

LEADERSHIP IN THE FIELD: Interviews With Global Leaders

By Russell Reynolds Associates
with Roger O. Crockett

Citigroup's chairman reflects on board composition, the role of the board in addressing issues such as risk oversight, heightened regulatory requirements, the rise of shareholder activism, and the ultimate board responsibility—CEO succession.

Dick Parsons on Boards and Risk—An Edited Transcript

Roger Crockett: Let's start at a fundamental level. What is the role of the board when it relates to risk? Is it risk oversight? Is it risk management? What is your view?

Dick Parsons: In truth, the board's role is, by definition, relegated to oversight: oversight as to the framework within which decisions get made. and then are decisions being made after the fact, within that framework, and is that framework in need of adjustment and modification? You know it's interesting—at Citi we sometimes get into discussions with our regulators, and sometimes even with shareholders, about whether the board is managing this or is the board managing that?. Well, [the answer is] boards don't manage. That's the reality. Boards don't manage and can't manage. Their responsibility isn't to be managers.

Roger Crockett: That's the responsibility of the management team, the executive leadership team ...

Dick Parsons: That's exactly right. [The board's] responsibility is to make sure that you've got the right managers on the field and to make sure those managers have a framework within which to carry out their management responsibilities that's sensible and appropriate to the circumstances and then to make sure, on a monitoring basis, that, in fact, those policy decisions, which I'm calling framework, are being observed.

Roger Crockett: So let's talk about how a board appoints different people to different committees on its board and whether you develop a Risk Committee or have a qualified risk expert. How do you go about appointing directors to different roles?

Dick Parsons: I will give you some real life examples from Citi. Until about a year ago, we had one committee that was [called] the Audit and Risk Committee. A little more than a year ago we decided as a group that we were going to separate those [responsibilities] into two committees because the Audit Committee really looks after the financial reporting and controls. And risk, particularly in a bank, is a different thing. And so this [combined] committee had such an overwhelming agenda we thought it would be best to break it in two: Have the Audit Committee do the financially oriented function and the Risk Committee focus on what we've been talking about—setting the framework for risk management and then overseeing risk management as it was implemented by the [executive] management team. Those who have an interest in risk management and, particularly from my perspective as the chairman, those who have a background in financial risk management lend themselves to be on the Risk Management Committee. And those with stronger interests and experience on the financial and control side lend themselves to be on the Audit Committee.

Roger Crockett: Well not long ago, the SEC [U.S. Securities and Exchange Commission] stepped in to sort of change up the rules. They implemented this proxy access rule requiring companies to include the nominees of large shareholders [among the slate of candidates to be voted on for slots on the board of directors]. What is your feeling about that? How does that change what you've done on your board, and how should other boards go about addressing the environment with new rules in place like this?

Dick Parsons: I'm not sure it's changed anything yet because this applies respectively to the upcoming proxy's right. So that we haven't seen these new rules in effect and in play yet. To be candid, I have my doubts about the efficacy of all of this. Boards are supposed to be consistent around at least one thing, which is we are all here for the benefit of all the shareholders. I think when you open up the

possibility of having special groups of large shareholders potentially putting on their own directors, [those directors] might be beholden to that group of shareholders and not the others. There are lots of unintended consequences that could ensue that will make it much more difficult to both manage and grow businesses for the interest of all the shareholders as opposed to a subgroup of them. But we're just going to see how it works out, you know?. The SEC obviously had a different view than I would take, but theirs may be wiser.

Roger Crockett: **You're not sure you want all the shareholder input?**

Dick Parsons: No, no, no, it's not a question of not wanting shareholder input because I don't have a problem with that. What I have a problem with is having special constituencies within a board that is supposedly going in a direction for the good of the whole as opposed to the good of some substantial but nonetheless minority view.

Roger Crockett: **We work in a global environment these days. So it's not just the SEC rules or this U.S. environment that's important, but it's also the landscape in Europe and Asia and Latin America and other places where different regulatory bodies oversee global companies. What factors do you see that are relevant to consider beyond the U.S.?**

Dick Parsons: There's a huge focus, a huge focus on what is happening in economies and regions and countries, even in cities, around the globe and how can we play in those spaces and play effectively. Who is your borrower? Who is your customer? What economic environment is he or she or it functioning in? What are its prospects? All of those things you have to know in order to make a prudent investment decision and to manage risk prudently. So it's all about information and it's all about understanding on a global basis kind of what bets you're making and how prudent they are. We've got a guy [on the Citi board] named Alain Belda who is a Brazilian, and, although he ran Alcoa for awhile, he's now back in Brazil. He's a partner in Warburg Pincus, and he's really plugged into the local scene down there. Bottom line, it's very important to have a sense of what's going on around the world because that gives you some more information in terms of evaluating the levels of risk you're exposing yourselves to.

Roger Crockett: **Well, Dick, let's turn to perhaps the most important question when it comes to the board's responsibility—and that is succession.**

Dick Parsons: Succession is important, and it's always in play because you have two circumstances in which it can arise. One is the unexpected. People do get hit by buses or sometimes things develop in the marketplace that force you to make a move that you hadn't anticipated. And then there's the longer term [succession plan]. We proceed down both paths. We have what we call an emergency or unanticipated development plan: What happens if somebody gets hit by a bus, comes down with an illness or, for other personal reasons, has to leave? What do we do in those circumstances to make sure that the entity can continue to function, that all the bases are covered, that there is the right chain of command and leadership in place? And then you embark on a longer and more thoughtful process, usually [regarding] the CEO in terms of identifying both within and outside the organization those who have the potential for future leadership. What kinds of experiences should they be exposed to on the way? What's the time frame for getting them up to speed? And gradually, over time, you begin to focus on a small group who would be the likely successors when the current CEO is ready to roll.



Dick Parsons is the Chairman of Citigroup, and has served as a director on Citigroup's board since 1996. Since becoming Chairman in 2009, Parsons has helped reconstitute the board and steady Citigroup amid a flurry of regulatory and economic challenges. Parsons is a senior advisor to Providence Equity Partners, and the former CEO of Time Warner and Dime Bancorp.



Roger O. Crockett is a veteran business writer, thought leader and speaker. He is the former Chicago Deputy Bureau Chief for *BusinessWeek* magazine and a contributor to *Harvard Business Review*. His perspectives on business, leadership and diversity are trusted by many of the world's top executives and entrepreneurs.