

The disruptive power of a dysfunctional director

Redirecting, deselecting, or not recruiting troublesome directors in the first place have become far more important tasks for the board.

BY RAM CHARAN, DENNIS CAREY, AND MICHAEL USEEM

ALMOST ALL DIRECTORS look promising before they enter the boardroom, but not all perform equally well once inside. In our experience, as many as half of Fortune 500 companies have one or two dysfunctional directors. Not infrequently, an intimidated management ends up kowtowing, fine-tuning its presentations in the boardroom to anticipate the difficult director's reactions or consulting with the director in time-consuming ways accorded to no others. It becomes a drain for everyone involved — except the dysfunctional director.

Let us be clear. We are not critical of directors who disagree with management strategy or voice alternative directions. We are not even talking about hostile directors sometimes forced onto the board by a hedge fund trying to take control of a company or about partisan factions that have formed for whatever reason. Dysfunctional directors have their own modus operandi. Some see themselves as the smartest person in the room, others seek recognition, and still others are frustrated would-be CEOs.

Whatever their personal motives, they tend to micromanage or take boardroom discussions down dark alleys. We have seen a director interrupt the first five minutes of a CEO's boardroom presentation and sour the mood of both board and management for the remainder of the day. The result is to impair, even

negate, a board's capacity to lead the firm. As in any group, a dysfunctional member can sabotage the entire team.

A damaging insurgency

The disruptive power of a dysfunctional director and the need for careful screening are well illustrated at a manufacturing company, one of America's Fortune 50 blue-chip companies, where the corner office had suddenly become vacant. A chief



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executive had unexpectedly decamped to another firm, and the directors quickly concluded that no executive within the firm was quite ready for prime time. One of the directors, however, thought he himself would be a worthy candidate, even though he lacked relevant executive experience. The manufacturing company board had elected him interim

chief executive and chair for the company while it searched for an outsider, and that had only whetted his appetite.

Although the board made clear at the outset of the search that it was looking for a specific set of skills that the interim chief executive did not possess, the aspirant approached the lead director, who was

also chair of the search committee. The lead director rebuffed the query, since the interested director was not sufficiently qualified even to be considered. Taking the rejection as an affront, the director licked his wounds momentarily but soon raised the issue again, now proposing that he become executive chairman of the board, or at least nonexecutive chair. When the lead director turned away that request too, sparks flew, and the ambitious director and lead director dropped all pretense of civility.

We have witnessed board leaders coach dysfunctional directors away from disruptive behavior.

Though regularly in the boardroom together, they refused to speak to one another for the next several years. But that was only the start.

Boosted to hypercritical stage

A new chief executive was soon recruited from the outside, and the disgruntled director became hypercritical. Finding fault with almost everything the CEO did with the company, even questioning the executive's moral compass and personal ethos, the dissenting director worked to cultivate other critics on the board. As chair of the governance committee, the director also recruited a like-minded ally to the board despite the CEO's objection and bonded with the new director to form what the new chief executive came to feel was "an axis of evil."

Often poisonous in commentary, sometimes disrespectful in demeanor, these two dissident directors quietly but effectively intimidated other board members, including the lead director. We have seen this elsewhere, and a contributing factor in most cases, evident here too, was the subtlety of the dissident's challenge. The ambitious director in this case played down his aspirations to avoid the appearance of self-serving motives. Instead, he distributed his poison in small doses, sometimes even with a dollop of sugar. Since most directors did not expect or want a fight with other directors, this subtly inappropriate behavior was tolerated by the board in a way that in retrospect should not have been permitted.

The director's guerrilla warfare gained traction, and the board soon split into factions, with some supporting the dissidents, others opposing, and still others indifferent. The lead director was a person of character and integrity, but he was also conflict averse. He had little stomach for confronting the two dissenting directors openly in the boardroom, preferring to allow their insults to simply dissipate into the ether when the gavel sounded. In the past, a powerful chief executive might have intervened to right the listing ship, but with the axis of leadership now shifting to the boardroom itself, that duty now fell to the lead director, who could not bring himself to intervene.

They took their toll

Little restrained, the dissident directors took their toll on the firm in the years that followed, even though the firm was otherwise performing well under the new CEO's leadership. No great damage was done, but the costs added up. The new chief executive and his staff devoted extra time to preparing for board meetings, making sure their documents were always above censure and directors were well briefed ahead of time. For their part, the dissident

Director's checklist for dealing with nonperforming directors

- Does the director bring few useful skills and a lack of relevant experience to the boardroom?
- Is the director often unprepared for board meetings?
- Does the director fail to grasp the firm's central idea and business strategy?
- Are the director's questions distracting or inappropriate?
- Does the director bring few ideas or leads on business development?
- Has the board established norms on what is expected of directors in the boardroom?
- Has the line between leading and staying out of the way been made clear by the lead director and chief executive?
- Have directors and executives been asked for confidential feedback on a dysfunctional director?
- Has the lead director privately coached a director whose behavior has been disruptive?

— Ram Charan, Dennis Carey, and Michael Useem

directors brought no constructive guidance to the boardroom, creating a vacuum where different directors would have contributed. The new CEO later departed, partly for this reason, and a talented senior executive resigned soon afterward, saying he could no longer work with a company where a few board members displayed such unprofessional conduct and drained out so much energy. The behavior was obvious to most senior managers, and in time they lost respect for all of the directors because of their unwillingness to confront the disruptive conduct. Without a lead director prepared to rein in or a review process to force out the two dysfunctional directors, the board dramatically underperformed its leadership role. Though a relatively rare case, it stands as a warning for the costs that dysfunctional directors can impose on a company.

Carefully vet your candidates

Every situation is of course unique, but to avoid leadership shortfalls of this kind, directors would generally be wise to ask one of their own to step off the board if that director seeks to become an executive candidate. Sometimes boards do draft a member to serve as CEO, but if a director raises a hand without being asked, exiting that person from the board forthwith should be seen as an act of good governance. Otherwise, such a director's continuing presence can morph into dysfunctional governance. Boards would do well to carefully vet prospective candidates in the first place for their proven record of adding value to a boardroom rather than potentially sucking air out of it.

When we asked the chief executive of the manufacturing firm discussed previously what he would have done differently with the benefit of hindsight, he said he would have insisted on removal of the difficult director from the board *before* accepting the offer to become CEO.

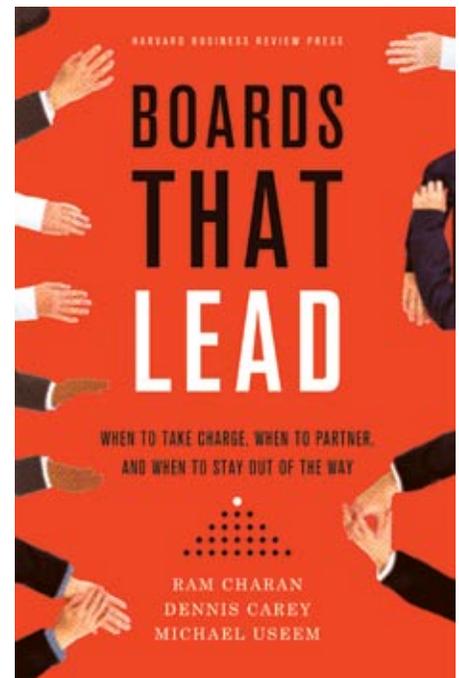
Alternatively, the CEO could have laid down the

gauntlet within six months of his appointment and worked through the governance committee process to have the director removed, even if it meant putting his job on the line, a course that we have seen successfully mastered at two other Fortune 100 companies. Instead, the dysfunctional director became a thorn in the CEO's side throughout the years of his tenure, and his board could not come close to fulfilling its leadership potential.

A pivotal decision

We have seen companies build capabilities for giving individual directors personal feedback from both executives and fellow directors. We have witnessed board leaders coach dysfunctional directors away from disruptive behavior and remove them altogether when they could not. Bottom line: redirecting, deselecting, or not recruiting dysfunctional directors in the first place have become far more important tasks for the board in an era when its leadership has become far more important to a company — and its ineffectiveness far more damaging.

With a good central idea and competent set of directors in place, the board leader now has a critical role to play. A sound chemistry among the directors can catalyze a boardroom, and identifying a director with the personal and professional qualities to serve as board leader and to create that chemistry becomes a pivotal decision. ■



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