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New Year Reflections, Issues, Questions and Dilemmas for Directors

The start of a new calendar year can be a time for review, reflection, re-thinking, renewal and resolutions. For directors, these activities should involve more than defensive reactions to contemporary difficulties and short-term pressures. In addition to perennial concerns for adaptation, resilience and flexibility in order to remain relevant and survive, they should embrace proactive and positive initiatives to confront external developments and longer-term existential challenges, explore and seize related opportunities, and contribute to and support transition and transformation journeys to more sustainable operations and lifestyles. What are the areas, issues, questions and dilemmas that directors may be thinking about?

Individually and collectively, do some board members need to be more open, ambitious, collaborative and courageous, and also responsibly bold and innovative in terms of the options and possibilities they are willing to consider? As windows of opportunity shrink and tipping points loom, the time for procrastination while waiting for greater clarity and hoping for more certainty may be over. Critical decisions are required sooner rather than later. The situations many companies, their stakeholders and the communities and societies in which they operate find themselves mean that balls should no longer be passed sideways or backwards. Those who are 'up for it' need to move forward together.

Required responses will have significant consequences for directors, the changing nature of the companies on whose boards they sit and how they operate. It is over 30 years since in my book *Transforming the Company* I challenged treating corporate organisations as relatively bureaucratic, hard-shelled and self-contained structures controlled by the top-down decisions of boards who subjected them to periodic re-organisation or restructuring. Instead I argued they should operate as living and learning organisms and open, receptive, and responsive networks of communication and collaboration that continually adapted to changing situations, contexts and conditions, rather than as inflexible

and lumbering machines. They would be steered and inspired by open-minded, listening, receptive and responsible directors.

Recognising and Confronting Contemporary Realities

Why have directors and boards often been painfully slow to confront realities and adapt, change and innovate in order to address challenges and threats and recognise and respond to opportunities? Many of them seem distracted and limited by myths, out-dated assumptions, inherited practices and obsolete models. Others could be held back by imagined constraints or seem frozen by indecision. A lack of diversity, critical thinking and challenge among their peers and colleagues, and insufficient engagement with stakeholders might also insulate them from any impetus to change. In some cases, their uninspiring visions and leadership style could provide little incentive for colleagues and subordinates to question or contribute.

Some directors cocooned in corporate head offices seem in denial. Limited contact with customers and suppliers, local communities, or those in the front line, means they may still be thinking about issues, policies and plans that date from a previous era, prior to the Covid-19 pandemic and Russia's illegal invasion of Ukraine. While they hope that what they regard as 'normal service' will be resumed, do others recognise that these events, global warming and other existential threats are changing assumptions, expectations and priorities? Accounting and reporting practices, human behaviours such as avoidance and rationalisation, and UNEP reports suggest many directors ignore or are unaware of damaging consequences, unwelcome implications and negative consequences of board decisions and corporate activities.

Smart directors recognise changes have occurred and that continuing as before may not be possible, sustainable or desirable. They consider the implications for their own roles and what the board of a single company can do in response. Some also accept the need to listen and learn, review and rethink, collaborate and co-create, and/or widen to whom they feel responsible and for what. Will common problems and shared challenges align interests and priorities and encourage co-operation and collective action? Alert boards recognise that during a harsh business environment while others are retrenching and defensive, they may be able to secure relative advantage, differentiate, and position a company as a potential partner.

Balancing International Opportunity with Vulnerability

Prior to recent events, greater connectivity, outsourcing and relocation of activities according to comparative advantage resulted in extended supply chains. In what had been

increasingly seen as a borderless world, pressures for further economies and practices such as 'lean' and 'just in time' assumed barriers to transactions would be manageable and relatively smooth flows of shipping through certain 'choke points' and passage of containers through major ports. Although aware of cyber and contagion risks associated with increased connectivity and movements of people, for many the impacts of a global pandemic were underestimated and the virulence of Russia's aggression against its neighbour was unexpected.

Consequences of globalisation, compounded by the UN Security Council's inability to act against a member with a veto, have increased the vulnerability of people, organisations, communities and countries around the world in multiple areas. Sanctions and restrictions designed to impede ongoing aggression interrupt certain flows, while differing reactions to a major war in Europe have opened fresh fault lines. New support and investigatory networks have also emerged. Underlying realities remain. Know-how, resources, people and their skills are located in different and often inconvenient places, while collaboration and specialisation is required to cope with shared challenges and address existential threats.

New models of business and organisation and ways of working and learning and their enabling technologies are increasing the flow of data, opportunities and services across borders. Boards should identify critical dependences, and consider whether, when, where and how to address them. How might contending pressures for and against globalisation be reconciled? Is greater self-sufficiency illusory and wasteful in the light of differing relative strengths and comparative advantages? Alternatively, is it necessary to transition to simpler, lower carbon and less scarce resource intensive and environmentally damaging operations and lifestyles, and more sustainable and inclusive lifestyles, communities and societies?

Changing Sources of Power and Influence

In relation to required transitions and transformations, self-aware and thoughtful directors may also reflect upon their own role and how it might be used to better advantage. What discretionary power do they actually have in what some may view as a position with a degree of autonomy at the top of a relatively self-contained entity? How has it been affected by inter-dependences and the growing vulnerability of companies to sudden shocks and unexpected external events? As awareness has grown of the risks of dependency upon others, the fragility of external supply chains, and the implications of price inflation, and business model, technology and other changes, do some past perceptions now seem illusory?

Although they may no longer be seen as 'being in control' of events to the same extent as before, might other ways of directors exerting leadership grow in significance? How can directors use

their positions, connections and networks to influence opinions, shape agendas, highlight issues and raise questions? As awareness grows of the increasing need for lifestyles, communities and societies to become more resilient, sustainable and inclusive, leveraging them to encourage collective transition and transformation journeys may improve our prospects of a tolerable continuing existence. Are less prescriptive direction and more enabling, supportive, consensual, democratic and shared leadership now required?

Extending the reach of the ability of a board and its members to raise awareness, increase understanding of challenges and opportunities, encourage collaboration, and inspire and steer wider community and collective aspirations, responses and initiatives could be a way of accelerating needed progress. What directors focus on and emphasise, and how they interpret purpose, priorities, visions and values, may make a difference. Purposes and values can sometimes appear to be in conflict. Might this happen more often? Will moral leadership and ethical guidance increasingly be required as more people become uncomfortable with the consequences of the pursuit of certain policies and priorities? How many directors and boards have earned the authority and trust to be respected social influencers?

Changing Directorial Relationships

Alongside changing approaches to leadership, directors may need to review and adapt how they relate to others and interact with them. Increasingly, the people of organisations and members of corporate networks may need to be viewed as contributing collaborators, co-creators and partners with aligned interests and shared aspirations, rather than as dependents to be incentivised, controlled and closely monitored. More attention may need to be paid to the frameworks of rules, policies, cultures and values within which they operate and inter-relationships occur. Given the number of internal and external arenas in which adaptation, innovation and transformation need urgently to occur, do frameworks like leadership need to be less prescriptive, exclusive and concerned with particular standards? Should they be more tolerant and enabling of diversity and the exploration of alternatives and new possibilities?

If more people are to be engaged in activities related to climate adaptation and mitigation and required transitions and transformations, their behaviours and those of directors may need to change. Corporate cultures and values might be increasingly judged and assessed by outcomes and results. They may need to be lived and evidenced rather than just described and articulated. Are some directors still overlooking, or consciously concealing, negative impacts? Why are they not more assiduous in identifying and evaluating corporate externalities? Will directors be able to guide the application of

corporate values? For example, should respect extend to the natural world, eco-systems and other species?

The extent to which people feel able to question, contribute ideas and raise concerns can indicate a board's openness to criticism and feedback. The treatment of whistle blowers and perceived 'no go' areas can also be revealing. Critique should be encouraged. Unthinking acceptance, groupthink and a reluctance to question priorities and relationships can be dangerous. Reliability and trust may be articulated values, but being trusted as a reliable ally or partner by a third party could be helpful or counter-productive depending upon this entity's priorities and conduct. Collaborators should be chosen with care and relationships periodically reviewed. Reputations can be enhanced or sullied by whom one associates with.

Relationships with CEOs and Executive Leadership Teams

Key relationships for directors and boards are those with CEOs and members of senior leadership teams. Board members and chief officers might be impacted in different ways by the continuing and evolving consequences of recent events, according to their perspectives, interests, roles and priorities. Boards and leadership teams might also both discuss them, their impacts and possible responses, formally and informally, within their respective groupings. In the case of unexpected developments, there may be little in current policies, past decisions and regular practices to inform or guide them. As respective meetings occur with varying frequency on different cycles, how can alignment, consistency and coordination be achieved?

Directors and executives should understand each other's roles, responsibilities and contributions and be alert to overlaps and gaps. While not interfering in operational matters, directors should support CEOs and encourage them and executive colleagues to be positive, brave and sensitive to developments and possibilities that may have strategic implications. They could be a sounding board and guide on the speed of transitions, the achievement of net zero and other objectives, or the pursuit of green business opportunities and climate adaptation and mitigation. How should they ensure executive decisions reflect stakeholder concerns and that pre-occupation with competitor moves and competitive advantage does not frustrate desirable collaborations and required collective responses to existential threats?

The consequences of recent developments for the future of mankind are not entirely negative. Shocks can sometimes trigger the pursuit of alternative possibilities. For example, might higher prices and energy supply disruption, hasten decarbonisation and boost renewables? Will economic slowdowns and cost of living pressures moderate

unsustainable consumerism? Could smarter software and new technologies enable less resource demanding hardware? Might this enable our descendants to access some of the scarce natural capital currently being rapidly exploited without them having to rummage through our rubbish? The mutual support of directors and CEOs and their executive colleagues can determine the extent to which responses to common challenges usher in beneficial social innovation and lifestyle changes.

Addressing Diverse Governance Requirements

The nature and variety of the many opportunities for adaptation, innovation and transformation in the transition to more resilient and sustainable lifestyles, operating models, rural, urban and city communities, wider societies and supporting infrastructures and services raises questions about the best way of pursuing them. Do existing boards, corporate governance arrangements and organisational structures have the capacity and diversity to cope with their differing requirements? Relevant collaborations and collective responses can be critical. Might seizing some of the opportunities identified require significant and complementary capabilities of other collaborating parties? How might they be selected?

Focusing on a company's own core capabilities and rigid adherence to standard corporate policies, practices and procedures might rule out participation in significant areas of opportunity for which some of its people, know-how, facilities

and other resources could be relevant. Should amended or sub-purposes and different policies, priorities, practices and timescales apply to some opportunities? Might they require a degree of independence and be allowed to operate, organise and be governed in whatever ways are most appropriate for their situation, circumstances and requirements and the different collaborating parties involved? The latter could include public sector involvement and sources of finance.

In some cases, it may make sense for certain opportunities to be pursued through a subsidiary or associated company, collaborative joint-venture or a form of public private partnership. Might these require a separate board or other distinctive governance arrangements? Where several differing business opportunities are pursued, could central support departments become revenue centres and supply services to a variety of ventures? Should each of these have discretion concerning whether or not to use them? Boards may vary in their ability to delegate, empower and monitor a portfolio of ventures and transition to a holding company model of collaborative governance. Whatever the situation, directors should think, question and learn how to become more effective for the benefit a company and its stakeholders. ■

**Prof. Colin Coulson-Thomas holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries.*

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