

Lead Director Network ViewPoints

May 1, 2012



Board oversight of strategic risk

Introduction

On April 3, 2012, the Lead Director Network (LDN) gathered in Washington, DC, for its 12th meeting. Members examined the role of the board and lead director in overseeing strategic risks.¹ This issue of *ViewPoints* synthesizes discussions of the LDN members concerning this topic.² For further information about this document, see page 11. For a full list of contributing members, see the appendix on page 12.

Executive summary

Boards and lead directors continuously evaluate risks and opportunities at their companies. At the April 3 meeting, members discussed the following issues surrounding their boards' oversight of strategic risk:

- **Changes in risk oversight since the financial crisis** (*page 2*)

Since the LDN last discussed risk oversight in the wake of the financial crisis, members have noticed a maturation of both risk management and risk oversight. Although boards have always devoted time and attention to risk oversight, members said that boards are now more thoughtful about risk than they have ever been, more carefully and constantly evaluating risks. However, despite improvements in risk oversight, members agreed that the oversight process will never be perfect.

- **Common strategic risks companies face** (*page 4*)

Each company faces risks particular to its industry, situation, and strategy. But there are a few risks that impact most companies and are front-of-mind for LDN members:

- **Cybersecurity risk.** Cybersecurity breaches are increasingly common and costly, members said. In a discussion with cybersecurity expert Grady Summers, vice president at Mandiant, members explored issues concerning cybercrime and board oversight.
- **Key-person risk.** Members are focused on the risks attendant to their key people, particularly issues surrounding finding, retaining, empowering, and rewarding their senior executives.
- **Political risk.** Antibusiness sentiment in the United States, aggressive regulators, and divided government concern most members. As a result, boards are more actively assessing political risk and, in select cases, are working directly with regulators.

- **Emerging best practices for more expansive and imaginative risk oversight** (*page 9*)

Lead directors identified emerging best practices and novel suggestions for improving strategic risk oversight. These practices include assigning specific risks to board committees for oversight,

¹ Documents for this network use the term "lead director" to refer interchangeably to the titles of lead director, presiding director, and non-executive chairman unless otherwise stated.

² *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule, whereby names of members and their company affiliations are a matter of public record, but comments made before, during, and after meetings are not attributed to individuals or their companies. Members' comments are shown in italics.

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conducting “*deep dives*” on issues of importance, engaging experts outside of the boardroom, and effectively deploying the lead director’s authority.

Changes in risk oversight since the financial crisis

During a 2009 LDN meeting, in the wake of the financial crisis and economic downturn, members discussed risk oversight. At that time, they focused on enterprise risk management (ERM), delving into the logistics of ERM programs and proposed political and regulatory changes.

Risk is the grist of economic development and, as the *ViewPoints* of the 2009 meeting reported, measured, informed, and calculated risk-taking is essential to any company’s strategy.³ Still, LDN members at the time suggested that aspects of risk management and oversight could be improved.⁴

At the April 3, 2012 meeting, LDN members discussed whether and how risk oversight had changed since 2009, making the following observations:

- Both risk management and risk oversight have matured since 2009.
- Boards are more thoughtful about risk than ever before.
- Despite board attention, perfect risk oversight is an illusory goal.

Both risk management and risk oversight have matured since 2009

Members said that one obvious change in corporate engagement with risk has been the maturation and widespread adoption of ERM. Improvements to ERM systems have clearly helped with risk management, members said. Many suggested that ERM improvements have also enabled boards to be more effective in oversight of risk, and that oversight of certain risks (such as accounting fraud and legal compliance) had clearly improved. More importantly, though, ERM has enabled some boards to focus more on strategic risks.

In contrast to the 2009 LDN meeting, when members said that ERM did not address the major strategic risks facing their companies,⁵ many members now believe ERM’s contributions to risk management have created an environment for successful risk oversight. *“My board couldn’t focus on the strategic risks and growth until we got our house in order. It was important and took a lot of work, but now we’ve moved beyond risk management, and the board is able to look at the bigger picture,”* one member said.

However, some members suggested that ERM improvements have not done much to help risk oversight, and may in fact have been a setback. One member said, *“[ERM] may have been harmful because it made the board start thinking about risk as a process. The stuff that matters to the board is not a process; it’s a management activity resulting in an outcome. Now whenever you think of risk, you think of [risk process] and not the issues that could significantly affect the enterprise.”*

³ Lead Director Network, “[The Board’s Role in Risk Management](#),” *ViewPoints*, July 24, 2009.

⁴ *Ibid.*

⁵ *Ibid.*

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Several members noted that since 2009, financial institutions' approach to risk has become *"intensely better."* The relevance of financial industry methods, including more explicit discussions of risk appetite and the adoption of specialized risk committees, was unclear.⁶ Some members said that these improvements could benefit non-financial boards, while others said that it was inappropriate to assume what works well for one highly regulated industry would be more applicable to other industries.

Setting risk appetite: an elusive or essential task?

Risk appetite is the amount of risk that an organization is willing to accept in pursuit of its objectives. Yet, according to several members, this relatively straightforward concept is difficult to apply. One member said, *"I've been hearing about risk appetite for a long time, but we still discuss it on a case-by-case, task-by-task basis. I've never been a part of a board discussion about a general baseline risk appetite."*

Others suggested that setting and communicating with management about risk appetite was an achievable, important goal. *"Boards need to – and can – articulate a risk appetite and set appropriate metrics to evaluate success,"* one member said. Another suggested following the guidance of a recent report by the Committee of Sponsoring Organizations of the Treadway Commission,⁷ which explains the benefits of a well-articulated and communicated risk appetite statement, provides examples of statements for different entities, and identifies best practices for developing, communicating, and monitoring risk appetite.

Boards are more thoughtful about risk than ever before

Many members have seen noticeable improvements in their boards' risk oversight, with boards and directors approaching risk in *"a more thorough way."* Members identified five specific improvements in board oversight of strategic risk:

- **Coupling of risk and strategy.** Several members said the most important change since 2009 is how frequently and systematically the board considers corporate strategy and risks. This was important to members who agreed with the sentiment expressed by one director that *"risk means risk to the strategic plan."*
- **Holistic review.** Risk analysis has become less compartmentalized, members said. *"There is a better understanding of risk co-dependencies – how risk factors and metrics fit together,"* one director noted.
- **Constant attention.** One member said, *"On all of my boards, and I suspect all others, we talk about risk all of the time."* Another noted, *"The noise level is so high, you can't ignore it. We're certainly*

⁶ For more on bank directors' views on risk appetite, see Bank Governance Leadership Network, ["Progress on the Risk Governance Journey, but Key Challenges Remain,"](#) ViewPoints, January 12, 2012; Bank Governance Leadership Network, ["Risk Appetite, Strategy, and Regulatory Reform,"](#) June 16, 2010.

⁷ Larry Rittenberg and Frank Martens, *Enterprise Risk Management: Understanding and Communicating Risk Appetite* (Durham, N.C.: Committee of Sponsoring Organizations of the Treadway Commission, 2012).

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having more risk discussions.” Members were particularly pleased that risk and strategy “have broken the bounds of the annual three-day offsite. They are now at literally every meeting.”

- **Robust, informed discussion.** Directors are engaging in more vigorous discussion of risks, members said, which ultimately contributes to more effective oversight. Some of the success was credited to corporate governance changes: *“The requirement to have real executive sessions has done more for conversation among all of us than anything else. And the role of the lead director in facilitating that discussion facilitates insightful, robust discussion.”* Another member said, *“Contrary opinions are offered more frequently in the boardroom, and are more commonly embraced by other directors and the CEO. It’s a very valuable development.”*
- **More balanced and diverse boards.** Boards are actively seeking new directors with backgrounds and experience tailored to the company’s needs. Directors said that their boards are particularly interested in individuals with different perspectives than the current directors. This is important because a fundamental role of directors is *“to help expand management’s imagination, to bring outside perspective and experience.”* This breadth of perspective contributes to better oversight by reducing the likelihood *“that the company fails to spot or elevate a major risk soon enough.”*

Despite board attention, perfect risk oversight is an illusory goal

Although boards strive for flawless risk oversight and have significantly improved in the past few years, members acknowledged, *“We’ll never get there.”*

One member explained, *“We can prepare for the 100-year flood, but not the 1,000-year flood. It’s just as hard for boards to plan for the unthinkable as it is for everyone else.”* Another member said, *“We can and should strive to improve, trying to anticipate every possible scenario that would significantly affect our shareholders. But we don’t have a crystal ball.”*

As boards pursue more perfect risk oversight, one member said they must *“try to be more imaginative. Institutions can become self-referential and insular over time. I still wonder how we can deal with that.”*

Common strategic risks companies face

“There certainly isn’t less risk” than when the LDN discussed risk management in 2009, according to members. Each company faces particular risks depending on its strategy, industry, and situation, but members identified three types of risk that have increased for most member companies in recent years: cybersecurity risk, key-person risk, and political risk.

Cybersecurity risk

“Who would have thought about discussing cybersecurity many years ago? Today it’s very important,” one director said. Another said that on one of his boards, *“everything pales in comparison.”* The World Economic Forum’s 2011 global risk report identified cybersecurity as one of the most important risks to

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watch.⁸ And 72% of respondents to Ernst & Young's 2011 global information security survey saw an increasing level of information technology (IT) risk from external threats.⁹

Several members commented on cybercrime incidents at their companies, noting that reputational damage – in addition to significant investigation, litigation, and remediation costs – can be significant. *“If there’s a data breach, you can’t really know how much data was taken and how much damage will be done,”* one member said.

The pace of data theft from Fortune 500 companies, government agencies, and other institutions has risen dramatically – a trend that one cybersecurity expert predicted will “continue through 2012 and beyond.”¹⁰ General Keith B. Alexander, head of the military’s Cyber Command, has called rampant cyber theft “the greatest transfer of wealth in history.”¹¹

Shawn Henry, the FBI’s former cybersecurity chief, recently said that the current approach to cybersecurity is “an unsustainable model. Unsustainable in that you never get ahead, never become secure, never have a reasonable expectation of privacy or security.”¹²

Cybersecurity suggestions for directors

Members were joined at dinner by cybersecurity expert Grady Summers, the former chief information security officer at General Electric and current vice president of Mandiant. He offered directors two suggestions:

- **Assume your company, whatever its size, has already been breached.** While many suspect that outsiders seek access to the files of defense contractors and multinational banks, many are surprised to learn the extent of other targeted attacks. In two examples – a tool manufacturer and a company that creates one small component of a green-energy product – the companies lost nearly all of their relevant intellectual property through data intrusions.
- **Focus on detection and mitigation.** Companies will continue to be breached by outsiders, despite the best efforts of IT departments. In one study, the median number of days attackers were present on a victim’s network before detection was 416, and 94% of victims learned of the breach from an external entity. Improving detection and remediation efforts is just as important at improving safeguards.

Key-person risk

Members are focused on the risks surrounding retention of their key personnel. Finding, empowering, and retaining the right members of senior management are enduring challenges; failure in any of these

⁸ Charles Emmerson, *Global Risks 2011* (Geneva: World Economic Forum, 2011), 36.

⁹ Ernst & Young, *Into the Cloud, Out of the Fog: Ernst & Young’s 2011 Global Information Security Survey* (Ernst & Young Global Limited, 2011), 3.

¹⁰ Lucian Constantin, “2012 Will See Rise in Cyber-Espionage and Malware, Experts Say,” *PC World*, December 26, 2011.

¹¹ Richard A. Clarke, “How China Steals Our Secrets,” *New York Times*, April 2, 2012.

¹² Devlin Barrett, “U.S. Outgunned in Hacker War,” *Wall Street Journal*, March 28, 2012.

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areas is among the most significant risks companies face, particularly if the board fails to act with sufficient alacrity. During the meeting, members focused on two types of key-person risk: succession and executive compensation.

Succession

According to a study by Crist|Kolder Associates, 13% of S&P 500 and Forbes 500 companies changed CEOs in 2011 – the highest rate of CEO turnover in six years.¹³ High-profile transitions such as those at Hewlett-Packard, PG&E, and Apple made this a hot topic in 2011 and have led some members to revisit their succession planning.¹⁴

“Succession planning is critical,” one member said. Members and other corporate governance experts have said so for years, but the evidence suggests that succession planning is still underdeveloped. A 2010 survey of more than 140 CEOs and board members, by Stanford University’s Rock Center for Corporate Governance and Heidrick & Struggles, revealed “critical lapses in CEO succession planning.”¹⁵ And a 2011 Heidrick & Struggles survey showed that 32% of directors of American companies did not think their boards had an effective CEO succession planning process.¹⁶ One member admitted feeling particularly underprepared for *“succession planning for the loss of any of the highest-level executives – for example, if the CEO suddenly dies or a group of senior executives are on the same downed airplane.”*

One member suggested that given the higher rates of success with CEOs promoted from within rather than via an external search, boards should be even more committed to maintaining effective succession plans. This member also expressed that *“if a company has to go outside to find a CEO, it’s an admission of the board’s failure.”* Other members noted that succession planning below the CEO level might also be an important part of risk oversight. *“Succession planning is important for all critical roles,”* one member said.

Succession may be an area for the lead director to have a greater role, one member said: *“There’s room to improve succession planning, and it’s very important. Some boards place oversight responsibility with the compensation committee chairman; perhaps the lead director should have primary responsibility instead.”*

Executive compensation

Although much of the work related to executive compensation will be done by the compensation committee, members said lead directors have a role insofar as the risks associated with CEO compensation impact strategy. Those risks include the risk of reputational damage associated with *“overpaying”* top executives – particularly in light of the antibusiness, antiwealth sentiment discussed below – and the risk of incentivizing activity that can harm the corporation. Members focused on the risk of pay being insufficiently tied to performance. One member reported wanting to see the board *“become more proactive, not just listening during the compensation discussion.”*

¹³ “CEO Turnover Rate Highest in Six Years,” Need to Know, *NACD Directorship*, October/November 2011.

¹⁴ For more on member perspectives on succession, see Lead Director Network, *“The Lead Director’s Role in Succession Planning,” ViewPoints* December 11, 2009.

¹⁵ Stanford Graduate School of Business, *“CEO Succession Planning Lags Badly, Research Finds,”* news release, June 1, 2010.

¹⁶ Boris Groysberg and Deborah Bell, *2011 Board of Directors Survey* (Chicago: Heidrick & Struggles International, 2011), 5.

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Lead directors – and the board as a whole – might become more involved in setting and evaluating the CEO’s annual goals. One member said, *“One could argue the most important part of the CEO compensation discussion is setting goals. Are they the right goals – challenging but achievable – or are they layups? This is a key area for the full board, not just the compensation committee.”* Another member suggested the full board ensure the CEO has incentives tied to non-financial goals, such as creating a meaningful succession plan or improving the quality of interaction with board members.¹⁷

One member suggested that nonfinancial goals – those concerning strategic and operational success – were particularly important to corporate success, and not just at the CEO level: *“At one company, we’ve tied 25% of officer bonuses to one metric that’s a key risk driver. It has gotten a lot of people talking about that metric.”* Goals specific to risk management are important, the member continued, noting, *“We’ve had success integrating risk management into annual and long-term performance incentives for the company’s executive officers.”*

Political and regulatory risk

“Political risk is one of the biggest risks to my companies,” one member said. Another remarked, *“In the past, companies did not want to do business in Russia or Africa because of the political environment, but I think that now the US environment might trump the others in terms of unpredictability!”* Members are particularly worried about the effects of antibusiness sentiment, especially when linked with aggressive regulators and divided government.

“Political backlash against the free-market system, like that seen in the Occupy movement, puts pressure on all businesses,” one member said. Regulators and supervisors are becoming more aggressive, seeking to *“[capitalize] on the antibusiness sentiment.”*

Some supervisors and regulators are responding in a way that is damaging to companies and the broader economy. One member said, *“The regulatory environment is the [risk] I am most concerned about.”* Another noted, *“Every agency of government has been energized to be aggressive in pursuing business misconduct – there has been no tempering that aggression.”* In the creation of new regulations and stepped-up enforcement of existing rules, some members see a troubling shift against business.

The risks are not exclusively federal. *“Some of the biggest risks I’ve seen are at the state level,”* one member said, explaining how one business was caught in the middle of political winds unrelated to the company’s conduct. *“One state official who was trying to make a name for himself on a hot-button issue caused significant, unforeseeable problems for the company,”* the member said.

Some directors have had success in meeting personally with their regulators. One said, *“Regulators sometimes want to meet with a representative of the board, and these meetings can be productive. On one important regulatory issue, I met with a [government official] over two years. It took time, but we resolved the problem in an advantageous way.”* Another member noted, *“The attitude toward regulators is changing. We have some deep, strategic, candid relationships.”*

¹⁷ For more on nonfinancial goals, see Compensation Committee Leadership Network, [“A Changed and Changing Executive Compensation Environment,”](#) *ViewPoints*, April 12, 2012.

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But some members are concerned that they do not have the ability to affect the regulatory environment. *“Most regulators don’t really want to meet with directors. They don’t want a meeting of the minds, they just want to regulate,”* one member remarked.

Political contributions in the wake of *Citizens United*

Political contributions will be a *“big issue in 2012,”* according to one member. Corporate political involvement has been subject to federal regulation since 1907,¹⁸ but the issue was thrust into the spotlight after the Supreme Court’s 2010 decision in *Citizens United*, which found the prohibition on *“independent expenditures”* by corporations and unions unconstitutional.¹⁹

Of the 83 S&P 100 companies that directly engage in political spending, 65 have board-level oversight of this spending and 57 voluntarily disclose it.²⁰ Twenty-four S&P 100 companies state on their websites that they will not make any independent expenditures (payments to advocate the election or defeat of a candidate), and 16 say they do not spend funds directly on candidates or political committees.²¹ Shareholder proposals seek to increase the level of disclosure. Some expect that support for shareholder proposals concerning political spending will rise from its recent 32.5% level,²² particularly given Institutional Shareholder Services’ 2012 proxy guidelines.²³

Of particular concern is how contributions will be viewed by the public. *“I’m not sure donations make sense unless there is an overwhelming corporate interest. Generally, contributions will please one faction and anger another; it’s just not worth it,”* one member said.

According to King & Spalding partner Thomas Spulak, boards should be aware that formerly anonymous contributions might soon be disclosed. Congress continues to consider iterations of the DISCLOSE 2012 Act,²⁴ which would require both disclosure and a *“stand-by-your-ad disclaimer,”* including the names of executives and financiers, whenever running a negative radio or TV advertisement.²⁵

¹⁸ Jill E. Fisch, *“How Do Corporations Play Politics? The FedEx Story,”* *Vanderbilt Law Review* 58, no. 5, 2005, 1496.

¹⁹ *Citizens United v. Federal Elections Commission*, 558 U.S. 08-205 (2010).

²⁰ Center for Political Accountability, *The CPA-Zicklin Index of Corporate Political Accountability and Disclosure* (Washington, D.C.: October 28, 2011), 12.

²¹ *Ibid.*, 5.

²² Ted Allen, *“Greater Support for Shareholder Proposals on E&S Issues,”* *ISS Governance* (blog), June 20, 2011. The ISS-provided percentage excludes several outliers referenced in the article.

²³ Institutional Shareholder Services, *U.S. Corporate Governance Policy: 2012 Updates* (November 17, 2011), 16.

²⁴ Formally the *“Democracy is Strengthened by Casting Light on Spending in Elections Act,”* this act was first proposed in 2010. At that time, it passed in the House of Representatives but fell one vote short of the 60 necessary to pass it in the Senate. It was recently reintroduced as the *DISCLOSE 2012 Act*, 112th 2d H.R. 4010 (February 9, 2012).

²⁵ Scott Wong, *“Senate Dems: More Sunshine on Big Campaign Bucks,”* *Politico* (blog), March 21, 2012; Chris Van Hollen, *The “DISCLOSE 2012 Act” Summary* (2012).

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Political contributions in the wake of *Citizens United* *continued*

Mr. Spulak said that these changes “are not necessarily designed to force disclosure – they’re designed to discourage the contributions themselves.” Mr. Spulak noted that more disclosure might be on the horizon even without Congressional action: a recent district court opinion could compel disclosure of previously shielded contributions to nonprofit organizations that spend money on electioneering communications.²⁶

Emerging best practices for more expansive and imaginative risk oversight

Members suggested ways to help the company think more expansively and imaginatively. “*Things that you think can’t be anticipated, at least half the time, you could have anticipated [them],*” one member said. Identifying the risks that would have the most substantial impact on the business – regardless of how unlikely they seem – may help companies prevent future catastrophes, another member suggested. Members recommended the following actions for lead directors:

- **Lead by example.** One member suggested that outside-the-box thinking should start with the lead director: “*Am I thinking broadly enough? Am I really being objective? Are there topics we didn’t put on the table, didn’t challenge? These are the things I think about all of the time, the things I think will help me better serve the company.*” On one member’s board, the lead director attends each committee and this has improved risk oversight: “*Attending all of the committee meetings puts me in a unique position where I can connect things, see things developing, that wouldn’t be of concern to someone seeing only a single committee’s work.*”
- **Creatively assign risk ownership.** One member cautioned against “*throwing everything difficult the audit committee’s way.*” Since certain risks fall naturally to other standing committees, it makes sense for those committees to take the lead on issues relating to those risks: “*As lead director, I work with committee chairs to assign all identified risks to committees – some remain with audit, others to compensation and governance, and others to more specialized, company- or industry-specific committees.*” Another member suggested that the lead director should assign every risk an “*individual champion.*” However the risks are assigned, one member said that it was the lead director’s responsibility to ensure “*all of the organization’s risks are mapped, identifying the responsible party.*”
- **Dive more deeply.** “*One of the characteristics of our best deep dives was that the relevant committee chair or board leader would travel to the relevant operational hub, sit with the right group of executives, and spend a day going through the issue,*” one member explained. Another member shared a particularly effective approach to addressing a critical business risk: “*One of our board committees that is focused on a particular kind of risk meets at each of the relevant facilities once per year, touring the facility with complete access – and without a management chaperone. We then report our findings to the rest of the group and to management.*”

²⁶ Van Hollen v. Federal Elections Commission, Civ. No. 11-0766 (D.D.C. March 30, 2012); see also Jack Gillum, “[Judge Says Groups Can’t Shield Campaign Donors](#),” *ABC News*, March 31, 2012

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- **Get new voices into the boardroom.** *“It all starts with the quality of board members themselves,”* said one member. If the board lacks insight into a particular topic, or is susceptible to “groupthink,” it will not be as able to evaluate identified risks or to foresee risks not yet identified. Members suggested diversifying board composition to address gaps in board knowledge, even if it requires loosening traditional requirements for seniority and experience. For example, one member’s board was searching for younger board members with more experience with their products and customers; another’s board was adding directors with public policy experience.
- **Work with outsiders.** Expansive thinking can’t stay within the board, members said. One member suggested discussing risk issues with shareholders: *“Shareholders sometimes see risks we don’t. You might get a better sense of how well you are overseeing risks by identifying shareholders who have sold significant stakes and asking why.”* Another member recounted a time when an opportunity for growth was at risk. Upon the board’s evaluation of a major IT change, it was clear that a vendor could fail to deliver a critical service and unravel the strategic plan. At the board’s initiative, the lead director met with the vendor’s leaders in what turned out to be a *“bold, but successful [meeting]. We got the best attention imaginable, and the [project] was a great success.”*
- **Harness the imagination of insiders.** One director shared how one of his companies recently instituted a forum where employees from all regions and positions can discuss emerging trends, including risks. *“We opened [the forum] to the entire organization so that a store manager in one community can speak with department managers elsewhere to talk about what’s going on in the marketplace. Senior managers spend significant time participating as well,”* the member said.
- **Encourage meaningful deliberation.** Members suggested that setting the “tone at the top” involves more than a culture of compliance – it also involves a culture where disagreements are aired and discussed. *“The lead director should keep an eye to see when disagreements are aired in board meetings – not just between the board and management, but between managers themselves. This might be an indicator of whether the company has a culture of punishment, where risks aren’t dealt with, or a culture where risks will be surfaced and evaluated.”*
- **Use risk-weighted oversight.** Another member’s board analyzes business units by leadership’s risk appetite and the potential risks inherent in a given political and regulatory system. *“You don’t want all of the lead executives to be risk takers, particularly someplace where risks can be catastrophic. We check how risk-averse each unit’s CEO and CFO are, and then check to see how the country in which they are located [might increase or decrease those risks],”* the member said.
- **Play devil’s advocate.** King & Spalding partner Chris Wray suggested using a tactic from the security intelligence community and tasking a person or group to be a “devil’s advocate” for issues perceived to be highly unlikely. Wray said, “These groups evaluate an issue by first assuming everything they think they know is wrong. Sometimes this provides some really startling conclusions.”
- **Take advantage of the lead director’s toolkit.** Effective strategic risk oversight depends on carefully crafted agendas, engaging executive sessions, constant dialogue between the lead director and

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other directors, and dialogue between the lead director and the CEO. Members said that the tools at the lead director's disposal have contributed well to better oversight of strategic risk.

Conclusion

Many directors and boards are evaluating the risks that endanger corporate strategy more attentively than ever before. While each company's risk profile and response is unique, many directors are wrestling with challenging cybersecurity, key-person, and political risks. Given foresight's limitations, flawless risk oversight is an illusory goal. But better risk oversight is achievable, as demonstrated by the many emerging best practices for more expansive and imaginative risk oversight identified by lead directors.

About this document

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the issues confronting lead directors. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Anyone who receives *ViewPoints* is encouraged to share it with those in their own companies and their colleagues at other companies. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

The Lead Director Network ("LDN") is sponsored by King & Spalding and convened by Tapestry Networks. The LDN is a group of lead independent directors, presiding directors, and non-executive chairmen drawn from America's leading corporations who are committed to improving the performance of their companies and to earning the trust of their shareholders through more effective board leadership. The views expressed in this document do not constitute the advice of network members, their companies, King & Spalding, or Tapestry Networks.

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Appendix: network meeting participants

The following network members participated in the meeting:

- W. Frank Blount, Lead Director, KBR
- Roy Bostock, Non-Executive Chairman, Yahoo!
- Peter Browning, Lead Director, Nucor and Acuity Brands
- Eugene Fife, Presiding Director, Caterpillar
- Richard Goldstein, Presiding Director, Interpublic Group
- Ann Maynard Gray, Lead Director, Duke Energy
- Ann Fritz Hackett, Lead Director, Capital One Financial Corporation
- Bonnie Hill, Lead Director, The Home Depot
- Karen Horn, Lead Director, Eli Lilly
- Phillip Humann, Presiding Director, Coca-Cola Enterprises and Equifax; Non-Executive Chairman, Haverty Furniture Companies
- Linda Fayne Levinson, Lead Director, NCR
- Alex Mandl, Lead Director, Dell; Non-Executive Chairman, Gemalto, and Horizon Lines

The following network members took part in pre- or post-meeting discussions:

- Daniel Feehan, Non-Executive Chairman, RadioShack
- Raymond Gilmartin, Presiding Director, General Mills
- Edward Kangas, Non-Executive Chairman, Tenet Healthcare
- Robert Kidder, Lead Director, Morgan Stanley
- Robert Lawless, Lead Director, Constellation Energy Group
- John O'Brien, Lead Director, TJX; Non-Executive Chairman, Cabot

The following King & Spalding attorneys participated in all or some of the meeting:

- J. Kelley, Partner, Corporate Practice Group
- William Spalding, Partner, Corporate Practice Group
- Thomas Spulak, Partner; Chair, Government Advocacy and Public Policy Practice Group
- Christopher Wray, Partner; Chair, Special Matters and Government Investigations Practice Group