



TenStep Supplemental Paper

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Damage Control

CEOs mending ways...

The deluge of recent corporate scandals has rocked the entire corporate fraternity, leaving many victimized. The damage seems irreversible, since many people today now view CEOs as dishonest and unfaithful. The disillusionment has taken its toll, making the task of damage control daunting. Nevertheless, hope survives and CEOs must do all they can to restore the confidence and trust that they have lost.

One CEO draws a different inference from the negative attitude demonstrated towards CEOs - he suspects that the sudden antagonism towards corporate leadership shows that the scandals only served as an outlet for the public to vent the prevailing negative attitude. He therefore believes that the root cause of the problem is deeply grounded. The solution too is thus multi-faceted and complex. An ideal solution however would be to overhaul the leadership style, redefine board composition and ease out performance pressures on CEOs. In addition, emphasis on teambuilding and the CEO performance-compensation connection would play a critical role in sobering the traditional autocratic method of governing.

Issues of concern

A study of developed economies suggests that America is one of the most sensitive economies in terms of CEO performance. In its competitive markets, for instance, CEOs are compelled to hunt for short-term gains. Stock fluctuates at an uncontrollable rate. This is a vicious cycle! Poor CEO performance results in rampant stock fluctuations, which in turn affects the economy. If the problem is not contained in the early stages, it multiplies and has a snowball effect.

Economies in Western Europe, on the contrary, are more predictable and less dependent on corporate leadership. They have low stakes, with lowered CEO compensation and stock participation. In addition, the board composition is such that it demands the appointment of a trade union member or government employee. This serves as a control measure and prevents weak boards from making unwise decisions. Corporate history has lived through several embarrassments due to decisions based on the whims of CEOs without the board's involvement. Board composition is therefore a critical component of the corporate decision-making process.

Organizations that have been solely relying on CEOs for decision-making have a much lesser rate of success compared to organizations that have a strong and independent board capable of making profitable decisions. However,

- How does one ensure board involvement?
- What should organizations do to educate the board about the grass-root realities?

Organizations must essentially help their members gain a better insight into the organizational culture, and it's working. For instance, Company X mandates its board



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members to spend some time with the employees and management at least twice a year. In addition, it has also restricted the number of boards its directors can sign on. According to the company rules, no board member can serve on more than two boards as a CEO and four as a non-CEO.

Company Y also follows a strict regime for its board members. The board members visit their company's retail outlets and attend board meetings at the distribution centers. These regular visits to the retail outlets helps the members better comprehend the shop floor requirements and problems. Such visits help build a good rapport between the board, management and employees. *"A board can be a better board, if they understand what's going on in the business"*.

CEOs play a critical role in influencing and motivating the board to get involved in the working of the organization. CEOs should also shun all their apprehensions and maintain a transparent relationship with the board, since transparency breeds trust and trust breeds confidence. An organization that exhibits internal cohesion, transparency and trust earns credibility from customers, employees, competitors and stakeholders. Only an internally strong organization can be just and make fair decisions. An effective decision-making process breeds teamwork, honesty and motivation.

In addition to the above factors, teambuilding and emotional intelligence play a critical role in enhancing the involvement of the board. Teambuilding brings a sense of shared accountability among employees and the management while an emotionally intelligent workplace motivates employees and makes them feel belonged. A few CEOs also believe that integrating business goals with a social cause helps in uniting the organization and nurturing a sense of ownership.

Organizations are beginning to realize that employees, customers and stakeholders are looking for something beyond moneymaking. A social cause satiates their philanthropic desires. Some CEOs however think differently. They believe that indulging in non-business objectives is being superfluous and does not really serve any purpose. According to this clan of CEOs, a thorough knowledge of business and the work culture is enough for the board, employees and management to comprehend the business goals and not fall prey to short-term gains.

These confidence-building measures pave the way for damage control; however, the task is not as easy as it seems. CEOs therefore need to restructure their working and leadership style, which undoubtedly would be time consuming but an exercise worth indulging in.