"The Corporate Board's Responsibility for Ethics & Risk in a Time of Crisis"

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Reatha Clark King PhD
Board Chair, National Association of Corporate Directors (NACD)
Director, Allina Health System
Greetings and Acknowledgements

Keynote Sections

- Personal Reflections on Ethical Leadership
- Our Main Challenges in Corporate America
- What must directors and board do?
  - Before A Crisis (slide 6)
- What must boards do?
  - Before A Crisis (slides 7-13)
  - During A Crisis (slides 14-15)
  - After A Crisis (16)
  - Closing Comments
Personal Reflections on Ethical Leadership

- Key reasons for my successes over many years -

- Knowing what ethical leadership is.
- Knowing why it matters.
- Getting and keeping a strong inclination for ethical leadership.
- Knowing what informs my personal judgment and conscience for ethical decision making.
- Knowing how to replenish my resolve for ethical decision making.
- Formal and informal continuing education on ethics and values.
My Sources of Information
-Ongoing continuing education-

- Lessons from my executive and board experiences
- Disciplines of chemistry, higher education & philanthropy
- Recommendations from the academic literature
- Resources at NACD and other professional associations
- Emerging environmental and business trends
- Regulations and evolving public policy
- Personal and professional passion for regaining the public’s trust
- Media articles and reports
Our Main Challenges Today
-In Corporate America-

- Long-Term Sustainable Corporate Success In Challenging Local, National and Global Environments

- To Regain the Public’s Trust
What must directors and boards do?  

**Before A Crisis**

*Always* realize that *how* we lead matters.

- First and foremost, be an example.
  - Ethical Leadership
  - Integrity
  - Discipline
  - Professionalism
  - Accountability
  - Honesty and Truthfulness
  - Having the right ‘sense of urgency’ about problem-solving
What must boards do?

Before A Crisis

Attend to board composition, structure, and functions-

- What is the best board size and makeup?
- Do we have the right board?
- How does the board function?
- What are its strengths and weaknesses?
- How does the board engage with management?
- Is the board a leader by example, being the best it can be in the boardroom?
What must boards do?

Before A Crisis

- Carefully prepare, update and use key governance and certain management policy documents, including:
  - Statement Corporate Vision and Mission
  - Statement of Corporate Values
  - Code of Ethics and Standards of Conduct
  - Whistleblower Protection Policy
  - A Business Continuation Plan to guide disaster recovery
What must directors do? Before A Crisis

- Understand the Company’s Business and Industry.
- Understand the Outside Challenges Affecting the Company’s Success

1. Financial Crises
2. External Environment – local, state, national and global
3. Government Interventions
4. Government Regulations
5. Court Decisions and Legal Issues
6. Geopolitical Issues
7. Shareholder Activism. New and Old Demands.
8. Consumer and Customer Issues
9. The Media
10. Market Competition
What must boards do?
Before A Crisis
Improve Board Effectiveness in Risk Oversight.

- NACD 2009 Blue Ribbon Commission

  Risk Governance:
  Key Recommendations
Areas of Board Responsibility for Risk Oversight

- Governance Risks
- Critical Enterprise Risks
- Board-Approval Risks
- Business Management Risks
- Emerging Risks and Non-Traditional Risks
Risk Governance

Ten Principles for Effective Risk Oversight

1. Understand the key drivers of success
2. Assess the risk in the company’s strategy
3. Define the role of the full board and its standing committees with regard to risk oversight
4. Consider whether the company’s risk management system—including people and processes—is appropriate and has sufficient resources
5. Work with management to understand and agree on the types (and format) of risk information the board requires
Risk Governance

Ten Principles of Effective Risk Oversight

6. Encourage a dynamic and constructive risk dialogue between management and the board, including a willingness to challenge assumptions
7. Closely monitor the potential risks in the company’s culture and its incentive structure
8. Monitor critical alignments—of strategy, risk, controls, compliance, incentives, and people
9. Consider emerging and interrelated risks: What’s around the next corner?
10. Periodically assess the board’s risk oversight processes: Do they enable the board to achieve its risk oversight objectives?
What must boards do?  
During A Crisis

- ASAP, at the onset of a crisis, the board should obtain information and an understanding of the nature of the crisis.
- Go to persons are the CEO and the Lead Director, unless circumstances suggest otherwise.
- What if the CEO is the cause of the crisis? Then the board decides (with advisors) the best course of action.
What must boards do?  
**During A Crisis**

- Stay mindful of the board’s role and act accordingly.
- Work respectfully with the many external and inside voices and parties of interest in the crisis, including:
  - The Media
  - Regulators
  - Government Officials, Elected and Appointed
  - The Public
  - Investors, Activist Shareholders
  - Customers and Vendors
  - Employees, Unions, and Retirees
KEY FACTORS FOR SUSTAINABLE SUCCESS

- Before, During and After A Crisis -

- Ethical Leadership
- Purpose
- Standards
- Values
- Principles: discipline, professionalism
- Integrity
- Courage
CONCLUDING COMMENT

- Agreeing with my NACD board colleague, the Honorable Barbara Franklin, boards must stress ‘the tone at the top’, a culture that is ethical and rewards integrity. This culture must start at the top with the CEO and the board and flow down through the entire organization. The internal control systems must work well, too but the critical ingredient for long-term ethical behavior is the culture.” (Barbara Franklin)

- …My own executive and board experiences have shown that an ethical culture is an important risk mitigation tool for the long-term success of companies in our increasingly volatile and risky environment.

- At the time of a crisis, the Board is setting the tone at the top for lots of voices. The Board is at risk of keeping accountability but losing control of the situation. The challenge is for the board to be the best overseer, advisor and decision maker.

THANK YOU!