

## Governance and Sustainability: the importance of Balance in the Boardroom

Prof. Colin Coulson-Thomas

The Global Convention 2011, with its theme of corporate governance and sustainability challenges, provides an opportunity for reflection and debate. It is an opportune moment to take a hard look at corporate governance, and the conduct of corporate boards in relation to sustainability and performance. In particular, boards need to consider whether they are striking the right balance in a number of areas.

In my book *Shaping Things to Come* I put the case for striking a different balance in various respects, for example between change and continuity or action and reaction. Change can be very disruptive, especially for customers, and change for the sake of change should be avoided. Just reacting to events can mean losing control and drifting to oblivion, but those driving forward may need to respond to significant developments.

### Avoiding Missed Opportunities

Too often businesses struggle and miss opportunities because of inappropriate activity and inaction respectively. Sometimes companies survive in spite of their directors, rather than because of them. Regardless of what happens in the boardroom, customers continue eating, wearing clothes, living in homes and doing many other things. If the alternatives on offer are not noticeably better, companies may retain their customers.

True heroes who add value may be found just about anywhere in the organisation, and not necessarily in the boardroom. Nowhere has the failure of governance been greater than in relation to missed opportunities.

Many boards should be condemned by what they have not done or seen, the better options and choices they have overlooked, and the many benefits – in the case of some companies, massive – they could have delivered to stakeholders. Particularly catastrophic in terms of what has been lost, has been the failure to exploit intellectual property, or know-how, and the potential and talents of people, and the failure to provide people with appropriate performance support.

### Adopting More Sustainable Strategies

Performance support represents a much quicker and more cost effective way of simultaneously delivering multiple corporate objectives, including responsible buying that minimises harm to the environment. Far too many companies view sustainability as a challenge, risk or source of higher costs. Yet smart companies regard helping people to do the right thing for themselves and the planet as a massive business opportunity.

Directors need to strike a balance between the interests of different stakeholders and between performance today and capability tomorrow. As I will point out in a forthcoming report on talent management and performance support it is possible to deliver both. However, many boards mortgage the future in the interests of looking

good in the short term. When balancing today and tomorrow, responsible directors aim for sustainable strategies and decisions that protect the interests of future generations, and ensure the continuing relevance and vitality of the company.

Health and sustainability are interrelated. There is another balance to be struck between fun, fitting in and going with the crowd, and thinking for oneself and adopting a lifestyle that can enhance quality of life in later years. The socially responsible company helps people to live healthy and live green.

Other balances to get right are those between aspiration and achievement, rhetoric and reality, and the formulation and implementation of strategy. A vision can be stretching and compelling as well as deliverable. Even the best of strategies may need to be communicated and shared before changes begin to occur outside of the boardroom. We need to shift the emphasis from doing something to demonstrate concern, to achieving real and significant impacts.

### Corporate Governance Failings

Recent preoccupations of the corporate governance community have not helped. In some quarters there has been an almost exclusive concentration upon board structures. Independent directors have focused on matters such as the remuneration of the executive directors, rather than their conduct. How much they are paid has been the issue, not what they do.

If the deliberations of some remuneration committees were more sensible, one might have more sympathy for them. In reality, the widespread adoption of the policy of paying in the top quartile to get the “best people” simply ratchets up the pay of directors and senior executives. What may have started as a good intention becomes a mechanism for ensuring earnings of directors and CEOs rise more rapidly than those of people in the front line who actually deliver value to customers.

Many directors have been inwardly focused on their own committee structures and governance arrangements, and whether these comply with applicable codes. In many cases, inadequate attention has been paid to the people of the organisation and their performance, and external issues such as establishing more intimate and mutually beneficial relationships with customers, and impacts upon the physical environment.

Those who seek to have a beneficial impact sometimes appear to ignore human nature and past experience. Go back 20 years or more and criticisms of how quality was being applied mirror emerging concern with tick-list approaches to corporate governance, and inadequate responses to climate change. Many people are lost in the details, and ignoring the big picture and what they should be about.

To use an analogy, managers are using a checklist in the dressing room to ensure all members of the team are wearing the right colours and protective pads before retiring for tea, rather than watching them play from the touchline and thinking about whether their strategy is the right one and how their performance could be improved to win the game. Their focus should be on performance as well as the trappings. Boards often hope for the best rather than make things happen.

## Widening the Director Gene Pool

Many of the western banks and other financial institutions that struggled, failed or were rescued by costly bailouts were led by “A list” directors. In the UK they were drawn from the great and the good of the City establishment. Whatever one does with these people in terms of corporate structure does not address the question of whether too many of them come from large, bureaucratic and quoted companies.

One could argue that the criteria used to recruit some directors onto additional boards should actually have been used to show them the door. Board chairs and investors should question whether the right balance has been struck in terms of such factors as the qualities, experiences and nationalities of board members. Maybe some boards could benefit from more independent directors who have played leadership roles in public, professional, academic and voluntary organisations.

Far too many plc directors have only known large, expensive, disruptive and time consuming ways of endeavouring to transform corporate performance. Ignoring comfortable and self-justifying rhetoric and focusing upon reality, some of them have been paid to turn up, look distinguished, be sociable, say the obvious and agree. Board chairs need to consider whether the membership of their boards give them the right balance between consensus and debate, between caution and innovation, and between importance and potential future contribution

Bringing people onto a board because of their networks, experience and contacts is a mistaken policy if they have been moving in the wrong circles, meeting yesterday’s people, and discussing outdated ideas. Maybe they have had a long experience of barking up the wrong trees, and voting through corporate initiatives that have failed to deliver or been counter-productive.

## Thinking and Innovating, rather than Complying

Compliance, questioning and engagement may or may not be a good thing. Is the standard being complied with actually relevant? Are the right questions being asked? Is engagement with a flawed strategy being sought? A balance needs to be struck between questions and answers. Some boards that are quick to challenge may be less willing to establish strategic direction.

Activities like ticking a box on a checklist can be dangerous when they take the place of thinking, and especially thinking about what is best in a particular set of circumstances, perhaps one that has not been encountered before. We need to get the balance right between thinking and doing, and in many boards we need more of the former.

Why the preoccupation with governance codes? Maybe our current cadre of directors are incapable of reading and understanding good practice, or provisions relating to their responsibilities in a Companies Act. Perhaps they need these things “explained” or “clarified”. Perhaps the balance needs to swing from trappings, such as where directors park their cars, to ensuring they understand their duties and responsibilities.

The details of derivatives or of collateralised debt obligations, and the risks they pose, seem to have been beyond many bank directors. Maybe at school they were not encouraged to put up their hands when something was not clear. Yet, when matters relating to their own remuneration arise, these same directors often seem capable of absorbing small print, raising pertinent questions and seeking relevant advice.

Compared with the many opportunities that exist for boards to add value by challenging assumptions and traditional approaches, raising expectations and championing new and more relevant and effective ways of achieving desired outcomes, many boards are too often preoccupied with the trivial. Again to use a sporting analogy, they are rather like footballers checking the grass has been cut and that the goal has two uprights and a bar along the top, rather than thinking about how to score more goals.

### Governance as a Straightjacket

One of the worst consequences of corporate governance is that codes of practice and statements of competences and desirable conduct can create a feeling, or even assumption, that there is a standard or best model of board. It has led to a noticeable reluctance to experiment with alternative models of board, and different ways of operating. It is as if people fear that some young and precocious analyst might spot that they are not complying with a requirement hidden in the small print. Perhaps the balance needs to swing from the general to the particular, and doing what is most appropriate in a particular set of circumstances.

There are growing vested interests in the current system of corporate governance, including governance advisers and consultants, governance experts with pension funds and other institutional investors, head hunters who make a turn on re-cycling their director contacts, and governance academics. In relation to the latter group, it would not be surprising if there were an association between “good governance” and performance. Governance is thought to be a “good thing”, and hence one imagines a competent board would want to comply with relevant codes.

An association is one thing, but a cause and effect is more difficult to identify and demonstrate. There is a danger of early stage research reporting the obvious, the governance equivalent of a link between eating and sleeping and staying alive. Another balance that has to be struck is that between criticism of corporate governance and coming up with a better solution.

It could be that the expectations of boards and their contributions in our age of corporate governance is such that people feel that it is not worth thinking about how they might do things differently. As businesses grow and develop their boards sometimes go through a series of stages. However, when they float the dead weight of codes and pressures to comply tend to prevent experimentation and further evolution.

### Directors as Liberators

An excessive focus on avoiding any risks can lead to stagnation and decline. Somewhere between order and chaos a balance has to be struck. Building controls into performance support can allow a board to liberate key workgroups, while at the

same time preventing actions that cause commercial, technical, quality or regulatory problems. Support tools can also enable a board to implement its policies.

With an appropriate support environment one can both set people free and reduce risk. For a confident board there are practical ways of getting the benefits of social networking, without incurring the embarrassments that can result from its irresponsible use.

### Rewriting the Rules and Changing Assumptions

Many directors have become so used to dilemmas and trade offs that they refuse to countenance game changing options. Some boards feel as though they are faced with having to choose the least worst option, the equivalent of a European Finance Minister having to select between cutting a deficit and the risk of recession and stimulating the economy with the prospect of inflation.

Yet there are affordable alternatives to the costly, disruptive and time consuming transformation programmes many boards adopt. One could provide the performance support that enables people to simultaneously boost productivity, cut costs, speed up responses, reduce risks, ensure compliance and benefit people, profits and the planet. There are practical and demonstrated ways of abolishing classic trade offs.

In relation to shifting the balance to more of a focus upon the behaviour of directors, there is emerging evidence that there are quicker and more cost effective ways of simultaneously delivering multiple objectives, including large returns on investment. Organisations, individuals and the planet can all benefit. There has never been a better time to consider where you are striking the balances on your board.

Prof Colin Coulson-Thomas of the University of Greenwich, chairman of Adaptation, Bryok Systems and Cotoco is author of a forthcoming report on talent management and performance support