



The inquisitive mind — asking the right questions adds value

By Christo Norden-Powers, Director, Spandah Pty Ltd

- Failure to ask simple questions has led to major corporate collapses and scandals
- Many recent important judgments about directors' duties emphasise the need for executives to turn their minds to particular issues, and questions are an essential way of doing that
- Insufficient weight given to developing questioning skills, even though they are essential to communication and decision-making

Robert is a well-respected, experienced director, and chair of a well-known listed company. He was attending a training workshop and had just finished presenting a report to a group of workshop participants (all directors of other companies), who were learning how to ask more effective questions.

It was mid-afternoon break, but Robert was standing by himself in the training room looking concerned, absorbed in thought. I asked him if anything was wrong, and he shook his head in a manner that suggested disbelief rather than meaning 'No'.

He said:

That report was presented by another person to my board last week. We approved it. But I've just realised that we missed 70 per cent of the potential problem areas in the report. Some are potential disasters. We just didn't see them. But the participants in my group here identified them almost immediately by asking the right questions, and they knew nothing about the background or circumstances. I'm wondering how many other potential time bombs we've approved in the past.

Every organisation has Robert's problem

Robert's situation is pretty typical, even with very experienced directors and executives. It's easy to miss potential problems and risks hidden among voluminous board papers, and especially when they are written with 'spin'.

One CEO confessed to me that if the board members had asked more probing questions about his proposal they would never have agreed to it. He added with a grin 'I got away with it'.

Known risks can be dealt with ahead of time. The most dangerous risk is when we *don't* notice a potential problem. That's when unexpected adverse consequences appear suddenly from left field, with little opportunity to prepare for them or avoid them. And it can (and does) happen very easily.

The consequences can be costly.

It is an issue that is of special concern for non-executive directors (NEDs), who may not have the benefit of familiarity with circumstances that are more evident to other directors. The skill of asking excellent questions is of particular importance for NEDs.

The \$100 million question

The value of well-placed questions cannot be overestimated in business.

The commercial value of the right question asked at the right time can be illustrated and quantified by the cost of *not* asking the right question. The value can easily be in the hundreds of millions of dollars for substantial sized organisations and tens of millions for small and medium sized companies. Every company experiences the problems that arise from failure to ask the right questions. That failure contributes significantly to the \$3 trillion per

annum cost of board and executive 'performance failures' estimated by Bain & Co at the 2004 World Economic Forum. It is not feasible to eliminate such problems, but they can be reduced substantially in both quantity and value.

If we consider only a few well-known examples from recent years in Australia the figures are stunning, for example:

- NAB's foreign exchange trading losses a decade ago — around \$300 million, or ten per cent of the bank's profits
- Centro (class action settlement) — \$200 million
- HIH — whole company collapsed with a culture that discouraged questioning and challenging the leaders, \$5 billion debts
- James Hardie — substantial reputational loss, litigation costs and additional asbestos fund costs.

All those losses were wasted money, time, effort and resources. And they are examples of single instances for each company. In fact, every company suffers multiple instances regularly, and the cost adds up rapidly. For companies trading at a profit, the losses represent profit foregone.

How much effort, time and investment does it take to increase profit by \$200 million dollars? A lot more than it takes to ask the three or four questions that would have elicited the information or strategy that might have avoided the unnecessary losses in the examples above. It takes only a few minutes to ask the questions and get the answers. Maybe a few hours at the most, to get answers. But not long, and not much effort is required. All too often the little extra time that is required is not taken to ask what needs to be asked.

The inquisitive mind

Excellent questioning skills and an inquisitive mind are the foundation of due diligence, negotiations, ascertaining facts versus making assumptions, forming judgments, making decisions, fine tuning strategies, clarifying communication, collaboration, influencing others, process improvement, innovation, resolving conflicts and many other activities that are essential to business.

Questioning skills are also vital for challenging 'groupthink' and the biases of our minds — biases that create a preference for perceiving the world as we have experienced it in the past, rather than perceiving the alternative possibilities and opportunities that are at the heart of innovation, change and performance.

After the Enron collapse, numerous stock exchanges and directors' institutes around the world reviewed the skills required of directors and listed asking the hard questions, probing questions, as one of the top ten skills.

The requirement for an inquisitive mind and questioning skills is well-recognised, explicitly and implicitly, by the *Corporations Act 2001* in relation to directors and officers, for example, s 180 (care and diligence, business judgment rule); s 181 (good faith and best interests of the company) ; s 189 (independent assessment of advice provided by others); s 190 (proper inquiry and responsibility for actions of a delegate).

Critical thinking and information gathering

Recent years have seen some key court decisions focusing on directors' and officers' duties, in particular the *Centro* and *James Hardie* cases.

Those cases, which have been analysed extensively in this journal, and others refer to the need for directors and officers to turn their minds to particular issues when making decisions, judgments and inquiries. The cases do not say much about what is involved in the process of turning the mind in a particular direction, or giving attention and consideration to a particular issue.

However, inherent in 'turning the mind' are several processes that are fundamental to the functions of good business judgment and making effective decisions.

1. how we shift and hold an optimum state of awareness for the task at hand
2. how we apply cognitive abilities to the task
3. asking the right questions and getting the right answers.

Points 1 and 2 relate to the processes of awareness.

Point 3 relates to generating content or answers.

Questions are highly relevant to all three points. First, questions are a powerful and effective way to engage and involve the mind of the listener and generate responsibility and accountability for the answers.

Second, questions turn the mind by shifting, directing and focusing the awareness and cognitive process of the listener.

If excellent questions are asked of the executives and other stakeholders without intimidation or repercussions for honest answers, and the skill is also learned by executives, the culture will quickly change to one of greater openness and accountability.

So the right question can be very effective for turning the mind to the crucial issue by engaging fellow board members and executives. For instance 'How can we be certain that in fact there will be sufficient funds in the asbestos compensation reserves to cope with future claims?'

This is why the right questions are so effective for clarifying facts, challenging assumptions, generating better strategies that work, creating new solutions and opportunities and for generating collaborative outcomes. The right question is designed to trigger the shift of awareness and direction (process). The effect is immediate and does not require argument or confrontation.

Third, questions generate answers, or content — the information to which the question is directed. That is the other meaning of the 'right' question. The way the question is phrased will generate an outcome that relates to the form of that question. Modify the question and you'll get a different outcome (unless you are interviewing a politician).

Language that obscures the truth

When the NAB lost several hundred million dollars in 2003–2004 as a result of its foreign exchange trading desk activities, the NAB chairman, Graeme Kraeche admitted that his lesson from that episode was to be far more proactive (his word was 'aggressive') in questioning the information put to the board.

The NAB forex trading desk Market Risk report was couched in language that reflected a sophisticated talent for obscuring the truth. It was certainly effective, and managed to slip under the guard of some experienced executives and directors. This is an extract and is typical 'corporate speak' and 'spin':

At the time of writing, Global Markets Division trading operations continue to manage risk responsibly in changing market conditions. Adherence to risk discipline is good.

If you had no reason to suspect that the foreign exchange desk was not operating correctly, chances are that you'd miss the cues that the NAB also missed.

But if you are familiar with the language patterns that specifically limit your inquisitive state and obscure the truth, simply reading those patterns will open that state, and the questions immediately arise in your mind. In the case of the NAB quote, there are eight words and phrases that should ring 'alarm bells'. Three or four well-framed questions would probably have been sufficient to confirm to the board and executives the possibility of something being amiss and that further investigation was warranted. Can you figure them out?

In the cases of NAB and James Hardie, a couple of well-placed questions were worth many millions of dollars each.

High performance state of awareness

It's one thing to say that you'll be far more proactive in questioning the information put to the board. But before the question can be formulated, it is necessary to hold a state of awareness that enables you to notice that something may not be right — similar to an inquisitive state, partly engaged, partly detached, observing without prejudgment or cognitive bias. In practical terms a director or executive must be able to hold that state while *simultaneously* absorbing and processing the content of the presentation, and other distractions such as comments by colleagues.

That is especially the case for oral presentations. It's easier with written material because you can mark the page and read it again. But with spoken words, you don't have that opportunity, so your listening state must be finely tuned to hold the optimal balance and be 'present', the mind quiet, still, clear and yet highly aware. It is a high performance state of awareness that is very useful in other aspects of business. It is not difficult to cultivate, if you know how.

That is what Robert's colleagues learned to do, as well as learning the language patterns that create the problems and questions that enable them to assess and tackle the potential problems. Hence they could detect what Robert's board missed. And they could do that on the first reading without any prior knowledge of the subject matter.

Executive and board development

So, why is there not much emphasis in organisations on learning the skill of asking questions that matter? Possibly because in our society and in organisations the ability to present and assert yourself and your agenda, and giving the appearance of being 'right', is regarded as a more important skill for leadership and success.

In fact, presentation skills, listening skills and questioning skills are each important, and listening and questioning generally has the advantage over presentation skills.

In any event, the skill of asking questions is not used as much, or as effectively, as it should in business for a number of reasons.

1. Questioning skills are rarely part of a curriculum for business training courses, so most learning takes place via osmosis, experience and trial and error — and the errors can be very, very expensive. Even for professions where good questioning skills are crucial, such as a barrister, there is little, if any, formal training specifically in the art of questioning. Presentation skills courses are everywhere, but questioning skills courses are hard to find. However, collaboration, engagement, effective decisions and communication and empowerment necessitate excellent questioning skills.
2. A surprising number of people, including directors, hold back from asking questions because they don't want to be perceived as rude, critical, distrusting or judgmental of another person's competence or veracity. That is usually an issue with the way the question is phrased or the way it is delivered. The right question asked the right way will bypass resistance and gain cooperation.
3. A common reason for not asking questions, including on boards, is a concern that the question may be perceived as stupid, irrelevant, or that the question will show or suggest a lack of knowledge or experience. The irony is that in many instances other people at the same meeting have the same question in mind but are reluctant to ask it for the same reason. This point and the previous point are closely related to the board and organisation culture.

As a result, in many organisations, execution of questioning skills is superficial. By that I mean that, even if a question is asked, it may be oblique, ambiguous, or not sufficiently specific, and so fails

to elicit a clear answer; or there may have been no follow-up questions that probe deeper or wider to elicit the information.

I believe that will have to change, and soon. The courts are insisting on a high standard for directors. I believe it is inevitable that the courts will expect directors and executives to possess a higher level of questioning skills to match their responsibilities and experience. Especially as the skill is not difficult for the reasonable director and executive to learn or apply, and the failure to ask the right questions can have a significant impact on investors, employees, suppliers, the economy, individuals, communities, and the nation — and increasingly in the international arena.

Board culture, organisation's culture

In 2004, after the NAB debacle, Graeme Kraehe was asked by a reporter how a director is supposed to get the right information from the organisation. He answered:

With great difficulty...if there is not an openness in the relationship between the board and management it will be difficult for directors to fulfil their responsibilities.

The board's approach will set the tone for the organisation's culture. Asking well-constructed, insightful and constructive questions during board meetings without fear or intimidation, and with the intention of finding the best, most effective outcome for the business by testing and challenging assumptions, facts, and strategy will ultimately generate better decisions, strategies and results.

If, in addition, excellent questions are asked of the executives and other stakeholders without intimidation or repercussions for honest answers, and the skill is also learned by executives, the culture will quickly change to one of greater openness and accountability.

As the executives ask questions of their reports, and so on down through the operational levels the quality of information and strategy coming back up to the executives and board is higher quality, more reliable and backed by accountability, which ultimately makes the jobs of the directors and executives much easier, and results in better quality decisions, faster and more effective execution of strategies, and better performance and profits.

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