January 2009 Newsletter

Management, the Board and Difficult Times

Board and Management: Interaction strategies for tough times

Key points: Avoiding "GroupThink", keeping the Board informed through strategic and structural changes, preparing presentations for the Board, advisors to Management and the Board

For those of you who really know us, you recognize that we've been highly successful in leading the restructuring and operations of companies, but that we've had our share of rough times with Boards. We don't know whether this makes us experts or just opinionated, but we do want to offer our thoughts about Boards and what maximizes your chances for constructive discussions.

How hard is this problem?

In 2004, right after assuming the CEO position at Avanex, I joined a really wonderful group in the San Francisco Bay area called the Alliance of Chief Executives. You are placed with a group of roughly a dozen CEOs, meeting monthly to discuss a wide variety of topics. All of the CEOs struggled with their Board interactions. Oddly, the CEOs that were the most confident of their Board relationships still had difficulties; they were just more surprised when conflicts happened. One indicator of this is that the average tenure of a CEO is decreasing. Within my working group at the Alliance, all of the original members had experienced difficulties to such an extent with their Boards, that all of the CEOs had left their positions within a four year period.

If you are reading this newsletter, you are likely to be facing difficult times; this means that a certain intimacy with both the rock and the hard place is known to you. So, let's get started on interaction strategies for tough times.

Group Decision Making

The Board, and to a lesser extent, the management team, are groups. The way that a group makes a decision is far different than how an individual makes a decision. Decisions can gain a certain momentum in a group, and the group members can reinforce each other to rationalize virtually any decision that is reached. This effect was coined GroupThink in 1952 by William H. Whyte Jr. and was extensively studied by Yale professor Irving L. Janis. This is well documented in history, with several memorable examples being the [Bay of Pigs] fiasco, the disaster of the [NASA shuttle Challenger], and the gross pollution of [Boston Harbor].

Modern legal systems often force the Board to take steps to mitigate their personal risk. In addition, current governance practices mandate that the Board meet regularly without Management present. Although these practices were introduced to improve governance and fiscal responsibility to shareholders, these practices also increase the cohesiveness of the non-executive Board members, which ironically exposes the Board to a higher risk of GroupThink.

The most obvious first step to mitigate this problem is to have a Board composed of very serious, highly independent directors. [Education about decision-making with groups] can also be highly effective.

We advocate that Board training explicitly discuss the problems of cohesion and GroupThink so that when the Board is confronted with difficult decisions, it becomes the cultural norm to have healthy debate and dissent. Most Board decisions are unanimous, and we suggest that even this practice be examined within the Boardroom on difficult decisions. Stated more simply, Board training should strongly enforce the idea that each Board member act independently, and resist the very real and natural impulse to let the desire for cohesion override appropriate consideration of options.

A second step to take is to spend time with each individual Board member, to help them understand issues more fully prior to Board discussions. However, in a time of substantial organization change, Management is often stretched thin and the scheduling of these discussions can be very difficult to sustain over an extended period of time. A disciplined focus on scheduling, with crisp, brief discussions, is required for success here.

Bear in mind that encouraging Board members to challenge the ideas of both Management and each other doesn't make the job of running a struggling company easier, but it will ultimately lead to better decisions.

Restructuring… makes lots of people unhappy

During restructuring, much of what a good management team does is to move the company to a simplified structure that improves business flow -- letting the company grow faster and much more profitably. These actions, while very needed for the company, are enormously disruptive at an emotional level for employees. In addition, the rapid changes in the business processes of the company will almost always mean that understanding of the business will suffer-- this is sometimes referred to as the "fog" of structural change.

The closing of a factory, for example, affects all of the factory workers, affects customers, and changes information flows within the company. In addition, it is also a difficult time for the managers who advocated opening the factory or keeping it open. It is critical that the management team understand that these cross-currents are felt by the Board, and that if left unattended, they can undermine the Board's faith in the management team leading the restructuring. It is truly Management's responsibility to remove as much "restructuring fog" as possible.

We suggest multiple strategies to deal with this. The first is to execute. This is a very hard time for the company, and it is really a time to make things happen. It is obvious, but should be stated: changing the structure and focus of a company is both hard and messy. But if your team is quickly fixing the structure and performance of the company, and the numbers show it, this should help greatly with Board interactions.

The second is to focus on structure, communication and execution. Lay out the restructuring plan as a set of crisp and easily understood objectives and milestones. Use them as the introduction for any restructuring discussion with the Board so that you develop consistency in reporting information. The current economic times will require companies to restructure in ways that many Board members have not experienced. It is important that Management provide a structured discussion of the crucial transitions of restructuring. It is our experience that having one or two critical milestones per quarter is about the right granularity for good Board visibility.

The third is to candidly discuss with the Board that restructuring is not a popularity contest, and work to develop a rapport based upon objective data. Agree with the Board as to what communication paths they consider appropriate to have with employees and ex-employees, and what happens when the Board receives negative input about the restructuring process. The rapid change of the company will strain many parts of the company, and the Board will likely be exposed to negative commentary outside of the Boardroom. Management must understand this and work proactively to manage the effects that this will have on the Board.

These decisions are hard…. Work to present cleanly to your Board

In a very real sense, restructuring and integration require acknowledgements of both previous mistakes and a critical judgment as to which sites/functions/business processes are most appropriate for the go-forward mission of the company. Bear in mind that when you walk into the Boardroom, even the discussion of restructuring carries many secondary feelings. Take the time to carefully set the stage explaining how the company got to its current state and why changes are now required. If the changes require a substantial deviation from directions advocated by specific Board members, take the time to give them a brief preview so that they are not surprised within the Boardroom.

We recommend that the first in-depth discussions of changes be separated from regular Board meetings, where normal topics of business are discussed. This allows the Board to be fully mentally engaged and provides a focused discussion forum.

The discussions of difficult or bold changes in strategy should have presentations that are the cleanest and most thoughtful your Organization can produce. We've watched minor math mistakes kill the major message of a presentation, which can lead to many unintended consequences.

Board Advisors

A good Board will solicit a great deal of information from advisors. The primary advisors to the Board may include the chief counsel, the lead auditor, strategic consultants, and/or investment bankers. In contrast to Management, or even the Board, these professionals interact with many more companies and often have experience with a wide variety of issues. The key for these advisors is that they have the respect of the Board, and that they have the maturity to stand up to Board members in difficult times and provide sage counsel, as opposed to only providing counsel for liability protection. If you find that the advisors to the Board do not have the Board's respect or worse, are simply sycophants to the Board, we advise that you work with the Board to replace them. Although this process is not easy, it is vastly preferable to being in the middle of difficult times with a Board receiving bad advice. It should be obvious that the best time to do this is prior to the Board being hunkered down trying to figure out what to do in a difficult situation.

Concluding Thoughts

The overriding concept behind all of these tactical suggestions is the idea of helping the company's Management team and Board reach good decisions. During routine times, this may not be a concern, but in difficult times, with your Board receiving many inputs and having to make very tough decisions, it is critical that there be openings to have thoughtful, reasoned discussions. Anything that can be done to improve communication and interactions between the Board and Management should be done, including over-communication, clear project trajectories, and choosing strong, seasoned advisors. If these are in place before the Company enters into difficult times, the Company will benefit from healthy interaction between the Management team and the Board.

In next month's newsletter, *Expanding Competencies*, we'll discuss how to determine which parts of the company must be preserved and enhanced when the company changes strategy or structure. In many highly technical companies, this can be a "make or break" set of decisions. We'll look at ideas and tools to help make the decisions, and discuss communication strategies for your employees and your customers.

We wish you good luck as you work to guide your companies through these difficult times. We are always here to help as you evaluate your strategies, structures, and processes and take your company to the next level of productivity. The InSite team has experience with restructurings and major project development efforts, both from a Management perspective and from a Board's and Investors' perspectives. We focus on working with Management to develop clean business structures, implementation plans, communication channels and messages, and to determine how to monitor and drive program execution.

For Management and Boards we can provide coaching, guidance, and education relative to communication issues, interactions, and decision making.

Cheers,

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