Managing Conflicts in the Boardroom

Principle & Rationale

Conflict is unavoidable whenever individuals or group of individuals congregate. Thus, it is inevitable that conflict would occur when people work together. However, conflict is often viewed in a negative connotation. But if we were to take a different perspective, we can view conflict as a necessary step needed to achieve unity or a consensus position. Conflict can be viewed as a process whereby parties table different arguments and viewpoints to achieve a meeting of the minds. Conflict management requires the joint cooperation to achieve an optimal outcome for all parties. Therefore, if conflict exists in a manageable level, it can lead to creative and positive change for the organization.

For directors, conflict oftentimes occurs in the context of the boardroom. It is important that directors gain an understanding of the source of conflict and measures to resolve them. Be they mediation measures or means to prevent conflicts from even happening in the first place. These are all important issues for directors to grasp so that conflicts can be appropriately managed and thus the risks to the organization minimized.

IOD sees the importance of boardroom conflict management and thus initiated this Director Survey entitled "Managing Conflicts in the Boardroom" The objective of the survey is to obtain a broad perspective from directors on the issues of boardroom conflict and measures taken to resolve them. This is with the view that we can, through the collective wisdom of all survey participants, gain measurable inputs that will ultimately help improve corporate governance systematically going forward.

Research & Policy Department
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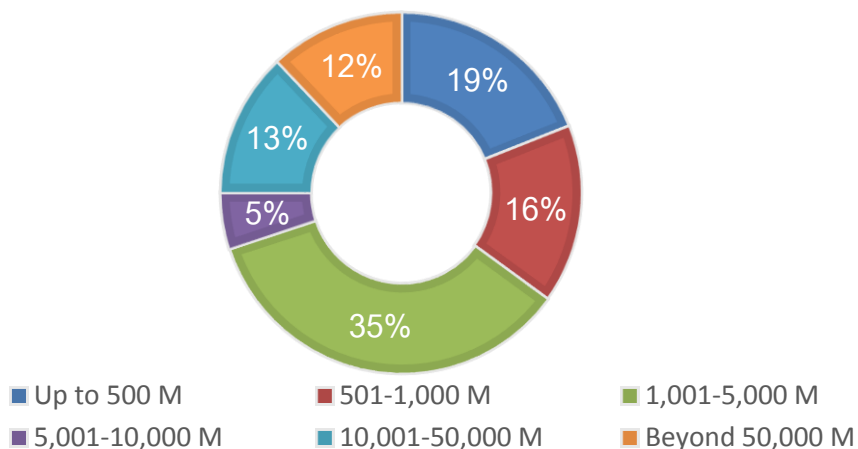
The Survey Respondents

In June and July 2016, the IOD conducted a survey of 173 members of corporate boards and executives in Thailand on the issue of managing boardroom conflict. The profiles of our respondents are as follow:

Our respondents were board members with most (71%) having 10 years or less experience serving on boards (Figure 1). The median years of board experience was 6 years. The survey respondents came from smaller to medium-sized organizations with 35% from organizations with annual revenue of 1,000 million to 5,000 million Baht; while 35% were from organizations with annual revenue of less than 1,000 million Baht.

**FIGURE 1: LENGTH OF TIME RESPONDENTS SERVED ON BOARDS**

■0-10 Years ■11-20 Years ■21-30 Years
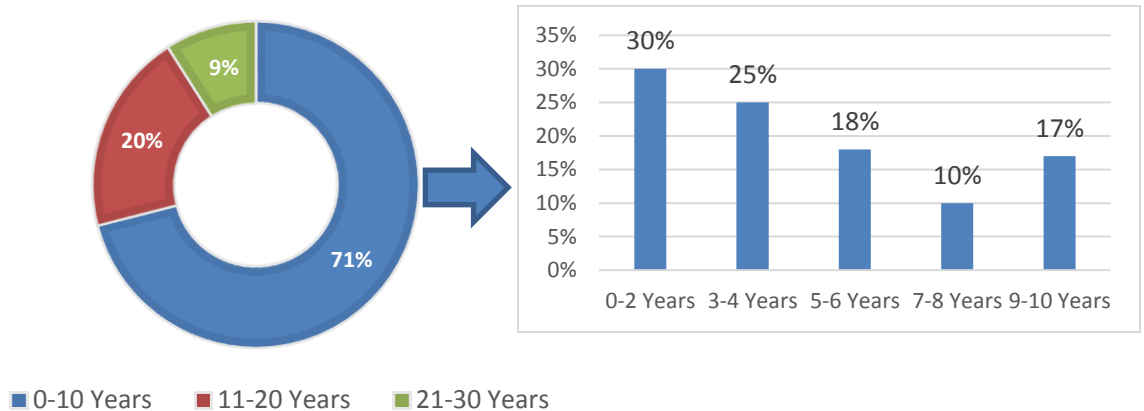
FIGURE 2: ANNUAL REVENUE OF RESPONDENTS' ORGANIZATION

■Up to 500 M   ■501-1,000 M   ■1,001-5,000 M
■5,001-10,000 M ■10,001-50,000 M   ■Beyond 50,000 M

The industrial sector representation of the survey respondents were fairly broad based, with the services industry being the most represented (21%), followed by the financial industry and property & construction industry (13%) and with consumer products, resources, technology and industrials (approximately 11% each) featured in similar portion.

Figure 3: Industry Sector of Respondents
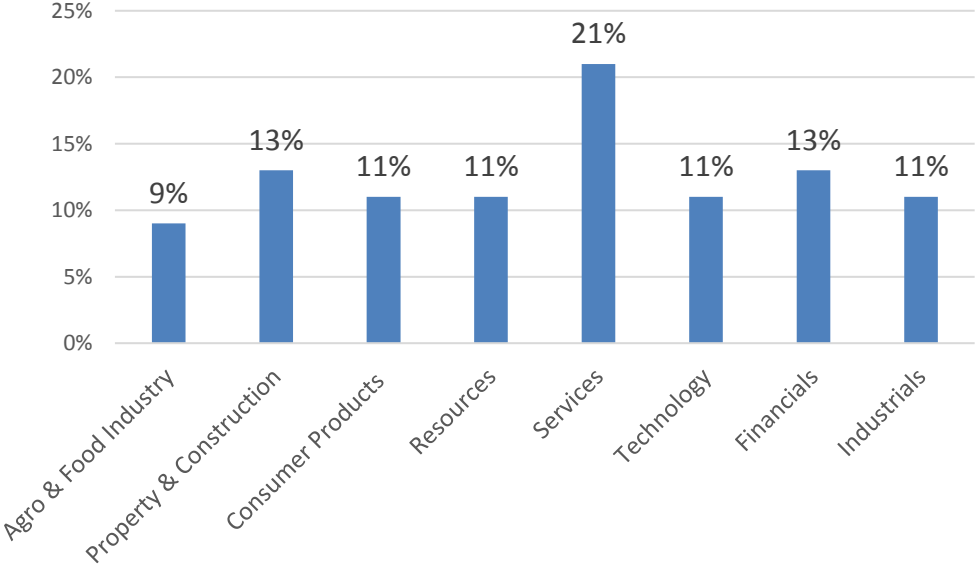
The directorship positions held by the survey respondents were primarily as executive directors (57%) such as president, chief executive officer, managing director or other senior executive positions. There was also a significant portion of independent directors (32%) with the remaining held non-executive directorship positions (11%).

Type of Directorship Positions	% of Survey Respondents
Executive Director	57%
Independent Director	32%
Non-Executive Director	11%

Current Positions within the Organization	% of Survey Respondents
Director	55%
Senior Executive	21%
CEO/President/Managing Director	18%
Chairman of the Board	6%

In terms of education background of the survey respondents, 29% were trained in commerce & accounting, 24% in the area of engineering, 26% in the areas of economics, law or political science. In terms of the level of educational achievements, 61% held a Master's degree and 28% held at least a Bachelor's degree.

Other personal attributes of the survey respondents, 76% were male and 24% were female; 66% were over 50 years of age, 24% were 41-50 years old, 9% were 30-40 years old and only 1% were under 30 years old.

Boardroom Conflicts

Our results show that the majority, or 93% of the respondents, viewed boardroom disputes as a normal occurrence in all organizations. Amongst our respondents, 75% had experienced boardroom conflicts. However, in terms of frequency, 48% reported that boardroom conflicts occur fairly infrequently and 32% reported that they do occur with regular frequency. In terms of the severity of these conflicts, 32% of respondents had experience with boardroom disputes that could not be resolved within the confines of boardroom meetings.

The most frequent subjects for disputes were (in descending order of frequency): 1. Organizational Strategy; 2. Financial Structure & investment and; 3. Crisis Management (See Table 1 below).

Table 1: Common Subjects for Boardroom Disputes

Common Subjects for Boardroom Disputes	% of Survey Respondents
Organizational Strategy	32%
Financial Structure & Investment	25%
Crisis Management	12%
Diverging Incentive Structure	8%
Separation of Roles & Responsibilities	6%
Risk Assessment & Management	5%
Audit Findings	4%
Board & Executive Nomination	2%
Board & CEO Evaluation	2%
Composition of Board & Management	1%
Dividend Distribution	1%
Others	2%

The common causes for conflict were (in descending order of frequency) were: 1. Inconsistent Information; 2. Differences in Views on Organizational Goals or Strategic Focus and; 3. Attitudes or Disposition of Directors (See Table 2 below)

Table 2: Common Causes for Boardroom Disputes

Common Causes for Boardroom Disputes	% of Survey Respondents
Inconsistent Information	36%
Differences in View on Organizational Goals or Strategic Focus	23%
Attitudes & Disposition of Directors	16%
Diverging Incentive Structure	10%
Personal Behavior of Directors	8%
Unclear Roles & Responsibilities	5%
Unequal Distribution of Roles	2%

The common factors that contribute towards boardroom disputes (in descending order of frequency) were: 1. Work Experiences; 2. Directors' Personalities and; 3. Inability to Control Emotion (See Table 3 below).

Table 3: Common Factors for Boardroom Disputes

Common Factors for Boardroom Disputes	% of Survey Respondents
Work Experiences	31%
Directors' Personalities	29%
Inability to Control Emotions	13%
Business Operation	10%
Educational Background	5%
Competitiveness	4%
Age	2%
Number of Directors	2%
Gender	1%
Others	3%

Disputing Parties

The common disputing parties were (in descending order of frequency): 1. Conflicts between each individual director; 2. Conflicts between the Directors & Executive Directors and; 3. Conflicts between the Directors and Management (See Table 4 below).

Table 4: Common Disputing Parties in Boardroom Disputes

Common Disputing Parties in Boardroom Disputes	% of Survey Respondents
Conflict between each Director	29%
Conflict between Directors & Non-Executive Directors	24%
Conflict between Directors & Management	17%
Conflict between Directors & CEO	10%
Conflict between Directors & Independent Directors	10%
Conflict between Board Chairman & Directors	6%
Conflict between Board Chairman & CEO	3%
Others	1%

Impact of Disputes

The impact of boardroom disputes on business operations and priorities are most severe in the following areas (see Table 5 below)

Table 5: Impact of Boardroom Disputes on Business

Impact of Boardroom Disputes on Business	% of Survey Respondents *
Time-Consuming to Manage	27%
Affects the Functioning of the Board	16%
Diverts Attention from Core Business	16%
Negatively Impact Relationships between Directors	16%
Impact Business Operations	13%
Reduces trust amongst Directors	6%
Adversely impact on corporate long-term profitability	2%
Wasting Financial Resources	2%
Tarnish Corporate Reputation	2%

Percentage indicates the item had a "significant" or "very significant impact.

Dispute Resolution

The most effective methods respondents cited to help preempt boardroom disputes are: 1. Having a focus on a common corporate target and strategy; 2. Having clear delineation between the board and management in terms of their authority, roles and responsibilities and; 3. Establish regular formal and information modes of communication (see Table 6 below).

Table 6: Most Effective Method to Preempt Boardroom Disputes

Most Effective Method to Preempt Boardroom Disputes	% of Survey Respondents *
Focus on common target and corporate strategy	34%
Having clear delineation of board and management authority, roles & responsibilities	33%
Establish regular formal and informal communication channels	20%
Designate the Board Chair as final decision-maker	5%
Establish Written Code of Conduct for Directors	4%
Use Voting Majority	2%
Support knowledge building on negotiation and mediation skills for the Board Chair and all Directors	1%
Employ an External Independent Consultant	1%

* Percentage of respondents describing this method of dispute resolution as being most effective.

The most effective methods to help resolve boardroom disputes once they occur are as follow (see Table 7 below).

Table 7: Most Effective Method to Resolve Boardroom Disputes

Most Effective Method to Resolve Boardroom Disputes	% of Survey Respondents *
Assign Management to obtain more information to be resubmit later at another board meeting	53%
Organize a session where all opinions and views are listened to in order to achieve a consensus decision	22%
Use Voting Majority	16%
Delegate Selected Individual or Independent 3rd Party to Mediate	7%
Others	2%

* Percentage of respondents describing this method of dispute resolution as being most effective.

Dispute Mediation

When faced with a boardroom conflict, our survey respondents reacted by: 1. Trying to be the mediator between the conflicting parties (47%); Get involved by exerting his or her opinion to sway and gain acceptance by other Board members (41%) and; Avoid confrontation by withholding the need to express his or her view (6%).

Our survey respondents viewed that the individual most placed to mediate boardroom conflicts are: 1. Board Chair (75%); Independent Director (9%); Chief Executive Officer (7%); External Independent Consultant (6%) and; Others (3%).

In terms of the desired characteristics or skills required of Directors required to resolve disputes are: 1. Ability to be open to the opinions of others (52%); 2. Ability to Control Emotions (21%) and; Ability to Mediate and Problem Solve (15%). (see Table 8 Below)

Table 8: Important Traits for Directors in Resolving Disputes

Important Traits for Directors in Resolving Disputes	% of Survey Respondents *
Ability to be open to the opinions of others	52%
Ability to Control Emotions	21%
Ability to Mediate and Problem Solve	15%
Ability to Manage Different Personalities	8%
Negotiation Skills	3%
Others	1%

Percentage of respondents describing this as being most effective traits.

Reality on the Ground

Table 9: Existing Practice within each Survey Respondents' Organization

Existing Practice within each Survey Respondents' Organization	Existing Company Practice		
	Internalized Practice	No	Uncertain
1. Distinguishing between the Role of the Board & Management			
There is clear delineation of board and management authority, roles and responsibility	90%	6%	4%
Each committee has a charter that clear details their functions	76%	16%	8%
The CEO has clear limits on expenditure not requiring board approval	95%	3%	2%
2. Establishing board meeting protocol			
There is a yearly calendar for board and committee meetings	86%	13%	1%
Board meeting protocol establishes procedural rules and behavioral expectations, including how each director and add matters to the meeting agenda item	65%	22%	13%
Meeting agendas ensure an appropriate amount of time for each decision item to be discussed	85%	7%	8%
Meetings include "Executive Sessions" (i.e. sessions without management or CEO involvement)	66%	27%	7%
Board minutes clearly present issues discussed, decisions made and basis for each decision taken	93%	4%	3%
3. Setting out clear guidelines on Board process			
Key Performance Indicators are established and regularly reported to the Board	84%	8%	8%
Board is regularly updated on the implementation of previous decisions	84%	7%	9%
Board briefing papers are focused and allow for informed board decisions	84%	6%	10%
Board briefing papers are distributed no less than a week before each meeting	71%	16%	13%
4. Facilitating more effective boardroom dynamics			
Differing points of views are openly debated and welcomed during board meetings	88%	3%	9%
Board Deliberations are collegial and civil	97%	1%	2%
Consensus is the preferred way to make decisions	88%	5%	7%
Board Chair encourages frank and open discussion that each Director can participate in.	95%	1%	4%

Existing Practice within each Survey Respondents' Organization	Existing Company Practice		
	Internalized Practice	No	Uncertain
5. Soliciting New Points of View			
Regular informal settings give directors the opportunity to know each other better	85%	5%	10%
Board Char meets at least once a year with all the board members to solicit their opinions about the company and the function of the board.	45%	41%	14%
CEO meets at least once a year with each director to hear his or her view about the company, management and the CEO's performance	47%	40%	13%
Board undergoes regular assessments and evaluation	52%	31%	17%
Board holds annual retreat outside company's premises	43%	49%	8%
6. Employing Mediation Skills			
Board Chair is adept at building consensus	78%	8%	14%
Directors have good interpersonal communication skills	81%	5%	14%
7. Including Dispute Resolution in the Company's Practice & Culture			
Board's by-laws and governance principles or guidelines include provisions on how disputes will be resolved	50%	30%	20%
One or more directors of the board has undergone meditation training and/or is entrusted to play an internal mediation role, when needed.	24%	45%	31%
Board has a Code of Ethics that Directors sign in on during induction.	53%	34%	13%