On Speaking Terms: Boardroom Communication

by Kenneth Kaye

To call a corporate board a "team" may seem an oxymoron. A group of very high powered individualists, with conflicting agendas and egos, makes for a volatile mix. Disputes on the board, and between directors and the CEO, can weaken the company both through destructive arguments and suppression of valuable dissent. But boards can learn to use conflict constructively, in ways that benefit the corporation.

Which is more destructive to a corporation: excessive internal conflict or avoidance of conflict? Is it more harmful to have directors and a CEO who refuse to work together, or a rubber-stamp board adding no value to its company's governance?

The answer, of course, is that both extremes are unacceptable. Although the costs and risks of each are different, fear of conflict can lead a corporate board to make or endorse disastrous decisions—or fail to make vital ones. One widely publicized case was the comfortable board of Phar-Mor, Inc., whose co-founder fell under a cloud of embezzlement charges. Perhaps that company could have benefited from a few "barbarians" as directors, critically scrutinizing management.

Boardroom conflict is healthy if directors have effective processes for airing all sides, making decisions, and moving on. However, the corporate board has unique features that make conflict resolution difficult.

Another example is Digital Equipment Corporation. DEC directors were quoted in *Business Week* as "shocked" when the company reported a quarterly loss of $183 million earlier this year. *Business Week* commentator Judith H. Dobrzynski concluded, "DEC's board wasn't doing its job when the company was doing well and now, hidebound by convention and crippled by a lack of knowledge, it is struggling to catch up."

Conflict is not bad. It is vital to the health of a company. But it is only healthy if directors have in place effective processes for airing all sides of important issues, making decisions, and moving on.

It is possible for an organization to subsist a long time without conflict, just as it is possible for a patient to survive on life support systems while brain dead. To grow, to meet new challenges, and to compete requires constant challenging of management from above as well as below. Just as important, when a company has outside directors, they must be able to challenge *each other,* too.

The phrase *conflict resolution* means something quite different in the context of a working group, such as a board, from what it means in the settlement of disputes between unrelated parties (litigation, mediation, arbitration). Within a group, disagreeing colleagues—in this case, the directors of a corporation—must resolve their differences not through attorneys but among themselves. The object here is not to destroy but to improve their working relationship.

Conflict well resolved is the life blood of continual growth and adaptation to change in organizations of all kinds. Compared with other types of groups, however, the corporate board has unique features that make conflict resolution especially difficult.

☐ *The "All Star Team" problem.* Boards are frequently composed of individual achievers rather than of people known for team play. For example, the chairman of the executive committee of a company I consult with is highly respected as a brilliant

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financial wizard. He is also known for his integrity and moral leadership. Yet neither his fellow directors nor the CEO can stand to work with him because of his arrogance.

☐ *The "All Star Game" problem.* As is the case with an All Star Team, directors' opportunities to practice together are extremely limited. Unlike a management or workplace team, which has weekly, daily, or even constant contact, your full board may meet only a few times in a year. One of the contributing factors to good teamwork is simply the *cumulative time* over which members interact with one another. Fortunately, directors also come to know each other through committee work, and many have additional, informal contact with the CEO. However, not all directors share those interpersonal experiences.

Boards exist for the primary purpose of forcing members to confront their different perspectives. Directors must also overcome limited information from management, hidden agendas, and conflicting loyalties.

☐ *Directors belong to different membership classes,* and their identification with those is often more important than their fellowship as directors. Some are company insiders, of varying rank. Some but not all are also major shareholders, including founding family members. Other directors with major holdings are outsiders to management. Some are statutory representatives appointed by institutional or corporate stakeholders. There is nothing unusual about members of working groups having multiple, overlapping, or divided loyalties. However, unlike most other groups, a board exists primarily for the purpose of forcing its members to confront their different perspectives, while discharging their common fiduciary responsibilities.

☐ *Directors are not well informed.* As a consequence of their differing relationships with the company (and constraints upon the directors' time), they receive limited information. Directors' contact with senior managers may be carefully managed and narrowly focused. A management that seeks to limit constructive criticism from the board does not make available the depth of information it would if it wanted strong input from all directors.

☐ *Directors have unspoken agendas.* As a result, it is deemed inappropriate (perhaps even dangerous) to give verbal acknowledgment to serious differences in purpose or perspective.

☐ *Directors may have dual relationships.* This could be anything from relations by blood or marriage, to two friends serving on one another's boards, to philanthropic attachments.

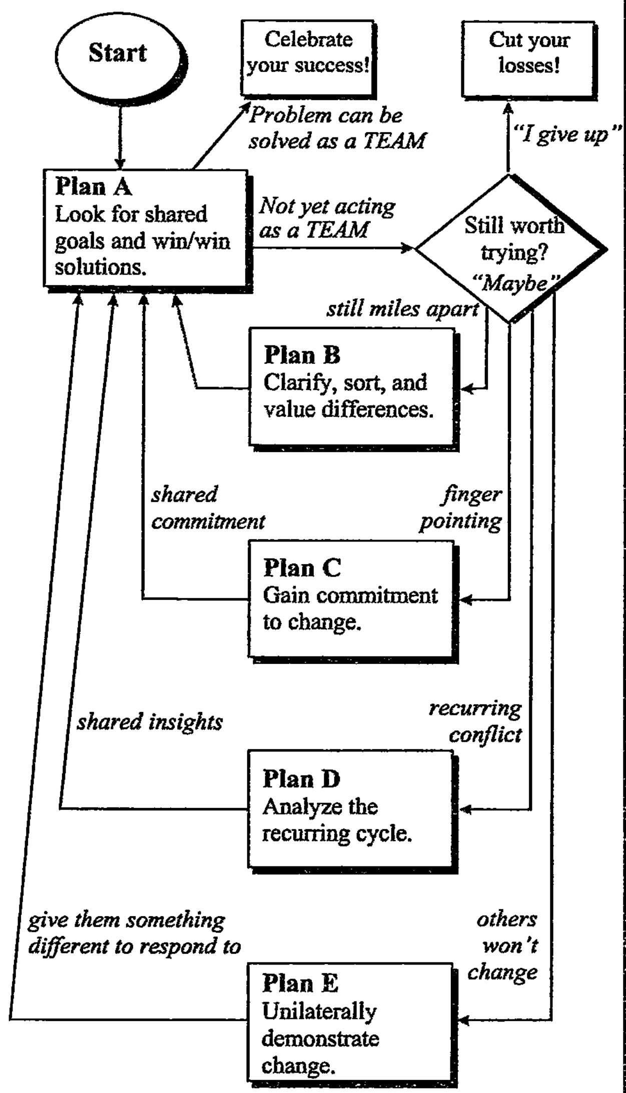
In September, *Forbes* magazine examined a boardroom clash involving Virginia Power and its parent company, Richmond-based Dominion Resources. Former chairman T. Justin Moore, Jr., still sitting on the Dominion board, may have had a pecuniary bias against current chairman Thomas E. Capps' idea of bringing more of the power company's legal work in-house. Moore's law firm was billing nearly $5 million in fees annually to Dominion and Virginia Power. Is that dual relationship unusual? No, nor is it uncommon for an ex-chairman to remain on the board. Yet the specific issues facing that board, and the way Capps, Moore, and other directors built opposing factions among managers, caused a problem serious enough to attract an investigation by Virginia's State Corporation Commission.

Many directors openly declare that their boards are incapable of asking the tough questions, or challenging a chairman or CEO whose mind is made up. Yet courts are holding them accountable for doing just that. In the landmark 1985 case *Smith vs. Van Gorkom,* a Delaware court leveled monetary damages of $23 million against the directors of a corporation for "gross negligence" in approving a relatively generous takeover offer without due deliberation.

There is plenty of research to show that questioning and challenging characterizes many good boards. These boards have proven the most effective, rather than the destructively contentious or unstable boards.

The "challenging" boards are the ones whose chairmen sincerely want the benefit of the directors' experience, and whose directors possess certain skills and attitudes. What accounts for their effec-

Systematic Conflict Resolution
Five Ways To Shake Hands



Source: Workplace Wars And How To End Them (AMACOM, 1994)

tiveness at airing and resolving disagreements?

Formal research studies of large samples of directors and CEOs are much more revealing than popular news accounts of the latest boardroom *coup d'etat.* While corporate boards differ from day-to-day working teams, the same factors make good conflict resolution all the more necessary.

Working groups whose members enjoy more than superficial personal relationships—for example, a team of managers—can tolerate more ambiguity in their communications than a board of directors can. Directors' time together is extremely limited, and they may not necessarily share longstanding or multi-leveled relationships. A board cannot afford to be the kind of brainstorming group that is creative, emotional, intuitive, ambiguous and self-healing, like a healthy family. It must be exactly the opposite: tediously rational, formal, painstakingly clear, analytic, and fact-based. Such resolution is a must if it is to function effectively and responsibly.

A systematic approach to conflict on boards involves a sequence of five plans.

☐ *Plan A* focuses on the group's shared goals, so that differences do not become exaggerated.

☐ *Plan B* clarifies the differences and sorts them out. Some are merely misunderstandings, cleared up by active listening. Some are valuable differences of perspective (anything from male vs. female to engineering types vs. sales types), which should be turned into a strength rather than a chasm. Some are simply irrelevant to the shared goals. A few are truly serious conflicts that need to be addressed in some order of priority.

As leader—board chairman, lead director, or committee chair—you can probably implement Plans A and B without a consultant. Plans C and D, however, may require a third party's perspective and professional aid.

☐ *Plan C* is where you gain members' formal commitment to make specific changes in their performance. General Motors' Committee on Director Affairs has a responsibility to assess the board's own performance annually. The purpose of its report, to quote from GM's published board guidelines, "is to increase the effectiveness of the board, not to target individual board members." The committee may well avail itself of an outside consultant in preparing that report.

☐ *Plan D,* analyzing chronic patterns of dysfunction, requires consultation. Without such analysis, interpersonal problems just keep recurring. However, such psychological analysis is probably inappropriate for boards of public corporations. Instead of exploring the psychological dynamics among your members, your strategy should be to insist on formal, overt communications with constant feedback to prevent misunderstanding.

Tension over the status of Seagram, Inc. as Time Warner's largest investor, led to press rumors of a Seagram attempt to acquire control. Within minutes of hearing the rumor, Seagram chairman Edgar Bronfmann, Jr. called Time-Warner's Gerald Levin to let him know that it was untrue. Wisely, both chairmen sought to keep the conflict within bounds by letting each other know directly their intentions and their concerns. Levin stated publicly why he opposed board representation for Seagram. Of course, board politics and gamesmanship may also have been involved, behind the scenes. However, the gentlemanly phone call and the frank, businesslike statements of concern are good examples of what I mean by constructive rather than destructive challenging.

Unilateral change is an effective board communications tool. Each director empowers him or herself to improve communications.

☐ *Plan E: unilateral change* on the part of individual board members is your most important tool in the effort to build rational communications. This is a matter of each director empowering himself or herself to improve communications even when others do their worst to obstruct it.

Just as conflict can escalate and explode, board habits of maintaining cooperative amiability can likewise build on themselves. Unfortunately the result can be just as bad, with the group as a whole less effective than the sum of its members.

Social psychologists call this the Abilene Paradox, after the story of two Texas couples who wound up driving all the way to Abilene to dine because each of the four supposed that was what the others wanted. A business example was described by boardroom consultant Leslie Levy, who interviewed a set of directors shortly after they had approved a poor acquisition decision. Levy listed the following excuses given by various directors:

☐ They did not realize that several senior managers had reservations about the deal.

☐ They were unaware that other directors shared their own negative opinions.

☐ Although they saw problems, they did not fully appreciate the seriousness of those problems.

☐ They wanted to support the CEO, who seemed otherwise to be doing a good job.

☐ They feared provoking conflict with the CEO, because he insisted on immediate approval. Some feared that he would resign.

I published a list of business conflict resolution "dos and don'ts" in my book *Workplace Wars and How to End Them*. Those can be adapted into specific advice for corporate directors. These guidelines would constitute your Plan E. It is a recipe for constructively challenging everyone in the boardroom, from the chairman to the outside directors to the general counsel to the CFO.

Begin sensitive questions by emphasizing the common goal. For example, if you had been a board member in the aforementioned *Smith vs. Van Gorkom* case, you might have saved your fellow directors $23 million by saying to the CEO: "I'm entirely with you on making the most of our opportunities in this area. That's why I have to ask: What alternative opportunities will be closed to us if we adopt this plan?" Positioning yourself as his ally vastly increases the likelihood of a constructive response to your objections.

Paraphrase back what you think you heard, before expressing your response. "Am I correct that what you'd prefer to see would be . . . ?" or "I don't want to misconstrue your suggestion; what I hear you saying is . . ."

Conversely, if you are in doubt as to whether others fully understand you or one another, stop the process and ask them to clarify their understanding before responding to what they think you (or someone else) said. "Pardon me for interrupting, but because of the importance of this issue, can we be extra sure that George feels his position was understood, before you respond to it? What do you see as George's objection to the new contract?"

If you anticipate asking questions which will embarrass someone, give as much advance notice as possible to allow a fair response. You should phone the director or CEO personally to say, "We seem likely to have a bit of debate on the XYZ issue. Would you like to know in advance what my questions and concerns are, so that I don't blindside you in the board (or committee) meeting?"

Assume that nothing you say to any board member will be kept secret from any other director. Do not question one another's (or the CEO's) integrity, competence, or motives behind their backs unless you deliberately seek to provoke a bitter war. When you have the responsibility to raise doubts about such matters, refer exclusively to specific actions and events rather than to personalities. Raise your concerns in open court, so to speak. Watch for attempts to draw you into collusion with backstabbing campaigns.

When an insider communicates with you (if you are an outsider), consider whether the communication is appropriate. Is anyone being bypassed with this information? If you keep material information about the company or its officers to yourself, or allow only partial truths to be communicated to others, you are liable to be disserving the shareholders—and I do mean *liable.*

Always be prepared to resign. Normally, if it comes to that, you would do so with a gracious public explanation. Nonetheless, if you are resigning on principle or to disassociate yourself from the company's future direction, be sure everyone in the privacy of the boardroom knows your true motive.

Conflict resolution is synonymous with good communications and even with "team building." The object is not to eliminate conflict in communications. Rather, it is to promote new ideas and vigorously challenge them. It is to encourage creative initiatives while still holding companies and individuals accountable.

For most organizations, that balance requires a change in their cultures. Conflict resolution has to become routine and never ending.

Conflict must be seen as a *constructive process* rather than a symptom of breakdown. As surely as conflict is resolved, it will lead to new issues that need resolution. Perfect communication is never achieved. On a board of directors, teamwork means continually improving the conflict resolution process. ■

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