

Board Governance and The Responsibility Virus

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Board Governance and the Travails of Grove Corporation

Hans was so angry he could barely speak. Duncan, chairman of the newly formed strategy committee of the Board, had just informed him – not suggested to him, the powerful Chairman and CEO of Grove Corporation – that the Board was uncomfortable with Hans’ proposed strategy for Grove. And even worse, the Board wanted him to retain a consulting firm to review the strategy before voting on its ratification. “What were these fools up to?” he wondered. They had hired him four years ago to turn around the fortunes of Grove, a once-proud firm whose position had eroded under successive generations of weak, self-satisfied management.

In a mere four years, he had aggressively diversified Grove out of its slowly growing core business and repositioned the firm within the core business to improve its prospects there. The Board, which he had tried to upgrade to a more youthful and aggressive group, had done little to help him in the transformation. After orchestrating the ouster of his predecessor and his own recruitment, they had stepped completely into the background and had remained there ever since. They had ratified his new strategy four years ago and had approved all the acquisitions he had since proposed.

Now because the core business had softened more than expected and several of the acquisitions weren’t turning out the way he had planned, the Board had suddenly turned on him. It created a Strategy Committee of the Board and ordered an outside review of his new strategy to accelerate the diversification out of the core business. “My new strategy is clearly right,” fumed Hans to himself. “And I had the courage to pursue it rather than run Grove into the ground. The Board members have no idea what they are talking about. Despite that, they are taking actions that jeopardize the entire process that I have been spearheading for four years!”

However, faced with no choice in the matter, Hans hired an outside firm. He sat them down and explained the situation to them. The strategy was sound but the Board simply didn't understand what had to be done. It wasn't easy. There had been and would continue to be bumps in the road, but his strategy was really the only sensible option. However, the consultants raised questions as to the validity of Hans' proposed strategy and suggested alternatives to be considered alongside the current single option.

Seeing this kind of thinking as an affront to his authority, Hans became ever more obstreperous with the Board. He continued to make decisions without Board review and aggressively proposed actions, including a huge write-off, which the Board did not wish to consider before the conclusion of the consultant's review.

The Board gave the Strategy Committee increasing authority and arranged a weekend offsite at the conclusion of the consultant's work, during which the Board as a whole, not just the CEO, would consider a range of strategic options and make a decision. Hans became increasingly strident in his criticism of the process and the Board's new activist role. He insisted that it was his responsibility to review the work of the consultant and based on his review come to the Board with a strategy recommendation.

His stance alienated the Board and undermined any remaining faith it had in Hans' ability to complete the turnaround. Prior to the offsite, the Board fired Hans and named one of its members Chairman and interim CEO. The Board took responsibility for the strategy decision. Based on the material presented and the debate at the offsite, the Board made a number of critical strategic decisions, including – much to Hans' consternation – the very write-off Hans had been advocating.

The Board also initiated a recruiting process for a new CEO and, after five months of searching with the help of a leading global executive search firm, the Board hired a new leader, Jed, an experienced EVP from a much larger and more prestigious firm in a related industry. They gave Jed an extremely favorable compensation package and a high level of authority for the management of the firm – authority that was eerily similar to that given to Hans upon his arrival in the executive suite. In anticipation of the new

CEO's arrival, the Strategy Committee of the Board disbanded and the strategy work stopped.

Jed went to work immediately on a new plan, with little input from or interaction with the Board. Several months later he took the plan to the Board for approval. It passed without alteration or even much discussion. The business papers covered the story of the new plan to turn around Grove with rapt enthusiasm. The Board heaved a sigh of relief, seeing itself as having taken the steps necessary to ensure success for the shareholders of Grove. They had got rid of Hans, who never lived up to expectations and became increasingly erratic, and replaced him with Jed, who was tough-minded and operational. With his new plan in place they could sit back, enjoy the positive press and wait for the profit turnaround to take shape.

Sadly for the Board, Jed and the shareholders of Grove Corp., nothing of the sort occurred. Profits continued to trend downward under Jed's leadership and the stock with it. Within 18 months, the stock had dropped to less than one quarter of its level at the time of Jed's arrival. Analysts were no longer complaining about the 'rich package of stock options' that the Board had awarded Jed since none of those options would be worth a penny for the foreseeable future. However, shareholders were furious and began to call for Jed's head. The Board began to wonder if they had been fooled again. Jed seemed increasingly like another Hans. How could that be?

Less than two years after Jed's coronation, with the stock price at one-fifth the level when he took over, the Board fired him and replaced him with yet another savior from a related industry. In the view of the Board members, the key problem was that they had been fooled by Jed's confidence and bravado into choosing the wrong CEO. They scarcely considered that their management of Jed was a contributor to the failure. This time, they felt they had found the right man to effect the necessary turnaround.

Fear of Failure and the Responsibility Virus

The travails of Hans, Duncan, Jed and the Board of Grove Corporation are typical of Boards and part of a broader phenomenon called the Responsibility Virus by which the parties vacillate unproductively between heroic leadership and passive followership in the way the Grove Corporation board and its various CEO's flip-flopped.

The source of the Responsibility Virus is the pain or fear of the pain of failure caused by making a bad choice. Choices are forced when we face a fork in the road, at which point we must give up what lies down one fork in order to get that which lies down the other fork. If nothing must be given up, then there is no fork and no choice. With this consequence comes the potential for regret that we didn't choose the other path when, with the unfolding of time, it proves to have been more attractive than our chosen path. Regret equates with failure, the failure to make the optimal choice. So the specter of failure accompanies every true choice.

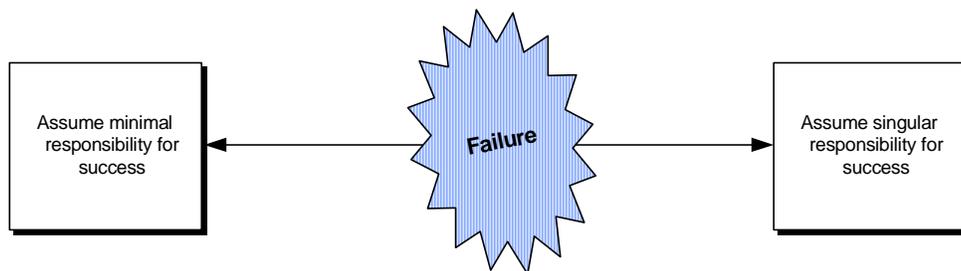
In the case of Grove Corporation, the critical triggering event for the Responsibility Virus was the abject failure of Hans' predecessor. The Board brought in Hans from the outside to replace the prior failed CEO. That failure was embarrassing and painful to the Board. Grove had been such a stable performer that it was a proverbial "widows and orphans" stock that was widely held by many individual shareholders. It had long operated on virtual autopilot and the Board functioned in a hands-off fashion. However, when the company started underperforming more visibly under the previous CEO, the Board came under criticism for the first time in anyone's memory. In response, the Board took charge aggressively and, in a high-profile move, went outside to hire a new CEO, Hans, whom they announced with great fanfare. In the wake of their previous embarrassment and pain, the Board was delighted to repose a high level of faith and responsibility in the new CEO.

The key question at the point of the triggering event is: How will choices get made following the painful failure? Is there collaboration and sharing or unilateral activity? In the Grove case, the question is how will the Board and Hans collaborate on the future key choices in the shadow of the embarrassing failure? Will they share responsibility

productively or move to the extremes? Will the Board collaborate with Hans to share the responsibility of rising out of the failure of Hans' predecessor or hand it over to Hans and fade into the background?

However, no collaboration of any sort occurred. Hans assumed singular responsibility for subsequent success; and the Board assumed minimal responsibility for subsequent success. Had either Hans or the Board been asked their intention at the outset, neither would have stated this outcome as a goal. Yet it happened. Why? Because this choice of extremes in responsibility assumed, rather than collaboration, represents the most characteristic response to the triggering event of failure. In the vast majority of cases, the response to a failure, or even the threat of a failure, is the following:

Characteristic Response to the Experience of Failure



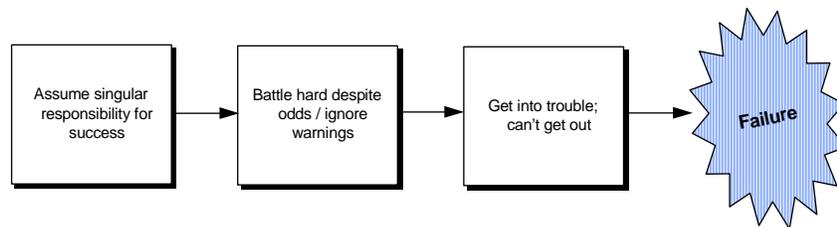
The response has a number of interesting characteristics. It is not unlike the reactions of two joggers approaching one another on a narrow path. The instant one gives the slightest signal of intent to make a move in one direction, the other jogger takes the cue and begins diverting to the opposite direction. They pass each other without words, without bumping, and without really knowing what caused each to move in the opposite direction. Similarly the reaction to failure is mutual, tacit and largely unconscious. In this respect the emerging dynamic is like a virus. The actions of one party cause the other party to take action – i.e., “infect” the other party – without the other party even realizing at a conscious level what is happening. The action passes from one actor to the next like a virus passed from one individual to another.

When we assume leadership and full responsibility in the wake of the triggering failure event, we tend to see ourselves as both heroic and self-sacrificing.

Heroic Leadership: *“This is a tricky choice. If we blow it, things will be bad for all of us and we will look silly. I’d better take charge to make sure things don’t get confused and out of hand. I am better equipped to make sure we succeed than any of these other people, but I’d better assert control or the decisions may not go the way I think they will need to go to ensure success.”*

We see the other party as a sheep that must be led, who would be lost without our leadership. We begin to assume that they would be incapable of accepting and fulfilling new responsibility. As a consequence, we move pre-emptively to seize further responsibility as the necessity arises. At the same time, however, as our burden grows, we also tend to start harboring resentment toward them for their dependence. Increasingly, we see ourselves as the only reliable party, who therefore *must* take on a disproportionate share of responsibility despite the personal burden/sacrifice that may entail. Eventually, the overall responsibility assumed exceeds capabilities by so much that the heroic leader gets into trouble and begins to fail:

The Eventual Consequence of Over-Responsibility

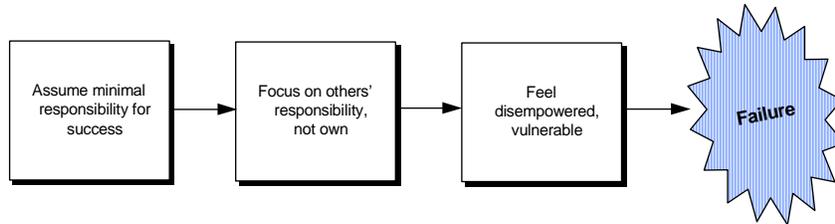


The passive follower takes the opposite course out of the painful failure.

Passive Followership: *“This is a tricky choice. If we blow it again, things will be bad for all of us. I’d better stand back and let others more capable take charge. I will be supportive of their decisions. If we make the wrong choice, at least I won’t look so bad given my role.”*

For the passive follower, the first instinctive step toward under-responsibility also sets in motion a sequence of steps that lead eventually – and inevitably – to painful failure, as follows:

The Eventual Consequence of Under-Responsibility



In important ways, the Responsibility Virus becomes fully self-sealing. That is, it produces data that reinforces our views that we are correct, which reinforces the actions that produce still more reinforcing data, etc. Not only do we increasingly fulfill the expectations of the capabilities of one another; we also reinforce the negative views of the character and motives of one another. The leader sees the follower as irresponsible, lazy and uncommitted. Hans saw the Grove Board in just these terms leading up to the point at which it began to assert itself. This led him to dismiss them as meddling fools.

In parallel, the follower sees the leader as imperialistic, disrespectful and belligerent. The Grove Board saw Hans in these terms and questioned their ability to work with him in any respect.

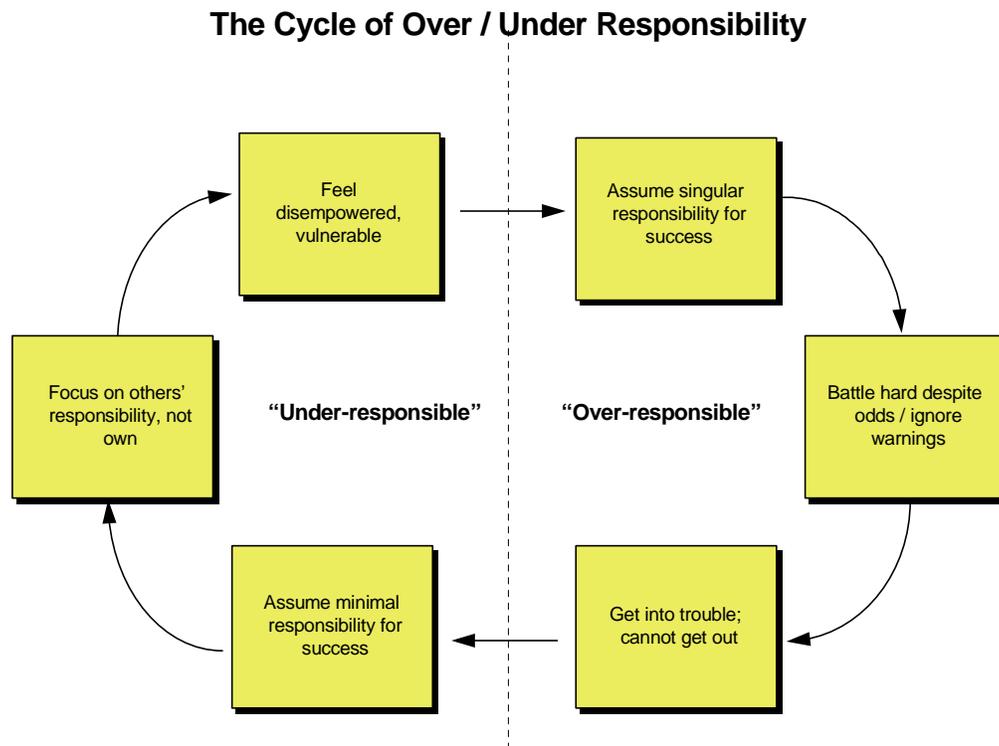
With these views in our heads, we distance ourselves from one another. We spend less time interacting. We stop trying to test whether our negative perceptions of the other are valid. In doing so, we reduce the possibility that we will communicate in ways that overcome the situation we have created.

This self-sealing quality eliminates the possibility of dampening or ameliorating the Virus as it goes forward. Instead, the Virus builds in strength as it passes back and forth, making it ever more difficult for the parties to overcome. Not surprisingly, the Virus makes its targets more than a little queasy; everyone knows something is wrong and yet

no one is quite sure of the cause. In the absence of direct communications about the dynamic, each of us is left with our own unshakable opinion of the other person, as well as the resultant feeling of foreboding.

And the foreboding is well placed: the eventual consequence of the initial move to over-responsibility or under-responsibility is failure. Failure served as the triggering event of the sequence. It initiated moves to over- and under-responsibility. Now it is repeated and amplified at the end of the sequence. Not surprisingly, the second failure simply spurs another cycle of the Virus.

In fact, in an ironic twist the Responsibility Virus causes the under-responsible party to flip to over-responsibility at the point of failure, and the over-responsible party to flip to under-responsibility at the point of failure. So the individual strings of under-responsibility and over-responsibility shown earlier are linked in a circular pattern as follows:



In each case, the flip is a reaction to frustration with the circumstances leading up to the failure and a way of attempting to protect ourselves from the pain of failure. When we

are the over-responsible party we tend to say: “I did everything I could, worked myself to the bone, had to struggle alone surrounded by ingrates. I’ve had enough. Somebody else had better step up to the plate. And for a change, I am going to sit back and watch.” When we are under-responsible, we tend to say: “I put myself in the hands of the leader who brushed me and my efforts aside. I put my faith in the leader and only suffered due to his/her ineptitude. Never again! I’m going to control my own destiny.”

And with that flip, we set off down another self-sealing path of under- or over-responsibility. We cause our partners to migrate to the opposite extreme and we set ourselves up for failure lurking over the horizon.

The Grove Corporation case illustrates two cycles around the circle. The Board started out on the under-responsible side under Hans’ predecessor and flipped to over-responsible when the situation produced painful and embarrassing failure. Then it hired Hans and flipped back to under-responsibility after the short bout of over-responsibility. When Hans failed, they flipped back to over-responsible only to flip back quickly after the hiring of Jed.

The Rationale for the Intense Fear of Failure

The irony of the Responsibility Virus is that failure begets failure, which begets failure, etc. In fact, *fear of failure* actually helps produce the very failure that we fear. Why do we fear failure to such an extent?

It’s personal, very personal. And it is universal. Within each of us is a set of rules, not unlike a computer operating system, that guides the way we interpret and deal with our world. Chris Argyris, Professor Emeritus at Harvard Business School, identified and studied this set of rules in research on individual and group behaviour across his long academic career. He calls these rules **governing values** that apply universally to people across ages, cultures, genders, economic status, education level, and so on:

-To *win and not lose* in any interaction;

-To always *maintain control* of the situation at hand; and

-To *avoid embarrassment* of any kind.

For example, in discussing with a colleague my preference for my plan over his, a conversation that achieves the governing values is one in which:

-I convince him that my plan is a better course of action than his plan;

-We stick to my agenda throughout the conversation and don't go off on 'tangents' or get into a big argument; and

-We don't have an embarrassing conversation about my point of view having prevailed over his.

Argyris found that we are socialized to embrace these governing values and to adhere to them in our interactions with others. Over time, we become extremely skilled in designing our behavior to avoid violating these three governing values, even though the cost may be an outcome we don't like at all. For example, in the above situation, my colleague may come away from the conversation feeling unheard and feeling railroaded by me. He may avoid working with me in the future. This would not likely be my intent, but would be a likely outcome of me operating according to the governing values.

Together, the three governing values combine in us to create an intense fear of failure. The *win-don't-lose* governing value equates failure with losing; hence failure violates the first governing value. Failure also threatens our ability to *maintain control* of the situation at hand. Failure often causes those involved to reassess roles and shift responsibility in order to avoid a repeat failure. If we are in charge during the failure, another party may be given control going forward, thereby violating the second value. Finally, failure is intensely embarrassing, partially because it causes the violation of the first two governing values. It therefore violates the third value of *avoiding embarrassment*.

Boards typically collude implicitly with the CEO to produce the Responsibility Virus because it supports each of their governing values. For example, take a situation in which a Director feels queasy about a CEO decision brought to the Board for confirmation.

Unless the Director in question is the retired CEO (which sometimes happens on Boards, although most CEOs try not to allow former CEOs on their Board), the CEO knows much more about the business than the queasy Director. The queasy Director fears, therefore, that they are more likely to *lose, not win* the subsequent argument. And they know there will be an argument because the CEO is used to having everything ratified and won't like the queasy Director's questioning. As that argument ensues, the situation may *get out of control*, which could result in bad things for the queasy Director. And, of course, all of the above would be *highly embarrassing* for all involved.

Directors therefore tend to keep their concerns to themselves and act as passive followers despite their formal authority and their personal seniority. This is highly baffling to outsiders who tend to ask, especially after precipitous crashes, "*With all those powerful Directors and all the governance procedures in place, why didn't the Board do something? Anything? They fiddled while Rome burned!*"

The answer is the Responsibility Virus. As the Directors back off, the CEO watches this passive behavior and assumes that he or she has no real choice but to seize even more responsibility. The CEO is increasingly inclined to treat the Board as an afterthought, generally assuming that all his recommendations will be promptly rubber-stamped by the Board. This stance is quite handy for the CEO as well. The CEO manages to *win, not lose, maintain control, and avoid embarrassment* while the Board accomplishes the same goals. This pattern, this CEO/Board set of behaviors and norms, is highly convenient for all parties.

And so it was at Grove. It started with the Board's initial hand-over of responsibility to Hans in the wake of what the Board saw as its prior governance failure. Fresh from the feeling of losing, ceding control to angry shareholders and feeling profoundly embarrassed, the Board seized control, sacked Hans' predecessor and hired Hans. In doing so, the Board flipped from under-responsibility to over-responsibility. But then just as quickly, it flipped back to under-responsibility by handing over everything to Hans.

Hans was able to make most decisions on his own or with the help of his management team, and only inform the Board afterwards. Only on a narrow range of issues – e.g., a sizable acquisition – was Hans mandated by longstanding governance procedures to come with a recommendation for Board approval. However, in these situations, Board norm was to approve them without much, if any, scrutiny. Every acquisition Hans had proposed since his arrival had been ratified. Hans' relationship with the Board had evolved to the point that he would never consider going to the Board with anything less than a clear recommendation. Directors became ever more uncomfortable, yet remained silent. Hans became ever more aggressive, while wondering about the quality of the Directors.

And although both Hans and the Board designed their actions so as to avoid *losing, ceding control, and being embarrassed*, these are the very things that happened to both parties within four years of Hans' appointment. The Board was seen as having shown poor governance. It was under huge pressure by dissident shareholders to change the Board composition. And it was embarrassed in the press and at shareholders' meetings. Hans was painted as a failed CEO. His total control of the leadership of Grove was under attack, and he was living with the embarrassment of being skewered in the business press. Ironically, though unsurprisingly as we have seen, Board and CEO actions produced the exact opposite of their intended goals.

When failure struck, the Board leapt back into the picture, held Hans primarily responsible for the failure, and seized control, despite having taken a back seat during the events of the previous four years.

The reaction is visceral: failure is something to be avoided at almost any cost and, if unavoidable, something to be covered up or denied. The flood of fear that we experience at the prospect of failure usually short-circuits our conscious, deliberative thought process and drives us to an instinctive 'fight or flight' reaction. Scientists now understand that the 'fight or flight' reaction is indeed instinctive and physiological. When an intensively fear-generating stimulus presents itself to us, it goes directly to our amygdala, a gland near the brain stem which triggers an instinctive reaction, rather than passing through the

cortex for a reasoned human response. When a stimulus is passed through the cortex, it has the possibility of generating a balanced response. When it bypasses the cortex, the only options are the extremes of fight or flight.

This fight or flight dichotomy powers the Responsibility Virus. At the point of either failure itself or the fearful anticipation of such failure, the options consistent with the governing values are 1) *fight*, by seizing singular responsibility; or 2) *flight*, through assuming minimal responsibility.

In the **fight** case, I seek *to win* in the face of failure or acute fear of failure by stretching the level of responsibility I assume, often significantly above my capabilities. This ensures that I will be in control of my own destiny and, ideally, able to work my way out of the fear-inducing challenges. My desire *to maintain control* causes me to assume full responsibility for the situation to pre-empt anyone else from seizing control. Finally, *to avoid embarrassment*, I assume responsibility without discussion with others, since broaching the subject might expose my underlying belief that others are incompetent.

Collaboration in this context is dangerous. If I work in partnership with someone else, they may screw up and I would be part of a losing effort. If I work in partnership, I will no longer be fully in control. If I seek a collaborative partnership, I will have to hold all sorts of worrisome and potentially embarrassing conversations that I would love to avoid. So collaboration is something to be avoided.

I tell myself that I am avoiding discussion of my action strategy to protect the others from feeling embarrassed. However, I am attempting to protect myself as much as to protect the others involved. By keeping my action strategy secret, I protect myself from having awkward conversations with others regarding my dubious qualifications for taking on excessive responsibility and from establishing explicit and measurable accountability. In effect, my stance protects me from failure, while at the same time tacitly holding others responsible for needing the over-protection, despite the fact that they never asked for the protection in the first place.

The choice of **flight** produces the opposite set of actions. I withdraw from a responsible stance in order to set the bar low enough to ensure *victory*. I aspire to manage a

sufficiently narrowly defined, doable task to keep fully *in control*. Finally, by withdrawing I avoid any situation that would reveal, to my extreme *embarrassment*, that I am not up to the task at hand. In fact, by withdrawing unilaterally I also avoid an embarrassing discussion about my decision to withdraw in the first place.

In the flight context, collaboration is dangerous, too. If I work in partnership with a more dominant person, I would not be in control but would be implicated, if we lose, in a double whammy. To enter a meaningful collaboration, I will have to reveal the degree to which I am scared and worried, and that would be profoundly embarrassing. So collaboration is something to be avoided.

Conservation of Responsibility

An important aspect of the Responsibility Virus in operation is the conservation of responsibility. The name is borrowed from Sir Isaac Newton's second law of thermodynamics – conservation of energy – specifying that all energy in a system is fixed. If I strike a billiard ball with a cue, the energy I put into thrusting the cue forward is transferred into the ball causing it to move forward. All the energy is transferred into the momentum of the ball (except for a bit that is dissipated in heat energy where the cue struck the ball). In this way, the energy is conserved. All the energy I put into moving the cue can be accounted for in the forward momentum of the ball plus the heat generated. And when the cue ball strikes the ball at which I was aiming, its forward energy is stopped by the ball it strikes, and its energy is transferred into the struck ball which moves forward accordingly. Maybe even into a pocket if I am lucky.

Conservation implies that there is a relatively fixed amount of responsibility to be assumed in any situation and that any amount of over-responsibility is offset by an equal amount of under-responsibility. Two kinds of conservation of responsibility exist: static conservation between two individuals at a given point in time; and dynamic conservation in a single individual over the course of time. Together, static and dynamic conservation of responsibility create the most damaging results of the Responsibility Virus.

Static Conservation of Responsibility

When Hans entered as Chairman and seized responsibility, the Board saw it and immediately faded into the background. Later, when the Board seized responsibility from Hans, he passively resigned. When the Board hired a new CEO who seized responsibility, the Board faded into the background again.

This reaction illustrates *static conservation of responsibility*. To the degree that the CEO acts over-responsibly, the Board takes on an equal and opposite level of under-responsibility, and vice-versa.

The parties rarely fight to push the other actor toward more balanced responsibility. Typically, the passive follower remembers the sting of some prior failure and is not eager to insist on more responsibility. Because the heroic leader discusses neither the fact that he is taking on the lion's share of the responsibility nor why he has taken this step (both would bring on embarrassment, in violation of the governing value), the passive follower is left to read his own interpretations into many of the leader's words and actions. In mirror form, he does so without discussion, because discussion would be embarrassing and might place him in a "lost, not won" position – both violations of governing principles. The passivity convinces the leader that any doubts he had about the follower's capabilities and attitudes were accurate; his pessimistic assessment was right. And with that conviction, the Virus is in full swing.

Dynamic Conservation of Responsibility

Twice at points of despair, the Board flips dramatically over from passive followership to heroic leadership. The *dynamic conservation of responsibility* holds that we build up what might be thought of as a 'responsibility surplus' by acting over-responsibly, or a 'responsibility deficit' by acting under-responsibly; these surpluses and deficits balance over time. While the surplus or deficit is building up, the force of *static conservation* pushes us further and further from the balance point.

Eventually the mismatches between responsibility and capability force a traumatic event. When we are over-responsible, our traumatic event is typically a crushing failure from which it is difficult to distance. Hans left readily, humiliated by the failure while he was entirely in control. Similarly, when we are under-responsible, the triggering event is likely to be a crushing blow to the seeming safety and stability of our dependent stance. The Grove Board experienced this three times under the regimes of Han's predecessor, Hans and Jed.

In this way, static conservation of responsibility keeps driving the parties farther and farther apart, and farther from matches of responsibilities to capabilities, until such time as the mismatches cause a traumatic, painful event.

The irony is that when the traumatic moment manifests itself, neither party migrates to a balanced position. The over-responsible individual, powered by the momentum of a responsibility surplus, tends to flip all the way to under-responsibility saying, "I tried the best I could; it was just an impossible task." The under-responsible party, fueled by an angry reaction to being let down and subjected to pain and/or humiliation, flips all the way to over-responsibility saying, "I trusted them, and they let me down; now I have to take complete care of myself." By flipping around the responsibility cycle two times, the Grove Board illustrates this dynamic.

It is as if each of us were sitting on a clock pendulum, starting on opposite sides. Try as we might, we can't keep from swinging all the way past the middle point to the other side. The greater the cumulative level of responsibility surplus/deficit, the greater the magnitude of the flip over to the other side. The greater the mismatch, the more catastrophic and traumatic the result. The more traumatic the result, the greater the overreaction.

Static and Dynamic Conservation of Responsibility in Concert

Taken together, *static and dynamic conservation* creates a system in which we are perpetually held in an unbalanced state. *Static conservation* lures us away from a level of responsibility consistent with our capability. *Dynamic conservation* takes hold as we

build up a cumulative responsibility surplus or deficit and – powered by failure – flings us across to the other extreme. This helps us balance our surplus or deficit, but puts us in the position of creating a new imbalance, since we have been flung to a new point of over- or under-responsibility.

The interaction between *static and dynamic conservation of responsibility* makes the Responsibility Virus particularly vexing. The interaction creates a self-reinforcing, not self-correcting loop. Once the Virus gets started, we find it extremely hard to fight because *static conservation* creates the surplus/deficit on which *dynamic conservation* feeds. *Dynamic conservation* in turn drives the swing that creates the next surplus/deficit, and so on....

The Death of Collaboration

The Responsibility Virus undermines the capacity for genuine, productive collaboration. In the case of firm governance, it undermines collaboration between the Board and senior management.

What is collaboration? It occurs when two or more individuals *share meaningful* responsibility for producing a choice. *Sharing* refers to sharing responsibility in rough proportion to their choice-making capacity. *Meaningful* implies that the act of sharing the load is important to the outcome: i.e., one or the other collaborator could not accomplish the task on a consistent basis without the contribution of the other. Collaboration occurs when “we’re in charge” not “I’m in charge and you’re not” or “you’re in charge and I’m not”. If water flows downhill to its easiest resting point, then the latter two are the “downhill” states. Given the governing values and the fear of failure, it is much easier to say “I’m in charge” or “you’re in charge” than “we’re in charge”.

Why is it so difficult? The core culprit is the second governing value: *maintain control*. Sharing responsibility meaningfully means sharing control, a most difficult thing for us to do. It is doubly difficult because it runs afoul of the first governing value of *win, don’t lose* because once responsibility is shared, one can no longer keep control of the possibility of winning. Shared responsibility acquires a third level of difficulty because

the third governing value of *avoiding embarrassment* is likely to be violated in the tricky conversations about the proper way to apportion responsibilities in a fashion consistent with capabilities. It is much easier to divide responsibility unilaterally rather than have a potentially embarrassing conversation about it.

In this way, collaboration becomes the embodiment of the threat of failure. It is filled with danger in the minds of the would-be collaborators. Taking joint responsibility for the production of an outcome is scary and problematic. Instead of entering into a discussion about the way to manage the challenge together, the parties decide unilaterally whether to seize or distance from the responsibility. And while doing so, they send and pick up signals from the other party that guide and reinforce their actions. In due course, the responsibility is disproportionately borne by one party or the other.

With Boards, when the norm of acquiescence becomes ever more ensconced, it becomes an increasingly daunting task for a Director to question the CEO. It feels to the Directors more and more embarrassing to break with the lengthening tradition of not questioning the CEO – i.e., the threshold for embarrassment keeps dropping. So Directors keep suppressing their worrisome issues in order to win, maintain a sense of control and avoid embarrassment. The CEO watches this behavior and becomes more certain that the Board can't add any value to his thinking.

Hans saw the Board as a bunch of meddling know-nothings and made that view patently clear to anyone who would listen. He saw radical action, including a big write-off, as essential to survival, and quick execution as a no-brainer. When the Board decided to postpone the write-off against his wishes, he questioned its dedication to saving Grove. He felt that the consultant's study was unnecessary – he knew what he needed to know – and waiting for its results before acting was reckless and foolish.

The Development of Mistrust and Misunderstanding

The Responsibility Virus also generates misunderstanding and mistrust because in order to protect their governing values, the key choices of the actors are undiscussable. Each group defines winning and maintaining control in ways that suit their respective

situations, and together create a norm that renders the stances undiscussable in order to prevent embarrassment. While each side knows their own choice well, they are left to guess as to what motivated one another's choice to seize or cede the lion's share of responsibility.

This guessing produces a rise in misunderstanding. As with most guesses in life, they tend to be inaccurate because even the most discerning, intuitive, empathetic people can only achieve mediocre accuracy in guessing at the reasoning of others. And the guessing is biased to conform to the governing values. Rather than making the most objective guess possible given the ambient data available, both sides unknowingly make guesses that are biased by their desire to uphold their governing values. And rather than inquire to check whether misunderstanding exists, both sides rigidly avoid inquiring into each other's views, because to do so would risk many forms of embarrassment.

So misunderstanding proceeds to deepen unchecked. Each group's perceptions of the other party influence their treatment of them, which, in an ironic twist, causes the other party to act in a fashion consistent with the first party's views, thus reinforcing the views and the treatment. As a result, each party becomes more convinced of the veracity of their point of view and acts accordingly.

In due course, the misunderstanding evolves into mistrust and resentment because the guessing often includes attributions of improper or illicit motives, which are never tested. So when actions arise that are not inconsistent with the attributed nasty motives, the motives appear to have been confirmed and mistrust of future motives and actions takes shape. As further misunderstanding leads to exacerbated mistrust, resentment grows.

At Grove, the relationship between the Board and Hans became so strained that the Board saw a fundamental impasse and fired Hans. In coming to that conclusion, they focused almost exclusively on Hans' culpability. Hans was arrogant. Hans didn't listen to the Board. Hans was inflexible. Hans didn't know how to manage the Board. In this crisis, Hans was being reckless. In fact, the Board was being reckless with its guesses about Hans' motivations.

At no point did they look carefully at their own responsibility in creating the Board norms that made it easiest for Hans to follow the path he followed. This failure to reflect would sow the seeds of the next crisis. The Board engaged in a global search for a new CEO with one of the world's leading search firms. It hired a new CEO at a compensation level that would have made the old CEO faint! Immediately upon hiring the new CEO, the Strategy Committee of the Board disbanded and turned over all responsibility to the new CEO. But that was OK because this guy was really talented, unlike the flawed Hans!

It was as if the episode of four years earlier had not occurred. At that point, the Board rose up in a fit of over-responsibility to declare the previous CEO to be incapable and hired an outsider to whom it gave untrammelled authority because he was just the right hero. He failed – without any Board help – and was declared by the Board to be incapable. The Board then hired an outsider to whom it gave untrammelled authority because he was just the right hero. He failed – without any Board help – and was declared by the Board to be incapable, and so on....

The Responsibility Ladder

The Responsibility Ladder is a developmental tool that seeks to fight the Responsibility Virus by helping improve choice-making capabilities and the ability to hold conversations that produce a better distribution of responsibilities. It can be used to dramatically improve the quality of dialogue between Boards and senior managers.

At the heart of the Responsibility Virus are unproductive conversations – and often non-conversations – about the distribution of responsibility for decisions. The governing values create a context for conversations about sharing responsibilities for decisions that render the conversations difficult, uncomfortable and potentially embarrassing. To deal with the threat to our values inherent in these interactions, we hold unproductive conversations, both for the choices made and for the development of our choice-making capabilities.

The language system of responsibility-sharing conversations is restricted to a binary choice of “I’m in charge” or “You’re in charge” because these are the choices most consistent with *win, don’t lose, maintain control and avoid embarrassment*. However, in the vast majority of cases, the binary choice results in a dramatic mismatch of capabilities. One party takes on too much, the other too little. The task is to transform these conversations with a more robust purpose, a more sophisticated language system and a practical tool – The Responsibility Ladder.

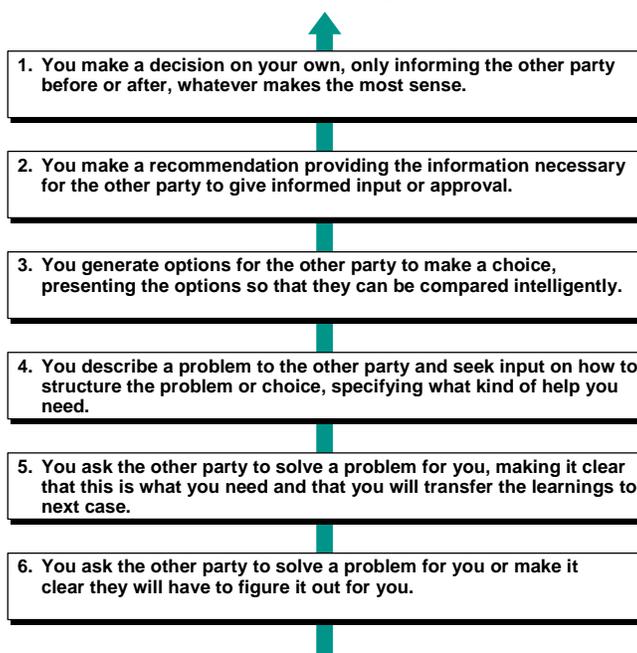
We need to define a more robust purpose for responsibility conversations, beyond just determining “who’s in charge.” The purpose of responsibility conversations should be to divide tasks among the parties in the conversation, so as to match the responsibilities of each party most closely to their capabilities. These conversations should also build internal commitment and accountability for the responsibility assumed. And finally, they should develop in the parties involved a sense of collaboration and mutual support with respect to the overall responsibilities.

We must employ a more sophisticated language system for responsibility conversations. The apportioning of responsibilities for choice will be ineffective in inoculating against the Virus if the language system for discussing responsibilities has only the binary possibilities: “I’m in charge” or “you’re in charge”. The language system needs to embody a more subtle, graduated scale of responsibility to provide a way of discussing responsibility that communicates shades of gray. This will enable us to talk productively through the division of tasks in a responsibility conversation.

Finally, we need a practical tool for organizing and conducting these more sophisticated discussions. It must support the more robust purpose, embrace the more sophisticated language system, and help the parties to these conversations develop their capabilities.

The Responsibility Ladder recognizes and describes six graduated levels, each of which we may adopt as our part in the overall responsibility for solving a problem, as follows:

The Responsibility Ladder



The six levels are designed to represent the natural break points in taking responsibility for choice making, moving from lowest to highest. Arguably there are infinite gradations of responsibility to be assumed in any situation. However, these six represent the key levels to which most people gravitate in most situations.

The lowest level, Level 6, involves taking on no responsibility. This level is represented by the classic dumping of a problem onto the lap of another, often one's superior. We have all experienced a subordinate coming in to inform us that something terrible has happened, then standing there, wide-eyed, waiting for us to make some decision and not lifting a finger to help. That is Level 6. At times, that is the right level of responsibility, but it is rarely the case.

Level 5 appears almost identical to Level 6, but there is an important difference: you make it clear that you will transfer the learnings to next case. This represents an additional level of responsibility taken. Though the additional responsibility applies to the next choice, it encourages the other party to believe that they will not be asked to assume total responsibility on an ongoing basis. It signals a willingness and interest in developing choice-making capabilities in order to share a greater portion of the burden going forward.

This small signal can help stave off a slide into the Virus. The person on the receiving end is more likely to explain their reasoning in tackling the problem presented and generally treat the person taking Level 5 responsibility with more respect than if they had taken a strict Level 6 stance.

Level 4 adds on another slice of responsibility. In this case, the individual asks the other party for help in structuring the issue or task. At this level, the individual signals to the other party that they don't want the other party to simply take over and make the choice. Instead they want to participate with the other party as he or she leads in structuring the choice at hand. Once again, this level signals a desire to collaborate, not fade into the background.

Level 3 layers on option generation and initial testing. In this case, the individual takes on responsibility for structuring the choice and developing options, but does not feel capable of coming up with a recommended choice among the options. This level of responsibility feels much more supportive from the perspective of a boss. At this level, the subordinate is saying: "I have noticed a problem, I've thought about it, and I think there are four options for dealing with it. What do you think?" As we all know, that feels much, much better than: "I have noticed a problem. What are you going to do about it?"

Level 2 goes a step further, as the individual feels capable of analyzing the options and coming forward to the other party with a recommendation. At this level, the individual is not sufficiently confident in his or her choice-making capabilities to make the decision and accept the consequences, but he or she is confident enough to go beyond enumeration of options to recommending an option. At Level 2, the individual is taking on a large portion of the decision-making responsibility, even if the other party (potentially the boss) takes responsibility for making the final choice. Even though they may be subordinates, we tend to treat those who operate at Level 2 as colleagues.

Level 1 is the highest level on the Responsibility Ladder. At this level the individual operates unilaterally after having structured the choice, generated options, analyzed the options and made the final choice. Their only interaction with the other party is to inform them of the choice, either before or after the decision-making process. In a boss-

subordinate relationship, when the subordinate consistently operates successfully in a Level 1 mode, it is a signal that the subordinate should no longer be a subordinate. At that point, such a manager should become independent of their superior, who can and should then dedicate their time to managing others. .

Although Levels 1 through 6 are available to us in virtually all of our joint choice-making situations, we take on either Level 1 or Level 6 responsibility in the vast majority of cases. Level 1 – choosing unilaterally – comports with the traditional definition of heroic leadership. It screams “I’m in charge” and implies “ you had better get out of the way”. Level 6 – abdicating responsibility – warns that the other person had better step forward or else the choice won’t get made and whatever problem spurred the choice will get worse, not better.

Regrettably, in the vast majority of cases the selection of Level 1 or Level 6 is highly inconsistent with our actual capabilities and leads the other party and us into over- or under-responsibility. The correct level of responsibility typically lies somewhere in the range of Level 2 to Level 5.

Doubly regrettably, Levels 1 and 6 require the least interaction and relationship building. As such, operating in these levels reinforces the misunderstanding that feeds the Virus and undermines any inclination to collaborate. Levels 2 through 5 responsibility, in direct contrast, cause the parties to work and think together, which has the effect of building relationships and inoculating against the Virus.

However, it is very difficult to talk about such intermediate steps in the current language of responsibility. The Responsibility Ladder provides the language and structure necessary to reach agreement on intermediate levels of responsibility in which manager and subordinate truly share in the task of solving the problem at hand. It provides both of them ready access to Levels 2 through 5, which enables the more accurate matching of responsibilities to capabilities. It also supports development by giving the participants benchmarks of responsibility, allowing them to chart their progress as their capabilities build.

Using the Responsibility Ladder to Improve Board Governance

The Responsibility Ladder is the key tool for the Board to use in guiding its thinking and forming its relationship with its CEO. The critical element here is flexibility. The Board must internalize the reality that no single level of responsibility is right for all choices. Problems arise when all choices are treated equally. When choices are treated equally, the CEO and Board are likely to drift to a Level 1 habit for the CEO. As soon as that habit sets in, embarrassment is threatened if the Board wants to take greater responsibility and the CEO lesser responsibility on a given choice or set of choices. As we have seen, the threat of embarrassment tends to cause the Board to back off and accept Level 1 behavior, even when Directors think that they should intervene. Only when a crisis makes engaging with the CEO the lesser of two embarrassing evils do Directors step up to higher, and appropriate, responsibility. And that, as in the case of Grove, is often far too late for the downward spiral to be averted. Hence Boards need to figure out how to be proactive in a way that doesn't trigger the Responsibility Virus.

To accomplish this goal, the Board needs a way to walk up and down the Responsibility Ladder in a way that does not give rise to embarrassment. It needs to practice with the CEO having issues on which it explicitly asks the CEO to take Level 3 or Level 4 responsibility. For example, the Chairman can ask the CEO to come forward with options (Level 3) for the Board to consider on a certain issue. This sets up the proper expectation for the Board and the CEO so the CEO doesn't feel weak when they come forward with something less definitive than they do usually. It is important for the Board to ask the CEO to operate at lower levels of the Ladder in good times, not just times of crisis, because if it is the latter the CEO will think (probably rightly) that the Board request is a reflection of its lack of confidence in him or her.

In parallel, the CEO needs to be able to ask for Board help – i.e., come to the Board at Level 3 or Level 4– without fear of embarrassment, without feeling as if he or she is losing. The CEO needs to feel encouraged to drop down to a lower level when facing challenging issues and to consider this a sign of strength of thinking rather than a sign of

weakness. In the Grove case, never coming to the Board with anything but Level 1 resulted in Hans being seen as weak – i.e., oblivious – rather than strong.

Neither Board nor CEO should feel they are losing control by moving away from Level 1 choice making by the CEO. To get to this point, the Board and the CEO must have a mutual understanding of the Responsibility Ladder and a commitment to use it in their interactions. Both the CEO and Directors should feel empowered to operate at any level on the Ladder and should practice at various levels depending on the issue at hand.

Practice at various levels will help both the Board and CEO avoid the Responsibility Virus because it will allow them to fine-tune their responsibilities to their capabilities. And by avoiding periods of over-responsibility and under-responsibility, both the Directors and the CEO will grow their choice-making capabilities. The Directors will become more capable Board members and the CEO will become a better CEO.

The adoption of the Responsibility Ladder in a firm's Board-CEO relationship is no small task. It is best accomplished through a Chairman who is committed to CEO development. It is difficult for this to occur when the Chairman is also the CEO, so this provides yet another good reason to split the Chairman and CEO roles.

Reflecting on Governing Values

The Responsibility Ladder simply seeks to improve the productiveness of the performance of parties taking into account that they are prone to the Responsibility Virus given their governing values: *win, don't lose, maintain control* and *avoid embarrassment*. A more powerful tool still for improving performance is for Boards to reflect on and alter the governing values that control their behavior.

How can we attack the traditional governing values? We can replace each value with a more productive governing value. More productive governing values will inoculate against rather than make us susceptible to the Responsibility Virus.

1) *Informed Choice vs. Win, Don't Lose*

The first traditional governing value – *win, don't lose* – can be replaced with the alternative value of *informed choice*. Rather than see *winning* as the highest value, we must replace it with the value of making the most *informed choice* possible, without regard to whose point of view it represents. The goal of making the most *informed choice* necessitates that we employ dialogue rather than depend on unilateral choice. While unilateral choice helps ensure *winning* (at least in the short run), it fails to access and take into account the data, insights, experience and interests of others, resulting in sub-optimal choices. Dialogue will produce a more robust and *informed choice*. However, since there is a strong chance that our incoming positions will not prevail, dialogue is only possible if our drive to win is curtailed.

Changing the governing value from *win, don't lose* to *informed choice* applies as well to choices about the division of responsibility. The *win, don't lose* value causes us to seize and cede responsibility unilaterally without consultation, bringing on the Responsibility Virus. The *informed choice* value drives us toward dialogue with the other involved parties about creating the optimal division of responsibilities. The sharing that results from such dialogue may not make us optimally comfortable and may not reflect our in-going position, but we will draw greater benefit from a broader, deeper pool of data and insights than we would from the unilateral choice. And we will produce a choice that is likely to inoculate against rather than bring on the Responsibility Virus by aligning each of our responsibility levels against our capability levels.

2) *Generate Internal Commitment vs. Maintain Control*

Second, our obsession with *maintaining control* can be replaced with the value of *generating internal commitment*. The desire for control causes us to seize or cede extremes of responsibility to ensure that we either control everything or control virtually nothing. Moreover, the desire for control causes us to make choices unilaterally, without consultation with those who have valuable insight to add.

The resulting sub-optimal outcomes are numerous. First, the distribution of the responsibilities is rarely close to ideal. Second, choices are made without the benefit of the potentially valuable insights of others. Third, when choices are made unilaterally to maintain control, the result is weak commitment to choices because the other party (or parties) commits only in response to external pressure. That is to say, the other party grudgingly accepts responsibility for some piece of work because they were told to, not because they really wanted to and felt committed to it.

When we suppress our desire to *maintain control* and instead value *generating internal commitment*, we can engage in true dialogue and the exchange of ideas. The result of dialogue rather than unilateral choice is better distribution of responsibilities and better choices based on the logic and reasoning of both parties. This produces followers and leaders who are internally committed to the choices they have made together in an honest and open dialogue.

3) *Open Testing vs. Avoid Embarrassment*

Third, our strong desire to *avoid embarrassment* can be converted to the value of having *open testing* of our choices, our performance and our perceptions. The imperative to avoid embarrassment causes us to take on extremes of responsibility unilaterally in order to avoid any conversation or discussion that would generate embarrassment. This makes for both bad division of responsibility and bad choices. Furthermore, the results of these bad choices tend to go unevaluated for purposes of learning and skill building. The surfacing, scrutinizing and discussion of data on performance can produce embarrassment for both the evaluators and evaluatee; thus it runs against the old governing value of avoiding embarrassment and it won't get done.

If, instead, we value *open testing* we subject our reasoning to the scrutiny and testing of others before making choices. This applies to our reasoning on choices about taking on responsibility. Rather than taking on responsibility unilaterally, we would seek the advice and critique of our thinking by others. The imperative

for *open testing* extends to all choices, whether made by others or us. If we adopt this value, we will incur more embarrassment, but will make better choices. And, when our choice turns out to have a bad result despite our best thinking, *open testing* will help us learn from the mistake and improve rather than repeat the same mistake.

Armed with the governing values of *informed choice*, *internal commitment* and *open testing*, we can forge relationships that are bilateral rather than unilateral. With these values, the extreme responses melt away and we are inclined to choose appropriate responsibility rather than over-responsibility or under-responsibility.