How to Ensure Organizational Resiliency

By Judy Warner

Harrison H. Schmitt—the first and only professional scientist to go into deep space—was a lunar module pilot for the National Aeronautics and Space Administration (NASA). He flew on Apollo 17, NASA's last manned mission to the moon. After retiring from NASA, Schmitt was elected to the U.S. Senate from his home state of New Mexico. At a dinner roundtable in Scottsdale, Arizona, in December, co-hosted by the National Association of Corporate Directors (NACD) and Dentons, the world's largest law firm, Schmitt recounted highlights to fellow directors of his long personal interest in risk and how his training as an astronaut and work with simulation supervisors for Apollo missions have given him an ability to envision multiple failure scenarios. Schmitt currently chairs the governance committee on the board of Orbital ATK, which builds aerospace, defense, and spaceflight systems from its headquarters in Dulles, Virginia.

The roundtable was one of three held during November and December to explore directors' perspectives on what contributes to the resiliency of an organization. Facilitating the Chicago dinner was Karl Hopkins, partner and chief security counsel at Dentons, who has advised the firm's clients in more than 40 countries; and Kevin Hulbert, a former senior intelligence officer in the Central Intelligence Agency (CIA). Hulbert, who once managed some of the CIA's most complex operations around the world, joined Dentons as a special advisor more than a year ago. He now counsels the firm's clients on a variety of matters related to intelligence, security, risk, and opportunities.

Hulbert's idea of what's most important to ensure the continuity of a business? "Information. The people with the best information make the best decisions, and the people who make the best decisions make more money," Hulbert said. "If you have good information, not only do you make better decisions, but the company can then protect itself from looming risks, whether those are market risks or enterprise risks to the entire business model. Companies and boards that are aware of risks can shift course and build countermeasures to address the myriad risks they face."

Helping to spur a multifaceted conversation among directors gathered in New York was Stephan J. Mallenbaum, Dentons' practice leader of corporate governance. His trenchant advice to the convened directors was to "probe management with questions at a really deep level." To do this, "the board needs to set the tone," he observed. "You have to ask questions intently, and you have to ask them randomly."

Harrison H. Schmitt is photographed in the Lunar Roving Vehicle during the Apollo 17 mission at the Taurus-Littrow landing site. This photo was taken by astronaut Eugene A. Cernan, commander.

NASA/REX VIA AP IMAGES

Prior to the dinners in Scottsdale, Chicago, and New York, each group of the invited directors was asked to consider the following questions:

- What is the board's role in assessing threats, determining responses, and in educating or monitoring employees?
- How are risks presented to the board by management?
- How are risk assumptions challenged?
- How does the board approach the identification of new risks?
- What are the common threads running through business failures such as Arthur Andersen, Barings Bank, Enron, Lehman Bros., and others, and what can be learned from them?
- How do you assess insider threats?

Setting the Stage

At the Chicago dinner, Hopkins acknowledged the growing complexity and uncertainty of the threat landscape, from geopolitical risks to insider threats.

That day's news had included items about American companies either leaving or preparing to take write-downs on operations in Venezuela, and the indictment of research scientists at a large pharmaceutical company for the theft of trade secrets. "To survive and get ahead of threats, management needs to compartmentalize secrets and clearly communicate strategy. What do we do and when? There is no substitute for advance planning." Hopkins also highlighted the importance of information as basic as knowing the locations of key managers and how to reach them. "A crisis is no time to be fumbling around for answers," he said.

Participating directors represented companies of various sizes, maturity, and sectors. Even so, their concerns were largely universal. Corporate directors today are more deeply engaged in the oversight and development of strategy. Yet the statistics are staggering: 90 percent of all start-ups are said to fail within five years. *Fortune* magazine recently reported that the life span of an S&P 500 company is now less than 20 years, owing largely to the quickened pace of merger and acquisition activity.

To understand an entity's risks—from business operations to strategic initiatives such as acquisitions, spin-offs, or divestments, to governance—is largely a function of information received from management. It is quite common for risks to be presented to the board as a dashboard or heat map, and for outside advisors to be consulted on more complex issues.

Yet how, when, and where directors carry out their duty of oversight is not limited to the boardroom. What happens between board meetings is almost as important as what happens in the boardroom. Stuart R. Levine, who chairs the board's nominating and governance committee and is a member of the audit committee for Broadridge Financial Services, said it's important learn about the business by "taking field trips" and speaking to employees. "Stretch your legs and your lungs," he advised.

Visiting company divisions, customer locations, or manufacturing facilities provides opportunities to meet the next level of management and experience firsthand how the business operates. Lower-level employees or those on the front lines can be invaluable in identifying emerging risks or new market opportunities.

Maureen Breakiron-Evans, chief executive of Strategic Forge, whose board service includes Cognizant Technology Solutions and Heartland Payment Systems, equates risk to strategy and vice versa. "They are different sides of the same coin," she said.

Breakiron-Evans was named in July to the Ally Financial board as a designated audit committee financial expert. A CPA, Breakiron-Evans was CFO of Towers Perrin and general auditor and enterprise risk manager at Cigna. Her experience leads her to look at risk from the standpoint of "what are our big bets?"

Directors need to pay attention to the marketplace and observe what is happening at and to other companies, participants agreed. "Companies rarely suffer from something that no one has ever experienced before," said one director.

Taking cues from the marketplace and his own experience, Hulbert warned of the increasing danger of insider threats. Having spent much of his career "working the other side of threat, actively trying to penetrate targets and steal secrets," Hulbert advised: "The weak link is almost always the human element."

The Culture Question

Hulbert's caution struck a chord with several directors who spoke of the importance of maintaining a healthy corporate culture. Some observed that according to popular wisdom, one leading cause of the financial crisis of 2008 was a culture of excessive risk-taking among money lenders.

Unhealthy cultures can also lead to corruption, as evidenced by the spectacular failure of Enron and the near takedown of Tyco International.

A myopic culture, said one director, could be blamed for the undoing of such venerable brands as Blockbuster, Kodak, Polaroid, and Woolworth's. And in a recent example, what effect did culture have inside Volkswagen AG that led to the installation of software designed to evade emissions testing in diesel vehicles sold in markets around the world?

As for Barings Bank, this once-venerable institution, one of the world's oldest and largest banks, was taken down by the actions of a single and ultimately criminal 28-year-old trader. His illicit activities, which included hiding hundreds of millions of dollars in trading losses, went undetected for years. This was, according to a report from Bank of England's board of banking, "a consequence of a failure of management and other internal controls of the most basic kind."

How to avert such crises? Learn from experience, says Mary E. Landry, a former rear admiral in the U.S. Coast Guard who recently retired after 31 years of service. Landry worked on maritime security post-9/11 and was the federal on-scene coordinator

The Most Resilient Corporations in America

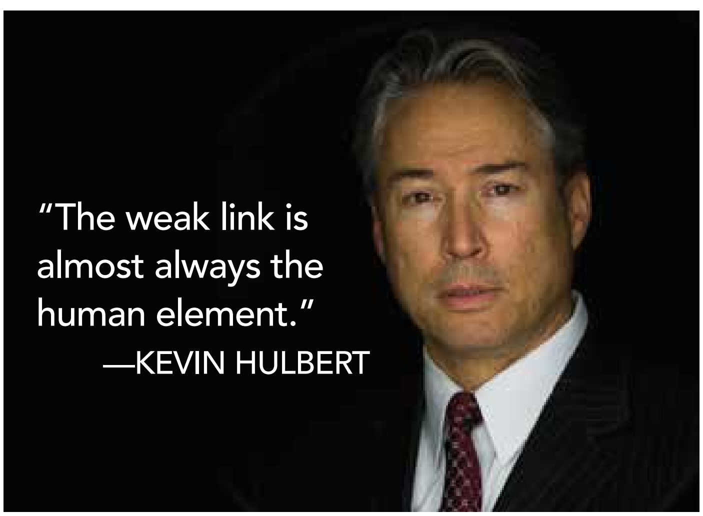
BNY Mellon	1784 (oldest company on Fortune 500)
Cigna	1792
JPMorgan Chase	1799
DuPont	1802
Colgate-Palmolive	1806
The Hartford	1810
Citigroup	1812
Consolidated Edison	1823
CSX	1827
Macy's	1830
State Street	1832
McKesson	1833

Source: Fortune.com, June 10, 2015

during the BP Deepwater Horizon disaster. She also worked on the federal govermnment's response to Superstorm Sandy and the Ebola outbreak. "If you look across a spectrum of possible black swan-type events and prepare yourself for the worst, the common threads of what it takes to manage through the crisis and beyond will position you to be resilient," she said. Landry joined the USAA board last year.

To build resilience in any business, risks—even those of the black swan variety—must be anticipated. And this, according to seasoned directors, means asking some disarmingly simple questions that help to break down complexity and anticipate the unknowable.

Irene Chang Britt, the former president of Pepperidge Farm, has



held multiple executive leadership positions at Campbell Soup and Kraft Foods (now Mondelez International), and was elected to the Dunkin' Brands board in 2014 and to the Tailored Brands' (formerly Men's Wearhouse) board in December. Understanding the company's business is paramount, she said, and directors should be prepared to ask, "What business should we be in? Is that business model still relevant? What business should we be in tomorrow?"

In fact, directors may need to ask if the company should even be in business. One director said he often asks, "What scenario could change our business model most drastically?" Another bemoaned the sheer number of risks and asked for advice on how best to distill the various levels of information presented in a risk dashboard.

"Simplify the risk register or heat map…to a single page with varying levels of risks denoted in color," suggested Jeannie H. Diefenderfer, a former Verizon Communications executive who was named to the Westell Technologies board in September and who chairs the compensation committee for the MRV Communications board. The traffic-light pattern of red, yellow, and green to denote, respectively, high, moderate, and low risks is a commonly used approach to simplify and highlight key risks.

Say It, Put It in Writing, and Say It Again

Ethics are important. From Enron to Arthur Andersen to Volkswagen, organizations get into trouble when they start to drift on ethics. A strong ethical culture starts at the top and should permeate the entire organization. Corporate values need to be expressed explicitly and repeatedly. Employees need to be reminded what is right and what is wrong and about what type of organization they are in, Hulbert said. "In the military, this setting of the tone, guidelines for behavior, and the desired end state is called 'commander's intent,' and it is always imperative that a military commander—or a CEO—clearly articulate their expectations to the troops," Hulbert said. "It is easy to step over the line when no one knows where the line might be drawn."

Employees also need to feel valued. Policies need to be articulated, written down, and handed out. They need to be repeated. Larger organizations or those with far-flung operations may experience particular challenges instilling this message. But there is no substitute, directors agreed, for a strong and effective compliance and ethics program.

One director recommended reading (or rereading) "The Principles of Federal Prosecution" by the U.S. Department of Justice (reprinted by NACD in "Director Essentials: Strengthening Compliance and Ethics Oversight," available at NACDonline.org/Compliance). In addition, Assistant Attorney General Leslie Caldwell, in a speech on Nov. 2, 2015, provided further guidance for judging compliance effectiveness:

- Do directors and managers offer strong support for corporate compliance policies?
- Do compliance personnel have stature in the company?
- Do the compliance teams get the resources they need?
- Are compliance policies clear and in writing? Are they easily understood and translated?
- Are the compliance policies effectively communicated to employees?

Some boards hold two meetings: one informal lunch or dinner meeting with the chairman or CEO, and a separate, traditional executive session. As one director explained, "This practice is intended to allow the chairman/CEO and directors to exchange information and viewpoints without formal presentations or a prepared agenda. Boards using this method have found the practice to be highly beneficial."

Informed Decision Making

Exploring the what-ifs can be a challenge when boards and management are so consumed by the here and now. Looking over the horizon is often a forced exercise. And yet, said one director, making time at each board meeting to challenge the underlying assumptions of strategy can and should be a constant and ongoing activity.

The advice emerging from these roundtables makes good sense: Be skeptical. Trust, but verify. Resist complacency, especially when times are good. Review heat maps and risk dashboards at every executive session. And gather as much information as you can about the business environments in which your company is operating. As a geologist, astronaut, politician, and author, Schmitt said, "There's no substitute for planning."

And, as Hopkins noted, for a company to both plan for and mitigate risks and seize opportunities, it needs "first to gather information. Without reliable information, good decisions are not often made." D

Participants

New York

Irene Chang Britt
Director, Dunkin' Brands Group, Tailored Brands

J. Frank Brown
Managing Director, General Atlantic; *Director*, The Home Depot

Thomas R. Cardello
Director, Options Clearing Corp.

Jeannie H. Diefenderfer
Founder, CEO, courageNpurpose; *Director*, MRV Communications, Westell Technologies

Adele Gulfo
Director, Bemis Co.

Kevin Hulbert
Partner, Dentons

Stuart Levine
Chair, CEO, Stuart Levine & Associates; *Director*, Broadridge Financial Solutions, D'Addario & Co.

Stephan J. Mallenbaum
Corporate Practice Leader, Dentons

Michael T. Marquardt
CEO, Global Kompass Strategies; *Director*, Commonwealth Trust Co., ACS Cancer Action Network, Assistance Alliance International

Pamela Packard
President and CEO, Strategic Enterprises; *Director*, Brown Jordan International, Financial Planning Standards Board Ltd., NACD New York Chapter

Carol Raphael
Director, Henry Schein, AARP, Pace University

Lowell W. Robinson
Director, Evine Live, Higher One Holdings, Metropolitan Opera Guild, Smithsonian Libraries

Bill Roskin
President, Roskin Consulting; *Director*, Martha Stewart Living Omnimedia, NACD New York Chapter

Ann Sardini
Director, Pier 1 Imports, TreeHouse Foods

Chicago

Dennis Chookaszian
Director, AllScripts, Career Education Corp., MacDonald Dettwiler & Associates, NACD Chicago Chapter

Ronald Daly
Director, AARP, U.S. Cellular Corp.

Ana Dutra
President, CEO, Executives Club of Chicago; *Director*, CME Group, Greeley and Hansen

Willard Evans
Director, Energy Insurance Mutual

Barney Harford
President and CEO, Orbitz Worldwide; *Director*, Liquid Planner, Orbitz

Adam Hartung
Managing Partner, Spark Partners; *Director*, Six D Global Technologies

Karl Hopkins
Partner, Chief Security Counsel, Dentons

Daniel Kaye
Director, AXA Financial

Roger Liew
Chief Technology Officer, Orbitz; Advisory Board, Target Corp.

Cheryl Mayberry McKissack
COO, Johnson Publishing Co.; *Director*, Deluxe Corp., Private Bancorp

Stephen Pryor
Director, Board Resources Inc.

James T. Spear
Director, Flowers Foods Inc.

Ellen Taaffe
Director, Hooker Furniture Corp., John B. Sanfilippo & Sons

Scottsdale, Arizona

Tony Anderson
Director, AAR Corp., Avery Dennison Corp., Exelon Corp.

Michelle Applebaum
Director, Northwest Pipe Co., Lake Forest College

Cheemin Bo-Linn
President, CEO, Peritus Partners; *Director*, Violin Memory

Maureen Breakiron-Evans
CEO, Strategic Forge; *Director*, Ally Financial, Cognizant Technology Solutions, Heartland Payment Systems

James Foy
Director, Tangoe, Continuum ManagedServices, SemantX

Nancy Gioia
Director, Brady Corp., Exelon Corp.

Mary E. Landry
Director, USAA

Jack Pfeffer
Director, Air Tractor, Holloman Corp.

Harrison H. Schmitt
Director, Orbital ATK

Patricia Stensrud
Director, Christopher & Banks Corp., Crown Crafts

Robin Sterneck
President, Sterneck Capital Management; *Director*, EPR Properties

Charles Thayer
Chair, Managing Director, Chartwell Capital; *Director*, MainSource Bank, MainSource Financial Group

Scott Webster
President, Starship Manifest; *Director*, Orbital ATK

Todd Weintraub
Director, Atlantic Aviation, Macquarie Infrastructure Co.