

BOARDS

Case Study: Should a Female Director “Tone It Down”?

by Boris Groysberg and Deborah Bell
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Finally, Sarah thought.

J.P. Offutt, the CEO, had named a time when they could meet.

Sarah was a longtime director of the company that J.P. ran, a Florida-based shopping-center-development group, and she was devoted to both him and his firm.

But board meetings had been tense recently, and J.P. had grown distant.

In Sarah’s opinion, the problem was obvious: Sid Yerby, the CFO. Despite her repeated requests for comprehensive financial statements, he continued to come to board meetings with a mere two pages of analysis that lacked any explanation. How could she or any of the other directors provide fiscal oversight without access to details of the company’s operations or accounting? Increasingly, however, hers seemed to be the minority view, and she was starting to feel isolated.

Some months back, J.P. had told her privately that he appreciated her persistence with Sid. The young and inexperienced CEO confessed that he often felt uncomfortable asking tough questions of the CFO, an industry veteran who was 10 years his senior. It didn’t help that J.P.’s father, Bill Offutt, who had founded the company and remained its chairman, didn’t seem bothered by the lack of documentation.

Sarah, an experienced real estate consultant, had always been happy to help. But the clamor against her from Sid and the other board members was growing uncomfortably strong. In fact, one of her

fellow directors had accused her of having a private agenda that included taking the CFO down a couple of pegs. Another said to her face that she talked too much, just like his teenage daughter. Outwardly Sarah balked at this, but inwardly she was intimidated, especially because she was the only woman on the board. Even Bill, who had recruited her as a director, praising her stick-to-itiveness and gumption, had commented that others considered her “pushy.” It was high time, she thought, that J.P. sprang to her defense.

Editor’s note: This fictionalized case study will appear in a forthcoming issue of Harvard Business Review, along with commentary from experts and readers. If you’d like your comment to be considered for publication, please be sure to include your full name, company or university affiliation, and e-mail address.

The Previous Quarter

As Sid clicked through to a liquidity projection slide, Sarah allowed herself a small smile. It was a minor victory, but a victory nonetheless. Two weeks earlier, J.P. had pulled her aside and asked her to stop arguing with the CFO. Initially she was taken aback. Arguing? She was just asking questions. Besides, she’d been under the impression that J.P. wanted her to question and challenge Sid. Nevertheless, she decided to try a new approach: Before the board meeting she called Sid and suggested that his presentation include certain essential details, such as the liquidity projections.

Still, he had to know that the inclusion of a single additional slide wasn’t enough. After Sid finished, Sarah raised her hand. She could hear the sighs around the table. “Sid,” she said, “I want to commend you for the additional information you’ve provided. But as I mentioned when we spoke a few weeks ago, it would be helpful to have even more information. For example, how do our financial ratios compare with the rest of the industry’s? And what about best-, base-, and worst-case scenario projections?”

Everyone started talking at once. Sid turned to Bill with a shrug, as if to say, “You see what I have to deal with?” Bill quieted the room by tapping his pen on the table. “We simply can’t fight over every financial report. Everyone here is an experienced business leader,” he said, using the pen as a pointer. “Avery is the CEO of a trucking company, Louis runs a bank, et cetera. They’re very comfortable reading financial summaries, and they don’t want to waste their time getting into the weeds.”

“But it’s our fiduciary duty to get into the weeds,” Sarah said. “Even though we’ve had a steady rise in our stock price, we’ve been relying more and more on purchasing underperforming assets using floating-rate debt. We’re assuming that the assets will stabilize and we can refinance at lower rates, but that’s a big assumption, and the board deserves more detail about why that’s our strategy.”

Rather than address those issues, Bill ended the discussion and moved on. It burned Sarah up. Fine — she would be quiet for now, but that night she wrote J.P. a letter that pulled no punches, for the first

time formally documenting her concerns about the company's strategy and Sid's reporting standards, which she felt were far too casual for a big real estate investment trust, or REIT. The letter also asked J.P. for a one-to-one meeting in the week after she came back from a vacation with her husband and their four children.

Sisterly Advice

Before leaving for vacation, Sarah had her monthly dinner with her sister Betsy, a biotech entrepreneur. Although they both juggled work and large families, they remained close and engaged in each other's lives.

It was as Sarah waited for her sister at their favorite restaurant that she received the affirmative response from J.P. She was relieved he'd agreed to meet, but there was a nervous twinge in her gut that wouldn't go away. The terseness of J.P.'s e-mail unsettled her.

As Sarah greeted Betsy, she tried but failed to wipe the worry off her face. "What's wrong?" Betsy asked immediately.

"It's that board I'm on — the real estate company." Sarah exhaled loudly. "Did you know we're now the second-biggest REIT in the country? We own hundreds of properties, and we're making tons of money. But the management team still wants the company to function like the small family business it was years ago. I can't tolerate that. And I especially can't tolerate our CFO Sid Yerby's casual approach to the numbers."

"I know. You've talked about him," Betsy said.

"He's like an overconfident card shark who bets high on a pair of deuces. Nobody calls him on it except me. By the way, many of the times when I've grilled Sid over his numbers, it's been because J.P. asked me to. J.P. once told me he couldn't run the company without me. But now it seems like he's giving me the cold shoulder and giving Sid free rein."

"What exactly is Sid doing wrong?" Betsy asked.

"Well, back in 2011, we made a few big acquisitions that gave us a lot of great properties but also stuck us with billions in debt, most of which had to be financed with short-term paper. The company is now highly leveraged — much more so than any of our competitors. Sid says property values have stabilized, the consumer is back in the saddle, and there's nothing to worry about. But what if we hit another downturn? No one else seems to be concerned about this."

She sighed. "All the other directors hate it when I grill him. They think I have some private agenda. But I don't, except the interests of the company."

“In all your grilling, have you ever uncovered anything nefarious or illegal?” Betsy asked.

“No,” Sarah replied.

“Incompetent, boneheaded, sloppy? ”

“No, but — ”

“Misguided, rash, questionable?”

“Well, I do think many of his choices are questionable, especially around our leverage,” Sarah said.

“But he did get your company through the mortgage crisis and the recession in good shape, right?” Betsy countered.

“Yes.”

“Well, rightly or wrongly, that might be one reason why you don’t have a single ally on the board.”

In J.P.’s Office

Sarah and J.P. sat opposite each other on the short leather sofas in his office. He looked nervous.

“Sarah, you know my own capabilities are limited,” he began. “I don’t know everything there is to know about business, and I never will. And as I’ve said to you before, that’s why I can’t run this company without — ” he hesitated.

Sarah filled in the rest. “Without me. I know. And I appreciate that.”

“No — sorry. Without Sid.”

She stared at him, unsure what to say.

“Sarah, your intellect is very powerful,” he continued. “And your questioning, especially on financial matters, is very informed and insightful. What you have to say is always important.”

“But?”

“But Sid has expressed his frustration with the situation on the board, and in fact he’s prepared to tender his resignation.”

“Really?” This was exciting news, Sarah thought.

“He’ll stay if you, well, as he put it, ‘tone it down and back off.’”

Sarah was stunned. She had to exert considerable effort to bring herself back into the conversation. She realized then that J.P.’s expression showed more resolve than she was used to seeing in him. Was he truly giving her an ultimatum: Shut up or leave the board?

Question: How should Sarah respond to J.P.?

Please remember to include your full name, company or university affiliation, and e-mail address.

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