

Developing **Leaders**

Quarterly

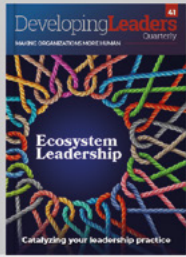
MAKING ORGANIZATIONS MORE HUMAN

Enabling Governance



Catalyzing your leadership practice

Edited by Roland Deiser and Roddy Millar



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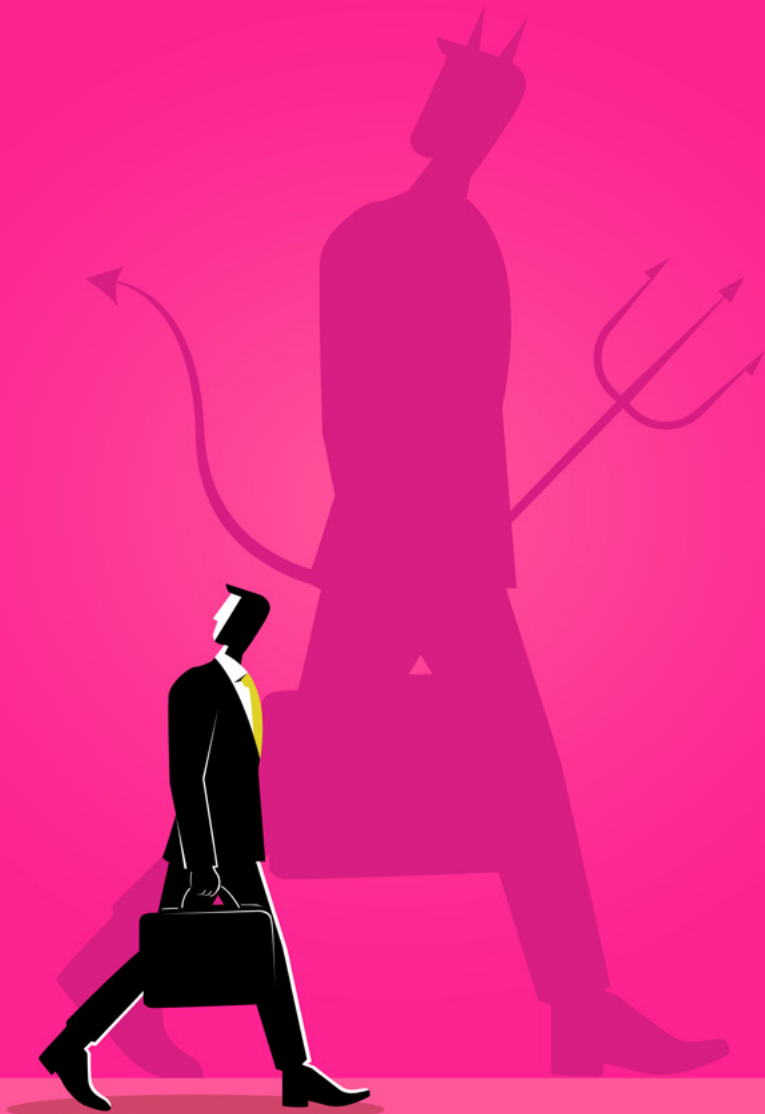
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By Piers Fallowfield-Cooper

Legally Correct but Morally Wrong

Why Balancing Rules With Integrity and Humanity in Leadership is Vital

"In a world of increasing compliance, the challenge isn't just following the rules; it's ensuring we remain human. Being legally correct but morally wrong is a trap too many organisations fall into. Principles, not just rules, must guide our decisions."

Piers Fallowfield-Cooper

What do a stylishly dressed prime minister, a shipyard in Brest and The Boeing Company all have in common? The answer is they were all involved in actions that were tech-

Overreliance on compliance not only restricts entrepreneurship and creativity but can become an enabler of lack of basic competence, epitomised in the catchphrase “Computer says no.”

nically legal but that most of us would call morally wrong.

Britain’s Prime Minister Sir Kier Starmer foolishly accepted free Taylor Swift tickets, a new wardrobe and, most provocatively, very expensive glasses from wealthy donors. The Damen shipyard in Brest, France, is busy repairing the Russian Arctic LNG fleet and The Boeing Company failed to mention to buyers of its new 737 MAX aeroplane that without additional pilot training, they could fall out of the sky.

The response to all of these situations has been predictable: calls for more regulation, more control. But is it that simple? Maybe what is really needed is a different way of thinking and operating altogether.

The Challenge: When Rules Are Not Enough

In industries like finance and healthcare, strict regulations – in the case of finance anti-money laundering (AML) and ‘know your customer’ (KYC) rules – are necessary safeguards but can stifle innovation and creativity.

Overreliance on compliance not only restricts entrepreneurship and creativity but can become an enabler of lack of basic competence, epitomised in the catchphrase “Computer says no.”

The Cost of Over-Reliance on Rules

Rigid compliance cultures, very typical in ‘command and control’ organizational structures, risk creating organizations that are ‘scared of their own shadow’. Boeing, for example, had lost their way; the corporate culture had shifted from ‘making great aeroplanes’ to prioritizing profits and shareholder value over safety and transparency. For example, safety concerns from internal whistleblowers were silenced. Boeing was therefore unable to act transparently after the first 737 MAX crash. This excessive control stifled creativity, leaving employees disengaged and opportunities to fix the problem missed. Reputation, too, is at stake. Starmer’s acceptance of lavish gifts may have followed the rules, but it undermined his promise to restore integrity to politics. This erosion of trust underscores why leaders must go beyond mere compliance.

This is where the idea of an Ethical Barometer – the image associated with traditional weather forecasting – becomes invaluable. Tapping the barometer was a standard practice to ensure an accurate meteo-

Handelsbanken’s ‘church spire principle’ encapsulates the idea that decisions are best made locally, by those who understand the unique needs of their community.

ological reading, in this case the ‘tapping’ encourages leaders to evaluate their decisions against principles of fairness, transparency, and alignment with core values. It helps bridge the gap between creativity and compliance and it ensures innovation can flourish within an ethical framework.

A Principles-Based Approach to Leadership

To navigate the complex landscape of modern leadership, we must move from rigid, rules-based frameworks to principles-based approaches. These prioritize outcomes and ethics over box-ticking. Here is how I see it working:

1. Empower Frontline Decision-Making

The Swedish bank, Handelsbanken’s ‘church spire principle’ and hotel group Ritz-Carlton’s service model prove the power of local autonomy. Handelsbanken’s ‘church spire principle’ encapsulates the idea that decisions are best made locally, by those who understand the unique needs of their community. This principle ensures that



branch managers focus solely on the customers within their immediate, visible vicinity – figuratively represented by the area visible from a church spire. By empowering managers with autonomy and responsibility, Handelsbanken creates a system where decisions are both faster and more attuned to customer needs, without sacrificing accountability.

This model stands in stark contrast to overly centralized systems, where distant leaders impose decisions without local insights. It demonstrates how principles-based leadership fosters trust and adaptability in ways that rigid compliance cannot.

Workshops reinforce the idea that principles are living guidelines rather than abstract statements, fostering a culture of ethical reflexivity.

Trusting employees closest to the customer fosters both accountability and adaptability, ensuring better decisions and higher satisfaction. For instance, at Ritz-Carlton, the employee receiving a request or complaint ‘owns it’, with the authority to mobilize any resource necessary across the whole organization to resolve the issue. The issue remains ‘open’ until the person who initiates it signs it off as completed – no ‘I asked maintenance to fix it’ here. This not only addresses any customer concerns but reinforces a culture of trust and empowerment. The ‘Ritz-Carlton Credo’ begins: ‘We are ladies and gentlemen serving ladies and gentlemen’ setting the tone of the entire organization.

One way to empower decision-making is by establishing a ‘decision latitude matrix.’ This tool provides employees with clarity on where they can act independently and when they need to escalate. For example, setting thresholds – like budget caps for resolving customer complaints – can create confidence while maintaining organizational safeguards. Regular feedback loops between teams and leadership further reinforce trust and ensure continuous improvement.

2. Understand Incentives

Charlie Munger’s insight – “Show me the incentive, and I will show you the outcome” – is a reminder that poorly aligned incentives can lead to disastrous decisions. Boeing’s focus on cost-cutting over safety illustrates the catastrophic risks of prioritizing short-term gains. Leaders must ensure that their reward systems align with long-term integrity. For example, Handelsbanken’s profit-sharing scheme known as Oktogonen fosters collective long-term accountability, discouraging reckless risk-taking while promoting sustainable growth.

Leaders must regularly audit their incentive systems. Ask questions like: Are our bonus structures aligned with long-term goals? Do they reward behaviours that reflect our values? For instance, a healthcare provider could offer team-based incentives for patient outcomes, ensuring collaborative efforts and holistic care rather than narrow, individual achievements.

3. Adopt Principles-Based Regulation

The Financial Conduct Authority’s Treating Customers Fairly (TCF) initiative is a prime example of principle-based regulation. It prioritizes customer interests, ensuring firms maintain flexibility while acting ethically. TCF prevents exploitation of loopholes by ‘gaming the rule book’ and holds organizations accountable to over-



A ‘chaordic’ operating model that blends chaos and order, creating an adaptive, principle-driven organization.

arching principles. In some ways it harks back to the Bank of England’s historic ‘raised eyebrow’ approach – a subtle but effective form of principles-based oversight which enabled flexibility and trust while maintaining market stability.

To embed principles into daily operations, leaders can initiate ‘principles workshops’ where teams discuss real scenarios and align their decisions with the organization’s core values. These workshops reinforce the idea that principles are living guidelines rather than abstract statements, fostering a culture of ethical reflexivity.

4. Balance Control and Creativity

NATO’s ‘Mission Command Doctrine’ demonstrates how to effectively balance strategic oversight with tactical flexibility. Empowering lower-level commanders to make decisions within a clear framework ensures adaptability without losing sight of the mission. Clear intent on the ‘what’ and the ‘why’ is provided but the ‘how’ is left to the battlefield commander. This approach can be translated into corporate settings by establishing a clear organizational purpose and providing teams with the autonomy to innovate within defined boundaries.

Consider introducing ‘creativity windows’ – time-limited periods where teams can operate with reduced oversight to experiment with new ideas. Famous examples

In today's fast-paced environment, leaders must know when to act decisively and when to take a step back for deeper analysis.

include 3M's 15% time when employees can work on projects of their own choosing – producing Post-it notes and Google's 20% time which led to the development of Gmail. This approach, often seen in agile project management, enables innovation while maintaining a framework for review and accountability.

5. Foster Cultural Alignment

Dee Hock, founder and first CEO of VISA INC created a 'chaordic' operating model that blends chaos and order, creating an adaptive, principle-driven organization. By decentralizing authority and fostering shared purpose, VISA became a global leader in financial services, balancing flexibility with reliability for its member banks. This approach encouraged member banks to accept the principles and operating model of VISA (the plumbing) but to be creative in their customer approach (the poetry).

Balancing Leadership Tensions: The Continua Framework

Leadership in modern organizations is rarely about solving simple, binary problems. It's about navigating the complex tensions that exist within every decision. To be effective, leaders must embrace these tensions and learn to operate in a post Aristotle thinking model – 'this and that' rather than the 'this or that' frame.

An Ethical Barometer complements this framework by providing a structured approach to decision-making. For instance:

- **Speed or Thoroughness:** Does the urgency of this decision justify potential trade-offs in accuracy or trust?
- **Creativity or Consistency:** Are we empowering innovation while staying true to our organizational principles?
- **Oversight or Autonomy:** Does this decision balance accountability and compliance with the freedom necessary for team success?

1. Speed or Thoroughness

In today's fast-paced environment, leaders must know when to act decisively and when to take a step back for deeper analysis.

- **Speed in Action:** Quick decisions are critical in high-pressure, high-stakes situations. For example, NATO's *Mission Command* approach empowers teams on the ground to make real-time decisions, ensuring responsiveness without waiting for top-down approval.
- **Thoroughness in Strategy:** Conversely, significant long-term decisions – such as launching a new product or navigating a crisis – require careful deliberation. A tiered decision-making framework can help: high-risk decisions automatically trigger a review, while low-risk ones are fast-tracked.

Reflection for Leaders: Are you enabling your team to act quickly when needed, or are layers of approval slowing progress unnecessarily?

2. Creativity or Consistency

Creativity fuels innovation, but without consistency, organizations risk losing alignment with their core purpose.

- **Fostering Creativity:** Create 'sandbox environments' where teams can experiment with new ideas without fear of failure. Agile project management uses this principle effectively, encouraging rapid prototyping and iterative feedback. SpaceX has this philos-

ophy¹ at its heart 'fail fast, learn faster'. Ratan Tata, founder and Chairman of Indian conglomerate Tata created, near his retirement, a prize for "Best Failed Idea" with the aim to spark innovation and encourage risk taking².

- **Ensuring Consistency:** Principles-based frameworks – like Ritz-Carlton's service credo – enable creative problem-solving while ensuring every decision aligns with organizational values.

Reflection for Leaders: Do your teams feel empowered to innovate, or are they constrained by rigid processes?

3. Oversight or Autonomy

Effective leaders strike a balance between maintaining control and empowering their teams to take ownership.

- **Oversight for Accountability:** Boeing's failures illustrate the dangers of misunderstanding the need for proper oversight; in collusion with the FAA, the 'mark your own homework' model proved (literally) fatal. Leaders must set clear guidelines and accountability measures to avoid systemic breakdowns.

1 According to SpaceX's 'fail fast, learn faster' approach toward rocket design, avoiding a repeat of past failures counts as major progress.

2 "Failure is a Gold Mine!" says Ratan Tata. Reported widely including in HBR.



True leadership requires balancing authority with empowerment and building systems that thrive under complexity.

• **Autonomy for Empowerment:** Handelsbanken's decentralized model is a masterclass in trust. By empowering branches to make local decisions, the organization thrives on accountability and adaptability.

Reflection for Leaders: Is your leadership style fostering autonomy and trust, or are you inadvertently creating a culture of micromanagement?

Putting It into Practice

Leaders can use the continua as a diagnostic tool to evaluate their organization's current state and identify areas for improvement. Here's a quick framework to guide you:

1. **Map the Tensions:** Identify where your organization sits on each continuum.
2. **Define the Balance:** Determine where greater flexibility or control is needed.
3. **Act with Intent:** Implement small, measurable changes to shift behaviours and monitor outcomes.

By embracing these continua, leaders can navigate complexity with confidence, building organizations that are innovative, resilient, and aligned with their core principles.

A Simple Checklist for Leaders

To apply these lessons, leaders can use this quick reference:

- Are we empowering the right people to make decisions?
- Do our incentives align with our long-term goals and values?
- Are we creating transparency in our decision-making processes?
- Do we treat failure as a threat or as an opportunity to learn?
- Are our actions reinforcing trust and ethical clarity?

True leadership acts as a catalyst, creating environments where others can succeed.

Moving Beyond Strongman Governance

Authoritarian leadership promises order amidst chaos but often sacrifices creativity, trust, and humanity. True leadership requires balancing authority with empowerment and building systems that thrive under complexity. Here's how:

1. Empower Teams with Clear Boundaries

Strongman leaders centralize power, stifling innovation. Instead, provide teams with a framework of principles and trust them to execute. Handelsbanken's decentralized model proves that autonomy strengthens accountability.

2. Foster a Culture of Trust

Replace fear with psychological safety. Encourage transparency, open dialogue, and regular 'trust audits' to ensure alignment with values and to empower teams.

3. Invest in Long-Term Systems

Strongman approaches fixate on short-term wins. Sustainable leadership builds systems – such as talent development and innovation pipelines – that thrive for decades.

4. Collaborate, Don't Dictate

Collaborative models, like cross-departmental task forces, solve complex challenges while encouraging shared ownership. This distributed power makes organizations more resilient and adaptable.

5. Shift from Control to Catalysis

True leadership acts as a catalyst, creating environments where others can succeed. Equip your teams with context and resources, and trust them to deliver.

Ask Yourself

- Are we building systems that enable empowerment or reinforcing dependency on top-down control?
- Is fear of disruption and possibly chaos preventing us from trusting our teams?
- How are we balancing short-term wins with long-term resilience?

Conclusion: The Leadership Imperative

Leadership today demands more than just following the rules – it requires building organizations that thrive on trust, adaptability, and ethical clarity. The balance between control and creativity, compliance and innovation, is not just a regulatory challenge; it is a test of leadership.

To lead effectively, start by embracing principles that go beyond box-ticking. Empower your teams to make decisions with accountability, align your systems to reward integrity, and foster a culture where innovation thrives within a framework of trust. Use tools like the Ethical Barometer to ensure every choice strengthens your organization's moral credibility and long-term resilience.

True leadership is about creating a legacy – an organization that not only survives scrutiny but inspires others by how it operates, is a prize worth winning. The question is not whether you are legally compliant but whether you are building something that stands the test of time.

Now is the time to step up. Will you lead with principles, or let rules define you? The choice will shape not just your organization, but the future of leadership itself.

Practical Steps for Leaders: Piers in Your Pocket

To bring these ideas to life, here are some actionable ideas to explore:

- **Trust Before Control:** Empower employees closest to the action. Create a framework of principles and let teams make decisions within it.

- **Align Incentives:** Ensure reward systems encourage long-term thinking and ethical behaviour. Avoid setups that prioritize short-term wins at the expense of integrity.
- **Adapt, Don't Dictate:** Use principles as a guiding star, not a leash. Encourage flexibility while holding teams accountable to core values.
- **Ask Better Questions:** Regularly self-audit by asking, "Are we legally correct but morally wrong? Are we incentivizing the behaviour we want?"
- **Cultivate Cultural Clarity:** Invest in training and communication to embed organizational values deeply, ensuring alignment across all levels.
- **The 'Ethical Barometer':** This simple idea prompts leaders to evaluate whether key decisions align with organizational principles, potential impacts on stakeholders, and the broader implications for trust and reputation. Implementing this during decision reviews creates a culture of moral accountability.

Piers Fallowfield-Cooper works with C-suite leaders and their teams to achieve improved performance, stronger relationships and greater personal satisfaction. He is the author of *Are You Still the Future?* which was voted a finalist in the Business Book Awards 2024.

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