SYNERGY, FLEXIBILITY and FOCUS in the BOARDROOM

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Prior to joining a board many directors have had successful careers within their companies and elsewhere. They often bring strong credentials and a wealth of experience to the boardroom table. Some new board members may well have won awards and prizes for their achievements. Why is it then that many boards do not add more value? Why in some cases do they damage the companies for which they are responsible? What is missing or holding them back?

Identifying Root Causes

What negates the available individual talent on many corporate boards and limits the collective contribution of so many directors? Is it the adoption of standard corporate governance models irrespective of particular requirements and circumstances? Is it board practices and dynamics or inadequate board chairmanship? Does the knowledge and understanding around the boardroom table become dated, or even dangerous, as situations, circumstances and priorities change?

Are directors cocooned in corporate boardrooms, misinformed and cut off from corporate realities? Are those who advise them and pad the rarefied atmosphere of head office corridors too far removed from the aspirations and concerns of customers and local communities? Are board members failing to use, or misusing, the levers of power available to them? Are there particular areas of potential or actual danger and weakness that directors should look out for?

When boards undertake "helps and hinders" analyses they usually identify various hindering factors that are getting in the way of their direction of travel and where they would like to go. They often raise other factors that would help them make more progress towards corporate goals and objectives. A "more or less" exercise to identify what directors would like more of or less of can also capture both deliverable changes and other requirements that are more difficult to achieve.

Certain obstacles and barriers are easier to overcome than others. However, when directors discuss their common elements and underlying factors, certain themes often emerge that provide clues as to the root causes of the problems facing both a board and the company for which it is responsible, and how a number of them might be tackled. Making changes that simultaneously deliver benefits in a number of areas and for multiple stakeholders can be the key to how a board might add more value.

Searching for Synergy

At IOD's annual Dubai Global Conventions participants reflect on business excellence. Is excellence a question of both the quality of individual factors, or the components of a business excellence model, and how they come together and interact to achieve a greater whole? Synergy cannot be assumed. An outstanding meal can require both excellent ingredients and a creative chef. Talented musicians benefit from a hall with good acoustics and an inspirational conductor. With so many boards and their individual members, why is the whole not more than the sum of the parts? Why are they not achieving more with the capabilities and opportunities available to them?

Can we learn from the parable of the blind and the elephant, where a group of blind people counter an elephant for the first time and each tries to describe the bits they encounter and touch in order to understand the nature of the animal? In the parable, following descriptions of the trunk, an ear, a flank, the tail and other individual parts of the elephant, the group are confused. Their differing reports of areas that are thin, fat, wet, dry, rigid and snake-like do not seem to be compatible or reconcilable with their experience and they cannot reach a conclusion.

One of the dangers of functional structures and narrow career ladders to the boardroom is that directors – and particularly executive directors – may focus upon particular aspects of issues on the boardroom agenda and view them from a perspective that reflects their individual professional background and personal experience. Many people also limit their comments and questions to the areas they understand. They avoid straying beyond the limits of their confidence in order to avoid feeling foolish, yet issues often come to boards because they have not been experienced before.

Dangers of Departmentalism

The author recalls encountering the top forty executives of a leading multinational corporation. I listened patiently while each chief officer described the quality improvement projects underway in their respective fiefdoms, which added up to a total of over 8,000 teams around the world. During the break I asked the attendees to write on post-it notes the main factors that would determine whether or not the company would survive in the face of a disruptive technology and determined and innovative competitors, sort them into categories and give each of these challenges a name.

Following the post-it note exercise, each chief officer was asked how many of their improvement and change projects related to the eleven challenges that had been identified. The group got down to the last challenge before any of the chief officers thought that they might have a project relating to it. In the case of the other issues they said their projects were functional and limited to areas they were responsible for, while the top ten challenges were general ones affecting the company as a whole. There had been little discussion of common root causes across projects and functions.

Many executive directors fail to distinguish between their directorial and managerial roles. They are constrained by their past and their functional responsibilities and find it difficult to adopt an open-minded and holistic perspective in the boardroom. Ideally - and in addition to their personal qualities - potential candidates for boardroom appointments should have experience of a number of functions, different technologies, overseas operations, working closely with key customers and supply chain partners, and participation in cross-functional and international projects.

Applying a Critical Perspective

Directors do not need to be specialists, but they must be able to handle uncertainty and should also have a critical perspective. Board members should understand enough to know what they do not know and when additional counsel might be beneficial. They should call for available expert advice as and when required. However, many issues are on board agendas because they relate to recent developments that have not yet been covered by corporate policies and whose implications might not yet be clear. Few if any people may have relevant experience and knowledge. There may be insufficient time to commission studies or even identify who might be able to help.

Some directors are better than others at critiquing and assessing information and views presented to them, whether orally or in board papers and documents such as draft accounts, and at making responsible judgements on how to proceed. If it looks to good to be true it may well not be true. At the London Business School, Andrew Ehrenberg used to say that if something in a data set looks interesting or stands out it may be significant but is often a mistake. A critical faculty is particularly valuable when examining draft accounts. If the wording seems convoluted, dense and difficult to follow, it may have been consciously designed to be neither read and understood nor questioned.

Smart directors pay particular attention to changes in cash flow and indebtedness, especially if there is a sudden change in market and trading conditions, when margins are thin and where a company is particularly dependent upon a small number major projects and key customers. They look carefully at comments and risk analyses that relate to whether or not indebtedness can be covered. They scrutinise changes in provisions. When there are danger signals, they question justifications of why accounts have been prepared on a going concern basis. They learn from the failings of others.

Ensuring and Maintaining Flexibility

Some directors have pet ideas and fixed opinions. They instinctively revert to their entrenched views and defend them. They are set in their ways and reluctant to come out of their comfort zones. They adopt rigid rules and inappropriate practices. They suffocate creativity by eliminating diversity in favour of standard approaches. They establish corporate-wide policies where they are not required. Could doing less, initiating a bonfire of standards and controls and introducing greater flexibility increase the positive contribution of many boards?

The well meaning efforts of some directors harm companies. They are too rigid and closed in their thinking. Without flexibility trees can snap in strong winds, structures can fail and people and organisations can struggle to adapt and grow. Without flexibility a capability can become irrelevant and a strategy can become dangerous. Flexibility is conducive of openness and a willingness and ability to change. It is a key component of learning, agility, resilience and survival.

Many board practices are inflexible. Important decisions on pressing matters may have to await the next board meeting, or the appropriate review in an annual calendar of business. There can be considerable variety in the matters to be dealt with at different board meetings, yet they all invariably seem to follow a similar pattern. Why have policies on standard ways of working when various tasks and projects might best be handled in very different ways?

Companies vary greatly in their aspirations, capabilities and stage of development. While they may face different challenges and opportunities, many boards adopt the same or a very similar corporate governance model. Wouldn't it make more sense to develop a bespoke model that reflects the situation a company is in and its ambitions, the relationships with different stakeholders it is seeking to build and the nature of the key decisions that need to be taken?

The Growth Conundrum

Factors such as synergy and flexibility are interrelated. Sustaining success is a challenge for many directors. Frustratingly, more sometimes seems to be less. The larger a company becomes, the greater the challenge of remaining relevant, as more areas may need to be reinvented and the cost of restructuring increases. The bigger a whole becomes, the less it may seem to be more than the sum of its parts. There is little point having capabilities if they are not current and do not remain relevant as situations and possibilities change, and they cannot be flexibly accessed as and when required.

Certain large and well known companies are vulnerable. They could be quickly taken out. Their activities and business models are not sustainable. They are bureaucratic and defensive. They still have layers of managers who are walking overheads. Their structures and practices stifle creativity, inhibit innovation and deter entrepreneurship. They are less than the sum of their parts. The people of threatened organisations are often their largest cost. Too many of them are dependents, drawing from the well of corporate knowledge rather than adding to it. Some of these people are dishonest.

Individuals within such endangered companies rush about trying to look busy rather than thinking. They mouth corporate slogans and endeavour to milk situations while they still can. Consultants sell costly restructuring and cultural change programmes to companies that have a questionable future, while the directors keep their fingers crossed and hope for the best. Care needs to be taken to ensure that corporate structures, practices and cultures and an excessive focus upon compliance do not smother creativity, prevent innovation and frustrate entrepreneurship.

Talented individuals should undertake some due diligence before joining a company. Those who have a choice look for synergy and flexibility. They tend to favour associates, partners and suppliers who understand their aspirations and are competent, honest and can be depended upon. Ethics, legitimacy and trust are also particularly important today. Evidence of immoral or irresponsible conduct can be quickly captured on a mobile device and uploaded with the potential to go viral.

Importance of Focus

Some people and organisations try to do too much. They over-expand and over-diversify. They spread themselves too thinly across so many areas that synergy becomes ever more difficult to achieve. They become quite good at a whole range of areas without being outstanding at anything in particular. Where inflexibility is a common theme of how they operate, they become bogged down on a broad front. A listed company with these characteristics might be acquired and broken up.

With so much happening around them and in the marketplace, many

boards do not know what to concentrate upon, or what is important and what questions to ask. They lack focus. Again, certain common themes may help. For example, when new activities are proposed one could ask about synergy with existing ones and what new sources of synergy might result or be required. When new investments are made, one could enquire about flexibility in relation to keeping doors open for future developments, avoiding becoming locked in and reducing crawl out costs.

Many boards should focus more upon root causes. Their decisions should aim to achieve the benefits of greater synergy. The vision, mission, strategic direction and guidance provided by a board should help people to both determine and focus upon what is important. Like laws introduced by Governments and rules imposed by regulators, they should be kept under review. As situations and circumstances change they may need to become more flexible if they are to remain relevant.

Addressing Future Challenges

A combination of uncertainty and the emergence of an unprecedented range of new challenges, opportunities and possibilities is changing the lives of many directors. It is forcing them to rethink how they should operate individually and collectively, in order to remain relevant, discharge their onerous responsibilities and add greater value. The smarter ones recognise that the companies for which they are responsible also need to become more self-aware and questioning in terms of their focus and more flexible in relation to their structures and operations.

Many companies have to become intelligent, resilient and collaborating organisms that continually adapt to pressures and possibilities. Their directors may benefit from looking to new sources of inspiration and insight such as the biological sciences. They will still face perennial challenges such as striking the right balance between action and reaction and determining what guidance to provide and when to intervene. They may well also be confronted with difficult issues such as to what extent a mutating organic entity can be steered and what its aspirations beyond survival should be.

Fundamental questions arise concerning how boards and companies can remain relevant and current and best adapt and contribute to confronting challenges and seizing opportunities. They may lead to inquiries about directorial performance and the role of business and the capitalist system. If boards do not give a lead in responding to them, Governments and regulators may intervene. The competence of directors and the effectiveness of boards have never been more important. ■

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