

## Managing change at board and executive level

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RSM recently held a lunch featuring a panel including Paula Dwyer, Professor Judith Sloan and Fiona McGauchie with Catherine Walter as MC to discuss how to manage change at board and executive level. This is a synopsis of the event.

Change for corporations in all sectors is continuous, constant and complex. The reality is that many listed, government and not-for-profit corporations are experiencing multiple changes at the same time as business strategy, processes and models evolve at an ever increasing pace. Part of this new reality is the decreasing tenure of CEOs and the increasing pressure at board and executive level to demonstrate the core skills required to manage businesses in turbulent times. Institutional investor questioning and media discussion of corporate performance adds to a focus on these issues.

As a result, many boards today are grappling with the issue of succession planning at both board and executive levels. Managing an orderly succession and evidencing a deep understanding of capability within board and executive ranks is becoming a key focus for boards and chairs.

Our panel, which comprised of Paula Dwyer, Professor Judith Sloan, Catherine Walter and Fiona McGauchie, discussed how best we can equip ourselves to manage change at board and executive levels, and professionally address the succession needs of the corporation.

**HOW SHOULD DIRECTORS WHO ARE AT THE EARLY STAGES OF THEIR NED PORTFOLIO CAREER, OR A DIRECTOR WHO HAS JUST JOINED A BOARD, HANDLE KEY SUCCESSION ISSUES AROUND THE BOARD AND IN THE EXECUTIVE RANKS?**

**CATHY (MC):**

While many of the decisions made in the Boardroom affect directors personally, Board members need to be focussed on the interests of the organisation as a whole.

It can transform one's contribution if one remembers the reason for one being there on the Board, and to let this guide the way in which questions are addressed and issues are considered. It is important to always try to think of what is in the best interest of the organisation as a whole, over the medium to longer term.

**PAULA:**

Although it would be a very unusual circumstance to join a board and realise immediately that something is wrong, the best thing to do when you first join the organisation is to get to know everyone on your team, and to engage with them. While the chairman is the person who is ultimately responsible, everyone wants the individuals around the table – and the collective – to be successful. It is important to manage the relationship with the chairman, and with everyone else on the board, because there is no one person around the table that is 'the best' or 'the wisest'. You are there for a particular purpose, and fulfilling your role as part of the team. Also, someone who is great in the job now may not be the person that is going to take it forward. There are people who have fantastic leadership skills, and unfortunately stay too long. Sometimes you have to make a call on those people. There are highs and lows and issues around people.

It is the board's responsibility to manage those issues and to speak up about the changes required.

**JUDITH:**

Things do get tough from time to time. It gets pretty tough when the chief executive is removed. Directors have often formed a bond and a personal relationship with that person.

Sometimes it is a problem of 'central casting', i.e. when the person with the 'wrong' set of characteristics for the job was put in place. It is the board's fault when this happens. Ultimately, boards have to take that responsibility very seriously, and need to spend the right amount of time to recruit the right chair or chief executive. The relationship between the chairman and the CEO is absolutely critical – they have to be open and honest with each other. It is also your obligation as a board member to insist that senior management undertake succession planning, not just for the top level but for all the critical positions. Generally speaking, internal succession is desirable over external appointments.

**FIONA:**

Interestingly, it is the boards that talk openly about succession that have the least surprising changes. It's not to say that they won't have difficult times, but if succession is on the agenda regularly, and it's talked about, that will come through in the interviewing and due diligence process. This prepares you for the kind of discussion that the chairman is likely to have around the issue in the event that something goes awry.

HOW SHOULD AN EXPERIENCED DIRECTOR OR THE CHAIRMAN MANAGE INDIVIDUAL AND COLLECTIVE DIRECTOR INTERACTIONS WITH MANAGEMENT AND EACH OTHER, SO THAT THERE IS A SHARED SENSE ACROSS THE BOARD OF THE VALUE OF CONTRIBUTION AND PERFORMANCE OF FELLOW DIRECTORS AND SENIOR MANAGEMENT?

*CATHY (MC):*

Generally, directors do their best work where the board members share the same values, and when the board as a whole has spent quite a lot of informal time working together, thereby having a sense of a committed understanding of where the organisation might go next. This is especially beneficial where there is a need to replace the CEO. Before implementing change at the CEO level it is wise for a chairman to make sure that all directors are fully committed to the decision..

*FIONA:*

If Boards are having regular conversations about succession, then these situations are infinitely easier and more constructive for all involved. In these cases, the CEOs often go on to further their careers with their dignity intact, and it all goes smoothly. The chairman has a very significant role to play in that. The chair of the nominations committee also plays an important role, in being the honest broker role with the CEO.

*JUDITH:*

Boards should have a view as to what the appropriate tenure for senior roles should be. This sets out the expectations of what needs to be achieved during the term of appointment, and CEOs should have the confidence to move on at the end of their term. Some senior officers stay for a long time and it's not to say that they're not good. In fact, some long-serving directors are very good, but they could be good in another place. Curiosity does give you a lot of early enthusiasm.

It is important that one uses all of one's emotional intelligence, as none of the boards are the same. They are different in a variety of ways i.e. in terms of how they operate, etc.... Where the company has substantial shareholders, it is imperative that Board members understand that they should act in the interest of the company and shareholders as a whole, and not in the interests of individual investors. Directors should also consider the differences between joining the Board of large organisations and smaller ones, as what is expected of a Board in a smaller organisation is often a whole lot more. Careful consideration should be given, and sufficient due diligence should be undertaken, as often smaller companies are not resourced in the same way that big companies are.

Also, it is best for directors not to have a relationship with management without the approval of the chairman, as it has the potential to become quite chaotic with mixed messages, and speaking out of school about what is going on. It is not a healthy way to run a company.

**PAULA:**

The board has a major role to play in the terms of understanding the talent in an organisation, and the gaps in the talent. Boards should consider how the organisation might recruit for or employ the necessary skills and experience to deliver on their goals. In Paula's experience, the chairman has always played the leading role, and in some instances actively supported an individual who might not have had the support of the whole board. Each circumstance is unique, and you've got to navigate your way through it but people have to fall into line sometimes, even if they have a different view.

It would be a very unusual circumstance for one to be brought in as a chairman, and to be told that one has to change the Board or senior management, due to under performance. As a new chairman, one has the responsibility to work with the existing team, but ought to also look at how things are being run and to form some views around that.

**HOW DO YOU DEAL WITH STAKEHOLDER ISSUES WHEN MAJOR BOARD AND EXECUTIVE CHANGES ARISE, VOLUNTARILY OR INVOLUNTARILY?**

**CATHY (MC):**

The pace of change sometimes means that Boards won't always be prepared when faced with the prospect of replacing a Board member or executive, they must have a procedure in place for managing succession. Boards ideally will have an established process for handling unexpected or forced changes, as well as voluntary and orderly changes at CEO and Board levels. This includes a plan for communicating the changes internally, with investors and proxy holders, and other key stakeholders.

Boards will ideally also be ready to deal with pressure to make executive and board changes ahead of the natural succession time which can arise as a result of external stakeholder pressure stemming from a disappointing financial result or corporate crisis. Such a plan could include activation and management of the succession plan, or the decision to resist the pressure and communicate confidence in the existing team.

**PAULA:**

While boards may take into account the information and views from various stakeholders, it is the board's role to make the final decision and appoint the person it deems to be most qualified for the role. Caucusing a whole range of stakeholders to get it right can show an absence of strong leadership. The chairman should seek to make people understand the reasons for the decision, but not seek to get them to make the decision. The board's role is to lead the organisation, and the chairman leads the board. Sometimes, one has to make the tough calls about selecting the right people, and being able to defend one's decision.

**FIONA:**

In environments where there is an eco-system or an approval process, you need to be aware of it and bring that as far forward in time as you possibly can. There will inevitably be lots of opinions, but if they are ventilated early, you can take them on board and not be swayed. You also need to be very careful as a Board around soliciting the views of a large number of stakeholders because they may have such opposing views and you cannot possibly satisfy all of them.

**JUDITH:**

It is important not to fall into the trap of having selective group briefing, and spending too much time having the wrong conversations with some stakeholders. One also has to tread carefully where there are large shareholders in the company, because all the shareholders are in fact equal. Ultimately, it is the decision of the board. The board leads the company, while the Managers manage the company. While it is fine to have conversations about the topic, it has to be absolutely clear who is in charge.

Boards that can plan for most eventualities are more likely to retain confidence and deliver consistent, positive results. This can reduce the pressure for change and improve business continuity.

For further information please contact one of our regional NSW & VIC Restructuring & Recovery specialists:



Andrew Bowcher, CA CFE  
Partner / Director  
andrew.bowcher@rsm.com.au  
T: (02) 6937 7001  
M: 0407 997 258



Tim Gumbleton, FCA  
Principal  
tim.gumbleton@rsm.com.au  
T: (02) 6937 7001  
M: 0418 919 882