CIMA Official Terminology, 2005. Operational risk* has also been defined as: ‘The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.’ *Basel Committee on Banking Supervision, 2004. Risk management* is: ‘A process of understanding and managing the risks that the entity is inevitably subject to in attempting to achieve its corporate objectives. For management purposes, risks are usually divided into categories such as operational, financial, legal compliance, information and personnel. One example of an integrated solution to risk management is enterprise risk management””¹³¹ (Source: Chartered Institute of Management Accountants – CIMA, 2008:3, *Operational Risk: Topic Gateway Series No. 51*).

¹³¹ Chartered Institute of Management Accountants (CIMA) (2008) *Operational Risk: Topic Gateway Series No. 51*. Available from: www.cimaglobal.com/Documents/ImportedDocuments/51_Operational_Risk.pdf [Accessed 2019, 18 August] p1-14

4.3 What is operational risk management

¹³²According to the AuditBoard (2018) **What Is Operational Risk Management?** Operational risk is the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations. The losses can be directly or indirectly financial. For example, a poorly trained employee may lose a sales opportunity, or indirectly a company's reputation can suffer from poor customer service. Operational risk can refer to both the risk in operating an organization and the processes management uses when implementing, training, and enforcing policies. [Operational risk](#) can be viewed as part of a chain reaction: overlooked issues and control failures — whether small or large — lead to greater risk materialization, which may result in an organizational failure that can harm a company's bottom line and reputation. While operational risk management is considered a subset of [enterprise risk management](#), it excludes strategic, reputational, and financial risk (AuditBoard, 2018, <https://www.auditboard.com/blog/operational-risk-management/>). The following section will cover aspects on how the operational risk management functions in-depth.

4.4 How operational risk management functions in an organization

“How Does Operational Risk Management Work? When dealing with operational risk, the organization has to consider every aspect of all its objectives. Since operational risk is so pervasive, the goal is to reduce and control all risks to an acceptable level. Operational Risk Management attempts to reduce risks through risk identification, risk assessment, measurement and mitigation, and monitoring and reporting while determining who manages operational risk. These stages are guided by [four principles](#):

1. Accept risk when benefits outweigh the cost.
2. Accept no unnecessary risk.
3. Anticipate and manage risk by planning.

¹³² AuditBoard (2018) *Operational Risk Management*. Available from: <https://www.auditboard.com/blog/operational-risk-management/> [Accessed October 04, 2022]

4. Make risk decisions at the right level.

4.4.1 Risk Identification

¹³³Operational Risk Management begins with identifying what can go wrong. As a best practice, a control framework should be used or developed to ensure completeness.

4.4.2 Risk Assessment

Once the risks are identified, the risks are assessed using an impact and likelihood scale.

4.4.3 Measurement and Mitigation

In the risk assessment, the risks are measured against a consistent scale to allow the risks to be prioritized and ranked comparative to one another. The measurement also considers the cost of controlling the risk related to the potential exposure.

4.4.4 Monitoring and Reporting

Risks are monitored through an ongoing risk assessment to determine any changes over time. The risks and any changes are reported to senior management and the board to facilitate decision-making processes” (AuditBoard, 2018, <https://www.auditboard.com/blog/operational-risk-management/>). The following section will cover the main goals of operational risk management in-depth.

4.5 Main goals of operational risk management in an organization

“**What Is the Primary Objective of Operational Risk Management?** As the name suggests, the primary objective of Operational Risk Management is to mitigate risks related to the daily operations of an organization. The practice of Operational Risk Management focuses on operations and excludes other risk areas such as strategic risks and financial risks. While other risk disciplines, such as ERM, emphasize optimizing risk appetites to balance risk-taking and

¹³³ AuditBoard (2018) *Operational Risk Management*. Available from: <https://www.auditboard.com/blog/operational-risk-management/> [Accessed October 04, 2022]

potential rewards, ORM processes primarily focus on controls and eliminating risk. The ORM framework starts with risks and deciding on a mitigation scenario. Operational Risk Management proactively seeks to protect the organization by eliminating or minimizing risk. Depending on the organization, operational risk could have a very large scope. Under the topic of operations, some organizations might categorize fraud risk, technology risks, as well as the daily operations of financial teams like accounting and finance. ¹³⁴The Risk Management Association [defines operational risk](#) as “the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events, but is better viewed as the risk arising from the execution of an institution’s business functions.” Given this viewpoint, the scope of operational risk management will encompass cybersecurity, fraud, and nearly all internal control activities. Applying a control framework, whether a formal framework or an internally developed model, will help when designing the [internal control processes](#). One approach to understanding how ORM processes look in your organization is by organizing operational risks into categories like people risks, technology risks, and regulatory risks. **People.** The people category includes employees, customers, vendors and other stakeholders. Employee risk includes human error and intentional wrongdoing, such as in cases of fraud. Risks include breach of policy, insufficient guidance, poor training, bad decision making, or fraudulent behavior. Outside of the organization, there are several operational risks that include people. Employees, customers, and vendors all pose a risk with social media. Monitoring and controlling the people aspect of operation risk is one of the broadest areas for coverage. **Technology.** Technology risk from an operational standpoint includes hardware, software, privacy, and security. Technology risk also spans across the entire organization and the people category described above. Hardware limitations can hinder productivity, especially when in a remote work environment. Software too can reduce productivity when applications do increase efficiency or employees lack training. Software can also impact customers as they interact with your organization. External threats exist as hackers attempt to steal information or hijack networks. This can lead to leaked customer information and data privacy concerns. **Regulations.** Risk for non-compliance to regulation exists in some form in nearly every organization. Some industries are more highly regulated than

¹³⁴ AuditBoard (2018) *Operational Risk Management*. Available from:

<https://www.auditboard.com/blog/operational-risk-management/> [Accessed October 04, 2022]

others, but all regulations come down to operationalizing internal controls. Over the past decade, the number and complexity of rules have increased and the penalties have become more severe”” (AuditBoard, 2018, <https://www.auditboard.com/blog/operational-risk-management/>).¹³⁵ Furthermore, according to the AuditBoard (2018) Understanding the sources of risk will help determine who manages operational risk. Enterprise Risk Management and Operational Risk Management both address risks in the same areas but from different perspectives. IRM addresses risk from a cultural point of view. Depending on the objective of the particular risk practice, the organization can implement technology with different parameters for teams like ERM and ORM (AuditBoard, 2018, <https://www.auditboard.com/blog/operational-risk-management/>). The following section will cover information about the theories of operational risk management.

4.6 Theories of operational risk management

¹³⁶“Operational risks range from the very small, for example, the risk of loss due to minor human mistakes, to the very large, such as the risk of bankruptcy due to serious fraud. Operational risk can occur at every level in an organisation. The type of risks associated with business and operation risk relate to:

- business interruption
- errors or omissions by employees
- product failure
- health and safety
- failure of IT systems
- fraud

¹³⁵ AuditBoard (2022) *Operational Risk Management*. Available from: <https://www.auditboard.com/blog/operational-risk-management/> [Accessed October 04, 2022]

¹³⁶ Chartered Institute of Management Accountants (CIMA) (2008) *Operational Risk: Topic Gateway Series No. 51*. Available from: www.cimaglobal.com/Documents/ImportedDocuments/51_Operational_Risk.pdf [Accessed 2019, 18 August] p1-14

- loss of key people
- litigation
- loss of suppliers.

Operational risks are generally within the control of the organisation through risk assessment and risk management practices, including internal control and insurance”¹³⁷ (Source: Chartered Institute of Management Accountants – CIMA, 2008:4, *Operational Risk: Topic Gateway Series No. 51*). In the following section the ways an organization can use to assess and measure risk will be highlighted in-depth.

4.7 How to assess and measure risk

“Various methods may be used to assess the severity of each risk once it has been identified. One of the reasons for measuring risk is that it allows the most significant risks to be prioritised. The result or impact of a risk occurring may be financial loss, damage to reputation, process change or a combination of these. One of the simplest ways to measure risks is to apply an impact and likelihood matrix which provides an overall risk rating. One of the issues with measuring risk is that there are objective or subjective risks. Many risks are subjective and qualitative, rather than objectively identifiable and measurable. For example, the risks of litigation, economic downturn, loss of key employees, natural disasters and loss of reputation are all subjective judgements. There is an important distinction between objective, measurable risks and subjective, perceived risks. Some of the factors that influence this distinction are:

- how recently the risk has occurred
- how visible the risk is
- how management perceives the risk
- how the organisation establishes formal or informal ways of dealing with the risk.

The analysis can be either quantitative or qualitative, but it should allow for comparison and trend analysis. One of the issues with risk assessment is that traditional risk assessment

¹³⁷ Chartered Institute of Management Accountants (CIMA) (2008) *Operational Risk: Topic Gateway Series No. 51*. Available from: www.cimaglobal.com/Documents/ImportedDocuments/51_Operational_Risk.pdf [Accessed 2019, 18 August] p1-14

techniques often focus on those elements that can be quantified easily. Such techniques fail to address all critical drivers of successful risk management” (Source: Chartered Institute of Management Accountants – CIMA, 2008:5, *Operational Risk: Topic Gateway Series No. 51.*). In the following section the key benefits an organization can enjoy as a result of operational risk management will be highlighted in-depth.

4.8 Key benefits of operational risk management

“Before you decide whether or not you want to investigate how Operational Risk Management works and what you need to do to implement it. These will help to convince those with sign-off on the decision that it is the right move for your organization, so here are the main benefits of Operational Risk Management:

- Improving the reliability of business operations
- Improving the effectiveness of the risk management operations
- Strengthening the decision-making process where risks are involved
- Reduction in losses caused by poorly-identified risks
- Early identification of unlawful activities
- Lower compliance costs
- Reduction in potential damage from future risks

There are plenty more benefits as well as a few challenges, as with any major *business process*, but Operational Risk Management is an essential step for every company that is looking to avoid potentially damaging issues” (Amit Kothari, 2019, <https://tallyfy.com/>). In the following section the different types of operational risk management will be covered in-depth.

4.9 Types of operational risk management

In general there are various types of risk that can be found in an organization. “Risks can be categorised in a number of ways. A popular way is to use one of four main categories, namely operational risk, financial risk, environmental risk and reputational risk”¹³⁸ (Source: Chartered

¹³⁸ Chartered Institute of Management Accountants (CIMA) (2008) *Operational Risk: Topic Gateway Series No. 51*. Available from: www.cimaglobal.com/Documents/ImportedDocuments/51_Operational_Risk.pdf [Accessed 2019, 18 August] p1-14

Institute of Management Accountants – CIMA, 2008:5, *Operational Risk: Topic Gateway Series No. 51*).¹³⁹ Some of the types of risk that were identified by Grant Thornton (2017:7) in an article titled: ‘*Managing Operational Risk*’ and these types of risk will be highlighted in Table 4.1 below.

Table 4.1 Types of risk

Risk Types	Risk Types
<p><i>“Internal Fraud.</i> Events intended to defraud, misappropriate property, or circumvent regulations or company policy, involving at least one internal party, categorised into unauthorized activity and internal theft and fraud” (Grant Thornton, 2017:7, www.grantthornton.co.uk).</p>	<p><i>“Clients, Products and Business Practices.</i> Events due to failures to comply with a professional obligation to clients, or arising from the nature or design of a product, which include disclosure and fiduciary rules, improper business and market practices, product laws, and advisory activities” (Grant Thornton, 2017:7, www.grantthornton.co.uk).</p>
<p><i>“External Fraud.</i> Events intended to defraud, misappropriate property, or circumvent the law, by a third party, categorised into theft, fraud, and breach of system security” (Grant Thornton, 2017:7, www.grantthornton.co.uk).</p>	<p><i>“Execution, Delivery and Process Management.</i> Events due to failed transaction processing or process management that occur from relations with trade counterparties and vendors, classified into categories such as transaction execution and maintenance, customer intake and documentation and account management” (Grant Thornton, 2017:7, www.grantthornton.co.uk).</p>
<p><i>“Employment Practices & Workplace Safety.</i> Acts inconsistent with employment, health and safety laws or agreements, categorised into employee relations, safety of the environment, and diversity and discrimination” (Grant Thornton, 2017:7, www.grantthornton.co.uk).</p>	<p><i>“Damage to Physical Assets.</i> Events leading to loss or damage to physical assets from natural disasters or other events such as terrorism” (Grant Thornton, 2017:7, www.grantthornton.co.uk).</p>
<p><i>“Business Disruption and System Failures.</i> Events causing disruption of business or system failures” (Grant</p>	

¹³⁹ Grant Thornton (2017) *Managing Operational Risk*. Available from: <https://www.grantthornton.co.uk/globalassets/1.-member-firms/unitedkingdom/pdf/documents/managing-operational-risk.pdf> [Accessed 2019, 23 August] p1-11

Thornton, 2017:7, www.grantthornton.co.uk).	
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Source: Modified: (Grant Thornton, 2017:7, www.grantthornton.co.uk).

The following section will cover how an organization can effectively manage operational risk.

4.10 How to effectively manage operational risk

“Risk evaluation is used to make decisions about the significance of the risks to the organisation and whether each specific risk should be accepted or treated. When looking at operational risk management, it is important to align it with the organisation’s risk appetite. The risk appetite will be influenced by the size and type of organisation, its capacity for risk and its ability to exploit opportunities and withstand setbacks. Once the severity of the risk has been established, one or more of the following methods of controlling risk can be applied:

- accepting the risk
- sharing or transferring the risk
- risk reduction
- risk avoidance” (Source: Chartered Institute of Management Accountants – CIMA, 2008:8, *Operational Risk: Topic Gateway Series No. 51*). The following section will cover information about the common challenges of operational risk management in organizations in-depth.

4.11 Common challenges of operational risk management in organizations

¹⁴⁰“**Painful lessons, common challenges.** For many organizations, ORM is the weakest link to building a sustainable, reliable organization that meets the demands of customers, regulators, shareholders, and internal and external stakeholders. Organizations struggle to support a risk culture that empowers risk accountability, encourages the organization to escalate risks appropriately, and understands operational risk losses. They’re not yet able to promote organizational resilience to build client and consumer trust in the company and its brand. Some

¹⁴⁰ Deloitte & Touche LLP (2018) *Operational risk management: The new differentiator Steps to driving better business decisions and creating competitive advantage*. Available from:

<https://www2.deloitte.com/us/en/pages/risk/articles/operational-risk-management-steps-competitive-advantage.html>

[Accessed October 04, 2022]

continue to operate on “blind faith” when it comes to understanding their control environment and the subsequent material operational risks to which their firms are exposed. For these reasons, it’s more important than ever for organizations to develop strong ORM programs. Yet, despite the urgency, leaders face a number of ORM-related challenges:

- **The process is varied and complex:** Operational risk has become more complex to manage as organizations are driven by advancements in technology, globalization, competition, and shrinking profit margins.
- **The function is hidden:** The identity crisis that surrounds operational risk has grown because many organizations incorporate risk management in their compliance, IT, or other functions.
- **Systems and programs are disconnected:** Because ORM grew up as a largely reactive function, many firms find themselves besieged with manual and disjointed systems, over-engineered programs, and metrics that are reported for the sake of regulations or compliance.

For many organizations, ORM is the weakest link to building a sustainable, reliable organization that meets the demands of customers, regulators, shareholders, and internal and external stakeholders”” (Deloitte & Touche LLP, 2018, <https://www2.deloitte.com/us/en/pages/risk/articles/operational-risk-management-steps-competitive-advantage.html>). In the following section the conclusion of the chapter will be discussed.

4.12 Conclusion

It can be concluded that good corporate governance entails having well devised effective operational risk management policies in the organization that have been effectively communicated to everyone in the organization on a continuous basis about their contents, benefits and application. Furthermore, it can be concluded that the market value of the organization is often increased when effective decisions are made by the board and the executive directors in a manner that represents the shareholders interests in good faith by ensuring the standardization of internal controls of risk. Generally the auditors and top management in the organization play a great role in monitoring operational risk. One of the biggest challenge currently being faced by organizations today is the inability to nurture and entrench new

behaviours amongst employees to consistently promote a work environment that is open to operational risk related issues whilst adhering to integrity principles. Operational risk management is a highly innovative field that requires consistent training and development investments from the organization thus this further complicates its proper implementation due to limited resources.

4.13 Review questions

- 1). Define the followings terms '*business/operational risk*' and '*risk management*'? "What is operational risk management? Describe how operational risk management functions in an organization?"
- 2). Discuss the main goals of operational risk management in an organization? Explain the theories of operational risk management?
- 3). Describe how an organization can assess and measure risk? Identify key benefits of operational risk management?
- 4). List the different types of operational risk management? Discuss how an organization can effectively manage operational risk? Identify the three challenges associated with operational risk management?

Chapter 5: Risk management related topics

After reading this chapter you should be able to:

- Define the following ‘principle’ and ‘purpose’.
- Explain what is risk culture. Identify the characteristics of an effective risk culture. Describe the role of the board of directors in creating a risk culture.
- Discuss why business leaders must embrace ‘adaptation’ when managing risk.
- Identify the common cyber security risks in organizations. Explain what is ‘fraud risk management’.

5.1 Introduction

Today many organizations are placing more emphasis towards increasing knowledge amongst their employees’, top management and board of directors in the field of risk management to reduce vulnerabilities or threats in their operational activities. ¹⁴¹“Many antifraud professionals believe that organizations today face a greater risk of fraud occurring than ever before” (Deloitte Touche Tohmatsu India Private Limited, 2009:2, <https://www2.deloitte.com/>). ¹⁴²“The Internet is now the foundation that guides most of the decisions and actions taken by people or organizations on a regular basis in this modern day technology-orientated global society and economy. Therefore this makes the value of cyber security a key area of concern in various global organizations around the world. Historically immorality has traditionally existed amongst human beings living in a society and surprisingly today immorality now exists in the digital

¹⁴¹ Deloitte Touche Tohmatsu India Private Limited (2009) *Managing the business risk of fraud: New guidance for a new risk environment*. Available from:

<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/risk/Corporate%20Governance/Audit%20Committee/in-gc-managing-the-business-risk-of-fraud-noexp.pdf> [Accessed October 04, 2022]© 2009 Deloitte Touche

Tohmatsu India Private Limited p1-12

¹⁴² Rudolph. Patrick. T. Muteswa (2022) *Cyber Security Insights for Individuals, Governments & Organizations (Gathered Articles): A North America, Asia, Africa, South America, Oceania & Europe Perspective 1st Edition*, Self Published Educational Ebook, p1-98. ISBN: 978-1-77927-319-2 EAN: 9781779273192

world as well” (Rudolph. Patrick. T. Muteswa, 2022:10). The following section will cover aspects about the definition of terms in-depth.

5.2 Definition of terms

¹⁴³“A *principle* refers to a rule, norm, a habitual belief that shapes behavior in a manner that upholds what an individual, society or organization strongly values. In general a *purpose* refers to the desired outcome that clearly identifies why individuals, organizations or society does something and or why something exists” (Rudolph. Patrick. T. Muteswa, 2019:31). The following section will cover information about the risk culture in-depth.

5.3 What is risk culture?

According to The Institute of Risk Management (2012:7) ¹⁴⁴¹⁴⁵**What do we mean by risk culture?** *Risk culture* is a term describing the values, beliefs, knowledge and understanding about risk shared by a group of people with a common purpose, in particular the employees of an organisation or of teams or groups within an organisation. This applies whether the organisations are private companies, public bodies or not-for-profits and wherever they are in the world. We propose the use of a simple A-B-C approach (Institute of Risk Management, 2012) as helpful in understanding how culture, and hence risk culture, works in practice.

- The **Culture** of a group arises from the repeated **Behaviour** of its members
- The **Behaviour** of the group and its constituent individuals is shaped by their underlying **Attitudes**
- Both Behaviour and Attitudes are influenced by the prevailing Culture of the group

¹⁴³ Rudolph. Patrick. T. Muteswa (2019) *Ethics & Compliance by Board of Directors (Gathered Articles): A North America, Europe, Africa, Oceania & Asia Perspective 1st Edition*, Self Published Educational Textbook, ISBN 978-1-77920-216-1 EAN 9781779202161

¹⁴⁴ The Institute of Risk Management (2012) *Risk Culture: Under the Microscope Guidance for Boards*. Available from: https://www.theirm.org/media/8447/risk_culture_a5_web15_oct_2012-executive-summary.pdf [Accessed October 22, 2022] p1-20 ©2012 The Institute of Risk Management.

¹⁴⁵ Institute of Risk Management, 2012. *Risk Culture: Resources for Practitioners*, London: IRM

The culture in an organisation arises from the repeated behaviour of its members. These behaviours are shaped by the underlying values, beliefs and attitudes of individuals, which are partly inherent but are also themselves influenced by the prevailing culture in the organisation. Culture is therefore subject to ‘cycles’ which can self-reinforce in either virtuous, or vicious, circles. Culture is more than a statement of values – it relates to how these translate into concrete actions. Everyone will have had direct experience of the different cultures in different places of work, even in organisations apparently working in similar circumstances. We would expect to find that the culture of, for example, a video game company would contrast significantly with that of a government department. Equally there would be cultural differences between two different government departments and two different video game companies. “Risk culture” refines the concept of organisational culture to focus particularly on the collective ability to manage risk, but the wider organisational culture itself is an active backdrop determining, and itself influenced by, risk culture. Taking each step in the model:

- **Risk attitude** is the chosen position adopted by an individual or group towards risk, influenced by risk perception and pre-disposition
- **Risk behaviour** comprises external observable risk-related actions, including risk-based decision-making, risk processes, risk communications etc.
- **Risk culture** is the values, beliefs, knowledge and understanding about risk, shared by a group of people with a common intended purpose, in particular the leadership and employees of an organisation.

One of the many challenges in addressing culture is that people naturally gravitate to others like themselves so the culture of an organisation can self-propagate if recruitment processes and environment remain unchallenged. Every organisation has a risk culture (or indeed cultures): the question is whether that culture is effectively supporting or undermining the longer-term success of the organisation¹⁴⁶ (The Institute of Risk Management, 2012:7, <https://www.theirm.org>). The following section will cover information about the characteristics of an effective risk culture.

¹⁴⁶ The Institute of Risk Management (2012) *Risk Culture: Under the Microscope Guidance for Boards*. Available from: https://www.theirm.org/media/8447/risk_culture_a5_web15_oct_2012-executive-summary.pdf [Accessed October 22, 2022] p1-20 ©2012 The Institute of Risk Management.

5.4 Characteristics of an effective risk culture

¹⁴⁷148¹⁴⁸“**What does a good risk culture look like?** An effective risk culture is one that enables and rewards individuals and groups for taking the right risks in an informed manner. A successful risk culture would include:

1. A distinct and consistent tone from the top from the board and senior management in respect of risk taking and avoidance (and also consideration of tone at all levels).
2. A commitment to ethical principles, reflected in a concern with the ethical profile of individuals and the application of ethics and the consideration of wider stakeholder positions in decision making
3. A common acceptance through the organisation of the importance of continuous management of risk, including clear accountability for and ownership of specific risks and risk areas
4. Transparent and timely risk information flowing up and down the organisation with bad news rapidly communicated without fear of blame
5. Encouragement of risk event reporting and whistle blowing, actively seeking to learn from mistakes and near misses
6. No process or activity too large or too complex or too obscure for the risks to be readily understood
7. Appropriate risk taking behaviours rewarded and encouraged and inappropriate behaviours challenged and sanctioned
8. Risk management skills and knowledge valued, encouraged and developed, with a properly resourced risk management function and widespread membership of and support for professional bodies. Professional qualifications supported as well as technical training
9. Sufficient diversity of perspectives, values and beliefs to ensure that the status quo is consistently and rigorously challenged

¹⁴⁷ The Institute of Risk Management (2012) *Risk Culture: Under the Microscope Guidance for Boards*. Available from: https://www.theirm.org/media/8447/risk_culture_a5_web15_oct_2012-executive-summary.pdf [Accessed October 22, 2022] p1-20 ©2012 The Institute of Risk Management.

¹⁴⁸ Institute of Risk Management, 2012. *Risk Culture: Resources for Practitioners*, London: IRM

10. Alignment of culture management with employee engagement and people strategy to ensure that people are supportive socially but also strongly focused on the task in hand”” (The Institute of Risk Management, 2012:6, <https://www.theirm.org>). The following section will cover information about the role of the board of directors in creating risk culture.

5.5 Role of the board of directors in creating a risk culture

¹⁴⁹¹⁵⁰“**What can the board do about risk culture?** Corporate governance requirements around the world are increasingly demanding that boards of organisations should understand and address their risk cultures. The board has a responsibility to set, communicate and enforce a risk culture that consistently influences, directs and aligns with the strategy and objectives of the business and thereby supports the embedding of its risk management frameworks and processes. This starts with the risk behaviours, attitudes and culture of the board itself and reaches down through the organisation. The board needs to ask:

- what is the current risk culture in our organisation and how do we improve risk management within that culture?
- how do we want to change that culture?
- how do we move from where we are to where we want to be?

Research carried out by IRM (Institute of Risk Management, 2012) indicates that little consensus has yet emerged amongst risk professionals on the best way to help the board approach the analysis of risk culture. Most organisations adopt informal evaluation techniques or avoid doing so at all. IRM is therefore offering the approach in this document as a practical framework for addressing these challenges. We recognize that this is a rapidly developing field and we are seeking to provide a useful contribution to what remains an insufficiently understood aspect of making risk management of strategic value to organisations”” (The Institute of Risk

¹⁴⁹ Institute of Risk Management, 2012. *Risk Culture: Resources for Practitioners*, London: IRM

¹⁵⁰ The Institute of Risk Management (2012) *Risk Culture: Under the Microscope Guidance for Boards*. Available from: https://www.theirm.org/media/8447/risk_culture_a5_web15_oct_2012-executive-summary.pdf [Accessed October 22, 2022] p1-20 ©2012 The Institute of Risk Management.

Management, 2012:9, <https://www.theirm.org>). The following section will cover information about leaders learning to adapt when managing risk.

5.6 Business leaders must embrace ‘adaptation’ when managing risk

The world is changing every day and it business leaders ensure that they embrace adaption capabilities in their operational activities especially when dealing with business risk. ¹⁵¹Issues related to ‘adaptation’ were clearly highlighted in an article authored by Stephen Sidebottom (*Chair of IRM*) (2022) titled ‘*How risk leaders should adapt to the 2022 workplace*’ published via www.theirm.org/. According to Stephen Sidebottom (*Chair of IRM*) (2022) For most organisations responding well to the impact of the pandemic was the biggest challenge of the past year. Managing new ways of working, crises in the supply chain, cyber risk, hiring and engaging people, and the Great Resignation have been some of the most important concerns for leaders. The growing focus on ESG risks means many organisations are already recognising the importance of understanding how they contribute to society and the obligations they have to people in their community, whether work colleagues or part of the wider ecosystem. This translates into a renewed focus on Equity, Diversity, and Inclusion as a driver of sustainable performance and a growing debate about the role of organisations in the fight for social justice. I wanted to start the year by asking what this means for risk leaders and what they need to do to ready themselves for the challenges of 2022? I propose four key development areas:

5.6.1 Reshape yourself as an inclusive leader

The key change risk leaders need to make to create an agile and adaptive performance culture in their workplace and teams is to become more inclusive as a leader. Creating a community where all members are valued for what they bring means listening much more carefully to what people have to say, encouraging people to share their perspectives, and engaging with challenging conversations on the things that really matter to people at work and in their lives. Your new favourite question as a leader should be “what do you think?”.

¹⁵¹ Sidebottom, S. (2022) *How risk leaders should adapt to the 2022 workplace*. Available from: <https://www.theirm.org/news/how-risk-leaders-should-adapt-to-the-2022-workplace/> Copyright © The Institute of Risk Management

5.6.2 Engage and collaborate

Successful risk management now requires a multi-disciplinary and collaborative approach with a deep capacity to experiment, share, and make sense of a changing world.¹⁵² In an increasingly hybrid and connected world of work, risk leaders need to engage consciously and deliberately to create agile networks that provide insight, drive performance, and support high levels of employee engagement. Risk leaders need to plan how to cultivate relationships and build networks both within their organisations and externally. Your new favourite question as a leader should be “how can I help?”

5.6.3 Explore the unknown

Our common experience of the past two years teaches us all that the world is complex and unpredictable. The model of a leader who knows the answer and directs their people on what to do is increasingly anachronistic. Problems are no longer mostly technical, and leaders don't have answers to complex, adaptive challenges. Most leaders aren't great at learning about new things. They tend to operate in confirmatory bubbles, and many see ‘knowing the answer’ as part of their authority. Becoming curious about the things you don't know can therefore seem quite difficult, and it requires humility and a real desire to learn and understand. As a leader this also means creating space for uncertainty and experimentation in your teams. Your new favourite question as a leader should be “what am I missing?”.

5.6.4 Focus on skills and education

Preparing your organisations and workforces for post pandemic changes means focusing not only on practical changes to the workplace but a whole set of challenges about building the right culture, skills, and capabilities. This requires careful calibration of the role of leaders and what is

¹⁵² Sidebottom, S. (2022) *How risk leaders should adapt to the 2022 workplace*. Available from: <https://www.theirm.org/news/how-risk-leaders-should-adapt-to-the-2022-workplace/> Copyright © The Institute of Risk Management

changing in your expectations of your people. ¹⁵³Preparing your staff now, through training, education, qualification, and skill building will help them maximise the post pandemic recovery and support new strategic directions. Prioritising staff training, retention, and career growth is much more cost effective than recruiting for new positions, retains institutional knowledge, and creates a high level of staff engagement, commitment, and loyalty. Your new favourite question as a leader should be “how can I help you learn and grow?” (Sidebottom, S., 2022, <https://www.theirm.org/news/how-risk-leaders-should-adapt-to-the-2022-workplace/>). The following section will cover information about key cyber security risks in organizations.

5.7 Cyber security risks in organizations

¹⁵⁴“**Definition of cybersecurity.** Definition of cybersecurity, referring to ITU-T X.1205, Overview of cybersecurity. Cybersecurity is the collection of tools, policies, security concepts, security safeguards, guidelines, risk management approaches, actions, training, best practices, assurance and technologies that can be used to protect the cyber environment and organization and user’s assets. Organization and user’s assets include connected computing devices, personnel, infrastructure, applications, services, telecommunications systems, and the totality of transmitted and/or stored information in the cyber environment. Cybersecurity strives to ensure the attainment and maintenance of the security properties of the organization and user’s assets against relevant security risks in the cyber environment. The general security objectives comprise the following:

- Availability
- Integrity, which may include authenticity and non-repudiation

¹⁵³ Sidebottom, S. (2022) *How risk leaders should adapt to the 2022 workplace*. Available from: <https://www.theirm.org/news/how-risk-leaders-should-adapt-to-the-2022-workplace/> Copyright © The Institute of Risk Management

¹⁵⁴ International Telecommunication Union (2022) *Cybersecurity*. Available from: <https://www.itu.int/en/ITU-T/studygroups/com17/Pages/cybersecurity.aspx> [Accessed November 15, 2022] © ITU 2022 All Rights Reserved

• Confidentiality” (International Telecommunication Union, 2022, <https://www.itu.int/en/ITU-T/studygroups/com17/Pages/cybersecurity.aspx>).¹⁵⁵ According to a published textbook titled ‘*Cyber Security Insights for Individuals, Governments & Organizations (Gathered Articles): A North America, Asia, Africa, South America, Oceania & Europe Perspective 1st Edition*’ by Rudolph. Patrick. T. Muteswa (2022) historically immorality has traditionally existed amongst human beings living in a society and surprisingly today immorality now exists in the digital world as well. Nowadays many individuals, organizations and to a certain extent governments pose as a cyber security threat to other nations by carrying-out immoral/illegal activities that are meant to destroy or negatively affect the information systems of organizations, institutions and governments networks for unethical reasons. However, it can also be argued that in some countries cyber security surveillance is often used as a tool to intentionally violate the human rights, democracy and freedoms of citizens by individuals, organizations and or the government (Rudolph. Patrick. T. Muteswa, 2022:10). Furthermore, according to Muteswa (2022) it can be concluded that it has now become a question of ‘moral choice’ for individuals, institutions, organizations and governments to play a critical role in educating the global society about malicious cyber threats and cybercrimes. Various governments and security institutions are now becoming very conscious about the technical vulnerabilities of their information systems and how cybercriminals can easily manipulate them to harm the operational activities of their national institutions and organizations. Today cybercriminals are now incorporating strategic thinking when carrying-out their operational activities and this has put more pressure on governments’ cyber security programs to be highly innovative and research oriented. It can also be concluded that technology has become a unique and very complicated weapon of choice that is used by criminals to commit cybercrimes in various countries around the world (Rudolph. Patrick. T. Muteswa, 2022:24). “Virtual workplaces or remote workplaces have become inevitable for every business, institution and government workplace. Thus this has increased the demand for cyber security measures for remote work in countries, organizations and institutions. In general remote work tends to be more exciting and comforting when people enjoy a sense of security guarantee from cyber threats by using secured networks, information systems and

¹⁵⁵ Rudolph. Patrick. T. Muteswa (2022) *Cyber Security Insights for Individuals, Governments & Organizations (Gathered Articles): A North America, Asia, Africa, South America, Oceania & Europe Perspective 1st Edition*. Self Published Educational Ebook, ISBN: 978-1-77927-319-2 EAN: 9781779273192

devices. Cyber security encompasses almost everything associated with a computer or the internet such as mobile devices, laptops, tablets, networks and so on. Users of mobile devices have the obligation to regularly enhance their devices protection measures to reduce their vulnerability from cyber threats (*scammers, malicious software, phishing and so on*)” (Rudolph. Patrick. T. Muteswa, 2022:26). The following section will cover aspects about fraud risk management in-depth.

5.8 Fraud risk management

According to Deloitte Touche Tohmatsu India Private Limited (2009:3) ¹⁵⁶**Why should my organization be especially concerned about fraud now? 1. Globalization.** Recent developments suggest that the level of fraud risk facing many organizations has increased. As many organizations expand around the world to source supplies from other countries, or to expand their sales in emerging markets, they may encounter complex risks for which they may not be prepared. These risks range from bribery and corruption, to compliance with export controls and anti-money laundering statutes, to product quality risks that can endanger customers. All of these pressures are driving national, multi-national corporations to manage the global financial, regulatory, and reputational risks associated with fraud and corruption. **2. Economic downturn.** The current slowdown in the economy can make it more difficult for executives and managers to achieve planned results. It is also putting more employees under personal financial pressure. Fraud specialists suggest that economic pressures increase the likelihood and the number of individuals resorting to fraud to achieve corporate objectives or to meet personal needs. Financial losses due to fraud are additional costs that organizations will have a hard time absorbing, especially at this point in the economic cycle. **3. Risk management surprises.** From the mortgage crisis to the “rogue trader” cases, recent events suggest that even organizations with risk management programs in place can be vulnerable to fraud. Some past assumptions about risk management and fraud risk assessments may now be obsolete. While

¹⁵⁶ Deloitte Touche Tohmatsu India Private Limited (2009) *Managing the business risk of fraud: New guidance for a new risk environment*. Available from:

<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/risk/Corporate%20Governance/Audit%20Committee/in-gc-managing-the-business-risk-of-fraud-noexp.pdf> [Accessed October 04, 2022]© 2009 Deloitte Touche Tohmatsu India Private

Limited p1-12

technology has helped us run our businesses more efficiently and created new and better fraud monitoring capabilities, it has also added a level of complexity and exposure to fraud risk management. **4. Room for improvement.** Certain evidence suggests that current fraud risk management programs at many organizations need improvement. A survey by the Deloitte Forensic Center, *Ten Things About Fraud Control: How Executives View the 'Fraud Control Gap'* revealed a substantial “*fraud control gap*”¹⁵⁷ between organizations with more effective antifraud programs in place and those operating with less effective antifraud measures¹⁵⁸. Moreover, even the organizations considered more effective in detecting and preventing fraud demonstrated significant opportunities to enhance their performance. Based on the survey results and our experience with antifraud programs and controls, Deloitte sees six key areas where most organizations can improve their fraud risk management programs:

- ¹⁵⁹Fraud risk assessment
- Fraud control policy
- Monitoring of third-party relationships in the supply chain
- Employee fraud awareness training and surveys
- Hotline benchmarking
- Investigative response plan (Deloitte Touche Tohmatsu India Private Limited, 2009:4, <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/risk/Corporate%20Governance/Audit%20Committee/in-gc-managing-the-business-risk-of-fraud-noexp.pdf>).

¹⁵⁷ The Deloitte Forensic Center's study was conducted in the summer of 2007 and published in November 2007. *Ten Things About Fraud Control* can be downloaded at: www.deloitte.com/us/forensiccenter.

¹⁵⁸ Companies were categorized into those that were more effective at fraud control and those that were less effective. Companies were considered as more effective when executives gave their companies an average rating of 3.5 or greater (on a five-point scale) on their effectiveness in four areas: preventing internal fraud, detecting internal fraud, preventing external fraud, and detecting external fraud; less effective companies were those receiving average ratings of less than 3.5.

¹⁵⁹ Deloitte Touche Tohmatsu India Private Limited (2009) *Managing the business risk of fraud: New guidance for a new risk environment*. Available from:

<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/risk/Corporate%20Governance/Audit%20Committee/in-gc-managing-the-business-risk-of-fraud-noexp.pdf> [Accessed October 04, 2022]© 2009 Deloitte Touche

Tohmatsu India Private Limited p1-12

“Strong fraud risk management makes good business sense. In our experience, organizations that implement detailed fraud risk management processes can also experience related benefits, including:

- Reduced financial losses due to fraud
- Reduced costs of responding to fraud (investigations, legal costs, and regulatory enforcements)
- Enhanced ethical culture (“tone at the top”)
- Improved employee sensitization to and awareness of fraud
- Increased reporting of potential frauds and other ethical issues
- More effective corporate governance and the potential for improved governance ratings”¹⁶⁰

(Deloitte Touche Tohmatsu India Private Limited, 2009:5, <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/risk/Corporate%20Governance/Audit%20Committee/in-gc-managing-the-business-risk-of-fraud-noexp.pdf>). The following section will cover the conclusion of this chapter.

5.9 Conclusion

It can be concluded that investing in risk management training and knowledge amongst employees and top management helps create awareness on how to better manage risk in the organization. Generally almost each and every organization has vulnerabilities or threats and nowadays due to technology such as the Internet or computers thus it has become evident that the biggest threats in organizations are now associated with cyber security. Risk in modern day organizations is now being reduced by the adaptation of risk management information systems (RMIS) and fraud prevention and detection technology. It can be concluded that the adaptation of a risk culture in an organization is the pillar that helps to strengthen the values and beliefs shared in an organization on all issues related to risk management including risk management practices.

¹⁶⁰ Deloitte Touche Tohmatsu India Private Limited (2009) *Managing the business risk of fraud: New guidance for a new risk environment*. Available from:

<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/risk/Corporate%20Governance/Audit%20Committee/in-gc-managing-the-business-risk-of-fraud-noexp.pdf> [Accessed October 04, 2022]© 2009 Deloitte Touche Tohmatsu India Private

Limited p1-12

5.10 Review questions

- 1) Define the following 'principle' and 'purpose'? Explain what is risk culture?
Identify the characteristics of an effective risk culture? Describe the role of the board of directors in creating a risk culture?
- 2) Discuss why business leaders must embrace 'adaptation' when managing risk?
- 3) Explain what is Cyber security risks in organizations?
- 4) Explain what is Fraud risk management?

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Chapter 1

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Chapter 5

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