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Crisis? No, it's an opportunity

Many boards are ill-prepared for upheavals in their business, but disruption can often lead to healthy change, writes **Carly Chynoweth**

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Stephen Hester, chief executive of RSA Insurance, believes directors are often reluctant to admit that a corporate crisis is developing

Many boards are not equipped to deal with big disruptions to their businesses, and conventional governance is not "fit for purpose" in such situations, according to new research.

Things that can get in the way of effective board performance in a crisis include a powerful and successful chief executive or a weak chairman — either of which can make it difficult for non-executive directors (Neds) to draw attention to problems at an early stage. There may also be market pressure to take the company in a direction that ignores the real problem, write the authors of Boards in Challenging Times: Extraordinary Disruptions, by Henley Business School and Alvarez & Marsal, the professional services firm.

In a crisis, the first step for boards is to be as "clearheaded as possible" about what the issues actually are, said Stephen Hester, chief executive of RSA Insurance and a member of the report's steering committee: "In many cases of corporate crisis there's an initial process of denial, in part because the people who have been associated with the weaknesses don't like confronting the fact that there are weaknesses. Clearly the quicker you get through the denial and the clearer-headed you are about exactly what's wrong, the easier it is to start fixing things."

The underlying problems nearly always go beyond the direct cause, he added. "There's a proximate cause of a crisis, but normally beneath that are a bunch of other weaknesses uncovered by the crisis." Identifying them requires clarity of analysis, followed by an equally clear vision of what the company could be when the crisis is fixed—and how to get there.

It is also critical that boards get to that understanding as fast as possible, said Malcolm McKenzie, managing director of Alvarez & Marsal. "Many boards are too slow to recognise disruption and what is happening to them," he said. "What enables [prompt recognition] is the right sort of culture, so that a Ned who thinks something is not right can push the issue and say 'this is not a blip, this is something we need to face up to'." And it very often is a Ned who notices imminent disruption, he added, as it can be more difficult for executive directors to see what is happening because of their closeness to the organisation.

But when Neds do not feel able to raise such issues, or to continue to push them if there is initial resistance, the disruption can be swept under the carpet." One Ned said to me, 'I asked the question twice and then stopped because people looked at me like I was a fool'. But Neds have to keep asking. That takes a particular type of disciplined individual."

The biggest challenge for boards in creating and then implementing a recovery plan is making sure that the people diagnosing the problem are capable of doing so, said Hester. They need to be able to look at the issue and come up with the right solutions, and can't be conflicted from doing that as a result of their past role in the problem.

Boards, and chairmen in particular, cannot afford to feel sentimental about getting rid of the chief executive if he or she is not the right person for the new circumstances, said McKenzie.

"If the [incumbent] does not have the right attributes, you have to deal with it, not duck it. It is down to the board to recognise that the chief executive was good for a season, but the season has changed. You have to be ruthless and you have to get on with it."

This is one of the reasons why the person leading the board during the recovery may not be the chief executive. "During the most extreme, unplanned and unpredictable situations, it is the chairman who often tends to take the lead," according to the report.

Chairmen undoubtedly need to be prepared to take a more proactive approach overall when dealing with disruption, said Sir Peter Gershon, chairman of Tate & Lyle and National Grid.

This can include making decisions based on limited data. Also, showing investors "that the board is getting a grip on the situation" is an important part of dealing with disruption.

"The chairman has to give more overt leadership than might be required in a business-as-usual scenario," he said. "And he has to lead the board towards a conclusion in a situation where the information is probably imperfect." But does a chairman taking a hands-on approach run into conflict with the UK's Corporate Governance Code, which states that there should be "a clear division of responsibilities at the head of the company—a division between the running of the board and the executive responsibility for the running of the company's business"?

Yes, argues the report. "These provisions may work during periods of stability [but] we find strong evidence that, during extraordinary disruptions, boards often do not play to their roles but rather to their skills and capabilities. Role boundaries change as required by circumstances. Hence, the prescriptive nature of these provisions does not equip boards to quickly and effectively respond to unplanned situations."

Hester, however, does not think the code needs to change. "I don't think there's any code issue,"he said. "I've ever experienced a controversy over this, in fact the opposite. I think shareholders fully expect chairmen to step into the breach."

One final piece of advice from McKenzie: do not waste a crisis. "You can make very quick changes in a crisis," he said. "People recognise that you need to, so make sure that you take the bold steps needed to change your business model, your leadership, your cost base — don't just do incremental change.

"No one wants a crisis but when you are in one, use it to make the fundamental changes you need. Don't waste the opportunity."

Four types of 'extraordinary disruption'

■ **Transformational.** These disruptions are planned and internal. An example would be a company turnaround.

■ **Reputational.** These disruptions are unplanned and internal. Examples include fraud cases, misconduct, management conflict and product safety problems.

■ **Hostile.** These disruptions come from an external source. Examples include cyberattacks, activist investors and hostile bids.

■ **Creative.** In this case the organisation itself is the disruptor. For instance, when start-ups disrupt established players.

Large disruptions can move from one category to another. Each type of disruption will require a different style of leadership.

Source: Boards in Challenging Times: Extraordinary Disruptions

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