



*Prof. Colin Coulson-Thomas

Avoiding Complacency and Ensuring Challenge

In uncertain business and market environments, and in relation to the companies they are responsible for, what is most likely to cause board chairmen and corporate chief executive officers (CEO) sleepless nights? For some it could be a particular factor, such as a legal case, a new product failure, an unexpected competitor move or the arrival of a new market entrant with a very different business model. For others it might be a more general sense of unease and insecurity as to whether they and colleagues may be mistaken and are victims of groupthink. Are they taking a company in the wrong direction. Have the right calls been made? Have vital considerations been overlooked?

Is bad news hidden? Were contrary voices silenced, ignored or discouraged?

Many boards appear reluctant to be open and transparent, especially in respect of organisational failings. Cynicism and distrust is the result. Some people conceal problems and reservations. Candour in relation to failures enables issues to be brought into the open and addressed so that improvements can occur. Confident leaders encourage whistleblowing and independent channels. They ensure mechanisms are in place to protect those who use them. People are encouraged to learn from their mistakes, be flexible in their reactions and imaginative in overcoming obstacles and barriers. When required, they take steps to recover trust.

Securing Balanced Advice

Should business leaders be concerned about expert advice they receive from professionals employed by their organisations and consultants they hire? Ideally, they should listen to sage counsel based upon objective and rigorous analysis. Independent directors should provide challenge and ensure relevant factors are taken

into account. Are inputs received from too narrow a range of sources? Are reports honest and correct? Have customers and business partners been consulted? Confidants with relevant experience and expertise, who respect confidentiality and can provide a second opinion, or act as a sounding board, can sometimes be invaluable.

One needs to ensure that consultants and advisers are not parasitic. Some people play up the complexity of matters and situations for a variety of motives, including to justify their specialist roles and encourage dependency upon them. At the same time, over simplification can result in certain considerations being overlooked, so summaries should encompass what is relevant and important. Complexity can be a consequence of confusion and a lack of understanding. Hence the value of challenge in the boardroom and scepticism. Auditors, lawyers and regulators may need to be sceptical when assessing evidence and/or in receipt of claims.

Experts should provide disinterested counsel and service to others, but directors, senior managers and professionals have been dogged by allegations of greed, high levels of executive pay, excessive loss of office compensation and exorbitant fees. Key tests are whether when the going gets tough people avoid conflicts of interest and focus upon the concerns of employers, clients and other stakeholders and social obligations, rather than their own interests.

Identifying Relevant Inputs

Despite its high cost, the relevance and value of much of the input business leaders receive, is less than ideal. When new issues arise at boundaries of what is known, and time is short, experts can give advice that may be in short supply. Judging the value of those identified may not be easy. Issues may be new to both directors

***Prof. Colin Coulson-Thomas** is IOD India's Director-General, for UK and Europe Operations, also holds a portfolio of board academic and international roles, and has advised directors and boards in over 40 countries.



and those who advise them. Many directors do not effectively challenge the advice they do receive. Some may not want to appear foolish or ignorant. Others assume that homework will have been done on proposals brought to the board. They may nod business through, although relevant interests might not have been consulted.

When confronted with a novel or uncertain situation, the limitations of a board and its advisers may suddenly become apparent. Views expressed may derive from a past world and be tangential to contemporary reality or irrelevant. One may become aware of biases, vested interests and prejudices and question the value being added. When a board's contribution is most required and it needs refreshing, a chairman may regret giving a low priority to board evaluation and reviewing its membership. One may see too late what some investors might already be aware of, namely that a board has become deficient and a self-perpetuating oligarchy.

Corrosive Implications of Unfettered Power

We sometimes celebrate strong characters who get things done, but should the more powerful business leaders be the most concerned? Do people tell chairmen and CEOs what they think they would like to hear? Do colleagues agree just to keep in with them? Do some leaders surround themselves with a clique of people they are comfortable with, do not see as rivals and who think like themselves on most issues? In getting to the top, have they eliminated, sidelined or neutralised those with opposing views? Are they simply imposing their views upon a compliant community of people who are reluctant to rock the boat and afraid to challenge them?

Do all directors exercise independent judgement, or do certain members of a board, a chairman, CEO or other party exercise undue influence over some of them? In difficult and crisis situations, some people's pliability, lack of moral fibre and other limitations can be cruelly exposed. Others respond and come to the fore. Are there different faces to whom one might be able to turn?

A realisation that independence and objectivity is compromised, missing or has been lost may come too late. Those who favoured a different strategy, or who argued unsuccessfully for an alternative approach may have moved elsewhere to implement their ideas. People who are blocked, ignored and/or passed over for promotion may flourish when constraints are removed and/or they are given a place in the sun.

Groupthink

A concentration of power and/or lack of diversity can result in complacency and groupthink. Sufficient challenge needs to be provided to ensure that all relevant factors are examined, viable options are explored and better opportunities are not overlooked. What is missing could be the question, rather than what is in place and seen. Where are the controls on the accumulation of excessive power in too few hands? Are there checks and balances to ensure such power is not misused? Is there proper, balanced and objective debate, involving challenge and a diversity of viewpoints, before power is exercised and important decisions are taken?

Directors can be exposed and vulnerable when independence, objectivity and challenge is lacking. They should be alert to the risk of groupthink and the reluctance of some people to express their views, especially when they are in a minority and those they consider more important in a hierarchy think differently. If self-aware and alert, they should also be sensitive to the impact of their own conduct, shared assumptions and corporate practices upon others.

One can assess whether directors might be increasing the risk of groupthink. Do they keep using organisation charts that show themselves at the top of a pyramid, issuing commands and in control, or do they portray their company as a network of roles and responsibilities? Do they encourage each person within it to be professional, exercise independent judgement and provide objective advice in the best longer-term interests of a company? Do they stress compliance or invite contribution? Do they listen, provide support and build others?

Ensuring Diversity

Surrounding oneself with compatible people who have similar backgrounds, perspectives, views and thought processes can make it easier to achieve consensus and unity, but it may also limit challenge and result in complacency and groupthink. Recruiting to a common brief that is too tight and from a particular pool of people can result in a community of undifferentiated clones. Should one be surprised if using the same recruitment and selection criteria, practices and consultants produces a succession of similar if not identical results?

When was the last time a Nomination Committee reviewed its membership and practices, or corporate recruitment and talent management policies were examined? Are directors and others recruiting people in their own images and/or those they feel will "fit in" and comply? Expensive corporate programmes to create a particular common corporate culture should be challenged. Were they to impact upon attitudes, approaches and behaviours and homogenise them, might this reduce the diversity that is conducive of creativity and innovation?

Some people are insecure. They dislike personal confrontation. Others may be convinced that their approach or business model is correct, or distrustful of the individual exercise of personal judgement. They may be attracted to rules, robots, automated systems, artificial intelligence applications and the mandating of preferred responses and actions. However, these may or may not be appropriate in uncertain situations, new circumstances or when expectations and priorities change. What about updating and learning, errors, exceptions and special cases? One may need to question limits, relevance, balance and boundaries. Unfamiliar or unprecedented issues can arise. Their discussion and resolution may require fresh thinking and variety of contributions and views.

Encouraging Challenge and Internal Competition

Some companies put so much stress upon establishing common values, a shared culture, team work and collaboration that many people feel obliged to "fit in", "go with the crowd" or "bend with the wind". They may be reluctant to stand out or "rock the boat". Effective teamwork does not mean everyone has to agree with each other. Better outcomes that "push the boundaries" might be achieved if people engaged in debate, challenged each other and "fought their corners". Where there is dull uniformity and complacency, argument and competition may be preferable to lazy agreement and cooperation that is based upon unnecessary compromise and a lowering of ambitions.

In many companies, proposals and bids are subjected to red team reviews, but what about other areas? Who plays the role of competitors or other stakeholders, looking at the world from their perspective and thinking about how they might react? Who challenges suggestions from an employee, investor or customer viewpoint? Should projects and proposals compete for resources rather than be handled in isolation and in sequence? Might this allow them to be better contrasted, compared and

challenged? Should contending solutions also be encouraged to compete internally, or to obtain customer endorsements and support before one or more of them are accepted.

Should new product teams and those suggesting policies be required to pitch their ideas to a wider range of internal and external parties and interests? Would this achieve better outcomes than leaving it to a board to decide, when those who have the ear of a particular director may have an unfair advantage? It may be possible to bring elements of democracy into corporate affairs, but the electorate might need to vary according to the issue and vested interests may have to be addressed.

On occasion, some directors may want to "get on with it" and "make things happen", particularly when they feel under time pressure. They may bemoan the delay and uncertainty that putting an item onto a board agenda and the subsequent discussion can cause. However, it is sometimes better for issues to be addressed up front, rather than be allowed to arise later and disrupt implementation. Where a proposed course of action is flawed, early critique and discussion can avoid a waste of resources. When brought into the open, opposition and concerns can be addressed rather than allowed to fester. This can speed up the eventual delivery of sought after results.

Rules, Principles and Priorities

In relation to corporate governance, do we put too much stress upon the details of codes and listing requirements and pay insufficient attention to basic principles, such as the avoidance of a concentration of power and the importance of checks and balances? An excessive emphasis upon just board structures should be avoided. One needs to consider who populates them, and whether the membership of boards and committees is composed of a diversity of people who are open minded, tolerant of differences and expressing a range of views. Is a board or committee controlled by particular individuals or a small group of fellow travellers? Do they have untrammelled power? Who challenges them? Are they able to do largely as they please?

What should directors, and especially independent non-executive directors who are concerned about a concentration of power and lack of diversity, look out for? Should their enquiries extend beyond the board? Should they probe to determine if checks and balances exist within the executive team? Indicators of a lack of challenge may become apparent. Are particular groups, interests or views over-represented? What steps are taken to ensure that appointments are based on merit rather than

favouritism? Are positions advertised and do impartial advisers sit in on selection decisions?

Honesty and integrity are qualities that are much sought after when board chairs are asked what they look for in new board members. Honesty, independence and a willingness to probe, question and reflect is particularly important when distinguishing between fads and fundamentals, surface and substance and reality and illusion, and when striking the right balance between action and reaction, complexity and simplicity, activity and reflection and change and continuity. Internal and external auditors need similar qualities. Are they truly independent? Can they express their views to independent audit committee members and chairs without executives being present?

Influence of Shareholders

How many institutional and other investors and owners of family companies consider the internal workings of companies within their portfolios? Are they even aware of the realities of boardroom dynamics and whether one or two people or a small group call the shots? Other than when adverse consequences start to emerge, would they know that a CEO is acting like a dictator?

Some shareholders just focus on "outputs", visible aspects of corporate performance. They stay clear of internal matters and do not probe what they feel are operational concerns, but a lack of internal checks and balances in how a company operates is a governance issue. Questions can be asked at an Annual General Meeting. What does a board do to ensure a healthy diversity of experience, skills, perspectives and viewpoints, and the discussion and debate that can improve decisions and outcomes, encourage creativity and innovation, and enable a company to be adaptable, flexible and intelligent?

Annual Accounts and Reports may be subject to external audit, but do the narratives reflect what particular individuals want others to read, rather than a broader consensus on risks and prospects? How objective is their perspective on the reasons for success and who and/or what is responsible for any disappointment and failure? As the remit of narratives widens, transparency and balanced, fair and honest reporting becomes more important. Some organisations are black boxes. It is only when they are investigated or memoirs are written that one may get a sense of how they operate, where power lies, how decisions are taken and whether there is idle complacency or active challenge.

Quotes

Reaching Peak Performance

Why is one performer moved to a peak performance level while another settles for a standard or even substandard performance? It's question of attitude, and this comes from within. Peak performers – those who turn in consistent, high-payoff performances day in and day out – have one thing in common. Their drive to excellence comes from inside themselves. They are self-motivated. Standard and substandard performers can be encouraged by extrinsic motivators like promotions, raises, or threats. However, peak performers work energetically because they relish the challenge. They take total responsibility for their job performance, their job satisfaction, and their personal life satisfaction. Self-responsibility makes a critical difference in how people perform.