WHEN POWER CORRUPTS ORGANISATIONS

THE famous observation that "power tends to corrupt, and absolute power corrupts absolutely" is particularly relevant in the business world. Power is necessary for organisations to function. However, when power becomes concentrated, unchecked or exercised without accountability, it can gradually undermine judgment, ethics, governance and ultimately the organisation.

Power does not necessarily corrupt everyone who possesses it. Rather, unchecked power can create an environment in which poor behaviour becomes easier, less visible and less likely to be challenged.

THE CONCENTRATION OF POWER

One of the most significant governance risks in business is excessive concentration of power in one individual or a small group.

Initially, concentration of power may appear beneficial. Decisions can be made quickly, bureaucracy can be avoided and the organisation can pursue a clear strategic direction. Over time, the same concentration can create serious weaknesses.

When one individual becomes too powerful, others may become reluctant to challenge that person's decisions. Directors may become dependent on the chief executive. Senior managers may tell the leader what they want to hear rather than what they need to hear. Employees may fear retaliation if they question questionable decisions.

The result is an organisation where authority becomes stronger than accountability.

POWER CAN CHANGE BEHAVIOUR

Power can change how individuals perceive themselves and others. A successful executive may begin to believe that past achievements demonstrate superior judgment in every situation. Confidence can turn into arrogance, and strong leadership can become an authoritarian one.

A powerful executive may begin to believe that rules are applicable to others but not to themselves.

The danger is that misconduct rarely begins with a major fraud. It can begin with small exceptions: approving an unusual expense or asking employees to conceal unfavourable information. If these actions are tolerated, the boundaries of acceptable behaviour gradually move.

ABSOLUTE POWER DESTROYS CHALLENGE

Perhaps the greatest danger of excessive power is the destruction of constructive challenge.

Good corporate governance requires directors and executives to question assumptions, examine risks and challenge decisions. A healthy board asks difficult questions.

But when a dominant executive controls information, influences board appointments or intimidates dissenters, independent challenge can disappear. Board meetings may become formalities rather than genuine decision-making forums.

This creates the dangerous phenomenon of groupthink. Directors may convince themselves that supporting the dominant leader is safer than challenging the leader. Eventually, everyone agrees — and nobody is truly thinking independently.

Many corporate failures demonstrate that the problem is not always the absence of information. Sometimes the information exists, but nobody is willing to challenge the person who possesses the power.

MANIPULATION

The relationship between excessive power and financial misconduct is important.

Executives under pressure to meet earnings targets, maintain share prices or demonstrate growth may manipulate accounting estimates, accelerate revenue recognition, defer expenses or conceal liabilities.

A culture can therefore develop where financial reporting becomes an instrument for protecting management's reputation rather than providing objective information to shareholders.

This is why an effective audit committee, independent directors and strong internal audit function are so important. They provide additional layers of challenge and accountability.

THE ROLE OF THE BOARD

The board is one of the most important safeguards against the misuse of executive power. Directors must be prepared to challenge management, particularly when decisions involve significant financial, strategic or reputational risks. This requires genuine independence.

An independent director who is unwilling to challenge management provides little protection. A board remain ineffective if directors are overly dependent on management information or relationships.

The board must therefore create an environment where disagreement is acceptable.

Constructive disagreement is one of the board's most valuable contributions.

Culture matters, too.

Internal controls, segregation of duties, approval limits, whistleblowing mechanisms and audit procedures help prevent abuse of power.

If the organisational culture rewards results regardless of how those results are achieved, employees may find ways around controls. If senior executives routinely override procedures, employees quickly learn that policies are merely suggestions.

The strongest control is a combination of ethical leadership, independent oversight and effective systems of accountability.

The tone at the top matters enormously. Employees watch what leaders do, not merely what leaders say.

UNCHECKED SUCCESS

Successful organisations may be particularly vulnerable. A leader who has delivered extraordinary growth may accumulate enormous influence. The board may hesitate to challenge someone regarded as indispensable.

Past success can therefore become a source of future risk.

The question should never be, "Has this person been successful?" It should be, "What happens if this person's judgment is wrong, and who has the authority to challenge it?"

No individual, however talented, should become more important than the governance system protecting the organisation.

The writer is a former chief executive officer of Minority Shareholders Watch Group and has over two decades of experience in the Malaysian capital market.