

LEADERSHIP IN THE FIELD: Interviews With Global Leaders

By Russell Reynolds Associates
with Roger O. Crockett

The Chairman of the BBC Trust shares insight on quality communication, common sense in emerging markets, ethics in business and revamping executive compensation.

Lord Patten on Boardroom Leadership

An Edited Transcript

Chapter 1 — “Nerdy, geeky management-speak drives me mad.”

Roger Crockett Given your vast experience as a leader of boards of directors, what are the relevant skills necessary to bring about effective leadership on boards?

Lord Patten I think in order to have a real sense of strategic possibility, and a real vision, you actually have to have a pretty detailed knowledge of the subject as well. Sometimes people suggest that in order to be the sort of chairman who sits under the tree and waits for the game to come to you, you don't really have to know the detail. I'm not sure about that. I think you really do have to know what's going on. Now, you also of course have to have the self-discipline to leave executive decisions, management, micro-management to those who are employed to do it.

Roger Crockett You've lead organizations in a variety of different arenas, of course at the BBC, but as a director of Cadbury and of course as Chancellor of the University of Oxford. So do leadership skills translate from one environment to another, from business to politics?

Lord Patten I think in whatever sphere you're in you have to be confident that people will tell you what's happening, and tell you things even if they may think you don't want to know them. I think having people who will give you the truth rather than what you want to hear is incredibly important. But across the board I think maybe the most important common ingredient to leadership, is knowing what you want to do and being able to communicate it in a narrative—to use a very common piece of political parlance these days—to convey it in a narrative which is both convincing and inspiring, which both conveys to people very clearly what you want to do and encourages those who are charged with implementing it to set out and deliver. And the interesting thing is when you look at leadership of every kind, if you read a book like John Keegan's *Mask of Command* about great military leaders from Alexander the Great to the Duke of Wellington, what was clear about most military leaders was their ability to explain what they wanted to do very clearly and accurately and get it followed.

Roger Crockett You're talking about communication—and you're very right that very often the 'troops' if you will are reluctant to tell their leader the truth, even if the truth is imperative. So how do you actually get that out of them when you need to know the facts?

Lord Patten You have to be clear to those who are working with you that you do want to know what their opinions are and that you'll consider their opinions, that you may at the end of the day blind ahead doing things which they don't agree with. But at that point they either quit or they are with you. I do think it's terribly important to have people who whisper in your ear and tell you what's really happening. In Roman triumphs, a general coming back into Rome would have a slave standing beside him on the chariot saying, 'Don't forget you're only human.'

Roger Crockett How do you suggest that leaders communicate in this new world, where the digital is as prevalent as any other form of communication?

Lord Patten I think it's terribly important that they use real language. I think that it's not just true of business, but it's particularly true in business. Senior managers can fall into using the sort of language which isn't used anywhere outside the boardroom or the executive suite. There's a sort of nerdish, geekish, management-speak which obfuscates meaning, and too many chairmen and chief executives talk in that sort of language, the jargon-laden quality of so many managers. You never have a discussion, you have an “iterative process,” and it drives me mad.

Chapter 2—Business and Government meet in the Boardroom.

Roger Crockett **Given your background in politics, how important is it for a corporate board to have directors with experience in politics so that they can interact with government officials effectively?**

Lord Patten It is very difficult to think of many corporate sectors where government isn't increasingly involved, where a government doesn't have either a regulatory role, or where government intervention isn't going to have quite an impact on your business. In Europe you're dealing with that at several levels. You're dealing with it at the European level because of the single market and single market regulation, and you're dealing it at the national level. So I think that it's very important to have one or two people on a board with considerable government experience, at least experience of how government operates, and with the ability to tell you when you're paying over the odds for the expertise of so called 'experts' from consultancies or whatever.

Roger Crockett **How active should the chairman or other directors be versus the management team in interacting with the government?**

Lord Patten I think a good chairman always ensures that his colleagues, as directors, whether non-executive or executive, are fully in the picture, and feel as though they're playing a useful and valuable role. I've served with chairmen who do that and I've served with chairmen who don't, and it makes quite a lot of difference. I served with one chairman during the course of a long and not very happy take-over battle, and he was brilliant at keeping the board informed of every twist and turn, and actually doing it through text messages as well as longer reports.

Chapter 3—"Let common sense prevail." Success in China and India.

Roger Crockett **Drawing from your experience in Asia, what is different about leading in an emerging market versus leading in developed markets, like the US or Europe?**

Lord Patten I know about China and I know about India. China has over the centuries attracted wild expectation, which has sometimes encouraged otherwise perfectly sensible business leaders to leave their prudence and common sense in the airport terminal when they get on the plane to Beijing or Shanghai. There's a library of books about business opportunities which have been screwed up in China because of a lack of the sort of corporate prudence which people would demonstrate in any other market. In some respects the best of all was written by a political scientist at Massachusetts Institute of Technology, called Lucian Pye, who wrote a wonderful book on Chinese negotiating.

The main lesson of all is, don't be seduced by the sheer size of the market. Of course, there are fantastic business opportunities in China, but don't be silly about it and don't be less prudent in going into China than you'd be in going into Brazil or India or a European market. You'll find an awful lot of people who have managed to lose a large amount of money in China by neglecting that advice. I repeat, I'm not saying that you shouldn't be in China but you need, I think, to be pretty cautious about how you do it, and to find good Chinese interlocutors or good Chinese members of a board—not easy, not remotely easy, but they are out there.

Roger Crockett **When a country is preparing to enter India or China for example, is it important for the chair to advise management that maybe we need to make sure we have the appropriate representation from those countries?**

Lord Patten It's very different to operate in India or China, and the beginning of wisdom I think is not to think there is a country called 'Chindia.' I think Hong Kong and corporate Hong Kong are different from mainland China and India is very different from both of them. India has probably been more successful than China in developing big multi-national corporations, benchmarking in sectors from pharmaceuticals and to business services to IT, to telecommunications to motor manufacturer. There are differences within India. Increasingly, I think it's wrong to think of India, if you are setting up a factory for example, as one commercial, economic space. Different parts of India are run very differently. The policy has become federalized in a sense, so a state like Gujarat, which only has probably 5% of India's population, has 15 to 16% of India's output, and 22% of India's exports. If you're setting up a factory you'll try, I imagine, to go to a part of the country where the communications are better, where the electricity supply is more dependable, where attitudes to labor market regulation are more sensible. Those are decisions which would lead you in one direction rather than another in India. I don't think it's quite the same in China where things would be more similar right across the board.

Chapter 4—Where did business ethics go? Re-establishing trust.

Roger Crockett Absolutely. Sometimes in their determination to excel, some businesses lose hold of their sense of ethics. What is the role of the chairman and the board in helping to rein in a company when it goes astray?

Lord Patten I think it's in a way comparable to politics. I think you should always ask yourself whether you'd be happy if this or that decision, if this or that business practice, was on the front of tomorrow's newspaper. It doesn't seem to me that it's a bad test to apply. And I think on the whole, bad business ethics is bad for business.

Now, there are lots of different ways you can look at that, but if you think about supply chain issues, we know that customers are increasingly concerned themselves about those sorts of matters—whether things have been made according to reasonable health and safety standards, whether they've taken account of the role of children in the manufacturing process. Information is now conveyed much more rapidly on those issues, through Facebook and Twitter and YouTube and so on. So, I think it's really important for a business to be really hot on safeguarding the way it works. To talk about ethics in the boardroom is not to be undermining the principle role of the business. Trust is something which is being fractured in most of our democracies, in Europe and America, over the last few years. Trust in banks and financial services by the financial crash for example, and it's terribly important to the success of capitalism that it's re-established.

Roger Crockett Of course, one of the more famous, or infamous ethical breaches recently has been the News Corporation *News of the World* phone hacking scandal. Can you tell us any lessons in leadership that that example brings to light?

Lord Patten It's plainly very important that the most senior management should know what's going on right through the business, and should be able to trust what they are told. There is a particular issue involving the media, which certainly with the written media, is self-regulating in this country. If you regard your role, and I think it's reasonable to do so, as being to have the freedom to hold others to account, the rest of society has to feel that you can be held to account as well. Now, we have to find ways, and this is the beginning of the process I think in this country, in which we can do that without the state getting involved. But freedom of speech and the belief in freedom of speech doesn't mean the license to do whatever you want. That's a lesson for all of us.

Roger Crockett I would agree with you. What about the role of the board in cases like this? What sort of regulatory role do they have in keeping the management and the rest of the organization on its toes?

Lord Patten Well the board is ultimately responsible, not just ultimately responsible, you can't I think say as justification 'We didn't know what was going on,' or 'Oh, we were told that everything was fine and we believed it.' You've got to ask some tough questions.

Roger Crockett Does the board's processes, behavior, procedures that govern how it interacts within the company, does that have to change? Should that be updated, just generally speaking?

Lord Patten What I think is very difficult on a board is to have people there with the self-confidence to ask common sense questions, and to in particular, question things they don't understand. How can you sit on a board and be told that millions has been made out of a process which you don't understand? You find yourself almost immediately, in every sector, in a world of acronyms and a vocabulary which you've never heard before. So self-confidence [is required] in just being sensible and intelligent about what you're doing.

Chapter 5—“Put an awkward devil on the remuneration committee.”

Roger Crockett Well of course as Chairman of the BBC you've been rather vocal about remuneration. How should a board establish the right tone and the right standards around executive pay?

Lord Patten First of all, in my judgment, issues of social equity are going to be increasingly important in America and Europe, maybe elsewhere too over the next few years, as we cope with lower economic growth rates, which we will be doing. So distributive issues will become, I think, increasingly important politically and we'd better face up to that.

Secondly, I think we've lost our sense of seamliness of what's appropriate in many of our societies, and I think that's hugely damaging. It's not least damaging to all the arguments about the moral basis of capitalism. I think there are a lot of people who are strong supporters of the market who would look at what's happened in the last few years, at the growing gulf between medium earnings and top earnings, and question what the justification for that was. So I really do think that the relationship between top pay and medium pay is worryingly high.

In the case of the BBC, the BBC is very widely trusted as a great broadcaster, particularly because of the programs that it makes. It wasn't, in my judgment, as trusted an institution as it should have been. And that was partly because of the levels of pay which people were being paid—good people, but the working in a public service ethos and wanting to be paid like bankers, is simply not on. So, I got them to accept three things: First of all, that we would cap top executive pay to medium earnings and that we would gradually reduce the cap for the executive board as a whole to medium earnings at about nine to one, and we are going to see that come down. Secondly, I do not believe that you should treat some people who work for a company as goats and others as cattle. So I was concerned that senior managers were getting things like private health insurance, which other people weren't getting, and gradually we are going to phase that out. Thirdly, and this is more of a public service/public sector issue rather than a private sector issue, the number of people who qualified in the group as senior executives and senior managers, I thought was absurdly high. It was about three and a half percent of the workforce as a whole. So we have a program for reducing that to about one percent. In some cases it doesn't mean getting rid of someone but it means actually changing the nature of their job. So a real reduction in the number of senior executives, a realist attempt to ensure that people are treated in the same way. That is true in the private sector as well, eating in the same canteens and so on. And thirdly, which Japanese companies would take for granted, thirdly I think capping top pay again. If you look at the comparisons of senior paid and medium earnings, a very different picture in Japan, a very different picture in some parts of continental Europe than in the United Kingdom or the United States. And I think my own judgment is that political pressures, using a small "p" for political, are going to push everybody in that direction over the next few years.

Roger Crockett

So Chris, what about the board's role, what role does the board play to make sure the pay is equitable?

Lord Patten

I think it's very important to have at least one non-executive on remuneration committees who's an awkward devil, and doesn't simply take whatever the consultant's report says about comparators. Someone who's prepared to ask awkward questions about pension pots and share option schemes and overall levels of remuneration. I think that's hugely in the interests of any board. It takes quite a lot of guts and self-confidence to do it, but I think it's an extremely important role, just as it's important for an audit committee to have somebody, or more than one person, who can actually read a balance sheet like a hawk from 5,000 feet.



Lord Patten is Chairman of the BBC Trust, which oversees one of the paragons of global public service broadcasting. At a time when media in the U.K. and across the globe are under great scrutiny, Lord Patten brings extensive leadership experience to bear. He was appointed Chairman in May 2011 after a distinguished career in government. He served as a cabinet minister under Prime Minister Margaret Thatcher and Tory Party Chairman under Prime Minister John Major. He was the last British Governor of Hong Kong before its handover to the People's Republic of China in 1997. He is also Chancellor of the University of Oxford and a member of the Russell Reynolds Associates board of directors.



Roger O. Crockett is a veteran business writer, thought leader and speaker. He is the former Chicago Deputy Bureau Chief for *BusinessWeek* magazine and a contributor to *Harvard Business Review*. His perspectives on business, leadership and diversity are trusted by many of the world's top executives and entrepreneurs.