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Executive Search & Board Advisory

## SCRUTINISING OF BOARDS, EXECUTIVES AND COMPANIES – IS IT OVER THE TOP AND WHAT ARE THE CONSEQUENCES?

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*“When written in Chinese, the word ‘crisis’ is composed of two characters. One represents danger and the other represents opportunity.”* John F. Kennedy

In a recently published Blenheim Partners Paper, over scrutiny was identified as a key driver of risk aversion of Boards and Executives. The Chairman, Non-Executive Directors and Chief Executive Officers interviewed, suggested that based on their experience Australian Boards are subject to levels of scrutiny, from multiple directions, “that are unprecedented in other parts of the world.” 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, missed opportunities for Australian businesses and potential frustration for CEOs.

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. The following comments illustrate this.

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“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.”

“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.”

“People that aspire to go on the Board are being told that it’s all about compliances. 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.”

This last comment in particular is concerning as it highlights that potentially regulation and compliance are diverting the focus of Boards and Executives from the growth agenda.

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.

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.

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”. This was in the belief that these strategies could reduce or potentially eliminate the regulatory burden.

Company growth depends on good leadership, excellent product, competitive work practices and political stability. Stability and support for providing the environment and incentives to foster growth from the political leadership in this country were themes touched on, with an overwhelming view of the need from all sides of politics to provide greater leadership, longer term thinking and certainty to ensure investment and

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opportunity. This void in Australian Parliamentary leadership was made very clear in participant comments.

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 are 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” said Gregory Robinson, Managing Partner of Blenheim Partners.

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## ABOUT BLENHEIM PARTNERS

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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 80 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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