

EMOTIONS MATTER IN THE BOARDROOM

How Emotional Connection Changed
The Face of Allergan and Wells Fargo

by Dr. Lola Gershfeld, PsyD



LEVEL FIVE EXECUTIVE, INC.

THE LEADING EXPERT IN BOARD DYNAMICS

Providing the *unique* expertise to corporate boards of directors and senior officers...

Level Five Executive is a leading board consulting firm specializing in board dynamics. By implementing an emotionally focused approach, **Level Five Executive** works closely with corporate directors and senior executive officers to help manage change, increase strengths, and improve performance.

The emotionally focused approach is a revolutionary method to board effectiveness. Research on adult bonding, secure attachment, and emotional connection provides us with a clear map on how directors can address the human condition in the boardroom. Managing emotions, sending clear emotional signals, and creating positive interactions improve collaboration, motivation, and results. Furthermore, the board becomes the catalyst for cultivating the culture of safety, trust, and performance — all of which create a more fulfilling board experience.

Level Five Executive meets the ever- increasing demand for boards of directors to be effective and successful in their corporate governance roles.

CONTACT:

Website: www.levelfiveexecutive.com
Phone: (855) 992 — 4561
Email: info@levelfiveexecutive.com
Address: 2901 W. Coast Hwy, Suite 200
Newport Beach, CA 92663

PUBLISHED IN:

CORPORATE
BOARD MEMBER.
An NYSE Euronext Company

JOURNAL OF
ACCOUNTANCY

the **CORPORATE BOARD**

accounting**TODAY**

INACD Directorship
Boardroom Intelligence

IndustryWeek
Advancing the Business of Manufacturing

Chief Executive

CEO The CEO Magazine
For High Growth Ventures

**ORANGE COUNTY
BAR ASSOCIATION**

Emotions Matter In The Boardroom

By Dr. Lola Gershfeld, PsyD

The boardroom is where strategy is born and crises are dismantled. It is likely the most important place in the company — one that benefits from a truly effective way of managing and improving board performance. The new science of emotional connection leads the way for board effectiveness. In her experience as a Board Dynamics Specialist, Dr. Lola Gershfeld provides valuable lessons and examples of what happens when companies understand emotional connection and the devastating impact when they don't. Emotion is the most powerful element in the boardroom, why not learn to work with it?

Board leaders and CEOs are always looking for the magic bullet to fix their board dysfunction. They want some kind of unflinching change management solution. What they don't realize is that when it comes down to it, a board is a group of people who must work together, collaborate, and come up with good solutions to mitigate risk, define strategy and communicate with investors. But for some reason, the topic of human condition is rarely discussed.

To begin to understand how to make lasting changes to board effectiveness, you must first address the importance of emotions in the boardroom. Here is what we know about people, emotions, and their professional performance. Research shows that when people feel good about their work environment, overall business performance improves 20–30 percent. This concept is not too surprising (although it is very promising) and innovative companies such as Google and Salesforce apply it to all employees as a rule of thumb.

Researchers have also found that groups with strong positive emotional connection had far better interactions and made better decisions than groups with weak emotional bonds. This was true even in groups comprised of highly intelligent people. So,

even incredibly smart people require positive emotional connection to reach their potential in making sound decisions. It's not only who you put on your board; it's how they work together.

Humans are wired for connection, and the sooner directors accept that, the sooner they can start approaching board performance from a more effective perspective. Too often, directors rely on governance and strategy changes when what they really need is a change in their board dynamics. Board dynamics are vital for board function, and without some insight into how and why dynamics are affected, boards can expect the same end result from different strategy changes. Addressing the underlying emotions is kind of like looking at the root of a sick tree. You can remove a bad branch, but if you don't address the root, the tree will continue to be sick.

Emotion comes from the Latin word "to move." It is a basic motivating force which pulls us in a particular kinds of ways and organizes our interactions with each other. When we can't find a safe way to stay emotionally connected, we get stuck in conflict and disconnection, ultimately causing the board to be dysfunctional.

To fix board dysfunction, you must prioritize emotional responsiveness.

Research shows relationship distress starts with the lack of accessibility and responsiveness to emotional cues. As one director said, "It's not the fights that really matter. I could handle disagreements if I felt like the board was there to work together. But it seems so disconnected and unsafe to have an open conversation."

Disconnections strain board relationships. The more disconnected directors are, the more rigid and self-reinforcing their decisions and responses become. Directors depend on each other to work together. They must create and maintain a safe environment in order to be able to make sound decisions and formulate effective strategies.

Safe environments—where board directors can express concerns, address challenges together, and feel valued and supported—allow directors to develop emotional connections and attachment to the company, which is crucial to setting up an emotionally healthy board.

In a safe environment, directors can quickly re-engage and re-establish connections whenever there is a shift in emotion. For example, if a CEO or a board member misses a beat, makes a mistake, or experiences stress, they can turn to each other for support needed to regain their emotional balance rather than feeling alone and disconnected. Research shows that emotional balance is needed for people to thrive and perform. When disconnections are left unaddressed and unresolved, it tends to block change and cause impasses during board meetings and decisions.

Emotionally connected boards of directors can regulate their reactive, negative emotions, access, and articulate their marginalized out emotions. Instead of blaming or criticizing, directors can express other emotions such as sadness, shame, or fear.

Emotionally connected boards of directors are more easily able to access and acknowledge their distress in an open congruent way that elicits supportive emotional responsiveness. As the board environment becomes safer and more secure, directors are able to find exits from negative cycles and reconnect the board much faster.

Disconnections are inevitable, how quickly your board can reconnect is what makes your board effective.

Emotional connection is associated with greater self-disclosure. When the board is connected, directors are able to change their dynamics through meta-communication, changing the interaction and remaining cognitively flexible, even under stress.

An emotionally connected board is much more open to new experiences, and can deal with ambiguity much better than a disconnected board. Emotionally connected directors are able to facilitate new learning experiences, tolerate differences, negotiate better, and solve problems collaboratively. Communication tends to be more open and direct. Directors tend to disclose more, and be more attuned to the communication of others. They become confident enough to assert themselves. They tend to offer more empathic support and use rejection less.

When someone on the board is distressed, the quality of emotional connections matters most. Then the ability to disclose and confide in a direct way about needs and fears and to tune in to those experiences is crucial if directors can define their relationships as safe and emotionally connected. If board members are not emotionally connected, one person's distress can cause the entire board to veer off course.

Emotional connection is maintained when directors:

- Focus on creating safe emotional engagement.
- Pay close attention to both emotional responses and communication while addressing vulnerabilities and fears in a safe manner.
- Create respectful collaborations so that board meetings become a safe haven and a secure base.
- Explicitly shape responsiveness and accessibility so that everyone has a chance to be engaged.
- Unite the board through an attachment to the company's vision, mission and core values.
- Resolve relationship injuries that block emotional connection.

While statistics and research can give us a lot of insight into how boards can effectively use emotions, learning from real life boards is the best way to observe emotions in action. We included two case examples of boards—one that was able to use emotional connection to overcome a difficult situation (and make a lucrative decision for shareholders) and another board that fell victim to the pressures of performance, which led to chaos within the company. To appreciate these cases, it is important to understand what goes into an emotionally connected board. The flowchart on the next page shows all of the elements that go into an emotionally healthy board.

ALLERGAN CASE: On April 21, 2014, Allergan Inc. received a merger offer from Valeant that the board unanimously rejected, citing that "Valeant did not reflect the true intrinsic value of the Allergan's stock." In response, Valeant pursued a hostile takeover bid. Allergan ultimately won by merging with Actavis, but it was Allergan's Lead Independent Director, Michael Gallagher, who made it his mission to create emotional safety for directors, helping them to stay united and strong.

Gallagher was available day and night for directors to call him when they needed to be reassured. He would remind them that they were doing the right thing, and they were going to make it through together.

He implemented mandatory engagement during board meetings, making sure that every director felt safe to share concerns and were heard and validated. Research shows that the need to be heard goes back to our innate need to belong, which improves emotional satisfaction and cognitive functioning. In addition, a feeling of belonging encourages people to take healthy risks, such as pursuing new experiences, learning new skills, and trying out new ideas that are necessary for the board to stay competitive and effective.

"We would always start with committee meetings, followed by a board meeting with all directors and senior management," says Gallagher, "After that, we would have an executive session, first with the CEO, and then without the CEO present. The latter session tended to be more open, enabling directors to speak up and ask uncomfortable questions."

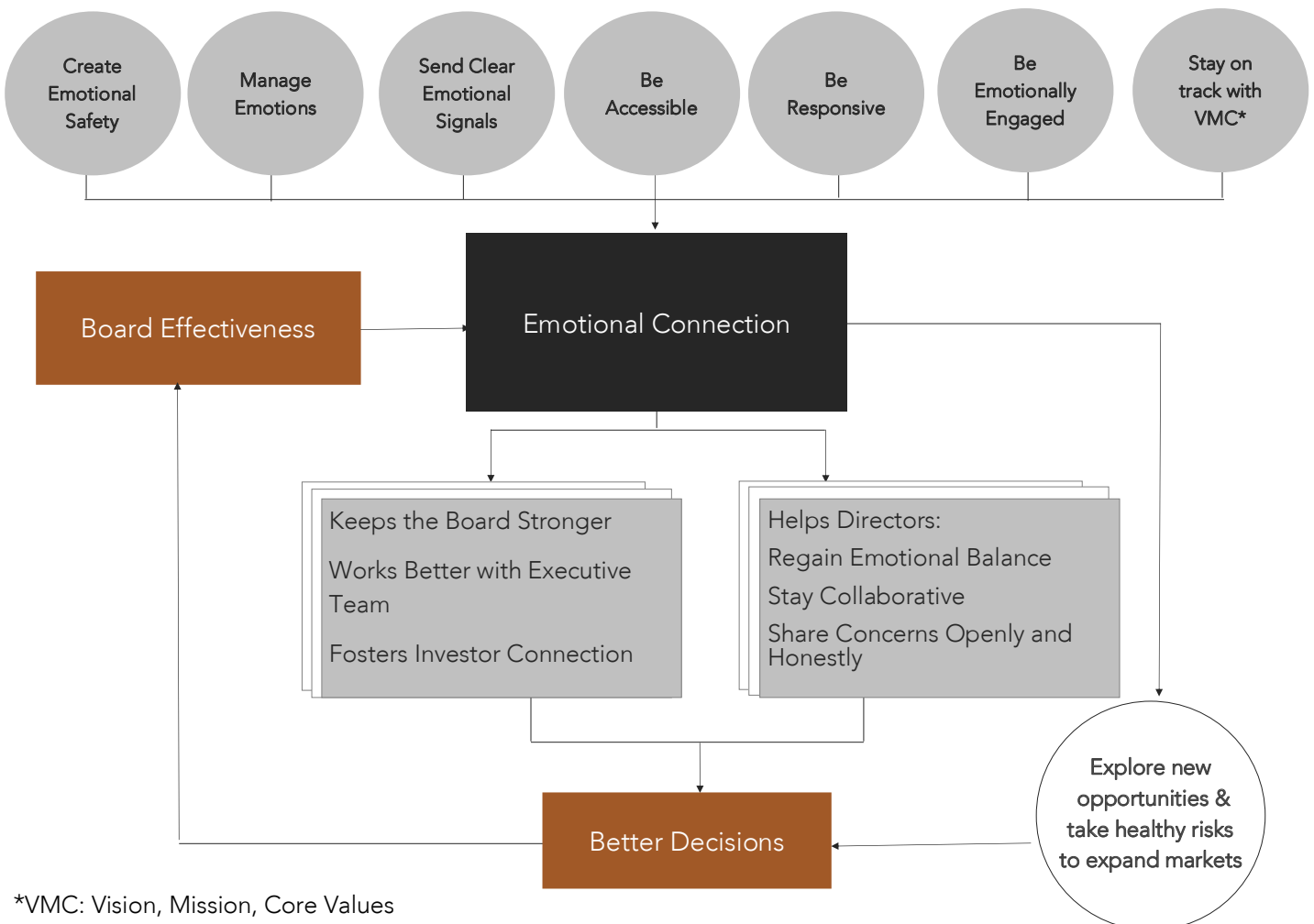
Recently, the Commonsense Corporate Govern-

ance Principles was published by some of the leaders in the corporate governance and, no wonder, one of the principles includes having sessions without the CEO present. Having a buffer creates safety for the brain and maintains emotional connections, which insures that the board and the CEO stay on track.

Gallagher helped the board members stay strong when they were attacked by media and investors. Gallagher recalls, "Allergan's investors and members of the media did everything in their power to try to divide our board. We were attacked with name-calling and criticized for not being independent thinkers. Many external forces pressured us to give in, but we knew that the deal was not in the best interests of the company and stood steadfast as we focused on what's important." Shame is one of the most damaging for human functioning. Research shows that when people feel shame, their cognitive functioning shuts down, impairing their rational thinking.

The Emotionally Connected

A Flowchart for Improving Decisions and Performance



Thoughts promoting self-doubt increase stress and impede the cognitive process. In contrast, when a board provides a safe haven and a secure place for directors, they share values and goals.

Gallagher expressed empathy creating an effective emotional response that made directors felt understood and accepted by validating their worries and doubts. Empathy helps to manage emotions and reinforces emotional safety so that directors can focus on the task at hand. “We didn’t want to go for two weeks without another meeting,” Gallagher recalls. The fact that directors wanted to meet often confirmed that the board provided validating support and reassurance.

A hallmark of Gallagher’s style was that he was accessible, responsive and engaged—all of which are crucial for establishing and maintaining emotional connection. Emotional connection creates safe interactions and strong interpersonal relationships. It helps directors to feel confident in seeking support and become better at giving it to others. This type of interaction builds bonds between board directors and gives them the courage they need to stay on track.

The flowchart outlines the following elements that go into creating an emotionally connected board:

- Managing emotions
- Creating emotional safety
- Sending clear emotional signals
- Being accessible, responsive and engaged
- Staying aligned with the vision, mission and core values

The Allergan board understood the impact they had on each other and with Gallagher’s help were able to demonstrate the above listed elements that helped them to manage their emotions and stay connected. “Everyone wants to do the right thing, but it takes courage to actually do it,” says Gallagher. “I am very proud that our board was able to show that remarkable courage during a very difficult time.”

Directors who exhibit positive emotions like enthusiasm, empathy, and pride give their board a sense of comfort.

Consistently creating emotional connections provided directors the confidence they needed to build up their courage to take the types of risks that kept them going.

Creating emotional connection and safety allowed the Allergan board to stay united and fend off the hostile takeover, leading the company to one of the

most lucrative mergers in history. Actavis paid \$72 billion, which ended being \$25 billion more than the Valeant’s original offer.

When managed correctly, emotions serve as a connecting agent, uniting board directors as a cohesive and collegial board. Mismanaging emotions, ignoring or avoiding negative emotions such as fear, panic, or anger creates a pushing effect, disconnecting directors. Disconnectedness can lead directors to make poor decisions.

Self-awareness is key to managing emotions and preventing disconnection. By sending clear emotional signals rather than dismissing or avoiding a topic, you are able to pull your board together to address the challenges to develop better solutions.

Emotions are contagious. When directors know how to recognize and diffuse negative emotions, they ensure that any one director’s distress won’t push the entire board down.

For example, if cyber security attacks are concerning you, your worry might be camouflaged by criticism. In other words, you might come off as blaming other board members for not seeing this threat earlier. If you are emotionally connected however, the way you present your concern will invite board members to discuss it more openly and collaboratively. You’ll probably find out that you are not the only one actually experiencing anxiety.

Research shows that when we are emotionally connected with each other, we communicate better. On the other hand, if you are watching your back all the time and expect to be attacked, you are going to be a terrible communicator. The fear tends to take over and we get absorbed in whatever we are afraid of, our brains stop functioning at a high level and our ability to make sound decisions greatly diminishes. This, unfortunately, was the effect in the Wells Fargo case.

WELLS FARGO CASE: In September of 2016, it was discovered that Wells Fargo opened over two million unauthorized customer accounts. This discovery led to the CEO, John Stumpf, resigning, 5,300 employees being fired, and a fine of \$185 million being owed. But the worst part was that the company’s trust was tarnished. From customers to investors, from employees to managers, the failure of the board to do their job and protect the company was obvious. How could this have happened? How could an exemplary company like Wells Fargo allow this on their watch? To commit such a fraud? We turn to the emotional connection that occurred between the board and the CEO.

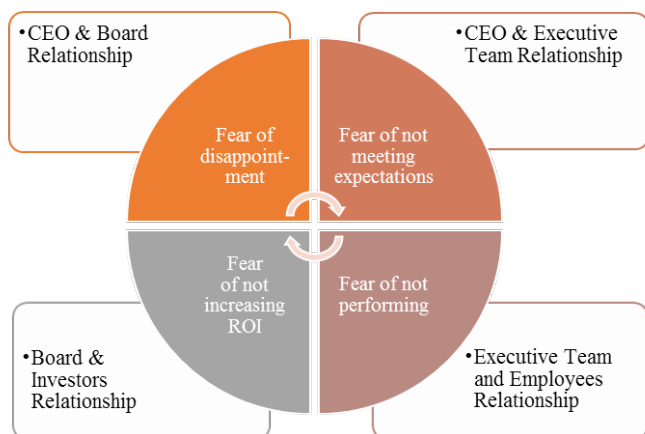
It is clear that there came a point where the Wells Fargo board and the CEO lost their connection and became disconnected by the fear of underperforming, pushing the company's values aside. Rather than focusing solely on performance, directors should have been focusing on creating emotional safety for the CEO to share his concerns.

Research shows that performance is closely tied to emotional connection and values. When the board and the CEO are emotionally connected, they can address challenges together, they feel supported and can turn to each other in times of stress, helping each other stay on track with company's values.

The way the board creates emotional connection within the board and with the CEO provides a clear guide for how the executive team approaches values, extending to management and all the way down to front line employees. When the board is disconnected, it loses sight of the mission, vision, and core values, and so does everyone else.

Emotional disconnection is often driven by fear. There are certain basic fears that come up in all relationships—fear of abandonment and fear of rejection. These fears are what drive us to poor decisions, and it important to remember that these fears start when we lose connection.

In Wells Fargo's case, there were four very different relationships that were impacted by fear:



The fear that permeated each of the relationships affected the subsequent lower levels of the company. For example, the fear of not meeting expectations between the executive team and the CEO led the executive team to pressure employees, which created the fear of being fired in the front lines. Because the underlying fear was not addressed, emotional disconnection grew with negative cycles intoxicating the Wells Fargo culture.

Let's focus on the relationship that started this cycle: The relationship between the CEO and the

board of directors. This is the relationship that sets the tone and the culture for the entire company. When it is compromised, the effects reverberate down through the executive team, management team, and front line employees. The fear of not meeting expectations is often what gets CEOs in trouble because they don't know how to address their fear with the board and the board does not know how to help them deal with it. Thus, the CEO's obsession for performance turns into a tunnel vision, ignoring the values and furthering emotional disconnection with the board. This laser-like focus almost always ends poorly for the company.

The tragedy in all of this is that performance obsession happens to so many boards, and it is so hard for them to see it as it is happening. So how can you stop this from happening on your board? Or better yet, how can you tell if this is currently happening on your board? It's simple – bring back your board to emotional connection. Ask yourself whether you can share your concerns openly and honestly with the board. How about your fellow directors?

Does your management know the company's values? Chances are, if they are not familiar with the values, neither are your front line employees. If you are not using the values, how are you making decisions? The most important part of this conversation is to reconnect the board emotionally with the company. Remind everyone why they joined the board in the first place – they care about the company and want it to succeed. Implementing values and speaking about them regularly is one of the best ways to maintain that emotional connection and avert performance pressures.

A board is capable of just about anything when directors and the CEO are emotionally connected: they perform better, they are more fulfilled, and they set an example for the entire company. The culture that is created in the boardroom trickles down to every level, and when the board is united, so is the company. From the successes of Allergan to the collapse of trust culture at Wells Fargo, we have seen how emotions deeply affect performance and results.

More and more, we are discovering that emotional connection is that "magic bullet" that leaders and board directors are looking for. It's a lot of work, but it is worthy of exploring because nothing creates more lasting change and sustainable results than emotional connection. Emotions matter in the boardroom – this is a new era of board effectiveness. ■

PUBLISHED ARTICLES & WEBINARS

- Effective Board Dynamics: How Airgas Avoided a Hostile Takeover, Corporate Board Member, November 2016
- 12 Emotional Habits of Effective Board Members, Journal of Accountancy, November 2016
- Three Stages to an Emotionally Connected Board, The Corporate Board, September/October 2016
- 9 Habits of Effective Audit Committee Members, Accounting Today, September 2016
- Ten Ways to Maintain Board Unity During a Hostile Takeover, NACD Directorship Magazine, August 2016
- Four Ways to Improve Board Performance at Your Next Board Meeting, Industry Week, August 2016
- How Managing Emotions Can Improve Board Effectiveness, Chief Executive, July 2016
- CEOs and the Emotional Brain, The CEO Magazine, July 2016
- To Tell or Not To Tell: What Level of Disclosure Does Your Board Need? OC Lawyer Magazine, August 2015
- Webinar: Increasing Board Effectiveness through Emotions, Women in the Boardroom, August 2016
- Webinar: Five Moves to Address Disconnections in the Boardroom, Women in the Boardroom, September 2016

CORPORATE
BOARD MEMBER.
An NYSE Euronext Company

**JOURNAL OF
ACCOUNTANCY**

the **CORPORATE BOARD**

accounting**TODAY**

NACD Directorship
Boardroom Intelligence

IndustryWeek
Advancing the Business of Manufacturing

Chief Executive

CEO The CEO Magazine
For High Growth Ventures

OCRA **ORANGE COUNTY
BAR ASSOCIATION**

**WOMEN IN THE
BOARDROOM™**

Dr. Lola Gershfeld, PsyD, Board Dynamics Specialist and CEO of Level Five Executive, a leading consulting firm in board dynamics. Her work with boards of directors and executive officers in addressing emotions in the boardroom has been widely published and recognized as one of the revolutionary methods in board effectiveness. By using an emotionally focused approach, boards show a positive change in their dynamics and rate themselves as significantly improved in just 8 to 10 meetings. Emotional connection is a new era in board effectiveness.

Dr. Gershfeld is available to consult with your board or conduct a board development program on emotional connection. For more information or set up a meeting, please contact us at:

info@levelfiveexecutive.com | (855) 992-4561 | www.levelfiveexecutive.com



2901 W. Coast Hwy, Suite 200, Newport Beach, CA 92663