GOVERNANCE

July 2020 Issue 311

Disciplined experimentation

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David Lewis

Governance in China

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Lyndsey Zhang

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Disciplined experimentation

David Lewis considers why businesses need both emotional and strategic resilience as they tackle the challenges of the Covid-19 crisis?

In conversations with senior executives and board members, grappling with the challenges of the pandemic, what is striking is the extent to which people are experimenting with new ways of working, developing new products and services and thinking and planning in a very different way. It is amazing how quickly some have moved from laying down the recovery anchors – safeguarding cash, looking after key stakeholders – to exploring the opportunities presented by the disruption.

Ideas that previously would've taken months, if not years to work their way through the internal bureaucracy, are being put into prototypes, minimal viable products, in a matter of weeks. It seems that the challenge presented by Covid-19, has confronted us with what is in fact an ever present need, even in so called normal times, and that is to experiment, if our business plans are to be resilient in the long term.

The conventional approach to business planning is based on variance analysis – an extrapolation of what has gone before, with a variance of plus or minus a small percentage. Little more than a prediction, an educated guess and sometimes simply wishful thinking about what will happen in the future. In benign times, such an approach may well deliver the result that we are looking for.

Unfortunately, there are two problems with this approach. First, the effort to avoid underachievement also negates the possibility of overachievement, and secondly, we do not live in benign times. The KPIs, cost control measures and investment prioritisation processes that we put in place to support our business plans, are designed to do everything possible to ensure performance remains within the predicted boundaries. But what if, as well as the threats, there are opportunities out there that meant the upside could be 30%, or 50%, or more?

Even though many of us have long since realised the shortcomings of the variance analysis approach, the associated assumptions, processes and behaviour continue to dominate management and leadership practice. In our attempts to maintain performance, when faced with threat, we instinctively cut costs, delay investment, work harder and increase controls. When faced with a great opportunity, that means we're going to have to change the way we work, the way we organise, and more, we become cautious and risk averse – 'if it aint broke, don't fix it'.

What the pandemic has brought to life, is the necessity to look again at what we do and why we do it, to question what we could do differently, how we can create more value and reduce costs. Most organisations only begin to fundamentally challenge assumptions or conventions when they are in dire straits, when they have peaked, when market share and margins are declining. The point at which they see a threat so large that without fundamental change their very existence is in question is too late.

The point at which we should question what we are doing, is all the time. When we're starting out, when we're scaling up, when our market share and profits are increasing and when they are declining. To question does not mean that what we're currently doing is wrong, but it does mean that if there's a better way, we stand a chance of discovering it before it's too late. The corporate graveyard is full of those organisations that waited until the ship was sinking before they asked the question, what could we do differently?

So if you want to build resilience into your business planning you should regularly question what you're doing and how you are doing it. But how?

> 'The vast majority of organisations in our study were dominated by behaviours that undermine experimentation and resilience.'

You can't question everything, and if you do question something, how do you know that a different answer will give you a better result? Karl Popper, the Austrian-British philosopher argued that you can never prove anything, you can only, through practice, find out whether what you believe, and consequently what you are doing, still works better than any alternative. Popper was a proponent of critical rationalism – learning through trial and error – experimentation. 'All life is problem-solving', as he put it. He confronts us with the reality that in our fast changing world, there are so many assumptions that need to be made, assumptions about existing knowledge and conditions, that sooner or later, the complexity, uncertainty and volatility we face means our assumptions will turn out to be false. If we apply this thinking to business planning we realise that the variance analysis approach falls short. It is closer to theorising – making assumptions and following hunches – than experimenting.

Resilient business planning is not a process of theorising it's a process of experimenting. The resilient organisation is not the one with the best business plan, but the one with the best ability to constantly generate and test ideas and adjust the plan accordingly – to learn continuously.

Feature

Again the corporate graveyard is a good indicator of how many organisations struggle to learn. To understand why they struggle, we need to understand what happens to organisations as they evolve and become successful.

Most organisations start small with a handful of like-minded people – people who join together with a shared sense of purpose and great enthusiasm to do something wonderful. Those endeavours that are successful take on more people, they set up specialist functions and departments – departments for marketing, sales, engineering, manufacturing, IT, HR, finance – and as the organisation grows each function in turn gets bigger.

> ‘Resilient business planning is not a process of theorising it’s a process of experimenting.’

Naturally, in order to coordinate and align activity across large numbers of people, with different specialisms, formal processes and job descriptions are needed, hierarchical structures emerge and decision authority matrices are created to make it clear who can decide on what. All this is put in place with the positive intention of securing continued growth and success. And it works, up to a point.

But as the rulebook expands, and procedures and processes become more complex, and management layers increase, things start to change. What was once a group of people ‘in it together’ rolling up their sleeves, doing what it takes to get the job done, flexing their approach, making best use of limited resources, encouraging each other, learning through experimenting, becomes a complex and rigid set of interconnected silos. Where once good ideas were shared, tested and put into practice with speed, it now takes several months and a 50-page report, before an idea is even considered. Just recently, I remember sharing in the frustration of a participant on one of our programmes. For two years he had been trying to get permission to do a small experiment to enhance customer experience, only to be thwarted by the bureaucracy of the internal approval procedures.

We see the impact of bureaucracy and siloed behaviour in a study we’ve been conducting with 2000 individuals from more than 100 organisations. Eighty-five per cent of people report that the dominant behaviours in their environment are hierarchical, controlling, directive, cautious, resistant and conforming; they describe the dominant emotions as feelings of fatigue, defensiveness and constraint. Only 15% report working in an environment dominated by flexible, encouraging, curious and resourceful behaviours and feelings of empowerment, appreciation and optimism. The 15% describe their organisational capability as dynamic; the 85% describe their organisation as bureaucratic.

If we want people to learn, to share their learning and be open to change, to create an organisational learning capability – a dynamic organisation – we cannot expect them to do so if we interact with them in a hierarchical and controlling manner, surrounding them with bureaucratic red tape. We need to invest in the way we interact. We need to be curious, to encourage others, to be flexible, to be resourceful, if we are to develop our organisational learning capability, our ability to experiment and learn – to be resilient.

Resilient business planning and execution depends on regular questioning about what we do and how we do it. It depends on experimentation and collaboration between people who bring new and different perspectives to the questions asked. Experimentation is not random improvisation. It’s a disciplined approach to testing hypotheses within defined risks, in line with strategic goals, to discover better ways of doing things. It is to see if there is 30%, 50% or more potential to grow the business, as well as to protect ourselves from potential significant threats.

Behaviour counts when it comes to organisational resilience. It is not that there is no need for control, or to set direction, or that hierarchy should be eliminated – it cannot be. But it is the case that if the dominant behaviours are not those that encourage and support disciplined experimentation, then sooner or later a once winning business formula becomes a hiding to nothing. The vast majority of organisations in our study were dominated by behaviours that undermine experimentation and resilience.

Human beings are resilient, they seek to flourish. Aristotle described human flourishing as the drive to find purpose, to do the right thing, to grow our talents and exercise our agency. Organisations too often are not resilient, but those organisations that find a way to channel human flourishing through disciplined experimentation, can be.

David Lewis is Programme Director for Executive Education at London Business School and co-author of ‘What Philosophy Can Teach You About Being a Better Leader’, published by Kogan Page, priced £14.99. https://bit.ly/3ho3Clo

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has lagged far behind. With limited regulatory guidance and restrictions, Chinese companies are experimenting with innovative governance models. Some of these creative models have slowly gained recognition from the global business community, with leading companies like Lenovo, Alibaba and Tencent demonstrating their advantages and reaping steady success. However, basic board functions, professionalism and ethical duties are fundamental and universal. Chinese companies can improve their corporate governance by maintaining high standards in each of these areas.

Financial fraud is not just the result of individual misconduct or negligence; it has systemic roots. It needs fertile soil to develop, and that soil is the culture in which companies are governed. Instances of fraud expose the flaws in a company's governance model and ethical commitments. Both Luckin and TAL's stories should be a serious wake-up call for Chinese companies to refine their governance structure so they, and those they serve, can experience the success that comes with more effective board governance.

Lyndsey Zhang is a senior adviser and consultant who advocates sound corporate governance for company boards around the world. Her background as a CFO and VP of Strategy for Chinese companies operating in the US and Europe, and US companies operating in China and Europe, positions her to understand the challenges and opportunities of both Western and emerging markets. Lyndsey leads in comprehensive culture transformation, governance optimisation and strategic integration engagement for companies with cross-cultural connections. Lyndsey is an accomplished speaker and writer on international corporate governance. Lyndsey.zhang@lynra-synergy.com www.linkedin.com/in/lyndsey-zhang

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Designed and printed by WithPrint
Riverside Studio, Gills Lane, Rooksbridge, Somerset, BS26 2TY
www.with-print.co.uk

ISSN 1358-5142

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