Boards of deflectors

Is rigorous debate high enough on the boardroom agenda? Quite the opposite. Most corporate boards seem either disinterested in constructive conflict or content with being cordial though dysfunctional. Stuart Crainer and Des Dearlove argue that such behaviour not only creates weak boards, it also spawns flaccid companies.
Remember the first time you ventured into a boardroom? It may have been empty, but chances are the memory is burnt into your corporate soul. The table: polished to perfection. The interior design: straight from central casting. The art: venerable oils of corporate elders or bold abstract splashes.

“My memory from my first board meeting as a director was how well reality corresponded with my expectations,” says Jan Lapidoth, a board member of the airline SAS in the 1990s. “I decided my role was to ask intelligent questions rather than make authoritarian statements. What I found around the table were old timers with different ideas. They played their game and enjoyed listening to their own voices. Worst of all, they did not like team play. They were almost all CEOs from other companies, used to being surrounded by heel-clicking associates. It didn’t take long before I became one of them and behaved as they did. The board represented superior strategic thinking, the VPs didn’t understand much, and when things didn’t work, it was their fault.”

Lapidoth’s experience is not unusual. We asked a company vice president to speak off-the-record for his memories of interacting with the board. “What I got from the board was the corporate equivalent of friendly fire. After every board meeting, the CEO used to call us VPs to a short meeting to be grilled by the board members on any proposal we had submitted. What became obvious then was that we and the board were playing on opposing teams. We, the division heads, had spent days preparing lengthy documents to be sent out at least 10 days before the board meeting to give the directors time to read and think. Did they? They stuffed the documents in their briefcases, all 200 pages or so, and leafed through them in the taxi to the meeting. They extracted, at random, a paper, formulated a trick question and entered the meeting room ready to fire. After all, board work is a power game.”

Silence of the rams

The real corporate power game is not played out around water coolers, on the factory floor, or in front of the media. Real power is exercised in the world’s boardrooms.
very best boards are world class and lead the way internationally, many others are well below the standard of those in more vigorous companies.

**Political animals**

To better understand the issues, let’s return to first principles. The board exists to govern the corporation. It is first and foremost a political arena. The *Oxford English Dictionary* defines politics as: “activities concerned with the acquisition and exercise of authority or government”.

Indeed, the political role of boards is enshrined in their make-up. Independent directors (outsiders) provide checks and balances on the executive team (insiders). The independent directors are supposed to act as policemen and women, while offering a sounding board for management to test strategy and tactics. A modern board is designed to be half-cop, half-Socrates. So, whether it functions as a representative democracy or a dictatorship, the board is a political forum. Always. No one who’s thinking responsibly ever envisioned a board as a club of inside-and-outside chums, getting together to share PowerPoints and pints of ale while slapping each other’s backs. The boardroom isn’t designed to be a comfortable and harmonious place. It isn’t – or at least it shouldn’t be. Rather, it should be a challenging forum for lively debate and decision-making.

After all, there is a lot to talk about. Arun Sinha is chief marketing officer of Zurich Insurance as well as a board member of the Indian company, 24x7 Learning. “A board member primarily focuses on four things. First, strategy: long-term strategy and execution are paramount. You need to have an aggressive goal and a plan on how to reach that. The second thing is performance management: how management is executing against goals and what resources they need to devote towards that; how do you achieve the objectives? The third is talent managers and other Board members), when matters become personal, board business often turns toxic. Over the past 15 years, Professor Randall Peterson of London Business School has carried out in-depth research among top teams in several industries – including investment management and the hotel industries. The results are remarkably similar. Says Peterson: “My findings suggest that rather than investing in the platonic ideal of people getting along perfectly, companies should put more attention into how they can better manage conflict.”

**From club to team**

In world politics today, there are calls for greater transparency about lobbying and vested interests, but no one suggests that political debate should be anything but robust. It is time to put the politics back into the boardroom. The worry at the moment is that, with all the talk of transparency, it is directors who are becoming invisible. Like the Cheshire Cat in Lewis Carroll’s *Alice in Wonderland*, their smiles linger while board members disappear into collegial groupthink.

But how can constructive conflict and rigorous debate rise up the boardroom agenda? The starting point is how boards are perceived. To work effectively, boards must be seen as high-performing teams rather than as cosy clubs, and judged by the same criteria. In America’s boardrooms, the shift from club to team is already underway but has some way to go. Recent research of 760 directors, by James D. Westphal of the University of Michigan and Ithai Stern of Northwestern University, found that the route to sitting on numerous boards had more to do with conformity, flattery and favours than with activities on behalf of shareholders.

Sarbanes-Oxley has shifted attention onto performance – or at least compliance – at the expense of *esprit de corps*. Great teams have both.

The board exists to govern the corporation. It is first and foremost a political arena.

development: this is the cornerstone of all execution and is concerned with developing leadership and management – ultimately, even CEO succession. And the last board duty is risk management as it relates to compliance and sound financial practice.”

Given this agenda, differences of opinion are the stuff of which board meetings should be made. This means recognizing that resolving conflicts of opinion and competing interests is integral to what boards do. But conflict must be managed because, as the recent Hewlett-Packard example shows (in 2006, Board members, in essence, spied on HP

Think back to any effective team you were involved with and you will know that silence is unhealthy. The board is the ultimate high-performing business team – or should be. Boards need to meet frequently enough to get to know each other and establish a sense of shared purpose; personal comfort with each other should serve to encourage honest, open debate without becoming personal.

“It is even more crucial these days for boards to resemble a great group, more than ever before,” says Warren Bennis, distinguished professor of business at the University of Southern California.
Assess what kind of conflict is driving the problem – task conflict, relationship conflict, process conflict, or some combination of the three.

Remember that trust is gold in these situations – with trust, a group can have strong task conflict without it turning personal. In the absence of trust, task conflict has a tendency to mutate into personal disliking.

Where you don’t have strong trust among the team, use a qualified consensus decision rule (that is, everyone agrees that they can “live with” the decision). This will achieve two things: it will encourage everyone to argue in a more polite and respectful way, and it should also help build trust within your team.

Avoid a “majority-rule” decision-making process, if possible. Although most people think of this as the “most fair” way, it is often associated with poor performance because it is usually an excuse for the majority quickly silencing a dissenter. Engaging and integrating minority viewpoints has typically been associated with high-quality group decision making.

If you are in doubt about the level of trust and conflict in your team (and even if you are not), discuss it openly with members of your team. Many CEOs and team leaders are not aware of the real levels of trust in their teams. Don’t take offence if candour reveals that not every board member feels he can trust his peers. Instead, make it a new agenda point to work on at the very next meeting.

If debate – including robust but constructive criticism – is vital to good decision-making, what can organizations do to improve the quality of their key decisions? Professor Randall Peterson suggests five ideas for successfully managing conflict:

- Assess what kind of conflict is driving the problem – task conflict, relationship conflict, process conflict, or some combination of the three.
- Remember that trust is gold in these situations – with trust, a group can have strong task conflict without it turning personal. In the absence of trust, task conflict has a tendency to mutate into personal disliking.
- Where you don’t have strong trust among the team, use a qualified consensus decision rule (that is, everyone agrees that they can “live with” the decision). This will achieve two things: it will encourage everyone to argue in a more polite and respectful way, and it should also help build trust within your team.
- Avoid a “majority-rule” decision-making process, if possible. Although most people think of this as the “most fair” way, it is often associated with poor performance because it is usually an excuse for the majority quickly silencing a dissenter. Engaging and integrating minority viewpoints has typically been associated with high-quality group decision making.
- If you are in doubt about the level of trust and conflict in your team (and even if you are not), discuss it openly with members of your team. Many CEOs and team leaders are not aware of the real levels of trust in their teams. Don’t take offence if candour reveals that not every board member feels he can trust his peers. Instead, make it a new agenda point to work on at the very next meeting.
(outsiders). This needs to be both clearly understood and properly managed. Otherwise, it is all too easy for the two sides to fall into an “us versus them” mentality. Or, worse still, the outsiders may abdicate responsibility by acting as a rubber stamp for the decisions of a strong CEO and his top team.

Being an outside director means being prepared to take the flak rather than sitting comfortably on a well-upholstered chair and asking facile questions. The role of outside directors has been analyzed from every angle post-Enron, a company that actually had a majority of outside directors on its board. Key to this are transparent expectations and role descriptions. Inside and outside directors need to know where the boundaries lie. “There is no doubt that the best reform to boardroom performance lies in the selection of directors and the definition of their role,” says Jan Lapidoth. “The director should have the time to care for the company and should have no ulterior motive for sitting there. While he should be loyal to the shareholders, he should be even more loyal to the company. It is not necessarily the same. A much better balance is needed. Shareholders are only investing money while the people of the company are investing their lives.”

The roles of the independent, outside directors and those of the executive directors should be well-demarcated. In reality, boundaries need to be drawn and redrawn. The need to do so will become ever more important as technology mingles with the boardroom mahogany. Technology means that virtual board meetings are a growing reality. Companies like BoardVantage (www.boardvantage.com) have been offering “board portals” for more than five years. Virtual boards will allow many companies in fast-developing markets to tap into experience and expertise elsewhere in the world.

From his home in Connecticut, Arun Sinha attends board meetings of the 24x7 Learning in India via regular webcast and conference calls. The meetings usually start at 10 p.m. on a Sunday evening in the US - 7:30 a.m. Monday morning in Bangalore. Another board director joins from California. “The virtual meeting is a new way of dealing with the board members. It works as well as being in person and is certainly more efficient. This way the company gets worldwide capabilities at board level.” Follow-up emails and an annual visit in person to the company’s Bangalore headquarters ensure that virtual outsiders blend successfully.

The greater challenge, however, is not to connect directors electronically – for that is simply an alternative to communicating face-to-face. What’s key for companies today is to stimulate their boards into productive bodies, which will happen only if boards engage in constructive conflict. An easy-going board is a good way for a strong company to begin sliding downward.

But these days, board members are more likely to cosy up to one another than engage in constructive debate.