Survival of the Fittest

Why resilience is an essential part of governance

Introduction

Organisations have survived change on a massive scale by working differently. But to remain sustainable they also need to learn how to think differently.

Considering governance from a new perspective enables organisations to build long-term resilience. By challenging long-held assumptions, leaders can overcome obstacles and create lasting value.

In this report, we explore how taking a resilient approach to governance helps organisations adapt and thrive.

The changing face of resilience

A few years ago, resilience was an ephemeral concept. There was a growing view that it was important, but a range of opinions about what it involved. For some people, it was about personal endurance, while for others it centred on disaster recovery.

The COVID-19 pandemic brought resilience out of self-improvement books and management jargon into the real world.

Resilience shifted from conceptual to personal. It became part of everyday life.

Boards had to make decisions that affected not only their organisation's ability to survive, but also people's livelihood and the community's safety.

Resilience is the new normal

Governance is important. It's so important that organisations go out of their way to make sure nothing goes wrong. The trouble is that's part of the problem.

A 'comply or fail' mindset means the potential value of good governance can go untapped. Worse, it also increases the odds of failure.

It can cultivate a box-checking approach: governance becomes a series of actions that are either right or wrong, done or incomplete. The growing scope of governance leads to more boxes and greater complexity. When something happens outside the box, people aren't equipped to address it.

Resilience gives organisations the ability to meet challenges head-on and learn from them to become better than before.

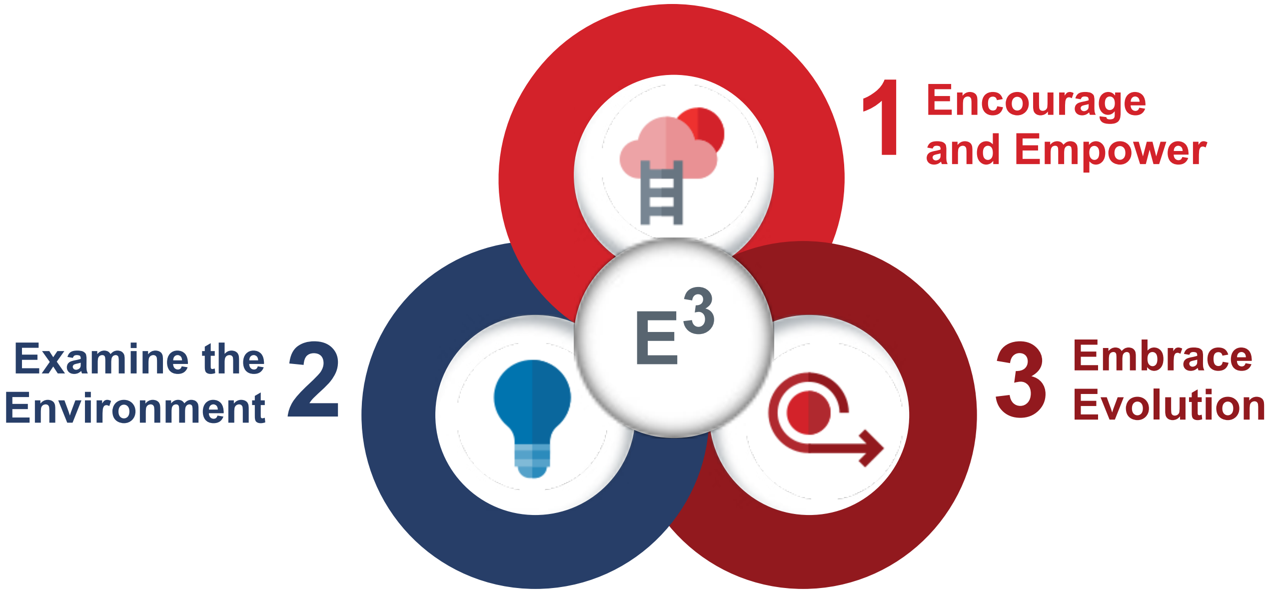
> "Resilient governance is when you not only accept the unknown, but you lean into uncertainty and take action on what you can control."
>
> **Dottie Schindlinger**
> Vice President, Diligent Institute

> "Governance that initially meets contemporary expectations eventually becomes sub-standard, because the stakes get raised every year."
>
> **Leah Fricke**
> Non-Executive Director

> "Being resilient involves adopting a smarter, more agile approach rather than fighting to maintain conventions that no longer serve you."
>
> **Katie King**
> Managing Director, 7th Wave

Building resilient governance with Diligent's E³ model

Our approach provides a platform for organisations to take practical steps towards more resilient governance based on the following model:



Encourage and Empower	Examine the Environment	Embrace Evolution
Lead to support a growth mindset	Supply resources that people need	Practice continuous improvement



The next sections of this report explore each part of the E3 model in more detail.

We identify some of the obstacles that organisations face, outline the rationale for a different perspective, and share suggestions for how to build more resilient governance.

Encourage and Empower: Lead to develop a growth mindset

When the stakes are high, the appetite for risk diminishes. Governance weaknesses can impact an organisation's reputation and its value, with serious consequences for directors and executives. But putting the heat on people can make them burn out instead of firing them up.

Doubt sets in, making mistakes more likely. Engagement is undermined, innovation is stifled, and short-term thinking takes hold. Strong relationships are an essential part of resilience. They provide trust and support that helps people bounce back from adversity. Setting the benchmark for constructive behaviour in the boardroom strengthens the organisation.

Barriers in the boardroom

The burden of proof

The widest divide in an organisation can be at its highest levels, between the board and the senior management team.

Executives who are used to being in the driver's seat become passengers on the board's journey. This loss of control can make the board meetings an uncomfortable experience.

When approval is on the line, weeks of work seem to come down to a single 'yes' or 'no' answer. Questions are seen as a test, or even a trap to expose flaws in management's argument. Whether it's a light grilling or a full-blown inquisition, the process feels more adversarial than collaborative.

It sets up situations where people's need to prove themselves comes at a cost to the group:

- The executive who views board approval as a win or lose outcome.
- The CEO who doesn't want to raise a problem until after they've solved it.
- The director who holds back from asking a question in case they appear uninformed.

Instead of collaboration and transparency, the result is defensiveness and avoidance. It fuels a vicious cycle that erodes trust and undermines performance.

Suspending judgement

Breaking the cycle positions directors to share advice and insights that contribute value.

It creates an environment where difficult conversations underpin improvement, not judgement.

The first step is to replace an adversarial atmosphere with one of greater understanding.

- **Find common ground**

  Challenging management's assumptions is not the board's only role, or even its most important one.

  The common goal to achieve the best outcomes for the organisation is a powerful unifying force for directors and executives.

  The energy that's wasted by engaging as opponents is far better spent on overcoming the organisation's challenges as a team.

- **Practise empathy**

  There is growing awareness that hearing from a wide range of voices, not only management, is important for boards.

However, directors also need to put themselves in the shoes of those other people to make a genuine impact.

Empathy has become a key capability for directors, says Dottie Schindlinger, Vice President of the Diligent Institute.

"Directors have been saying they've had to tap into their empathy more now than in their entire career," she said.

"It's been the number one skill set directors found themselves using this year, but how much have we appointed them for their empathy in the past?"

- **Open the dialogue**

  The single biggest change that shifts board meetings from a decision-making session to a discussion forum is starting conversations earlier.

  When a fully-fledged proposal is the first time that directors hear about an idea, it limits their ability to contribute.

  Raising potential plans with the board along the way encourages meaningful input. Management gains from their insight without being delayed by last-minute feedback. This smooths the path when they seek approval later.

- **Do the work outside the boardroom**

  It's hard to build relationships in just a few minutes once a month.

  Typically, only the CEO and perhaps a handful of the executive team attend the full board meeting. Others join for the items that relate to their area and, if they're lucky, the organisation as a whole.

  Having regular conversations outside the board cycle strengthens the connection. They help uncover what makes the other person tick, how they solve problems, and what they want to know more about.

  It taps into senior leaders' wealth of experience, supporting better engagement and more meaningful discussions.

Cultivate curiosity

The best leaders are always striving to learn more. Satisfying that need is the key to unlocking more productive relationships between directors and executives.

Company secretaries play a crucial role in shaping the information boards receive. Traditionally, addressing directors' questions before they are asked has been an important part of anticipating their needs.

Diligent's Dottie Schindlinger believes it's time to reverse the equation. "Let the board tell you what intrigues them, because they bring in that fresh perspective that you need to serve as a bulwark against risk." She says asking questions is a central part of the board's role and is the catalyst for discussions that add value.

Instead of answering all the board's questions, company secretaries should give them the information to ask more insightful questions.

How to bring questions into the light

- **Elevate the focus**

  Dashboard reporting provides a key starting point for discussions. It highlights key metrics, positioning directors to explore different perspectives.

- **Widen the angle**

  Considering a range of options supports discussion rather than pushing the board towards a binary decision.

- **Make suggestions**

  Move from answering directors' questions to actively supporting them. Seek their views on specific issues as part of the board report.

Creating alignment

Before leaping into a brave new world of board engagement, it pays to be prepared.

Moving from passive providers of information to a more active role sparking discussion can involve major change for directors and executives. For company secretaries, the shift in approach challenges long-standing beliefs.

- Discussing plans in advance is important to treat everyone with respect and maintain trust. Keep the lines of communication between the chair, CEO and company secretary open.
- Establishing a link to existing goals and values can help garner buy-in. Actions arising from the board performance review can offer a starting point.
- Making the change part of a gradual process to develop the dynamic between directors and management avoids sudden surprises that can create resistance.

Accept the inevitable

What makes the difference when people are under sustained pressure?

Dottie Schindlinger has spoken with hundreds of directors, executives and company secretaries in her role as Vice President of the Diligent Institute.

She observes that whether people thrived under pressure or burned out was heavily influenced by their point of view.

“The people who have experienced the most stress during the past year were largely those who took the view that they just had to get through it and then everything would go back to normal.

“Whereas the ones who flourished chose not to struggle against their present reality. They didn’t want to go back to normal, because in some ways, normal was pretty flawed.

“Those people went forward and took the opportunity to create something new and better, rather than reverting to old habits.”

Examine the Environment: Supply the resources that people need

Viewing compliance as the central element of governance is like viewing month-end reporting as the central element of accounting. While both are necessary, neither are sufficient to meet the organisation's broader needs.

However, many organisations only provide the resources for the 'month-end reporting' level of governance, then question why they're not seeing the benefits. Resilient governance requires a combination of people, processes and systems all working together to achieve shared goals.

Connect people with information

We wouldn't expect a manager to run their department without regular information to monitor its performance.

But company secretaries frequently face an uphill battle to get the information they need.

They play a pivotal role in making sure boards receive the information required to make wise decisions. Constantly chasing people for updates takes time and makes it hard to keep on the front foot.

Having the right structures helps organisations get the best from their company secretary.

- **Support key relationships**

  Company secretaries' most important relationships are with the CEO and the chair.

  These relationships are more challenging with other levels of management in between. Informal 'dotted line' connections help, but they can only go so far.

- **Include them in the top team**

  Reporting directly to the CEO positions company secretaries as trusted advisers and signals the importance of corporate governance at the organisation.

  As part of an executive team, company secretaries are connected to information at its source. It supports an organisation-wide approach to governance and more proactive forward planning.

- **Have processes to escalate information**

  The time it takes for news of a significant incident to reach senior leaders should be measured in minutes, not hours. Organisations must define what needs to be communicated and establish a clear process for when and how it should occur. It is even more critical for organisations with continuous disclosure obligations.

Identify what matters most

The tight budgets and small teams of many company secretaries mean they often can't afford to invest in process upgrades. Meanwhile, the rising importance of corporate governance means they can't afford not to.

- **Focus on significant risks**

  The answer is to adopt a risk-weighted approach to prioritise where to allocate time and resources for the greatest impact. Evaluating the significant risks and untapped opportunities to add value helps develop the business case to invest in change.

- **Review governance from the ground up**

  Pressure on governance budgets can result when historical costs anchor expectations. Making a step-change can involve starting afresh. That's often the time when organisations engage expensive consultants to conduct an external review. However, the answers may be obvious. Drawing on internal expertise can deliver a dramatic difference for a small fraction of the cost.

Make time to make change

Company secretaries have deep practical knowledge, combined with unique insight across the business.

They are in the prime position to promote greater governance maturity if they can just find the time.

Leah Fricke, an experienced non-executive director, is the convenor of Governance Institute of Australia's listed company secretaries discussion group and appreciates the challenge.

"Even the best governance professionals have areas they'd like to tweak, polish and improve," says Fricke, who sits on the boards of non-bank lender Columbus Capital and Forager Funds Management, and chairs the audit and risk management committee of the Western NSW Local Health District.

"However, they face voluminous distractions in their everyday roles."

While they may be the leaders of the smallest function in the organisation, company secretaries can make a powerful impact.

- Give company secretaries a mandate for change with visible support from the CEO and the chair.
- Reduce the churn from compliance and meetings by investing in tools that enable company secretaries to focus on improvement initiatives.
- Include governance in key cross-functional working groups and projects.

Use systems to drive efficiency

System-based controls are more effective than manual alternatives, reducing the risk of human error.

They also support monitoring and control in small teams, helping detect errors when there isn't a fresh pair of eyes.

These fundamental risk management principles are familiar across the business landscape. However, their application in corporate governance can leave much to be desired.

Numerous company secretaries rely on Excel spreadsheets, manual checklists and overloaded network drives.

Katie King, Managing Director of governance and communications firm, 7th Wave, says implementing a more systematic approach helps company secretaries balance attention to detail with more strategic considerations.

"Having confidence in the processes around them enables company secretaries to elevate their focus. They can provide proactive advice to the business without fear of missing core compliance responsibilities."

It's one of multiple benefits:

- **Improved compliance**

  The number and significance of issues are reduced through inbuilt system controls.

  Security and backup settings protect data integrity and protect against loss or unauthorised access.

  Documented audit trails also make it easier to satisfy compliance requirements.

- **Greater visibility**

  Connecting information from across the organisation is a key aspect of a strong governance framework.

  Integrated systems provide real-time insights that help company secretaries monitor trends and rapidly identify issues before they escalate.

- **Ongoing time savings**

  Streamlined processes enable company secretaries to save time completing and reviewing work.

  It also uses resources more efficiently, supporting greater delegation and more timely responses to requests.

- **Build trust and reputation**

  It's hard for company secretaries to be ambassadors for governance best practice unless they practise what they preach.

  Strong systems boost compliance and efficiency, promoting confidence by the board and other executives.

Embrace Evolution: Practice continuous improvement

Getting governance 'right' isn't easy. Once organisations find what works, they tend to stick with it. After all, if it's not broken, why fix it? Meanwhile, the accelerating pace of change means they're falling further behind by standing still.

Much like culture, governance isn't a static destination but a dynamic part of how people behave every day. Ongoing review and improvement are an essential part of developing a resilient governance framework.

Define the baseline

Everybody makes mistakes, but every job has some areas where it's not OK to make a mistake.

Examining some of the most high-profile governance crises in Australia and New Zealand, it quickly becomes apparent that they aren't the result of one isolated error.

"It's not about a single moment," says Leah Fricke. "It's the consequences of a whole series of things not being rigorous enough."

Effective governance doesn't mean mistakes never happen. It means having measures in place to detect them quickly, address them before they result in harm, and reduce the risk of them reoccurring.

- Set a risk appetite that reflects significance and probability.
- Make it clear that compliance is a minimum expectation, not a goal.
- Guard against complacency by encouraging people to ask questions.
- Design controls to mitigate increased risks when people are under pressure.

Lean into uncertainty

In a dynamic environment, the trade-off between timeliness and accuracy comes under sharp focus. Organisations can't afford to wait for complete certainty before acting because it simply isn't possible – if it ever was.

"We found the companies that were resilient during the past year were typically much more comfortable not having a solid answer on every question," says Dottie Schindlinger.

She says organisations should analyse the probabilities associated with a range of alternatives to help them make choices that are likely to best fit the circumstances.

Tackle fear of failure

Risk and opportunity are two sides of the same coin, and fear of failure can exact a high price.

A large majority of directors agree there is a risk-averse decision-making culture on Australian boards according to the AICD's latest Director Sentiment Index, with 73% of respondents saying this was the case.

Adopting an iterative approach is one way for boards to overcome this challenge:

- Moving gradually make it easier to adjust course when circumstances change. It avoids sudden U-turns that can undermine trust and derail purpose.
- Multiple check-in points mean setbacks can be identified and corrected quicker. This reduces the potential for sunk costs to adversely influence decision-making.
- Taking small steps allows everyone to keep up. Ongoing action maintains momentum.

Keep it simple

Unnecessary complexity undermines effectiveness in a range of ways, sometimes with serious consequences for governance.

Benefits of being straightforward

- Clear messages are easier for people to understand and remember.
- User-friendly processes encourage compliance, not work-arounds.
- Supports employee engagement and wellbeing.

Tips to simplify governance

- Identify the pain points – they are signposts to opportunities for improvement.
- Allow space for further change. If processes are already at their limit, it leaves nowhere to go.

Be proactive about board composition

The most impactful thing a board can do is make sure it has the right people around the table, says Leah Fricke.

"High-performing boards have a deep understanding of how they impact an organisation and the skill sets they need to meet its needs." It requires a systematic approach to completing the board skills matrix:

- **Evaluate skills objectively**

  Determine the appropriate measures to apply when evaluating different skills.

  Consistency matters. Few people would claim to have legal expertise unless they had relevant qualifications and worked as a practising lawyer. The benchmark for other skills is often far lower, including governance.

  Experience as a director is valuable, but it doesn't automatically equate to being a governance specialist.

- **Use multiple levels of competence**

  Reviewing directors against the skills matrix is more subtle than a simple 'yes' or 'no' answer. Using a five-point scale, for example, enables organisations to capture a range of different skill levels.

  This may also help identify opportunities for further training as part of the board development program.

- **Don't equate experience with capability**

  Skills need to be both relevant and recent. A long duration in a specific role is no guarantee of either, unless it's also accompanied by action to stay up to date.

  Setting pre-determined years of experience can be a barrier to top talent. It risks closing the door to those who have ascended rapidly, or who have followed an unconventional path. This presents greater obstacles for people from diverse backgrounds.

- **Look in the mirror**

  Self-awareness is crucial for improvement. After all, nobody wants to change what's already perfect. Senior leaders may believe their success shows what they're doing works.

  Considering the alternative – that it may be as much despite their approach as because of it – can be confronting.

- **Be realistic**

  Examining board composition means putting ego aside and pushing through discomfort.

  Depending on the number and mix of skills to be amplified, it may not be practical to identify a single candidate who meets all those needs.

  This can involve tough decisions that bring forward the timing of change on the board.

> "Diversity now is no longer a nice to have, it is a must. It is an absolutely critical component of business resilience."
>
> **Dottie Schindlinger**
> Vice President, Diligent Institute

Get serious about diversity

When a population is homogeneous, it becomes more vulnerable. A risk to one can be a risk to all, because of the inherent lack of difference.

It's not only true in the natural world.

Research has repeatedly found that diverse teams perform better. Their varied perspectives support more effective problem solving, greater innovation, and more rational decision-making.

Schindlinger says it's the ability to think broadly that makes diversity so important:

"We need a blend of women and men and other genders, people of different races and ethnicity groups, different countries, different industries, different areas of expertise, who all come together, not with the purpose to agree, but to share the way they see the same problem differently. And that allows companies to have a much more nuanced understanding of the full scope of the challenge they are facing."

Diversity needs to go hand in hand with inclusion to make a genuine impact. It's not enough to give people a seat at the table without making them part of the conversation.

How Diligent helps you thrive

Encourage and Empower

Enhance collaboration with Diligent's range of digital solutions

- Work better together beyond the boardroom using tools that support engagement without compromising security.
- Give senior leaders the insights they need to ask questions that drive productive discussion and wise decisions.
- Share updates between meetings as part of an ongoing dialogue among directors and executives.

Examine the Environment

Equip your team for excellence with Diligent's practical resources

- Connect people from across the organisation with information for greater visibility and efficiency.
- Streamline processes so company secretaries can focus on strategic issues and contributing value.
- Measure and monitor ongoing compliance and reduce risk with robust inbuilt system controls and real-time analysis.

Embrace Evolution

Develop greater agility to keep pace with change using Diligent's modern platform.

- Manage uncertainty with the information you need at your fingertips anytime, anywhere.
- Keep it simple with intuitive solutions that make it easy to stay up to date and are continually being enhanced as part of Diligent's investment in development.
- Help your board be fit for the future with tools to review its performance, composition, and identify diverse candidates to complement its mix of skills.

Diligent

a MODERN GOVERNANCE company

About Diligent

Diligent is the largest provider of governance, risk and compliance software as a service. We serve more than one million users from over 25,000 organisations around the globe.

Our integrated platform gives boards, executives and governance professionals a holistic view of critical information across their organisation.

Diligent brings technology, insights and confidence to senior leaders so they can build more effective, equitable and successful organisations. We empower 83% of the ASX 200, 90% of the FTSE 100 and 79% of the Fortune 500 to improve their bottom line, keep pace with stakeholder expectations and create lasting, positive impact on the world.

Trusted by over 1,000,000 leaders and 25,000 organisations across the globe

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Highest security standards

- 256-bit encryption
- Remote locking
- Two-factor authentication

Industry-leading support

- 24/7/365 support
- Award-winning service
- Unlimited user training

Compliance Attestations

- ASAE 18 audits
- ISO-certified
- Third-party security testing

Explore our solutions at diligent.com/au or contact us to find out how we can help you develop more resilient governance.