

# Board Dynamics

## The Chairman's Perspective



## Executive summary

Our research comes at a time when the central role that chairmen play in the effectiveness of corporations has received greater attention than ever before.

Two major reports on corporate governance have been published in the past year: the Hogg Review of the Combined Code on Corporate Governance and the Walker Review of corporate governance in the UK banking industry. These culminated in the publication in May 2010 of the UK Corporate Governance Code, whose recommendations will be applied to accounting periods from 29 June 2010. The revised code creates a new main principle stating the chairman's responsibility for leading the board and reflecting Walker's belief in the importance of leadership skills.

Indeed Walker, who has been much quoted as emphasising the need for financial skills and experience on boards, actually places these second to "*convincing leadership experience*" in the chairman of a bank or financial institution, saying that "*financial industry experience*



*without established leadership skills in a chairman is unlikely to suffice."*

Our findings support this view. If there was one overriding message that came out of our interviews it was that the greatest skill of the chairman is in managing relationships between him or herself and the CEO, between executives and non-executives and between board members individually and as members of a team.

We probed our chairmen on their own path to chairmanship and the skills and experience they felt were most important. We asked about their approach to board performance and how they judged, evaluated and developed it. We also explored their views on training and networking and what they felt were the biggest challenges they faced.

Finally, we asked for their best advice to others seeking their first chairmanship.

## Key findings

- The relationship between the chairman and CEO is the most important in the company and effective chairmen spend considerable time and effort getting this right. If they are not successful, their ultimate duty is to replace the CEO.
- The skill of the chairman lies in the ability to achieve influence without holding power. This involves balancing the needs and interests of multiple stakeholders and personalities; forging the board into a well performing team; running effective board meetings; and ensuring the right mix of people and skills around the board table.
- Our chairmen learnt how to chair primarily from observing good and bad practice in chairmen they had served under. Few had received mentoring or coaching for their first chairmanship or indeed subsequently, although some would have welcomed it.
- Chairmen find recruitment a significant challenge. They value diversity of skills,

experience and perspective on their boards, but, don't necessarily believe this can be translated into a traditional diversity agenda.

- Board evaluation processes are not always felt to be effective and are sometimes conducted for the sake of compliance, rather

than to improve performance. Shareholders show little interest in board evaluation.

- Being a chairman takes more time than expected and can be a lonely position. Chairmen have limited support networks for their chairing role.

## Conclusions and implications

- A corporation should choose its chairman for his or her leadership and inter-personal skills, rather than for a particular career background – a point acknowledged by Walker, and a key point in the new UK Corporate Governance Code.
- There is little prospect of the number of women on boards increasing significantly in the near future, if our chairmen's views are typical. Despite the wider debate about the need for more diversity and various initiatives to raise the profile of senior women, our chairmen believe that there are still not enough suitably qualified women



available – and that they are already doing what they can to recruit them.

- There is a need for more research into effective board evaluation practices to fill the evaluation gap that some chairmen feel exists.
- Corporations should take a more realistic view of the time commitment involved in being a chairman.