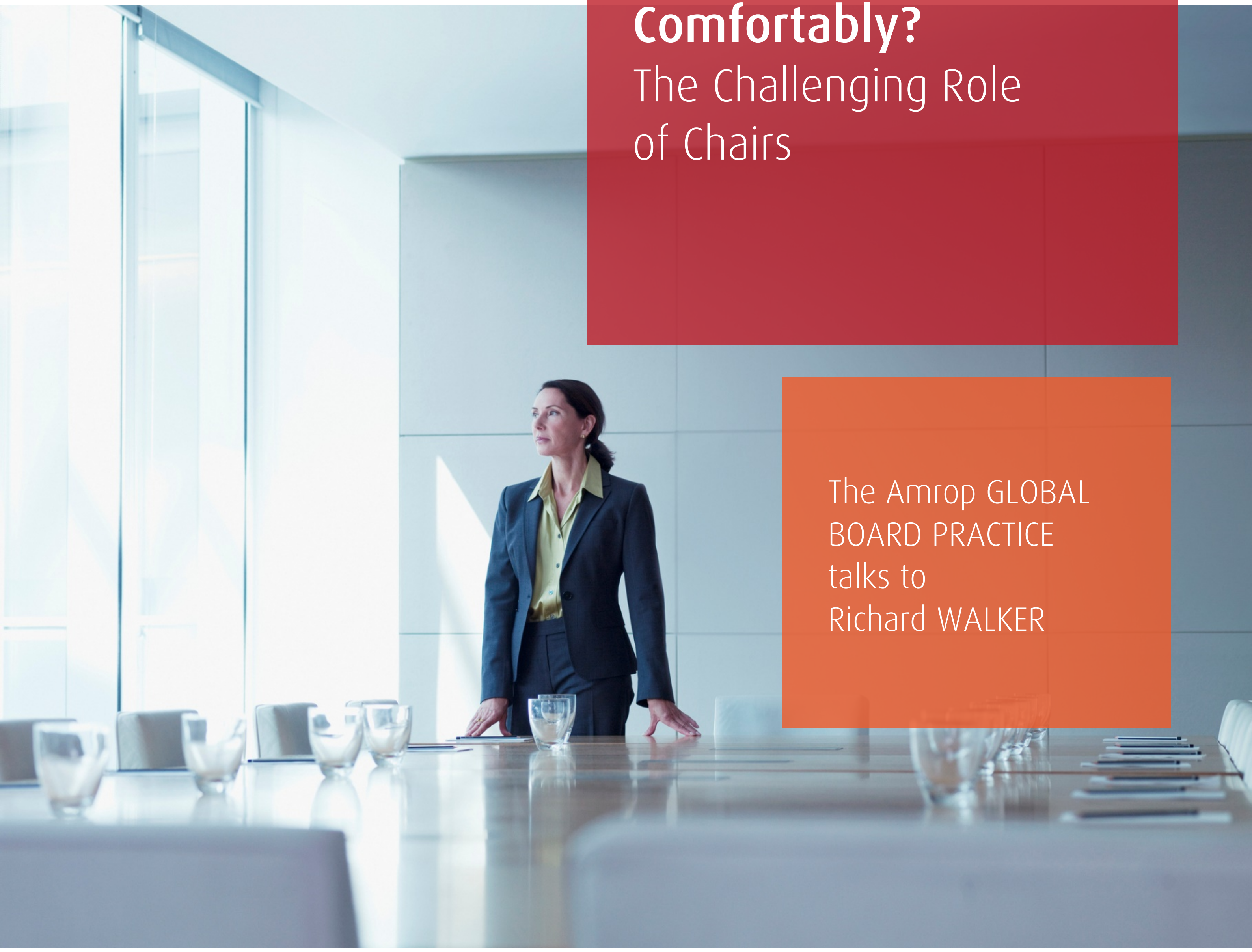
Boards

Are You Sitting Comfortably?

The Challenging Role of Chairs



The Amrop GLOBAL BOARD PRACTICE talks to Richard WALKER

Amrop

Leaders For What's Next

Executive Summary

In many countries, the role of the chair is evolving. In all organizations, it is vital. Today there's no shortage of prescriptions. But behind the guidelines, the task is filled with challenges. The Amrop Global Board Practice uncovers 9 of them.

1 The Challenge of the Black Box

Success Can Breed Secrecy

Your CEO is a star and the company is cash rich. This is precisely the time a good chair should raise questions, says Svein Ruud, Leader of Amrop's Global Board Practice. "The Board depends on the information it gets from the CEO. If the CEO wants to play his own game and exclude the board he can for some time, until the board feels it's in the dark and the trust between board, chair and CEO is lacking. Even when a company is performing well there can be cause for the board to remove its CEO. A board that doesn't know what's going on inside a company is adding risk on risk. Eventually it will go wrong."

2 The Challenge of the Two Hats

Two in One No Longer Flies

A Swedish-American global manufacturing company has flourished under its strong CEO. But the company is listed on the American stock market, so the chairman and CEO can be combined. Svein Ruud warns: "that person has too much power over the board and executive management team. If he is always on the right track then it could be fine, but the day he or she is not, and nobody dares to oppose him or her, then you have a huge risk that the wrong decision will be taken."

3 The Challenge of the Forester

Chairs and Dead Wood

Assuming the separation of CEO and Chair roles, the Chair must ensure every board member adds value. Fredy Hausammann, a seasoned member of the Amrop Executive Board, believes the first task is to clear dead wood - inevitably a controversial process. One board: "thought it was unjust, even though they had been there over ten years. They felt it was a fair reward to be on the board." But strong, confident chairs reap great benefits when they turn an 'old-boy' board into a value-adding one. Hausammann cites such a case: "Now the CEO tells us that the governance body gives them much more valuable feedback, and there's a much improved sparring relationship between the executive and non-executive boards."

4 The Challenge of the Sounding Board

One Hand Clapping

For Fredy Hausammann, the right board composition will bounce value back to management. Sadly, competencies are regularly missing, raising questions around how well chairs are ensuring effectiveness. "Today it's a given that the CFO has a sparring partner at board level, namely, the Head of the Audit Committee. But if you look at other disciplines, many roles don't have a sparring partner like that at non-executive board level. In digitization it fails to happen, HR nominations too, and maybe even in marketing and sales." Yet: "Every director should have someone with similar experience at non-executive level to spar with."

5 The Challenge of Distance and Closeness

Guide, Don't Smother

The qualities of a great CEO don't necessarily make a good chair, says Fredy Hausammann. "Let's say a CEO becomes a chairman. Sometimes he comes in every week and gets too involved with day-to-day operations. Then at the other end of scale you have the chairman who meets with the board five or six times a year, only thinks about vision and strategy, and doesn't know the key people in the company.

Neither scenario is right. You have to be close enough to the business and its people to be able to guide, steer and spar, but not be so close that you're taking up too much management time, even burdening them with special tasks and questions from the board," he says.

6 The Challenge of the Warm Fire

The Cost of Failure

Sven Ruud cites a once-thriving media company. "They had been taken over by hedge funds, attracted by the large cashflow and good dividends. The chair, instead of challenging the owners, who were slaughtering the company, rather relaxed into simply being chair of a listed company and enjoyed himself. The balance sheet over time became an anorectic and they couldn't invest in the digital sphere of their business. A succession of CEOs and CFOs came and left, all lacking in support from the chair. And now the company has almost gone bankrupt. This is the fault of the chair. He should have staked his position and given an ultimatum to the hedge fund owners."

7 The Challenge of the Dominant Owner

Legacy Problems

Despite India's robust code of conduct, its chairs and boards are often criticized for being toothless. And, as in other markets, company ownership in too few hands can be a problem, says Preety Kumar, Amrop Board Member and Managing Partner of Amrop in India. "An over-dominant owner may want to retain authority in running the board and curtail its power. When it comes to the chairmanship, the owner may assume the role, or employ someone weak. This may be due to a lack of understanding of the added value of a high performing board, or it may be unconscious. If it is a deliberate choice, then this is an ethical question. And particularly when the interests of the owner and the company diverge, it becomes a problem."

9 The Challenge of the Tightrope Walker

Leader and Organizer

A study by Amrop and PwC of Supervisory Boards in Poland concluded that the chairman's role had two components: *leader and organizer*. Tomasz Magda, a Founding Partner of Amrop in Poland, explains: "Leadership means creating a functioning style involving all board members, taking their personalities into account and ensuring they are engaged in constructive dialogue, with all their energies focussed on the business. The Chair has to be able to steer discussions towards consensus and/or compromise. This is made more complicated given the increased emphasis on diversity and increasingly dispersed shareholder views. As 'capable organizer' the chair defines the agenda's direction, ensures that proceedings have a harmonious rhythm and are conducted in an orderly way. He or she must also keep the board continuously focussed on monitoring key issues and implementing board decisions. Given the multiple forms of disruption facing today's businesses, this is less simple than it sounds."

In Conclusion

More than ever the chair is an essential component of successful companies. Preety Kumar is clear. "You can't mandate governance. Unless you have a very strong enforcement, ultimately it depends on the quality of the chair and how well he or she uses the board."

For a position demanding such dynamism, it requires humility to allow the CEO to take most of the credit – so this is a job for an accomplished and mindful person. There is a trend for choosing a new type of effective chairman who enables good governance. Someone competency-based, who can make time available but who is not fully dependent on that board assignment.

Fredy Hausammann lays out the job description. The new breed of chair "is not too close to the company, or the stakeholders, but is close enough to understand; not too dominant in personality, with a good level of self reflection so they know what they can and can't do."

In short, the role of chair is one of the most difficult to fill well. In the right hands, it is the most subtly important of any company.

Read on for the full article.

Are You Sitting Comfortably?

The Challenging Role of Chairs

What does a modern chair do? Not so long ago, he or she was often a ceremonial figure, especially when that ceremony was a long lunch with the inner circle.

Today, there's no shortage of prescriptions. The UK's Corporate Governance code, which influences much of the international thinking, is clear. But behind the guidelines, the chairman's role is one with traps and pitfalls. In many countries, it is evolving. In all organizations, it is vital.

Increasingly, the long term health and success of a company is reflected in a chair who is leader and organizer, coach and consensus-builder.

For some, the chair is simply a back seat navigator holding a roadmap the owners gave him or her. And yet, knowledgable and confident of the company's direction in the CEO's hands, the chair should always have enough authority to challenge. Dealing with this apparent contradiction demands subtlety, wisdom, and maturity. This article visits some of the challenges currently surrounding an evolving role.

Success Can Breed Secrecy

Your CEO is a star and the company is cash rich. Does that success shrink the chair's role to head cheerleader? In fact, this is precisely the time a good chair works to raise questions, according to Svein Ruud, Leader of Amrop's Global Board Practice.

"The Board depends on the information it gets from the CEO. If the CEO wants to play his own game and exclude the board he can for some time, until the board feels it's in the dark and the trust between board, chair and CEO is lacking. Even when a company is performing well there can be cause for the board to remove its CEO. A board that doesn't know what's going on inside a company is adding risk on risk. Eventually it will go wrong."

The Chairman

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

Supporting Principles

They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

The UK Corporate Governance Code (Financial Reporting Council, July 2018)

Two in One No Longer Flies

Ruud cites a prominent Swedish-American global manufacturing company that has done well under its strong CEO. But because the company is listed on the American stock market, the chairman and CEO can be combined, a situation still common in the US, and under increasing pressure to change.

“In my opinion, that person has too much power over the board and executive management team. If he is always on the right track then it could be fine, but the day he or she is not, and nobody dares to oppose him or her, then you have a huge risk that the wrong decision will be taken.”

Shareholders increasingly want their CEO and chair divided into two roles. During the recent economic crisis, and the ensuing increased regulation, oversight from a confident chair became the new common sense.

The UK Corporate Governance code prescribes that the roles of chairman and chief executive should not be exercised by the same individual: “there should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company’s business.” EU rules force banks to separate the two roles in this way, and in Germany all companies are obliged to follow suit. In France the number is growing steadily. Elsewhere it is a cultural change, happening with varying enthusiasm.

For a sizeable minority of India’s top 500 companies, chairs are not yet separate from Managing Directors or CEOs, but they should be, according to Preety Kumar, Amrop’s Managing Partner in Delhi. For her, there is an inherent conflict between the two roles and they should never be held by the same person. In any case, she says, it is too much work for one. “I seriously doubt a CEO could devote the time needed to do the job of the Chair properly.”

Chairs and Dead Wood

Assuming the separation of CEO and Chair roles, the Chair must, according to modern wisdom, ensure every board member adds value. Fredy Hausammann, a Member of the Amrop Executive Board, believes the first part of that task is to clear dead wood.

"Recently, the new Chairman of a partly state-owned corporation in Switzerland quickly replaced politically-appointed board members, who added nothing, with expert board members who did. He did it by lobbying the owner and removed one by one those who had been there far too long. Then he brought the right people in. Now they tackle problems much earlier. Before the turnaround, there were maybe three or four people out of eight on the board making a contribution. Today it's more like six out of eight."

This will inevitably be a controversial process and the old board were upset. "They thought it was unjust, even though they had been there over ten years. They felt it was a fair reward to be on the board," says Hausammann.

The story is a common one. But strong, confident chairs reap great benefits when they turn an 'old-boy' board into a value-adding one.

"We helped an international financial services company based in the UK whose board was composed of internal people and some long standing 'friends' of the company. We helped change the management team and got them to realize that a better performing non-executive board would help them govern better and develop the company. Now the CEO tells us that the governance body gives them much more valuable feedback, and there's a much improved sparring relationship between the executive and non-executive boards," says Fredy Hausammann.

> "Today it's a given that the CFO has a sparring partner at board level, namely, the Head of the Audit Committee. But if you look at other disciplines, many roles don't have a sparring partner like that at non-executive board level."
> *Fredy Hausammann, Managing Partner, Amrop Switzerland*

One Hand Clapping

According to Hausammann, significant added value comes from this exchange of ideas and concerns. The right board composition will bounce value back to management. Sadly, that is still often not the case. Competencies are regularly missing, raising questions around how well chairs are ensuring effectiveness .

"Today it's a given that the CFO has a sparring partner at board level, namely, the Head of the Audit Committee. But if you look at other disciplines, many roles don't have a sparring partner like that at non-executive board level. In digitization it fails to happen, HR nominations too, and maybe even in marketing and sales. All of these are lacking competencies at BoD level. Each and every director should have someone with similar experience at non-executive level to spar with."

“The chair, instead of challenging the owners, who were slaughtering the company, rather relaxed into simply being chair of a listed company and enjoyed himself. The balance sheet over time became an anorectic and they couldn’t invest in the digital sphere of their business.”
Svein Ruud
Leader of the Amrop Global Board Services Practice

Guide, Don’t Smother

In some countries, chairs are still recruited from the pool of successful CEOs. But for Fredy Hausammann, the qualities that make a great CEO don’t necessarily make a good chair.

“Let’s say a CEO becomes a chairman. Sometimes she comes in every week and gets too involved with day-to-day operations. Then at the other end of scale you have the chairman who meets with the board five or six times a year, only thinks about vision and strategy, and doesn’t know the key people in the company. Neither scenario is right. You have to be close enough to the business and its people to be able to guide, steer and spar, but not be so close that you’re taking up too much management time, even burdening them with special tasks and questions from the board,” he says.

The Cost of Failure

Being the Chief of Police is never easy. And the chair’s policing role is twofold. Leading the sometimes difficult and huge effort to adhere to corporate governance rules is a task that can, in a well-regulated country like Sweden, consume all of a chair’s time. The other aspect is safeguarding against an errant management team, or even worse, reckless owners.

Sven Ruud points to the epic failure of a once thriving media company in Sweden. He blames the chair.

“They had a fantastic business model ten years ago and were virtually printing money. But they had been taken over by hedge funds, attracted by the large cash flow and good dividends. The chair, instead of challenging the owners, who were slaughtering the company, rather relaxed into simply being chair of a listed company and enjoyed himself. The balance sheet over time became an anorectic and they couldn’t invest in the digital sphere of their business. A succession of CEOs and CFOs came and left, all lacking in support from the chair. And now the company has almost gone bankrupt. This is the fault of the chair. He should have staked his position and given an ultimatum to the hedge fund owners.”

"An over-dominant owner may want to retain authority in running the board and curtail its power."
Preety Kumar, Amrop Executive Board Member

Legacy Problems

Company owners usually desire success as much, if not more, than anyone else connected to the organization. But what to shareholders is necessary oversight can, to majority stakeholders, seem like a challenge to their authority. Is it possible then, that some chairs are deliberately chosen to be weak?

Despite India's robust code of conduct for how chairs and boards should operate, they are often criticized for being toothless. And as in other markets, company ownership in too few hands can be a problem.

"In India I would say that no more than 10% of boards are truly effective. One problem is that the majority of companies here are privately owned. An over-dominant owner may want to retain authority in running the board and curtail its power. When it comes to the chairmanship, the owner may assume the role, or employ someone weak. This may be due to a lack of understanding of the added value of a high performing board, or it may be unconscious. If it is a deliberate choice, then this is an ethical question. And particularly when the interests of the owner and the company diverge, it becomes a problem," says Preety Kumar.

A global study[1] conducted by Amrop and IMD, a leading business school, raised several examples of the inherited dilemmas that can face the boards of family-owned organizations – and their chairs. As one chairman told Preety Kumar: "A key issue in my mind is my succession. Is it someone from the management team, family or Board and what kind of process should be laid down? Should we nominate an external person? I have not come to a conclusion as there are two schools of thought on this. One is that it should be someone who has a stake in the game - if it is a family member then he or she should be capable and command the Board. And if it is someone from within the organization, then how should we expose the Board to that leader? Also, communicate in the market… This is a big transition for the Board and we need to set up a process."

The pattern was similar in Japan ten years ago. But, in recent years, the duration of board meetings in large Japanese companies has grown. A rubber-stamping thirty minutes has become two or three hours, and now features some actual discussion of management issues.

[1] Welcome to the Flight Deck: The Human Dimension of Globalizing Mid-Caps, as Seen By Their Leaders

“We identified five factors which determine a successful board: ‘diversity’, ‘well-functioning committees’, ‘sound communication between non-executive and executive boards’, and ‘fair compensation’. High on the list was ‘a ‘capable chairman’.

Tomasz Magda, Co-Founder, Amrop, Poland

In Japan, boardroom discussion has always been labelled as important, but the meaningful stuff took place informally, elsewhere. In this respect, Japanese corporate culture has changed. “Increasingly, as Japanese executives return from postings in western countries, western ideas of openness are entering the boardroom. Discussion is more open, opinions are more often expressed officially. And this change is ultimately directed by the chairman,” one insider told us.

Boardroom diversity has been enforced, with the Japan stock exchange now insisting that a third of directors come from outside each firm. Getting value from those directors is the job of the chair, who no longer holds a ‘window seat’ job.

“The Japanese chairman of twenty years ago was purely ceremonial. He was practically retired. But these days the ‘chairman’ title is more important and he is more active.”

Still, traditions persist, “essentially, the role of the chair, from the age of the Qin dynasty, or ancient Rome, to the present day, has not changed all that much. At least, not in Japan.”

Leader and Organizer

Back in 2012, Amrop conducted a study of Supervisory Boards in Poland, together with global professional services firm PwC. “Polish listed companies follow the continental model of non-executive supervisory boards,” says Tomasz Magda, a Founding Partner of Amrop in Poland. “We identified five factors which determine a successful board: ‘diversity’, ‘well-functioning committees’, ‘sound communication between non-executive and executive boards’, and ‘fair compensation’. High on the list was ‘a ‘capable chairman.’”

The team concluded that the chairman’s role had two components: that of leader, and organizer.

Tomasz Magda continues: “Leadership means creating a functioning style involving all board members, taking their personalities into account and ensuring they are engaged in constructive dialogue, with all their energies focused on the business. The Chair has to be able to steer discussions towards consensus and/or compromise. This is made more complicated given the increased emphasis on diversity and increasingly dispersed shareholder views.

As ‘capable organizer’ the chair defines the agenda’s direction, ensures that proceedings have a harmonious rhythm and are conducted in an orderly way. He or she must also keep the board continuously focused on monitoring key issues and implementing board decisions. Given the multiple forms of disruption facing today’s businesses, this is less simple than it sounds.”

To conclude

More than than ever the chair is an essential component at the top of many successful companies, both in terms of governance and strategy. Preety Kumar is clear. “You can’t mandate governance. Unless you have a very strong enforcement, ultimately it depends on the quality of the chair and how well he or she uses the board.”

Somewhat ironically, for a position that demands such dynamism, it also requires humility to allow the CEO to take most of the praise and the salary. Necessarily then, it is a job for an accomplished and mindful person.

There is a trend for choosing a new type of effective chairman who enables good governance. Someone competency based, who can make time available but who is not fully dependent on that board assignment. As Fredy Hausammann lays out the job description, the new breed of chair “is not too close to the company, or the stakeholders, but is close enough to understand; not too dominant in personality, with a good level of self reflection so they know what they can and can’t do.”

In short, the role of chair is one of the most difficult to fill well. In the right hands, it is the most subtly important of any company.

Question Catalogue

Are You Sitting Comfortably? Let's begin...

Diagnostics

Even if the financials are flourishing, what could your board be missing? What could be blocking an honest review?
When it comes to the role of chairs in facilitating a dynamic, forward looking and self questioning board, what challenges or 'pains' do you experience, as an organization, or as a chair?

Role Clarity

If your board is in the process of separating the roles of chair and CEO, what measures or advice are being taken to define the scope of these roles?

Hiring

Thinking ahead to the search for your next chair, what shift will be needed in designing the role profile and candidate pool?
When designing that role profile, how can your board synthesize fresh and forward looking thinking with the wisdom of experience?
What could be the benefit of seeking a truly independent chair?

Onboarding and ongoing

What would you recommend chairs do in their first 100 days to set the course for success?
How about tenure? When is it time for a chair to step down?
How do you ensure a chair remains able to self-assess, self-regulate, and remain objective over time? As a chair, how do you remain sharp?

Walking the Line

How can chairs ensure harmony, compromise and consensus, without slipping into groupthink or 'kindly hypocrisy'?
What is the difference between apparent, and true consensus?
How to engage a seasoned board in assessing and improving performance in a way that surfaces uncomfortable truths?

About Amrop

With over 70 offices worldwide, Amrop is a trusted advisor in Executive Search, Board and Leadership Services. Amrop advises the world's most dynamic organizations on finding and positioning Leaders For What's Next: top talent, adept at working across borders in markets around the world.

Amrop works to assure the design and implementation of diverse, forward looking and connected boards. We act as Trusted Advisor to Executive, Supervisory and Advisory Boards all over the world, across a spectrum of industries.

Amrop's global Board Services Practice works along three interconnected lines:

- Appointments (Chairs, Independent Directors, Advisory Boards, Committees)
- Board Evaluation
- Board Advisory/Board Effectiveness

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