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Back Channels in the Boardroom

**How to prevent side conversations between directors
from blocking progress**

by Heidi K. Gardner and Randall S. Peterson





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AUTHORS

Heidi K. Gardner

Distinguished fellow, Harvard Law School


Randall S. Peterson

Professor, London Business School



ILLUSTRATOR GIULIO BONASERA

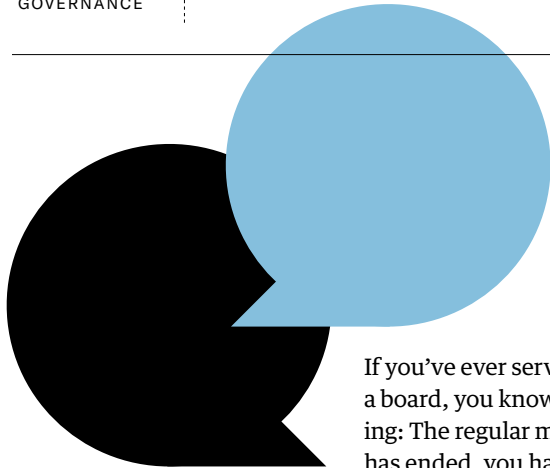
Back Channels in the Boardroom



How to prevent **side conversations** between directors from blocking progress



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If you've ever served on a board, you know the feeling: The regular meeting has ended, you have lots you still need to talk about,

but the next meeting isn't for months. Maybe you've got questions about a complex technical issue there wasn't time to dig into during the meeting. Maybe you need to discuss sensitive information that can't be shared with the whole board. Maybe you just want a reality check on something. Whatever it is, you feel it can't wait, so you do what members of a team always do in this situation: You start having conversations on the side.

Side conversations can be enormously valuable. Conducted properly, they allow teams to work together smoothly and efficiently—to trade opinions, exchange information, and exert influence. But if you've served on a board, you also know that such discussions can cause trouble. Conducted improperly, they can encourage political maneuvering, marginalize members with key expertise, foster inappropriate alliances, and lead to poor decisions. Instead of making the team better, they can make it dysfunctional.

Given how dramatically side conversations can affect team performance, you might imagine they've been studied a lot, especially at the board level, where the stakes are so high. But when we began looking at them three years ago as part of a larger study of board dynamics in dozens of organizations, we realized that no one had paid side conversations much attention. We were also struck by how they hampered diversity efforts—preventing women and people from other underrepresented groups from making full contributions. Last, we were intrigued by the way almost everyone just seemed to accept them as the cost of doing business with high-powered, busy people. So we decided to examine them, combining large-scale surveys with in-depth interviews. In

the process we learned a terrific amount about how boards—or any team, for that matter—should handle these important back channels of communication.

The Challenge of Managing Side Conversations

Many board chairs and members fail to appreciate the subtler drawbacks of off-line conversations and, as a result, don't proactively mitigate them. The downsides include the following:

Side conversations almost always leave some directors with incomplete information. That hinders good decision making. Here's an example: At one nonprofit, an employee privately raised concerns about the CEO's behavior toward the staff with the board's nonexecutive chair. Before bringing up the matter formally, the chair wanted to canvass the directors to see whether any had sensed something was amiss. So he called each one. But because his own understanding of the problem evolved over the course of the conversations, each director heard a slightly different version of the story from him. At the next meeting things blew up when it became clear that the directors the chair had spoken to first hadn't gotten all the facts. Some felt misled and questioned the chair's leadership and integrity, and several resigned. Ultimately, the fractured board failed to reach a timely decision about how to address the CEO's alleged misbehavior, the employee lodged a formal complaint, the CEO resigned, and the organization's reputation suffered.

Side conversations can make boards vulnerable to biases. When a board chair tries to share information through a round-robin of one-on-one conversations, it's likely to distort everyone's understanding of a problem and the possible solutions, especially the chairman's own. One reason is that people remember later conversations more clearly than earlier ones—a tendency psychologists call *recency bias*. Consequently, the chair may place more weight on the opinion of whomever he or she talked to last, regardless of whether that input was backed up by expertise.

In addition, the first person to speak on a topic can have a disproportionate impact in shaping the discussion—a bias that behavioral economists call an *anchoring effect*. One senior nonexecutive director explained how this problem led him astray when he was assessing a proposed acquisition: "The first board member whose opinion I sought in a phone call had been the CEO of a massive global company, and I knew it had closed dozens of major deals during his tenure. He put out a number that he thought we should offer. I talked to every other director, but I realize now that I weighed each piece of successive advice against his,

●● New board members are often left out of side conversations. Then, when they raise issues the other directors have discussed off-line, their comments are treated as a nuisance.

rather than considering it at face value. Turns out his figure was way off for a fast-growing company like ours, which was a fraction of the size of his old company and in a completely different competitive space. We lost time and ultimately the bid.”

When board members feel left out, it undermines trust. It’s easy for directors who are not seen as part of the “inner circle” to be excluded from informal side conversations. Not surprisingly, women get shut out most often. In one study led by Boris Groysberg of Harvard Business School, a fifth of the nearly 300 female directors surveyed reported that not being part of the “in” group was a barrier to their effectiveness, and a third of male directors said that women have limited acceptance on boards because of the old boys’ club. Of course, the inability or unwillingness to draw on all members’ expertise defies the logic of having highly capable people on the board.

New board members also can be marginalized. Because they lack strong relationships with veteran directors, it’s not uncommon for both male and female newcomers to be left out of side conversations. Then, when they raise issues at meetings that the established directors have already discussed off-line, their comments are often treated as a nuisance or even an attack.

Consider the experience of a financial services executive we’ll call Victor, who had joined the board of a growing multi-billion-dollar public company. He brought valuable expertise and industry knowledge, but from the start, the other directors would brush off his questions during meetings or

respond in a perfunctory fashion. He could feel the tension rising month by month, and it came to a head at a meeting about a year and a half into his tenure, when he politely challenged what he saw as the board’s premature consensus on a major strategic acquisition. The visibly frustrated chair called for a break, and one of the directors pulled Victor aside and asked him, “Why revisit decisions that we’ve already cleared through the normal channels?” Victor was stunned. If the board meeting wasn’t the normal channel, what was?

Directors tend to justify side conversations by touting improved coordination, timely input between formal meetings, and the ability to explore the severity of confidential issues before bringing them into the open. But even efficient mechanisms may be rejected by some directors if they come across as secretive or manipulative. One board member at a private company believed that the founder-CEO, who was also the board’s chair, used one-on-one conversations to undercut potential criticism of his leadership. “Through backroom dealings with a small group of cronies on the board, the CEO avoided boardroom discussion of all issues where we should have had a debate,” the director said.

One of the most destructive kinds of off-line conversation happens after a decision has been made but hasn’t worked out. These almost always involve venting by members who disagreed with the decision, and they serve no constructive purpose. As one director told us, “The sidebar after the decision is really poisonous. If we’re going to have a post-mortem, it absolutely must be collective, where we all hear the same thing.”

IDEA IN BRIEF

THE CHALLENGE

Private discussions between individual directors can help a board function more smoothly and efficiently. But if conducted improperly, side conversations can encourage political maneuvering, marginalize members, and lead to poor decision making.

THE CAUSE

Boards just seem to accept side conversations as the cost of doing business with high-powered, busy people and don’t proactively try to make sure they stay constructive.

THE SOLUTION

Boards need to establish clear rules of engagement and regularly review whether members are adhering to them, set up an onboarding process for new members, foster personal relationships among directors, and implement measures to maintain trust during rounds of side conversations.

Interactions among board members are already complicated enough. Say a board is contemplating the impact of possible trade sanctions on a company's manufacturing footprint, supply chain, and long-term global growth. Tackling that issue requires expertise in general management, operations, strategy, regulatory law, macro- and microeconomics, political forecasting, public relations, and more. Such complexity, along with the demographic diversity that is a goal (or mandate) for many corporate boards, means boards must integrate more types of perspectives than ever before. When a board is large and meets infrequently, this is extremely difficult to do. So many boards form committees to tackle a specific area, such as government relations or compliance; create panels of experts in particular domains who advise directors, typically outside formal meetings; and add specialists to the main board itself. As a result side conversations have proliferated. They can occur within committees, among members of the committees or advisory panels and the other directors, and between an expert director and her nonexpert counterparts—all creating the potential for problems.

One nonexecutive board chair explained how a decision on a complicated issue in one committee could lead to a large round of side conversations. "If I don't understand the ramifications of, say, a new kind of equity-based incentive program on executives' likely behaviors *and* on shareholder perceptions, I will contact both compensation committee members and other directors to get a better sense of the possible outcomes before I bring it to the full board," this chair said. "But it means I get a whole series of one-sided opinions."

Despite the challenges that side conversations present, eliminating them is neither realistic nor desirable. By studying high-functioning boards, we've uncovered a number of techniques that can maximize the positives and minimize the negatives. These approaches are compatible with the findings of much of the organizational behavior research on how high-performance teams collaborate.

We've organized these suggestions into three groups: actions that prepare boards for constructive off-line conversations, ways to protect or build trust during them, and what to do after they've occurred.

Preparing Boards

Boards that use side conversations productively create formal onboarding processes, regularly review whether they're adhering to standards for interacting, and continually strengthen bonds between directors. Specifically, they:

Involve a range of board members in onboarding. Many chairs take it upon themselves to brief incoming directors

about the board's structure, operating procedures, and major agenda items, but the best approaches involve a broader set of board members. Some boards have the chair of each committee introduce the newcomer to the issues it handles and provide a rundown on the other directors involved. Ideally, those meetings should happen in person, but if that's not possible, phone discussions are OK.

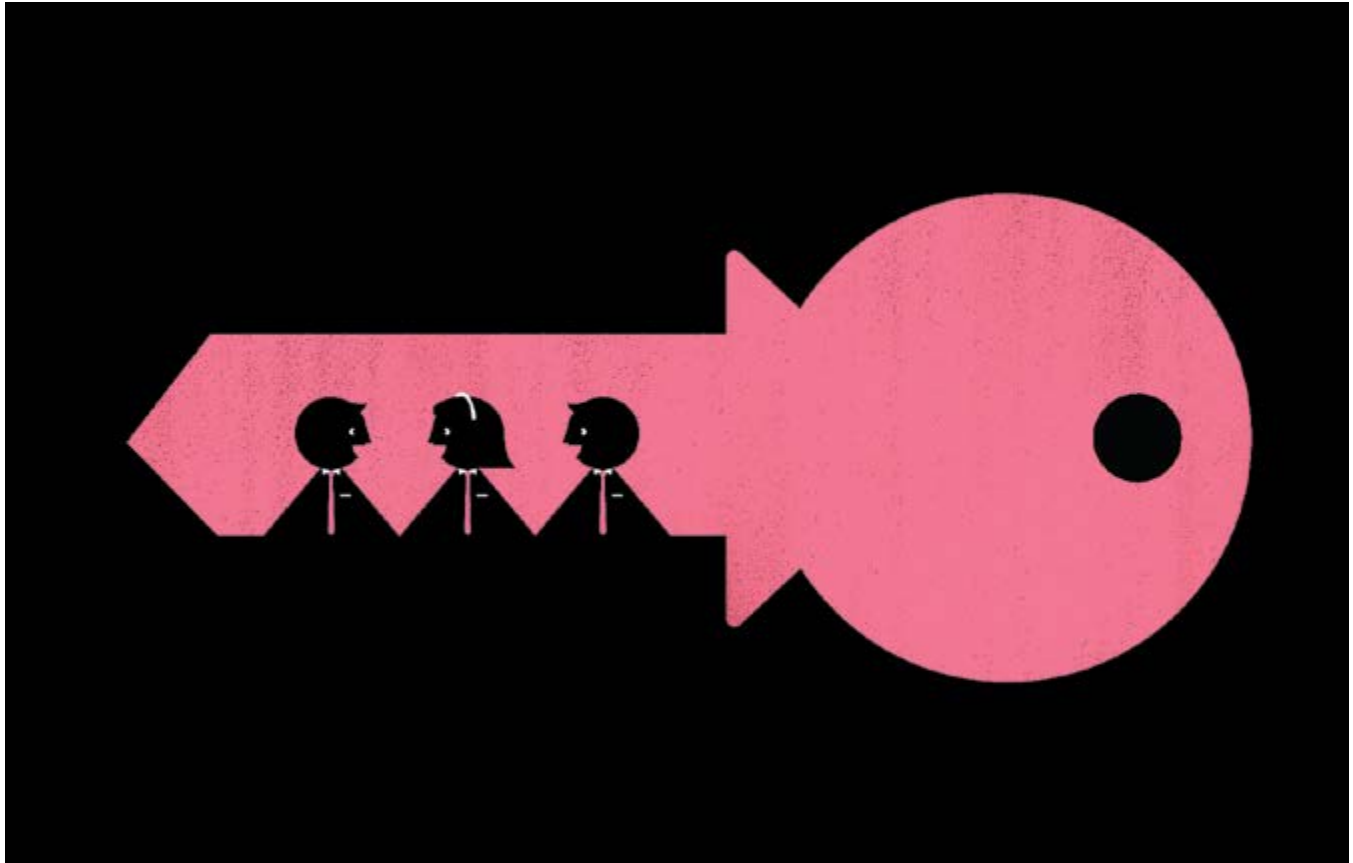
This level of contact helps new members forge relationships with their peers and makes it less likely that they'll face a situation like Victor's. New directors will also feel more comfortable speaking at the full board meeting and become more likely to be included in constructive side conversations.

Focus on what the new directors bring to the role.

Recent research on onboarding by London Business School's Dan Cable and colleagues shows that focusing on the unique perspectives and strengths of new employees makes them more apt to ask questions and share their thoughts. That in turn makes them more effective. We found that the same holds true for new directors. When they have a clear understanding of how their expertise contributes to the group and how the board will rely on them, they feel they have the legitimacy and responsibility to raise issues in the full board meetings, which lowers their need to start side conversations.

Establish clear rules of engagement. Too many chairs assume that people who have been invited to serve on a board are accomplished and therefore can just take care of themselves when they become members. But even the most experienced directors have told us they appreciate hearing exactly what's expected of them. Accordingly, when welcoming newcomers, the chair should explain not only their governance responsibilities but also how to raise issues in informal discussions. It might seem like common sense to suggest listening sensitively, questioning others respectfully, debating constructively, challenging rigorously, and deciding dispassionately. But the reality is, lots of high-powered people who are individual stars aren't accustomed to acting in this manner. Rather than merely discussing these rules, one board chair we interviewed insists on spelling them out in a letter to newcomers.

Regularly review whether the board is adhering to its norms. When a new member joins the board, it's an excellent time to refresh everyone's commitment to the standards for interacting. In addition, boards should periodically assess whether they're following their stated principles and, if not, discuss how to get back on track. The best time to do this is during an annual review, when the group evaluates how it's handling its other core work, such as routine risk assessment, communication with executives, and reporting requirements.



Forge personal relationships. The agendas of off-site board meetings are typically packed with high-priority matters such as the company’s strategy, leaving little to no time for building personal ties. That’s why it’s important to organize other off-sites or field trips whose main purpose is to help board members get to know one another. At those gatherings directors can build the trust they’ll need to communicate effectively when stressful or sensitive issues arise. So the next time you convene the directors, adopt the “less is more” philosophy and give them time to have deeper discussions and socialize.

For one off-site, the chair took a novel approach: He asked board members to submit their favorite songs and then played them at various breaks during the day. The person whose song was playing had to tell a quick story about why he or she had chosen it. Initially, members grumbled about this, but they left saying that it was the best off-site they’d had—not only because they learned more about one another from each story but also because it gave them ways to start personal discussions that had previously seemed awkward.

Relaxed field trips can serve the same function. One director of a food manufacturer enthusiastically told us

how much he’d learned by visiting the transportation lab of a major university to see how transit innovations might change eating habits. But he admitted that an even bigger benefit was the personal conversations he’d had with fellow board members in the van on the way to and from the lab.

Maintaining Trust While Side Conversations Happen

Here are some ways that chairs and individual directors can ensure that side conversations remain constructive and build—rather than weaken—trust among members of the board:

Discourage griping. One chair we interviewed described how another director consistently “vents with me about the CEO but then calms down.” Letting off steam may seem like a legitimate reason for a side conversation, but research involving corporate executives shows that it actually increases negative emotions, harms relationships, and ultimately undermines individual and team performance.

Directors should not only resist grouching about colleagues but also actively redirect the conversation when



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others vent to them. A good tack is to ask questions that help colleagues take the perspective of the person they're complaining about. For instance, why might that person have acted that way—was it because of situational pressures? Dialing down the venting will help the group focus on its tasks in a positive fashion.

Be inclusive. Whether you're a chair or an ordinary director who spots the need for a side conversation, make sure directors are not left out—except by design. For example, it's legitimate for a smaller task force of directors to have its own cluster of side conversations to address issues within its purview. But the head of the task force and the board chair need to stay updated on the discussions so that they can bring in all the other directors when appropriate.

If you're the chair or the lead director and the chatter about a general board issue has already begun among directors, figure out who has spoken to whom about which angles of it and work to bring everyone's knowledge up to the same level. To the extent possible, be strategic about off-line discussions. For example, before a meeting about a controversial acquisition, a chair might ask the director with the most credibility in that industry to call each board member to elicit his or her concerns and to offer some perspective. If you're the one delegating, let other members know the delegate is acting on your behalf rather than politicking behind your back, but stay informed about any issues raised. And be as transparent as possible in any kind of side conversation so that no one feels games are being played. Make sure all directors know it's completely appropriate to share who has spoken to whom about what.

The more sensitive the topic, the more planning matters. One nonexecutive chair told us a story about a struggling CEO who was "trying to pick off enough individual directors to either stay in control or at the very least maintain a few good references from the board." The chair needed to keep tabs on the off-line conversations. After several rounds of sidebars, he called an extraordinary meeting of the non-executive directors so that everyone could hear the same information at once and have a cohesive discussion. By then, all the directors had participated in at least one side conversation with the chair, and he knew what concerns each wanted to bring up. Ultimately, the chair held the board together, and the CEO was asked to resign.

Track the content of your conversations. If you're the chair or the lead independent director, it can be challenging to remember what happened in the side conversations you've had. But it's critical to be aware of how your own thinking has evolved over the course of your discussions so that you can circle back to people to explain why your opinions shifted and brief them on pieces of the puzzle gathered after you spoke with them. That will prevent you from looking disingenuous.

We suggest keeping a record of what you gleaned during each off-line discussion and how your views have changed. Another benefit of this is that it will help you avoid giving too much weight to more-recent information. One director of a major pharmaceutical company swears by this approach. "We are bombarded by information," he told us. "On important issues, you think you'll remember what's happened, what someone said—but it's really impossible. You've got to be able to, every now and then, step back, look down, and think, 'What does all this mean?' And good reflection demands good records."

Integrating Views After Side Conversations Happen

When the full board convenes, action-oriented directors will be itching to get down to business, and some directors may arrive with entrenched positions on issues. But board members need to reach a shared understanding of any problem so that they can have a fully informed, constructive conversation about possible solutions. Here are some tips that can help boards create an integrated picture:

Create common ground. This should be the first step whenever the board meets. Making sure everyone is up to speed can feel like a waste of time to some people, so the chair needs to explain why it's necessary—how information disparities are likely to lead to clashing assumptions about the problem and appropriate solutions. Classic studies on decision making show that teams find it difficult to solve an otherwise easy logic problem if the relevant pieces of information are distributed among individual members rather than known by all. Compounding this, people have a tendency to confirm the dominant understanding of an issue rather than share unique or challenging information. So it's vital to probe individual directors' varying assumptions.

Draw out expertise. When people are working on important issues with prominent people they want to impress—as is typical in boardrooms—they're rightly cautious about how their contributions to a discussion will be perceived. It's all too easy for directors to hear unusual or unexpected questions coming from their colleagues and jump to the unhelpful conclusion that the "newbies" or "techie" just don't get

the problem at hand. And let's face it, some leaders use their position to intimidate others. As one director recalled, "If you arrived on United 462, and the rest came on their private jets, it can be daunting. When the CEO asked me at the start of a meeting whether I'd flown commercial, it was clearly a status play."

If the board grapples with a sensitive or high-stakes issue, power dynamics will probably become stronger. (See "Coming Through When It Matters Most," HBR, April 2012.) Under pressure, groups tend to defer to people of higher status and may ignore or fail to solicit the expertise of some members. They tend to become risk averse and aren't open to new ideas. Members then become less apt to speak up (especially about thorny matters) or to challenge the group's general thinking. Feeling threatened also makes people rely more on people they've known and trusted for a long time, which means that ideas presented by newcomers or directors who aren't insiders often are dismissed.

Effective chairs and directors resist status games, actively solicit input from a broad range of members, and encourage quieter colleagues to open up. This might entail privately explaining to them how to present their expertise without jargon and with context that will make its relevance easy to grasp. It's also useful for a leader in the midst of a stressful situation to acknowledge the tension in the room; that will help lower the emotional temperature, get high-powered members to soften ego-driven hard positions, and refocus attention on what matters.

BOARDS WILL NEED more off-line discussions as they deal with increasingly complicated problems and draw in more specialists to help them. At the same time they must ensure that those side conversations don't undermine their ability to make effective decisions. Every chair or senior independent director should be aware of the conversations that are going on and take steps to keep them constructive and see that everyone has all the critical information. But the chair cannot do everything. It's the responsibility of every board member to use side conversations to promote better understanding and make sure they don't become a vehicle for backroom deals that produce poor decisions. ☹

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 **HEIDI K. GARDNER** is a distinguished fellow at Harvard Law School's Center on the Legal Profession and the faculty chair of the school's Accelerated Leadership Program and other executive education courses. She is the author of *Smart Collaboration: How Professionals and Their Firms Succeed by Breaking Down Silos* (Harvard Business Review Press, 2017). **RANDALL S. PETERSON** is the academic director of the Leadership Institute and a professor of organizational behavior at London Business School. He is also the faculty lead on the school's Senior Executive Program.

BENEFITS OF PRODUCTIVE SIDE CONVERSATIONS

1. They help directors who might not otherwise have time to digest all the background reading get fully briefed before board meetings.
2. They allow directors to understand why each has a particular point of view and to make compromises without losing face.
3. They save time by enabling directors to see where they agree and disagree so that they can focus on the areas that need debate at the full meeting.
4. They allow directors to share sensitive information that may have legal or reputational risk for the company (such as accusations of illegal behavior) without prematurely disclosing it.
5. In them directors get feedback that can help improve their individual performance and, as a result, the board's.

DANGERS OF POORLY MANAGED SIDE CONVERSATIONS

1. They exclude input from experts who aren't in them.
2. They give too much weight to the opinions of some directors—for example, higher-status or veteran board members—who may not necessarily be experts on a specific issue.
3. They stifle open, frank discussion at the main board meeting because solutions have already been agreed upon through back channels.
4. They allow directors to selectively speak to other directors who see the world in the same way instead of being appropriately challenged.
5. They undermine buy-in to proposed solutions when some directors are left out of the reasoning behind them.
6. They dampen the engagement and organizational commitment of board members who feel their voices aren't being heard.
7. They marginalize directors who are not part of the "in" crowd and block diverse input into important decisions.
8. They allow operators to manipulate people out of plain view.
9. They waste time and distract executives and non-executives alike when having one full-group discussion around the board table would be more productive.