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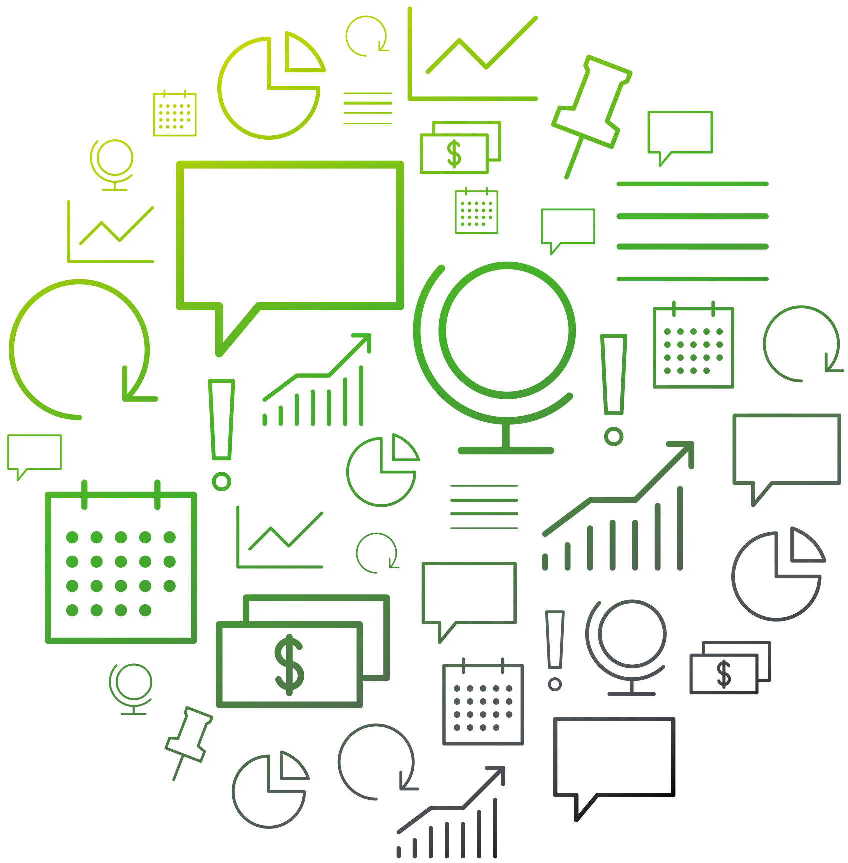

On the board's agenda | US

A conversation on blowing up best practices

Detonate—Why and How Corporations Must Blow Up Best Practices (And Bring A Beginner's Mind) To Survive, was published in 2018 (Wiley). Bob Lamm, independent senior advisor to Deloitte's Center for Board Effectiveness, recently sat down with one of its authors, Geoff Tuff, a Deloitte Consulting LLP principal and senior leader in the Innovation and Applied Design Practice, to address key concepts and practical approaches outlined in the book.

Why do best practices need to be blown up?

The term "best practices" suggests that one size fits all, and that there's one way (or a limited number of ways) of doing something. In fact, what works best for one company may not be best or even viable for another; there are just too many variables involved. If everyone follows a best practice, the practice is no longer "best." It is, by definition, average.

The term "best practices" also assumes that when something works once for a company, it will keep working for that company indefinitely—in other words, it assumes that nothing will change, which we know is not true. And increasingly, in a world that is exponentially changing, doing the things that were successful in times of linear change can create significant exposure to risk and disruption.

This suggests that best practices are merely mediocre. And doing things in a mediocre way is a good recipe for becoming irrelevant in any highly competitive market.

What do you really mean by "blowing up best practices?"

Of course, we don't mean literally blowing something up or even figuratively causing mass disruption of business systems. As we'll discuss later on, we chose the word "detonate" as our title to

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connote a controlled demolition of a selected process within a selected part of the company with some very clear safety measures in place. Blowing up best practices really means challenging convention, and doing things differently from what's made you successful in the past and from what others are doing.

Your book notes that the fear of doing things differently may be genetic. For example, we've been programmed to believe that the one who strays from the pack is the likeliest to be caught and eaten. So even those who agree that best practices need to be blown up may find it difficult to go rogue. How can this fear be overcome?

Going rogue doesn't have to be a radical departure from what you've done in the past. To put it in the genetic context you've mentioned, you don't need to break from the pack and make a beeline for the lion's mouth. Rather, you can make what the book calls "minimally viable moves." Wander a few steps from the pack and then assess the situation. If it looks like a better route, wander a few more. But if it doesn't, correct your course and try a different route. The key is to move as quickly as possible to take a small step, assess, and then take another step, never exposing yourself to undue risk. In reality, there are many things you can change without taking bet-the-company risks, be they economic, reputational, or otherwise.

Two of the concepts you discuss early in the book are the "beginner's mind" and "embracing impermanence." Can you explain what you mean by these terms and how they can help companies?

The term "beginner's mind" is taken from the Zen Buddhist concept that in the beginner's mind there are many options, while in the expert's mind there are few. The beginner's mind understands that with change happening as rapidly as it is, we can't presume that factors playing into a decision are the same ones that played into a decision in the past. If you bring a beginner's mind to a choice or a decision, then you are purposely ignoring mental shortcuts that come naturally with expertise. Instead, you are looking at the situation as a novice would, considering all possible options and likely stumbling upon new ways of thinking in the process.

"Embracing impermanence" is a mindset you often see in entrepreneurs who don't presume that they'll be around forever or that the ways they're doing things are the ways in which they'll always work. The opposite is true in most scaled, successful companies, prevailing wisdom would suggest a rock-solid and unshakeable foundation which will stand the test of time. The data suggests otherwise. In the mid-part of the last century, the average time that a company would spend on the S&P 500 list was over 60 years. Today, it's under 20 and continuing to fall.[1] The erstwhile concept of lifetime employment is practically nonexistent. One way that some companies embrace impermanence is to think of a workforce as a group of constantly reconfiguring teams. Rather than declaring roles and team constructs that are set in stone, they have constantly updated skills categories from which they choose people for fit-for-purpose teams that are dissolved as soon as their useful purpose expires.

How do boards of directors fit into your approach? Boards are often comprised of people who have been successful for long periods of time. Aren't they more prone to think that "their way is the best way" and be resistant to blowing up best practices—or at least their best practices?

First, don't underestimate the people on boards who have been successful for many years. There's a good chance that they succeeded—and were chosen for their board roles—because they did not accept the rote applications of someone else's playbook. If they can see their own successes through this lens, one would like to think they will be more likely to encourage others to challenge convention as well.

And the concepts we discuss throughout the book also apply to directors, such as the criticality of bringing a "beginner's mind." At least one of the roles of effective board members is to increase optionality for the companies they govern and to understand that with change happening as quickly as it is, it's unwise to presume that the factors affecting a decision are the same ones that affected decision making in the past. Opening up the aperture of opportunity by encouraging a beginner's mind is one way of achieving these goals.

Another concept most relevant to boards is the value of focusing on human behavior. Many companies become distracted from their core mission by all the policies and procedures that they have put in place to "follow the established rules." We still believe that the most fundamental economic unit of analysis for any company is human behavior. Said differently, performance curves don't shift from steady state unless someone, somewhere changes his or her behavior. That person could be just about anyone: a customer, a supplier, a line worker, a regulator, etc. A simple but effective role a board member can play is to push management on "what behavior are we trying to drive and are we being as efficient as we possibly can be in executing on that?"

Your book stresses the importance of changing behavior. Any thoughts on how to get a board to change its behavior?

One of the most critical first steps is to ensure that board members feel a sense of urgency regarding the speed of change. If you come up against a director who resists changing behavior, one approach is simply to get him or her to look around. Both nature and our material world offer proof of exponential change. You don't find too many people questioning Moore's law when it comes to charting the exponential increase in computing power. Take out your smartphone and ask the director whether five years ago she could possibly have predicted all the ways in which we use our smartphones.

1. Sources: Richard N. Foster, "Creative Disruption Whips through Corporate America," Standard & Poor's, Winter 2012; "Disruptive Forces in Europe: A Primer," *Credit Suisse Equity Research*, August 24, 2017.

And then ask her to consider what is empowering change today—nanotechnology, molecular biology, autonomous cars, etc. These and many other breakthroughs are themselves in the infancy stages of an exponential curve, in no small part because they all sit on a foundation of computing power. What happens when the performance/price equations for these breakthrough technologies start heading straight upwards? None of us has lived in a world affected broadly by exponential change, and one sure way for a board to create risk is to allow the organization to stay static.

As we discuss in the book, one simple exercise to bring this to life is to ask a director where you would be if you took 30 linear steps. Most can predict that that would be somewhere across the room, or maybe just down the hall. Then ask them to imagine where you would be if you took 30 exponential steps—meaning the first step is 1 step; the second one, 2; the third one, 4; and so on, with continuous doubling. The director will likely throw out some crazy guess, but it's highly likely he will get roughly the right answer, 26 times around the earth! The point in that exercise is not simply to relay the mind-blowing number, it's that none of us is wired to think exponentially. As change accelerates, the only way to react is to change our behavior and try new things through minimally viable moves ... because none of us has ever lived with this type of reality before.

At the same time, it's important to remember that directors, like all of us, don't need to shed everything they know and that they've experienced in their own successful careers. They just need to be keenly aware of when they are acting or reacting based on habit, as that is often the surest sign that orthodoxy and past playbooks are obfuscating options.

You target strategic planning as ripe for detonation. But this is an area where board oversight is widely viewed as most important. Why blow it up?

By "detonation" we don't mean blowing everything up, all at once. We chose the word to connote controlled demolition rather than outright destruction. We believe it's critical to make minimally viable moves in some parts of the business while keeping aspects of the old system intact in others—especially in the core areas. Once those moves have been optimized to be successful, then they can be expanded more aggressively.

With reference to strategic planning, the thing that we are most concerned with is the emergent "best practice" of stapling the strategy development process to the annual budgeting process. No market operates according to a calendar. In a world of exponential change, a three- to five-year plan (which we tend to see most often) may be unhelpful or worse, delusional. Instead, we ascribe to the "Zoom Out/Zoom In" approach to strategic planning. For most industries, a long-term (i.e., 15–20 year) scenario plan regarding what the world could look like is the right starting place. This is something that is revisited only very occasionally but that also spells out key leading indicators of when one possible future appears to be emerging more strongly than others. Staple to that a serially updated, six-month immediate action plan that consists of no-regrets moves anticipating those futures, and you may be in good shape, or at least better shape than the culprits who only update medium-term strategic plans come budgeting season (and often largely to justify their budget requests).

One of your chapters is titled, "Implications for Leadership—Accelerate by Asking Better Questions." This seems to go to the heart of the board's role—asking questions, challenging assumptions. What are some of the key questions that directors should ask?

I don't have a list of all-purpose questions that might be asked; among other things, the questions that need to be asked will depend on the unique characteristics of the company and its circumstances. However, I can suggest the types of questions that directors should consider asking and those to consider avoiding. Directors should avoid asking questions relating to return on investment in the short to medium term ("tell me how investment option X is going to earn us more than investment option Y") as well as questions that ask for justification based on past experience ("haven't we tried that before and it didn't work?"). Instead, directors should ask questions relating to the human behaviors the company is trying to drive and the rationale behind why those behaviors are the right ones. They should ask questions regarding how to move faster, or learn better. And they should ask questions that push management to expand the aperture of consideration.

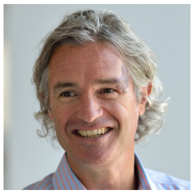
Any concluding thoughts about the role of the board in blowing up best practices?

The board's most basic function is to productively challenge assumptions and push management to create and consider all options for success. As applied to blowing up best practices, this means that the board can:

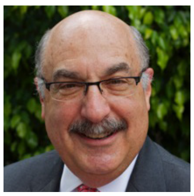
- Push management to stray a little bit from the pack by making minimal viable moves;
- Demonstrate in word and deed what it looks like to bring a beginner's mind;
- Focus conversation on the economic value of driving the right human behaviors throughout the business in the most efficient way possible; and
- Assume that like every part of the company, a seat on the board may be subject to impermanence.

Of course, it's more complicated than that, but these four steps would go a long way to achieving the mindset shift that we discuss in the book as being critical for any successful company to thrive in an era of accelerating change.

Authors

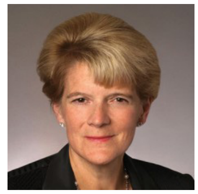


Geoff Tuff
Principal
Senior Leader of Innovation and
Applied Design Practices
Deloitte Consulting LLP
gtuff@deloitte.com

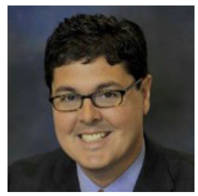


Bob Lamm
Independent Senior Advisor
Center for Board Effectiveness
Deloitte LLP
rlamm@deloitte.com

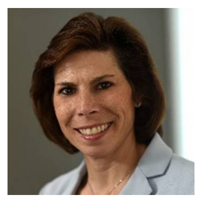
Contact us



Deborah DeHaas
Vice Chairman and
National Managing Partner
Center for Board Effectiveness
Deloitte
ddehaas@deloitte.com



Henry Phillips
Vice Chairman and
National Managing Partner
Center for Board Effectiveness
Deloitte & Touche LLP
henryphillips@deloitte.com



Maureen Bujno
Managing Director
Center for Board Effectiveness
Deloitte LLP
mbunjo@deloitte.com

Debbie McCormack
Managing Director
Center for Board Effectiveness
Deloitte LLP
dmccormack@deloitte.com

Krista Parsons
Managing Director
Center for Board Effectiveness
Deloitte & Touche LLP
kparsons@deloitte.com

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