

Océ

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Risk Management at Océ

Tone at the top



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- **Profile Océ**
 - **Océ-specific factors in Risk Management**
 - **Risk Management Océ 2000-2008, and beyond**
 - **How to achieve an effective ERM**
 - **Critical Success Factors in Risk Management**

- Revenues Euro 3 billion (hardware 25%, services 75%)
- Active in 90 countries of which in 30+ with own operations
- 23,000 staff of which < 20% in the Netherlands
- Only EU digital printers manufacturer. Competitors US & Japanese)
- Major Competitors 2-5 times size Océ (Xerox, HP, Canon, Ricoh, KM)
- Active only with professional users, i.e. not home and small office

- Technology Company
 - long lead times in R&D (up to 10 years)
 - very heavy investment required in product development
 - transition from analogue to digital complete
 - B&W now commodity; colour developing rapidly
 - Will the paperless society really materialise ?
- Active in full business chain, ie R&D, Manufacturing, Logistics, Marketing, Sales, After Sales Service, and Outsourcing.

- Corporate Culture
 - Core Values (7)
 - Corporate ethical standards
 - UN Global Compact
 - Technology company
- Risk appetite
 - HSE → zero
 - Logistics → moderate
 - Sales & Marketing → moderate to substantial
 - Technology → very substantial
- Governance
- Peer and shareholder pressure
- Economic/ business circumstances

- Erratic and subjective, well done in some areas but not coordinated
- Corporate Codes of Ethics: good Corporate Citizenship
- Letter of Representation (LoR) important but insecure tool in Risk Management . Focus fully on finance
- Internal Audit: an “over-dependence“ on the results of IAD
- External Audits, in spite of caveats made by external accountant
- Corporate Board: regular but ad hoc discussion on risks .
Tone at the top positive, but selective and not sufficiently communicated / visible

Additional steps in Risk Management post Enron :

- Heavy investment in process reviews, key controls, and central co-ordination of process description, testing, assessment, reporting and remediation (“ Düsseldorf ” meetings)
- Quality of attention for controls and Risk Management throughout the organization improved substantially
- Set up of Disclosure Committee, representing all activities
- Set up, by Supervisory Board, of an Audit Committee
- The Executive Board would “at least annually “ review major risks and measures taken to avoid or reduce their impact.

A clear wake up call throughout the organization with **visible commitment from the Boards.**

Focus: reporting/fraud

- Board appoints Corporate Risk Officer (CRO)
- CRO to define programme for an effective ERM in Océ, and its implementation.
- CRO to report to the Group Controller, who on behalf of Board is operationally responsible for Risk Management
- All existing formal processes in Risk Management maintained. LoR from financial focus to ERM
- More time of Executive Board and management in all parts of the organization to be spent on Risk Management, with CRO/Group Controller being in charge of process

Enterprise Risk Management as an integral part of management's activities. Board members to include this routinely in their reviews with operational management

- **Mechanics**

Up to date Dashboard (“In Controlroom “)

- Tailor made information available at all levels
- Next to downsides identify upsides

- **Make wherever possible use of existing information**

- “Operational “ data
- Internal and external audit
- Controls information (LoR / Sox /etc.), meaning

- **Input from multiple sources**

- **Integrated approach**

- Identify gaps
- Eliminate overlaps

Océ: How to make the ERM system fully operational



- Input from multiple sources
 - LoR/ SOx 302 (ELC) /Key Controls (SOx 404)
 - Internal Audit and External Auditor's observations
 - ISO,HSE, Customs , tax , ...etc
- Maximize automation . Input preferably from existing systems.
- Ensure timely input (immediately when available)
- Dashboard available on line to operational management and Board. Customization required.
- Individual Risk targets to be up to date and monitored.
- Visible action on Risk Management by all management levels.
- Regular formal reviews by Executive Board .
Bi- annual review in Disclosure Committee and formal reporting to Audit Committee. "Honest" / extensive status in Annual report.

Risk Management at Océ: Tone at the Top

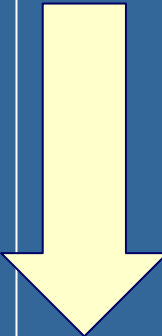
Dash Board by Company / Activity



* weighted

Risk ID	LoR*	ELC 302*	KCA*	IAD*	ISO*	--	--	Total score
Ethical <ul style="list-style-type: none"> - Fraud - Océ principles - HR Policy Regul. & Compliance <ul style="list-style-type: none"> - HSE Fin. & Accounting <ul style="list-style-type: none"> - Rev. Recognition - & Logistics Manufacturing etc.								

2008
 LoR ✓
2009
 IAD
 ISO
2010
 ELC
 Integrated
 Source platform



Summary of Companies/activities weighted by revenue gives an up-to-date Dashboard for overall Group Risk Assessment

- Culture to reflect positive awareness (ie open sharing of “risk” experiences)
- Recruitment , training and remuneration/reward
- In addition to follow-up on KPI’s , non financial / operational audits are required
- Continued attention of Boards for Risk Management also in “difficult“ times
- Ensure that Controller is fully equipped to exercise the role of operational Risk Manager (also times of cost focus)

- **Tone at the top is key ! Visible leadership from Board**
- Risk objectives major drivers of Business Strategy (Risk vs Reward/Cost)
- Processes to be tuned towards an integrated Compliance and Risk Management control structure and quality testing thereof
- Continued discipline of those involved (input and action).
ERM is not a “hype “
- Make RM targets key drivers of management activity with responsibility and accountability for RM at all levels
- Substantial IT involvement , and priority being given to IT developments in the area of RM
- Controller / CRO “spider in the web “ and accepted as such

Risk Management Tone at the Top: Discussion Subjects



- It is remarkable that after the scrutiny given since the early 2000's to Risk Management the present controls crisis has developed:
 - What could and should top management (Boards) have done better ?
 - What could and should Controllers have done better in the past 2-3 years to avoid the lapses in control having happened?
- Is it possible to avoid a situation like 2008/09 happening again?
- Will the present credit crisis lead to an additional stimulus towards improving ERM (as in 2002/03)?
- Is the Controller indeed the best position in the Organization to operate Risk Management on behalf of the Corporate Board?
- Risk Management experiences should be shared much more openly between Companies and in particular between (Corporate) Controllers
- Do Conferences like the present one contribute at all to improving the situation? If yes, how?



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- Aim: To get from the cosy “secure “ world pre Enron to genuine Enterprise Risk Management
- Sox /Tabaksblat lead to coherent approach in reporting and action, but oriented towards financial reporting / fraud
- Much effort throughout organization ; much redundancy and no ERM
- However discipline and clear focus established, as well as scrutiny of processes, documentation and follow up action. By 2007 major improvement in controls environment, but limited in scope
- Increased awareness of risk leads Executive Board to adopt a Corporate ERM approach. Appointment Corporate Risk Officer (CRO) in 2008

- Executive Board collectively responsible for Risk Management; operational aspects of Risk Management delegated to Group Controller. CRO reports to Controller
- Clear message to organization on ERM and role and authority of CRO/Group Controlling
- **Clearly visible commitment Boards (Executive and Supervisory) to Risk Management**
 - in Corporate Strategy and targets management
 - Regular review and update major risks assessment
 - Ensure follow up and immediate action where necessary
 - Disclosure & Audit Committee processes maintained (now bi-annual)