FEIAP General Assembly Gala Dinner Oration, 7 July 2016

Looking back over the years

1. Introduction

In addressing the topic “The Importance of Culture in the Boardroom”, I will share with you my experiences and learnings regarding leadership and culture in various organisations I have been involved with, firstly as a CEO and more recently as a company Chairman. I will focus on what I see as vital to good leadership and the critical importance of culture in an organisation and, to state the obvious, that leadership and culture are linked, the old saying “a fish rots from the head down”.
It is also critical that the culture in the boardroom reflects the culture of the company and the link is seamless. If not, you create an environment of “them and us” between board and management.

For a company to succeed there has to be clearly defined strategies i.e. what you are going to do and company culture that enables you to deliver on those strategies.

Good leadership really matters and there is a lot of debate on the topic of remuneration. I would rather try and explain high salaries and good results than the opposite.

However sound the strategy, commodity prices and exchange rates, over which you have little control, can make you look very good or very bad. Equally, external factors such as the South East Asia financial crisis in the late 90’s and the more recent GFC can also destroy or derail a sound strategy.

What is in management’s control is the implementation of the strategy and many failures have not been because the strategy was not sound, it failed in the implementation. This is where culture is critical. This determines how we do our daily work and how we interact with each other. It determines whether you have an open and transparent environment where news, good and bad, moves swiftly and honestly right through the organisation. It determines whether people are assessed fairly not just on how they manage ‘up’but more importantly how they manage down in the organisation.

Once bad news is suppressed in an organisation the best strategy in the world has no chance of success.

From a board and governance point of view, despite all the extra burdens and compliance requirements, every now and then you get a stark reminder that our most important job as NEDs is the selection of the CEO, monitoring their performance and succession planning for seamless transition. Getting this wrong puts the company back years – unfortunately I had this experience in my early years as Chairman of Boral.

In my opinion, despite the public perception to the contrary, boards don't run companies – management do. The role of the board is to oversee, monitor and guide. However, the interface between board and management fluctuates over time depending on the wellbeing of the company. The role of the board, led by the Chairman, can vary from company to company and the two boards I chaired until recently are classic examples of that.

In the case of Wesfarmers, I was and remain an ardent admirer of the culture within the company and from day 1 as Chairman, 8 years ago, I stated my main objective as Chairman was to be "custodian of the culture".

From the listing of the company in 1984 the then CEO, Trevor Eastwood, decreed that for the former farmers' co-operative to succeed as a listed entity everyone had to be aligned and focussed on "delivering a satisfactory return to shareholders".
That is what the Wesfarmers brand has stood for for 30 plus years.

In the case of Boral, where I felt from the day I joined the board that there needed to be a change in culture, I regarded myself as "the champion of culture change".

At Boral they are now 3/4 years into a major culture change. My experience is that changing culture is at least a 5 year exercise.

So, as you can see, the role of the board and Chairman can vary depending on the circumstances of the company.

I believe the relationship between the Chairman and the CEO is critical to the success of the company. It has to be based on respect and total transparency and openness. The relationship is the conduit for information flow both ways between board and management.

2. Early career / early learnings

Before I get to my years as a company Chairman I will talk briefly about my early career and some learnings I took from those years.

Firstly to finish up as a CEO and now Chairman is quite surprising given that I did a PhD in metallurgy and was working in industrial R&D aged 25. So I went from a highly-trained specialist in a very narrow field and then became a generalist in line management and learnt through the school of hard knocks.

Most of my career has been in the steel and related minerals industry so I started my line management career from a position of technical strength.

I did have an aberration in my career when I worked for EMI Music for four years in senior management roles. This taught me some strong lessons. Firstly it made me realise that before then I had always managed from my technical strength and if there were problems I had strong and informed views.

Suddenly I was in an environment where I had no industry knowledge base and had to learn to rely on advice from others around me and more importantly try and choose whose advice I trusted and would follow.

It taught me new survival skills but convinced me that to be an outstanding leader in any field of endeavour you have to do your 'apprenticeship'.
As a generic manager moving from industry to industry you can be an 8 out of 10 but to be a 9 or 9½ you have to do the hard yards to know the industry i.e. your apprenticeship.

This is why even though I had a successful career with EMI I returned to the steel industry.

3. Wesfarmers

As you may recall I was running BHP Steel in the late 90's and instrumental in the demerger process that resulted in the separate listings of firstly OneSteel and then Bluescope Steel.

In many ways this experience was also responsible for my joining the Wesfarmers Board many years later after I had retired as a CEO.

Some years earlier Michael Chaney (then CEO) and Richard Goyder (then Finance Director) asked me if I would share with them what I had learnt from my OneSteel experience in so far as what I was able to achieve with OneSteel as a separate listed company rather than being part of the bigger BHP.

I responded to the question by spelling out what I saw as the necessary ingredients to achieve the same level of focus and performance within a conglomerate structure.

Firstly, you have to ensure that you have clearly defined strategic business units. In the process of demerging OneSteel from BHP Steel I realised that previously we had two strategic business units with the supply chains interwoven and confused – not enabling focus.

Then you need to set up each strategic business unit as if it was a separate listed company headed up by a world class CEO who is rewarded and made to feel and be held accountable as if they were a CEO of a separate listed company reporting to a board (albeit an internal management board).

You need to have a small head office that plays banker and also defines what I call loose and tight. Things that are tight must be adhered to strictly, whereas for loose there are degrees of freedom with the boundaries defined.

By the time I finished my response I noted that both Michael and Richard were smiling at me. When I asked why, they responded that I had just described the way Wesfarmers operates.

Many years later when I joined the board I saw firsthand that they were absolutely right. The head office sets the company-wide objective of providing satisfactory returns to shareholders supported by how this is to be achieved. As I moved around the organisation during my induction process as a Non-executive Director I found incredible alignment at all levels of the organisation. Wesfarmers has a great culture – developed and nurtured by a series of great CEO's, John Bennison, Trevor Eastwood, Michael Chaney and Richard Goyder.

As I said earlier, when I took on the role of Chairman of Wesfarmers I was asked several times what I saw as the essential part of my role. I had no hesitation in replying "custodian of the culture".

Having stated my ambition to be custodian of the culture, I would like to try to capture in words how I describe the culture. It is:

- based around commercial disciplines focused on delivering a satisfactory return to shareholders over the long term;

- underpinned by an operating style of integrity, honesty, openness, transparency and community involvement;
- without hubris (don't believe your own PR) – tell the Edna Every story; and

- to be prepared to be bold.

From time to time Wesfarmers undertakes large step out transactions that transform the organisation. In the last fifteen years this has included the acquisition of Howard Smith and nine years ago the Coles Group.

Clearly in my time as Chairman the acquisition and subsequent turnaround of the Coles Group was the most significant event.

I took over as Chairman on year after the acquisition in November 2008 at the height of the GFC.

It seems a long while ago but re-financing $10 billion of debt when the debt markets were frozen caused some white knuckle times.

It was at this time I witnessed great leadership from Richard Goyder. He stayed calm and totally committed in his belief that this would prove to be a value creating transaction for our shareholders and the last nine years have demonstrated this to be the case.

[Ad lib: tell the "sleeping like a baby" story.]

My ten years on the board of Wesfarmers, the last seven as Chairman were extremely rewarding and enjoyable. I can say without reservation the culture in the company is the best I have encountered in my entire career as an executive and Non-executive Director.

4. Boral

Turning to Boral my time on the board, and as Chairman, finished up being rewarding and enjoyable but fair to say the early years as Chairman were very challenging and demanding of my time.

Boral is a very different business to Wesfarmers – full line building products business operating in Australia, Asia and USA versus a conglomerate operating predominantly in Australia.

In contrast to Wesfarmers where I saw myself as "custodian of the culture", at Boral I was the "champion of culture change".

In the 90's Boral was top 20 ASX and demerged in 2000.

- Boral (building products); and
- Origin Energy.

After the demerger. and when I joined the board, the company to me felt like an ASX 60 company still acting like ASX top 20 – bureaucratic, top heavy, too much overhead overanalysis, too locked into being cyclical i.e. not prepared to do enough self-help at the bottom of the cycle.

The interesting difference for me is that in the past as CEO of culture change, I was the "doer".

Now as Chairman I was behind the scenes as the "influencer/coach". Most important part of this is to select the right CEO and we already had had one false start here. We brought in an external change agent who didn't work out and after two years we had to part company.

New CEO, Mike Kane is now three years in and doing a fantastic job.

Culture change takes at least five years and they are half way through the journey.

5. Leadership summary

Reflecting on my experiences let me define how I see the essence of leadership.

- Define and communicate:
  - Vision – where we want to be – imagine the Future – "NPV OF FUTURE THOUGHTS";
  - Strategies – what we are going to do to get there;
  - Operating style – how we conduct our business along the way; and
  - Tools – help, techniques and processes that help us deliver our vision and follow our operating style – use example of lean manufacturing.
- Lead by example, actions matching rhetoric – use DuPont example.
- Put the right team in place with complementary skills in a performance culture.
- Know your industry – domestic and global.
- Felt leadership, passion and commitment.
- Set big goals, drive change.
- Be a good listener.
- Celebrate your successes but recognise the gap.

6. Future challenges

Having defined what I think constitutes good leadership let me conclude by highlighting the very difficult environment which current and future leaders' face. I will draw on content from a fairly recent publication by McKinsey entitled "No Ordinary Disruption – The Four Global Forces Breaking All The Trends".

In this book the authors highlight the "speed, surprise, and sudden shift in direction in large global markets that routinely impact the destinies of established companies and provide opportunities for new entrants.

Of the new disruptive forces the first is the shifting focus of economic activity and dynamism – to emerging markets like China and to cities within those markets.

The second disruptive force is the acceleration in the scope, scale and economic impact of technology.

The third force changing the world is demographics. Simply put, the human population is getting older.

The fourth disruptive force is the degree to which the world is much more connected through trade and through movements in capital, people and information all called “flows”.
The fact that all four are happening at the same time means that our world will change radically from the one in which many of us grew up, prospered and found the intuitions that are so vital to our decision making.

All of these factors make the world and Australia an exciting place to be but demand intellectual flexibility and challenge many of the ways we have managed in the past.

On the one hand it is exciting, and on the other sometimes it makes me happy to be retired.
Thank you for your attention.