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Boardroom 360°

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Welcome to 2010 The year to review and refresh Governance Practices.

The past two years have been testing times for Boards, some facing issues that will have long term implications for the organisation they serve. For others who have been able to see opportunity amongst the recessionary fog, 2010 will be a year to focus on growth and the monitoring of associated risk. For all, it's a time to reflect on past performance and to ensure that both the Board and Management are working to best practice while seeking areas where efficiency gains can ensure the organisation is performing well and shareholders and stakeholders support the strategic direction.

During 2010, while we recover from the recessionary conditions, good governance must be perceived to be a key economic driver.

"In the business world, the rear view mirror is always clearer than the windshield."

Warren Buffett

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When the recessionary tide went out was your Board found to be swimming naked?

In good economic times Boards spend time considering current and potential performance and enjoy seeing the organisation's repeatedly healthy economic rewards. However when the tide changes the real test of a Board's ability is revealed. How well would the Boards you service rate?

Accountability

If we are truthful to ourselves the seeds of the financial meltdown that struck us in 2008 were sown much earlier but we may have had our sun glasses on and had not reached out for our wetsuit. Therefore we had no insulation from the cold storm that blew some organisations out to sea.

Business and environment jolts came in all shapes and sizes: in many parts of the world, across many industries and came in different forms. The impact was felt in large and small organisations – not just in the corporate world. The carnage of the past year will remain with many shareholders for years to come.

One of the primary reasons of a Board is to carry out fiduciary duty. As such, Board members are there to act in the best interests of their shareholders, by acting as their agent. If, as we are reading in newspapers, shareholders are suffering and one or two have taken their own lives due to the substantial losses occurred, then the question that is yet to be asked is 'who is accountable?'

Were the recessionary conditions predictable?

Raise this notion among senior management and Board directors and I am sure that someone in the room will tell you that the recession couldn't have been predicted.

As Philip Kotler and John Caslione in their book *Chaotics* remind us the signs were there but many chose to ignore them or disregard them. These writers illustrate this

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point by referring to Detroit's big three automakers GM, Ford and Chrysler – both the companies and the shareholders were badly hit.

It can be argued that it is easy in hindsight to spot weaknesses. But undeniably it is a Board's role to test management assumptions, to bring an external and independent view to the board table, and in doing so ensure that semantic disturbances are at least being monitored. Looking at the US car market, should Boards in this industry now be asking:

- If we knew the US was relinquishing its world market share to Asian manufacturers of televisions, audio and video players, PCs and other consumer electronics, could the same pattern impact on the car industry?
- Were we measuring the perception of own products – did we truly believe that world buyers would stay loyal even when our products did not meet consumer needs or could not compete on quality.
- Why did we not see that Japanese, Korean and European automobile and truck manufacturers were becoming skilled and able to react quickly to environmental change?
- Why did we not consider what the mavericks and outliers such as environmentalists were saying? The call for alternative energy was growing and the power of the green movement rising, so what did our impact study show?
- Why did we not wonder what would happen if oil prices were to move upward. In hindsight we now know higher price petrol has seen buyers opt for smaller cars.
- Why did we not ask what emerging technologies could change the game? Did we really appreciate that an electric hybrid was possible even though Honda had introduced one in the US in 2000?

Hindsight is not the test

What happened was not really unthinkable – oil went up to over $150 a barrel prompting a gallon of gas to top at $5.00 and the US went into a deep depression prompting buyers to stop purchasing autos and trucks – but the production went on.

Of course it is easy in hindsight to see the early warning signals. Nevertheless if Boards and Management in these organisations read the signs and signals coming out of the marketplace and the economy overall, and the Board had tested likely impacts, would the companies have fared much better? And would they have found themselves facing the issues of insolvency at a time when all their foreign competitors faced only a temporary downturn in business? Honda and Toyota were not so buffeted by the plight.

Like the US financial institutions banks in many countries did not see the recession coming – they were actively promoting 100% mortgage lending and so when house prices fell both the banks and the buyers were hit hard – you could say they swam straight into a rip-tide at the cost of the shareholders.

So what do Boards have to do?

So that Boards are not caught swimming naked they need to consistently and regularly ensure that they are keeping watch on the tides, rips, currents and the weather. As well as looking at the outside activity, Boards need to ensure the organisation will be able to swim through unknown and often turbulent waters. Shareholders are expecting Boards to be their lifeguards, by recognising dangers and responding appropriately as soon as they see the signs of danger.

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