# Take on Board

Transcript – Sophie Gibbons

Helga Svendsen 0:00

Today on the Take On Board Podcast, I'm speaking to Sophie Gibbons about navigating an economy under stress and learning from working with distressed organisations. First, let me tell you about Sophie. Sophie supports organisations on their most ambitious and complex performance turnaround and transformation initiatives. Her role with KordaMentha corporate means she works with boards when significant value is at risk. Most recently, Sophie acted as the co-administrator of South Australia's largest public health care network, working to deliver an ambitious turnaround of end to end financial, operational and cultural measures. Welcome to the Take On Board Podcast. Sophie,

Sophie Gibbons 0:40

Thank you very much Helga. It's great to be with you.

Helga Svendsen 0:44

Sophie, before we talk about distressed organisations and navigating, you know, an economy under stress as we seem to be at the moment, I would love to dig a little bit deeper about you. Tell me about your upbringing and what lessons you learned what you got up to and what's up The leading influences were on you

Sophie Gibbons 1:02

A young Sophie's upbringing. Well, your listeners will probably hear pretty quickly Helga that I do have a bit of an accent. I grew up in New Zealand. My parents still live in New Zealand, my family still in New Zealand and actually in the South Island in a town called Christchurch. Very beautiful spot for anyone looking to have a holiday when things open up to New Zealand.

Helga Svendsen 1:28

Oh, and aren't we all looking forward to that?

Sophie Gibbons 1:30

Yes. It's not speak too soon. Yes. Look, I'd describe the family environment that I was raised in is one that, you know, really loved learning. And it's, it's something I'm very grateful for. My parents were very focused on us, you know, trying and exploring new things. You know, education and reading. We're big in our house. And I think the young Sophie was pretty curious. Really, you know, I've never really been satisfied with high level conclusions, if I can say that fascinated by how things work, fascinated by how people work and how people are motivated. And I think that's been something that's been incredibly important for me, that curious mind, in my work are obviously entering organisations that we'll talk about throughout the podcast, in many different sectors, many different industries and having a natural sense of kind of curiosity, by being fascinated by really what's going on is very, is very useful. And it means I really do love the work that I do. Early influences, I think, really were parents. And as a young woman growing up in New Zealand, when I look back, I was lucky enough really not to have any limitations placed around what I could do or who I could be, which is a very fortunate thing. I think. I have you know, a father who's run his own business for many years. Very simple, peacefully, real entrepreneurial family spirit and a mother who is incredibly intelligent and intellectual and so a curious mind with very few limitations Helga. And that brings us to today, I guess,

Helga Svendsen 3:17

Absolutely. It's such a it's a key, you know, skill for anyone in the boardroom or indeed in your line of work working with people in the boardroom and those sorts of projects and programs. You know, just having that sense of curiosity and learning is such a fabulous tool to have in your toolkit. So, today, we are talking about, you know, navigating an economy under stress and I should say, we are recording this in the middle of August. I don't always timestamp, the recordings that we do, but given what's going on in the world at the moment, it's often a useful thing to do. So yeah, we are recording mid August, but Sophie and I are in Melbourne. So we are still currently stage four restrictions at the moment, maybe by the time this gets to air, things will be a little bit different. In other parts of Australia and New Zealand, things are a little bit different. However, clearly we are in the middle of a kind of a global pandemic. And that's not just a health crisis. It's an economic and social crisis as well. So navigating an economy under stress, and what I'd love to talk to you about is is, you know, the learnings that you've got from working with distressed organisations, I know that you've worked with large public health care organisations. We heard about that in the intro, you've worked with retailers, you've worked with energy networks. I'd love to hear I'd love to cover in this, you know, what are the some of the lessons that you've learned? And most importantly, what can boards do to avoid or minimize some of that stress? So I don't know. Wait, where should we begin? Sophie?

Sophie Gibbons 4:55

Where to begin? August 2020. Certainly a year ago, we didn't think would be here? Well, I work in a, what we describe as a turnaround and transformation team at KordaMentha. And what that really means is that we work with organisations who are facing very material performance issues. And we typically refer to that as you've introduced as organisations in distress. And they are a broad range of organisations. They can be corporate, public sector, we also work with financiers who have recently recapitalized organisations. But really, at the moment, we are in very unusual, uncertain and highly stressful times in the COVID-19 context. And I think what's relevant here is, that is those times are very similar to those faced by organisations and industries. So at the moment, boards, directors really are facing quite an unprecedent time. And, you know, by the end of the year, government stimulus packages have been signalled to end, no safe harbor extensions are coming to an end all the things you've talked about in recent podcasts. And directors really need to take an appropriate action to ensure that their organisation's surviving and really thrive going forward. And I think one of the kind of unique things about the environment currently, before we get into the themes of what we've learned from distress organisations is, at the moment, even organisations performing well or at the very least holding the line from a performance perspective, are actually having to navigate a market that stressed and that changes things that are important for all boards, not just those who are right at the peak of distress or potentially more dire consequences. And the things that it changes or things like demand from traditional markets, you know, it changes consumer confidence. It changes things like logistics predictability of forecasting. It impacts profit and impacts certainty of performance. And so for boards across the country across the world, really, they are needing to interact and engage in a market of stress. And so, things that we advise boards that we work with industries become very relevant for a much broader set of organisations and boards. And look, you and I have discussed in the past, you know, clearly that golden rule that boards need to stay in role from a from a governance perspective still applies. But inevitably, really during times of great pressure and change, as we are in in August 2020. The board will be actively involved. And I think, you know, what's relevant here is that learnings from those organisations facing distress. Those who are really struggling performance wise that we would typically work with are actually applicable for a broad range of boards at the moment. So I'm very pleased to be able to share some of those learnings.

Helga Svendsen 8:15

So many things I already want to pick up on, or there's a few things. So one is around that context that we're in and what that means for scenario planning. I'm hearing a lot from board directors that they, you know, in their strategic conversations, they want to be doing some scenario planning, but they're not quite sure where to start with that, because the context is so uncertain. I'd also like to pick up on just the role of directors and kind of getting in a bit more and what that means for that line between governance and operational. Oh, so with those things in mind, I guess, you've said there's some themes coming out from what you've learned with organisations. What are those things?

Sophie Gibbons 8:52

I think that point that you raise Helga is very interesting in terms of that line between governance and operational and perhaps we start there, do you think because, you know, one of the key themes or learnings from working with organisations in distress is that boards really do need to act more so as a forcing function during those times. But what we mean there is that the board needs to play more so than ever in distressed environments, the role of an agitator, and that's an agitator really setting priorities, but also in setting ambition for an organisation. So what we do know at the moment is that you know, June 2020, they were actually 47% to be specific around 50%. Lower formal insolvencies reported than the same month last year. And that's quite incredible. Actually, given where we're at as a market in Australia.

Helga Svendsen 9:54

It's almost unbelievable Sophie,

Sophie Gibbons 9:57

Almost unbelievable, but it is believable because one of the things that we know is that there are a huge amount of organisations who, who really have artificial revenues keeping them alive at the moment. Yeah. And that's in the form of the stimulus packages that have been extended relief from banks and other measures that we all know well, after the last couple of months. So organisations have had these packages, keeping them afloat. And what they're going to need to do if they're in that set of circumstances is something very drastically different to what they've done today. Interestingly, more than ever really, they have cover and in some ways, a level of community and even shareholder permission to make big hard decisions in regards to the future of the organisation and, you know, the transformation or turnaround that that organisation needs to go through, to make sure that they are in a position to survive. Not just the four to six months that we all feared, what be the timeframe of the biggest COVID impacts, but potentially really for the next two, three years and beyond. So this concept of an agitator acting as a forcing function becomes very important because the decisions or actions that organisations are going to need to take will likely need to be quite bold. And a good example of this and something that we're speaking with a lot of industries and organisations about at the moment, and that's the reality of resetting a cost base for the future, you know, left to their own devices, we would typically see organisations look towards broad brush programs, you know, 15% cuts across the board of an organisation in order to, you know, reduce the organisation's cost base to a sustainable level. And what we'd suggest here as a learning for boards in this environment is that that's really an outdated model that the cost as a gender needs to be set from the board down. And the board really needs to sit the strategy for what in the organisation needs oxygen, what needs investment, and what organisation they're trying to create for the future. And it's likely in this case that the organisation is going to need to make ambitious decisions about where growth will come from, or you know, the type of organisation that needs to be crafted to be sustainable, very different business models may need to be considered during this time. And investment in fact, will need to be put into scenarios and investment really gives organisations hope. So, organisation to are going through distressed times who are likely in the middle of you know, or potentially in the middle of things like redundancy programs, saying that the organisation has a strong and bold strategy. For the future, seeing that the organisation is investing in that future is actually fundamental for morale, because organisations see a potential for the future and industries environments, the board and their governance accountabilities and their accountability to support the organisation to survive now, but also positioned for the future becomes hugely, hugely important.

Helga Svendsen 13:20

So it's not just a priorities question in some ways, not just about where we're cutting for sustainability, but where we are putting resources, taking them away and putting those resources, investing in that growth. And it's so interesting to hear talk about hope and optimism, because they're not necessarily things that are in abundance in a lot of organisations at the moment. And, you know, thinking about the boardroom, we often talk about the tone coming from the top and maybe there needs to be some of that hope and optimism that comes from the boardroom about what the future might be for organisations as well. So thinking about hope and optimism, what have you seen from the boards in terms of, you know how that shows up in the boardroom? And therefore, how that shows up in organisations in dealing in these challenging circumstances? What have you seen that's working? Well?

Sophie Gibbons 14:15

Look, I certainly agree that optimism and hope come from the top. And, you know, obviously, we are seeing boards, and the executives that they're supporting, playing a key role and really sitting across what we would call an Northstar for the organisation in terms of the ambition of that organisation. Fundamentally, at the moment, however, what we're also hearing from boards that we're talking about is that future that we've discussed that acting as an agitator, sitting up and looking across the horizon to the future is fundamentally important. But what's also important is a laser focus on performance now, and getting that balance right between acting as sit in that North Star, and executing on the governance accountabilities, but also assists survival now is the balancing act at the moment. And there's certainly some themes in terms of that focus on immediate performance, month to month performance from distressed environments, which move very quickly, are often very uncertain. That can be applied to the boardroom. Now, how?

Helga Svendsen 15:27

And so, touching on that I'm just wondering about information that boards get as well, in terms of this looking short term and looking longer term and looking at performance. What are you seeing around the information that boards are getting? Is it Are they getting too much? Are they getting too little? How do they get the balance right there? Yes,

Sophie Gibbons 15:47

I think it's an incredibly relevant question. The concept of information, the right information is fundamentally important during distressed times, and what we often see in those times is that boards are actually governing and the dark, Helga. And you know, you really can't measure or evaluate what you can't see. And so one of the things that we do work with organisations in distress and boards and distress on is turning the lights on in the organisation in regards to performance. And what that means in terms of information, as is a couple of things. And the first thing that I would say in regards to your question specifically is we advise organisations and boards to measure well. And what does that mean? Well, it means there needs to be an absolute focus on insight, rather than volume. We do see organisations who are facing challenges who are uncertain environments, getting a huge volume of reporting flowing up to the boards, I'm not sure if that's something that will resonate with you earlier. And that's often coming from a good place. People are trying To cover bases at an executive and organisational level, and so they're forcing this information up and through to the board. But what we would advise is that quality reporting doesn't actually equate to volume of information. I remember vividly sitting next to the CEO and one of the first performance meetings that we were running of a large turnaround in the last couple of years. And I was looking down at the board table in front of me. And I was looking at a 200 page monthly performance report that had been prepared by the organisation and that was what the CEO and the incoming Board of this organisation had a new incoming board was going to need to work through to really make a call about what needed to change what could be stopped and what the focus and the priorities were. And, you know, I'm someone who works through Performance Reporting almost as a daily rite of passage and I really found it incredibly difficult to understand or know, from that pack, despite the volume of information, really how that organisation was performing, and where or where the end up if it continued on that performance trajectory. So the question I'd ask is how on earth would an incoming board now, so look, what we tend to do in these environments, and what I'd be recommending boards to be navigating towards is, you know, overhaul that reporting get very clear on what matters around key performance indicators. In some sectors, you know, public sector type environments, those KPIs or performance measures will be regulated or set. But for a lot of private and corporate organisations that's up to the board and the organisation to agree. Get the right rhythm and place in terms of monthly performance sessions require that of the organisation so that the board can actually take the temperature governance, role of performance in a meaningful way. And, you know, in this case, the example I've given what we saw was quite interesting. The moment we condensed and prioritized, what was being measured, we saw business leaders step up and put in place remediation efforts focused remediation efforts around performance. And that flowed through to efficiency improvements and operational improvements, which is really important in a in an environment. So probably something that we see very commonly in organisations, too much inflammation, would be what I'd say.

Helga Svendsen 19:39

And it sounds like that was not just too much information for the board. It sounded like it was actually too much information for the organisation as well. And once there was more transparency at the board level that provided that impetus in within the organisation.

Sophie Gibbons 19:54

Yeah, absolutely. Just like you've mentioned, you know, the focus flows down to the organisation as well as flowing up to the board.

Helga Svendsen 20:04

I confess I sometimes wonder whether our board papers that are now available through iPads rather than the folders of information coming just encourages longer and longer and longer because the iPad weighs the same whether there's 700 pages or seven pages.

Sophie Gibbons 20:21

Another challenge of virtual working isn't it? Great benefits also comes from limitations. But I guess at least on an iPad, you can, you can navigate through sections, which is pretty useful.

Helga Svendsen 20:34

So, so staying on that information theme, Sophie, um, you know, when thinking about those KPIs, and you know, performance measures that put in place you know, what else can you tell us from your experience that boards should be on the lookout for there or, or should be picking up on

Sophie Gibbons 20:54

Quality of information that we've just discussed, is incredibly important. So that boards can make good quality decisions. And what we would say here, in terms of advice from a distressed environment is that those decisions need to be made on the full picture. Again, in a stressed environment with a lot of information with quick decisions required, often we see organisations and boards blindsided really by kind of what I would describe as headline or single point performance metrics. So what's needed here is for a board to get a grasp on the full and joined up picture, and they really can't do that without the organisation's support. You know, we've talked about that information flowing up from the organisation. In times of stress, what we typically see is that individuals will defer to their areas of individual accountability, you know, for reasons that are quite obvious. And those individual areas of accountability often translate into quite siloed perspective and siloed reporting, you know, it's quite hard to find in stressed environments, a range of people who have a clear and left up view of things that are important to boards, you know, overall cash flows, performance against budget and a meaningful way where the board and the organisation is that in terms of governance, sometimes you'll find one person who has that full and clear view. And that may be the CFO, for example. But sometimes you'll find no one. And so that's pivotally important for the board to ensure that the teams that they're working with have an accountability for presenting that board with information in a way that the board can join the dots. That concept of kind of interdependent measurement of performances is fundamentally important. You know, for example, and retail, it's on, you know, the front page of every newspaper often what you'll see is commercial teams, for example, who have a very legitimate focus on the things that matter to those teams, you know, things like sales volumes. But what about the cost of those goods that are being sold? What about margins? What about overall profitability, looking at single point performance metrics actually ignores what truly matters to a board which has been able to meet those financial debt obligations and been able to reinvest in the business for the future. So what we're encouraging here is for the board to insist or to support the organisation to increase the visibility of performance in terms of the bottom line, and in terms of the bigger picture, I would describe it as you know, when all is said and done, are we delivering a loss in simple terms, are we delivering gains? You know why? Understanding the poorly performing parts of the business is actually as important as understanding your stars or areas. The business which delivering to expectation. Interestingly, what you find when you link up the bits of the organisation or put together the pieces of the puzzle is that things that you thought that you were secure. And as a board, like profit margins, for example, can actually erode. When you look across an organisation and think about all the cross functional activity that's happening. We were working with an organisation, which had a very large several billion budget, and they reported monthly as they should, on that budget. But what evolved as we understood the organisation and why they were not performing financially was that actually the executive reporting to their board and the leaders underneath that executive didn't trust that budget, and in many cases, day to day actually didn't consider it and, you know, comparing their performance, their financial position performance against a forecast was largely meaningless to those accountable for the decisions being made. You know, as a result, those leaders completely disengaged with it. And they were overspending every year, hundreds of millions of dollars. So the means of measurement really provide no meaningful constraint on people's actions. And again, you really need to measure performance against something that's meaningful against the full picture for that organisation to engage in it, particularly during times of stress, when individuals rightly will struggle to know what the right decision is.

Helga Svendsen 25:39

There's been a number of examples in there but both in that one and the one before about the too many pages in the performance report. It's giving you both the board and the organisation, that information that they can properly engage with so they can make proper decisions around what is performing well and what is not performing. Well. That's right. Sophie is there some other tools or sharpen tools that boards should be considering at this time?

Sophie Gibbons 26:04

Mainly short answers to that Helga is yes, the kind of solvent turnaround strategies that we've discussed for boards earlier in this podcast. You know, sometimes they're not going to be enough, if you as a board have six weeks, not six months to improve performance, or to set a path in terms of how you will improve performance, you might need to consider a broader range of tools. And we would describe those just like you, you have as a sharper set of tools for the current times in the eye of the storm, it's pretty difficult to look to tomorrow. And, you know, almost impossible really for distressed organisations to look to the next six months or the next year at the moment. But really, those who that survive and thrive are going to be the ones who look a little bit over the horizon and think and plan now, that will really play pay dividends. And if you think that there is a risk to ongoing performance and ongoing so See, we are having many conversations in the market at the moment. And our key message really is that boards are going to need to consider all the tools at their disposal in terms of their fiduciary responsibilities. And one of those and we won't go into a huge amount of detail on this today, Helga, you've got other people who will speak to this. But one of those tools is voluntary administration. And clearly that sits at the sharp end of the distress continuum. Naturally in the current market, it's been talked about a lot. There are a lot of myths around voluntary administration, particularly in the Australian market. And you know, the concept that voluntary administration and that process is a career ender, for board directors that you know, it refused to believe kind of damages reputation, and that consumers won't touch the organisation. Those are really common themes that come out when you start to talk about something like voluntary administration. It's not so much the case in the US. Interestingly, it's kind of seen as a viable toolset for recapitalizing and repositioning organisations but certainly in Australia, it is the what we're also seeing in Australia. And what I would encourage boards to be seeking out as a number of cases of VA being used quite strategically to position an organisation. We saw Network Ten, which has now come through that and is, has been repositioned through the VA process. most prominently though, probably, and relevant to these times is Virgin Australia, most of your listeners would have seen that the Virgin Australia CEO has been quite vocal in terms of coming up with a while there's still money in the bank and using it to sit up for a bit of future for that organisation. So really, you know, in terms of challenging some of them myth, those myths, there are certainly realities of VA in terms of loss of control of directness, and that does need to be acknowledged. But really, the theme that we see is that the eye is best used when it's not lived too late. The common theme of successful volunteer administrations is that they're planned. You know, we've seen 40 to 50% reduction of insolvencies year on year in June that we discussed again earlier in the podcast. And that's actually telling us that many boards are going to be forcibly confronted with the realities of some of these hard, tough decisions. And so what we'd be saying here is, think about the toolkit that's available to you. Think about some of those sharper tools that you wouldn't otherwise be considering and get out in front of the planning. This temporary relief at the moment for directors on insolvent trading laws. Now is the time to have a clear plan to face off against some of those harder decisions. Helga.

Helga Svendsen 29:53

Oh, Sophie, we have covered so many useful things, I think for boards to think about in this very difficult time. What are the main points you want people to take away from the conversation that we've had today?

Sophie Gibbons 30:05

Look, I think in terms of the fundamental challenges that boards are facing today, they are in many ways similar to a distressed environment. You know, we've referenced that uncertainty that the changing nature of the market, the stress that that places on an organisation and some of the pressures around financials and, and demand. So the couple of things that we would really recommend to boards during this time. The first is consider your role as an agitator, consider your role as a forcing function for sealing the ambition for what we're the organisation needs to go and get the balance right with that. At the same time, as acting as that forcing function and ensuring that you're considering the ambition of the organisation, not just immediate priorities. Really get a laser focus on performance and how performance is flowing to you and the organisation's measure well require and their insight and ensure you're basing those decisions on the full picture don't allow the board to be blindsided by headline, performance metrics, understand how things linked together and required from the organisation that they break down those functional silos and think about what this means to the organisation overall.

Helga Svendsen 31:29

So is there a resource that you would like to recommend for the take on board community?

Sophie Gibbons 31:34

There is Helga, and I've shared the [link](https://www.youtube.com/watch?v=NWH8N-BvhAw) with you, I believe, so that will be shared with the community. It's actually a TED talk that my sister referred me to in the last couple of weeks actually. I'm a lover of TED Talks. I I like the short and sharp nature of them. This one is a woman who is actually now lives and works in Christchurch. So I thought it was quite relevant. And it is a woman who is very experienced in terms of the psychological concepts of resilience. And I thought that that was quite an important and hopefully useful toolkit for the community at the moment, really individually. We're all facing stresses, board members are not at the moment, resilience and practical strategies for resilience have proven to support people in you know, dealing with those stresses and working through uncertain difficult times. And Lucy Hone, who is the presenter of the podcast, in this instance, talks about, you know, some of her more difficult life experiences and how she has taken her learnings from her research and from her work in psychology and gives you three really pointed really practical strategies for how you can apply that, that psychology to your life and it's things that anyone can do any day they really simple, and I think hopefully they will shed some light on positive and productive things we can all be doing at the moment to cope.

Helga Svendsen 33:06

Well, we all need a little bit of that. So I will definitely make sure I put a link to that in the show notes so people can have a look at that as well. Oh, Sophie, thank you so much for sharing some of those, you know, just incredibly practical and useful insights for us from your experience. I know that it's going to be of enormous value to the take on board community. So thank you for being with us here today.

Sophie Gibbons 33:27

Thank you so much Helga. It was a real pleasure.