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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

Chapter 3

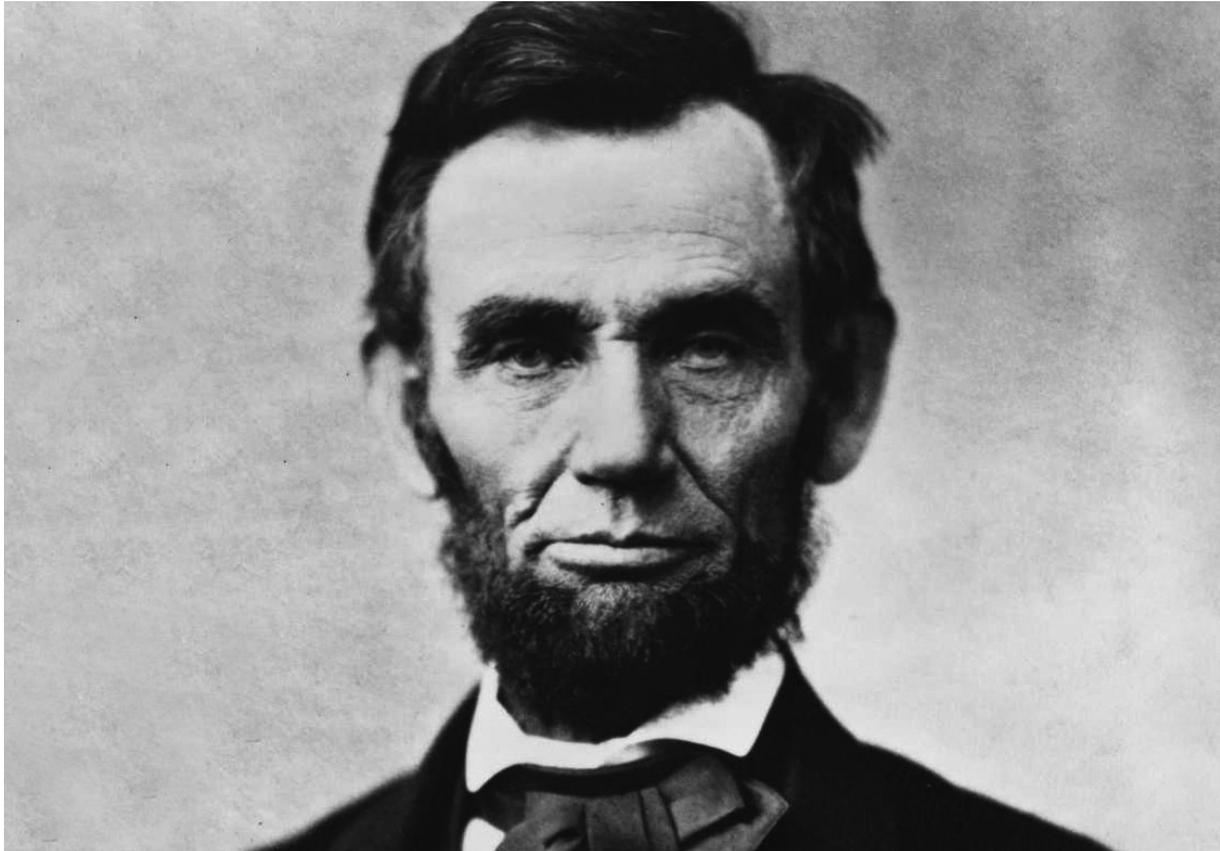
Fear of Failure as a Guiding Mindset

“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?"

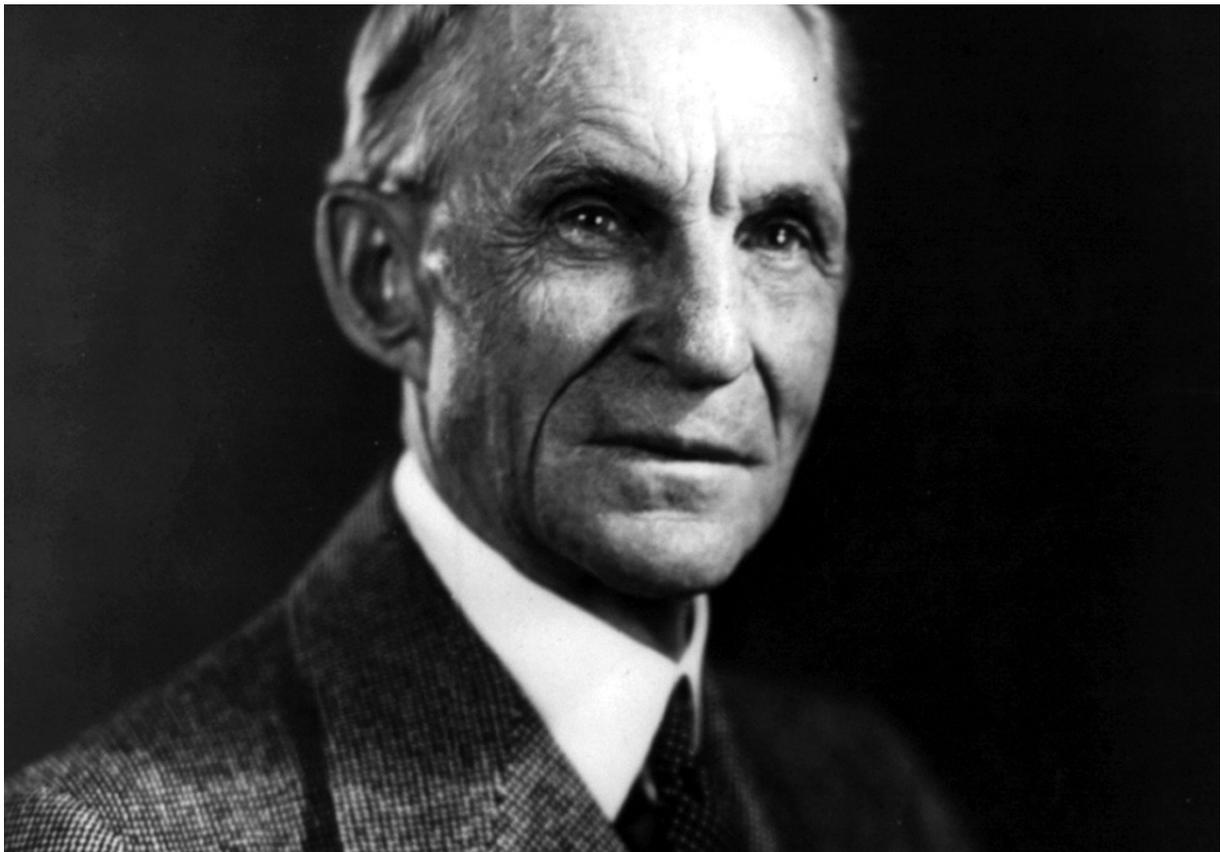
"If you are not pushing yourself you are not improving!"

"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”**.

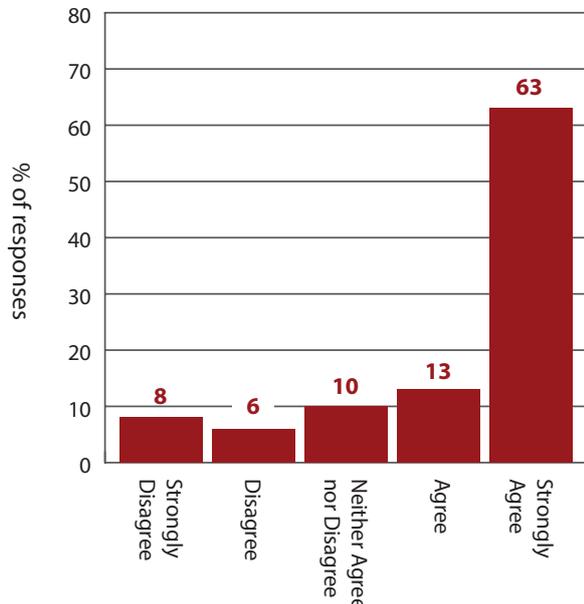
This fear of failure mentality is coupled with an overzealous desire to criticise failure. In Australia there is:

“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.”

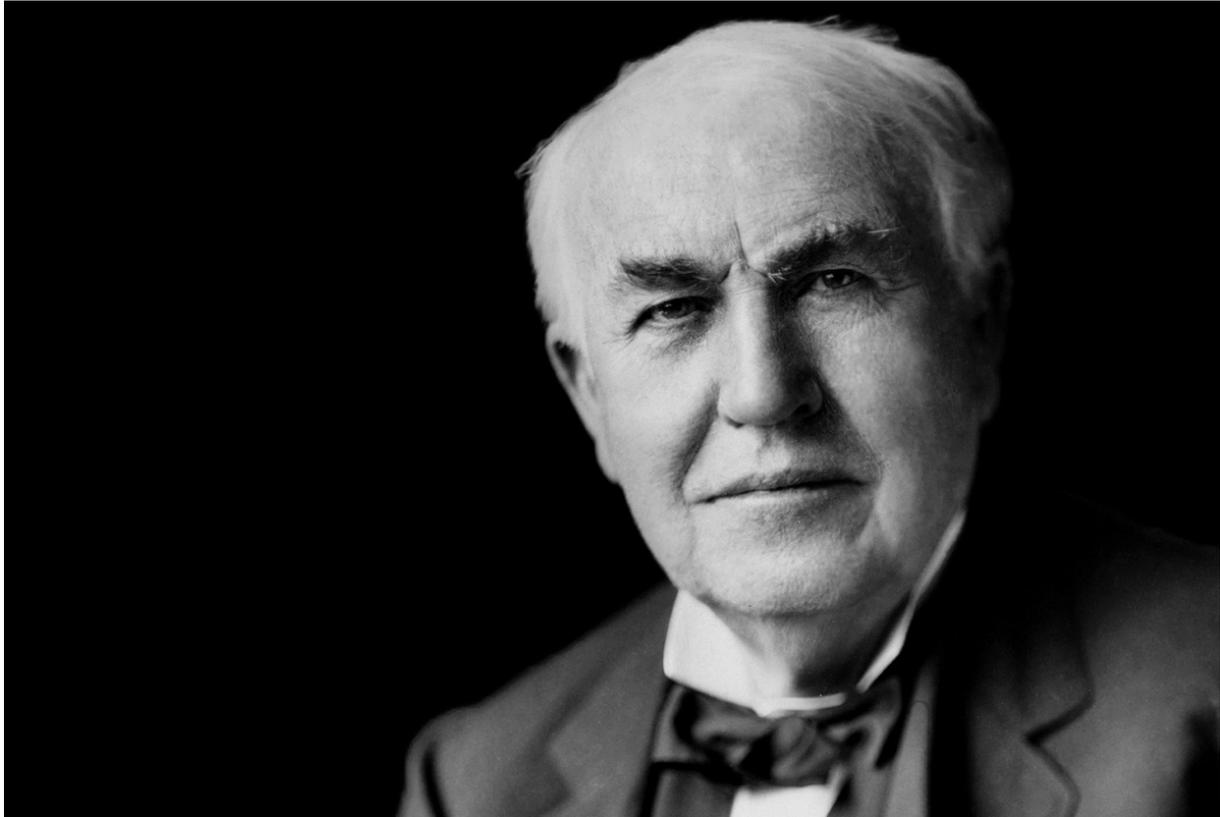
Some participants pointed to Australian cultural values and stereotypes in accounting for the fear of failure, noting that business leaders who approve unsuccessful risky ventures are viewed as ‘crooks’, and ‘entrepreneur’ is a dirty word in Australia and not so in the US.

“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 regulated⁴, 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 situation¹⁷. 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.