

Being fobbed off.....Whose fault is it anyway? By Lynn Ralph, Managing Director

There probably isn't a non-executive director in Australia who, at one time or other, in their career as a custodian of the shareholder's wealth, hasn't experienced that all too frequent feeling of 'being fobbed off' by management.

It's a common problem with, all too often a very sorry ending.

For most directors, the degree of being 'fobbed off' won't be at the intentional or deadly levels that the boards of HIH, Harris Scarfe, Enron, or a litany of others experienced. For that minority of directors, once the deception is uncovered, their solution is an easy and obvious one. The guilty management should be dismissed immediately.

The majority of directors experience a much less blatant form of being fobbed off. It's small scale, subtle, unintentional, and in many ways, much more difficult to deal with. It's usually a case of management responding to questions with phrases like 'we've got that under control', or 'we've already considered that', or 'the situation is turning around but hasn't showed up in the numbers yet'.

We all know that major problems start out small and that is why you have to act early - but often that's when it's either easiest to simply ignore the conduct or hardest to decide how to respond.

So why is being fobbed off such a hard issue to deal with? How can you, as a NED, ensure that you are not sitting on the board of the next HIH?

Some people believe that being fobbed off or 'mushroomed' is an inevitability of the structure of being a NED, or that it is in management's nature to be devious or less than frank, and the only solution is to become an infuriatingly annoying pest. Well if you truly endorse these hypotheses, you would simply never become a director.

And so it is understandable that most directors start from the belief that management is ethical until proven otherwise and hence one must have practical techniques to use up until the point of proven misconduct.

In most cases, where a director allows themselves to be fobbed off, they do this for one of two reasons. Either, they don't feel confident enough in their insight into the company to really tackle management (who will almost always be more knowledgeable), or secondly, they don't feel the issue is serious enough to use of the limited social capital which they bring to the board. What do I mean by social capital? In all relationships, we hold a store of social capital, which we build by positive actions towards others, and can use up by creating negative actions. Boards are, after all, merely teams of individuals which operate as social entities. So as board members we all join with a certain number of 'chips' we can play and

most sensitive directors use their ‘chips’ judiciously. If a NED feels fobbed off, they often play their small chips first – by having a word to the Chairman, for instance. Upping the ante by becoming a pest is only a logical strategy when you believe the issue is a major one. But being fobbed off starts small and so often directors let the conduct pass, saving up their “social capital chips’ for a really significant issue. And often by the time an issue is big enough to confront, the fobbing off conduct has evolved into systemic, toxic behaviours.

The recent report of The Conference Board’s Commission on Public Trust and Private Enterprise said “Effective boards require the right structure, the right processes, and the right people to ensure independent and objective decision making.”¹

In order to fulfil their responsibility to make effective decisions, the board must have access to high quality information about the company, and they must have genuine insight into the company, and they must have an open and trusting relationship with management. Let’s explore each of these for a minute.

To ensure the quality and content of the information provided to the board is adequate, there must be clear direction from the board about what information is necessary to assess whether pre-agreed expectations and criteria are being met. All too often, boards are lax about the information they require from management because they lack real insight into the workings of the company (and I’m not talking about knowing every last detail about what the company does, but rather understanding the real drivers of value and cash flow in the company). They allow management to determine the content of board papers, which often, even with the best intentions, does not allow critical matters to be monitored.

To establish what information is required, you must have a high degree of rigour in regard to identification of all key issues and risks as well as a high clarity of the criteria upon which decisions have been made. This is another place where many boards fall down. Without having done the upfront work in understanding the key drivers of the business, or demanded a rigorous business case for every proposal put to the board, the quality of the monitoring will inevitably fall down. Put simply, the board gets what it deserves. With rigour at the front of the process, it is much more difficult for management to obfuscate about whether or not criteria and reporting requirements are being met. But how many boards spend real time working on this part of the process? Not many, I fear. The result is unfocussed questioning, and a management who responds by either providing too much data (without any analysis), or too vague answers in an attempt to appear competent and in control.

So at the point of determining what information is required, the key is clarity of insight. Simply asking a lot of unfocussed questions won’t get the results and is a real waste of time. Courage without insight is pointless. Get the upfront part of the process right and the monitoring job becomes infinitely easier.

¹ The Conference Board Commission on Public Trust and Private Enterprise, Findings and Recommendations Part 2, 9 January 2003



The other major factor required to be present to achieve high quality decisions is positive group dynamics - an environment where all present have the capacity to contribute to their fullest and where trust is fostered. Only when management clearly understands the expectations of the board, will they fearlessly bring bad news forward. Only then will the board be able to see whether management are suffering from delusions or lack of self awareness. Only then can you utilise more open access to management as a technique for ensuring open flow of information. (In those situations where the CEO doesn't trust the Board's reaction to bad news or understand what's expected, they inevitably tightly control what is delivered to the board. The way to fix that is not demand access (managers will fall in behind their leader through loyalty and not be forthcoming anyway), but to address the lack of trust and clarity of relationship).

Building positive group dynamics does require real courage and real skill in order to deal openly, honestly, and constructively with the relationships between board and management.

The solution to being fobbed off is not simply to become an infuriating pest. Rather it is to ensure you constantly build your insight into the business (what self development have you planned for yourself this year?), your board sets absolutely clear criteria and information requirements against which management will be judged, and you contribute to building trust through explicit board policies which elaborate the board's expectations of management and their relationship.

That's where the courage is required.