

How the rot started in Australian business

By Robert Gottlieb, The Australian, 13 August 2017

The question dominating the Australian corporate world is how did four of our top 10 ASX companies - they happen to be banks - make such a hash of running their operations?

Worse still, most of them tried to conceal their mistakes. To the banks we can add two more ASX top 10 companies who've made fundamental errors: Woolworths, with its [Masters hardware business](#), and Wesfarmers, with [Bunnings UK](#). That's six out of 10. Something is clearly wrong in Australia.

But it gets worse.

Last week and this week we have seen [endless political debates about the so-called National Energy Guarantee](#).

That's a euphemism for the massive repair job needed to fix the wanton vandalism state Coalition and ALP politicians did to our electricity and gas systems, which pushed up prices and endangered energy security.

To get green votes, like the banks and the churches over pedophilia, New South Wales, Victorian and South Australian politicians concealed their vandalism with grossly misleading statements.

As I have written many times before, there was nothing wrong with having renewable energy targets. But they had to be accompanied with a back-up facilities and network changes. Plonking down solar and wind farms without a proper plan meant families and industry paid through the nose.

There are no simple answers as to how our corporate and government decision-making ran off the rails.

But let me advance a few reasons, albeit in a list that probably will not be complete.

I reckon the rot actually started in Canberra around 1999, when the Howard government changed the public service policy.

Until that time public servants, like executives, were required to give "frank, fearless and honest" advice to ministers, as executives were to boards.

That was changed to demanding that public servants conform and comply with the will of ministers.

And to ram home the change, two wonderful public servants, defence chiefs Paul Barratt and Gary Jones, were sacked for giving advice in the old fashioned way.

What followed was two decades of many appalling defence decisions, made to conform to the will of ministers.

At the same time, a red alert went around the public service. So over time it became deskilled, because good people saw there was limited scope in the public service, and so went elsewhere. Huge ministerial staffs were assembled - usually “yes” men and women - who became cocoons around ministers. A culture of misleading the community with spin soon developed. Trust in politicians both at the state and federal levels has predictably nosedived.

In the corporate area, remarkable similarities developed, again with disastrous results.

In a well-running corporation, people should be encouraged to try new things and aggressively run operations. But systems have to be in place so that errors are discovered quickly, before they can do damage. There should be active debate between executives in front of the board.

Instead, we have curbs on innovation and a culture designed to beat institutional profit forecasts, with the threat of the sack if you fail.

As we saw in CBA ([with money laundering](#)), [NAB](#) and [AMP](#), not surprisingly over a long time the errors that were concealed became huge.

Part of the problem is that analysts prepare detailed estimates and when something goes wrong share prices are slashed. Then there is pressure for the CEO, and those who were around the parts of the business that fell short to be sacked. They are human beings, so at lower level the mistakes are often buried in the hope they can be fixed. Meanwhile the huge salaries can be enjoyed for another year or so. Some executives bail out before the error is discovered.

The job of the chief executive of a large corporation is becoming extremely difficult to perform.

CEOs are supposed to be strategists. Yet boards are no longer just concerned with strategy, but instead get involved in management detail via committees which absorbs huge amounts of time. CEOs must be across all decisions of these huge enterprises and every person wanting contact with the company, from politicians, journalists to institutions, wants to talk with the CEO. And there are many more tasks.

Some can do it well. Too many stumble.

Let's look at the bank stumbles. They all went into wealth management business. CBA bought Colonial and NAB bought MLC.

The culture of wealth management was high commission and heavy selling. Banks charged their fees in a different ways and the synergies were hard to achieve. NAB let MLC run itself and until very recently MLC banked with Westpac rather than NAB. When NAB took over the running, it had things but tried to fix them over time instead of undertaking a huge write down which would have trashed the share price and caused major sackings.

It's fascinating that bank boards spend a day at each board meeting ticking governance boxes which we now know are totally useless. The directors would be better spending the day touring operations alone or working on long-term strategies. As we go forward companies are going to have to take bigger risks as they make greater use of technologies including artificial intelligence.

Their costs will be slashed but their mistake levels will rise. They will need to pick mistakes early and tell shareholders quickly, not follow the currently widespread practice of concealing them. And Woolworths and Wesfarmers need to tell the world that when you make a major play into new fields, experiment first and learn from your mistakes while they are small.

Directors need to determine whether their CEO is a person who has assembled a team of “yes men and women” as distinct from an active self-questioning team. At least one of the top four banks went the “yes” route and paid the price.

And our universities and management schools have got to start training executives who can adapt to the new environment.

But if there is one thing we can learn from the royal commissions and corporate and public service disasters like the Australian Taxation Office - we have got to stop misleading, internally and externally. If it means the share price gets trashed, then so be it.