The Star Online > Business

Monday August 23, 2010

Are directors being set unrealistic objectives?

Struggling with complexity

Whose business is it anyway **-** by John Zinkin

I WORRY that with the growing complexity of business, the ever faster pace of change and the demands to go global, directors are being asked to do an increasingly difficult, maybe impossible, job.

Growing complexity

Complexity takes many forms: multiple activities associated with conglomerates; directing matrix management organisations; and complicated technical issues in multi-level value chains.

This may not matter too much when boards have ample time to reflect on the issues they face so they can deal with the complexity and come to terms with real causes of problems rather than dealing reactively under pressure with the symptoms.

However, it may really matter when time is of the essence because treating symptoms does not prevent it from happening again and can in fact, make matters worse by providing answers to the wrong problems. It is rather like getting a dentist to deal with bowel cancer: The diagnosis and treatment are likely to make patient worse rather than better.

In my last article, I discussed the problems associated with conglomerates and how difficult it can be for boards to really understand what is going on in the different lines of business, or to decide who should become the CEO from internal candidates who have extensive experience in only one field of activity, but do not have adequate exposure to all the operations of the company.

Companies in a single line of business that adopt the matrix management approach are not as complicated to deal with as conglomerates, but they are still not simple. Developed by McKinsey in the 1970s for Shell and Unilever the matrix management idea is great in principle, but really difficult to implement well in practice. Decision-making is complicated.

The functional head is responsible for quality standards and the career progression of technical specialists within the function and also for ensuring that the right people are in the right place from a functional perspective. The business stream head is responsible for product development and profitability of the portfolio of products across markets, countries and regions. The country head is responsible for the portfolios of businesses represented by the different business streams within his or her geographical domain. Who is accountable for what? How do the three constituencies resolve resource allocation issues where each is affected by the decisions of the other two, who may well have different priorities?

Cleanup continues on the BP Deepwater Horizon oil spill. BP's independent directors are being criticised for not stepping in earlier and doing more. — AFP

Again, if there is no time pressure, and if the senior managers know each other well, have worked together and been in each other's shoes through job rotation and have built up mutual trust and respect as a result, the matrix works well. However, when time is of the essence, and senior managers have not worked together before for long enough so that there is a lack of trust and resulting turf wars, the matrix is a recipe for disaster.

Boards may assume the constituencies work together for the common good, and yet so often that is not the case; key players work against each other – skilled practitioners of a Western version of *wayang kulit* and/or *tai chi* – pretending to cooperate while in reality sabotaging their colleagues to get ahead, or else passing the buck when difficult decisions affecting revenues, profitability and bonuses are involved.

Finally there is the ever-increasing technical complexity of business, which makes it more difficult than ever for directors to know when to challenge the technical assumptions of management. Take for example the crisis faced by BP in the Gulf of Mexico. Independent directors are being criticised for not stepping in earlier and doing more. Yet, it is still unclear exactly what happened, who is to blame, or the scope and magnitude of the disaster. Tony Hayward has been attacked for playing down the long-term environmental damage and that and his public relations gaffes have cost him his job as CEO. Yet, evidence may now be emerging that suggests that the capacity of the Gulf of Mexico to heal itself is more in line with his views than those of the doomsayers. Microbes appear to be digesting significant amounts of the spill so that the long-term effect may be much less severe than anticipated. Even so, were the independent directors competent to decide when to overrule the technical judgments of their management? Probably not, and yet that is exactly what their critics were asking them to do.

What makes matters worse for directors is not just the need to make decisions quickly as a result of increased competition, but to have to do it in the public eye. Communications are global and instantaneous. The public watches the news, as it is being created through 24-hour programmes that need to keep up the level of excitement in their audiences through half-baked sound-bites to win the ratings wars.

Complexity is manageable, if it can be dealt with calmly and rationally. Yet, the media glare public listed companies face when things go wrong or a major change in strategy is being contemplated, make it that much harder for directors to do their job calmly.

Complexity needs to be understood and explained; yet in the world of the TV sound-bite, there is no time to lay out the pros and cons of the argument.

At least professional media try to get their facts right: They can be sued, otherwise. The advent of the blogosphere means there is no need for caution by internet commentators: Bloggers can and do write what they like, often with little regard for the truth or the consequences of what they say. This creates a natural temptation for companies to want to respond quickly so they can remain in charge of the narrative, which in turn increases the tempo and pressure on boards to make quick decisions.

NGO pressure groups can also make life more difficult for boards as the company's "Licence to operate" may be challenged in the name of corporate social responsibility: witness Greenpeace's media-savvy attack on palm oil users and producers.

As soon as companies cross borders these issues taken on a new dimension. Companies that are "local champions" know the local rules, have good connections, and understand the culture and what the acceptable boundaries of behaviour are. Once they cross borders and enter economies with different levels of development or societies with different values, all the board's assumptions about what will work must be re-examined.

Companies must find the right blend of adapting to how the host country expects them to behave, while keeping faith with their own core values and corporate codes of conduct.

Accommodating behaviour that undermines the company's fundamental values because that is how business is done in country X is a recipe for trouble. At the same time, refusing to flex practices developed in one culture to take into account the norms in another may make it impossible to do business.

Directors must find the right balance and that is not easy.

These three drivers of board behaviour and their increasingly adverse impact on directors' ability to make the right judgment calls when it matters, worry me that, unless we are careful, we may soon be asking directors to do the impossible.

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