A Mushroom Board

By Dennis Cagan

Have you ever been on a "mushroom" board of directors?

Whereas the reference about being treated like a mushroom: kept in the dark and fed — let's say manure — is typically used to refer to employees working for a very uncommunicative or dictatorial manager, the same analogy is aptly used to refer to a board of directors run by an authoritative chairman or CEO. If you are or have ever been a board director and have not ever been on a mushroom board, you are indeed fortunate.

These boards are generally very pleasant experiences — until the hammer falls and the deception fails. By all appearances the company is doing very well. Sure, there may be a negative issue here or there, but they are always dealt with quickly and professionally by management and their able team. While there may be a few concerning signals, the CEO or chairman are always quick to have a very slick and mostly plausible explanation.

The directors on these boards are carefully chosen. Even though there may be one or two newer directors, even a couple of very independent ones, maybe you for instance, the majority of the directors have been there for a while and generally ask very few questions which are not difficult, probing ones. On these boards, descent is clearly frowned upon. All votes are in unanimous perfunctory agreement with the CEO.

Best and worst cases

Just because the board is never informed of anything negative, or even any slight difficulty, it does not mean that these things exist and are being covered up. If all is as presented, why is this a problem? Because Boards, especially best-of-class ones, are established to offer oversight and accountability through their fiduciary responsibilities to the owners of the enterprise. This function can simply not be accomplished with any fidelity when the board does not have ready access to all the underlying information and data, and only views the CEO's scrubbed conclusions.

A mushroom management style does not promote a healthy relationship between the CEO and the board, and hints at the possibility that the CEO has a tendency to stifle his or her subordinates. An open and transparent relationship between senior management and the board is the first step toward the board being able to deliver meaningful value and counsel in terms of oversight, succession, strategy and sound judgment, which is their maximum contribution to the success of the company.

Always keep in mind that just because the board is never informed of anything negative it does not mean that such things do not exist and are being covered up. This is certainly a worst case. However, too often in this situation, something goes wrong and the board is caught off guard, unprepared and forced to deal with something really serious. In an extreme example, for instance the situation is exposed as the result of an employee "breaching the CEO's trust", or a board member accidentally learning about a problem. The result may require decisive action on the part of the board, even if it is determining the future of the CEO who was less than truthful with the board.

I have personally seen circumstances including embezzlement, discrimination, serious breaches of company policies, addictions, mental breakdowns, violent behavior and other variations of destructive or illegal actions. If the board is too slow or remise in their reactions, it could mean serious damage to employee/customer/vendor morale, or even the end of the company altogether. If the board discovers the situation early enough and acts decisively, damage can not only be avoided, but all stakeholders can benefit from the restoration of faith in the company's governance process.

One cannot understate the importance of a high level of management transparency, with the board being encouraged to meet and converse with various layers of management and employees — whether it is in the normal course of the employees' work or in their presentations to the board.

Signs for concern

The company:

- Bad atmosphere around the office — fear, quiet, dark, joyless.
- Revolving door in the executive ranks just below the most senior executive.
- Generally high turnover – with people quitting for no apparent reason.
- Very abrupt executive departures with little communication – and often with management communicating to remaining employees a negative picture of those departed.
- No clear logical explanations being offered by leadership for decisions that many in the company feel are questionable or ill-advised.
- New executive hires who tend to make changes that do not make sense to others (particularly if the new hires are former colleagues or relatives of the CEO).
- A secretive atmosphere with an abundance of stressful-appearing closed-door meetings.

The board:

- Few presentations at the board meeting by other than the CEO.
- Presentations of managers to the board that appear to be overly brief, overly glowing and overly scripted.
- A limit on the types and range of follow-up questions that the board is encouraged/allowed to ask managers.
- Furtive glances at the CEO by any presenter whenever they are asked a difficult or off-script question.
- An almost imperceptible feeling fear or excessive deference toward the CEO.

Reactions and remedies

The first thing the board needs to do is to consolidate their authority and control. They need to utilize whatever power they have under the certificate of incorporation, bylaws and prevailing resolutions to take actions. Appropriate actions, of course, depend on the severity of the circumstances, so the first thing to do is to thoroughly investigate the issues — whether with inside resources or outside independent ones.

If the problem discovered is severe, the board may need to act quickly, and should be careful not to underreact. Take immediate action on behalf of those to whom you owe your fiduciary responsibilities, and of course on behalf of all the other stakeholders in the enterprise.

However, if the initial revelations are less serious, do not overreact and blow management sky high.

The ideal and most productive relationship between senior company management and the board of directors has a high level of trust based on complete transparency of positive and negative information, as well as active and ongoing verification by the board, preferably through the effective use of committees. In this way, not only can potential problems be identified as quickly as possible, but also potential possibilities. All of this is best executed through a shared vision between management and a diverse board of qualified directors with varied but complimentary skills, experience and contacts.

Dennis Cagan is a noted high-technology entrepreneur, executive, and board director. He has founded or co-founded over a dozen different companies, taken some public, been a CEO of both public and private companies, a venture capitalist, a private investor, a consultant, and a long-time professional board member – over 67 corporate fiduciary boards. He is in the IT Hall of Fame, and his book, *The Board of Directors of a Private Enterprise,* released in 2017, is considered by many to be the most authoritative perspective available on private company boards and governance issues.

Mr. Cagan is primarily engaged in management consulting in the area of corporate governance and boards of directors through GovernX LLC. The firm primarily works with private company ownership and leadership to develop and manage world-class governance through boards (both fiduciary and advisory), and its unique Governance Forensics which uncover loopholes allowing for desired changes in company ownership. All are comprised of an intense side-by-side, hands-on approach to helping C-level executives go beyond their current experience set. He also provides his trademarked **Shadow CEO®** services entailing one-to-one support to private company owners and CEOs.

Mr. Cagan has been a regular contributor of feature articles in a variety of business publications and is one of the only authors to have been published in the four most popular board magazines: Directors & Boards, NACD Directorship, Family Business, and Private Company Director. He speaks widely on the subject of boards of directors and governance, including the keynoting the inaugural Private Company Governance Summit, in Washington, D.C. in 2013, and speaking again in 2014, 2015, 2016 and 2019.

Mr. Cagan currently sits on several technology company boards in in cities spanning both coasts.