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The Challenges of Attaining Growth:

The Blenheim & MGSM Insight Series

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"Superhuman effort isn't worth a damn unless it achieves results"

Sir Ernest Shackleton

FOREWORD

It is an honour to be asked to write the foreword to this publication.

I believe very strongly in the benefits of academia and the private sector cooperating together to examine issues. I feel equally strongly where that examination is based on significant survey/interview work within the industry involved.

This publication embodies both of the above and the maturity and incisiveness of the issues raised is evidence of how such cooperation can benefit our thinking.

The publication raises the issue of how even though boards are beginning to look to gender diversity it is important that they not only do that but also look for diversity of background generally. Such diversity is suggested to enhance the contribution of boards to the growth agenda of Australian companies.

The publication also deals with a "fear of failure" dominating the thinking on boards and indeed affecting risk taking in Australia. There is comment also on how "over scrutiny" is also resulting in risk aversion and further that Australian boards are constrained by short term thinking. If these issues don't exercise the mind enough there is also interesting comment on the impact of digital and disruption on board agendas.

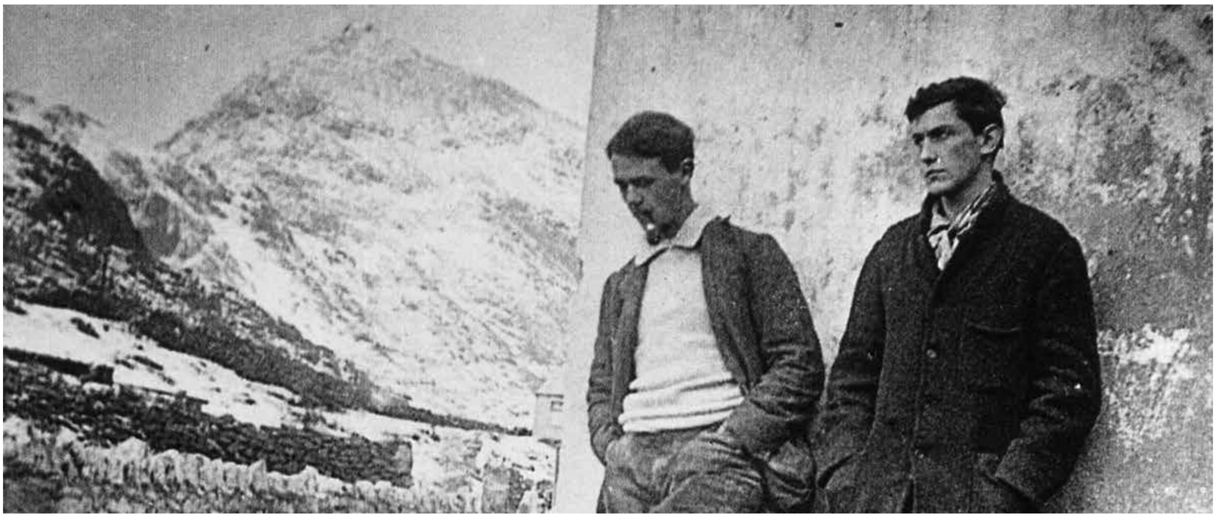
These issues not only make this publication a "good read" but stimulate further debate in respect of each of them.

Whilst I can't say I agree with everything in the publication I do believe that it is very worthwhile spending some time reading it.

I compliment the authors on a publication which is well researched and perhaps more importantly designed to precipitate further discussion which is so needed in the areas it covers.

David Gonski AC

EXECUTIVE SUMMARY



"To the question: Why do you want to climb Mt Everest? Answer: Because it's there"

George Leigh Mallory

1 A simplistic, demographic notion of Board diversity may be stifling the search for talented Directors. Broadening creativity and lateral thought by the application of a different diversity lens to Board membership can enhance the contribution of Boards to the growth agenda of Australian companies.

The current diversity lens may not in fact be achieving diversity in thought and contribution due to the common backgrounds, education and experiences of Directors, irrespective of gender – a lawyer whether male or female is still a lawyer and more often than not each have similar backgrounds.

Infusing Boards with Directors from different occupational backgrounds, one example being scientists may be a step in the right direction to increase diversity of thought on Boards to encourage growth.

The current traditional Board competency list that includes accountancy and legal skills is also challenged.

"Breaking out" from the traditional and conservative list of competencies on Australian Boards to consider international mindset and technology/digital, areas at the core of growth opportunities and viewing diversity and its contribution from a growth perspective will broaden the diversity debate from one of gender centricity to growth centricity.

2 The composition and backgrounds of Directors on Australian Boards is changing. One type of change that was commented on with a degree of concern was the emergence of career and younger Directors and in some cases both.

The emergence of the career role of the "Professional Director" was viewed as potentially moderating the risk appetite of Boards. The motives and incentives of these professional Directors can be moderators of the risk appetite of Australian Boards, and so proportionally reducing the growth prospects of companies.

"Younger career Directors" may be a particular problem in this regard. Also questioned was the ability of the "younger career Director" to think and be able to get across the broader business to enable them to contribute to the whole. This was particularly questioned in cases where they lacked real operational experience, both breadth and depth.

3 A fear of failure dominates thinking on Boards due to over-concern with personal reputation, liability and a culturally ingrained suspicion of business leaders. How Australians view failure is seen to be very different to some other countries. In Australia failure is viewed as not one of learning and applying these new learnings going forward.

Explanations of this mindset ranged from the "small town – hard to reinvent yourself" to the emergence of the new class of "Professional Director". Slow plodding growth however, is viable in the short term and while it limits the prospects of failure, it does not enhance true growth and ongoing business sustainability. This mindset will need to change to foster innovation and measured risk-taking if Australian companies are to compete and grow in markets that are becoming more and more global.

4 Boards are over-scrutinised in terms of aggressive media coverage, the reaction of regulatory bodies, overly sensitive investment markets, proxy advisers and special interest groups.

Some participants were clearly feeling the burden and the over-scrutiny is resulting in risk-aversion and hence impacting the growth prospects of Australian listed companies.

Indeed a real area of concern was the consideration of moving offshore to "escape the burden" and the associated impact on Australia – loss of the company, the growth, the employment and the tax revenue.

5 The pursuit of sustainable growth strategies is constrained by short-term thinking. This is exacerbated by quarterly reporting and the need to balance the trade-offs between short-term and long-term growth opportunities, which are challenges posed by the different agendas of various investor groups and other external constituencies.

This mindset is driving a bias to short-term growth agendas rather than being inclusive of the sustainable growth that is essential for the long term viability of Australian companies. If this environment drives companies to simply strive for incremental growth, the long term sustainability of those businesses is questionable.

Incremental growth businesses do not foster innovation, investment and the other components of sustainable growth resulting in high vulnerability to disruptions emerging in their business environment.

6 Boards pursue a combination of generic growth strategies, which are universally relevant in various industry sectors, albeit with different degrees of emphasis in each industry. The trick is "getting the formula right" – determining the relevance and relative emphasis of each strategy, for your company, your industry, and your markets, now, and in the future.

For growth orientated companies there are a range of attributes that could form a template for action for others. These attributes include constantly scanning for where the opportunities lie and where disruption occurs, being specific about the geographies to be pursued, being first to markets, picking up adjacencies and building off deep expertise, know what you do well and being continually focussed on the customer. Regarding the latter point, the more things change the more they stay the same.

The customer is (still) always right, but maybe terminology is changing a little. The phrase used by many, "deep customer insights", is seen as the pathway to growth and success.

7 The impact of digital and disruption is on the Board agendas in this country. How best to incorporate or embrace these challenges (opportunities) into the mainstream and Board composition is still not resolved.

Digital disruption necessitates bringing innovative thinking into an organisation without scaring everybody, but Directors do not agree on exactly how to do this, with some suggesting direct representation of digital expertise on the Board and others viewing this more in terms of external advisors.

What was clear, was the need to embrace rather than "keep your head in the sand" with respect to digital and disruption else you would be left behind to wither, as participants noted had occurred with some large well known Australian companies. The opportunities of "getting it right and embracing" these changes was well recognised as a potential "game changer" for Australian businesses.

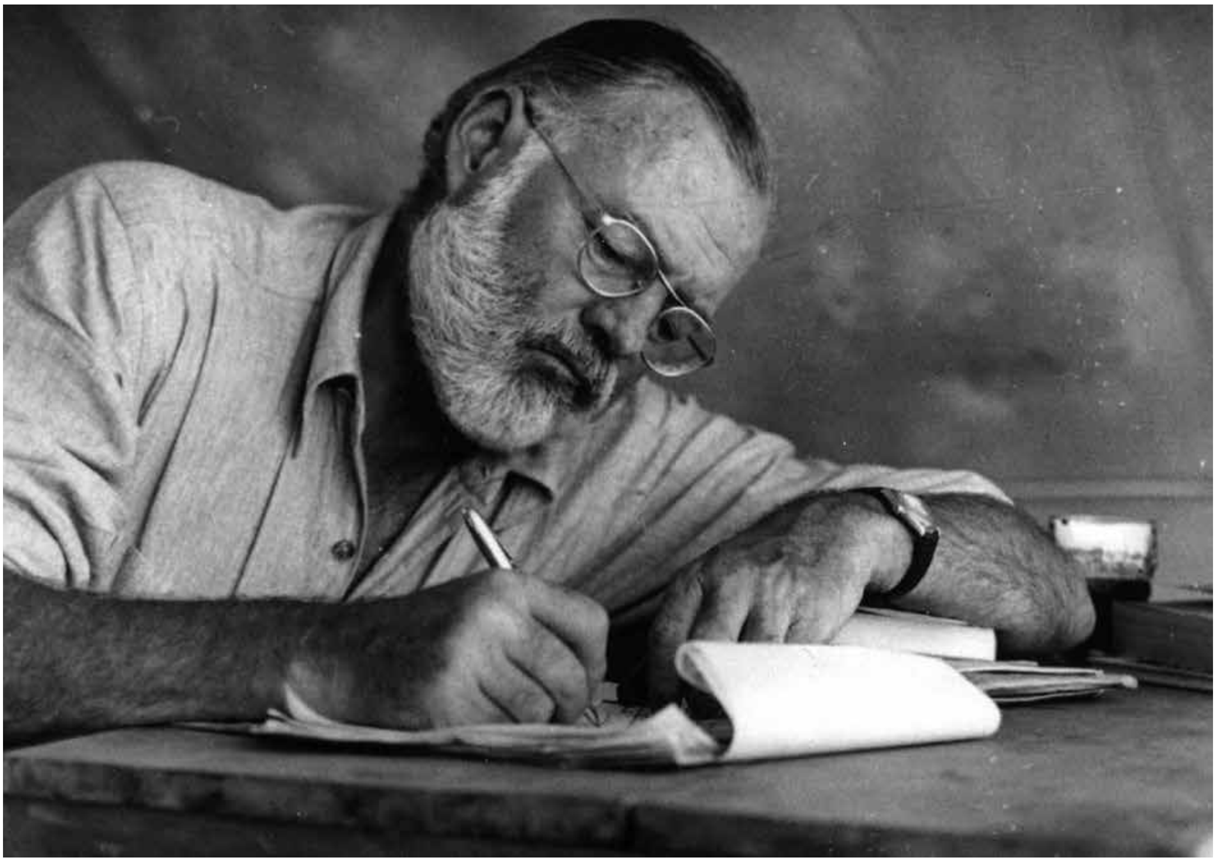
8 Participants viewed the bias of Australian managers was in many cases towards running existing businesses better. Comments also followed the line of a lack of "relative" ambition and entrepreneurship in the Australian culture.

This view did not resonate fully as it was quickly contradicted by the view that Australians are better and more lateral thinking than most. What appears to be the case is that Australians have been constrained by lack of entrepreneurial capital and investment, and due to geography limited access to large markets with large populations of potential customers.

The real test of this hypothesis is on our doorstep through digital, which is opening up global markets and effectively removing these barriers to global businesses being based out of Australia. Indeed the growth of digital global businesses with greater access to customers on a global scale may very well be the catalyst for growth of many existing Australian companies that have been limited by geography and access to global markets.

TABLE OF CONTENTS

INTRODUCTION



"Never mistake motion for action"

Ernest Hemingway

"Weak growth; getting weaker."

A recent article described the Australian economy in the above terms, and projected a low growth rate for 2015[1]. This is a sobering, but not necessarily inaccurate, characterisation of the current state of play. But what is perhaps more striking, after all the depressing charts and figures were presented, is the first on-line comment on this article.

"It's been so long since Australia had a proper recession that 'she'll be right' is in the Aussie mindset about the economy."

The suggestion is obvious. Complacency is at least, in part, to blame for economic performance, and this complacency is deeply ingrained in the Australian mindset.

An industry report by Deloitte[2], canvassing leading Australian CEOs, Chairmen, Directors, and Senior Ministers, seems to agree with the sentiment of this comment, arguing that the ***"Lucky Country"*** has to ***"shun complacency"*** in order to vigilantly uncover growth opportunities. But is complacency really the explanation?

Australian company Directors don't seem to be complacent at all. Instead, the GFC seems to have prompted a change in mindset about what growth actually means. Prior to the GFC, growth was all about "top line" revenue and market share. Then, in the midst of the crisis, everything shifted to cutting costs and divesting of marginal operations. Now as the smoke has cleared, company Directors are talking about "efficient" and "sustainable" growth, and what one report[3] refers to as enduring prosperity. What, exactly, does this new terminology mean and how does this new mindset affect the way company Directors identify and assess strategic growth opportunities?

INTRODUCTION

Part of the answer is, of course, innovation. Australia has a long history of sustaining economic growth via exporting natural resources. This source of economic growth is almost certainly of the "unsustainable" variety. But "innovation" can refer to a lot of things, including new product development, modernising infrastructure, effective approaches to human resource development, and data integration and analytics, among others.

Interestingly, the same report goes on to recommend that:

"Businesses should be allowed to generate wealth for the community and should be free to make profits, they should be regulated efficiently, taxed fairly, and be able to trade and make contracts freely. In return, businesses have a responsibility to act ethically, honestly and transparently with their shareholders, customers and employees and with a focus on long-term wealth creation."[3]

This sounds good as a general set of principles, but how do we assess whether regulatory bodies are acting "efficiently"? How much transparency is optimal? At what point do these kinds of ideals begin to interfere with the ability of Boards and the companies they serve to pursue sustainable, long-term growth?

In addition to notions of sustainability and longer-term thinking, many have suggested that the new economy must urgently promote a sustainable "inclusive capitalism"[4]. But who, exactly, should be included and how? The omission of women in positions of leadership would seem to be an obvious candidate for improving inclusiveness along lines of gender.[5]

But does this narrow definition of "diversity" fully capture what Australian company Boards and even executive teams might be lacking? How can Australian businesses identify the intellectual capital that has been excluded from company Boards in the past, and how is this missing brain power best integrated into the strategic decisions of the firm?

This report attempts to answer, or at least to provide insights into, these and other questions related to the pursuit of growth by Australian company Directors and Chief Executive Officers.

The impetus arose out of a series of discussions that Gregory W. Robinson, Managing Partner of Blenheim Partners had with a number of Australian Directors and Chief Executive Officers as a normal part of business discussions. In these discussions growth seemed to be either front and centre or an underlying theme but without a great deal of clarity as to what it is, how can it be achieved and what can be done to assist in achieving it. Growth is certainly topical, especially given the globalisation of markets, digital disruption and the mature nature of many Australian market sectors. In addition, the topic of growth for Australian businesses, linked to the state of the economy and the flow on effects to Australian jobs and standard of living, all seemed to be constantly talked about by government and business leaders and garner headlines in the media.

Within this context, a subsequent discussion on growth between Gregory Robinson and Malcolm Irving, Chairman of the Macquarie Graduate School of Management (MGSM), led to a decision to conduct this study of Australian Directors and Chief Executives, which focuses on a range of issues around growth for Australian businesses.

This report of the Blenheim and MGSM Insight Series presents the results of this study. It is one of the most significant studies of its kind in Australia, interviewing over 80 Australian business leaders, Chairman, Directors and CEOs, and attempting to distil and put forward the views of Australian business leaders in a concise manner on this important topic. Given it is by business leaders on Australian business, this study is more relevant to the topic and the way forward to achieve growth for businesses in Australia than similar reports that may have been conducted with US, UK or European business leaders within their operating environments and context. The results of the study support the importance and relevance of a local study, highlighting a number of factors specific to the Australian context if businesses in Australia are to achieve sustainable growth into the future.

This report attempts to answer, or at least to provide insights into, these and other questions related to the pursuit of growth by Australian company Directors and Chief Executive Officers.

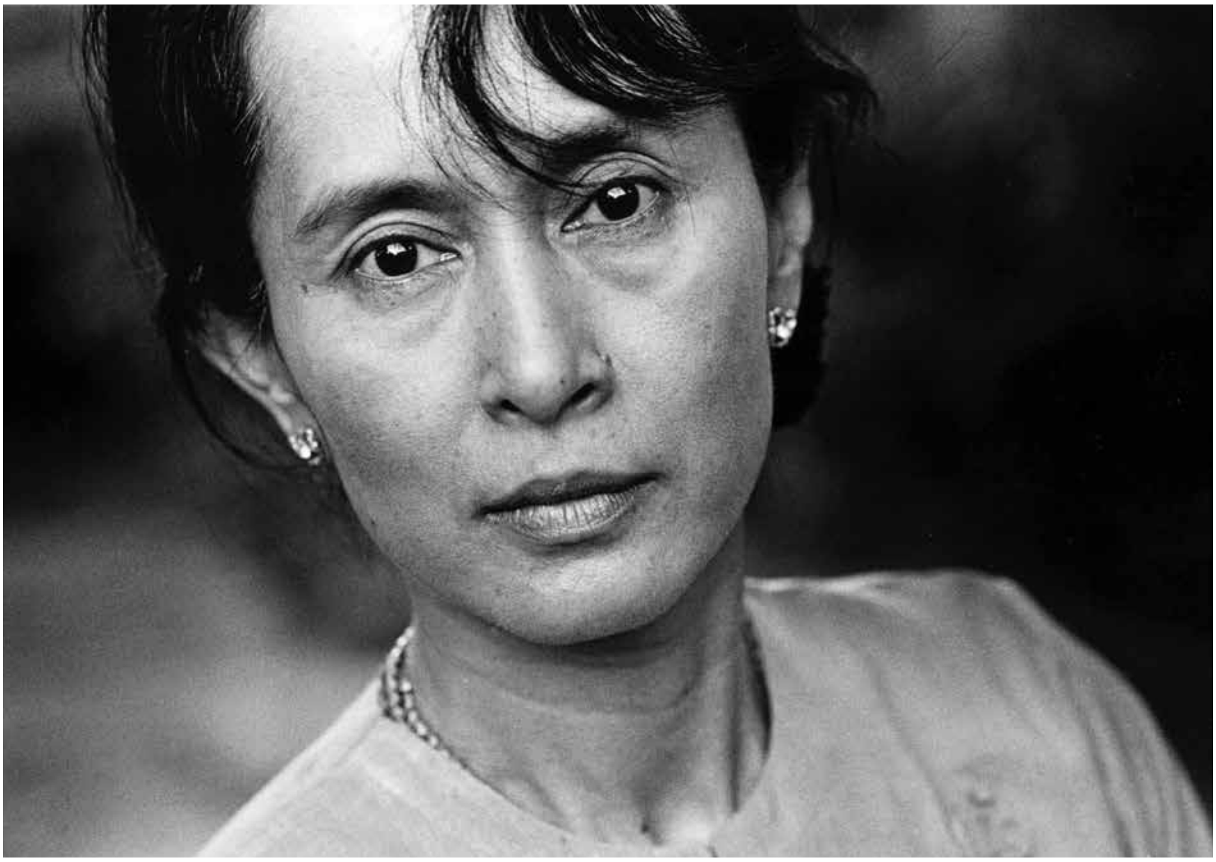
Chapter 1

Board Diversity – Beyond Demographics

"What are we missing given the narrowness of our lens on diversity?"

Australian Boards are pursuing a simplistic, demographic notion of Board diversity that stifles the search for talented Directors and misses the essence of what is necessary to assemble effective Boards.

Chapter 1: Board Diversity – Beyond Demographics



"If you do nothing you get nothing"

Aung San Suu Kyi

Diversity and membership composition of Boards were strong themes raised by participants as areas needing to be addressed to assist Boards in driving growth.

Many participants felt the discussion of diversity of Boards was being framed in narrow, demographic terms, with gender at the forefront of the debate. There was agreement that getting more women represented on company Boards was an important initiative and should continue to be progressed, as evidenced in the following quote from a senior Chairman and Director, ***"Gender is an important part because I think it does, in my experience, change the conversation when you have at least two women on the Board".***

The specific reference to having ***"at least two"*** women on the Board is indeed consistent with research showing that the ***"magic number"*** for giving women a voice and influence on company Boards is two or three, depending on the size of the Board.[6] Australian Chairs seems to have an intuitive, if not explicit, understanding of this ***"critical mass"*** principle.

However, limiting the discussion of Board diversity to gender alone is masking the need to achieve a broader concept of diversity on Boards. As indicated in the following comment:

"I think diversity has nothing to do with limiting ourselves by counting the females and males around the Board table. I know of some Chairman simply trying to facilitate equilibrium which is a tick the box process."

Indeed adding to this point another Director stated we are ***"obsessed with gender in this country, we need diversity of background, walks of life and geographies"*** where this ***"overemphasis on gender balance can lead Boards away from what truly matters in terms of diversity".*** Academic research also tends to conceive of Board diversity in terms of gender and, to a lesser extent, ethnic balance. The vast majority of the published research studies focus on one or both of these variables. Some studies do, however, introduce additional aspects of Board diversity like nationality, industry experience, and political ideology[7,8,9,10].

In general, research examining multiple dimensions of diversity concludes that ***"non-demographic"*** factors play a greater role in firm performance than gender and ethnicity.

However, research also suggests contingencies for when certain dimensions of Board diversity will add value or not. For example, having a Board comprised of Directors with varying industry backgrounds may not be suitable for ***"internally-complex"*** firms requiring specific expertise in a rapidly changing technological environment[11]. Regardless of the specific dimension of diversity under consideration, creating diversity for the sake of diversity may not improve, and can even impede, Board performance.

One participant went even further and said the push for gender representation on Boards is doing nothing for ***"real"*** diversity but rather maintaining the homogeneity of Boards, because whether men or women, they tend to have very common backgrounds e.g. professional lawyer, accountant or investment banker. This lack of understanding of a broader definition of diversity and acting upon it were seen as impeding Boards in their thinking regarding growth and growth initiatives.

Diversity of Thought

As one participant stated, ***"you need diversity on the Board from a whole range of different perspectives. Not just gender diversity. … I think there's a much broader diversity requirement. You know if I look at the corporate Boards of Australia and say do they reflect Australian society, the short answer is no, they don't."***

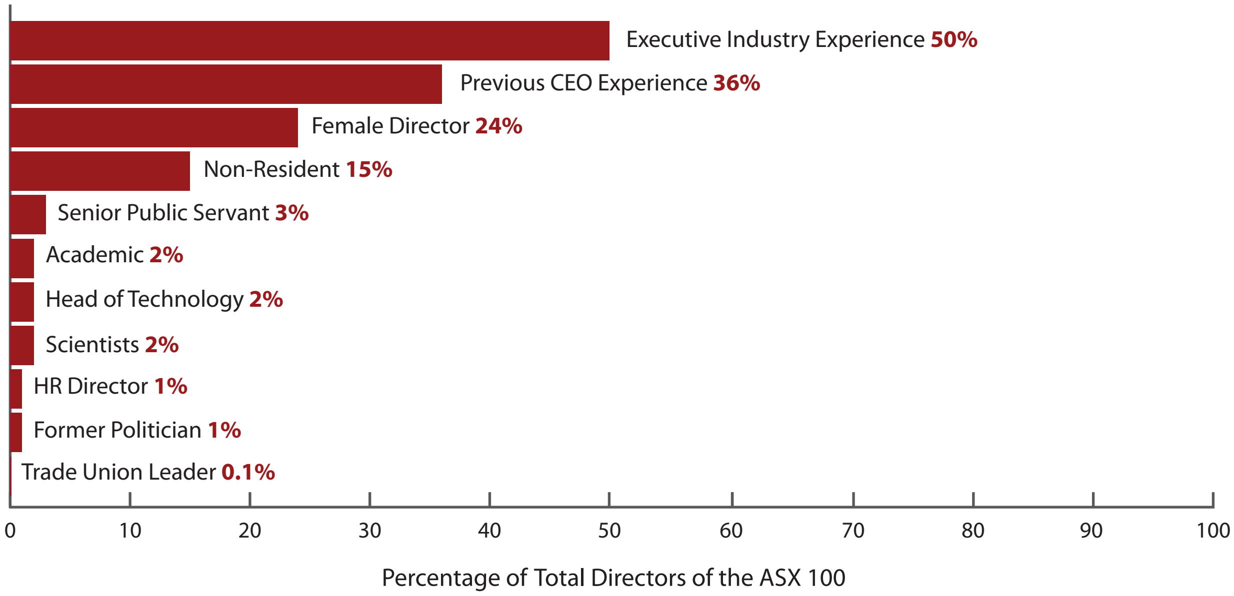
When diversity as a theme was raised in the discussions with participants, it was rarely raised alone. The discussions were more centred on the ***"need to get new thinking into Boards"*** and ***"ways to get alternative views".*** Thus the terminology used by participants regarding this broader definition of required diversity on Boards was more in terms such as:

- ***Different "voices";***
- ***Exposure to different backgrounds e.g. Scientists, PhDs, Trade Union officials, Public Sector employees;***
- ***Walks of life;***
- ***Geographies;***
- ***Cultural backgrounds;***
- ***Thought e.g. not linear in thinking;***
- ***Experience;***
- ***Edgy people (restless energy) – the need to know where to be in the medium term;***
- ***International "mindset" or "significant international appreciation";***
- ***International experience/networking knowledge or "immersion" in the culture of the markets being targeted;***
- ***Entrepreneurship; and,***
- ***Risk orientation.***

"If everyone is thinking alike, then somebody isn't thinking"

George S. Patton, Jr.

Figure 1: Current data of the composition of the ASX 100 Boardrooms based on the individual backgrounds of each Non-Executive Director. It highlights the lack of diversity in a range of occupational backgrounds, May 2015.



Diversity of Occupational Background

Participants were quite open to exploring the future Directors with a broader base of occupational backgrounds than those traditionally preferred. Figure 1 above shows the current data for the ASX 100 and highlights the lack of diversity in a range of occupational backgrounds, some of which we explore in more depth.

Scientists

The comment by one Director on a global Board lamented the fact that we do not consider Scientists, PhDs or Public Sector employees as is done for example in the US (only 2% of the ASX 100 total pool of Directors have a scientific background). The point is that each of these categories is different from the homogenous nature of many existing Directors and Boards. In the case of scientists, they "are deep thinkers and see things differently" and have done so in environments such as research and development where innovation and thought breakthroughs are the objectives, certainly attributes worthy of consideration on Boards. In the US, in the Fortune 500 there are a considerable number of examples of scientists on Boards, as well as academics.

Given the increasing importance of information systems, sustainability, biotechnology, and efficiency in debates about financial growth, this idea seems far more worthy of discussion[12].

Senior Public Servant

Regarding Public Sector employees, despite sometimes being critical of the Public Sector, the size, scope and complexity of the Public Sector is comparable to that of the ASX top 50. Examples include the Departments of Defence, Health, Education and others, where the cross-fertilisation of ideas would be beneficial for both the private and public sectors. This suggestion was well received by participants in the study when raised, and could be seen as a positive move to break down the homogenous nature of existing Boards highlighted above (only 3% of the ASX 100 total pool of Directors have a public sector background).

Academic research mirrors the sentiment of the participants interviewed here, noting specific benefits of including public sector employees on corporate Boards. More generally, government sector representation may be able to improve company Board performance in areas where the public sector may adopt more explicit policies and guidelines[13].

Academics

The same could be said for considering academics on Boards (only 2% of the ASX 100 total pool of Directors have a public sector background). With the ongoing debate regarding de-regulation of universities and the standard of education is there not an opportunity to have leading academics particularly those who lecture in business become more prevalent on Australian Boards. The lecturers are there to educate and influence the thinking of our future business leaders but are regularly called into question on their teaching of historical theory as opposed to relevant and practical theory.

Would it benefit both the business sector and education sector particularly to have academics on the Boards of Australia? On one hand, this kind of relationship would inject specific expertise in relevant areas directly into Board decision making. In addition, it would offer academics a chance to understand the corporate world and perhaps to introduce new ideas, more efficient processes, and strategic thinking into the university sector. From this perspective, it is a "***win-win***" situation. As one participant put it, ***"whether current business academics are equipped to do this is probably the question".***

Former Politicians/Human Resource Directors

Other suggestions that came up for consideration in the survey were ex-Politicians (only 1% of the ASX 100 total pool of Directors have a political background) and ex-Human Resource Directors (only 1% of the ASX 100 total pool of Directors have a human resources background).

"Politicians have the ability to work for a cross-section of people, have a history of building relationships and can be successful in opening new markets. Those that understand business may be a useful addition to the Board."

"The favourite line of all companies is that our most important asset is our people. Yet I am not aware of any Head of Human Resources or ex-Head of Human Resources on Boards in Australia. Company culture is key to driving results and those that have built a career in supporting company culture such as Human Resources executives, for some reason are not on Boards. I am reminded of that quote 'culture eats strategy for breakfast'. If that is the case then culture drives growth. Then I ask the question, would it help to have ex-HR Directors on the Board. In my opinion, a good HR Director is someone who has been a Head of Division, ran a P&L and then moved into HR and supported the CEO and organisation. That type of person I believe could have a role on the Board."

In general, academic research is in agreement that it may, indeed, be a good idea to include politicians and ex-politicians on corporate Boards, especially in heavily regulated industries. Not surprisingly, in more heavily regulated industries the percentage of Directors with political backgrounds tends to be higher. The downside is the polarisation of political views where ex-politicians as Directors from one side of politics could create difficulties for the company if that side is not in power.

Trade Union Leaders – Observations of Europe

If we examine the global powerhouses who consistently have achieved growth Germany is one country that arises in discussions. The German worker has six weeks holiday and yet very high productivity and a heavily unionised workforce. There is a significant difference between the approach of the employer and employee and the relationship in that the Germans work in a collective spirit with co-determination rights. In some cases worker representatives hold seats on Boards, or secondary Boards. In Australia it seems that we work with the view from the worker ***"that the bosses are out to get us"*** and from management that ***"the workers aren't productive."*** Perhaps there is an opportunity where ex-Union Leaders would benefit by joining Boards and companies would gain a better understanding of their approach and views. As one participant said:

"I have known numerous union heads and they have intelligence but lack business reality. I have known Chief Executives who have a great business reality but cannot get their message across the floor. Sounds like bringing the two together would be mutually beneficial."

Challenging the Existing Set of Board Competencies

There is clearly a shift in thinking as to the competencies that participants think are required on Boards. This is evident with participants referring to an ***"old"*** set of competencies required of Directors in the past, which some described as 'vastly overrated' in today's world. The participants' responses in Figure 2 show clearly the view that the traditional Board competencies of accounting, legal, compliance and risk, in many respects the mainstays of existing Director competencies, to be somewhat over-represented on company Boards. Participants generally are not saying these competencies are not required on Boards, but rather the increased regulatory and governance environment has resulted in "a creep" of these competencies on the Board. Others express the view that there are alternative means for Boards to access these skills as opposed to Board membership.

"Boards need to be functional. I don't agree with the need for a lawyer on the Board or a former auditor. We can outsource these skills."

A Window into what are Potentially the New Board Competencies that will Emerge

By contrast to Figure 2, Figure 3 shows the competencies participants believe that Boards should have more of. These competencies of international, social media, technology, digital, executive experience and industry experience fall into the category of what may be termed experiential competencies, or those involving or based on experience and observation – an interesting shift from the traditional educational/professional based competencies.

Figure 2: Participant Responses to the Question ***"Which of the following competencies should Boards have "less of" to facilitate growth and success in the future?"***

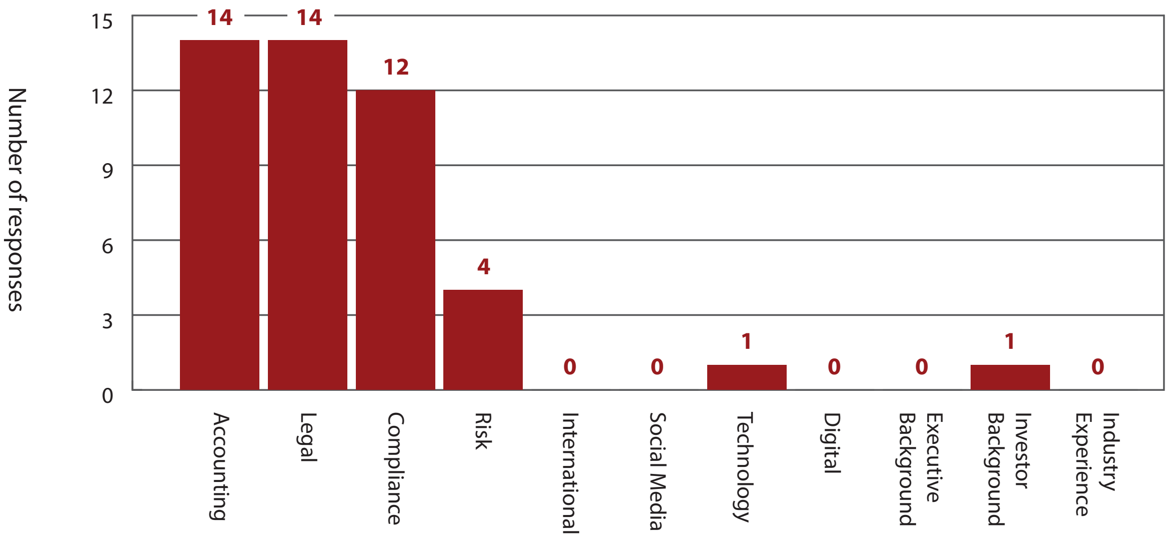
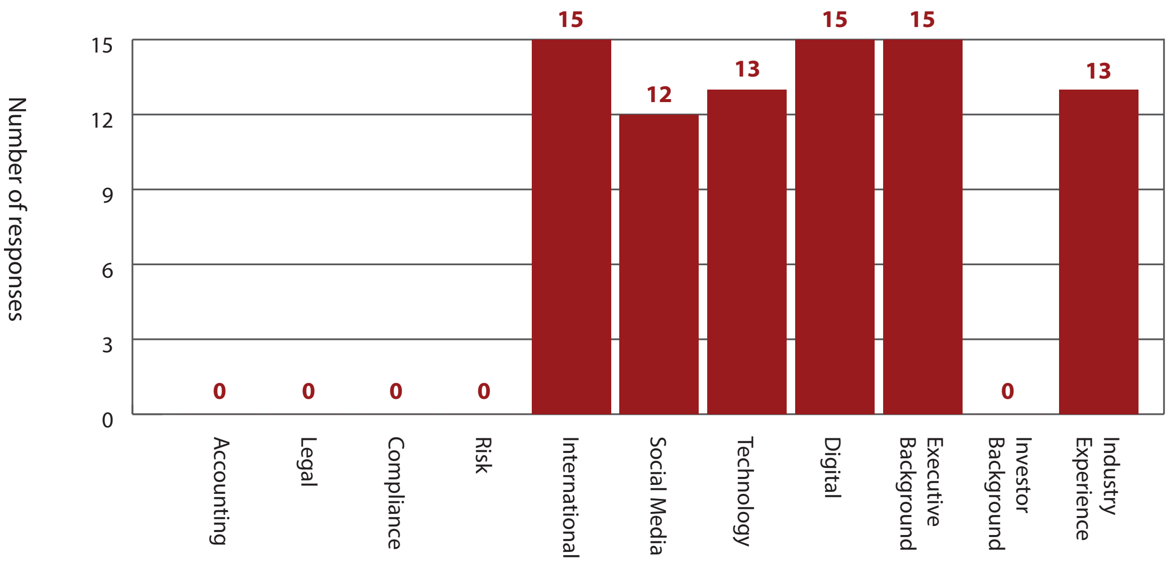


Figure 3: Participant Responses to the Question ***"Which of the following competencies should Boards have "more of" to facilitate growth and success in the future?"***



Note: Response numbers vary as participants may not respond or may respond to multiple competencies.

This growing dissatisfaction with the ***"old"*** set of competencies is also reflected in one Director's comment that ***"Board members need to 'think' and be able to get across all issues. They all need to contribute across the broader business".*** This need was specifically contrasted with Directors with the more traditional educational/professional competencies as being ***"stuck in the silos where they came from"*** and hence not contributing in this broader fashion. This is supported by another participant comment, ***"What I find with a lot of Directors ……… they are still stuck in the silo that they came from. They are an accountant, a lawyer or whatever it might have been and that is where they feel they can make the most contribution and therefore that's where they try to steer most of the conversation" and "Most Directors need to understand strategy better, they focus on incremental growth/ change and don't ask enough about the why, to make leaps forward in substantial growth."***

The comments above clearly show that even those competencies where it was identified that "more of" was needed were underpinned by the view that having this competency was not enough, and not primary for Board membership. Subject matter experts or specialist knowledge is not enough to force a Director out of a silo, indeed it reinforces silo mentality if the Director does not have the all round general competence to contribute on the broader spectrum of issues. Board members who sit there and wait for their specialisation to arise on the agenda or steer the agenda to this are not the preferred Director.

A number of these emerging Board competencies are examined in more detail below.

Industry Experience

Pursuing diversity of 'intellectual capital' on Boards creates problems if members do not have backgrounds in the specific industry. Basic aspects of the business can be difficult for Board members of different professional backgrounds to understand. As one Chairman stated ***"It is so complex …….we are just a very complex business …… and new Board members struggle with it. New Board members that don't have an industry background struggle with it."*** Some were more straightforward in their views on the need for an industry background, ***"I would prefer one expert and hear their view over and above that of the lawyers and accountants discussing the issues around governance and risk. In saying this, the industry expert will have financial acumen and be broader in their view. They may well have been a CEO or COO who brings insights that a professional collective of similar backgrounds may not".***

As noted briefly above, assembling Boards with a broad background of industry experience may not always improve Board decision-making. Too much diversity in industry backgrounds may actually be inappropriate for firms requiring expertise in a specific area where the rules of the game change rapidly. This is perhaps another way of saying that in industries requiring a great deal of technical expertise (e.g., biotechnology, IT, health sciences, etc.), industry experience among a large percentage of Directors is positively correlated with business growth[14].

Technology/Digital

With the dramatic advancements in technology, particularly in digital and the impact on potential business revenues, executive structure, company positioning and even company existence, there was extensive discussion around the need for having a technology specialist with broad business acumen as a member of the Board.

The converse argument was to ensure individual Board members had a minimum of ***"technology savvy".***

"I can see when there is a need for an outstanding digital person on a Board, to bring the Board up to speed and be an outright champion. Digital brings the company closer to the customer. Digital however, is merely a reflection of the Board and whether the executive has the appetite for change."

"For digital to succeed there needs to be the right mindset. That is the ongoing development of knowledge and curiosity. This is not limited to individual Directors, it has to be across the business. The Chief Executive has to recognise the risk of the future and re-inforce that to the Board."

We expand further on the impact of technology, digital, digital disruption and social media in the later chapter "Digital Disruption and IT Driven Innovation."

International Mindset/Experience

More of these competencies does make sense in terms of growth. International in particular fits the bill. This century is talked about as the Asian century and Australia is in close proximity to Asia. The question is as a country that wants to capitalise on this and export to where 60% of the world's population resides, ***"have we immersed ourselves in understanding our future customers and therefore how many non-Australian domiciles are there on Australian Boards."***

"The challenge of having a non-resident on the Board is the issue of distance. However, bearing in mind that such individuals have the capability of introducing relationships, opening trade opportunities and educating fellow Board Directors, it would seem with today's current technology that distance is a poor excuse."

Perhaps most importantly, diversity in international experience among the executive team is positively associated with firm financial performance, especially in companies operating in a wide range of geographic markets[15]. So, on balance research supports the idea that having international experience on a company Board is a good idea, however many participants interviewed highlighted the difficulties of having non-resident Directors on Boards due to time zone differences and the lack of integration into discussions and decision making. The reality may be that Boards will need to find an effective way of dealing with this.

The construction of the Board – there are alternatives!

The participants were also not shy in saying that ***"there are sometimes better ways to get diversity and specialist competencies on the Board than through Board members directly",*** clearly acknowledging that Board members can't be experts in everything. These alternative sources included advisors, consultants, industry and product specialists, and a junior or advisory Board that captures a demographic viewpoint e.g. the view of the millennial generation birth years 1980-1999. This approach is another way of injecting differences in thought and orientation to challenge the more homogenous backgrounds of many existing Boards.

So when constructing a Board and selecting Directors the following was articulated:

"What is essential to the Board is a general command of thinking and business, plus a specialist. I also think people over 40 who have lived a little and have financial independence. They need standing and of course, basic financial literacy."

"What we really need is diversity and inclusion. There is no use having a Board full of diversity if no one listens."

"Board members should have a good commercial brain, good communication skills, understanding of the business, with relevant experience and expertise. It is taken as a given that they have financial acumen, and nice to see would be a well-rounded HR executive or ex-CEO."

"On a Board I would like to see an ex-CEO, some industry experience, edgy people and those with energy. Vastly overrated skills are legal and commercial governance. An international Director is also key. Some people have argued that there are not enough young people on Boards. My thoughts are, if at 30 they are so good in their field, why would they want to be on the Board?"

"Men and women of character."

"Boards require human chemistry. An effective Director may, for example, have a thorough understanding of an industry's complexity e.g. maybe a biology or drugs expert for a biotech sector."

"The Board capability has to be high or higher than the capability of the CEO because the Board sets the tone. They can kill a company. They can go slow on deals. They can stop progress. They can force execs to leave or they cannot be across the issues and fail in governance. The Board doesn't execute, that is management's role. You need a diverse Board of differing perspectives and experience. I expect them to have a big picture view. Furthermore, if you have a low capability Chair, you have a low capability Board."

"I pick a Board on contribution, not a Board of names. Boards need individual and collective judgement. Choose those that have the courage to think laterally and to be different."

"It is good to have people on a Board with a wide view of the world. Good to have international experience on Boards, if you are going to compete in overseas markets. Industry experience is critical."

Perhaps a good summary articulated by one participant on the dilemma of appropriate Board composition follows:

"I am very concerned about the young professional Director. I feel the old club dynamics of having a collegiate Board is also not the appropriate answer for the future Boards. This process and the discussion on the breakdown of diversity has made me think a lot more. I believe the Board has a critical role and should be fit for purpose. If I used a sporting analogy, take the Tour of France where you have a team that can all cycle and share a common goal. You have a mountain climber, you have a sprinter, you have a grafter. In the Boardroom we need people who have good general business acumen and skills but also some areas of deep expertise. In your matrix you outline sector experience, CEO experience, IT/Digital experience and others which I believe are required but not in every Board meeting. But like the Tour de France skills are required at certain times and thinking from the Board is required and at times needs levels of expertise to drive a debate. Having individuals who have not lived through outcomes in their career, who are the young professional Director concerns me if they haven't got life experience, and to the counter, the 70 year old club also concerns me when they they are hired from a similar cloth without indepth expertise. In regards to technology, does the 70 year old know the question to ask of the executive team? Does the young Director know the consequences of an international/offshore acquisition and know what to ask of the executive. My point is our discussion of diversification has reached gender, when I need diversity of thought and experience in the Boardroom."

Given the views expressed on the new competencies required to be considered to make Boards more effective and growth orientated the comment from one participant certainly gives pause for thought as to appropriateness of current Board composition.

"If you actually ran the rule over Australian Boards and asked what does each Board member bring to the Board, what is their contribution? What is their value? I would think it would be a very interesting assessment of capability and value. I realise being collegiate is one thing, being of value is another, being both is what we should have."

Comment

What has been uncovered in these interviews is that participants are reacting to what they perceive as a rather narrow concept of Board diversity. What was conveyed was a far broader concept of Board diversity than anything offered in the academic literature. While academics have focused on demographic aspects of Board diversity, actual Directors focus more on balancing the ***"soft"*** skills of Directors. Things like industry experience, cultural perspectives, and styles of interaction are more important to company Directors when they think of characteristics of Boards and Board members. This mindset was reflected in the broader range of dimensions identified by the Directors interviewed here when the topic of diversity was introduced to the discussion.

Similarly the traditional and conservative list of competencies that have been the mainstay of Director competencies on Boards is perhaps constraining thinking with respect to growth. Particularly challenging was the view not only that accounting, legal, compliance and to a lesser degree risk were over represented but that some participants believed that for accounting and legal at least, that they could be brought in when required. That is they were not essential to have on the Board – they could be as per the common management term – outsourced or bought in! Even the contemplation of this, is a real lateral thought and maybe a future predictor of where Board membership and competencies may go.

However what was made very clear was the base competency required for Directors was a good all round business person and what was being looked for in terms of diversity was in addition to this.

Thus the list of competencies on Boards needs to be broadened and diversity on Boards should be viewed with a far broader lens than has been used traditionally – also a lens where it is not diversity for diversity's sake, whatever the diversity parameter, but diversity for growth's sake.

This diversity for diversity's sake did appear to be a point of debate. The conversations about getting diversity of thought and new ideas into the Board came through, but rarely hard edged or outcome focussed, in the sense of ***"we have diversity in our Board to assist us to drive growth."*** There was one rare exception that probably captures succinctly this need and the questions that need to be asked:

"One question that has to be asked is what this diversity is bringing to the Board and the growth agenda. A simple question may be, have you asked the Chief Executives who, day in and day out run the company and face the shareholders and analysts what value they actually get from the Board, before we go down the path of trying to ensure we have diversity. I would not be surprised if numerous Chief Executives would probably answer that they receive little insight outside of (rubber stamping) from the Board."

"The first method for estimating the intelligence of a ruler is to look at the men he has around him"

Niccolo Machiavelli

Chapter 2

The "Professional" Director: Multiple Agendas and Flawed Incentives

"The day we went to career politicians, it became a problem, and the same applies to Directors."

Directors can have the wrong motives and incentives for joining a Board in the first place. This makes it difficult to get the best out of them to support and drive growth in Australian companies. This may be the case with this new breed of younger Directors, many of whom have no or limited executive experience.

Chapter 2: The "Professional" Director: Multiple Agendas and Flawed Incentives

"No crime is so great as daring to excel"

Sir Winston Churchill

It is readily acknowledged as one Director said that ***"the gene pool of NEDs in Australia is not that deep".*** Perhaps this is the reason that has led to participants feeling that a new ***"professional class"*** of Directors are being appointed to Boards. The view was that this was occurring for all the wrong reasons. Directors fitting this profile were characterised as:

1. Lacking C-suite experience;
2. Lacking experience generally;
3. Appointed based on narrow, ***"demographic"*** notions of Board diversity; and,
4. Generally younger and less experienced than Board members have traditionally been.

A recent article in the Australian Financial Review titled ***"40 the new 60 for ASX Boards"***[16], supported the age trend, highlighting the younger and sometimes less experienced Director shift that is occurring. The article stated that the number of ASX 200 Directors under the age of 50 had doubled in the last 5 years.

One participant captured all of this and more in the following:

"There is a lack of C-level experience in the Boardroom. I am seeing the development of the professional young NED, and question what they necessarily bring to the table. Do they have industry experience? No or limited. Do they have C-level experience? No or limited. Do they have P&L experience? Perhaps. Have they had leadership experience of a large organisation? No or limited. Have they faced the challenges of reaching a particular set of numbers and managing the stakeholders? No. I am surprised by the lack of experienced C-level depth in most Australian Boardrooms."

Some participants even suggested that the drive for gender diversity might be contributing to a new class of young female professional Directors, represented on multiple Boards as a way of meeting implicit or explicit quotas.

However, it is broader than just gender diversity being the driver, as both men and women represent this emerging class of younger Directors. One participant was generally surprised with this development, ***"There is this professional Board member thing that I have not seen much evidence of in North America, or Europe even … this is the first time I've encountered this rather young group of people who don't have, for the large part, CEO level experience … find themselves in this role and they need multiple Board seats to fund an income."***

Since many of these new professional Directors may need the money and must sit on multiple Boards to make ends meet, perhaps they can't afford to do anything controversial that might lead to an incident where they might put in jeopardy their Board role or, worse still, future roles. This results in over-concern with personal reputation and risk aversion when it comes to pursuing growth opportunities.

"Directors lend their reputation to the Board and to the company. But there's more to be gained by taking less risk than by taking more risk, and this is when the issue becomes a concern, and that is their risk orientation. They have very little risk orientation because there's very little upside for them. The company significantly outperforms versus just performs well. I'm not sure whether they gain any more from that."

"I see some Board members view as a high priority compliance and their own personal risk more than other agendas."

The following highlights how this negativity might translate to restricting growth opportunities within companies:

"Business means risk, but calculated risk. We have become the greatest nanny state in the world. We defer decisions, we defer risk, and we do not support the bold. You sometimes wonder if we were presented the task of building the Sydney Harbour Bridge today would the risk committee allow it to pass. We are being hampered by governance and risk avoidance instead of risk acceptance."

"We aren't betting the farm, and yet we over examine the risk. Reputational concerns are really starting to hold back opportunities. Taking on the Board is not easy as Board members tend to hunt in packs so therefore bring them along the journey."

"You need to take risk to get success. You cannot create a culture of encouragement and empowerment if leaders and executive teams cannot make mistakes. "This whole issue is captured in the following quote: "Where as if you've ……… got three Boards on $150k and got a chance of an extra committee? How independent are they going to be when they are hanging on wanting to be on the Audit and Compliance Committee because it's another $50k?"

In this sense, Directorships may be becoming income-generating activities in and of themselves or as one participant put it, ***"seen as a nice little earner",*** being pursued by people with little or no executive experience. Supporting this view was the comment ***"certain members of the Board have "relied" upon Board fees and are risk averse – it drives the wrong behaviour".***

This was the basis for the quote ***"the day we went to career politicians, it became a problem, and the same applies to Directors".***

For this generation of Directors, aspiration may be more about earning a safe income as opposed to what participants felt was the more noble and appropriate purpose of making the organisation great and being rewarded on that basis.

These views could be contrasted with the characteristics and motives of ***"good"*** Directors. ***"My experience in the US is the … Board members tend to be professional bankers or investors who have been around and done some pretty exotic things and made enough money where they didn't need to work."***

Some Directors even went so far to as suggest that the personal wealth of potential Directors might be used as a ***"litmus test"*** for determining their motivations for joining a Board. From this perspective, only Directors with considerable personal wealth gained from their experiences as company executives, investors and the like would qualify as having the right incentives, the courage to take risks, and the capacity to handle the consequences of failure.

"One Chairman said to me just the other day, 'One of the things I look for when I look at Directors, is do they need the money, because if they really need the money, it's not the right job for them'."

Another put it far more bluntly with the gambling analogy: ***"Back self-interest, it's always trying"!***

But there were some dissenting views on whether all Board Directors should have executive experience, and whether this new breed of younger, professional Directors is necessarily a bad thing. For example it would be likely that the younger Director would be more knowledgeable of digital and social media than would be the older more traditional Director. Other counterarguments were couched in terms of the need for diversity, in viewpoints and gender, as seen in the quotes below from two participants.

"… if you're only going to have rich people as Directors…..the gene pool that you have available to actually then sit as Directors of the company doesn't reflect the communities that they service… So if you're running a Unilever and you've only got rich people sitting on the Board then no one has got any understanding of what it's like when you can't afford to buy a bar of soap."

"I think there's still a lot more of the former (traditional Directors) who made their money ……. and I think that's a break on diversity that's potentially a problem" (if the existing or traditional Director model is maintained).

Comment

The emergence of the ***"younger professional Director"*** was raised on enough occasions by participants to signal that it is a potential concern regarding the conscious or unconscious constraints in decision-making processes. These constraints will tend to be around willingness to embrace risk. If this is the case then risk aversion and conservatism may become a growing force on Boards as the ***"younger professional Director"*** numbers grow. The concern will be that inherently growth and risk are business partners in themselves and if the risk appetite of a Board is significantly impaired, so too will be the growth prospects considered and approved. This can very well result in investments in new ventures, M&A and R&D being reduced, pared back, deferred or not approved at all, leading to reduced competitiveness and retardation in the growth of Australian companies. The end result may very well be a question as to the ongoing viability of some of these Australian companies.

This does not mean that new or emerging Directors should be excluded from Boards. Far from it because how else do they become a Director to start their career. There is room for ***"learners"*** on Boards and Boards should have the capacity to bring on such a person young or otherwise. What is essential is that the appropriate due diligence is performed on the potential new Board members to ascertain drivers and motivations of the individual to join the Board. Such a process will reduce many of the risks and concerns highlighted above.

Chapter 3

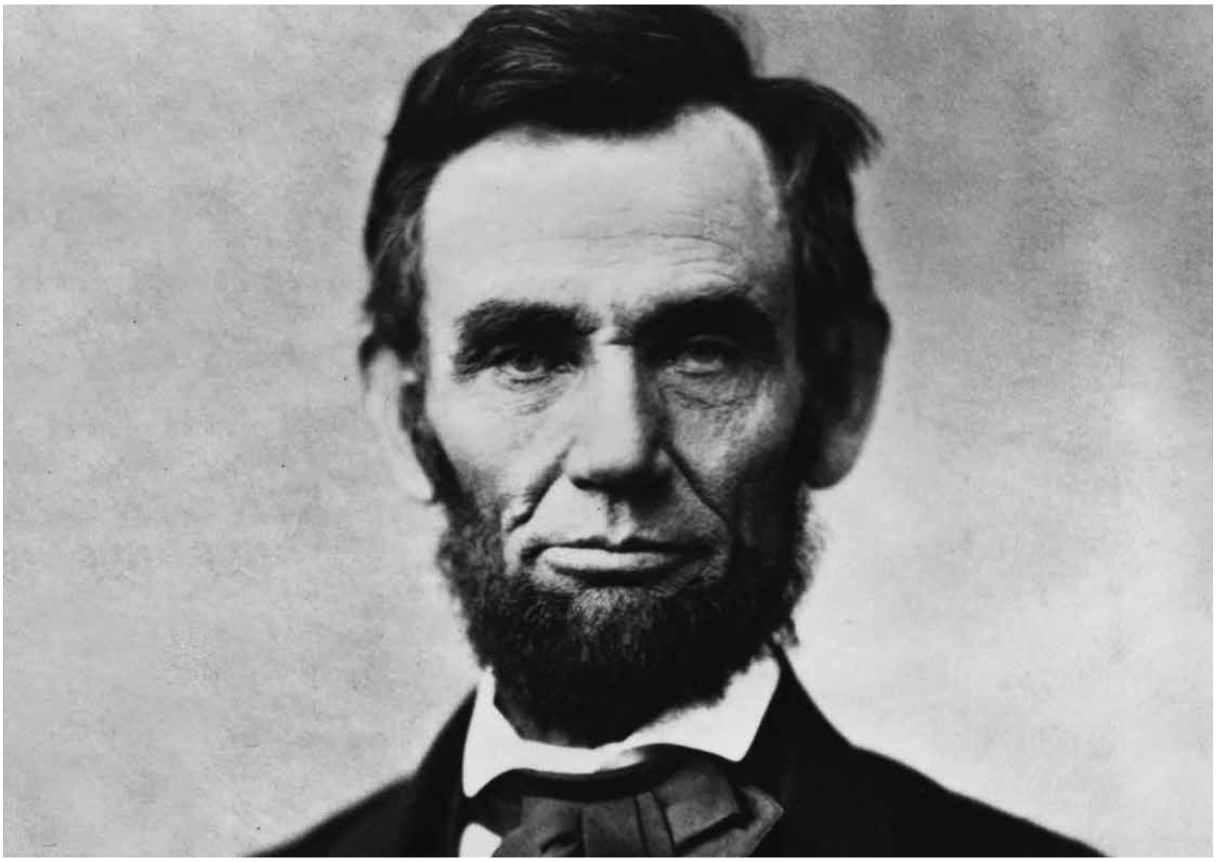
Fear of Failure as a Guiding Mindset

"Turkeys don't vote for thanksgiving!"

Australian Directors may not pursue innovative, longer-term growth opportunities because Board 'failures' are so highly criticised that the resulting loss of reputation is simply not worth the risk.

Many participants believe a fear of failure dominates thinking on Boards due to over-concern with personal reputation and a culturally ingrained suspicion of business leaders.

Chapter 3: Fear of Failure as a Guiding Mindset



"Always bear in mind your own resolution to succeed is more important than any other"

Abraham Lincoln

Participants noted that many Directors have incentives to take the safe route if they want to hold onto their positions. Slow, plodding growth minimises the risk of failure and will allow them to keep their Board positions and pursue future Board positions. However, one mistake in the pursuit of a major growth opportunity could impair their reputation and put at jeopardy future Board positions. This was reflected in a range of comments from participants in the interviews, some of which are reproduced below:

"And my kind of view is that sometimes it's safer, in dealing with public companies, it's safer to do nothing than to take aggressive positioning because you don't get fired for making a mistake that way, the status quo is business as usual."

"For Directors there is very little incentive to stick your neck out."

"Scapegoating is rife if something goes wrong."

"We have become the nanny state. We look for blame."

"Australian Boards are 'terrified' to go offshore as they are risk averse."

"The fear factor of Australians going offshore is high – maybe it is fear of failure."

"Australian Boards are fearful of lobby groups and special interest groups which is outrageous compared with globally."

"Fear of risk/failure is everywhere in this country."

"Directors are 'petrified' of ASIC stories of what happens if something goes wrong."

"Don't want to come up against the wrath of these agencies at some future time."

These comments do not paint an attractive and conducive picture of a Boardroom environment that is willing to take even well thought out and considered risks to achieve growth and enhanced shareholder returns. The trickle down effects to executives is also concerning.

Part of this fear of failure is linked to the earlier notion of a younger, professional class of Director. This new class of Director sits on multiple Boards, which they view as a career and a fundamental source of income. Hence a Board decision that damages personal reputation, losing a Board position or minimising the likelihood of getting future Board positions is like being sacked, and without a redundancy payment! If you are dependent on the income stream this is a real concern to this class of Director.

A comment that does explain to some degree this fear of failure is that Australia is a small town and there is nowhere to hide. Thus everyone knows about ***"your failure"*** and as it is a small town "***it is hard to reinvent yourself."***

The way failure is considered, treated and remembered in this country is another reason that may explain this fear. In many ways it is more about the lens with which ***"failure",*** or by another title, ***"learnings",*** are viewed.

It was also presented by the participants that fear of failure was not only limited to the Non-Executive Directors but it was set in at C-level management. There is a real concern of leadership taking the middle ground as opposed to stretching the business which is further covered in commentary on Australian management.

In this vein some participants challenged the definition of failure and whether it is good or bad as evidenced in the following quotes:

"Why do they put rubbers on pencils?"

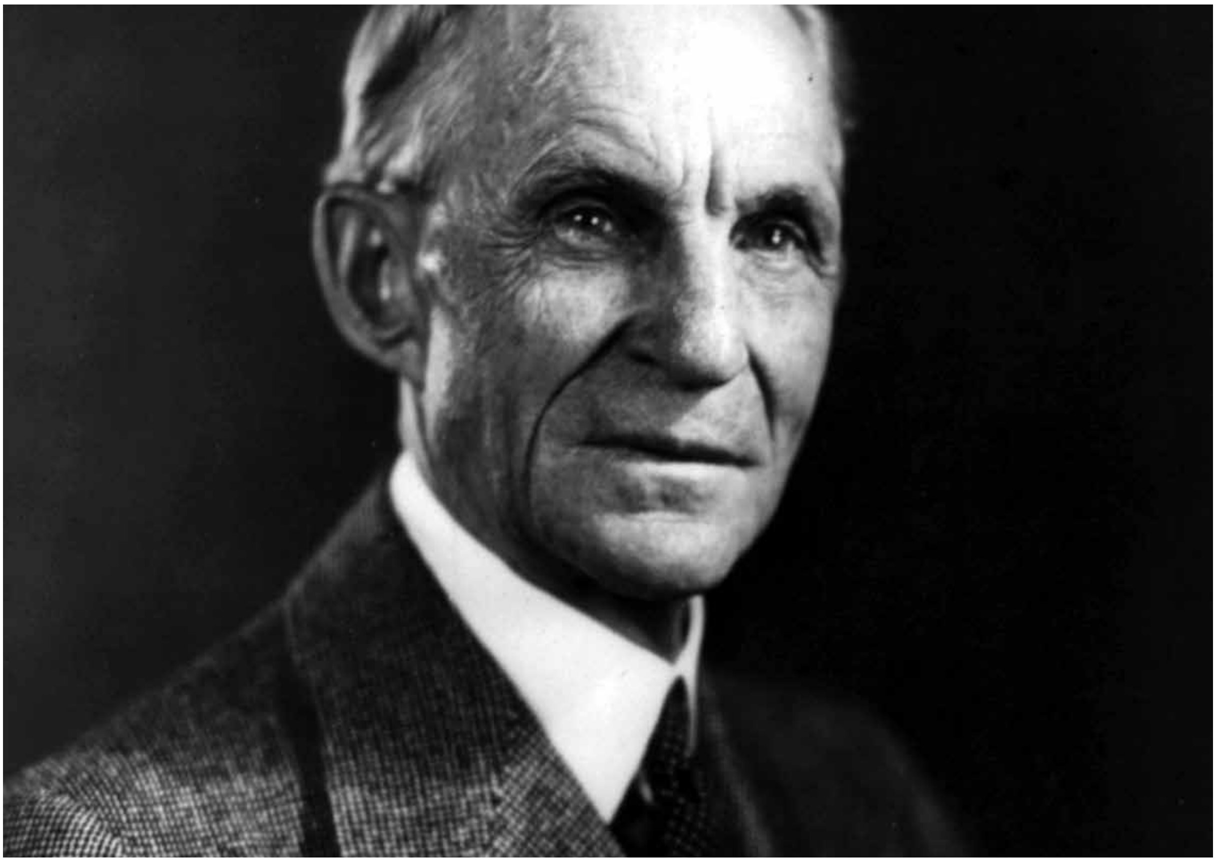
"If you are not pushing yourself you are not improving!"

"You need to persist, whatever the endeavour."

"Failure develops insights."

"There is nothing like a good stuff up in life to make you focus."

"Makes you a wiser person."



"If I had asked people what they wanted, they would have said faster horses"

Henry Ford

These quotes represent a far more positive perspective on ***"failure".*** Participants were realistic however stating this does not give carte blanche to failure but rather it ***"depends on the size and degree of failure and lessons learned."*** There was a strong belief that this balanced perspective was bereft in Australia where ***"one mistake and the heavens descend upon you".***

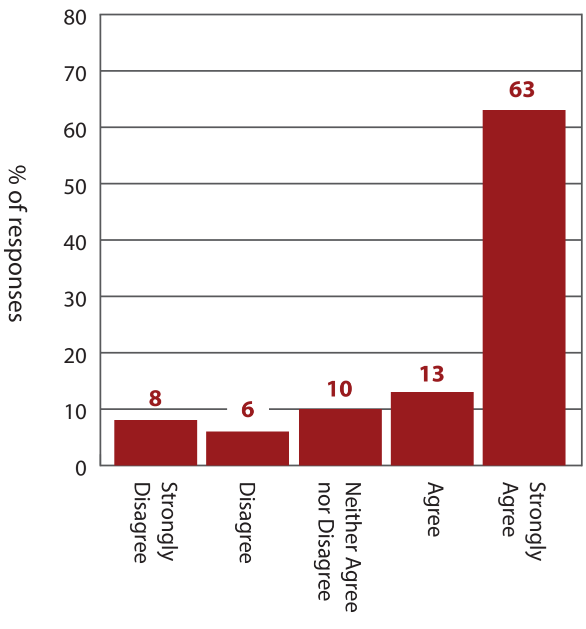
This fear of failure mentality is coupled with an overzealous desire to criticise failure. In Australia there is:

"The working man's mentality to criticise the boss."

"The tall poppy syndrome which is alive and well if you succeed – compared with the US where if you succeed you are admired."

This criticism of failure in Australia is contrasted with the United States as seen in Figure 4 below. This Figure clearly states that the participants hold the view that how failure is viewed in this country is not supporting it as a learning mechanism and pathway to growth. This may very well be putting this country at a disadvantage when competing with overseas competitors, both within this country and offshore, that view failure through this different lens.

Figure 4: Participant Responses as a Percentage to the Question ***"In many countries failure is accepted as a learning and pathway to growth. In your experience, do you believe this view is "not accepted" in Australia?"***



This difference also came through in the participant comments below:

"In the United States it is totally accepted that anybody who tries to achieve something the chances are that he/she is going to fail, maybe not once, maybe several times. But there, people admire people who get back on the horse and go at it. Here, it's the exact opposite and it's a big problem."

"I think the whole country has become too risk averse. … That's a hobbyhorse of mine ….. unless we learn to handle failure better than we do. I mean if you're in Silicon Valley you're not doing well unless you fail at least three times, and the Americans have got a much better approach to failure. We need a society that doesn't stigmatise failure."

"There is far more acceptance of failure as part of the journey in the US and UK."

"In Australia we don't celebrate failure – in Australia it is looked down on, in the US it is not."

"We don't accept failure as a journey to success."

"The US has a better approach to failure than Australia and handle failure better than we do."

"The whole country is more risk adverse. We need a society that does not stigmatise failure. Other countries handle failure better than we do. If we don't innovate we don't grow. People have become frightened to take a punt."

Some participants even went so far as to suggest that private investors in overseas markets actually seek out people who have failed in the past as a way of validating their credibility.

"They were talking about the lack of serial start up failure entrepreneurs in Australia and how we just don't seem to be able to grow that list. In the US, venture capitalists are much more interested in funding someone who's failed multiple times in the same arena because they feel that they're developing insights that will allow them to potentially not fail the next time round."

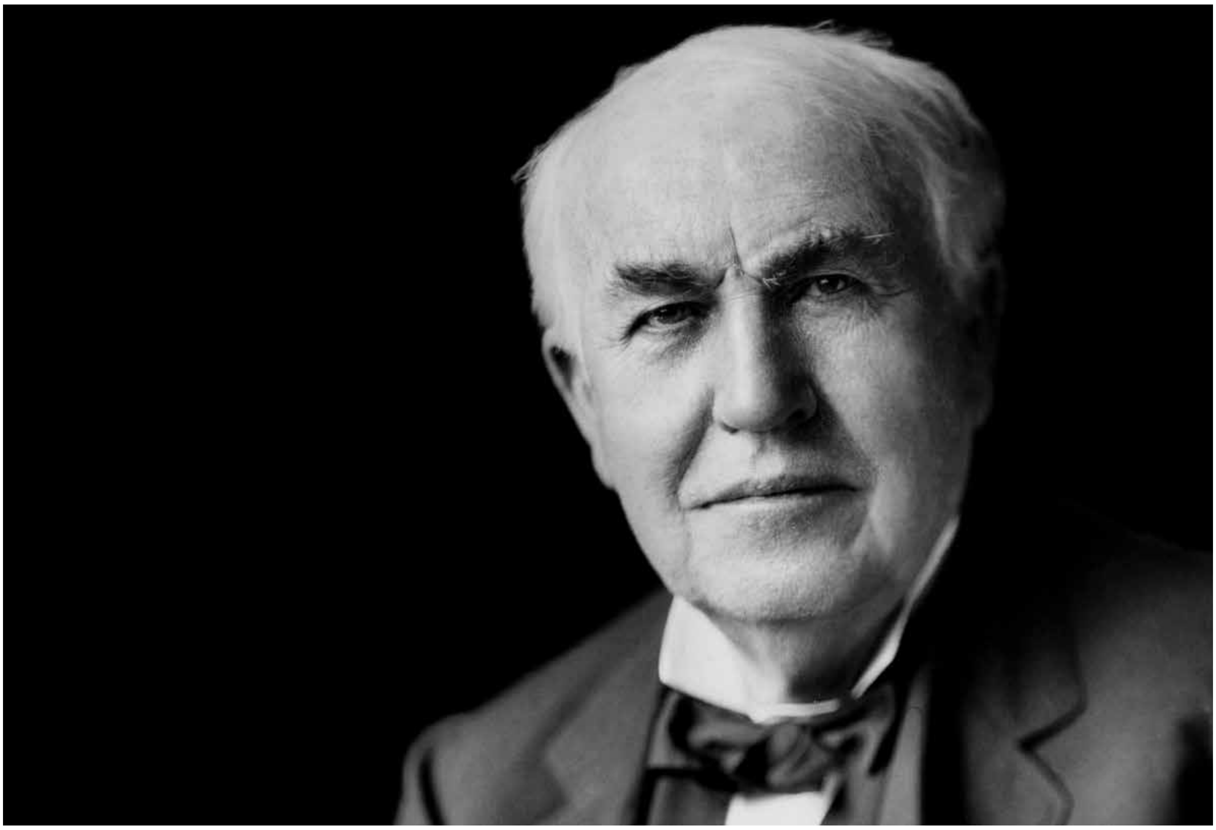
Some participants pointed to Australian cultural values and stereotypes in accounting for the fear of failure, noting that business leaders who approve unsuccessful risky ventures are viewed as 'crooks', and 'entrepreneur' is a dirty word in Australia and not so in the US.

"You don't gain respect through making money in this country. … They have no respect for people who run businesses. They think that they've got there because they've cheated."

"Everyone in America wants to be a millionaire. They all don't get there but they all want to be, so that whenever the government tries to heavily burden the wealthy, the middle classes object to it. When they've done all the sociological research they find that it's because those people want to be wealthy themselves and when they get there they want to actually keep the money which is a different phenomenon than here. They are proud to be successful."

"The perception of success in business is not the same as in the US."

"There is a bad attitude in Australia to business success."



"Our greatest weakness lies in giving up.
The most certain way to succeed is always to try,
just one more time"

Thomas A. Edison

This was contrasted with a somewhat idealised view of the risk climate in other countries, particularly America.

"Our global competitors, the majority of them are American. … The American Board governance is completely different. The risk profile, particularly towards higher levels of debt, is far more aggressive than Australian Boards."

It is not clear whether a fear of failure and a mistrust of business success are inherent in Australian values. Various sources have indicated a highly regulated[4], somewhat cautious, business environment in Australia relative to other countries, but caution was not equated with fear and mistrust.

Research does suggest, however, that Australian attitudes toward business leaders are characterised by multiple paradoxes or contradictions. Australians want business leaders to succeed, but are also wary of people who accumulate large amounts of wealth. We want inspirational leadership and yet still want leaders who are just regular blokes like us. We sport a prominent anti-authority streak and yet like to hope that our leaders are fully in charge of every situation[17]. In some respects, when it comes to company Directors and other public figures in leadership roles, we Australians want to have our proverbial cake and eat it too.

Not all participants agreed that a fear of failure, and the consequent conservatism that comes with it, was necessarily a bad thing. Some, for example, saw conservatism as a fundamental responsibility of a Board. Pursuing exceedingly high growth may take a company out of its ***"comfort zone"*** and ultimately wind up disappointing investors when initiatives fail.

"We're realistic in our view. I think we always tend to take the view that we would rather be conservative in the guidance and exceed the guidance rather than be smart and try to impress the market by what we may be able to do. … It has to be balanced. I think the market then likes you better if you beat guidance rather than, trying to beef yourselves up by saying you can do something and then running the risk of not doing it."

And not all Directors agreed with this notion about fear of failure, with some pointing to alternative cultural values and stereotypes to suggest the appreciation and embracing of risk.

"So it's an Australian, have a go sort of mentality, of yeah, we reckon we'll have a go at anything. We'll have a crack and see what happens, right, some of it might work, it might not, but if it works, happy days."

"I love that in Australia, I've been gobsmacked. The straightforward common sense gut instinct good business sense that exists in this country. … takes them higher up the risk curve than I think the UK in my experience which means the failure rate is higher, and the degree of failure is worse."

Some Managing Directors even discussed Board transformation from being risk averse to adopting more of an 'entrepreneurial spirit'.

"We are quite strategic, and we have an entrepreneurial streak. And the Board, its taken time for some of the Board members, because they came on board with a risk mentality … But my Board is actually now the opposite. My Board has got on board with the entrepreneurial streak of the business, and wants to see me take more risk."

These transformations often involved changing Board membership, but also rely on building on previous successes to drive through riskier, longer-term, and potentially more lucrative growth initiatives.

"Yes, I've got a start-up guy, who is just off the dial in terms of the amount of risk he'll take – in a good way. He's been brought in for that very reason. Just to make sure we are looking to explore and disrupt."

CEOs can essentially rely on their track record of success to push their Boards towards increasingly bolder risk portfolios with ever-higher potential rates of return. Investors react in largely the same way, allowing more leeway and showing more loyalty in terms of holding shares, if the CEO has built up a record of previous success.

"If you look at our register, it's pretty stable. … so I think our shareholders are supportive of what we're trying to do. But I would also tell you that we've earned this, we have some credibility at the moment only because we never miss our number."

All of which slowly moves the company from being risk averse to having an ever-increasing appetite for risk.

CEO Tenure

This may hold true for this particular company but with the tenure of CEO's averaging in the 3-5 year range, by the time you have built your track record to begin leveraging your credibility as a CEO you are more than likely leaving. Thus the opportunity to trade this credibility for an increased risk growth profile is lost.

As intuitive as this idea is, there is little academic literature to support the idea that company Directors 'earn' the ability to pursue longer-term growth initiatives by assembling a track record of success with short-and medium-term initiatives.

Comment

There are a range of factors at work here that are effectively contributing to a reduction in the risk appetite of Australian Boards. It is not clear from academic research that Australian Directors ***"fear failure"*** more than company Boards in other countries, nor is it clear that this fear is due to deeply ingrained cultural values or simply irrational investor expectations.

The concept of needing to build your credibility as a CEO with your Board before presenting more risk orientated proposals does resonates strongly. It is like the concept of ***"you need to crawl before you can walk".*** The flaw in this approach however is that the markets Australian businesses compete in are becoming more and more complex and fast moving and generally these markets are global ones. As a consequence the question to be asked is how can and will Australian businesses be able to compete with global competitors if, as they view it, their risk appetite and lens on failure is so different?

The current position where ***"people are frightened to take a punt"*** would appear to be unsustainable as it, among other things, stifles innovation, a key building block of competitiveness.

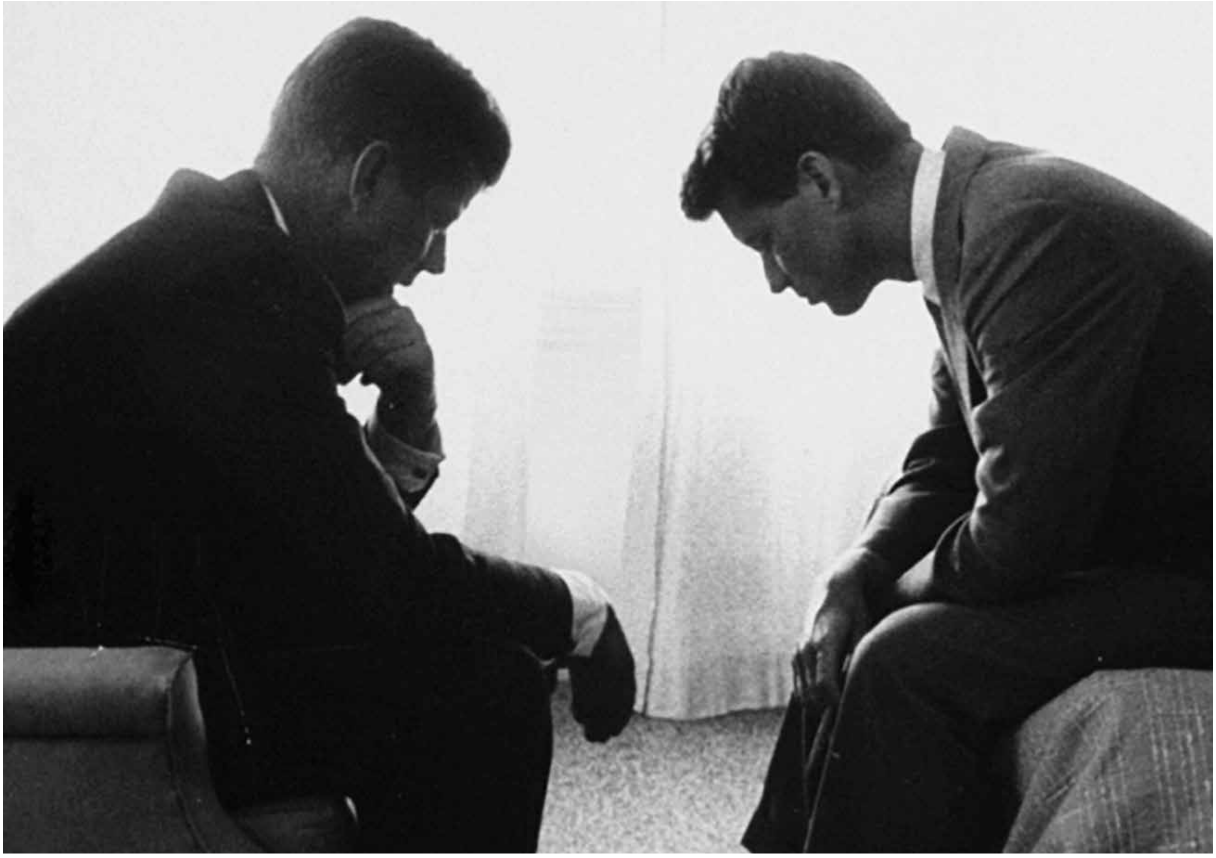
Chapter 4

Over-scrutiny of Boards Results in Risk Aversion

"…it's gossip, it's almost like scandalous stories."

In the view of many, Australian Boards are subject to levels of scrutiny unprecedented in other parts of the world. Gun-shy Directors avoid the spotlight, regulators, media, investor markets, and special interest groups, often missing growth opportunities for Australian businesses.

Chapter 4: Over-scrutiny of Boards Results in Risk Aversion



"When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity"

John F. Kennedy

Participants suggested Australian Boards are subject to levels of scrutiny, from multiple directions, ***"that are unprecedented in other parts of the world",*** based on their experience. This results in 'gun shy' Directors who refuse to do anything controversial for fear of stirring the interest of regulators, the media, investors, and special interest groups. This desire to avoid the spotlight results in ultra-conservatism in Board decisions, and missed opportunities for Australian businesses and potential frustration for CEOs.

Media

The Australian media was identified as fermenting the fear of failure among Boards, sometimes being compared to other countries where media are more focused on other topics besides business performance. One participant even described it as a tabloid approach to business reporting, while others agreed the scrutiny was way out of proportion to the size of the market.

"I travel a lot in the States, a little bit in Europe, I read the papers there, ……… but here in Australia, it's almost like it's gossip, it's almost like scandalous stories or more, than over there. You never read that sort of stuff over there."

"The business media in this country personalises news far more than probably other countries."

"The size of media for this economy is "crazy" – and the focus is on bad news."

"Small market – large media exposure"

"Small market with greater media and publicity than the US."

"The actual level of in-depth business analysis is lighter in detail than in the US and the UK, but the focus on the personalities in Australia is far more obtrusive and potentially damaging. It is regularly misleading."

This concept of a small market was probably more related to the relativities of the size of the Australian market to the scrutiny because in other contexts other participants were quite forthright in saying that using the excuse of Australia being a small market for lack of growth was not correct. These participants argued that Australia was not a small market in their view – ***"there are many opportunities if you look for them."***

Another suggested that media scrutiny could cause a company to prematurely abandon what would otherwise be a viable long-term strategy.

"We tried 10 strategic initiatives in 7 years and every one of them failed. … And I think the last one was not having the courage to hold the course. … the media were all over us."

Perhaps the most amazing assertion was that dissenting Board members would give 'live feeds' of Board decisions to selected journalists.

"They would have a Board meeting and half way through the Board meeting somebody would go to the toilet and then send a message to a journalist about what's just happened in the Board meeting. You didn't need … the minutes (of the meeting) you just bought the Daily Telegraph."

One Director even suggested that the media scrutiny is a remnant of the tall poppy syndrome.

"It's a small market and the tall poppy syndrome is alive and well!"

"Somebody has got to put these high-flying Board Directors in their place and there seems to be no shortage of journalists willing to do just that".

The state of the concern this is creating for some Directors and the impact it is having on their thought processes regarding innovation and risk is evident in the following statement:

"Why would I risk my reputation and put my house on the line, for 90 or 150 grand a year ….. the kind of mudslinging that goes on in the media … everybody wants to have a shot at a particular Chief Executive or Chair or Board member."

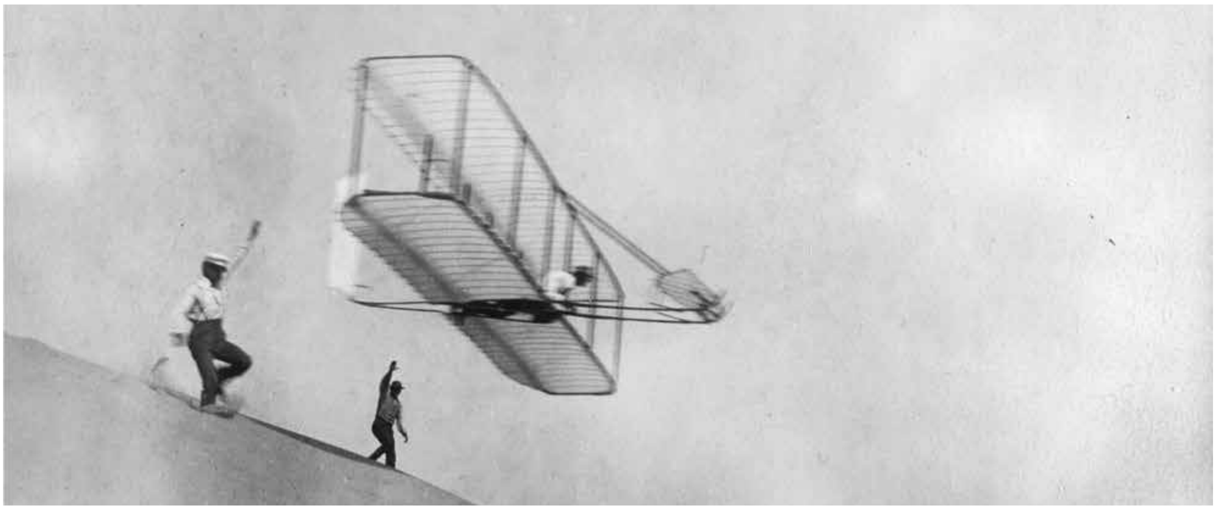
"Reputational risk is a major concern and as such we are holding the line as opposed to moving forward. If you think about Kerry Packer's statement regarding decision making and strategy he said 'if you get six out of ten right, you will be fine'. We have lost sight of the fact that leaders make mistakes."

"In Australia one mistake and the heavens descend upon you" in many cases because the press is so 'oppressive' to business – 'intrusive'."

Director Fees

This aversion to being in the spotlight for any reason even extends to Director Fee pools where the pool quantum must be put to shareholders for approval.

"The press would have me for breakfast now … we've only gone to the shareholders once for a fee increase. … we don't want all the flack so we'll all work for nothing."



"If birds can glide for long periods of time, then … why can't I?"

Orville Wright

Shareholder Voice

One of the spill-over effects of the negative based scrutiny and propensity to scapegoat is that this has contributed to a shift in shareholder mentality regarding acceptance of risk in some Director's minds. This in turn has a knock on effect resulting in Directors, as the shareholder representatives, becoming more risk averse.

"Well, I think that my sense is that over time we've become a lot more risk averse, and so we protect the downside more than we look to the upside. … I think first of all the shareholders seem to becoming more risk averse. So if you venture and fail, shareholders tend to be relatively unforgiving, so that in itself is a bit of a brake on becoming too radical in your growth."

The reality is that shareholders do ***"have a 'large voice' in a public company",*** and because shareholders have such a voice in influencing Board decisions, part of a Director's role is to help the company articulate its business strategy and approach to risk management to proxy advisers and investors (i.e., informing markets). Not that this is new but some would say it is now essential, with the time commitment and importance increasing exponentially. There is a need to tell a good story to investors and other external constituencies, however the flipside is that it can take time away from other vital Board functions for Directors, and time away from the CEO in managing the business. Some participants argued strongly that the nature of the market being so small and the corresponding level of scrutiny by the various constituencies made this now a fact of life and as one put it, ***"to ignore it is at your peril".*** The following quote by one Director provides an interesting take on the consequences of such a ***"large voice"*** of these external constituencies, even to the point of determining whose strategy to follow.

"Shareholders have a really loud voice and they have a lot of power. …..proxy advisors have an incredible amount of power ..… so managing that stakeholder relationship, making sure you're really clear on what they want and either being prepared to take them along your journey, or be prepared to accept that their journey is the one that you're going to need to be on, is vital."

What does this really mean in practice? Director and CEO participants talked at numerous times of the potential lack of congruence of Company (under Director and CEO stewardship) and shareholder objectives. For example ***"what do you do when you have shareholder groups with different objectives on your register – growth or yield?"*** For the yield-based investors it is often about consistent and reliable yield with no ***"bumps in the journey".*** Thus growth initiatives with short-term pain or even low risk or failure thresholds are not desirable – this is made very clear to organisations and their Boards.

Some participants were more forthright in taking a direct approach to these shareholders. An example from one participant in a growth company was given where for a particular shareholder group that was yield focused stating quite clearly to them, ***"if yield is your focus then maybe this is not the right investment for you as we are a growth orientated company".*** However the reality is that the balance of power varies by investor/shareholder group, and if that power is sufficiently strong through a large holding, the comment above of being ***"prepared to accept that their journey is the one that you're going to need to be on"*** is not new and will always be the case. Thus the Board and CEO need to do a lot of work with major investors to be ***"crystal clear on what type of company they are running",*** and therefore who is most suited to be on their register.

Although it was not all seen as one sided as one participant noted. Even when you believe investors would be prepared ***"to come on the journey"*** the ***"Board is unwilling to have the short term downside"*** as it leads to reputational risk and being remembered in the future as the ones to have presided over that downside.

Regulators

The theme of ***"over scrutiny"*** was by no means restricted to the media, shareholders/investors and proxy firms. Overzealous regulators were also identified as a unique aspect of the Australian business landscape that interfered with the ability of Boards to do their jobs.

"We are drowning under regulation and compliance. We get reviews from APRA now monthly on aspects of our business. We've got English regulators, Hong Kong regulators, Singapore regulators, writing to us. APRA was a principle regulator, now it's become detailed and intrusive."

"Government doesn't understand the market. There is a lot of regulation but for the medium-small business it is too onerous, there is too much red tape and we are becoming at a rapid pace the nanny state. The red tape is trivial and is nonsense, with nonsense accounting requirements. Regulators have never worked a day in their life. Regulation means greater cost for the average Australian. The cost of living is already too high, for the average business the cost of opening the doors is becoming ridiculously high."

"We have come too far in our governance and are becoming a nanny state which is too prescriptive. We just need to be sensible about risk, and if we are not careful management will walk out the door as their Directors are paralysed by risk. You cannot regulate risk. I am concerned where regulation is going and say to the regulators get out of the way."

"Never interrupt someone doing what you said couldn't be done"

Amelia Earhart

"It is draining resources to do corporate governance when you are consulting with APRA, ASIC and other bodies on a continual basis."

"Government intervention through ASIC and APRA is simply providing additional costs to business."

"Compliance is driving risk aversion and is killing the entrepreneurial spirit. Companies are terrified. There is not enough time spent on strategy and there is not enough time spent on people."

"We are pushing Boards to a governance focus and are losing track of strategy. There are a lot of legendary Board members obsessed by process. We are awash with regulation that inhibits Boards from investment decisions."

"I am becoming a fatalist about regulation. Directors are becoming obsessed with risk."

"The relentless push to more and more regulation is forcing companies to spend more and more time on it."

"Our legal system is not conducive to being anti-risk averse and people are sitting on their hands, not prepared to give it a go."

"People that aspire to go on the Board are being told that it's all about compliance. It's all about what the company is not supposed to be doing … I'm not interested in having anybody on the Board who doesn't actually contribute to the story of what we're about and where we want to go."

Government regulators can be heavy-handed. One Director likened the experience of being called before a regulator to a schoolboy being sent to the principal's office.

"We got called in by a government minister that the (regulatory body) reported to, to haul me over the coals …..we were kept waiting in the office for (minister) ….. like a little schoolboy, you were going to go and get a hiding from the headmaster."

This overzealous approach to regulation was attributed to the misguided notion that good governance could mitigate business failure. Participants were adamant that governments cannot ***"legislate out risk".*** There is a fundamental relationship between the risk and potential growth and no amount of regulation can change this fundamental relationship.

In general growth strategies have risk associated with them – it's a competitive market that needs risk takers.

"But it's this thing about legislating the risk out, it's just if everybody wants to cluster around and say 'We didn't lose money.' ….. but standing still is going backwards."

One participant saw the regulators themselves as being under pressure from the media and this pressure was resulting in more regulation of companies. But more regulation was not viewed as the right outcome. Rather the legislation should focus on bad behaviour as opposed to risk.

"You cannot legislate for risk but you can legislate for bad behaviour. The media punishes the regulators if they don't get a scalp and as such there is a relentless push for more and more regulation, forcing companies to spend more and waste time. As a result, Directors are playing it safe and are risk adverse. The greater loss is to the country as more business is being channelled to other countries that encourage risk or provide incentives? Ultimately in life things go wrong, it is a simple fact."

Regulators often blur the line between Directors and management in terms of accountability, often acting as if Boards run companies.

"The regulators haven't quite understood how best to affect the regulation. … they view the Board as making bad decisions, so therefore they hold the Board accountable for the decision. Well that's fine, but we don't make the day to day decisions. Management makes those decisions."

"Ministers hate failure, I worked for a Minister, but they've got to learn that there will be some failures if you're going to be a bit adventurous and have a go."

"There is huge regulatory burden imposed on companies in this country."

"Boards spend a lot of time on governance and with an over emphasis on risk which does not necessarily reduce risk. Unfortunately, this is making companies dead scared to take a risk. Are we making enough mistakes in the Boardroom? No. Much of this is due to reputational risk. Reputation in a small pond is a major issue."

"Australia's legislation is one of the most onerous environments in the world. At the same time I would argue we have some of the best Directors in the world. The legislation creep is blurring the line between Management and Directors. We now have prescriptive legislation rather than outcome legislation which is beginning to have Directors do the Management role."

Other participants saw the regulation and compliance issues as simply a part of doing business and managing regulation as part of the role. They were more pragmatic in their approach to dealing with regulation and compliance:

"In regards to compliance, deal with it. That's the way it is. Structure your Board meetings appropriately, trust your subcommittees and don't re-hash it at your Board meetings."

"It is easy to let governance dominate. You need disciplined Board members, otherwise, there can be an obsession with governance which is a state of mind. A good Director can switch hats and go to create as well as governance. Some regulators think Boards run companies and there is a blurring of the line. Directors ensure systems are in place, management does the execution."

"There was need for further regulation and compliance and it has been good for the banking sector but now we are becoming as a business community overregulated."

Lobby Groups

Australian Boards are ***"fearful"*** of lobby groups and special interest groups which is ***"outrageous"*** compared with other countries (i.e. the US and UK).

"A small group of shareholder interest groups which influence Boards are responsible for, I think, reducing the quality of Australian companies and their growth …..frankly it's outrageous when you are compared globally to some of the risk profiles that companies are prepared to take on."

Given the nature of global markets today and the need to compete and grow through these global markets the difference in risk profiles can lead some companies to abandon even the thought of competing.

Privatising

Due to the levels of scrutiny from all directions some participants even questioned the viability of being domiciled in Australia or whether the best course of action ***"may be the need to go private for the long term benefit".*** Privatising was seen as a possible option where the objective would be to ***"take under the covers and reinvent"*** the company and then possibly relist.

There was surprisingly strong support for this approach if it was possible.

"Unlisted is far easier than public."

"More pressure in a public company to perform to others' timetable."

"Listed companies are at a unique disadvantage, there is a skewed view of listed companies."

"A lot easier to be private or a subsidiary of an overseas company."

"Listed companies need to comply with domineering ASX listing rules."

"I agree with the trend to consider going private or change where you are domiciled because:

- *Publicly listed companies under the microscope;*
- *Can't satisfy all shareholders; and,*
- *With the reporting system you are on 'a hiding to nothing'."*

"One may need to go private for the long term benefit to escape the short termism of investors and markets and regulators"

"Private equity is an interesting model and a model that cuts the red tape and provides clarity. It is very attractive."

"Why not go to Private Equity – no issues like:

- *Governance;*
- *Media; and,*
- *Proxy Advisers."*

"With Private Equity:

- *Clearer;*
- *Perform or out;*
- *Goal orientated; and,*
- *'Pure' objectives and timeline."*

"Going private you are able to achieve longer term objectives."

Offshore

Some however even suggested going a step further of moving offshore and some had done so. The benefits were seen in "escaping" the burden of being a listed company in Australia.

"Alternatively try to move or even set up in another jurisdiction that is less onerous e.g. Singapore. From one who had set up in Singapore "What compliance burden?"

"Australia is losing as companies are channelling more and more business through countries, such as Singapore."

Government Inconsistency and Lack of Leadership and Longer Term Thinking

Company growth depends on good leadership, excellent product, competitive work practices and political stability. A theme which was touched on was the need from all sides of politics to provide greater leadership, longer term thinking and certainty to ensure investment and opportunity. This void in Australian Parliamentary leadership was made very clear in participant comments.

"I, and I know many other Directors are genuinely concerned about the country's leadership and the level of debate from all sides of government. Short -termism, excessive poll watching and the inconsistency in the forward thinking is alarming. There does not appear to be genuine vision. As a result the flip flopping of decisions, of budget strategies, of IR and economic reform is providing the business heads of Australia with little confidence. Unfortunately Australian business is running in spite of the government, they have got to a point and turned off. For the small companies where the majority of innovation and ideas really come from, they are fed up with red tape, with people in government with no understanding of business and what it takes to hire, manage and motivate people and build business. Parties from all sides of the divide are too far removed, their consultation with business is little more than lip service. We are seeing very little growth in the business and Australian economy. We are falling asleep at the wheel and our leadership hasn't in many business leaders' views illustrated any form of long term strategy, vision and courage."

"I have just returned from an overseas trip and have been watching from afar our political leadership. I was embarrassed by the petty focus of all parties, the short termism, the level of debate and complete failure to engage all levels of business. We have 60% of the world's population at our doorstep and we have no plan to maximise the enormous opportunities, we don't encourage risk taking to new markets, instead we sit back and wait to be the follower of the world. Where is our 'have a go' attitude? It has been kicked into touch. The willingness to want to be the best, the wanting to compete, seems to be lost. Instead we have to conform to risk and red tape guidelines which are stifling all."

"Political leadership is absent. We have had a void for a long period from all sides. It is not an excuse for business achieving incremental growth but is impactful. If you asked are the youth of today engaged with Australian politics I would say no. If you asked are the senior fraternity engaged I would say no. Business has lost faith of late, one only needs to examine the political behaviour and ask where is the game changing long term economic strategy, not the politically productive short term kick. If voting was not compulsory I am fearful the turnout would be very low. The facile debate, the lack of vision, the fact that no one can put forward a long term plan without it being destroyed because it comes from an opposing party is bordering on the ridiculous. Perhaps business is to blame in part. I am thinking through have we been good enough in getting our message to the government and if so why are they not listening? Good leaders create energy, they create excitement which stimulates others.

Based on the political rhetoric it would seem unless we demand the change, expectations will remain low."

"The economy is running itself and business is running itself despite the governments."

"Currently there is a debate being put forward in regards to taxing super and other areas in the economy. No one has stopped and challenged the thinking around growing the pie. If governments require income why don't they support business to grow their revenues and logically then grow their taxes off the back of their revenues. If we look at the business incentives in Asia they offer better tax rates that provide far more efficient support, less red tape and a can do attitude. In some cases we may be better working with benevolent dictatorship compared to the Canberra circus."

"The governments say nothing about IR and productivity."

Comment

Clearly participants feel burdened from the range of issues explored from media scrutiny to the governance burden. It must be said however that other participants were quite relaxed regarding these issues with an outlook of ***"that's the way it is and we just get on and manage it".*** Regardless, it is clear from the comments that whether intended or not the levels of scrutiny and governance being placed on Australian companies is having an adverse impact on their risk appetite. Given as one participant said, ***"Growth does not come without risk".*** This tempering of the risk appetite of Boards and CEOs is impacting the growth horizons and initiatives being pursued by Australian companies. It was not as if participants wanted a carte blanche approach to risk or did not believe that accountability should rest with Boards, but rather that there was an imbalance in the system that was ultimately impacting growth.

While some were advocating a move to private to relieve themselves of these burdens, more concerning for Australia was the consideration of moving offshore to less onerous jurisdictions such as Singapore – loss of the company, the growth, the employment and the tax revenue!

This raises the issue of the lack of engagement and leadership from the Australian Parliamentary representatives from all sides of politics. The lack of focus on the big picture and what is right for the Australian economy, Australian business and the Australian people is very concerning as the lack of drive for what is best in all these areas is being hijacked by policitial short-termism. This short termism in the political sphere is preventing the necessary long term thinking that can shape the environment for future growth and prosperity for Australian business and the Australian people.

"Our greatest glory is not in never falling, but in getting up every time we do"

Confucius

Chapter 5

The Short and the Long of It

"We have the tyranny of instant coffee."

One of the most difficult aspects of specifying growth strategies and targets was getting the right balance between short-term and long-term initiatives. Multiple investor segments and other external constituencies place conflicting demands on Board decisions.

Chapter 5: The Short and the Long of It

"If you see the President, tell him from me whatever happens there will be no turning back"

Ulysses S. Grant

'Short-termism' was a common theme among Directors and there was no shortage of commentary on the subject, some attributing this mindset to pressure from investors for immediate runs on the Board.

Sustainability

"The first thing I'd say is, growth is about sustainability, and I think it is one of the challenges in Australian business, and probably businesses all over the world. We're all focused on what I call short-termism. And everyone's focused on the next round of numbers. … The market won't necessarily focus on growth over 3 to 5 years. It is not that they are not interested, but they're also looking for short-term growth as well. But a real measure of growth is sustainability and someone that has built it year on year."

"If you happen to be in a low growth phase while you roll out your plans for longer term growth, they tend not to be terribly patient and not to reward you."

"The short answer is we can blame it on shareholders and shareholders' expectations, and they have a short term view ….. and they blame it on the CEO and they're gone."

"There are very few long-term investors in this marketplace, and they are all looking for return. …I still think the average time on the register was 8.6 months. So having shareholders telling me you've got to look at the long term when they are only sitting on the register for 8 months is a little bit interesting."

"Shareholder short termism is a fact of life - it is detrimental to and stopping growth".

"Everything is moving to the short term:

- ***Hard to plan and deliver for the long term;***
- ***Something is wrong in the balance; and,***

- ***Shareholders are a driver of the long term view but buy in and out."***

"Australia is incredibly short term."

"Why take risk when you don't need to? – short-termism!"

"Overall compliance/risk burden, reporting cycle and the generally conservative Australian culture are driving a more short term orientation."

Once again, the theme of investors wanting growth without risk emerged in the context of trade-offs between short-term and long-term objectives. Short-term planning and returns is safer than pursuing long-term opportunities. Shareholders and institutional investors at times want short-term delivery from long-term strategy. They essentially want their cake (immediate returns) and eat it too (high growth). And once again, this requires Directors and executives to spend an inordinate amount of time explaining their portfolio of short-term and long-term growth initiatives.

Academic research suggests that, unfortunately, this kind of investor mentality is extremely likely to follow a ***"Black Swan"*** event like the GFC for at least two reasons. First, a negative shock like the GFC causes an overreaction in terms of risk aversion. Investors become more risk averse than they should be[18]. However, they may also anchor their expectations regarding returns to the period preceding the shock such that the risk-return trade-off becomes unrealistic[19]. But others saw these investor demands as being more reasonable, and blamed the Boards themselves for not being able to articulate a clear strategic vision for long-term growth to various investment markets.

"It's as much about the communication from the company, i.e. I think our problem with short termism in recent times has been the inability of companies to articulate a good path for investment over the longer term."

This view was broadly reinforced by a range of participants who while agreeing that articulating the story was a problem, it was unclear as to the cause of this. Was it just a lack of competency in telling the story, or was it more than this? Did they not put the required effort in because they could not see the value, was it more fundamental, in that they did not see why they should or as one participant put it: is it the language of ***"corporate"*** that we have created?

"We have created a language called corporate. It is a problem. Our communication skills are critical and are being tested. We need to get the message across in less than five pages. Promise only on what you can deliver, keep it simple, keep it clear and once again keep the language simple. Then you will get credibility."

"Short termism is just as much about the inability to articulate the story to investors and other stakeholders. The US is better at spelling out the long term. The smart investors like capital appreciation."

"CEOs are not always very gifted at telling the story (selling the story!)"

"Corporate Australia is not very good at talking the long term."

In addition to simply being ***"reasonable"***, recent academic research suggests that a balance between short-term and long-term growth strategies and achieving financial objectives may be a good thing. An imbalance in either direction creates a problem. Directors are correct in suggesting that too much short-term focus can lead to a kind of corporate myopia, where Directors and executives miss sustainable, strategic growth opportunities.

Private Equity

Access to private sources of equity was identified as a mechanism for escaping the risk averse, short-term orientation of shareholders. In essence, selling shares to generate cash was seen as part of the overall problem. Some Directors contrasted the reality in Australia with the US equity markets where large amounts of equity were more readily available.

Similarly private equity was identified as a way to escape the scrutiny of the share market. There is too much pressure in a public company to perform to investors' timetables that precludes many growth opportunities.

"But if it's got 8 billion dollars of debt, and cash flows to support that, I'm presuming once it's paid down, that that cash flow will go from the point of debt to the bottom line and, at the minimum, we have a likely cap of 8 billion dollars. That's how a venture capitalist would think of it privately and, as a public company you really can't do that in Australia."

"Private equity works very efficiently in seizing those opportunities. And sometimes, the best thing for business is to not be public."

In this sense then, Australia's highly cautious and overly regulated approach to monitoring foreign investment may be a source of disadvantage in allowing Australian Boards to pursue riskier, longer-term growth opportunities[3].

Directors referred to a kind of 'market based managerial myopia' that can take over thinking on Boards and in the executive suite. Companies can effectively be penalised by their long-term success in certain markets. This can often result in Board members wearing a set of 'institutional blinders' that prevents Directors from spotting opportunities for growth in other markets.

"We found our way into a remarkably good business model, and we were so successful for such a long period. During that period it felt like ..… look at us,

we're nailing it, our investors love us, the market loves us, we're just going to keep doing things our way, right. That's all fine on the way up, but when it turned, and it turned really quite suddenly, we went from being successful and a little bit probably focused internally to being defensive really quickly. And I think that impedes your ability to have that continuous balanced approach, inside the walls and outside the walls."

Investors may also contribute to this kind of corporate mentality by demanding that management ***"tends the garden"*** they have invested in. Moving into new industry sectors via acquisitions may be seen as abandoning the very reason that investors injected cash into the company in the first place. Executives may have to earn the mandate for growth via M&As by first generating organic growth to the satisfaction of investors.

This notion of managerial myopia has been verified by academic research examining the content of internal communications between management and shareholders. Specifically, managerial myopia often takes the form of seeing growth opportunities mainly in terms of current industries, existing technologies, immediate competitors, and current geographic markets. Company Boards and executives may fail to see growth prospects in new foreign markets and unfamiliar industries, and may fail to appreciate opportunities to improve financial performance via investing in infrastructure development[20].

Once again, the scrutiny of the investment market and its short-term orientation was linked to the more general notion of risk aversion being fundamental to Australian cultural values.

"So culturally, we're an egalitarian society, it's lovely to live here but it's terrible to produce fast horses. Here you are afraid to feed the fast horse more."

Many of the participants further articulated a romanticised view of the US as an environment for conducting business. If Australians were described as overly conservative, short-term, seekers of dividends, American investors were described as having a longer-term focus on capital management. U.S. investors, particularly institutional shareholders, were identified as tolerating a longer-term investment strategy that might not yield any discernible result in the short-term.

"'Is your dividend guaranteed … is it guaranteed? So we always used to say 'No, you want a guarantee, go buy a fridge.'"

"They (US investors) really understand good deals, they understand business strategy, and they are happy to go for the ride. If, on doing their homework they believe it's a good deal."

Culture

But others questioned whether there were broad cultural differences in investor motives.

"The array of investment styles, right across, and in each of the major investment markets is such that I don't think you could say the Americans think this way and the British think that way and the Australians think that. There are different types of investors in each of those countries who think exactly the same way and as a cohort."

"We must become the change we want to see"

Mahatma Gandhi

Others referred to the high standards of living in Australia and wondered why anybody would be inclined to take risk in such a situation.

"I think it's a function of the nature of the lifestyle here. It's an easy place to live, therefore why take the risk? … Why take the risk to be a lot better, when in fact the downside is so much greater if I get it wrong?"

There is very little in the academic literature to suggest broad cultural differences in investor motives or expectation between Australia and the US, or anywhere else for that matter. Instead, economically developed countries exhibit similar patterns of financial market segmentation, suggesting a high degree of integration of financial markets and common mindsets among the investor segments comprising those markets[21].

Research/Analyst

Part of the Australian inability to articulate a coherent story to investors is a lack of commitment to comprehensive research about markets and trends. Australian investors want a ***"quick fix".*** The analyst community are in part to blame.

"You'd go overseas and there are 5 analysts that you're talking to, it's sort of like a triangle behind them, there's another 5, 6 or 10 people behind them that are doing their homework. They have trends by industry, and questions by industry, and they're far more thorough and innovative in their research. So as an example, we went overseas and said, 'We're (company), we're the biggest (business). We sell to a large particular constituency and the analysts say, 'How many are suing you in court?" In 17 years I've never been asked that question in Australia. So I said 'None!' He says 'None? You sure?' 'None.' 'Oh ok, tick, next…' Because obviously the people behind him had said every time you hear the word constituent, ask how many are suing them in court because they haven't delivered what they promised. The most common question in Australia is … 'What are other investors asking you that I haven't asked you?' They're too bone lazy to do their homework!"

Remuneration & Alignment

An interesting contradiction from the short-termism focus is on how the executives in these companies are rewarded. If investors are staying on the register for shorter periods and if they are driving such a short-term orientation that they are impeding growth and long-term value, then why are they strong advocates of executive remuneration systems being ***"highly aligned with shareholders"?*** This seems contradictory as the long-term incentive arrangements are by their very nature long term and growth or out-performance orientated for full payouts to occur. That is executive incentives are designed for growth over the longer term and biased to growth that outperforms peers. Is this a blind spot for some investors, in that the mantra of alignment meets the rhetoric test, but in reality does it align with their actions as investors?

However not all agreed that the remuneration systems are in good shape. Many thought the remuneration systems were more aligned to strategy, not outcomes. A far simpler approach was advocated ***"aligned to outcomes".***

Directors identified balancing the desire for immediate rewards in certain investment markets with longer-term, strategic growth initiatives as a major dimension of the advice Boards give to company executives, with some suggesting a 'risk portfolio' approach to having the best of both worlds.

"When I think growth, you've got to look at short term, long term growth, and balance up. There are some times where you can pursue short term strategies for growth and good shareholder returns, there are times when you've got to take a much longer term view and that could impact short term shareholder returns. You've got to take those risks and you've got to be able to explain that to shareholders where it occurs. I think the issue of balancing short and long term interests is an important one."

The reality is that this whole short-termism phenomena is not just a consequence of external pressures but some internal as well, including the tenure of the CEO.

Tenure of CEO

"The tenure of Chief Executives is ridiculously short. You cannot change culture in 4.5 years."

"Short tenure of Chief Executives is a real problem. They don't live through their implemented changes. They don't live to be measured against their change. Instead, the baton seems to be passed to the next person who blames their predecessor. It is a ridiculous merry-go-round."

Academic research supports the contention that CEOs who perceive that their tenure is likely to be short, or feel that they are ***"under the gun"*** for any reason, will tend to pursue growth opportunities that offer relatively faster paybacks at the expense of investing in longer-term value creation[22]. From this perspective, the increasingly shorter tenures of CEOs in Australia may be a direct contributor to short-termism.

Likewise, CEOs with remuneration schemes that focus on share value are likely to pursue ***"growth"*** initiatives that encourage investor speculation designed to increase share prices, without adding genuine value to the firm in the long-term. In many cases, this share price ***"gamesmanship"*** may actually decrease firm value in the long-term[23]. So, selecting the right combination of cash and equity holdings, and specifying the right set of growth KPIs is critical to offsetting short-termism on the part of CEOs.

Others might point out that the tenure of Directors is longer, sometimes two to three times that of the CEO and that this compensates for the shorter tenures of CEOs. Directors however do not manage the implementation or execution of strategy, and the dislocation created by the short tenures of CEOs on average, with their ***"reinvention, renewal or refresh of the strategy"*** works against the long term.

What it all means however is that it results in the question ***"What do you need to do to be in business in five years' time?"*** rarely being asked.

Comment

So what of short-termism? Perhaps the part quote at the beginning of this section ***("We have the tyranny of instant coffee.")*** sums it up, but the full quote below explains why it is so important.

"We have the tyranny of instant coffee, short termism, not taking the time to make things right."

In many ways what we are hearing is that growth is not what is required, but that sustainable growth over the longer term should be the goal. To do this it is imperative that all stakeholders including Boards and executives align in ensuring that strategies are put in place across the short, medium and long term to ensure sustainable growth over time for companies. A failure to do this will have disastrous consequences, resulting in short-term planning and growth trajectories that over time will challenge the ability of companies to deliver sustainable growth.

This is because no one will be looking out, asking the ***"what if"*** question or ***"looking over the front of the boat"*** to identify future opportunities and threats.

This will have consequences for all stakeholders including:

- Reputations of Boards and executives;
- Earning potential for executives;
- Longer term sustainable capital and dividend growth for investors;
- Superannuation returns for Australians more generally to live on in retirement;
- The viability of the companies themselves; and,
- The security of jobs for employees.

Growth, what it is and how to best define it for your company at this point in time in your market varied greatly across participants. What was interesting in the contrasting views was whether growth included incremental or was it only substantial?

"If businesses grow only incrementally the business will not survive long-term."

"Big is not necessarily beautiful. We want sustainable growth and business is about people. The winner thinks that there always has to be a better way of doing things. The loser says this is the way we have always done it."

"Growth is not about being incremental, it is about substantial growth. That is buying another business, moving into another geography, creating new divisions or achieving multiples of the market."

Some participants saw this growth as the fundamental prerogative of the CEO; the essence of what CEOs do for their companies.

"I had someone once explain to me what my job was. You're not the CEO; you're the Chief Growth Officer."

To make this happen and drive the company, the participant explained the role of the CEO was to ***"aggravate, educate and motivate."***

It is evident that growth for growth's sake is not a goal to be strived for. ***"Profitless prosperity"*** will not be tolerated. However, growth is not a generic outcome with a set formula. How it is achieved, what is achieved, in what timeframe and the context within which it is assessed are all important variables in determining whether growth is acceptable in terms of profitability, sustainability and timeframe for investors.

Directors and CEOs have a difficult task in putting all these variables into the equation for solving – and it is an equation and a unique one for each company. The success in solving the equations determines the success of all, stakeholders, Board, executives and Investors.

Chapter 6

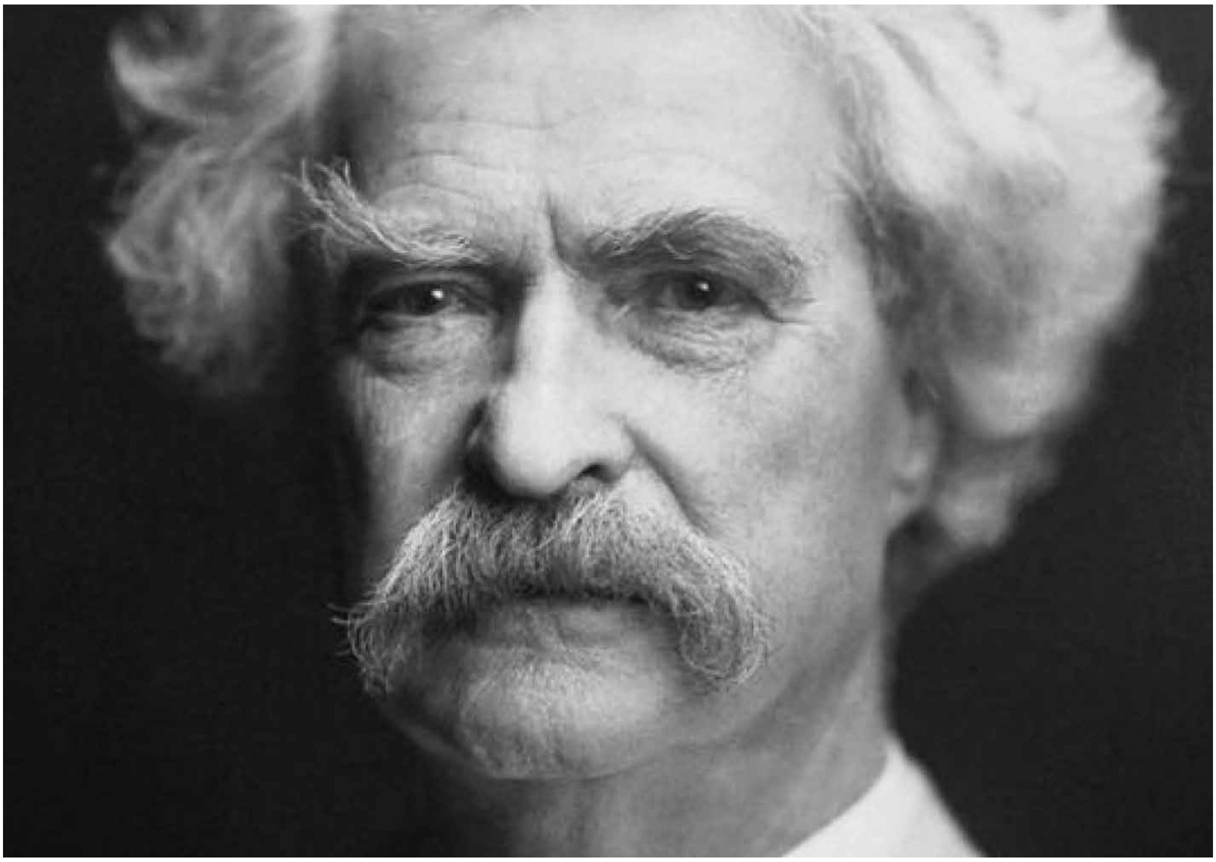
Generic Growth Strategies

"There's 10 times the population of Australia in Indonesia alone."

The generic growth strategies most often mentioned were:

1. Cutting costs;
2. Increasing share in existing markets;
3. Entering new geographic markets; and,
4. Expanding the industry portfolio.

Chapter 6: Generic Growth Strategies



"Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover"

Mark Twain

Directors suggested that cost cutting would always be useful as fat develops in organisations but other means of profit growth are essential. Cutting costs only gets the business just so far as a ***"growth"*** option. It was really talked about as more of a short-term option for bottom-line driven growth, rather than a genuine strategy for growth.

"Cost cutting is a way of increasing profit. If you are doing this then I guess you're heading down the path of a lot of companies. This path is doing what I call sustaining innovation and efficiency innovation to try and make their profits, as opposed to creating new opportunities."

"I think we've been a little cost and scale focused. … There's some messaging around cutting costs that can be useful, but as a process in itself, cutting costs doesn't really impress me. "

Views were mixed on increasing share in existing markets as a growth strategy. Not all participants agreed that establishing market share was fundamental to pursuing growth. One Board Director described top-line growth via increasing market share as not really growth at all. In his view this kind of 'incremental' growth cannot sustain a company in the long run.

"If you're in the business … your company still grows, or your sales go up or you add new ranges. That's just incremental growth, that you should be doing that as a business itself. But growth would be to my mind ... a major leap. So it's do we go and buy another business or start another division? … If you've got eight hundred stores and you open thirty, ugh, that's not growth."

But others seemed to view this kind of growth as the only essential option available to them.

"So, turn to me and say how are you going to grow the business? I've got to nick customers from competitors predominantly, and other players. Competitors are our target … there are many simpler customer bases out there to buy, because I can't grow inorganically. That's how we've done it in the last 6 years. I've got to grow organically. I've got to perfect the art of stealing customers from competitors."

More specifically, participants pointed to economies of scale driving success in many industries, noting that a company's market share position can be a direct determinant of success in such cases.

"To be successful at pretty much anything you've got to be number one or number two in the industry."

"We've got to remain the dominant player in our home markets."

"We were about a distant number four in the marketplace. As they say one is wonderful, two is terrific, three is threatening and four is fatal."

Although it is easy to think of market share growth in terms of ***"stealing customers from your competitors"***, astute Directors often pointed out what, in retrospect, seems like an obvious point – companies can increase market share by keeping competitors from stealing their customers!

Cutting Costs

"A competitor loses customers at three times the rate that we do. They play on price and are very aggressive on price."

Being ***"very aggressive on price"*** may indeed allow you to steal your competitors' customers, but if you're losing your own customers at an even faster rate, market share shrinks rather than grows. Participants effectively viewed the competitive structure of entire industries in terms of relative customer churn rates.

Another ***"generic"*** growth strategy was expansion via entry into new industries or product categories. This could be achieved via product innovation – essentially creating a completely new product category via R&D initiatives, acquisitions, or partnerships. As with geographic expansion, entry into new industries or product categories was viewed in terms of balancing the risk portfolio of the business.

"How much capital do I allocate to different asset classes or sectors, where I can optimise returns? And then I say to myself over what time horizon and what's my risk budget?"

Increasing Share in Existing Markets

One specific example of this growth strategy cited by Directors was forward vertical integration of distribution channels to capture more of the margin in natural resource markets that we have previously given away.

"I do think we can do some more processing in this country. And I think we've still got some industrial segments that we could perhaps reclaim a little bit. I'm not sure that the flight of steel fabrication, for example, into China was necessarily something that needs to be a permanent trend. … I don't see a real reason why, if we're smart with our technologies and we get efficient and competitive energy."

"Nothing pains some people more than having to think"

Martin Luther King, Jr.

Entering New Markets

Some Directors had negative views about growth prospects via industry/product portfolio expansion, arguing that companies that leave their 'comfort zone' by moving into new, unrelated industries run an unacceptable risk of failure.

"I would say in my experience 9 times out of 10 that moving outside your areas of understanding turns out to be complete disaster. People who do this usually mess it up. I think it really depends on the nature of the business. If you're in a situation where you dominate your market then I think you concentrate on running that business, continuing to hold your position and grow where you can."

"It can be very sexy, very exciting to move into something new, but there is usually so much more wealth that can be garnered from within the existing core business."

Others felt that Directors and executives had to earn a mandate for that kind of (high risk) growth. A lot of Australian companies have no track record of growth. As highlighted previously they have ***"diligently tended to their own garden"*** so ***"do not have a good record outside the garden".*** Therefore the view of investors is ***"I have invested in the garden – keep tending to the garden I have invested in"*** before they allow for expansion into new industries.

Off Shore

In addition to providing an opportunity for growth, expansion into multiple geographic markets was viewed from the perspective of risk management. Changes in the political (e.g. nationalisation of privately-owned companies), economic (e.g. GFC in Western countries), technological (e.g. increased purchasing via mobile phone), and competitive (e.g. entry into Australia by strong foreign firms) environments were identified as potential threats to company performance. Hence, having a more ***"balanced" geographic portfolio"*** of revenue was seen as a way of mitigating the impact of a sudden change in any country or region of the world.

"We're really multiple domestic businesses in a way. Intellectual property is shared across the group and there's definitely economies of scale but the businesses are largely each domestic. We have natural hedges everywhere, we have cross-border exposure so it's unique in that way so it's a little bit easier here."

Some participants suggested that Australian Boards are ***"terrified"*** to go offshore as a means of pursuing growth, perhaps never even considering it as a growth strategy.

"Terrified, yes, because of the role of the media. That was the big fight that I had with the Board, and they would always be able to recite the companies by name that had failed overseas, and not one success. And then when you would mention Australian companies that were extremely successful overseas … the Board would say no because they were risk averse."

"But I've said to many people down through the years have you ever thought of export, and most of their eyes light up and say, 'No,' and I say, 'Why not?'"

"The (industry) for domestic growth is pretty much saturated simply because of the supply and import competition. So growth in export markets is critical, and that's fraught with a lot of risks around competitive products having positions, the ability to find your segment in the market."

But others offered more considered explanations for why geographic expansion was risky.

"Have you saturated your capacity and strategic direction to be able to deal with the markets that you're in? … What is your core competency you are taking offshore? If it's only scale in this market, then it's probably not a great core competency somewhere else when someone's got greater scale. So you've really got to work out what is it that you are taking off-shore that is likely to be successful and if you can't articulate that, or you can't frame it that way, then I think it's dangerous to go off-shore."

Not surprisingly, Directors articulated several criteria for assessing risk in geographic expansion opportunities.

"Only about 25% of our profit comes from Australia these days. So we have a very global aspect. The way we look at it, it gives us a broad palate if you like. There are sectors in the world that we can compete in, and also where we shouldn't compete."

These criteria are designed to create a ***"balanced portfolio"*** of geographic markets that allow a trade-off between managing risk and pursuing growth.

"So we get to look at those levers, one growth, and two, where we have confidence or a proven capability that we can out-perform others in that segment. But we look at those together with the profit, cash profile of those segments. Are they established or emerging and then based on the … risk profile we tend to build our investment cases."

"I mean if there's a moral to that story it's the more international you can be the better because you can get through periods like this and you've got a chance of showing growth overall."

Much of the academic research on corporate growth strategies involves fitting real world data to growth taxonomies like Porter's generic growth strategies[24], Ansoff's growth matrix[25], the BCG growth-share matrix[26], and Mintzberg's six generic strategies[27].

The general aim of the research is either to compare two models to see which fits the available data better[28], or to amalgamate multiple models into a comprehensive framework that best accounts for the patterns in the data[29].

The amalgamated frameworks are generally consistent with the generic growth strategies expressed here[30].

There is some indication that companies that follow one specific strategy outperform those that attempt to combine multiple strategies[31], though this general rule may not hold in less competitive, market-oriented contexts[32].

In terms of the specific financial indicators used by businesses to '***keep score",*** the academic literature recommends, and provides evidence to support, a ***"balanced score card"*** approach involving multiple measures[33].

These measures fall into the general categories of financial (i.e. ROA, ROI, ROE, NPAT), marketing/customer (i.e. market share, revenue growth), process/efficiency (i.e. order fill cycles, new process development, time to market for new products), people development (i.e. training hours, career development program participation rates, retention rates/employee turnover), and future planning (i.e. R&D expenditures, new global alliances, technology/infrastructure investments)[34].

Overall, the views expressed here regarding generic growth strategies accord well with actual company practices, as indicated by academic research.

Directors' Skin in the Game

An interesting area of debate which provided polar responses was around the notion that Directors would perform better or have a greater alignment with shareholders by having skin in the game.

It would be fair to say that the majority of participants believed Directors should have skin in the game. The arguments were numerous and included it brings clarity, a clear understanding and sharing of what the shareholders are experiencing as well as providing greater focus than otherwise. The counter argument was that as a professional Director I don't need to have skin in the game to do a better job or to make better decisions. My integrity and my professionalism are absolute. Surprisingly those who argued for skin in the game agreed with the counter argument's points, but said based on their experience having skin in the game led to greater discussion in the Boardroom, greater accountability and confirmation they were representing the shareholders by sharing equally in their pains and their gains.

The topic provided the following comments from participants:

"Having skin in the game might drive better growth, particularly for the long term. It focuses the mind on the long term strategy. One of our greatest challenges at the moment is short termism. Skin in the game may offset the effect."

"Yes, I am a believer. Make it significant enough to create value."

"Skin in the game shows commitment and is an alignment of management and the shareholder."

"Not necessarily required. Prefer to ensure the Board has true independence. However, as long as it's not mandated I am comfortable with voluntary."

"Hugely important. You look at the company a little bit differently. It forces you to have more than an active interest."

"It aligns management with the shareholders interest and I believe in it."

"I don't believe you need skin in the game. It shouldn't be a driver in how you behave. You shouldn't be a better Director because of skin in the game."

"Absolutely should have. It aligns with the shareholder value."

"Must have. Sends a good message."

"Boards should be leveraged. They should have options that encourage growth."

"Having skin in the game means you really do think a little more about the shareholder and are more aware of the shareholder when making decisions."

"I don't think it makes any difference. It is actually a cosmetic approach but markets like it. To me, your reputation is the most important thing."

"Boards need skin in the game that helps with governance, media, and short termism. Something closer to the private equity model."

"I like to see more skin in the game, more management and Directors having alignment in shares."

"We should have more skin in the game, and measure performance on shareholder return and the returns of our customer growth."

Chapter 11

Many of the participants believed a Chapter 11 (under the Bankruptcy Code in the US that permits reorganisation under bankruptcy laws) or greater safe harbour legislation would encourage Companies to take sensible risk as well as give them comfort that there were opportunities to trade out of challenging circumstances. Whilst the US style Chapter 11 has its faults it was readily argued that in Australia we are too quick to call in the receivers and that a better way is needed to help encourage companies to take risk and support them through difficult times. No one was supporting poor business ethics but many felt different approaches could be adopted if we are to encourage business growth and Australian economic growth. The Chapter 11 safe harbour provision was seen as a positive encouragement to supporting a growth agenda. There were also numerous conflicting views as to the merits of the introduction of a Chapter 11 style safe harbour provision into Australia:

"Good idea, it encourages risk."

"We need to review voluntary administration. We are too quick to close. We invented limited liability to take risk."

"We need safe harbour legislation broadened so business can regenerate. We place companies too quickly into insolvency such that companies are becoming scared. If we look at risk we need to look at exposure. Small companies which are the growth of our nation and our greatest employers face the greatest risk of insolvency. Our current insolvency rules are too restrictive a regime. Whilst I wouldn't go all the way with Chapter 11 we need to make business entrepreneurial with the opportunity to trade out rather than be closed out."

"Chapter 11 is a good idea as it provides an opportunity to re-organise rather than close a business."

"I don't like Chapter 11 – it removes accountability."

"No, I don't like Chapter 11 as it allows you to trade while you are insolvent, potentially liable for debts. Smaller companies if they had Chapter 11 may not have the management capability to fix their problems."

"No, can jam out creditors."

"Chapter 11 gives time, allows for rehabilitation, definitely worth investigating."

"Chapter 11 gives companies a chance to trade out and we want to create a business culture to encourage risk taking and trade. Yes, I believe there is a need for investigation of Chapter 11."

"Chapter 11 would help enormously. It would help restructure and rebuild under a monitored approach or allow some companies to go private where they can make rapid change."

"With Chapter 11 compliance costs are very high, even in the US it only works for large companies due to the cost. However, there should be some form of safe harbour."

"In the US it means business is still running. In Australia it means administration is running."

The argument against this is that a Chapter 11 type mechanism artificially alters the market economy. One participant put the view opposing Chapter 11 type legislation quite clearly:

"I understand the logic of having a form of safe harbour support to encourage companies to take risk and in difficult times to help them trade their way out. It sounds very reasonable. However I have been successful in analysing my competitors and watching those who are struggling and unashamedly acquiring them and turning them around. I therefore support the market economy and argue if these companies had Chapter 11, I would have missed out on an opportunity and quite frankly I don't think they would have achieved the success that we have taken them to under the previous management."

Should our Business Leaders have International Experience?

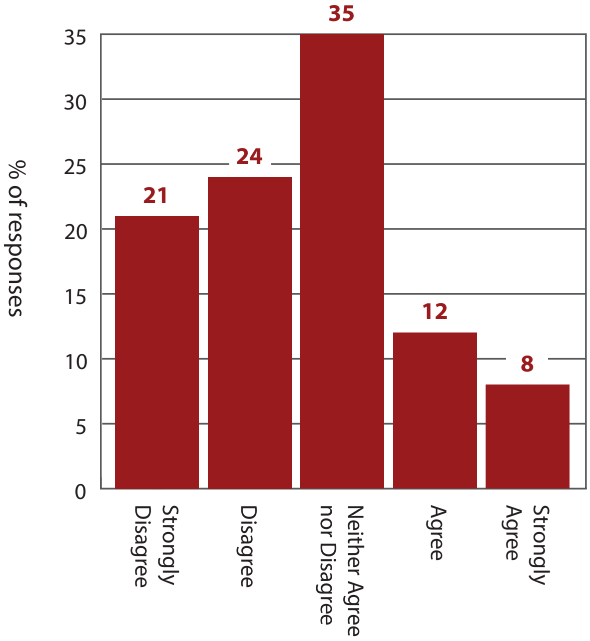
One of the more controversial ideas put forward was based on the fact that growth would come from offshore where Australian companies would have to compete in huge markets with many more competitors than they are accustomed to. An example given was in one particular industry, where bidding for a job in Australia might attract 3-4 bidders while in the Middle East the job may attract 16-20 bidders. This fact together with the percentage of revenue and profit derived from within Australia over time diminishing, led to the question being asked should our future CEOs come with experience in larger and hence overseas markets. This experience would be essential for Australian companies to compete. As seen from Figure 5 (over page), opinions were split on this question, leaning more towards Australian managers being up for the job.

"We still need to consider the potential lack of diversity in the experience of the Chief Executive and the executive team. This may include a lack of international background, subject matter excellence and experience over broad leadership capability. My thoughts are we need to step back and look at our initial hiring and encouragement and development of our employees. If I look at the banking sector traditionally a graduate was placed on a development path that gave them all round banking exposure. These days we seem to have people leading divisions with real depth of knowledge in that space but not overall for banking. So are we promoting all round capability with leadership or as I fear promoting subject matter expertise."

"We quickly run out of talent in Australia, whereas in Europe and the US there are multiple markets. We are constrained by the Australian market. Unfortunately Australians don't have the DNA to stay ahead. We have a small town mentality."

"Australian management is good at servicing markets overseas but not good at facing up to a lot of international competition. The issue is business management 101. There is a lot of work to be done at the lower level where there is a lack of real commercial and operational skills. There is not the right mindset. Management doesn't know what good looks like and aren't mentally wired with the model to continually improve. This is a major inhibitor to growth."

Figure 5: Participant Responses as a Percentage to the Question ***"Do you agree leaders from offshore (e.g. the US and UK) are better equipped to drive growth than Australian-developed leaders?"***



Some Directors were resigned to the view that the Australian market was fundamentally mature and that there would be limited opportunity for growth in the future. Australian-based businesses were characterised as ***"cash cows"***, with the potential stars being overseas subsidiaries.

"If you're an Australian businessman who has spent most of your career in Australian markets it's tough to accept that this is not a growth market, and that the future will not be as rewarding as the past has been unless you structure your portfolio in a way to have growth components built in. So our Asian position and US position, that's our growth markets."

The lingering effects of the GFC were also cited as a reason to explore growth in new geographic markets.

"So you haven't got consumer confidence. You've still got consumers de-leveraging in the case of debt, and so to get growth in this market you're going offshore."

In addition to describing the limited growth opportunities in Australia in terms of being a ***"mature"*** or ***"stagnant"*** market, some participants noted the rather obvious point that Australia is a small market.

"There's ten times the population of Australia in Indonesia alone. There's five times the population of Australia in Vietnam. There's four times the population of Australia in Thailand. We're only in these markets with maybe one or two customers."

"Is Australia big enough? No, that's why we went to Asia."

For some however where there are limited growth prospects going offshore is a reality they need to face.

"The first argument that is put forward is that it is risky to go offshore and the track record supports the argument. However, there is only so much we can squeeze out of the Australian lemon and therefore going abroad is only a matter of business sense."

However, not all participants agreed with this notion of limited growth opportunities in Australian markets. Some listed specific industries having substantial domestic growth opportunities.

"I think there's huge growth sectors in the Australian market. … health, education, agriculture, tourism, and those are all true growth opportunities. And we say that here because we're potentially exposed to all of those industries, one way or another. But I do think that there's plenty of growth for us."

Others pointed to the lack of the insights and lateral thinking limiting growth horizons for Australian companies. Insights were framed in terms of both customers and competitors.

"Business is not very good at understanding the customer – this is the way that markets are going."

"Need to continually look with customer insight and customer foresight to foresee changes."

"Need to be customer led – 'listen to your customers'."

"Deep customer insights is important – testing products with customers can achieve this."

"Deep customer insights are essential to lead a growth strategy."

"Need to drive deep customer insights as basis for forming relationships with customers."

"Competitor insights are also needed as they will cause customer change too."

"Know your customers customer. That's our job. That's what digital is helping us with because honestly, we have been weak in the past."

An example of the lateral thinking is to change the lens by which you look at your competitors – it may just create growth opportunities.

"A customer can also be the competitor; even though they may be a competitor doesn't mean you can't do business with them."

Participants indicated an obvious connection between increasing domestic market share, expanding geographically, and expanding the industry portfolio as generic growth strategies. Smaller players in an industry may tend to look at market share as the obvious growth strategy because it is relatively safe, and there is much room for expansion at the expense of direct competitors. Many big players are complacent in that they tend to concentrate on their big competitors, allowing the smaller players to get ***"under the radar"*** to ***"steal"*** share, and continue to do so for long periods before being noticed. Larger players, however, eventually run into market or regulatory constraints that may force them to think of riskier growth opportunities involving new geographic markets and/or new industries.

"One of the things that I've seen over the years here in Australia for example is larger companies that dominate a particular sector and really don't have in this market a great opportunity to grow … If we're going to stick in this do we go overseas because we've either reached a point where either we can't grow or the competition commission won't let us grow within our own market. Do you go somewhere else or do you do what so often happens, well we do this well, maybe there's something else we can do well."

So what do growth orientated companies look like? They were seen to be:

- Constantly scanning for where the opportunities lie;
- Constantly scanning for where the disruption lies;
- Specific about geographies to go into, e.g. be definitive about Asia, such as China, India, Vietnam, or Thailand, all are unique markets;
- Be first in markets;
- Pick up adjacencies and build off deep expertise;
- Customer focussed;
- Focussed even further on the customer's customer;
- Base decisions on deep insight;
- Investing and innovating based on these insights; and,
- Know well what does well.

CEO Leadership versus CEO Sector Experience

The other determining factor stated was the calibre and orientation of the CEO, with the orientation being fundamental to driving a growth culture.

"Looking at the major Australian companies and just as a classic benchmark, how many have gone offshore to grow? Why when their opposites in the US and UK have gone offshore and been successful, why have our Boards and management taken the path of least resistance? Where is the vision? A further question is, what is the purpose of the company and does the CEO have the right competency? I see CEOs who may be experts in their industry but not experts in leadership."

Finally, what are some of the strategies successful growth orientated companies do?

- They can define their true source of competitive advantage and defend it to the hilt;
- When thinking of their competitive advantage they define it in terms of:
  - A global competitive advantage; and,
  - They invest against this ***"global"*** competitive advantage;
- Focus on markets where they have a strong competitive position;
- Recognise that growth is about leveraging existing relationships in Australia and following those relationships offshore; and,
- Recognise that growth in new markets is about long term persistence – especially offshore.

Capital for Growth

When we raised the question about innovation we had general agreement that it was somewhat lacking. Consistent comments were:

"Research and development requires funds. We watch the young innovators with ideas to bring to this country move offshore and never return because they couldn't get the capital."

"A major problem is there is no funding or risk capital available."

"Where are the banks to help? Where are the incentives to encourage risk? Where is the long-term thinking in R&D or innovation?"

Comment

There does appear to be numerous opportunities to achieve growth, both within Australia and globally, but they will be specific to the company and the industry they are in. Some companies will have enormous growth opportunities in Australia, others less so or not at all due to their history and positioning. Despite this, what the growth strategies look like and do can be quite generic as noted earlier. It is how these strategies are led and applied to the particular context of the company that matters.

Participants expressed that the common theme of growth orientated companies is they are constantly scanning for where opportunities lie, are first to markets and continually focused on the customer. This provides a good template for others to pursue.

For the Board and CEO, the view of the growth strategy in the context of the history and positioning of the company will be factors that determine the nature of the risk. If growth is difficult then the risk will generally be higher than if it is not. Thus a Board experiencing good growth currently will be less likely to be convinced of a high-risk strategy while to a Board with low or negative growth this will be more palatable. These will be factors that determine the risk appetite of the Board to support the eventual strategies put forward by executives for approval. Where this all becomes incredibly difficult and presents the biggest challenge for Boards and executives is when ***"the growth is not where you currently are as a business – this challenges the risk appetite of all!"***

Chapter 7

Digital Disruption and IT Driven Innovation

"What's a Digital Director?"

Boards are awakening to digital disruption and IT-driven innovation. On one hand there are clear opportunities, on the other considerable uncertainty. How can Directors and executives bring innovative thinking into the organisation without scaring everybody?

Chapter 7: Digital Disruption and IT Driven Innovation

"I was taught that the way of progress was neither swift nor easy"

Marie Curie

The impact of digital in participants' minds was, without doubt, enormous, ongoing, and in many cases creating transformational impacts on business now and in the future.

"Affecting all businesses."

"Digital will revolutionise just about every business."

"Immediately – see big disruption in retail."

"The great problem is that everything is being commoditised, especially areas that used to be margin rich. For example digitisation is changing some advice based businesses that used to be margin rich into commodity businesses e.g. trading businesses/ stockbroking."

"Longer Term:

- ***Technology will move from 'a facilitator of speed' to 'having the capability to replicate experience';***
- ***The consequence will be the need to trust the technology as the traditional model of work your way up through doing the junior tasks will not exist (technology will occupy) and hence when reviewing an output of the technology that has experience capability we will have to "trust" as we will "not have the intuition from experience to question"; and,***
- ***Technology will be better than people at providing the answer."***

"Consequence for jobs in the future? Don't know."

"Digital disruption will change functions. E.g. finance functions will be reduced by more improved digital technology."

"Fear is the greatest of all motivators and digital can bring not only disruption but destruction. With that reality comes a shift in company culture. Digital is changing the operations, company dynamics and whole culture of companies."

"Digital is changing the nature of business – distribution and reach means global."

Defining digital became a little grey however with a more diversified view. Some thought, ***"It is not about big data – it is about big analytics – to give insight"***, others talked about efficiency or innovation, while others had broader views or lack of clarity in their definition. The lack of a clear singular definition is more the case of defining digital in how it is applied in each business' own context, which is its end use. It can be different across and within businesses, depending on the opportunity.

Directors articulated multiple views on digital disruption – some reactive and some proactive. Reactive views were based on a kind of intellectual reconnaissance of the global marketplace in order to spot threats to existing business models, whereas proactive views were about becoming the next "Google" or "Apple".

"But it, the world, the tech world at the moment continues to disrupt itself and lookout because if you don't, someone's going to clout you on the head. … there's a mindset on the Board which is risk management, which is, know what's out there so that you don't get hit, so your business doesn't get more and more disrupted. The problem is you don't know what you don't know!… There's then the flip of that, which is you're an entrepreneurial bunch. You have unique capabilities in IT that nobody else has. We've seen you do it and, you know, we've spent time believing that you can turn your IT capabilities to many things. … you have an entrepreneurial streak and you like taking risks. Go and explore that world because you might find something, you might find a train track that doesn't have a stop sign at the end of it."

There was clearly a fear, or at least an uncertainty factor when participants talked about digital disruption. This was sometimes attributed to the age of the typical company Director. The digital age was essentially viewed as belonging to the younger generation.

"If you don't do something about digital disruption you will be caught short."

"Digital and the internet are 'frightening'. So much promise…but a much bigger and more complex haystack."

"Some are 'frightened and consumed' by digital and the internet."

"Re Digital 'Fear is the greatest of all motivators'."

War stories probably exacerbated this fear:

"We had been quite progressive and were leading but:

- ***Bigger disruption this time;***
- ***Speed with which change spreads is faster; and,***
- ***Changes in expectations"***

"Digital. It is our weakness. We are vulnerable. Our strategy is one of catch up. So while it is a tremendous positive it presents a tremendous fear. We were not well prepared. The executives didn't anticipate the size and pace of the wave."

"No one foresaw how clearly it could impact soft good sales. The rate at which it hit was the surprise."

One of the themes emerging in the interviews was ambivalence about digitally mediated opportunities for growth. Was it an oasis or more of a mirage? Those seeing a digital oasis focused on the ***"generation skip"*** of online buying in both B2B and B2C markets. In countries like China, for example, an entire generation views online buying with smart phones as the norm for shopping behaviour. These consumers have skipped bricks and mortar retailing and have gone straight to digital. Another example of ***"generation skip"*** is Africa where they have missed the step of the fixed line telephone and gone direct to mobile phones. This can be an enormous opportunity for many Australian businesses expanding into Asia/Africa because as they have no legacy business and more importantly no need for one, they can start with just digital and potentially be competitive, other things being equal.

There was clear agreement that digital expertise and innovation were going to be important in the future and some consensus about why this was the case. The participants also distinguished between digital and social media expertise, which they believed was essential for effective Boards, and knowledge of IT tools, which they felt could be brought into a company via external suppliers.

But participants seemed to struggle to pinpoint exactly how this expertise would influence their company or industry.

"I'm sort of interested in that. I've done some work in that and a couple of other areas. I can see some scope in that but I can't put my fingers on it yet. … I mean there's something in that but I can't put my hands on it yet."

The academic literature has also identified themes of fear, ambivalence, and uncertainty as to how Boards and executives grapple with opportunities and threats posed by digital growth.

However there was not agreement as to how this expertise should be introduced into the company. Some viewed appointing a ***"Digital Director"*** to the Board as a viable option:

"I'd like another Director … in an ideal world if I could add those skills somehow and keep the number, it would be digital."

"Need a "red hot" digital person on the Board to bring it up to speed."

"I can see when there is a need for an outstanding digital person on a Board, to bring the Board up to speed and be an outright champion. Digital brings the company closer to the customer. What happens with digital however, is merely a reflection of the Board and whether the executive has the appetite for change."

Others were more cynical about the idea:

"We were just in another conversation the other day with an advisory firm that brought the gurus telling us we all need a Digital Director on the Board. And you know, this was the conversation about 'What's a Digital Director?' … I do think it is about thinking outside the dots."

"A lot of Directors say, 'Okay well we need just the digital slot. We need someone to fill that slot.' And it's like 'Mate, it's interlinked with your entire strategy.' You can't have one voice sitting there saying 'Oh this is the future of digital' because it's everywhere."

A variation on this idea was the notion of explicitly building digital expertise into the Board by appointing members with experience in a range of IT-driven industries.

"***The Board at (company) in the US – the Chairman was the Chairman of the largest Telco in the US; the other guy was Chairman of the largest chain of department stores in the world; the other fellow he's the professor of Economics and all the rest of it at (university), advisor to the (country) Government. They understand all this stuff, and it's lucky because they come to the meetings, so they are absolutely prepared. … and you see the difference then, I mean these guys are absolutely on the money."***

Others identified alternate ways in which digital expertise could be introduced to Board thinking in lieu of making actual Board appointments (executives, consultants, agencies, and contractors).

"When the Board says, look, collectively we know we've got a problem in this area, we just don't understand, we might have some people in to explain it to us."

"Should we have a technologist on the Board? … We'll get advisors in to talk about technology because they'll have different views of technology. So we'll use that, rather than having 8 technologists (on the Board). … We get someone quite young who actually is an end user. … You can get them in to talk to you."

"The Board does not have to be across every detail, that is the role of the executive. The Board needs to understand disruption and a good CIO will inspire the CEO and Chairman."

Another participant expressed this view in a different way: ***"What's the point of appointing a Digital Director? Do we all sit there and defer to this Director when there is a digital issue to discuss or decide? That's not good enough – the whole Board needs to come up to speed and contribute to the discussion and the decision!"***

One company even went so far as to set up an innovation committee with a consultant from the US but no executive management on it.

When asked about why digital expertise was important to future success, participants consistently identified six ways that digital would influence company performance. The common theme or challenge was how to foresee the opportunities and take advantage of them. They were also adept at identifying specific examples of each.

- The first area was improving employee productivity.

"Technology/digital can be a saver of time. Takes time out of the day of workers – i.e. frees time, rather than coming to collect your job sheet for the day. It's now online, on your ipad/tablet the night before"

"Digital allows us to provide technology to our sales force to close the deal at the customer meeting. It saves time and streamlines processes."

"It provides real time to talk to customers and therefore enhances productivity."

"You can close deals in the field. You are enabled to become closer to the customer. It supports planning and maximises efficiencies. It helps set out programmes and drives a more productive process."

- The second area of digital influence was operational efficiency. Incumbents with established legacy systems will have to modernise their infrastructure in order to be competitive globally. For example, one CEO said the old adage of ***"we are proud of our ability to 'sweat' assets"*** effectively equates to ***"not being progressive".***

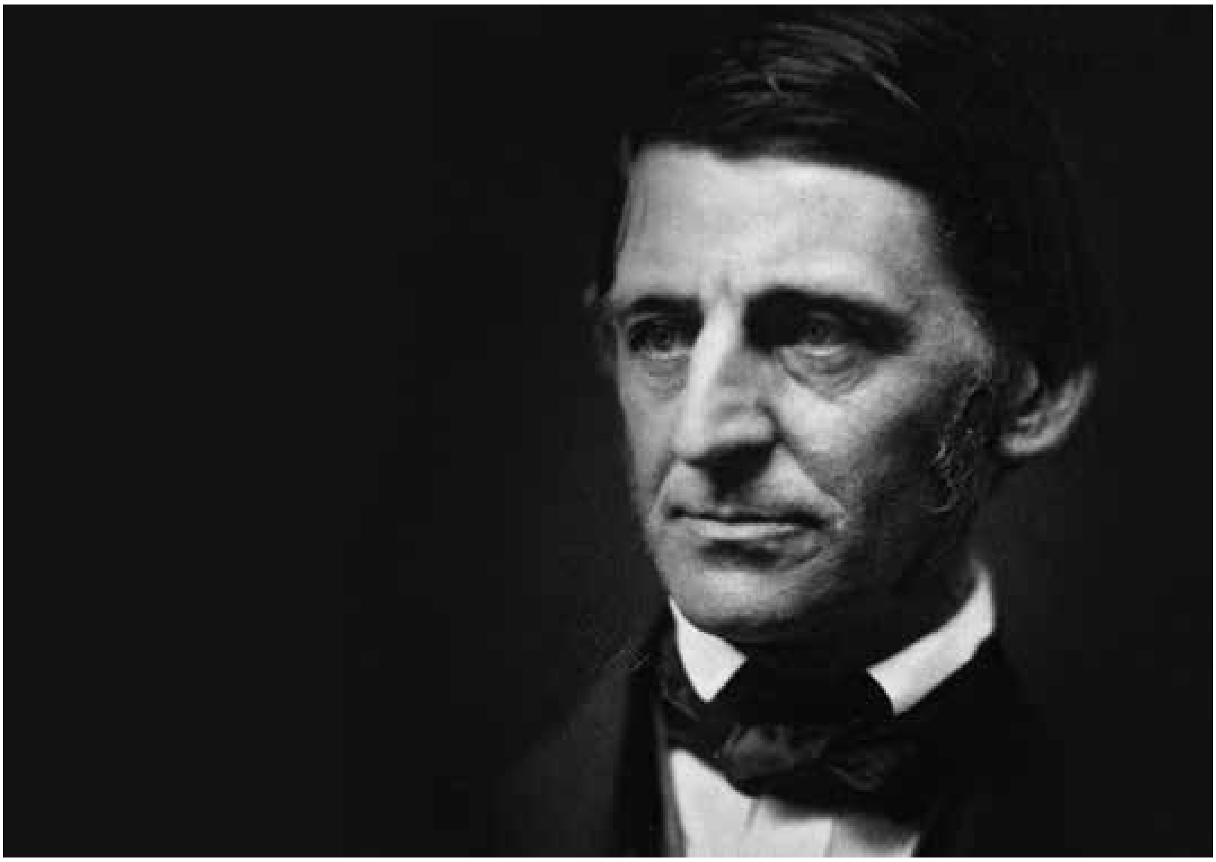
Others described additional ways in which digital knowledge was being used to increase operational efficiency.

"For us, digital is a lot about being able to gather structured and unstructured data in new ways and use that to be able to improve the productivity of the business. Because, if we get better data about when you actually need to maintain the machine, we can avoid downtime for the client, and do things in a more effective way."

"We have devices that can tell you the temperature … We have devices that can tell you the impact … We have devices that tell you where they are all the time so they have very sophisticated capability … the technology is going to change, low power blue tooth is going to become more important so track and trace is a big theme for us. It is how we take dumb assets and make them smart."

"Digital is a big efficiency lever through Big Data - gathering structured and unstructured data can lead to improvements with big analytics. The analogy is sports where physio and training performance can be predictive of game day performance."

"Great opportunity to get more out of asset base."



"Do not go where the path may lead, go instead where there is no path and leave a trail"

Ralph Waldo Emerson

- The third area was product innovation. Here, some Directors suggested that much of the negative talk about the lack of technological innovation has more to do with having the wrong concept of innovation. Australian companies may be concentrating too much on looking for the 'big I' innovation rather than practical, 'incremental' innovation. Perhaps the search for ingenuity should be about 'small i' innovation instead.

"When it comes to innovation, I think too many companies are seeing innovation as being 'big I' innovation. … Using new technology, all of the (process) is completely automatic. …That's innovation. And we don't recognise that it's innovation."

Here, the focus is on product improvements rather than on major, disruptive, game-changing innovations.

"Can understand better how assets work and what can be put through them to generate new and innovative offerings to clients and thus new/enhanced business offerings."

- The fourth area was marketing effectiveness. As with operational efficiency, this discussion was often framed in terms of data analytics.

"We know conversion rates. So a conversion rate for us is registration to becoming a … client. We know that's lower when someone registers on a mobile versus registers on a desktop, and we know that because the experience on that is not as good. So that's what we're fixing."

Several Directors discussed the importance of accumulating data on customer transaction history, and the huge opportunity to look at segmenting customers based on this data, leading to modifications of offerings.

"The objective of prescriptive analytics is not only to predict future outcomes, but also to make recommendations based on those outcomes. In focusing on the what, when, and why of future events, it attempts to answer the questions, 'Now what?' or 'So what?' and it completely changes the game of big data."

One wave of the future is applying mathematical algorithms developed to solve problems in other fields like meteorology and criminology, and applying those models to solve consumer issues rather than predicting when and where the next criminal will strike. This lateral thinking and application of something that is established in one field while being new in another field, is innovation. While raising the opportunity, the participant lamented the lack of lateral thinking in this regard.

"Collecting a whole series of crime data, and geographic data, where the crimes happened and severity of this crime versus that crime. And they started analysing this data using an algorithm that is actually about how you predict where the aftershock is going to be after an earthquake. They were finding that applying the same sort of algorithmic modelling to that crime data and then actually forecasting where the squad car should drive through the backstreets of LA over five years has actually reduced the crime rate by 20%. Because if I rob this 7/11 I'm going to rob another one, you start to see predictable behaviour in that. … It's taking algorithms from Mother Nature and applying it to human behaviour to try and predict."

The same kinds of data can be used to support company strategy. For example, one participant described a relationship between product bundling, cross-selling and customer churn rates. They discovered by analysing customer purchase histories – that was being used to determine the magnitude of discounts offered to customers via product bundling packages.

"Trends have shown … the more services you take from an organisation the less likely you are to leave, despite the quality and the price you pay. … We play that game as well as anybody else, in terms of trying to get bundling."

The academic literature also points to the importance of data analytics in the future of marketing efficiency and effectiveness. Here, the idea is that companies that develop the most sophisticated systems for capturing, storing, and analysing customer data will be the big winners in the digital age of business. Perhaps an even deeper commitment to a customer focus is the development of systems that invite customers into the internal operations of the company to ***"co-create"*** customer value. Here, the company deliberately blurs the distinction between customer and employee in the ultimate pursuit of a customer-centric perspective to everything the organization does[26].

- The fifth area was gaining a greater understanding of customers and their needs – ability to get close to your customers.

"Great opportunity and indeed imperative for real time talking with customers."

"Have good data on customer transactional history and the real opportunity is to look at segmenting these customers based on this data leading to modification of offerings."

"Big change is to understand customers anywhere in the world."

"Give customers what they want, not what you make."

"It is more about getting on the front foot and anticipating needs of the customer."

"Prescriptive Analytics are the next thing with Big Data – push sell rather than random."

- The sixth area was market expansion.

"Digital has changed the game. You now need to think the competitor is not just the guy across the road, but somewhere else in the world!"

Some participants were concerned that digital was masking the real issue, the rise of the customer and changing customer expectations. They cautioned focusing purely on the technology and forgetting about the customer!

"Technology may be a disruptor but customer behaviour is what it is about."

"Technology changes behaviour – so need to meet behavioural shift."

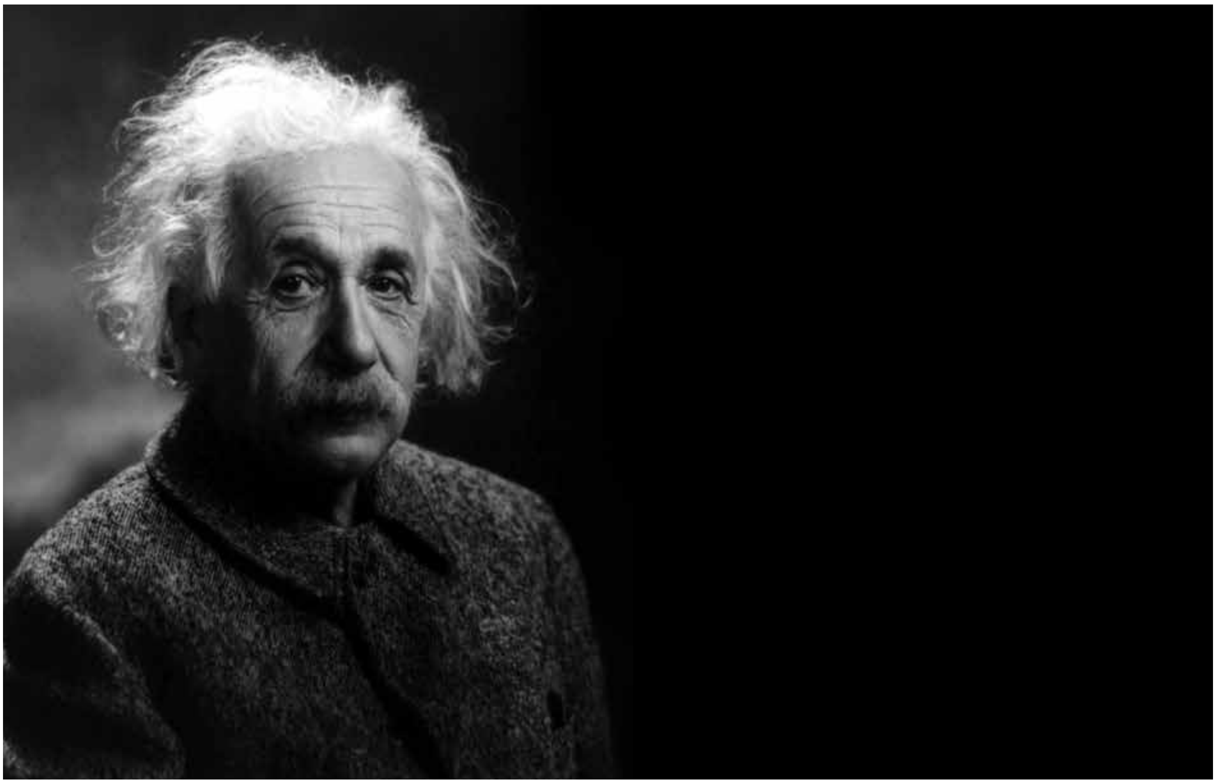
"Disruption is also a consequence of changing customer expectations: convenience for the customer is a new driver as is the need to keep up with changes in customer behaviour."

"Technology changes behaviour and whilst technology is a disruptor, it is still our focus to understand the behaviour of the customer."

"Digital presents the opportunity to better get to know our customers and when we can do that we can take the customers away from our competitors. That is business. Ironically, digital is providing a self-select community. I am aware of the opportunities but we started from Armageddon by not moving to digital."

"Digital has fostered the era of self-reliance. Consumers search for anything from cars through to shirts so you need to understand that today's customer is self-reliant and why."

Another cautionary note expressed about becoming 'too digitally focussed' was that essentially digital is only one mechanism that creates change and innovation. There are many others, and hence companies should be striving more to build that culture of innovation, searching for change and ongoing improvements – digital would be a subset within this. An over emphasis on digital or a digital alone focus may leave a company open to being blindsided by a non-digital innovation or change. Similarly some questioned the lack of innovation focus at the Board level, seeing the current focus as too efficiency orientated.



"Logic will get you from A to B.
Imagination will take you everywhere"

Albert Einstein

Moving towards this more innovative culture is also an enabler of the 'small i' innovation highlighted above. Illustrations of this need and suggestions to address this included:

"Need a culture of constantly searching for upgrading/ how to get better."

"Way to foster innovation:

- ***Bring in provocateurs to challenge and force to think laterally;***
- ***Wisdom from the shop floor – we are ignoring and not tapping into; and,***
- ***Take Directors and analysts out to the field so they understand what we do."***

"To get the best out of the changing world we need a culture in organisations to be fostered that is:

- ***Adaptive;***
- ***Agile;***
- ***Receptive to change; and,***
- ***Innovative."***

Leaders create the culture in organisations, and they are the ones who will need to embrace and build this innovative culture. It is the need for these individuals both at Board and executive level to consider how they think, how they want their companies to think and how they are going to create the right mindset to profit from the digital age. The following comments add light to the change required.

"You need to look at it from another world. In other words, look at it from a point of view that your business has been wiped out because they didn't move to a digital strategy. In a way the strategy should be devised from the position of the end. That is, from destruction. The problem you have is that we have a shallow pool of digital expertise and original thinking."

"Digital has reinforced the need for future thinking. It highlights those CEOs who do or do not innovate. The role of the CEO is to create the culture of innovation to encourage those in their team and push."

"For digital to succeed there needs to be the right mindset. That is the ongoing development of knowledge and curiosity. This is not limited to individual Directors; it has to be across the business. The Chief Executive has to recognise the risk of the future and reinforce that to the Board."

Innovation

When looking at growth prospects of a company the following is one participant's view that mirrors that of Machiavelli ***("The first method for estimating the intelligence of a ruler is to look at the men he has around him")***.

"When looking at growth, the first thing I look at is the Chief Executive and who that Chief Executive hires and surrounds themselves by. I then stand back and look at the Chairman, and who that person has on their Board, and whom they surround themselves with. If they have not hired successful people who take accountability then I have a concern. What I do see are people who are regularly staid in their thinking where business is in a state of constant change. This is not the formula for growth and success."

Interestingly, when participants were asked about the competencies they thought leaders would need in the future they aligned with those needed to create a culture of innovation. Figure 6 shows that some of the emerging competencies required in the future are curiosity, open-mindedness, agility and an international mindset, ones that do not traditionally fit into leadership development programs or recruitment initiatives.

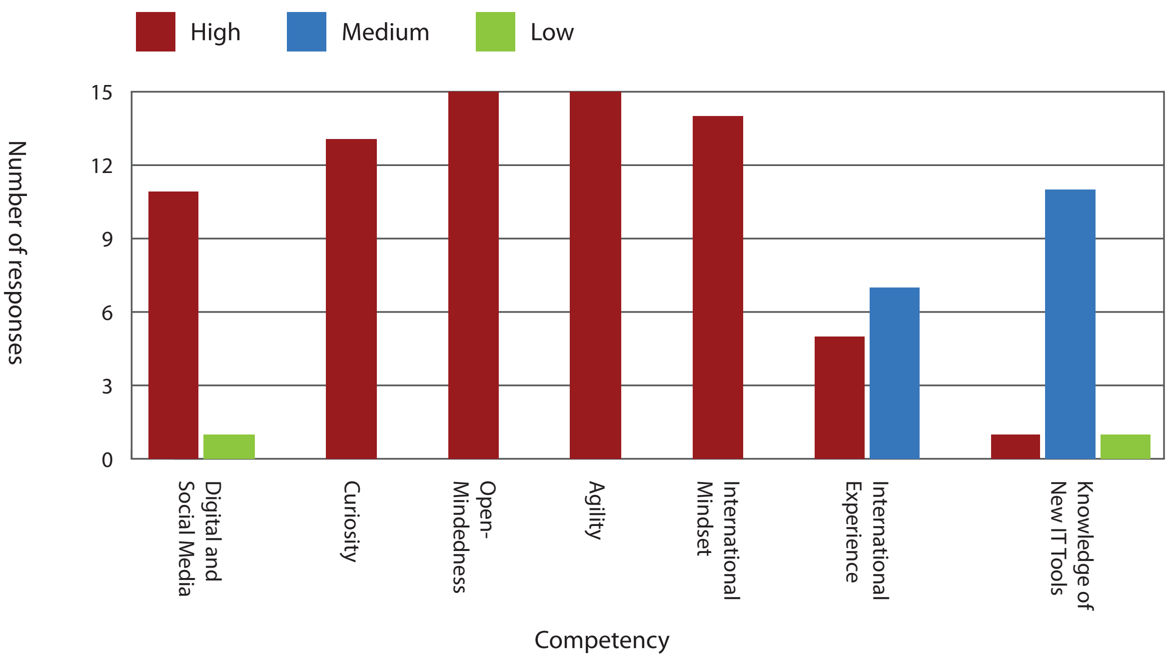
Comment:

Digital is without doubt causing significant challenge in the Australian marketplace while at the same time creating significant opportunities for growth. This growth is multi-faceted, ranging from low barriers to entry into overseas markets, enabling greater customer insight and closeness to the customer, transformation of existing products or business lines, efficiency, productivity of workers and product innovation, and this is only the tip of the iceberg.

The interesting point made by a number of participants was that digital and technology are only enablers of what has been a real underlying change in customer expectations and behaviour. Sure digital or technology is allowing this to happen, but it seems that the age-old saying of ***"the customer is king"*** should not be forgotten and should continue to be the primary focus.

The need to create innovative cultures in companies with lateral thinking at their core was clearly evident to achieve growth and consequently bright futures for Australian companies. How well we are doing on this task was not readily apparent, but the fact that this need was recognised was encouraging. Regarding the required competencies of future leaders to achieve this, it will be necessary for these to become more and more embedded into recruitment and selection practices and leadership development programs over time to enable growth opportunities to be identified and realised.

Figure 6: Participant Responses to the Question ***"What are the emerging competencies our future leaders will require to meet this fast pace of change and to take advantage of it to succeed?"*** (Listed and rated in terms of importance)



Note: Response numbers vary as participants may not respond or may respond to multiple competencies.

Chapter 8

Australia, Australians and Australian Managers

"It's a good life, and it's a long way from anywhere."

There are real questions around whether our lifestyle is permeating into our business orientation. Is there the drive for Australians to compete and be competitive on the world stage and do Australian managers have the competencies to do so?

Chapter 8: Australia, Australians and Australian Managers

"Take the time to deliberate, but when the time for action has arrived, stop thinking and go in"

Napoleon Bonaparte

One of the more surprising outcomes from participants was a real questioning of the desire of Australians to push and succeed over and above in business. There was a strong feeling among many participants that the horizons of success were somewhat limited compared with other countries. This limited horizon or possibly more aptly put, ambition, was a real factor impeding growth. One participant phrased this phenomenon as follows, highlighting what this limited horizon looks like.

"Lack of drive and we place a limited horizon on ourselves:

- ***Nice car;***
- ***Nice house;***
- ***Maybe nice boat; and,***
- ***EQUALS – have made it!"***

And taken to the extreme:

"If you live at Point Piper it makes you a better person."

When this view was put to other participants there was a large degree of agreement and further supporting comments followed about effectively "ambition" within the Australian culture.

"To not 'push further'."

"Even from school we are not pushed to succeed."

"Culturally Australians do not have the DNA 'to step ahead'."

"Lack of ambition in Australians."

"Too laid back – but if that is the lifestyle they want?"

"If 'have enough' that's OK."

"Some people are satisfied to reach a certain level of achievement:

- ***Can't see anything else; and,***
- ***Couldn't be bothered.***

"Finish at 55."

"Australians are not as aggressive as they should be (in a relative sense vs. overseas)."

"New generation is not as aggressive – soft."

"Lower risk appetite here probably because:

- ***Good here;***
- ***Good lifestyle;***
- ***Easy place to live; and,***
- ***Why take the risk.***

'We are a very soft nation because of this.'"

"There is a 'lack of animal spirit'."

"Perception of success in business not the same as for business in the US."

"I don't get why there are not 3-5 really successful Australian Global companies – we don't aspire in that direction."

Another point that arose, that is maybe culture related was that Australians don't like to sell. This is a real growth opportunity across most if not all Australian companies, because one facet of growth includes selling product.

"Australian businesses I feel are poor at add on selling. If I go to buy a sandwich in America I am normally sold the sandwich plus a coffee, maybe a sweet. If I go to an Australian shop I will not be asked about the fifteen types of bread, the ten types of salami, the coffee, the water bottle etc. I will be given a sandwich. My point is we are order takers and if we look from the top down how many "order makers" do we have in the Boardroom?"

Weakness though it may be, what an opportunity it presents, as probably in Australia, McDonalds is one of the only true success stories with their sales culture of burgers with fries. Not that it is not on the radar and large investments have been made to capture this growth, for example in financial services in Australia where despite this they are still chasing the elusive ***"products per customer target".*** We have just not been very successful and some have put this down to the term ***"sell",*** or the importing of selling concepts from other cultures that just don't resonate here. Maybe the approach to solving this is, as one Australian ex-CEO has said in the past, is ***"working with the grain",*** in this case the Australian culture to do this. Regardless, what it means however is that Australians are leaving growth opportunities ***"on the table"*** that can be realised by reinventing themselves over time from ***"order takers"*** to ***"order makers"*** or add on sellers.

Not that there were others who were very supportive of Australians.

"Australian workers are equal to anything in the world."

"Man for man as good as the US – scale masks a lot of sins in the US."

"I don't see lack of ambition in Australian culture."

However the supporting comments are more around the quality as opposed to the drive to ***"go further"*** or reach ***"higher and higher levels of success"*** or ***"make more and more money".***

So why is this so or appear to be the case. According to a number of participants what it comes down to is ***"Australian culture is the big inhibitor".*** But what about the culture? It seemed to some our culture is too egalitarian.

"'Afraid to feed the fast horse' - i.e. to recognise and celebrate talent and success and invest more in the best."

"Cultural ethos is different from the US – too egalitarian"

When asked to try and explain why this is the case.

"The difference between the US and Australia that may account for the difference in hunger, drive and ambition may be the Safety Nets in Australia vs. the US:

- ***Australia;***
  - ***Pension and health safety net;***
- ***US;***
  - ***No safeguards;***
  - ***Raised within this context;***
  - ***"Stick stronger than our stick"; and,***
  - ***In US an idea in a small community can make a lot of money due to population."***

"We have a lower risk appetite. We have it good here. Good lifestyle, we take it easy, good place to live, therefore why take the risk. The US has a lower socioeconomic safety net. They have underclasses. They also have the respect for the making of money. Australians have respect for support. We are becoming a nation of handouts."

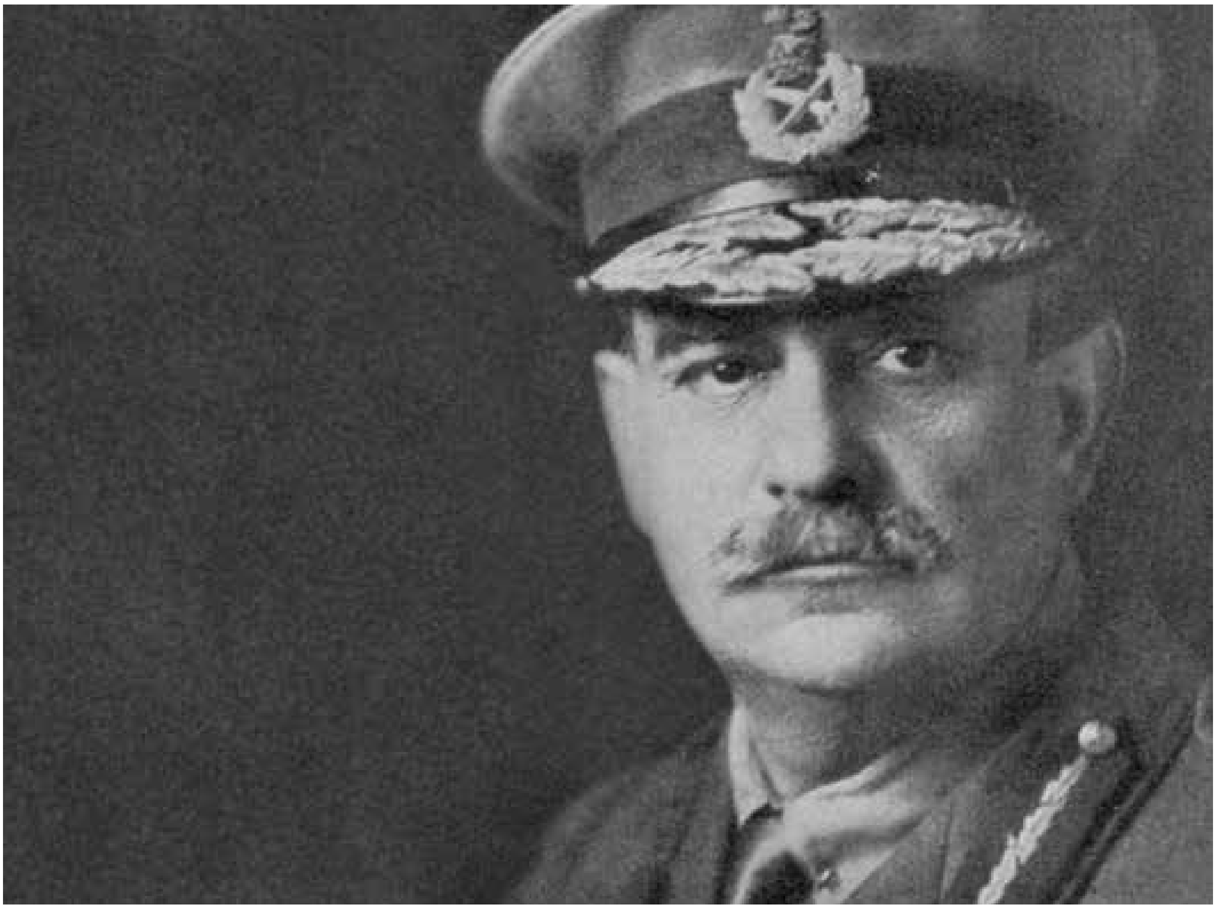
"Also the US and Australia are different due to the school system:

- ***Australians are not pushed to be outspoken, not pushed to succeed; and,***
- ***The US are."***

Others tried to explain the difference as one of what Australians respect.

"In Australia there is respect for sport vs. US where there is respect for making money."

If we don't step out of this however, one participant's view as to where this could lead:



"I don't care a damn for your loyal service when you think I am right; when I really want it most is when you think I am wrong"

Lt General Sir John Monash

"History repeats itself. We are following the same course of history as the Romans. We began poor, we moved to affluent, it became decadence, and then dependent. We are on the downward decadence scale."

Australian Management

So if leadership is so important to achieving growth, how do Australian managers compare?

"My view of Australian management is that many are concerned with covering their own arses. Why? Because it has been engrained not to take risk. When are people going to realise that you will not be successful in everything so therefore why cover up the failure. The failure is the learning to success. You stay ahead of the competition by keeping on top through better products and seeing ahead."

"Australians are more rigid and it is hard to get Australians to change their attitude. The lack of mobility seen in trying to get an executive to move from Sydney to Brisbane, Brisbane to Perth or Perth to Melbourne. Even if losing the job is the outcome. We have the tyranny of distance and localism in Australia and can't see the big picture. Having foreigners on a Board to broaden our thinking and relationships and solving issues I believe is key to Australian growth."

"Australians:

- ***Much more rigid; and,***
- ***Hard to get them to change their attitude."***

"Australia 'small thinking' with innovation not valued."

"It is an Australian thing – don't think laterally even if in a mature market."

"We suffer from the not invented here syndrome, whereas New Zealand are very good plagiarists, they take and modify."

"We are not importers of good ideas."

"Not right 'mindset' generally."

"Don't know what good looks like."

"Don't have the mentally wired model – of need to continually improve."

"Incremental in their own market."

"Most managers in Australia nudge the peanut... don't have the stomach for transformational change."

"Most Australian managers:

- ***More focussed on their own careers; and,***
- ***More concerned with covering their own ass."***

"Lack of 'big picture' view or thinking."

"Localism in Australia – prevents from seeing the big picture."

White Collar versus Blue Collar

The discussion on managers spilled over into the area of productivity, where generally when commentary, positive or negative, on Australia's productivity is raised it tends to be in the context of blue-collar workers. A number of participants held the view that maybe white-collar workers (including managers) have some accountability here.

"Need to focus more on Australian managers (white collar) as a cause of productivity issues rather than blue collar. White collar managers have a lot to be accountable for."

"White collar is good at playing the blame game, particularly when questions are regarding blue-collar productivity. Management are paid to make decisions and provide the structure."

"Easier to kick the blue collar guy – agree white collar has a lot to answer for."

"Agree that the potential productivity gains in the white collar area are enormous."

"White collar are inefficient; more interested in the title and whom they report to."

Others were more balanced in terms of the broad issues related to productivity but believed there was opportunity in improvements from both white and blue collar.

"Capital productivity in Australia is low compared to the world. Our wage costs are high. In fact, we have some of the highest priced labour markets in the world. Our systems tend to be inefficient in the way that we organise work. There is room for both improvements in white collar and blue collar productivity."

The interesting point to come out of the discussion of Australian leaders and managers was their strengths and weaknesses.

"White collar management:

- ***Good at what it does – 'diligently doing what they do';***
- ***Strength is 'running existing businesses better';***
- ***But weakest areas are growth related:***
- ***Business building; and,***
- ***Entrepreneurial skills – don't rate Australian management in this area."***

One participant posed one of the reasons for this may be because ***"Business Management 101 is not there"*** and that there are ***"too many university courses and not enough vocational or job-related ones."***

Comment

The bias of Australian managers in general to running existing businesses better may well be one of the pointers to why growth is and may continue to be a problem in Australia, together with an underpinning culture that does not have the drive of some others. As one put it, if you make a million dollars in Australia the sense is you have made it, in the US the million dollars will be the motivator to go on and make 10 and then 50 million.

This view was interspersed with comments to excuse or contradict this, such as ***"small market", "great idea generation but lack of access to capital"*** (some maybe rephrased this as ***"risk is not rewarded in Australia so not as entrepreneurial"***) and ***"generally Australians are more lateral thinkers than most."***

Could this so called lack of Australian ambition and entrepreneurship in the culture be more a function shaped to and limited by the size of our market and our access to capital to name just two? Maybe we are just very pragmatic and have adjusted our horizons to the opportunity.

If we do have the ability to generate great and more lateral thinkers than most, then if we could gain access to larger markets what might our prospects be? Could our growth dilemma be solved and our small market mentality be overcome with the unleashing of our idea generation and lateral thinking to create new market opportunities, product innovation and yes, growth?

The advent of digital global businesses and greater access to customers on a global scale through digital and the internet may very well be the catalysts that test these hypotheses. Australia may well be at the point where what has limited us in the past may not be the roadblock we have thought going forward.

The other key opportunity to arise in this discussion is that selling skills presents enormous potential for growth should it be realised.

Conclusion

"Do just once what others say you can't do, and you will never pay attention to their limitations again"

Captain James Cook

Conclusion

It is hoped that the results in this report promote broader discussion and awareness of the importance and challenges of sustainable growth for Australian businesses, as successful achievement of this goal can only be good for Australia and Australians.

The key themes/findings to emerge from the study, if pursued, create an opportunity to remove many of the roadblocks, real and perceived to sustainable growth for Australian businesses. They were:

- When looking at Board (and even executive) composition as a lever to foster growth, Boards should broaden a simplistic demographic notion of diversity when looking for talented Directors to one where the diversity lens shifts from one viewing gender diversity alone as the outcome, to one where diversity in a broader sense is used as an enabler of growth. As highlighted earlier, this can not be at the expense of an underpinning of general business acumen in a prospective Director;
- The importance of conducting due diligence by not only the prospective Director on the Board and business, but more importantly the Board on the prospective Director. This will ensure that when assessing a prospective Director that their motives and incentives for joining the Board are aligned with what the Board and shareholders are striving to achieve;
- To engage with the various stakeholders in the business including shareholders, investors, regulatory bodies, proxy advisers and the like to bring them on the journey that the business is undertaking. This engagement will go a long way to alleviating the concerns regarding ***"fear of failure"*** and diminished ***"risk appetite"*** of Directors, CEOs and senior executives;
- While engaging with these various stakeholders the Board needs to hold true to the aim of creating long term value for shareholders. To ask the question ***"what will the market think?"*** prior to making any decision is in essence driving to the short term agenda. It is the wrong question to drive the long term view. It is appropriate to be pragmatic, but how can you ask this question when as commented by a number of participants, investors/shareholders continually buy and sell the stock;
- Another means of ensuring the long term agenda is for Boards to effectively oversee the tenure of two CEOs;
- Focus, focus and continue to focus unrelentingly on the customer. ***"Deep customer insights"*** is the new buzz phrase for growth and success;
- Embrace digital disruption as an opportunity, not just a threat. Directors, CEOs and other senior executives should ***"not look the other way"*** and wait for this fad to pass. If they do their business may not survive and both they and their employees may be without jobs! By embracing disruption the opportunities for businesses to reinvent, target new markets and grow are enormous;
- Look at digital as a growth engine that allows Australian businesses to ***"escape"*** the constraints of a ***"small"*** Australian market and use it as a means to create a far easier and less expensive entry to global markets with corresponding access to their large customer bases;
- Leverage the lateral thinking of Australians in this digital space, fostering innovation for growth, both small ***"i"*** and large ***"I";***
- Australian managers need to broaden their experience and competence from running existing businesses better to growing them as well;
- Get the right talent in the right role, know the market and have a proactive plan; and,
- Finally, to really drive sustainable growth the question arises as to whether Boards are setting the expectations high enough of their CEOs, and where is the right point of tension in this relationship to achieve this outcome.

Acknowledgements

"It always seems impossible until it's done"

Nelson Mandela

Acknowledgements

Blenheim Partners and MGSM would like to thank all the participants who gladly gave up their time and who openly answered our questions in the spirit of the paper. The paper was designed to help challenge the thinking of our business leaders and to put forward alternative views that may otherwise not have seen the light of day. To do this Blenheim Partners and MGSM unreservedly asked some very direct and confronting questions in effect to bypass the standard politically correct answers so often found in reports and journals these days.

We hope that the report captures the essence of Australia's real opinions and true thoughts as opposed to what they are supposed to say.

The authors wish to acknowledge and thank those who have contributed to this work, particularly Dr. Malcolm Irving AM Hon D Lit, FAICD, FCPA, the then Chairman of MGSM, who contributed to the idea for this work and reviewed numerous drafts, Pat McDonald (Career Services Manager, MGSM), Professor Richard Badham (MGSM) and the Dean of MGSM, Professor Alex Frino.

On behalf of Blenheim Partners and MGSM, thank you.

Yours sincerely,
Gregory W. Robinson, Dr. Brett Wright and
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Mr. Robinson has been specialising in senior international executive appointments for over 18 years. Sector experience is broad and includes consumer retail, natural resources, infrastructure, industrial, manufacturing, telecommunications, technology, financial services, health and sport.

Mr. Robinson has acted as an adviser to many of Australia's leading corporations on Board performance, capability and succession. He is a member of the Board, CEO and CFO Practices.

Prior to establishing Blenheim Partners, Mr. Robinson was based in Hong Kong for three years as Head of an Investment Banking Search Practice for a global boutique firm and as a Partner established and led the Asia Pacific Financial Officers Practice for the Global Search Firm Whitehead Mann.

In 2005 he was appointed Partner to establish and lead the Australasia Chief Financial Officer Practice for Korn/Ferry International, covering all industry sectors with focus on ASX 100 listed companies.

Mr. Robinson commenced his executive search career as a Partner with Norman Broadbent in London. During his time in London he consulted on the finance and operational functions of the FTSE 100-250 and AIM listed companies for a decade, including some high profile searches which were closely followed by the press.

Mr. Robinson's career began in marketing with an Australian radio network and as a Broker in the money market. It also includes experience in the Australian military where he was awarded with the coveted Green Beret.

Mr. Robinson has been involved in Board Advisory and C-Level appointments in three continents and was a Director of Australian Business in Europe whilst in London. Mr. Robinson holds a B.Comm with Merit.

Outside of business, Mr. Robinson has supported charities by competing in the London Marathon, The Marathon des Sables (across the Sahara Desert) and with a good friend assembled a small team to do something never previously attempted. It was termed the Arch to Arc and included a run from London (Wellington Arch) to Dover, swimming the English Channel and cycling from Calais to the Arc de Triomphe in Paris. The run was achieved wearing a Rhino costume for the "Saving the Rhino" Charity.

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Prof. Charles Areni
Vice-Dean, Macquarie Graduate School of Management

Prof. Charles Areni is the Vice-Dean and Professor of Management (Marketing) in the Macquarie Graduate School of Management at Macquarie University. His research focuses on (1) retail management (2) gender stereotypes and discrimination, and (3) branding strategy, and has been published in various academic journals, including the Journal of Consumer Research, the Journal of Retailing, the Journal of the Academy of Marketing Science, the International Journal of Research in Marketing, and Cognition and Emotion. He has served on the editorial review boards of the Journal of Retailing, the Journal of Business Research, the Journal of Advertising, and Psychology & Marketing, and has been an expert witness in federal trademark and intellectual property cases in multiple countries. In addition, he has worked as a consultant for the Commonwealth Bank of Australia, Woolworths, the Houston Astros of Major League Baseball, the Australasian Performing Rights Association, among other clients.

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About Blenheim Partners

Blenheim Partners is an elite international Executive Search and Board Advisory firm. We specialise in top-level Executive Search, Non-Executive Director Search, and Board Performance Consulting.

Founded in 2012, our team have acted as specialist adviser to many of the world's leading corporations on Board and Executive performance, capability and succession planning.

Our clients come from all sectors and a broad range of geographies. They include over 70 of the ASX 100, 10% of the FTSE 100, Private Equity, Multinational, Private Family and Mutually Owned Companies.

Our work is highly international with over 90% of our assignments global in scope.

Our team consists of senior Search Consultants, Human Resource Directors, Psychologists, Coaches and exceptionally experienced Researchers.

Our philosophy is to develop deep and committed relationships with a small number of clients and help them deliver a superior performance by optimising the composition of their Board and Executive team.

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"In no department can a leader spend time more than in the selection of the men who are to accomplish the work"

Sir Douglas Mawson

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