

Chairman and CEO: jointly responsible when things go wrong?

Helen Pitcher, 16 August 2010

With the resignation of Tony Hayward as CEO of BP, many have questioned whether the chairman, Carl-Henric Svanberg, should have gone instead or at least as well as his beleaguered colleague. Criticised for being the 'invisible man' during the disaster that involved 4.9 million barrels of oil spilling into the Gulf of Mexico, many believed he shirked his responsibility, leaving Hayward to take the flak while he stayed in Europe and even went off on holiday in Thailand immediately after the well exploded.

But this view raises some interesting questions as to the remit of company chairmen and their responsibilities to the board, stakeholders, employees and the company as a whole. While the role of CEO and chairman are often seen as interchangeable, they are actually distinct for good reason and it is crucial they remain so for the success of the board and ultimately the company.

IDDAS recently completed some research among FTSE 350 chairmen, giving a unique insight into their day-to-day duties and their perspective on what it takes to be successful in the role. The findings help explain and put some context around Svanberg's actions during the Gulf of Mexico fiasco.

When IDDAS asked the chairmen about their relationship with the CEO, the interviewees all stressed that it is crucial to stand back and let the CEO do his job. The majority had previously held chief executive positions and while this means they often find it difficult not to get too involved, they noted the difference in focus, which one described as "like the parent to grandparent transition – no longer making decisions but helping others to make them".

Other chairmen expressed similar sentiments:

"A key difference is that you are not on top of the business. You don't know what is happening: you are reliant on the executives."

"You have to understand that your role as chairman is to lead, not to do. This distinction is quite difficult but really, really important."

"It's more of a subtle art form than being a CEO because you haven't got authority."

Instead of leading, the interviewees stressed the importance of building a supportive, even coaching or mentoring relationship with the CEO, with a need to be in constant touch by email and telephone 24/7:

"You have to be more of a mentor, counsellor, and challenger."

Many also mentioned the importance of trust, including being able to let the CEO get on with the job without undue interference:

"You just have to let the CEO run the company. You don't do that yourself."

"The chairman should not try to be CEO, but must keep an eye on what is going on with others. If I see something I don't like, I alert the CEO."

So from these comments, you could argue that Svanberg was right to stay in the background, allowing Hayward to lead and control the situation without confusing matters. After all, we weren't aware of what was going on out of the media spotlight and the chairman may have been involved in supporting and coaching Hayward behind the scenes.

Our research also highlighted the crucial role of the chairman in letting the CEO know when he's not performing, and then taking the decision to fire him if he is jeopardising the future of company:

"The chairman must be very supportive of the CEO, but you have to tell him when he is not performing."

"Get really excited and enthused by your CEO, or get your colleagues' agreement to fire him."

So again, Svanberg did what was required of him in this respect and when it became clear that Hayward's position was untenable, he was indeed forced out.

But when our interviewees were asked how the chairman should be assessed, their answers provide some indication as to why Svanberg came under attack. They outlined two criteria for how their performance should be assessed: first, his style and personal effectiveness in running the board; and second, the company's performance, either against its own strategy or compared to competitors – in this respect he is no different from the CEO.

"The shareholders must feel that I'm doing a good job and the executives must feel they're getting the right support and challenge."

"Alongside the CEO, you are the face of the company. If the company does badly, the chairman shares responsibility for this."

Given the gravity of BP's current situation, both financially and in terms of the company's tarnished reputation, it is therefore hard to see why Svanberg shouldn't be sharing some of the blame with Hayward. But he has escaped for now and seems to have regained some confidence through his increased visibility since Hayward's departure. Let's see how long it lasts.

Helen Pitcher, IDDAS chairman.