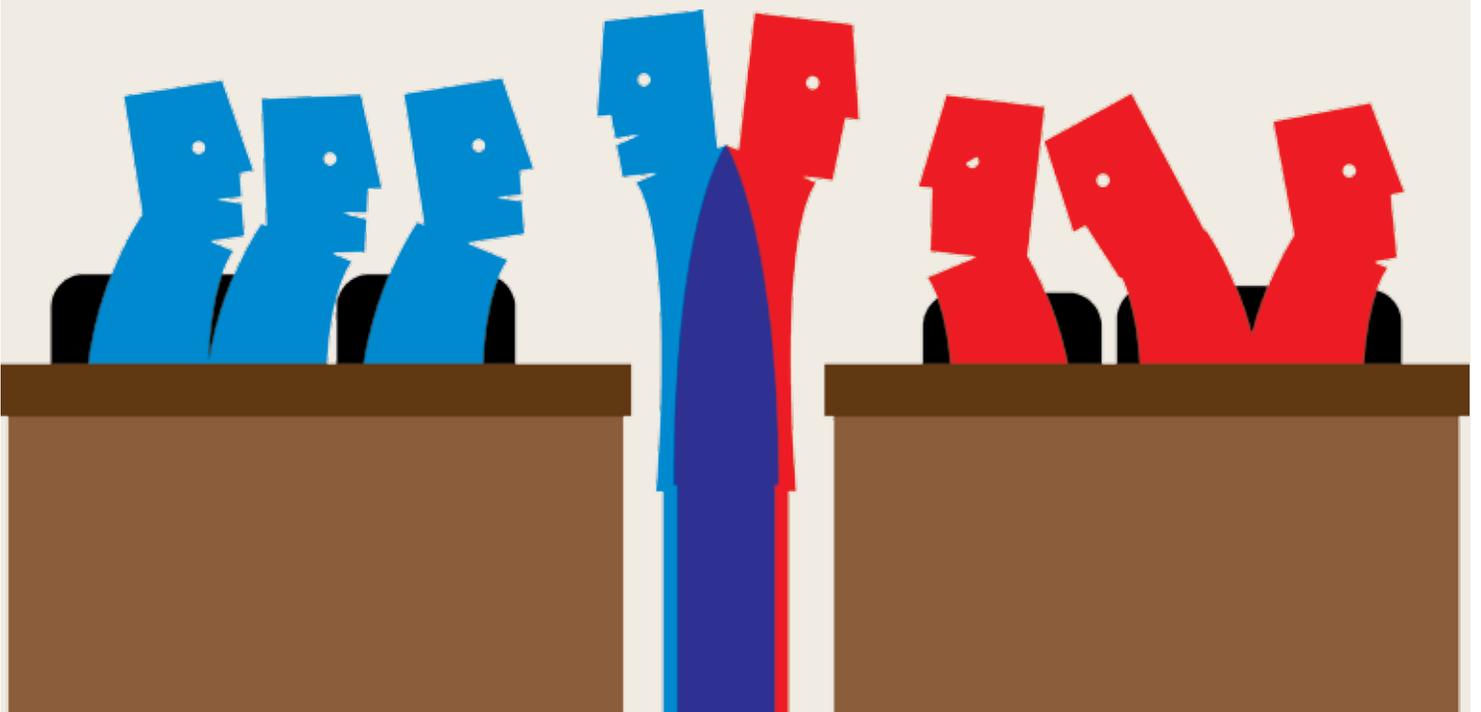


# TO TELL OR NOT TO TELL: WHAT LEVEL OF DISCLOSURE DOES YOUR BOARD NEED?

*by LOLA GERSHFELD*

**C**an you imagine a CEO of a company deciding not to tell the company's board about three recent employee fatalities that resulted from inadequate safety procedures? Unfortunately, there are circumstances when top executives think twice about making such difficult disclosures.

Although any and all information regarding risk, compliance, business strategy, and execution should be reported, many executives are still unsure about the level of detail to share with their boards.



If you (or your clients) find yourself in a similar predicament, the following three rules will simplify your decision of what to tell or not to tell your board.

### **Rule No. 1: Avoid surprises**

Nothing throws our emotions for a loop as much as something unexpected. Our brains often predict what happens next, however, when we are triggered by unexpected surprises, what *actually* happens next becomes even more jarring.

Consider the case of a manufacturing company where three employees were fatally injured within a few months of each other due to faulty safety procedures.<sup>1</sup> The CEO, out of embarrassment, chose not to share the news with the board. One director insisted that the incidents be included on the agenda and, when the CEO refused, the director brought it up at the board meeting anyway. Even though others were aware of the information, understandably, they felt awkward when the CEO was confronted. While some displayed signs of anger and besieged the CEO with questions, others withdrew into themselves and seemed disengaged to the point of looking at the ceiling and the floor.

These two kinds of reactions illustrate the activation of the fight-or-flight response whenever we are confronted by the unexpected. When issues are left unresolved, a cycle of resentment feeding anger quickly develops and activates our deeper emotions, which include our deepest fears.

Studies by Jeffrey Henriques & Richard Davidson of University of

Wisconsin show that when a deep emotion of fear is activated, our mental processes and social skills greatly diminish, impairing our judgment and increasing the risk of making bad decisions.

Bob Ingram of Hatteras Venture Partners, who serves on multiple public and private boards, suggests that the board needs to be informed on the following four areas:

- (1) Potential risks
- (2) Business opportunities
- (3) Talent development
- (4) Key progress on any outstanding issues.

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CEOs should share information sooner rather than later, because the sooner the board learns about it, the easier it is to process the information and collectively respond to it.

It is important for a CEO to note that as an emotional bond develops between an executive team and the board, a CEO will be able to improve his or her understanding of the level of detail the board members need in order to fulfill their duties.

### **Rule No. 2: Eliminate triggers**

When something goes wrong, especially if it raises questions about board oversight, the likely reaction is to blame, judge, and criticize the executive team. This automatically triggers a fight-or flight response. By eliminating these triggers, the board and the executive team are much more likely to be successful in creating an environment conducive for sharing information.

It is likely that the CEO of the manufacturing company hesitated to share the information about the fatalities with the board because he was afraid that the board would blame, judge, and criticize him as a leader. Having had such experiences creates fear, which causes us not to share the information.

Being aware of these triggers (blaming, judging, and criticizing) and eliminating them at the start will help board members and the executive team communicate safely.

Having an open-minded approach can serve as a remedy during such difficulties. Studies reveal that executives who seek new perspectives from their board members instead of having all the answers or somehow manipulating them to agree with a pre-determined decision, are more likely to lead the board to more collaborative solutions with a higher probability of success.

### **Rule No. 3: Build strong emotional bonds**

When we work in a group, a powerful emotional bond is created. This is especially true when everyone is focused on the

same goal. By collaborating with others and allowing for a collective decision-making process to occur, a CEO's bond with board members becomes stronger. Failure to do so will lead the board to infighting and eventually will break apart a CEO's team.

**ON POINT**  
When something goes wrong, especially if it raises questions about board oversight, the likely reaction is to blame, judge, and criticize the executive team.

Overall, groups are smarter than individuals *only* when group members are able to create strong emotional bonds.

The Industrial Research Unit at Cambridge University<sup>2</sup> found that groups with strong emotional bonds made better decisions and interacted more effectively with each other than groups with weak emotional bonds, even though the latter had intelligent individuals among them. By avoiding surprises and eliminating triggers, a CEO will create opportunities for a board to build strong emotional bonds.

In my interview with Congressman Steve Bartlett, he shared an example of a board he served on where a CEO wanted his board to approve an investment to which he had personal ties. Instead of accusing the CEO of a conflict of interest and making any rash decisions, the board took a more sensitive approach. The board never said "yes" or "no." Instead, at every board meeting, board members spent time and effort to gain understanding of the nature of investment and suitability for the business. Eventually, the CEO realized that the investment was

not in the best interest of the company. Although it took some time (a year and a half), the trust was never compromised; the fact that the board took time and effort to help the CEO come to this conclusion caused a deep emotional bond to be developed.

Amid mounting pressures to address many critical issues, it's understandable that directors may feel that they may not have the luxury for such a collaborative approach. In reality, maintaining strong emotional bonds, along with optimizing the channels of communication between board members and the executive team, lead to better decisions and better outcomes.

### Conclusion

Converting these three rules into action requires individual courage and practice. Next time you are faced with a decision to tell or not to tell, consider using a simple checklist to get the right answers:

- Would sharing information avoid a surprise? (Yes or No)
- Would collaborating lead to a better decision? (Yes or No)
- By sharing information, will I strengthen the bond? (Yes or No)

With these three simple goals—avoiding surprises, eliminating triggers, and building strong emotional bonds—a CEO will be able to create positive connections with his or her

board and foster a culture of safety, cooperation, and trust to foster more successful results.

### ENDNOTES

(1) Personal interview, September 9, 2014.

(2) Eileen Sagar, *Character Counts at Work: Differences Between Improvers and Non-improvers*, Industrial and Commercial Training, Vol. 12, Issue 5, 186-89 (1980).



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