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Global Business Consulting

BOARD PERSPECTIVES

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Blind Spots in the Boardroom

A look back at business failures often reveals blind spots that either concealed a dysfunctional culture or led to a lack of understanding, strategic error or missed opportunities. Is the board aware of the organization's blind spots, and is it addressing them?

A "blind spot" can mean different things. Medically, it refers to a type of vision impairment called scotoma. It is also a term commonly used to describe any areas around a car that a driver cannot see.

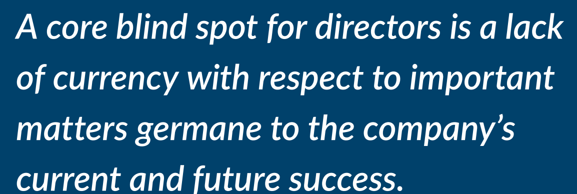
Blind spots are also embedded in the human subconscious and can frame a leader's perspective when evaluating situations, judging people and making decisions. They can be very limiting to individuals and are especially dangerous to organizations and groups operating in dynamic environments, leading to poor decisions, missed opportunities and becoming captive to events. They can even result in harm to the public.

We've all heard the adage that what we don't know can be more damaging to reputation, brand image, market standing and competitive position than what we do know. This adage gets to the heart of the nature of blind spots. Whether they relate to cultural, strategic, operational or governance issues, they are almost always a factor underpinning a business failure, massive regulatory sanction or fine, or loss of trust and market permission to play.

In today's volatile markets and global geopolitical landscape, failure to recognize and act on changing business fundamentals inevitably leads to a potentially lethal strategic error. Since everyone has blind spots, awareness and acceptance of this issue is important.

Examples of blind spots and why they happen

Even successful organizations and proud brands can experience blind spots. The graveyard of failed companies and the hall of shame of organizations that have experienced significant reputation loss are filled with examples. For purposes of this discussion, we define a blind spot as something pertinent to an organization's viability that the board and C-suite have not focused on at all or enough. In this context, blind spots include significant matters that leaders either are not aware of or have chosen to deemphasize, ignore or conceal.

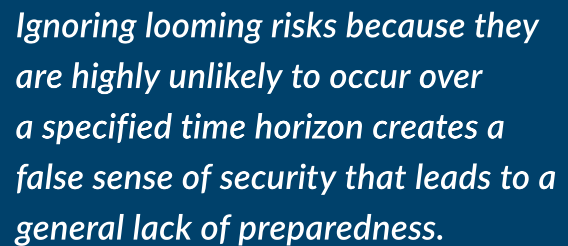


With many companies and their boards thriving, there is a lot happening in the marketplace. New technologies are affecting everything we do, quickening the pace of disruptive change, and creating unprecedented market opportunities as well as formidable challenges and risks. The forces of supply chain de-risking, geopolitical tensions, changing demographics, evolving workplace expectations, shifting cybersecurity threats, and sustained higher inflation and interest rates are creating dynamics that boards of directors should consider as they perform their crucial role in overseeing the organization's strategic direction and risk management.

Following are 10 examples illustrating the different types of blind spots companies may have:

- **Lack of basic understanding in the boardroom.** A core blind spot for directors is a lack of currency with respect to important matters germane to the company's current and future success. Lack of currency regarding emerging technologies, particularly artificial intelligence (AI), and how they can augment the business model as well as contribute to new cybersecurity concerns can lead to dysfunction in the boardroom. For example, it can result in unrealistic expectations, ineffective communication with management, challenges in setting appropriate goals and targets, and the lack of informative dashboards on topics that matter. Without currency, directors cannot effectively advise the chief executive officer (CEO). Drowning in a sea of data doesn't help. Insights are the new gold.
- **Misalignment with business strategy.** This can occur when middle managers drift from the strategic focus and core values set by the CEO and executive team, and leaders are not aware of the disconnect. It can arise from failure to assess whether the organization has the necessary talent, expertise and change readiness to develop, deploy and maintain cutting-edge technology initiatives. The company may be committed to invest in new capabilities and transform the business, but the ability to implement and fully realize the value proposition is lacking.

- **Strategy out of touch with changing market realities.** Disruption at an accelerating pace is the new normal. Market opportunities and the associated risks pertaining to advances in emerging technologies can alter customer behavior and business models. The impact of technology on the future of work, entertainment and optimizing food production processes will be profound. Other market trends — geopolitical, demographic, regulatory, economic, competitive, customer preferences, labor markets, workplace expectations, supply chains and more — also create fresh opportunities and risks. This disruption alters leaders' strategic assumptions.



- **Dysfunctional culture.** Resistance to change, a lack of transparency and trust, confusing organizational structures, aggressively dominant or overconfident CEOs, ambiguous decision rights, flawed incentives, a warrior environment, lack of an enterprisewide view, strategic disconnects from core values, significant talent gaps, and toxic workplaces (such as those requiring people to work in hazardous conditions, producing unsafe products or undertaking recklessly risky bets) all contribute to a culture not fit for purpose in our disruptive times.
- **Uninformed board-facing executives.** Boards typically place heavy reliance on company executives to keep them informed of things that matter. If these executives are unaware of significant issues smoldering deep within internal processes that have not been escalated to appropriate levels in the organization, it contributes to a variety of serious blind spots in the boardroom.
- **Unexplored unintended consequences.** This is a common source of blind spots, particularly with the implementation of innovative products and services and significant improvements to internal processes (e.g., the potential risks underlying deployments of generative AI). The dreaded FOMO ("fear of missing out") can lead to organizations deploying technologies that have not been fully vetted, spawning fresh cyber threats, data privacy issues and risks of harm to consumers.
- **Inadequate enterprise risk assessments.** Flawed, incomplete or outdated risk assessments can mislead, for leaders cannot manage risks not on their radar. Ignoring looming risks because they are highly unlikely to occur over a specified time horizon creates a false sense of security that leads to a general lack of preparedness. For many of these "gray rhino" risks, it is just a matter of when, not if.

- **Inability to manage unconscious bias.** The various forms of bias and the groupthink phenomenon they encourage often result in a desire for harmony in an organization, meaning there is greater weight placed on "getting along" than on expressing disagreement over the things that matter. Unconscious bias can lead to ignoring alternative views and salient contrary information, resulting in poor decisions, missed opportunities, strategic error, ethical and legal issues, and regulatory compliance problems.
- **Inadequate oversight and control structure.** There is a lack of proper oversight and controls in place to avoid a scandal or regulatory compliance situation resulting from an incident inconsistent with the organization's core values.
- **Ignoring the transition toward a sustainable world.** A topic without end, sustainability portends disruption on many fronts and is contentious and potentially existential. The ESG debate — a source of considerable fatigue for some in the boardroom — often misses the broader picture of corporate purpose. Meanwhile, market forces emphasizing sustainability priorities continue.

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"Black swans" also bear mention as they are highly improbable catastrophic events that few see coming yet are often explained in hindsight as though they were predictable. Prior to their occurrence, the causes and effects of black swans are not generally understood. Indeed, rare and extreme events equal uncertainty, which is exacerbated by blind spots with respect to randomness and particularly large deviations.[1] The 2007-2008 financial crisis is an example because most financial services industry players could not envision a systemic collapse of the housing market in all major regions of the United States.

The above sources of blind spots raise several fundamental questions for directors:

- Are we exercising our fiduciary role effectively in overseeing the company's strategic direction and risk management?
- How can we as a board encourage a culture of openness and transparency within our organization to facilitate the identification of potential blind spots?
- Are we taking time to learn what we don't know by asking the right questions? Do we understand our strengths and limitations as a board, and are we collaborating effectively in the boardroom?

[1] *The Black Swan: The Impact of the Highly Improbable*, Second Edition, Nassim Nicholas Taleb, The Random House Publishing Group, 2010.

- Does management tell us what we need to know, even bad news?
- Are we confident that the company is deploying effective risk management frameworks? Is anything missing or incomplete?
- Are we probing enough to ensure that capital allocation and high-cost digital transformation proposals have been thought through? For example, when implementing AI initiatives, are we satisfied that management understands the limitations of automation and ensures appropriate human involvement in critical decisions?

How can the board become more aware of blind spots?

Given the sources of blind spots, what can boards do to increase their awareness of them? Here are four inward-looking suggestions for the board itself:

- Assess whether the current board culture, composition and agendas are fit for purpose in this disruptive business environment.
- Hold executive sessions without management present to encourage candid dialogue.
- Conduct a periodic self-assessment of the performance and collaboration among the full board, its designated committees and individual board members.
- Determine whether board education is adequate, relevant and timely.

Additionally, here are outward-looking steps for the board to take:

- Pay attention to input and feedback from analysts, investment bankers, startups, suppliers and other external partners who are part of the value ecosystem.
- Assess the quality of discussions with management and the sources of intelligence that feed into the company's strategy-setting process.
- Obtain briefings on industry, competitor, geopolitical and technology trends as well as feedback from customers.
- Encourage customer advisory teams, knowledgeable subject-matter experts and field operators to challenge assumptions and provide fresh insights.
- Request an objective culture assessment seeking confidential feedback from all levels of the organization and a report of the unvarnished results to the board.
- Conduct executive sessions with specific company executives to provide a channel for open discussions.
- Make more effective use of internal audit, particularly with respect to assessing the culture.

What the board can do to minimize the impact of blind spots

Directors should watch for red flags that indicate the possible existence of blind spots. The sidebar provides 16 illustrative examples. If these signs exist, the board's actions depend on the facts and circumstances. Following are steps the board can take:

If there is cultural dysfunction, exercise focused attention and decisiveness to correct the issue. Allowing dysfunction to fester can risk talent drain and lasting brand erosion and reputation damage.

Expect management to inculcate a resilient mindset that adapts to shifting market realities. Directors should insist on more agility in the C-suite and boardroom. Companies positioned to pivot quickly in response to market shifts understand their most critical strategic assumptions; monitor continued validity of those assumptions over time; use "early alerts" to trigger timely warning and decisions to address change; and build discipline in the culture to act timely before market opportunities and emerging risks become common knowledge in the market.

Understand how management deploys scenario analysis to look ahead to what may be around the next corner. Anticipating extreme but plausible scenarios and stress-testing base plans against those scenarios provide a discipline that forces "What if?" discussions around response plans, action triggers and decision prompts. Understanding the pain of management's strategic assumptions being rendered invalid facilitates preparedness for unforeseen events that no one sees coming, even black swan events.

RED FLAGS INDICATING POSSIBLE BLIND SPOTS

- "Everything is great" heard too often; too much looking back and not enough looking forward
- Management playing out a strategy that is not aligned with market realities
- Management resisting altering the business model despite compelling evidence that excessive risks are being undertaken to generate current returns
- Organizational resistance to change
- Management and the organization constantly reactive to market events
- The board not refreshing its membership to keep pace with changes in the business environment and the company's strategic profile
- Board members who are "inactive" or are not keeping current
- Ineffective, check-the-box risk management processes and tools
- Lack of informative dashboards on key topics
- Scenario analysis and stress testing not applied to evaluate alternative actions and assess response readiness to plausible and extreme scenarios
- Lack of feedback mechanisms with customers and employees
- Lack of effective communications down, up and across the company
- Flawed incentive compensation plans
- Evidence that middle managers may not be aligned with the tone at the top
- Lack of diversity in perspectives in the boardroom and C-suite (e.g., excessive like-mindedness)
- Short-termism (e.g., overemphasis on "making the numbers")

Encourage management to minimize the impact of unconscious bias. When making risk/reward decisions, efforts should be taken to reduce the dangers of groupthink. It is not unusual for groups to form opinions or make decisions without engaging in robust debate or listening to dissenting views. This is why efforts should be made to ensure that all views are heard from the right sources and are considered. It is important to avoid the pitfalls of beginning with a presumptive conclusion.

It helps to foster diversity of thought, distinguish between divergent and convergent dialogues, accept conflict and devil's advocacy as the norm, understand why dissenters disagree, seek diverse external perspectives, and consider the consequences if a decision is wrong. Managing by fact and grounding discussions with a relentless focus on the customer experience also helps to inform the conversation.

Set the tone with sound governance. As directors keep an eye on relevant market trends, they should work with executive management to build trust within the company, organize for speed, deploy data-informed approaches to understand customer behavior, and incent necessary changes to processes, products and services. Investing in talent that can make the desired behaviors and performance happen is key. A commitment to core values, preserving brand image and fostering a diverse, inclusive environment committed to ethical and responsible business behavior are table stakes.

Ask management the tough questions. Intellectual curiosity goes a long way in the boardroom. Today's dynamic times require courageous, collaborative conversations. A proactive and resilient approach to addressing blind spots entails asking questions of management that explicitly reference their potential existence. Following are six examples:

- What blind spots might exist in our current strategic plan, and how can we proactively identify and address them?
- Do we seek feedback from employees, customers, suppliers and other stakeholders continuously to identify potential blind spots in our business model and culture?
- What mechanisms or processes are implemented to periodically evaluate the effectiveness of our risk management practices in uncovering hidden risks and vulnerabilities?
- Are we using risk assessments and scenario analysis to help us uncover blind spots and develop early warning alerts and contingency plans?
- Are we using data analytics and emerging technologies effectively to uncover blind spots with respect to our operations, the customer experience or trends in the market?
- How can we continuously educate ourselves and stay up to date on industry trends and potential blind spots that may arise in the future?

These suggestions are by no means exhaustive. The point is that managing the risk of blind spots depends on the facts and circumstances of each company. In the end, it is about currency, collaboration, trust, transparency and remaining in touch with changing market realities.

How Protiviti Can Help

Protiviti assists boards and executive management with assessing enterprise risks and the organization's capabilities for managing those risks. We help companies identify and prioritize their risks, including emerging and disruptive risks that can impair their reputation, brand image and enterprise value. We assist leaders with integrating their risk assessment process with their core business processes, including strategy-setting, business planning and performance management. We also help them improve their risk reporting to better inform the board's risk oversight process.

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