Lessons from the Hewlett-Packard Debacle

BY HOWARD M. GUTTMAN

"What leads a board of directors (and business teams from the executive suite to the plant floor) to engage in the kind of shenanigans that can wreak havoc on a company's reputation as well as its competitive position and share value?"

THE BROUHAHA at Hewlett-Packard, over the conducting of illegal investigations (spying!) to track down troublesome leaks, caused by warring board members and their gumshoe retainers has subsided, but the question remains: What leads a board of directors (and business teams from the executive suite to the plant floor) to engage in the kind of shenanigans that can wreak havoc on a company's reputation as well as its competitive position and share value? The HP saga is emblematic of a widespread malady: The inability of teams to ratchet up their game, to replace lack of transparency, foxhole thinking, side games, underground conversations, and sub-rosa actions with the muscle of high performance.

Think of a board of directors as a team of players created to produce results. It is no different from any other business team. For a board to become a high-performance unit, it must keep the focus squarely on business issues; members must be willing to "go there"—to that uncomfortable gray zone where tough questions and disagreement trump camaraderie and consensus. A high-performance board is comfortable with confrontation, dissent, and even conflict; members ask all the tough questions and they hold one another accountable for the organization's success.

No organization can afford to have a conflict-prone, fractious board of directors, nor can it afford one on which dissent and disagreement are muffled. Successful boards, like any successful team, have learned to thread their way through the extremes. Here is the secret to creating a high-performance board: Make sure that all board members, including the chairman, are "aligned" in four key areas:

- They understand and agree to the key strategic and operational goals that management is working towards.
- The role of the board needs to be delineated carefully so directors know exactly what they are responsible for and what they are authorized to do—individually and as a full board.
- Protocols, or ground rules, must be established for how decisions will be made and how conflict—among the board members and with the company's executive team—will be addressed.
- Interpersonal relationships—the range of personal behavior styles that directors adopt when interacting with one another and with management, as well as their expectations of one another—must be understood and managed.

Let's take a look at how a board can become tightly aligned in each of these four areas and, in the process, move up to become a high-performance team. First off, you would think that all board members have a clear understanding of—and commitment to—the organization's strategic direction and the operational goals that flow from it. This, however, often is not the case. In her memoir, *Tough Choices*, Hewlett Packard CEO Carly Fiorina, who was ousted before the scandal broke, speaks of the limitations of board members, saying that they loved to talk about technology but, when the board discussed other areas, they were disruptive and "didn't know what they didn't know."

Directors frequently are not as familiar as they should be with the specific product, market, finances, and growth targets that form the basis of company strategy. Often, top management itself is strategically fuzzy. Even when top management is clear, many boards are given a fly-by briefing, rather than a detailed discussion of the strategy, underlying assumptions, and operational implications. Without entering into the long-standing debate about the role of the board in the strategy-setting process, clearly, boards must have a firm grasp of the future strategic direction and an appreciation for the tough choices needed to get there.

Within weeks after Patricia Dunn became the new chairman of HP, she found herself "in open warfare" with Director Tom Perkins, according to the *Wall Street Journal*. "They argued over how the board should be run. He has called her 'a stickler for process and procedure.' She says he was a 'controller.'" Just who is responsible for setting the rules for how the board should be run? Without clear-cut assignment of responsibilities—and agreement from all board members—it likely will remain an open issue that compromises performance.

Here is a test we suggest be given to each of a firm's board members. Ask each outside director to answer this question privately: How clear am I about my role and accountability on the board, the other board members' roles and accountability, and the role of the board versus that of management? Then, ask the CEO and other inside members of the board the same question. Next, bring the board together to discuss the responses. Such a session typically reveals a number of misapprehensions on the part of directors and executives. More importantly, it offers an opportunity to hammer out new agreements by which to conduct business going forward.

One of the complaints made by Dunn about Perkins was that, as a member of the board's powerful technology committee, he was conducting high-level strategy discussions that belonged in front of all directors, as well as making decisions on which she did not have a vote. "It was becoming a board within a board," she told *BusinessWeek*.

There should be no objections to "boards within boards," per se. In fact, some very successful teams routinely appoint committees to conduct due diligence and make either recommendations or decisions on important issues. The difference between them and Hewlett-Packard is that everyone on the team agrees on which issues the committees will deal with, how much authority they will be given, and what decisionmaking mode they will use: unilateral (made by one person or group with no input from others), consultative (made by one person or group after getting input from others), or consensus (everyone on the full team has input and all must agree to live with the decision).

No board at the top of its game ever would permit a single committee or individual to make unilateral decisions on matters that affect the future of the company. One approach that works successfully is the inventory method: listing all the decisions a board is responsible for making and then grouping them into categories—staffing, investment, those relating to shareholder communications, etc. The board next decides, together, which categories of decisions would best be made unilaterally, consultatively, and by consensus. It also decides which type of decisions can be delegated to committees and whether the committees will be given full decisionmaking authority or just asked for recommendations.

Patrick McGurn, executive vice president and special counsel for Institutional Shareholder Services, made this telling comment on Hewlett-Packard's board struggles: "People are missing the real story at HP. Post-Enron, boards have been granted all this new power, but they haven't had time to deal with their own internal issues—like setting ground rules for conflict."

True enough. Conflict is a fact of life on business teams. On the uppermost team—the board—the stakes are highest, making it a potential tinderbox of dysfunctional conflict. Whether conflict is destructive or constructive depends on how it is managed, which is why having agreed-upon rules for dealing with conflict is critical to a board's success.

Borrowing from our work at senior levels in a variety of companies such as Applied Biosystems, Chico's, Johnson & Johnson, L'Oréal U.S.A., Mars Inc., Novartis, Pfizer, the HP board would have benefited from having the following ground rules firmly in place:

Do not triangulate. Triangulation entails bringing an issue to a third-party "rescuer" for resolution instead of resolving it head-on between the two people who "own" it. The leaking of confidential information by HP directors was a case of triangulation in the extreme. It has no place on any board.

Do not recruit supporters to your point of view. When HP Director Jay Keyworth was identified as the leaker, Perkins came to his rescue with the board and the press, and they formed an alliance against Dunn. Such recruiting is contrary to effective conflict management; it leads to underground behavior.

Do not accuse in absentia. Fiorina told the press that, before she was fired, she provided the board with a statement about her performance and then was asked to leave the room. She was called back three hours later and told by two directors that she had been let go. "I expected the board to look me in the eye and tell me why," she wrote. "They didn't have the courage." Fiorina apparently had fewer rights than an accused felon, who at least is entitled to hear the charges in open court. Such lack of transparency is a deterrent to high performance.

Do not personalize issues. After Dunn's resignation, Perkins told *Newsweek* that, "My number-one thing was to get Pattie out as chairman, and I got that. So I'm happy." Boardroom discussions are too important to be compromised by personal vendettas. Better to treat an issue as a "business case." While depersonalizing is not easy, giving—and accepting—objective, fact-based critiques is essential for that productive give-and-take that drives improvement and progress.

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Resolve it or let it go. Some teams adhere to a 24- or 48-hour deadline for conflict resolution. If, at the end of that time, the parties with the issue have not been able to resolve it, they are expected to drop it once and for all and move on.

No hands from the grave. Some people simply cannot take "no" for an answer. They continue to lobby long after their pet alternative has been discarded and even though they have agreed to live with the team's decision. Do not allow it.

To be useful, protocols must be embedded into how business is done. They should be written down—some teams even keep them posted in the meeting room as a reference to help guide and assess behavior.

"Their fight [reflected] a fundamental conflict over how to run big companies in a post-Enron world. Ms. Dunn brought a careful, rules-based approach to life. . . . Mr. Perkins, by contrast, is a boisterous Silicon Valley legend, in love with fast cars, large sailboats, and getting his own way." This characterization by the *Wall Street Journal* of the two leading adversaries on HP's board reflects one of the major sources of problems on any team: incompatible interpersonal styles. Board members, like executives everywhere, tend to use three basic styles: nonassertive, assertive, and aggressive. The nonassertive director, in effect, says, "I have needs and so do you, but I am not telling you what mine are." At the other extreme, the aggressive director proceeds on the basis that "I have needs and so do you, but mine count more." The most successful boards are those in which directors are assertive—able to express their needs and argue for their point of view without annihilating the opposition. They are able to disagree without being disagreeable.

Consider putting your board through this exercise: Begin by asking each member to identify his or her communication style—nonassertive, assertive, or aggressive. Then, ask the other board members, one at a time, to explain why they agree or disagree with their colleagues' self-perception. It takes a great deal of courage to look into the mirror that others hold up to us—it takes even more to try to modify our behavior based on their negative feedback. Yet, if directors are serious about becoming members of a high-performing team, it behooves them to eliminate blind spots, particularly those that relate to how they transmit and receive messages from one another.

"At heated moments, two witnesses say, Mr. Perkins would declare in front of board members: 'We need a new chairman.' . . . At other times . . . he would poke [Ms. Dunn] in the clavicle and say: 'I made you chairman.' Mr. Perkins' actions were, in the words of another director . . . 'chairman abuse,'" reports the *Wall Street Journal*. Although it remains unclear who knew what, when, Dunn certainly was not the only one at HP who knew that illegal investigations were being conducted. Yet, the rest of the board ducked the issue of chairman abuse, and no one cried "Stop!" to protest the dubious methods—illegal spying—used to identify leakers.

On a high-performance team, board members believe that it is their responsibility to hold peers and the leader accountable for their actions. They expect to be challenged and questioned and, in turn, to do the same with others on the board.

Since it is an iconic American company, Hewlett-Packard very much is in the spotlight, and the problems of its board have been publicized widely. Other boards might be tempted to say, "Not here. We'd never engage in the kind of illegal behavior that got HP into so much trouble." Maybe so, but Hewlett-Packard teaches important lessons about alignment and conflict management that should not be dismissed so smugly. After all, the health and success of an organization hinges on the quality of its board and its commitment to becoming a high-performance team. ★

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