

MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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SPEAK UP, SPEAK OUT



DEVANESAN
EVANSON

LESSONS FROM FAIRY TALES

WE all grew up alongside children's fairy tales and some of them have stuck with us. And as we grew older, some of them have stuck on much more than others. Some have morphed to offer new meanings and perspectives and seem relevant to the challenges faced and to events happening around us.

The better ones offer lessons about pitfalls to avoid. The *Emperor's New Clothes* is one of those — its message resonates clearly today. It offers nuggets of wisdom at the organisational (corporate) level.

Hans Christian Andersen published this cautionary tale in 1837. The *Emperor's New Clothes* is about two opportunistic swindlers who pretend to be weavers and made a fool of an emperor and the people around him and in general.

There was this emperor who was obsessed with fine clothes and who prided himself with being the best attired. Two swindlers convinced the emperor that they could make him the best clothes the world had ever seen.

They informed that only intelligent and competent people could see the clothes that they were going to weave. To those who were stupid or incompetent, the clothes would appear invisible. The end-result was the emperor parading around town with nary a stitch on.

The emperor was reluctant to admit that there was nothing, for then he might be branded as stupid and incompetent. Likewise, his subjects, too, pretended that there were clothes when there was none — again for fear of being branded stupid and incompetent by the emperor.

No one could see the clothing but no one wanted to admit this fact because they did not want to be identified as stupid and incompetent.

When the emperor paraded around town, even the townspeople gasped with appreciation as they, too, did not want to appear stupid and incompetent.

An earlier version of the story stated that only illegitimate human beings could not see the clothes — adding more pressure to the buy-in.

As the emperor paraded the streets in the invisible clothes, a child in the crowd pointed out the truth — the emperor had no clothes. Slowly, everyone in the kingdom admitted that they could not see the new clothes. The two thieving scoundrels had absconded but only after much financial loss to the kingdom and embarrassment to the emperor.

Now, the emperor is in fact anyone who occupies a leadership position. Today, the weavers have taken different forms and adopted different modus operandi amid different settings.

On Oct 14, Securities Commission chairman Datuk Seri Dr

Awang Adek Hussin urged the public to be wary of self-proclaimed investment gurus who offered questionable advice or use social media to spread false or misleading information.

He elaborated that the popularity of the Internet and social media, unfortunately, had provided a fertile ground for fraud and scam activities by entities that were either illegal or did not comply with local securities laws, with the significant increase in scams and retail investor losses reported highlighting continued investor vulnerability.

The fairy tale does offer some nuggets of wisdom. Firstly, if it is too good to be true, it probably is. Invisible clothes are too good to be true. Likewise, exorbitant risk-free returns are too good to be true. There really is no such thing as a free lunch.

Secondly, people should be willing to speak up if they know the truth, even if they think that everyone else will laugh at them. Many will be able to relate to this at the boardroom when they question themselves whether they will come across as less than brilliant if they were to ask a question that they feel should be asked.

Directors become conscious of appearing stupid by asking what may be perceived as a stupid question and as such refrain from asking. This represents a manual override of our knowledge that there is a need to ask a question to

seek clarity — that all may not be that well.

The dangers and pitfalls of groupthink are being sowed. There is no such thing as a bad question, only bad answers.

Thirdly, it is difficult to speak truth to power. It seems to pay to say what the bosses want to hear even when the bosses are wrong. It is an understandable tendency to like people who are like us, though we should like even people who are not like us.

By extension, it is normal to like people who think like us. Welcome to the world of groupthink.

We are reminded of the appropriate saying that where all think alike, no one thinks very much.

Diversity is the answer to mitigate the risk of groupthink. And diversity is an agenda that all boards should strive towards.

We are well on our journey towards gender diversity. But it is diversity in general that is going to reap better rewards. This includes cultural, racial and religious diversities.

Fourthly, directors should hesitate to believe anything without the backing of empirical evidence. The professionally sceptic directors will ask for such empirical evidence. While trust is well and good, it should not blindly override the need for validation and corroboration.

The writer is chief executive officer of Minority Shareholders Watch Group.

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