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Executive Search & Board Advisory

BEWARE THE STING IN THE RC TAIL

The findings from the recent Royal Commission into Financial Services have revealed several terrible practices and attitudes across a myriad of organisations in our market. Many theories as to why this has happened have been proffered and most have involved the notion of irresistible greed and perhaps inert cultures within businesses and those that regulate them. And most of them are probably spot on. But we think it's important to dig a bit deeper. What is the root of this type of greed and what needs to be done to drive it out of our current economic landscape?

Practices associated with greed in organisations come predominantly from a fear of missing targets, and as a result missing the possibility of maximising potential executive remuneration. Targets are set to ultimately serve the interests of shareholders, which is how the system has worked since public companies were created. Given that it is the shareholder's capital that is at risk, that should not and will not change.

So why are targets so difficult to achieve these days? Of course, some of them are set unrealistically high but in a market where the supply of great talent is well short of demand, things that are considered 'unfair' are worked out of the system pretty quickly. So, if Board and shareholder demands are ultimately self-setting to more realistic and workable levels, then what is the real problem?

The answer is blindingly obvious. The majority of businesses across nearly all sectors in Australia have experienced growth so close to zero that we should call it for what it is, Zero Growth. And zero growth creates all sorts of grief and anxiety.

Growth is achieved primarily through the judicious and considered application of what is about to become an even more odious concept, risk. If risk ever had any kind of a positive connotation, this RC will have stripped that completely bare. The public humiliation, the complete destruction of reputation and the cessation of both executive and non-executive careers will ensure that the companies that drive the really big numbers in our economy will be dropping even heavier anchors in the closest safe harbour. And fair enough. It has been really ugly.

So here's the Chinese Finger Puzzle moment. There is no reward without risk. There is no risk when Boards in particular, don't have an appetite for it. No risk means no growth. No growth means you've got to squeeze the lemons you already have even harder, to get more out of them. And they end up getting squeezed so hard that the only possible revenge is a Royal Commission.

Organic growth in the majority of our major organisations has become a myth. Something the old people in the business talk about with a wistful and longing look. If this wasn't serious, it would be funny.

There is a very powerful sting in the RC's tail that has the potential to be far more painful to a lot more people than the teeth that have done the damage so far. Intended or not, growth will be considered riskier than ever. Possibly even criminal.

Reverting to our original maxim, this new world order will very simply mean that we are guaranteeing a zero growth environment for a long time to come. And we know what happens when there is no growth.

But we can't leave it there because we're fundamentally very positive people (why else would you start an executive search business in a zero growth business environment).

The answer lies in the bushes, in serviced offices and in other places you wouldn't expect to find it. They are the growth people. Kept in dark places working on important and very confidential projects, they are wound up and raring to go. This group of more confident, lateral and forward thinkers is made up of execs, non-execs, scientists, marketers, designers, engineers and finance people that if supported by likeminded leaders in environments where calculated, well considered risk is actually rewarded, will excel and help get to a far better place. That light at the end of the recovery tunnel need not be an oncoming train.

Unlike climate science, there is no one who disagrees with the notion of growth. And yet we seem to continually put more and more hurdles in the way of achieving it. The growth mantra starts at the very top of organisations. Chairmen, don't make your response to this crisis create even more problems. Resist another faultless and perfectly coiffured CV to add to the Risk Committee and appoint someone who has real experience on the front line of risk and reward, good and especially bad. Chief Executives, if you still have a few skunk works hiding around the place, get them out on the main floor and let others feel what it's like to push and not squeeze. It is incumbent on us, the search firms and Boards of this nation, to seek out talent who have demonstrated that growth can be achieved through a combination of a well-articulated strategy and disciplined execution. This includes striving for operational and functional excellence together with risks that use the operating leverage achieved to seek opportunities that deliver long term sustainable growth.

If none of this appeals to you, then perhaps you should consider investing in orchards. Unless we reframe the discussion around risk and growth, lemons could be permanently in season for some time to come.

Ian Smith
Partner, Blenheim Partners

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