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APR-JUN 2018

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PERSPECTIVES

BEST BOARD PRACTICES IN MANAGING REPUTATIONAL RISK

BY **DAVIA TEMIN AND DARCY HOWE**
> WOMENCORPORATEDIRECTORS

The stakes around reputational risk have never been higher for companies – with the potential for damaging everything from market value to the ability to recruit and retain the best talent. Regulations put in place post-global financial crisis called for boards to disclose their role in risk oversight, but the explosive disclosures around cyber hacks and sexual harassment have lifted reputational risk oversight to an even more heightened level of urgency.

A key issue is how crises today are creating significant reputational impact. When a company experiences a crisis event – whether it is a massive data breach or allegations of misbehaviour in the executive ranks – the reputation of every investor,

every customer and every person who gets a pay cheque from that company is at risk.

There are a number of best practices for directors when facing the highly complex and sensitive issues emerging today. Below are a number of best practices for boards, who are more involved in managing reputational risk than ever before.

Require preparation of a full list of reputational risks. The board is well within its purview, through the audit committee, executive committee or full board, to ask management for a complete listing of all the reputational risks facing the organisation. This should include, of course, those that are apparent and predictable, as well as unpredictable ‘black swan’ risks – from an extreme geopolitical

event to technological disruption to human failing. The dashboard of risks, both internal and external, should be updated every quarter, reprioritised as new information and new risks emerge.

Review how management monitors reputation.

The risk and audit committee should also review how the company's reputation is being monitored. New methods of monitoring risk, some using artificial intelligence (AI) and other new technologies, are arising continuously. Since early warning of an impending problem can keep it from escalating, monitoring becomes even more critical. The board can assure such activity is adequate, sophisticated, ongoing, consistent and verifiable.

Review unedited traditional and social media, quarterly. Management can sometimes downplay social media 'chatter' in reporting to the board. Directors should insist that the board sees news coverage and sentiment analyses – both from traditional and social media sources, as well as the web in its entirety – before each meeting. Make sure to see not only the good stories, but negative ones as well, uncensored and uncurated. Social media trolls, sometimes from competitors, can target companies in many ways today. Vigilance on the parts of management and the board is critical.

Fill in the skills gaps at the board level. Even though cyber security is emerging as a critical reputational and financial risk, most directors are not as tech savvy as their organisations' potential hacker adversaries. Boards typically rely on IT departments

and chief technology officers (CTO) to be 'handling things' for the organisation. There is a huge information gap between directors who did not grow up digitally and the sophisticated criminals seeking to steal companies' data. In order to help level the playing field, and ensure that the board is asking the right questions of management around cyber security, boards are now considering more diverse candidates for board seats. Younger candidates, and those who have tech expertise in particular, can educate other board members and ask the tough questions of management.

Supplement inside analysis with outside expertise.

At critical junctures, more and more boards are validating internal assessments with external consultants. Whether the board hires its own legal representation, crisis experts, valuation specialists, technologists or culture studies, 'trust but verify' is turning into a new board mantra.

Take immediate action when a complaint is raised.

Especially regarding issues of workplace sexual harassment, best practices are emerging at the board level. Boards need to take all complaints, credible and noncredible, as a call to investigate seriously and quickly. And then, if the allegations are true, to insist that strong remedial action is taken. Inaction, or denial, are no longer viable options for most boards, because ultimately, the buck does stop with them. And the public is demanding accountability at the board level.

Look beyond the single bad actor. Unfortunately, one case in which an employee is accused of workplace harassment can often indicate a

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broader problem in the organisation; incidents rarely exist in a vacuum. Rather than focusing on an isolated case, boards should ensure that an investigation is initiated to address the more generalised conditions under which this harassment took place. What are the issues, individuals or policies that may be contributing to a hostile environment? What can be done to stop them immediately, and begin to change the culture? In many cases, the problem may initiate with or be at its worst with one employee, but a board has to expand this examination of the culture beyond one person.

Engage with employees beyond the C-suite.

While boards have facetime with the top executives in the company, upper management can provide only one piece of the full picture of a company's culture. Directors need to understand the company and employees down the line. This serves to build trust, surfacing both the good and the bad that boards would not know about otherwise. Skip-level meetings between directors and employees, alerting the intermediary levels as a courtesy, give boards a better pulse on what is going on.

Connect women directors with female employees. Create mechanisms for boards to 'listen' to employees and establish a layer of trust by connecting women across all levels of the organisation. For example, once a quarter, in a different locale, initiate a programme where an available woman board member has dinner with the high-level women in management in that location. This is a good mechanism to build bonds between board members and employees, to surface issues, and source new ideas and solutions.

Respond with a unified voice. In responding to a crisis event publicly, there needs to be one voice

of the board, whether it is the chair of the board, a crisis manager, or another designee. Just as this is true with management, it must be equally true today with boards. Yet, while there is one person who will serve as the official spokesperson, if necessary, all board members need to be armed with the appropriate messaging to use both internally and externally. The board needs to demonstrate that it has exercised oversight and governance. At various times, it will need to establish itself as a voice of authority without undermining management or management function. **RC**

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ORGANISATION

National Association of Corporate Directors (NACD)

The **National Association of Corporate Directors (NACD)** empowers more than 18,000 directors to lead with confidence in the boardroom. As the recognised authority on leading boardroom practices, NACD helps boards strengthen investor trust and public confidence by ensuring that today's directors are well prepared for tomorrow's challenges. World-class boards join NACD to elevate performance, gain foresight and instil confidence. Fostering collaboration among directors, investors and corporate governance stakeholders, NACD has been setting the standard for responsible board leadership for more than 40 years and is a founding member of the Global Network of Director Institutes.

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WomenCorporateDirectors Education and Development Foundation, Inc.

The **WomenCorporateDirectors Education and Development Foundation, Inc. (WCD Foundation)** is the only global membership organisation and community of women corporate directors. A 501(c)(3) not-for-profit organisation, the WCD Foundation has 80 chapters around the world. The aggregate market capitalisation of public companies whose boards WCD Foundation members serve on is over \$8 trillion. In addition, WCD Foundation members serve on numerous boards of large private and family-run companies globally.

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