High Performance Boards:
Intensifying Support *and* Control

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Much has been written about the responsibility of Boards leading to the recent crisis. Tighter regulation will help prevent recurrence of such breakdowns, but regulation is only one aspect of improved governance. Board *performance* also needs to improve. In particular, Boards need to become better skilled at finding the right balance between supporting and challenging the CEO; Board-CEO relations have a strong tendency to gravitate toward either a support mode or a control mode. The former can lead to excessive patience with an under-performing CEO, while the latter can lead to unnecessary antagonism, negative energy and in some cases, the departure of a high performing executive.

With illustrations from multiple breakdowns we show why Board-CEO relations often become too adversarial or too aligned and what can be done to help the Board achieve a high level of challenge and control in way that is acceptable for the CEO.

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Boards hire, appraise, reward and sometimes remove CEOs. That is their basic function. Boards must also try to ensure that CEO performance is as high as it can be. For that there are two basic processes: they must exercise *control* to make sure that the CEO is really up to the job; and they must provide *support* to the CEO, who is in a very exposed position, through their advice and encouragement.

The tension between those twin roles – control and support – has long been recognized in the practitioner literature.[1] The tension is also reflected in the contrasting theoretical perspectives of agency theory (control) and stewardship theory (collaboration).[2] This article builds on previous conceptual research suggesting that effective Boards have to embrace the simultaneous need for control and collaboration; and that the failure to manage this tension is liable to fuel reinforcing cycles of strategic persistence and decline.[3]

Governance specialists have noted the tendency of Boards to favor one role over the other.[4] Board-CEO relations show a strong tendency to gravitate toward *either* a support mode or a control mode. The former can lead to excessive patience with an under-performing CEO, while the latter can lead to unnecessary antagonism, negative energy and in some cases, the departure of a high-performing executive.

Our research clarifies and elaborates on the cognitive and behavioral mechanisms through which these dysfunctional dynamics take root and develop, as well as the processes that prevent self-correction. Using high-profile case studies, we illustrate the explosive cocktail that can ensue.

Consider what happened at ABB where the respected and successful CEO, Fred Kindle, was ousted just nine months after a new chair was appointed. Kindle's sudden exit, in 2008, as the company was about to announce record profits and only two months after being elected Swiss entrepreneur of the year, was blamed on, "irreconcilable differences about how to lead the company". The recently installed chair, Hubertus von Grünberg, would not elaborate, other than to rule *out* differences over strategy, potential acquisitions, or problems "lurking in the bushes".[5]

The unchanged strategy and the abruptness of the decision pointed strongly to a falling out with the chair – an explanation later confirmed by the interim CEO who put it down to a clash of strong characters.[6] According to an insider quoted in the press, the decision to force Kindle out was "instigated by the chairman" and unanimously endorsed by the Board.[7]

Before the arrival of von Grünberg, the Board showed every sign of being thrilled with Kindle under whom operating income trebled and the stock price increased fivefold. Industry observers called it "a case study in successful restructuring".[8]

Von Grünberg was the first and only change to the Board since it had been overhauled five years earlier, in the wake of a desperate financial crisis. He was known as a "powerful personality" and came in with a reputation as a brilliant corporate strategist, who was not afraid to speak his mind.[9]

As a newcomer, von Grünberg respected what Kindle had achieved but was less concerned than fellow Board members about challenging him. According to one insider, "he pushed Kindle for more options."[10]

After two and a half years of growing autonomy,[11] Kindle did not necessarily appreciate the arrival of a new chair with a hands-on reputation. Also, von Grünberg's aggressive management style was noticeably different from Kindle's more conservative approach, which caused tension between the two.[12] The situation ultimately came to a head and the Board was forced to decide: Kindle, yes or no.[13]

This case shows how difficult it is for a Board to be both supportive and challenging of the CEO. Building on years of joint success leading a remarkable turnaround, the ABB Board was impressed by Kindle's results and settled into a rather supportive pattern of behavior. Just hired into a successful ABB, the incoming chair was more concerned with where ABB was heading than where it had come from. He brought a fresh eye and a harder edge to the discussion. But in doing so, he created a tension and friction that resulted in the loss of a valued CEO.

Such breakdowns are often blamed on "lack of chemistry" between the key players, but this is a simplistic and unhelpful explanation. It diverts attention from the psychological processes that led up to the personality clash and makes the outcome seem inevitable. It also reduces the likelihood is that the Board will learn from the experience, making it possible that the pattern will be repeated with the replacement CEO. Our contention is that such dynamics are often preventable through better management of the tension between control and support.

The difficulty of striking the right balance of support and control is not peculiar to ABB. It is a critical challenge for any high performance Board. As pointed out in the Walker Review of corporate governance in the UK banking sector, the financial crisis was at least as much a failure of behavior as a failure of regulation.[14] Governance scholars recognize that structural features, such as Board composition and independence, are weak indicators of the real quality of the checks and balances in practice – and that governance codes cannot compensate for the actual conduct of the Board members.[15] The conclusion: "Corporate governance is an issue which ultimately has to be dealt with company by company, Board by Board, as each individual Board member steps up to the plate or doesn't."[16] Focusing on Board behavior is hence critical to preventing future breakdowns and improving corporate governance and performance.

In the rest of this article we draw on multiple breakdowns to examine *why* Board-CEO relations often become too adversarial or too aligned, and what Boards can do to achieve both high support and high challenge simultaneously. Our analyses and recommendations are based on our past and current research on boss-subordinate (and Board-CEO) relationships, corporate governance, Board composition and functioning (*references withheld to preserve this submission's anonymity*); on our ongoing work with several Boards as consultants, coaches or Board members, and our intensive involvement over the last four years in (*our School's*) "High Performance Board" executive development program. We also draw on a series of in-depth case studies of Boardroom dynamics and Board-CEO relationships that were developed for and discussed with participants on this program.

A Unique Relationship

Getting subordinates to take advice is often tricky – all the more so when the subordinate in question happens to be the CEO and the "boss" delivering the feedback is the Board.[17] Three sets of factors make it hard for the Board to advise or coach the CEO:

1. **CEOs are not the best *receivers* of feedback.** Because they are responsible for running the business, CEOs tend to be particularly sensitive to signs that the Board is overstepping its boundaries or meddling. Their drive and accomplishments are often associated with exaggerated self-belief, as highlighted by research on the susceptibility of leaders to hubris, narcissism and overconfidence.[18] These characteristics are the dark side of qualities that have helped CEOs to gain promotion through the ranks or to get hired. But inflated egos tend not to take criticism very well.[19] Moreover, CEOs have multiple demands on their time and attention, which requires them to become "hard of hearing" in order to preserve processing capacity for complex issues – in accordance with cognitive resources theory.[20] Were CEOs to remain open to all input and push back, they would quickly become dispersed or overwhelmed.

2. **Board members are not the best *providers* of feedback.** They face many of the same challenges as the CEO. As leaders in their own fields, they too tend to have sizable egos and forceful personalities. Accustomed to sitting at the head of the table, they have their own psychological needs for power, recognition and influence.[21] Their intermittent involvement with the company means that they too lack time and hence sometimes struggle to deliver feedback in the most appropriate way or circumstances. Furthermore, the Board is a group, which means that it does not always speak with one voice and may, in fact, proffer conflicting advice – making it possible for the CEO to pay selective attention to feedback sources.

3. **Theirs is an ambiguous relationship.** The Board is meant to protect the interests of shareholders against possible misconduct by the CEO, but it is also meant to protect the CEO from flak, making it an unclear relationship. Another point of ambiguity is that while the Board technically has authority over the CEO, the CEO often wields more power – both within the organization and outside it, in terms of network, reputation and charisma. As one Board chair told us: "Unless something dramatic happens, management tends to have the upper hand." The situation is further complicated by the fact that the CEO provides most of the information available to the Board. In many organizations, particularly in the US, the CEO also chairs the Board. Under these conditions, the Board's power to influence the CEO is often limited, unless it is prepared to go as far as removing the CEO.

These peculiarities make it difficult for the Board to provide robust challenge while at the same time providing effective support. The problem is that as the Board starts to slip to one side, the dynamic becomes hard to reverse. Previous work on categorizing and expectancy effects helps to explain why.

CATEGORIZING AND ITS CONSEQUENCES

Human beings categorize.[22] We do so continuously, effortlessly and often unconsciously. That is how we make sense of our surroundings, but also how we make sense of other people. The automaticity of much social perception is well established.[23]

For example, we spontaneously assign traits to people based on their actions.[24] We draw trait inferences based on the briefest exposure to their faces.[25] And we are often unaware of the behavioral cues used in forming our impressions of others.[26] We also categorize others as belonging to social groups, based on beliefs about their occupation or status, as well as appearance (age, gender, race).[27] We draw on "types" of people known to us to judge newcomers. The categories distinguish between perceived aggregations of individuals on criteria deemed useful to the task at hand.[28] Hence, certain traits, characteristics or prototypes will matter more in different situations.

This propensity to categorize others is particularly well-established and significant in working relationships where there is a strong urge to evaluate the competence of others, both downwards (as reflected in leader-member exchange theory) and upwards (highlighted by implicit leadership theory).[29] Studies show that, without conscious effort, followers cognitively compare new leaders to a prototype of traits and abilities that characterize their view of an ideal business leader.[30] Since the people reporting to the CEO do this, one can assume that those who appoint and evaluate the CEO engage in a similar process.

Of course, these initial categorizations create expectations that can exert a profound and lasting influence on the target.[31] Such interpersonal expectancy effects are powerfully highlighted by studies of the Pygmalion effect, which demonstrate that people act on the expectations of leaders even when the expectations are false – that is, induced by randomly assigned labels.[32]

Yet, research on expectancy effects has overemphasized the role of the perceiver – typically the person in authority – and downplayed the influence of the target.[33] In Board-CEO interactions the balance of power is such that we *must* consider the resulting dynamic as a bilateral construction.

Board members develop a view. Board members develop initial impressions that help to guide their interactions with the CEO and to determine how best to support, control and influence him/her. Does s/he seem competent, trustworthy, open, self-interested? How does s/he handle internal and external stakeholders? Does s/he keep Board members informed? How does s/he react to feedback or advice? And to what extent will s/he need to be monitored, supported and/or challenged?

From the start of the relationship, Board members scrutinize the words and behavior of the CEO and form theories about the individual's competence, character and commitment.[34] The resulting impressions can be either favorable or unfavorable and may be based on perceived strengths and weaknesses or on aspects of the CEO's style or personality. They may also be influenced by similarities or contrasts with the previous incumbent.[35]

Again, these impressions help to simplify a confusing reality. They make it possible to process information in real time and to anticipate what others are likely to do in the future.

The CEO categorizes too. The CEO goes through a similar process, forming impressions of the Board and its members in order to determine how to interact with them and to make sense of their actions. A new CEO needs to figure out quickly which Board members can provide the best advice on the workings of the Board, who can be relied on for support and/or advice.

The CEO may be quick to categorize certain Board members who seem to be "know-it-alls" or "egotists", who have developed bad habits or idiosyncratic ways, who seem "out of touch" with the latest practices or "resistant to change".

These snap judgments reflect what is known as the "fundamental attribution error" whereby observers tend to latch onto and overestimate dispositional or personality-based factors when explaining the behavior of others, while underestimating situational factors.[36] Initial impressions, sometimes based on partial (or even mistaken) evidence can hence launch the Board's view of the CEO on a particular trajectory – which, for reasons we will explore, can prove surprisingly resistant to modification.

An initial and perhaps tentative impression may gather momentum as it is validated. Studies of behavioral confirmation have shown that manipulating one party's impressions, through a picture or personality profile of the other party, is enough to elicit behavior in the expected direction as they get acquainted.[37] As the Board demonstrates confidence in or concern about the CEO, it tends to draw either cooperation or defensiveness from the CEO – which, of course, is broadly consistent with the Board's expectations of the CEO.

At the same time, the CEO develops biases of his or her own regarding the Board, tending to view the Board either in a positive or a negative light and behaving accordingly. Unfortunately, as these interlocking dynamics gather momentum, they tend to interfere with the Board's ability to challenge or advise the CEO effectively.

Essentially, Board and CEO get trapped in a given mode of interaction – either too controlling or too supportive**.** We are familiar with many failures on both sides: Boards that fail to get through because their relationship with the CEO becomes too adversarial; but also Boards that provide inadequate advice because they become too aligned with the CEO. We now explore both traps.

TRAP #1: THE CONTROL TRAP

The control trap is triggered when the Board starts having doubts about the CEO and develops an unfavorable impression. This need not happen straight away. Board members may consciously reserve judgment or start out with a relatively balanced categorization of the CEO, but at some point there may be a precipitating event (or accumulation of events) that activates a more categorical judgment.[38] When that judgment happens to be negative (e.g. "arrogant", "aggressive", "impatient"), the Board is likely to alter its approach. Of course, as the Board steps up its level of control and monitoring, the CEO will tend to react negatively, hampering Board-CEO collaboration and diminishing the Board's influence over the CEO. The resulting interactions are liable to play out in two ways: either triggering a pattern of escalating withdrawal on the part of the CEO; or else resulting in a pattern of escalating conflict between the parties. We have seen both archetypes in practice.

Escalating Withdrawal

When a CEO senses a lack of confidence from the Board, it can trigger uneasiness, defensiveness and avoidance. Although the Board may *think* it is supporting and coaching the CEO, its tight supervision signals that something is amiss, which inhibits and undermines the CEO.

Take the case of Bill Perez, recruited from outside to be CEO of Nike by the chair and founder, Phil Knight. Perez lasted just 12 months in the job. The drivers of that breakdown were two vicious circles operating in opposite directions and reinforcing one another.

> **What the Board saw:** Knight and the Board began to suspect that Perez might be a poor fit. It all started with an early decision to bring in consultants to review operations. As one insider remarked: "Surveys are not Nike's specialty. It's not Nike's culture."[39]
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> The initial doubt was further fuelled by clear differences in management style between Perez and his predecessor. For example, Knight was relaxed about having people spend the bulk of their time in meetings whereas Perez conceded that he was "Not a meeting man. I'm a data guy. I want to see the facts."[40] Knight quickly became concerned that Perez did not really understand the company or its brand.
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> Sensing the uneasiness, Perez redoubled efforts to show that he could add value, but did so in a way that actually underlined their differences. He hunkered down and went out of his way to visit Nike's biggest retail clients – a constituency that Knight had always neglected. In contrast, Knight's focus had always been on creative high-profile advertising campaigns – and Perez felt it was useful to question their effectiveness.
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> **What the CEO saw:** For his part, Perez came to view Knight as "unable to let go" and "unreceptive to outside ideas" – and started interpreting his actions through that lens.
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> As the malaise grew, Perez noted that some of his initiatives seemed to make Knight uneasy, yet Knight did not always tell him what was on his mind. On several occasions, Perez found out that Knight did not agree with him through a third party.
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> Perez became more reticent about initiating upward contact. As their interactions became rarer, the Board looked for other ways of keeping informed and Knight intensified contacts with his former lieutenants. Of course, this further undermined the relationship. As Perez noted: "He was talking to my direct reports. It was confusing for the people and frustrating for me."[41]

Ultimately, Knight and the Board concluded that Perez simply did not get Nike's creative mind-set and decided to replace him with a veteran insider. Although the relationship with Knight had been faltering for some time, Perez was astonished, telling reporters: "I thought silence was a form of agreement."[42] This is a common miscalculation. Even when they sense they are in trouble, executives often bypass the threat and embarrassment of a serious discussion and simply get on with their jobs to the best of their ability, thinking that their results will do their speaking for them.

From a performance perspective, Perez succeeded in trimming expenses, improving relations with major retailers and cultivating the brand in China. Nike's financial performance remained very strong. Yet Knight maintained that the company was "operating at 80 percent efficiency" under Perez – showing how even objectively favorable data can be re-contextualized or completely excluded.

Once a CEO loses the confidence of the Board, it becomes very difficult for the CEO to put a foot right. As Knight later explained, there was no big clash. Rather, it boiled down to "lots of little incidences over a year."[43] What promised initially to be a very complimentary partnership fell apart.[44]

This case captures a familiar pattern. As the Board starts leaning on the control side, the CEO is unsettled. Consciously or not, s/he senses the tension. S/he does not yet feel threatened, but s/he becomes more vigilant – maybe even more tentative – during interactions with Board members and is no longer at his or her best when interacting with them. As the probing continues and the discomfort grows, the CEO becomes less forthcoming, especially regarding setbacks or areas of concern. Sensing reticence and anxiety, the Board starts asking more pointed questions, some of which cast doubt on the CEO's version of events – possibly even testing the CEO with questions to which they already have answers from inside sources. The CEO senses the growing mistrust and finds it increasingly difficult to remain open to the Board's input and challenge.

Escalating Conflict

Alternatively, the Board's increased monitoring and challenge can set off a more antagonistic chain reaction, involving more hostility than withdrawal. Such escalating dynamics can develop in situations where neither fit nor performance is initially a problem. But as in the withdrawal scenario, and regardless of which party provides the initial trigger, the vicious circles quickly ramp up in both directions.

The antagonism is often powered by an underlying sentiment of self-righteousness. The Board feels it must stand up to and challenge a powerful CEO. The CEO grows indignant over what feels like unwarranted scrutiny or insistent questioning.

Sensing that the focus of the Board is skewed toward negative signals, the CEO may be inclined to play up the successes and gloss over the setbacks. Of course, this tends to fuel Board members' concerns that they are not getting an accurate picture from the CEO and may trigger closer investigation. As James Kilts, the former CEO of Gillette and Nabisco once observed: "Many times it's the thing *not* said, or overly optimistic positioning, that gets CEOs in trouble [with the Board]."[45]

Feeling that the Board's input is harsh or biased, the CEO may be inclined to respond in a token way or to disregard whatever seems unreasonable. When the Board senses that the CEO is not listening or is not responding sufficiently, it may confirm assumptions that the CEO has indeed grown "self-important" or "deaf" and needs to be reined in. As a result, the Board grows more insistent in its "requests" or "advice" and more vocal in its criticism.

Sadly, the more the Board raises the volume, the higher the likelihood that the CEO will indeed react with indignation and resistance. Over time, relations become increasingly antagonistic, such that the CEO becomes unable to see help when it is extended, while the Board loses its ability to deliver feedback in a palatable way. The situation develops into an unsustainable power struggle, with each side blaming the other.

Of course, the chances of triggering a spiral of conflict are heightened when the CEO has a solid record of achievement, as in the opening example of ABB. In that case, the expectancy effect was surely triggered even before the new chair arrived. Known in the industry as "the great white shark", von Grünberg effectively came in *pre-labeled* with a reputation as "a difficult man to work with".[46] As chair of the German tiremaker, Continental AG, he had dumped CEO Stephan Kessel over "differences of opinion".[47] This may have persuaded Kindle that he would need to stand up to him and not let himself be pushed around.

For his part, von Grünberg perhaps sensed that Kindle had gone unchallenged for too long by a Board that adored him – and risked becoming complacent. In fact, it later emerged that von Grünberg came to feel that the CEO was "behaving like a civil servant".[48] Hardly a flattering category for a CEO.

Under these conditions, it is easy to imagine two-way dynamics similar to those described in the previous section – with both parties bracing themselves for a confrontation.

REMAINING UNAWARE: HOW COULD WE MISS IT?

Experienced Board members will be familiar with the two scenarios we have outlined, at least in terms of the symptoms and consequences – with Board and CEO progressively getting locked in an escalating spiral of withdrawal or of conflict.

More difficult for Board members to accept is the assertion that their own behaviors and reactions may have helped to drive such dynamics. If this were the case, how could they have missed their responsibility in the process? So far, we have discussed how categorization drives behavioral confirmation. We now consider how it also influences information processing.

Confirmatory Biases Distort Perceptions

As Board members develop impressions about the CEO, they are apt to seek out and process information in four ways that reinforce their existing impressions, and shape:

1. **What They Notice.** Board members are exposed to a wealth of information – much of it in the form of reports, but also some anecdotal evidence based on field visits and possibly contact with senior executives or customers. With too much information to digest, Board members tend to screen out data that seem "less relevant".[49] Hence, Board members who view the CEO positively will tend to pick up on positive factors; while Board members who begin to harbor doubts about the fit, character or competence of the CEO will tend to home in on distress signals.
2. **What They Make of It.** Board members not only pay selective attention to the information they receive, they also read data differently depending on how they view the CEO.[50] For example, the CEO's tendency to send out comprehensive information packages prior to Board meetings can be interpreted as evidence of the CEO's openness and high expectations, if Board members are favorably disposed to the CEO. But if they have misgivings, it can be seen as proof that the CEO just does not understand what they really need or, worse still, as a deliberate attempt to neutralize them by swamping them with data. These attribution biases can lead Board members to "over-intentionalize" the CEO's actions and to see them as more deliberate than they really are. The negative version of this is known as the sinister attribution error, whereby individuals are overly inclined to read behavior as hostile or malevolent even though competing explanations are available.[51]
3. **What They Remember.** Labels also affect the way Board members store away information about the CEO. When someone we appreciate does something bad, we encode it at as a concrete one-off episode. By contrast, the same action by someone we don't fully trust may be encoded at a higher level of abstraction that becomes associated with the person's character.[52] Hence, Board members who like the CEO will remember that "s/he lied on that issue" rather than "s/he is a liar". And vice-versa for positive actions/episodes: "s/he is smart" versus "s/he did something smart". Moreover, information that is stored away does not remain uncorrupted. It decays or gets amalgamated with others memories. Research on false recollections even shows that people can remember things that did not really happen but that are generally consistent with their view of how things are.[53]
4. **What They Discuss and With Whom.** The preceding cognitive biases get reinforced through social interaction. As opinion leaders within the Board develop strong views about the CEO, they will tend to influence others. To test their reading of the CEO, directors are often inclined to turn first to like-minded colleagues. Of course, their choice of informants largely determines the kind of feedback they get. Their views of the CEO end up not only being corroborated, but actually supplemented with further examples. Impressions are jointly constructed within the group or subgroup.[54] If the target puts a foot wrong, someone within the group will make sure it does not pass unnoticed.

Over time, a particular view of the CEO – as someone in need of control or worthy of support – can come to dominate. Board members who try to maintain a more balanced view of the CEO can find themselves under group pressure to align. Hence, how the two sides come to view each other conditions what they see, remember and discuss, as well as their mutual interpretations. Beyond that, the categories also condition their *behavior* and often provoke the very responses they expect.

The Process is Self-Fulfilling and Self-Reinforcing. Imagine the Board starts to ask itself "Do we have the right CEO?" and Board members start to make phone calls and inquiries to check on the situation. The chair then carries those doubts into the next meeting with the CEO and it probably shows. It shows through the type of questions the chair asks. It shows through the tone and the insistence.[55]

Take a simple phrase like: "I don't get it?" Imagine hearing it said in a rather harsh tone by a frowning face. You will clearly hear: "Are you seriously telling me that...? This can't be right, I don't buy it!". If uttered with a more supportive tone and a smile, the same words will rather mean: "I'm sorry, I should have understood this but I didn't. Can you run it by me again?" The content is unchanged. But in one case, the chair is on the same side as the CEO and is prepared to extend the benefit of the doubt. In the other case, the chair is not on the same side and the tone signals that his or her default mode is "I'm smart. You're not clear. What the heck is this?"

Of course, the prevailing tone strongly influences the CEO's response. If he or she feels threatened, it may trigger indignation, nervousness or defensiveness. By contrast, if the CEO feels supported, it will prompt a more relaxed response whereby the CEO may even come to realize that his or her reasoning may indeed be unclear. Either way, the Board members will have no reason to re-examine their expectations or responsibility in the process.

That is the problem with self-fulfilling processes: You get what you expect.[56] If Board members are concerned that the CEO is long on excuses and resistant to advice, then that is exactly the response they will tend to provoke with their confrontational approach. Similarly, if the Board suspects that the CEO may be a bad fit, it may take precautionary measures that actually contribute to the problem – like when Xerox chair, Paul Allaire, sat in on the top management meetings of the incoming CEO, Rick Thoman. Although Allaire kept his promise not to talk, his mere presence undermined Thoman. One top executive later recalled: "I knew this was doomed when Rick and Paul would be in the same meeting and the line of eyes around the table would keep focusing on Paul even though Rick was doing all the talking."[57] In its eagerness to reassure itself, the Board mainly signaled its doubts about the new CEO. Constrained, Thoman never gained the confidence of his full management team and was ousted after 13 months in the job.

Of course, the CEO also conspires in the process. Sensing that he or she does not have the full backing of the Board, the CEO will tend to fall prey to the same cognitive biases as the Board members – but may also behave in a way that is designed to make a point. CEOs who view the Board as "interfering" are liable to exercise greater control over the flow of unfiltered information to the Board, to volunteer less information and may even forbid members of the top team from talking to directors informally. At the same time, they may pay less attention to suggestions coming from Board members.

A classic example was the case of Doug Ivester at Coke. Mounting doubts about his judgment allied to a feeling among Board members that he was not listening to them, prompted Don Keough to send Ivester a six-page letter on behalf of the Board with constructive suggestions on how he could improve his situation. Keough received a one-line response, thanking him for his input.[58] Within months, Ivester was forced out.

By contrast, a CEO who holds a favorable image of the Board is likely to value visits by the directors, to engage more readily in banter and share ideas or plans, to reveal difficulties and try out the Board's suggestions – and thus elicit more open, stimulating and wide-ranging exchanges.

However, collaborative relationships can also run into difficulties. Board and CEO are exposed to similar psychological mechanisms and blindspots that underpin the control trap, but in reverse. A Board that is overly supportive can also trigger dysfunctional dynamics that make it difficult to challenge or advise the CEO effectively.

TRAP #2: THE SUPPORT TRAP

Once Board members develop a high opinion of the CEO's character, approach and/or competence, it can take a lot of evidence to change their minds, especially if key performance indicators remain acceptable. Of course, when the judgment is positive, we tend not to think of it as categorizing, but it nevertheless impacts subsequent exchanges and can have very damaging consequences for the organization.

As the Board begins to slip into support mode, it may fail to investigate or even to spot key concerns. The credit crisis threw up several examples. Analyzing the breakdown in risk management at UBS (the biggest European victim of the credit crisis), commentators have pointed out the lack of banking expertise on the Board (made up of Swiss and foreign business dignitaries) and its excessive confidence in a forceful Executive Chair.[59]

That Board members would not easily understand the intricacies of Collateralized Debt Obligations (CDOs) is perhaps understandable. Less forgivable is the fact that they failed to press management on the simple question: “If it is so risk free, how come we are making so much money on it?”

At neighboring Crédit Suisse, where the Board had far more financial expertise and the CEO was less established, the Board persuaded the company to reduce its exposure to CDOs – even as UBS was increasing its own.

When the Board is in support mode, it is not monitoring the situation as intensely. The directors’ appreciation of the CEO means that when relations with other parties (e.g. employees, suppliers, customers, regulators) grow sour, they tend to fault the other party or blame the circumstances. The CEO tends to be given the benefit of the doubt – and even when the CEO does mess up, the error is minimized in view of the “tremendous pressures” on the CEO or the complexity of the challenge. Or else, the Board acknowledges the flaw but points to other qualities that far outweigh those “rare lapses”. In directors’ memories, the action is shelved away as an isolated incident rather than clustered with other misdemeanors that add up to a behavioral pattern.

Unless they understand the information processing biases described earlier, Board members will struggle to spot emerging problems or to intervene productively, as illustrated by the following case.

Home Depot (2001-2006)

The case of Home Depot under Bob Nardelli provides a remarkable illustration of a Board delivering on the support side, but not providing enough challenge.[60] To be more precise, the Board gave too much emotional support and not enough cognitive or intellectual support.

Bob Nardelli was hired by Home Depot in late 2000. The courtship was high-speed and Nardelli started at Home Depot within days of losing the GE succession race to Jeffrey Immelt. The Home Depot Board was thrilled to have landed an executive of Nardelli’s caliber, who would bring his focus, discipline and execution skills to a company that badly needed them after years of exuberant growth.

Hired as a change agent in a very successful company whose infrastructure problems were clear to the Board but not to most observers, Nardelli faced much resistance both internally and externally. Some of this criticism expressed itself during annual general meetings, which led Nardelli to introduce guidelines to limit shareholder interventions and rants. These restrictions, combined with the company’s mixed performance as it overhauled its operations and shifted strategic course, led to an increasingly antagonistic relationship between Nardelli and many shareholders. Nardelli was attacked on the company’s performance, the new strategy, his management style and his compensation package.

Recognizing the pressures on Nardelli, the Home Depot Board was unwavering in its support for him. In 2006, Nardelli actually persuaded Board members to *stay away* from the annual general meeting, which was set to be dominated by “activist shareholders” (Nardelli’s words) complaining about his pay and attitude toward shareholders. The Board’s no-show and Nardelli’s ice-cold handling of the meeting created such a public outcry that it intensified pressure on the Board to revise Nardelli’s remuneration. In spite of the Board’s continued backing, Nardelli decided to call it quits.

How could the Board fail to see that Nardelli’s relationship with shareholders was growing dangerously dysfunctional and that he needed to alter his approach? How could they agree to stay away from an annual general meeting? In principle, Home Depot’s Board was anything but weak. Chaired by Nardelli but with a Home Depot co-founder as lead director, it contained numerous high profile executives (by 2006, eight of the ten independent directors were current or former CEOs) and was regularly held up by independent observers as a model of an independent and conscientious Board, highly rated for its governance practices. So how could this happen?

Part of the problem lay in the composition of the Board, which arguably featured insufficient diversity and too many busy people whose outlook resembled Nardelli’s.

Beyond the Board composition, however, we believe the Board members developed such a positive view of their CEO that they lost their ability to challenge him.

The Board saw and heard various stakeholders complaining, but that was to be expected. After all, the CEO's mission was to change a successful company that was not as good as it thought it was. The Board believed that Nardelli was doing the right things – and the weight of evidence on the positive side (the doubling of revenues and profits), made it much easier to discount the negatives.

For example:

- *Senior executives left the company in droves*: But that was understandable because those executives were better adapted to the company's former "cowboy culture". Besides, they had made a lot of money from a decade of stunning growth and many of them were in fact cashing out.
- *Store-level employees complained about the bureaucracy*: Of course, but that was exactly why Nardelli was selected, to inject new discipline and streamline processes. They were bound to oppose the changes.
- *Shareholders were complaining that the stock was down*: True, but from totally unrealistic highs set by the internet bubble. Besides, financial performance remained very strong, with sales and earnings both continuing to grow. And the investment community took a long time to "get" the new strategy.
- *Customers were complaining about declining service levels*: Yet the company was making unprecedented investments in training and internal customer survey results showed service levels improving across every category (from the attentiveness of the sales help to the cleanliness of the aisles).
- *The media complained about his salary*: But it was set by an independent committee and did not even feature in the top 40 CEO compensation packages. In fact, a member of Home Depot's own Board ranked above him.

A factor that probably exacerbated the Board's empathy for Nardelli and lack of empathy for his detractors was the fact that the Board itself was attacked for its "clubbiness" by some shareholders and observers.[61] Lead director Ken Langone, a co-founder of the company and respected director of several top companies, vehemently rejected those accusations. But feeling stung and outraged, the Board probably came to view those detractors in much the same light as Nardelli viewed the shareholders, as "agenda-driven activists".

Having internalized the CEO's perspective, the Board members lost their ability to challenge Nardelli – either to advise him against his disastrous mismanagement of the annual general meeting or indeed to help him correct it properly afterwards (it took several weeks for him to summon up a semblance of an apology).

As illustrated by this case, a Board that is too supportive is likely to miss weak signals or fail to connect the dots between weak signals. Unless the Board maintains its critical edge, its support can end up becoming toxic for the CEO.

A Ubiquitous Problem

We have shown how easily Boards and CEOs fall into two traps, providing illustrations of the psychological mechanisms that underpin those dynamics.

The mechanisms themselves will be familiar to organizational behavior scholars, but much less so to those exploring governance topics. Moreover, academics typically discuss these concepts in isolation, whereas practitioners experience them as a package. We have highlighted the interplay between the individual components – categorizing, leading to behavioral confirmation and cognitive biases – but also the bilateral nature of the process, which fuels its self-reinforcing aspect and inhibits self-correction. We have underlined why the dynamic is so pernicious and how natural it is to remain blind to it.

More significantly, we have shown that the initial categorization can even be positive and *still* cause problems, leading the Board to be overly patient and dismissing valuable signals that the CEO's performance is not as uniformally excellent as the Board thinks it is. A fascinating illustration of this was the way that Jeffrey Immelt escaped internal and external criticism for so long regarding GE's lackluster performance. As one commentator finally observed in 2008:

> *"For seven lean years, Wall Street has given General Electric and its chief executive, Jeffrey Immelt, the benefit of the doubt. Even as shares of this quintessential blue chip languished, analysts and investors acknowledged the challenge of running a company that sold everything from Hollywood blockbusters to light bulbs and patiently waited for Immelt's restructuring efforts to pay off. Until recently, Immelt had largely drawn accolades from Wall Street, both for his easygoing style and for his effort to burnish GE's image with investments in environmentally friendly technology like wind energy."*[62]

The point is that Immelt's initial categorization – as highly competent, warm, reflective, the best possible successor to Welch – colored the attributions of potential critics who reasoned: "Sure, the results and stock are going down, but he inherited a no-win situation. In fact, thank God for Immelt because otherwise it would have been worse." Mixed results were redefined as success.

When analysts or, more often, journalists overattribute the firm's actions and performance to its CEO, it can encourage strategic persistence.[63] Their external approval plays a powerful role in shaping or reinforcing Board perceptions of CEO responsibility for actions and outcomes, inducing the Board to withhold criticism of the CEO – or even to grant greater latitude.

The Board-CEO dynamics we have described in this article – whether too trusting or insufficiently trusting – do not necessarily end in disaster. We chose to focus on high-profile breakdowns that executives would be familiar with and could, to some extent, evaluate for themselves. Those cases were meant to show the speed with which situations can degenerate and the damaging performance and reputational consequences, but they are clearly extreme examples. So just how prevalent are such unproductive dynamics?

According to a Booz Allen study, 32% of the CEOs who stepped down worldwide in 2006 did so due to conflicts with the Board, up from 12% in 1995.[64] This suggests that Board-CEO tensions are both common and becoming more widespread. Only a few are so bad that they spin out of control or blow up publicly. Many persist undetected somewhere below the radar screen, simply delivering subpar performance until the CEO moves on.

We now consider how Boards can establish a climate where directors can challenge without the CEO taking offence – and where the CEO continues to initiate contact and to volunteer critical information.

DUAL IMPLICATIONS: CREATING CONDITIONS TO ENSURE SUPPORT AND CHALLENGE

Negotiating this tightrope between support and control is especially important when the company is facing challenge – either a strategic shift or a crisis – as in some of the cases described above. In these dramatic situations, the Board *must* find the right balance – between providing ideas, protection or encouragement and ensuring that the CEO is not getting carried away with hubris or self-righteousness.

Achieving such balance cannot happen overnight. When the critical situation presents itself, the Board must already have established good habits and goodwill with the CEO. That way, the CEO realizes that the Board is pushing back, not because it senses a crisis and has lost confidence in the CEO, but because challenge is a routine aspect of their interactions. In other words, Board and CEO have to develop capabilities for dealing with each other in a robust way.

The recommendations that follow address the profound root causes as well as some of the symptoms on both dimensions: control and support.

On the Control Side: Forceful Challenge

A precondition to challenging the CEO, is that the Board first has to see the problem. If the Board does not have the insights or concerns, it cannot contribute them. The Board must preserve its ability to surface and assess vague concerns and make sure that it does not succumb to "groupthink". [65] To do so, the Board can take a number of actions:

Remain diversified. Diversity is widely recognized as an antidote to groupthink, provided this diversity is effectively managed.[66] But to maintain its critical edge, the Board should also stop viewing itself as a "team". The team metaphor has gained currency in the writings on Boards over the last ten years, but seems a dubious aspiration for Boards as it can all too easily degenerate into the kind of consensus seeking that underpins both the "support trap" and the "control trap". Boards do not need to be aligned to the same degree as top management teams. The threshold at which alignment becomes unhealthy is far lower for Boards. If the Board does not capture weak signals and dissent, it cannot alert the CEO to them – and hence fails in its crucial role as early warning system and sounding board to the CEO.

Diversify the sources of information. When the Board is dependent on the CEO for information, it can more easily be misled. A striking example involved a company that had lost several well-regarded executives over the years. The CEO, perceived by the Board as "tough" and having an impressive "command of detail," always had a good explanation for these departures. Only when the CEO announced his plans to retire and Board members started interviewing internal candidates did it come to light that he was actually an "abusive micromanager" who put tremendous pressure on people and retained talent by overpaying.[67] Board members need to be exposed to multiple sources of information – through site visits, analysts' reports or access to members of the top management team – in order to challenge the CEO in a meaningful way. If such arrangements are agreed from the outset, they are less likely to be perceived as a threat and will promote more meaningful challenges from the Board.

Encourage "initial dissenters". A critical barrier to group members expressing a nagging concern is the fact that no one else has mentioned it. Studies show that this social dynamic – called "pluralistic ignorance" – is especially powerful within Boards.[68] Directors attribute their own reticence to social inhibition, but assume that the silence of colleagues indicates agreement. As a result, the Board may end up endorsing a course of action with which most of the directors privately disagree. The chair or lead director must make it easy for an initial dissenter to speak up as a way of finding out if those reservations are more widely shared.

Appoint a devil's advocate. Working groups often have a self-appointed "devil's advocate" in their midst – but this person's contrarian reputation can mean that the critique is discounted or even ignored. One option is therefore to institutionalize the devil's advocate role, by designating different directors to make the "case against" depending on the issue in question. This approach gives one Board member a license to investigate the issue and highlight elements that appear weak or inconsistent with the experience and knowledge of fellow directors. At the same time, it conditions the CEO to expect criticism and to accept it as part of the normal deliberation process, rather than as a personal challenge or threat.

Review the role of the chair. The preceding recommendations have serious implications for the profile of the person in charge of the Board, whether the chair or the lead director. As an experienced director remarked: "Board dynamics can be very interesting, especially if there are strong personalities in the room. In my experience, the lead director's role is to ensure a smooth discussion and bridge the gaps created by the more diverse Board composition these days."[69] The effective management of the Board increasingly calls for someone capable of leveraging the individual insights of Board members – less of a "super-CEO/chief strategist" and more of a facilitator – someone capable of encouraging alternative views and drawing out misgivings, yet keeping the discussion on track.[70] Of course, that changing role also makes the CEO a weaker candidate to chair the Board – because it is much harder for him/her to facilitate patiently and to invite or encourage alternative views.

These recommendations will enhance the Board's ability to challenge. But to be effective this challenge must be accepted – ideally welcomed – by the CEO. Here are some ideas that will help to develop the kind of relationship where the CEO feels comfortable initiating contact, reporting problems and asking for advice.

On the Support Side: Healthy Collaboration

Research shows that executives are more likely to accept and act on tough feedback under three conditions.[71] When they feel that:

- The feedback giver is reliable and well intentioned toward them.
- The feedback *development* process is fair – capturing all relevant information and applying consistent standards.
- The feedback *communication* process is fair – taking account of the receiver's opinions and explanations; showing respect for the receiver; and supporting the receiver despite their disagreements.

If the relationship with the Board has become strained, these conditions cannot be met and the CEO will stop listening. So it is vital for the Board to try to create and preserve an open climate.

Establish and maintain a strong bond. Board members and CEO must spend time together up front to establish a personal connection and a sense of their respective strengths, if the CEO is to feel comfortable disclosing emerging problems and asking for advice. But the Board also needs to make sure that these conditions are nurtured and maintained. Criticism and disagreements risk weakening the level of trust and empathy established between the them. So directors need to make sure they re-bond with the CEO – and don't let the malaise develop. The chair of a global construction material company with whom we work is very conscious of this need to stay close to his CEO, especially after tough discussions when the natural tendency would be to pull away. As he told us: "Occasionally, it's essential for [the CEO and myself] to block time together in slightly less intense and business focused circumstances."

Agree on the rules of the game. Frequent contacts early in the relationship also help Board and CEO to clarify the job and its challenges – main concerns, critical stakeholders and key success factors – as well as "how we relate".[72] When these parameters are underspecified, it can lead to expectation gaps and misunderstandings that result in bad dynamics – as was the case for Bill Perez at Nike. Significantly, Perez went on successfully to run the family business, Wrigley, another insular culture with a very hands-on boss. After the Nike experience, Perez took very seriously the need to clarify respective roles and expectations. Before starting, external consultants were invited to run Perez and his new chair through a series of scenarios to make sure they had similar views of how the partnership would work. Perez also set out how he thought they should divide up their responsibilities and insisted that they communicate on a daily basis.

Watch out for snap judgments. Our categorizing instinct is deep-seated, so advising Board members not to categorize would be unrealistic. But they do need to be more mindful of how impressions develop in their minds and to challenge the categories as they come up. While our unconscious may be responsible for proposing these categories, our conscious mind retains the power of veto. Directors must also be more aware of their propensity to look for easy explanations in line with existing perceptions – biases that are accentuated by both stress and distance.[73] Of course, they cannot remain open minded forever – decisions must be made and perfect information is never available – but nevertheless, they can make an effort to become more mindful.

A TIMELY WARNING

The Board plays a crucial role in alerting the CEO to developments that he or she is underestimating or may have missed altogether. But whether the CEO pays any attention to that advice depends very much on the quality of the relationship they have established.

When the relationship with the CEO grows too supportive, the Board's challenge will not be forceful enough – and we have shown how this can even happen to Boards, like Home Depot's, that are packed with independent directors and relevant experience.

Paradoxically, when the Board exerts too much control, it can also weaken its ability to influence the CEO – and can lead to dysfunctions and breakdowns that damage company performance just as much as lax governance.

This is a critical message in the current climate, where there is a real danger of a pendulum swing in the direction of strong control and monitoring. Boards take more seriously than ever their governance responsibility to select, audit and, if necessary terminate the CEO. Take the ousting of Fritz Henderson after just eight months at the helm of GM. Henderson had actually exceeded the financial targets set by the Treasury's auto task force, but the pace and scope of progress fell short of what the newly named chair wanted. Henderson was described by an informed observer as the victim of a "killer Board".[74] With an IPO on the horizon, the Board simply decided that GM could be better run by an outsider.

At the same time, over in Europe, the Anglo-Dutch publishing group Reed Elsevier was going through a similar process, axing its CEO, Ian Smith, in November 2009. An outsider without industry experience, Smith was hired because of his perceived skills in strategy, dealmaking and communication, but removed during his third quarter on the job. There was no crisis, no big strategy disagreement or personality clash; the new chair and some shareholders simply felt that Smith had "failed to impress" and was "not the right man for the job at this time".

Such decisiveness looks impressive, but CEO transitions can be costly affairs, and Boards should not lose sight of their support and coaching role. As the CEO's collective "boss", the Board has an obligation not just to evaluate, but also to help the CEO avoid mistakes and improve.

The idea is not to tone down one side or the other, but rather to boost the weaker dimension. If managed effectively, each side actually strengthens the other. When the Board needs to deliver tough feedback, it is the mutual respect and the existing bond that helps the CEO accept the feedback. Similarly, it is only by maintaining its sharp critical edge that the Board can deliver true support, not just emotionally, but also intellectually and cognitively, helping the CEO see things s/he had not seen or looking at things in a different way.

Striking this balance is not easy. It will require continuous attention and significant practice. The sooner your Board starts, the faster you'll get there.

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