On Becoming Company Chairman: building the complementary board

A research report prepared for Saxton Bampfylde Hever plc

by Dr John Roberts, Centre for Corporate Leadership and Accountability,
The Judge Institute of Management Studies, University of Cambridge

Saxton Bampfylde Hever plc

Acknowledgements

I would like to thank Saxton Bampfylde Hever plc for commissioning this research report, the second in a series of research reports.

This report is based on some 30 conversations conducted in 1999 with chairmen, other non-executives and chief executives of FTSE companies. It was initially conceived as a complement to our earlier report on chief executive succession, *Taking charge: what makes CEO succession work?*, and we planned to document the process of chairman succession through individuals' experience in the early months of becoming company chairman. In the event, the conversations typically turned into a much more extensive review of individuals' experiences in the role. I would like to thank all those who participated both for their time and for the frankness with which they were willing to discuss their experiences. I hope this report does some justice to the spirit of our conversations, while protecting the anonymity of individuals and organisations.

Dr John Roberts

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SAXTON BAMPFYLDE HEVER PLC

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Foreword

The role of chair has come under intense scrutiny of late. Separating chairmanship from the role of chief executive was only the start to the wider debate of what constitutes an effective chairperson.

Following the pleasing response to an earlier SBH report on chief executive succession, we were asked by many clients and friends to publish a similar piece on chairs. In the event, John Robert's report, which follows, covers a much broader spectrum of issues, reflecting the complexity of the chairperson's role in modern organisations.

Once again we were struck by the evidence of amateurishness with which so many key appointments are still made, not only in terms of originality and due diligence, but also in thinking through the organisation's requirements of a chairperson, the likely effects of specific appointments on the senior executive team and how a new chair can best be assimilated into the company.

The role of chair and his/her impact on the effectiveness of an organisation is unlikely to diminish. We hope that this report encourages thought and debate in this crucial area of management capability.

Saxton Bampfylde Hever plc

London, July 2000

Saxton Bampfylde Hever plc is one of the UK's top-ten executive search companies. Through the Hever Amrop Alliance we also give clients access to one of the world's largest headhunting networks. Our mission is to help our clients find, attract and develop outstanding leadership cadres worldwide.

Part 1 Getting the chairman you need

Separating chairman and chief executive

It is only seven years since the Cadbury Committee recommended the separation of the roles of chairman and chief executive, or the designation of a strong independent non-executive if the roles were kept combined. As a code of best practice, it followed many companies' existing practice; but its publication accelerated the trend to separate the roles. The proximity of these changes meant that many of those I spoke with had experience either in the combined role or in working at board level with someone in the combined role, and could contrast this with more recent experience of working with separated roles. These reflections shed considerable light on what many saw as the crucial considerations in selecting a chairman: the individual's motivation or attitude to executive power and the experience or knowledge that they could bring to the business.

Those with positive views on the combined role emphasised the importance of clear, unambiguous leadership and spoke admiringly of the self control that particular individuals had exercised:

> He was motivating and it must have required considerable self-discipline for him to leave me alone as much as he could so I wasn't impeded by an alternative voice or an intruder peering over my shoulder.

But recollections of positive experiences were balanced by numerous examples where the combined role had failed or created problems:

> He was never sure whether he wanted to be chairman or chairman/chief executive. He would swing between wanting to be hands-on chairman – 'Why the hell haven't you done that? '– to being hands-on chief executive: 'What right have you to take those decisions?'

As well as these potential difficulties for the managing director, the combined role also contained dangers for wider governance relationships. Individuals spoke of inheriting dependent executive directors who 'daren't take any initiative' and non-executives who 'should never have been on the board in the first place'. Non-executives recalled discovering too late the 'shocking' gap between what they had been told and what was actually happening, auditors who had grown 'too close' to the chairman/chief executive, and contracts that made firing the chairman/chief executive hugely expensive.

The Cadbury Committee called for a division of responsibilities 'such that no one individual has unfettered powers of decision'. These examples confirm the dangers to governance of too great a concentration of power in one individual. But there were also less Machiavellian concerns, such as knowledge of the business:

> I actually found the role fairly lonely. I used to talk to the non-executives, but was very conscious that they'd pop in for a couple of hours and then disappear. They didn't have the intimate knowledge of the company that I needed to develop my own thinking and to explore with someone who was independent from the day-to-day running of the business.

For the vast majority of those that I spoke with, the separation of roles was broadly welcomed. One obvious transitional route was for the current chairman/chief executive to become chairman to a newly designated chief executive. Superficially this arrangement looked ideal: it offered the benefits of separated powers with an arrangement that kept the accumulated company knowledge available to the new chief executive. But although there were many instances where it had worked well, the balance of opinion was that in practice this route was full of potential dangers and difficulties – particularly for a new chief executive coming in from outside.

It was like dealing with an opponent who I had to keep fully briefed. He had a duty not to get in my way because he was now chairman not chief executive; he took that duty very seriously, but in more or less every discussion we started from very different perceptions. My agenda was for change and I remember being very delicate with the language I used – but any change was taken as a comment on what went on before. It was very difficult for us both.

Beyond the relationship with the new chief executive, the move from chairman/chief executive to chairman in the same company potentially confuses relationships with other executive and non-executive directors who owe their appointment and loyalty to the chairman. Even with extraordinary self-discipline and a determined effort to make space for a new chief executive, many felt that this route to chairmanship was undesirable.

Problems can be created or sustained by the attitudes and conduct of the executive and non-executive directors:

He casts a big shadow over the organisation – the potential downside with an energetic business leader is that a dependency develops among the executive and they feel: 'Oh well, we'd better not do that, he wouldn't like it'.

Such conditions leave little room for action for the new chief executive.

For most of those that I spoke with, experience of the combined role made them favour the separation of the roles, and conclude that moving the chief executive to the role of chairman in the same company had typically not been enough to gain the benefits of such a separation. These formative experiences had helped them to clarify some of the criteria for selecting a new chairman.

A chairman without ambition

A chairman who is not the former chief executive is free to take a less rosy view of the past and is unencumbered by any web of loyalties to existing senior managers and directors. However, as one chairman observed, moving company may be necessary but does not guarantee effectiveness:

The chairman's usually a former chief executive who's done this before, has his own way of doing things, and probably thinks it's the only way. We're all like that if we've been chief executive: we're among the most dogmatic of people.

Despite moving companies, this chairman felt he had needed great self-discipline to

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avoid stepping in the way of his chief executive. He had been greatly assisted by the fact that after 15 years as a successful chief executive he 'would never be interested in being one again'. Many others felt it was important for chairmen to renounce aspirations to executive power:

It's difficult to say without sounding arrogant but I don't have any ego needs to rival the chief executive in terms of publicity, or in terms of his position in the company. With what I have behind me, I don't have anything to prove: there's nothing for us to be rivals about.

So a successful career may be an essential precondition for a company chairman, if it has sated their personal ambition. Several people felt that ideally there should also be an age gap between chairman and chief executive, with the older person having already fulfilled their executive aspirations.

The separation of responsibilities advocated by the Cadbury Committee needs to be properly understood: it would be a disaster if it was merely a division of powers that left two rivals competing for dominance. It can only be a success if, as part of the transition to their new role, chairmen let go of their desire for executive power.

The transition can be painful:

There is a process of withdrawal. You're used to having an in-tray that's coming at you like an express train, which is a form of drug: speed. You're used to being famous and in demand all the time, both internally and externally. You're used to being the boss. All these things are drugs… In a sense it's the end of an ambition that's been around for a long time – to be a success as a CEO – and all of a sudden you're not going to be one any more. Everything that you've worked for and that has oriented what you've done has now to be put away in a box marked 'Memorabilia'. There is loss and grieving. But then you come to the realisation that what you've taken on is more than you thought it was and you say, 'Well, am I ambitious to become a good chairman?' and it's the start of something different.

It may to take time and perhaps some help before the new chairman awakens to the challenges and rewards of a fundamentally different role:

It's managing affairs in such a way that the right chief executive, the right succession, the right components of the board are there to secure the shareholders' interests. Now that seems to me to be an entirely different function from that of a chief executive. The chairman's function is a very real one but very, very non-executive – and that's not understood by all the boards I sit on.

A chairman with the right knowledge

Almost by definition, the most knowledgeable person to fill the role of chairman is the existing chief executive. However, the concerns detailed above seem to have convinced many companies that this route is not desirable. The next most obvious place to look is among the current non-executive directors. Where possible and appropriate, this is the most common route – indeed, an important aspect of the chairman's role includes selecting non-executives with the potential to succeed him.

I think someone who goes from non-executive to non-executive chairman is ideal because they have some awareness of what's going on in the company, they certainly have some views, and they're not learning the business at the same time as a new chief executive.

But even this apparently secure route has its dangers on both sides. Several chairmen spoke of their surprise at the steepness of the learning curve they faced on moving from non-executive director to chairman:

Looking back, I'm amazed how little I knew and how little I understood about the business.

Similarly the chief executive may, in hindsight, recognise how little he or she knew of their non-executives:

You're always taking a chance because a person in a non-executive role won't necessarily behave the same way as chairman. You haven't seen them managing a meeting, for example; you haven't seen how they operate in a crisis, or how they function at a personal level when the going gets tough.

The danger in looking to existing non-executives as potential chairman seems to be that their personal familiarity is prized above their suitability for the role. I found several instances where non-executives had resisted the flattery of invitations to succeed as chairman because they knew that they lacked the knowledge base to do the job.

In the absence of an appropriate non-executive, the company will have to find a new chairman from what most agreed was a very limited pool of external candidates. Mainly because of the recent changes in company practice there is now an active but tight market for company chairmen. Most still come from a business background and have been chief executives, but a growing number have come into the role from other professional backgrounds after serving as non-executives.

These less traditional recruitment paths will be reflected in new chairmen's knowledge base. No longer can it be taken for granted that they will have a deep knowledge of the company; this is something they will have to develop. Some respondents questioned the ability of individuals from non-business backgrounds to do the job:

A person from a non-business background cannot create accountability. What they can do is manage the board. They tend to do a good job in the audit and compensation committees, where they are acting as policemen, but they don't really have accountability in terms of strategy and performance. The non-business chairman cannot be certain that the non-executives are looking at the things they ought to be looking at to form the judgements they are responsible for. The alternative is a chairman who is an experienced businessman, who has created accountability and certainly been a chief executive. To me the governance issues around strategy and performance are bigger than compensation and audit issues because you must regard governance at the end of the day as a way of producing good performance.

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Models for chairman vary widely, from minimalist versions where the chairman does little more than run board meetings to a much more developed and active role. But it is clear that chairmen coming in from outside need to develop their knowledge base very rapidly; in this respect their willingness to invest time and effort in such learning may be as significant as their initial experience base.

A rigorous recruitment process

Given the importance of a candidate's motivation – particularly their attitude to executive power – as well as the knowledge required, one of the surprises of this research was the lack of rigour that often seemed to characterise the appointment process.

At best, the nominations committee considers what the company needs in a successor and then appoints headhunters to conduct a search and initial screening. Given the importance of the relationship between chairman and chief executive, some, though by no means all, companies give the chief executive at least a veto over the appointment, if not a decisive role in the early screening of candidates. Other members of the nominations committee might typically include the current chairman – which some see as a danger – and a senior non-executive. Shortlisted candidates meet first with the rest of the non-executives:

> The chairman and chief exec met him two or three times before the rest of us non-execs. The chair then arranged the usual dinner. Like all the other non-execs I started out very excited, very positive, thinking this is exactly what we need. At the reception we were utterly entranced by the man. We found him individual, dynamic and aggressive. We had great arguments and debates – it was very sparky, very good. But over dinner it got better and worse at the same time – because here was a person who was clearly a chairman/chief executive.

In this particular case the non-executives halted the appointment at the last minute, but it was judged a narrow escape in what was seen as a relatively rigorous process. And such rigour is far from the norm – equally common is an informal process orchestrated by the outgoing chairman:

> Where I have become chairman it's been headhunters or the company that has called – usually the existing chairman. You have a chat and it's almost taken for granted that that's it. The board stuff is almost confirmatory. There's the embarrassment factor – do you want to rebuff X, who's so important? So at best you're going to see one or two corridor conversations or calls where it's 'I'm thinking of so and so, do you have any objections?' – the assumption being that you'll say it's a marvellous idea – and already you're entrapped. Compared with the selection process for the chief executive, the process for chairmen is out of date. It's not that it's seen as less important, but there's a view that the company is going to go on almost despite the chairman. Of course, as soon as he's picked he becomes very important.

Since the beginning of any relationship is so important, a formal recruitment process is essential to give both company and potential chairman a real opportunity to assess the match between individual capability and aspirations and company needs. To rely on informal processes risks shocks and surprises when the chairman is already in post.

Complement: something that completes a whole. To make complete or perfect, to supply what is wanting, completing each other's deficiencies.

Compliment: ceremonial act or expression as a tribute of courtesy, usually understood to mean less than it declares. To soothe with acts or expressions of respect, to flatter with polite and delicate praise.

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The role of the chairman

The role of the chairman differs very much from one company to another – in one I'm chairman of the board, in another I'm also chairman of the company. Different companies have different traditions and it's what works for the company that matters. The role also varies depending on whether a company is doing well or not and whether the kind of decisions it's facing are purely technical or whether they're of a different order, like mergers and acquisitions.

Many of those I interviewed were keen to explain that every company and every board was unique and that an important task for chairmen was to develop their role to take account of their company's own character and demands – and the web of relationships at the top of the organisation.

So how could this report offer a general view of the chairman's role while respecting the diversity and specificity of individuals' experiences? The clue came from chairmen's frequent observation that their role was to 'complement' the chief executive.

To complement is to complete a whole. Arguably, the chairman's core role is to make a whole of the skills of the chief executive and board members – possibly even of the company itself by ensuring coherent leadership. To complement also implies supplying what is missing, making up for the deficiencies of others: the chairman needs to identify and then address what is lacking in the board. It is a role that requires chairmen to mould their conduct skilfully to the needs of particular situations. It augments rather than displaces, acknowledging the inevitable shortcomings of individuals and seeking to remedy them through relationships.

To complement also has an obsolete meaning, now expressed by the spelling 'compliment': to praise or flatter. If this was ever part of the chairman's role, it is now patently obsolete. Where boards have the potential to become ceremonial or self-serving, chairmen must resist the tendency both in themselves and in others.

This section of the report explores how chairmen can build complementary boards – establishing the best possible relationships with their chief executives, and creating the conditions in which the non-executives complement the executive directors.

Such complementary relationships will do much to pre-empt the possibilities for crisis. Nevertheless, at times 'supplying what is missing' requires more radical action by chairmen. The third section of the report looks at their role under conditions of crisis. The potential for chairmen and boards to serve a *complimentary* rather than *complementary* role has been part of the distrust that has haunted public, employee and, in particular, investor perceptions of corporate governance in recent years. In order to complement it is also necessary to ensure that these wider perceptions are appropriately managed and reflected in the internal conduct of board relationships.

Building a complementary relationship with the chief executive

It's a bit like an arranged marriage. But, unlike an arranged marriage in a settled culture where everyone knows what's expected, it's a marriage with no cultural reference points. In a curious way I wish that one could have gone to marriage guidance.

While a careful and rigorous selection process can do much to create the conditions for a complementary relationship between chairman and chief executive, much work remains to be done once an individual takes office.

Perils and pitfalls of the early months

It began with confusion, moved to suspicion and is only now beginning to function in any sort of useful way.

There are many potential causes of confusion between two individuals in the early months. A new chief executive may have no experience of working with a chairman and simply not know how to respond. Even where the two are experienced, each will have a set of tacit but typically different assumptions about the nature of their respective roles and responsibilities, as well as particular needs and habits that are initially unknown to the other.

In the absence of detailed knowledge and experience, the significance of the other's behaviour may be ambiguous or unclear. Where one or both are new to the role it is likely that uncertainty and hence anxiety will high. If conscious that their own competence is as yet unproven, they may be prone to reading innocent behaviour as explicit or implicit criticism. Trust has yet to be established. And while each is forming initial impressions of the other's intentions and character, misunderstanding is all too possible.

A common tactic at this early stage of the relationship is a formal discussion of respective roles and responsibilities or even the creation of formal job descriptions. This seems valuable in that it acknowledges the importance of the interface between the two roles and provides an occasion for the issues to be explicitly discussed – even if any resulting document typically languishes unread in a drawer until some future change of personnel.

A discussion of respective roles and responsibilities should address a typical preoccupation in the early stages of a relationship: that the other will intrude upon one's own autonomy of action. The comforting mantra of these relationships – that the chairman runs the board, and the chief executive the company – superficially offers discrete areas of responsibility in which each can be sovereign. In practice, however, this demarcation of territory does not preclude the need for individuals to find their own *modus vivendi* with the other in areas of overlapping responsibilities – notably strategy.

The danger at this stage of the relationship is that it begins to settle into a state of distanced suspicion and distrust:

He doesn't ever tell you what he really thinks about something so it's difficult to judge… He likes to withhold quite a lot and wait, he's a bit cobra-like.

These dangers are possibly more pronounced where the chairman comes from outside the business, and where other commitments can easily be used as the excuse for what threatens to become a permanent disconnection between chairman and chief executive. The chairman's relative lack of knowledge, both of the chief executive and of the business, crystallises into a self-fulfilling sense in the chief executive's mind that he will

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never know the business and so will never have much value beyond running board meetings.

The crisis point for me was getting feedback from people that he was saying 'I'm not sure of this, I'm not sure of that', which alerted me to the fact that he had some problems or genuine confusions. The only solution was to re-engage, try to have more contact, learn to communicate more.

While re-engagement and more communication are clearly the only possible route to a developed relationship, the nature of the re-engagement will determine the nature of the ensuing relationship. So what allows the relationship between chairman and chief executive to move beyond the stage where, as one chairman put it, 'the chairman keeps a distance between himself and the executive so that he can act as judge and executioner'? Again, the answer revolved around the dual issues of power and knowledge.

As already discussed, a key to success seems to be chairmen's ability to give their chief executives absolute confidence that they have no aspirations to executive power:

The reason I enjoy working with him so much is that, although we don't always see eye to eye, he has no pretensions of wanting to run the business.

In the early months of the relationship it often seems necessary to negotiate and enforce the 'non-executive' nature of the chairman's role. Several chief executives spoke of tense moments in the early stages of their relationship with particular chairmen:

Being non-executive is not his natural style – he has a mind like a laser, he likes to drill down into the detail and he likes being aware of what's going on. In his first six months it was quite difficult. He had to keep reining himself in and saying: 'I've given this up'. From time to time you have to ensure that you're both on the same page about who is responsible. He had his moments – this is a human relationship – but it's a question of how you deal with them.

Such testing of boundaries is a natural part of discovering the differences of judgement, instinct and experience between two individuals. To realise the creative potential of these differences it is essential that early incidents do not escalate into a competition or power struggle. If they do, the chairman's lack of ambition will be key, because resolution will depend on agreement that executive responsibility lies with the chief executive:

One of the things that makes the chief executive comfortable with opening up, with being private and relaxed, with not feeling suspicious or competitive with a chair, is if the chair doesn't have ambitions for his function.

It is impossible to complement the chief executive if part of you still wants to do their job. In acknowledging their executive authority, you acknowledge that you depend on them, and that your reputation will be damaged if they fail. Your best defence is to trust and complement them, to help them be as good as they can be.

Letting someone else run the business while being absolutely conscious that your reputation would suffer if it was run badly is entirely different from wanting to create it yourself.

From this perspective a power struggle between chairman and chief executive reveals a fear of mutual dependence. The more mature stance is for the chairman to acknowledge this dependence and establish a close and trusting relationship.

Establishing the ground rules

Perhaps in recognition of the misunderstanding or distrust that can arise from unfamiliarity, the most frequently stated rule of conduct in the early months was to insist on openness of communication:

The first rule is no surprises – good or bad. In other words you've got to tell me what's going on.

He said that the only criterion is that nobody should be able to put a cigarette paper between us.

This company lives in the public domain so if there was some slight difference of emphasis between us which we allowed to get out it would make our position very difficult. We both have a pretty keen awareness that in an argument between the chair and the CEO the chances are both would go.

A rule of openness implies the need for plenty of contact between the chairman and chief executive. Indeed, one index of the quality of the relationship was the amount of routine contact between the two. At its most intense the relationship can involve daily telephone contact and frequent face-to-face meetings.

Any hint of politics, of anything that impedes open communication, clearly undermines trust radically. One chairman even insisted on sharing a secretary with the chief executive and letting her open their post as a guarantee of a politics-free relationship. It is also essential that the chief executive knows that he or she has the absolute confidence of the chairman:

There's a foundation of trust in that he thinks I'm doing a pretty good job.

He knew that I accepted him absolutely and the board knew that and the executive knew that he was the chief executive.

Whatever was said in private you had 100% confidence that in the last analysis he would be right there backing you. He would never, ever let you down.

Talk of the importance of trust and integrity was everywhere in my interviews and, as one chairman put it, 'these are operative words': they make an essential difference to the quality of the relationship. It is not just individuals' conduct towards each other that matters, but also how they manage the relationship within the wider set of relationships with executive and non-executive directors.

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The chief executive is a major source of information for the chairman – even more so for a chairman appointed from outside. But most chairmen seemed to feel that they also needed independent information from other executive directors and senior management. The extent to which they were willing and able to build a deeper level of knowledge of the business was both a measure and a creator of trust between themselves and the chief executive. The chief executive's perception of the chairman's usefulness often seemed to depend on the degree to which they felt the chairman understood the business – or indeed wanted to understand the business. In building this knowledge base, however, the chairman needed to take care not to damage the relationship with the chief executive. If the chief executive could trust the chairman in his contacts with other executives then the additional knowledge would probably enhance their relationship:

I think on occasions my wish to be informed was seen as the thin edge of the wedge of carving out a managerial role for myself – which I never actually wanted to do. But I don't believe you can be a good chairman if you don't actually understand what's going on in the business, and that means understanding the role and effectiveness of the senior management group: you have to spend time with them.

To reconcile these potentially contradictory needs, there must be clear agreement that no conversation with an executive is ever confidential from the chief executive. Individual chairmen told me of bombarding their chief executive with notes of their conversations, while forestalling attempts by executives to exploit gaps in the relationship by stating clearly that anything said would go back to the chief executive.

Some chairmen's exposure to the business beyond the chief executive consisted only of holding occasional board meetings at operational sites, and eliciting presentations for the board from different management groups. But for other chairmen this was wholly inadequate: their additional knowledge gathering included attending executive strategy meetings, sitting in on management meetings, visiting operational sites and making business trips with operational directors.

Benefits of a complementary relationship

If the chairman's role is to complement the chief executive, the value of the relationship can be judged by the way it affects the chief executive's state of mind and performance. As one chairman put it:

The major contribution has to be made by the chief executive, and as chairman my role is to enable that.

The following comments suggest ways in which the relationship can become a valuable resource for the chief executive:

If you're a reasonable person you do question your own judgement from time to time – and if you have someone to talk to, it gives you confidence as you go into the decision process.

You are covering a huge waterfront and it helps to share. I talk to other CEOs who clearly haven't got a chairman or think they are a complete waste of space. The thing I notice is how tired they are.

My chairman didn't understand all I was trying to do. I mean, he would poke fun at my ideas about vision and values – but only privately, like: 'What's your vision today?' He didn't always understand all the aspects of what you were trying to do but he would work hard to make sure he got there and whatever happened would support you.

The best chairman is experienced, strong, someone who appreciates the distinction between his role as chairman and your role as chief executive. I don't want a weak chairman, a patsy. I want someone who is knowledgeable, who I can bounce ideas off. The chief executive's job is potentially quite lonely and you need someone who you can sit down with and share thoughts, hopes, aspirations, targets, ideas – someone who can have a rigorous debate testing a proposition, looking for its flaws and strengths, give advice on approaches to be taken, on timing, share their experience and expertise. You want a chairman who's complementary to you.

At its best the relationship with the chairman offers support both practical and emotional, an essentially private space in which chief executives can check out their own judgement with an experienced colleague, share to some degree the burdens of potentially isolating leadership, and think provisionally. Within this space, the chairman's responses and counsel exert an influence on the company's affairs precisely through contributing to the chief executive's effectiveness:

You're available for him to sound off but as far as I am concerned it's all about asking the right questions, not directing. It's about picking off the bits that the chief executive is perhaps turning a blind eye to at the moment because it's inconvenient to look at something full in the face… or it's about getting the two of you to think through particular problems and trying to elicit the right solutions for the chief exec to implement. It will be his solution, but as chairman you've made sure the issues are properly addressed. You've got to have a lot of trust in each other or it doesn't work.

I had no training whatsoever in investor relations and I was just dumped in it when I became chief executive. The chair knew most of the senior investors, introduced me to them, guided me through it, got me to talk to the right people who would then advise me. In that respect he added something quite clearly which was his own knowledge base.

In these examples, being a complement means bringing knowledge and experience that the other lacks. There is ready acknowledgement that one needs the other and is not already perfect by virtue of being chief executive. To complement is not to remove difference but rather to make good use of it:

They've got a fundamental difference in style which works very well. The chairman is a very charismatic, personality-fills-the-room sort of person and the chief executive is very meticulous, methodical, strategic, reflective and has really made his mark on delivering and executing. The chairman loves dealmaking, but was lacking executive grip. So there you have a ton of experience and personality, a young guy on his way up and great complementarity.

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To complement means not competing to be right but collaborating to test possible courses of action:

I don't have to worry about his personal agenda and he doesn't have to worry about mine. We try to do the best. He's a very thoughtful person. He goes away and he comes back and says things and occasionally I'll say yes I think that's right, and then I'll say no and then sometimes we find that he is arguing my position of three weeks ago and I'm arguing his. At the end of the day if you both believe there's something there which makes you both better, then it is a sustaining piece of oxygen.

And here is perhaps the fullest expression of the potential of complementary relationships – the capacity to complete or make perfect. What might be a dangerous weakness, in the absence of the relationship, becomes a strength:

Not the least of his qualities is his impetuosity. One of the secrets of our relationship is that he knows he can be impetuous because I'm there as a restraining influence. If I hadn't been there and he'd had to exercise more self-restraint himself, I think that would have diminished his success. He knows he can rush to the edge of the precipice and that most likely I will prevent him going over – but if he didn't go to the edge nobody else would.

Such a complementary relationship is a million miles from the combined chairman/chief executive role. There is a trusted but different other to talk to, rather than the necessity of keeping one's own counsel. There is a space in which it is not necessary to project the certainty and confidence that is otherwise part of the obligations of a leadership role. Instead the relationship provides the context in which it is possible to question, relax and openly acknowledge the ambiguity and uncertainty that is the ground of decision-making. Through such a relationship with the chairman, the decisions and choices of the chief executive will be more fully tested, more elaborately refined, and enacted with greater confidence and clarity.

For the chief executive, the separation of roles provides the support of an experienced colleague in an often lonely job. A suitably motivated chairman will give this support visibly and explicitly – but also unassumingly, without diminishing the chief executive's personal sense of responsibility or accomplishment. Chairmen need to be satisfied with the less tangible reward of being able to see their own hand in the accomplishments of the other.

The relationship between a chairman and chief executive is pivotal. A well as contributing to the chief executive's performance, it sets the tone and climate for the wider set of relationships between executives and non-executives. Its quality almost completely determines the extent to which other non-executive directors can play an effective role within a company: a disconnect between chairman and chief executive makes it virtually impossible for other non-executives to connect with their executive counterparts. Conversely, a close relationship between chairman and chief executive is a necessary, if not sufficient condition for the other non-executives to play a complementary role.

Creating the conditions for non-executive effectiveness

The role of the non-executive director is difficult, and has become more difficult in recent years. Following Cadbury, Greenbury and Hampel the non-executive is increasingly seen from outside as the guardian of shareholder interests. With the resultant more extensive use of board committees chaired by non-executives, as well as the full board meetings and associated functions, most of those I interviewed felt that the time demands on them had increased considerably. Especially where the non-executive has executive or non-executive responsibilities elsewhere, there is an ever-present risk of overload.

Despite the non-executive's key role in ensuring compliance with governance codes, many were dubious about the power of the ordinary non-executive to effect real change:

> It's terribly difficult to be a non-executive – they did what they could in the circumstances but they couldn't do much. I suppose they could have threatened to resign but it wouldn't have had any effect. They'd just have resigned and been replaced.

There was broad acknowledgement that the ordinary non-executive was dependent on the executive for both knowledge and power. This makes the chairman pivotal in creating the conditions for non-executive effectiveness. While no one had a remedy for the scarcity of time, it was clear that the chairman's decisions, management of processes and associated personal conduct had a decisive impact on the non-executives' ability to fulfil their role.

A potential danger of a good relationship between a chairman and chief executive is that it becomes rather exclusive: too much is decided privately between two individuals who are at a considerable informational advantage to the other non-executives and at times even other executives. This must be resisted if the formal board processes are to avoid becoming a mere compliment to the executive. As one chief executive observed:

> To some extent board meetings are a conversation between the chairman and the executives. He's quite dominant and we've prepared everything and the direction we're going to take – so it's a bit sterile.

The idea that the non-executives should complement the executives seems the best protection against the temptations of personal dominance and a clear guide as to how the chairman should work with the non-executives:

> My role is to ensure that the board knows enough about what is happening in the company to make informed and rational decisions about things that are important in terms of money or market clout or reputation.

> I am the guy that creates accountability between the chief executive and his executive team and the non-executive board.

This essential role of bridging to the non-executives can only be performed to the extent that the chairman has given up all desire for executive power.

Part 2 Building the complementary board continued

Reshaping the board

As with the chief executive, the chairman's relationship with the non-executives will have to be built from scratch if he is new to the company, or built anew if he is an internal appointment. For the outsider in particular, early board meetings provide an opportunity to form a view both of individual capabilities and of the overall climate of relationships between the executive and non-executive.

I have a bit of a problem with two of my non-execs. One is what I call a non-independent and became a non-executive before I joined. The other is deputy chair. He sits on God knows how many different boards and I'm pretty sure he doesn't think about us from one board meeting to the next.

I remember running a meeting, looking round the table and saying to myself: 'If you weren't here I wouldn't mind, and if you weren't here I wouldn't mind…' So we adopted Cadbury and all those who'd been here for up to 30 years were politely encouraged to go over the next 18 months.

Changes to the non-executive are typically made gradually as individuals come up for re-election. Where the relationship between chairman and chief executive is close, the search for replacements is a shared process in which the guiding concern seems to be what knowledge or expertise an individual brings to the board. As one chairman put it:

You've got to have people who the executive recognise know what they are talking about. What you want is a set of complementary knowledges.

As with the chairman, the perceived value of a non-executive director is enhanced considerably if they are felt to have relevant knowledge and expertise. The close involvement of the chief executive in the search process makes it likelier that the new non-executive will be seen and treated as a resource. Most boards clearly find it difficult to find suitable candidates – it is one of the areas where the reputation and networks of the chairman and other non-executives can help to attract high-quality individuals:

It's hard to find people who have really got experience of your business. On some issues I could probably be speaking Chinese.

Surprisingly, I found only one company which had a systematic programme of training for new non-executives involving detailed familiarisation with the business. More typically, they seem to be left to pick up what they can as they go along. This shifts the burden of knowledge back towards the chairman and the executive and can devalue executive perceptions of the board's role.

Because it is a complex business, some of the executives would still say: 'I think I understand it'. But the cowboys who turn up once a month do not get the same understanding, so the level of debate is not as good as it should be and it has led to a feeling of us and them.

Reshaping the board process

Changes to the non-executive typically take some time, but the new chairman can have an immediate impact on the quality of the board process. Many felt that the quality of preparatory work was key. Several chairmen spoke of the importance of the company secretary in this:

The most underestimated people are the company secretaries. How well the papers are prepared determines how well the decisions are going to be taken. If papers aren't circulated well in advance, if you don't get the right papers, if you don't get the right sequence, if you have too many decisions coming up before a meeting so it goes on way too long… all that is germane to the way the chairman can run the meeting. A board that has poor papers, poor administration, poor support encourages explosions of a silly kind all the way through – and that can have an impact on who will sit on the board and whether they are willing to help.

Clearly, the quality of the chairman/chief executive relationship is decisive in determining who sets the agenda. Some screening inevitably takes place, but there is a huge difference between screening that seeks to pre-empt decisions and screening that seeks to make optimal use of the non-executives' time.

Between the executive and the whole board we have an ethos of full disclosure – bad news, good news – so we don't catch the non-executives by surprise. I also make sure we don't bring strategy to the board fully cooked, with everybody locked into positions: it means the non-executives can make a contribution if they have the knowledge.

It is quite common for the arrival of a new chairman to prompt changes to the cycle of board meetings. Chairmen mentioned innovations such as increasing the number of meetings and adding strategy awaydays to the annual cycle of activity. A number of chairmen also said they had tried holding at least some of the board meetings at operational sites as a way both of giving the non-executives greater exposure to the business and of stimulating more informal contact between board members. Such innovations reflect an underlying concern to create more time for talking about strategic issues:

The chairman has encouraged me to ensure that the strategic questions are on the board agenda – how are we going to tackle this issue, how are we going to use that opportunity? – and that is where the board is now performing a very different role.

The work of the board subcommittees is immensely important in this context, and merits a research project in its own right. I offer here some brief observations of how they impact on overall board performance. It was clearly important to chairmen that they had confidence in the non-executives who chair the vital committees – audit, remuneration, nominations, and in some cases health and safety:

I am a great believer in these committees, I really am. They do two things. First, the sheer preparation that executives have to do for them means that they understand that the board is in control – it also means that the board understands the weight of their responsibilities. Secondly, they actually free-up the board's agenda for talking about strategic issues. If you have an extremely busy agenda considering mega issues, as we always do, you don't want to be fiddling around spending half an hour discussing these other issues, however important they may be.

Part 2 Building the complementary board continued

Of similar importance to the climate of the formal board are the informal meetings that typically surround the actual board meeting. An occasional dinner the evening before a board meeting can provide the opportunity for chief executive and chairman to have a less formal discussion with the non-executives. The chief executive can brief them more fully on current strategy and performance, while they can use this relaxed setting to express their views more freely:

They have an opportunity to express their views on people and strategy in a more relaxed environment and I've found their input and perceptions very helpful. We've found a mechanism that gives them greater insight into what we are trying to do as a management team and a better opportunity to make an input to that. The whole board seems to work better as a result.

It is also quite common for the chairman to meet with the non-executives on his own around the formal board meetings, giving them an opportunity to raise background concerns and worries. But the chairman needs to be careful with such exclusive contact: it can easily fuel executive directors' fears of conspiracy. Pre- or post-board meeting lunches may also be used to create a stronger team sense across the board, and to expose non-executives to the wider senior management group.

The chairman's conduct of the board

When it comes to the formal board meetings, how can the chairman best ensure their effectiveness? It is vital to acknowledge the unique culture and history of each board; in this sense there are no simple formulae for success. But there are certainly ways in which the chairman can help the non-executives to play a role that complements the executive. Chairmen were reluctant to identify the particular ways in which they sought to create such a climate, but the following observations give an indication:

Chairing the meeting is fundamental. The absolute rule is that you encourage everybody else to contribute, then sum up at the end. If you start by talking yourself all the time, nobody else contributes. I occasionally add my opinion, but only if what I've got to say isn't expressed by anybody else – usually it is.

The chairman's role is to facilitate others' participation; a dominant chairman will limit discussion and undermine the contribution of the other non-executives. Such dominance is very different from providing focus or leadership:

The key skill, which is very rare, is the ability to see absolutely through an issue, sum up the heart of it in a few words and present that to the board as an argument or a question or a decision to be taken. If you have someone doing that, it's much easier for board members to crystallise around an issue and arrive at a consensus.

Of course, this does require the chairman to have sufficient knowledge of the business. Chairmen also need to intervene to balance the contributions of members; it was surprising how frequently they mentioned the problem of silent non-executives:

Some people around a boardroom table are more reticent than others and I think as chairman you've got to be a good listener – it's hopeless to have non-execs on the board if you don't give them the opportunity to speak. You can see from the body language that someone is wanting to say something.

Not that giving non-executives the opportunity to speak guarantees that they are heard:

As chairman it is really a matter of acting when there's a challenge in any sense from the non-executive. The chairman makes sure that the management and executive directors respond to queries and if the answer is unsatisfactory that's acknowledged and management agree to bring back solutions next time.

This chairman is alert to non-executive concerns and uses his position to insist that the executive addresses them. It does not take many instances of non-executive concerns being swept aside or ignored for a tacit culture of conformity to be established within a board and for much of the potential value of the meetings to be destroyed.

The benefits of the complementary board

As in the chairman/chief executive relationship, complementary board relationships demand a clear recognition that the roles of the executive and non-executive directors are essentially different. Clear role differentiation, in which each group respects the other's different role, allows much closer integration of both groups. One chairman argued that:

Your function as chair is to allow the chief executive to shine. Because, at least in good times, his pride and success are critical for his relationship with the rest of the executives.

Such a view signals an important sensitivity to the chief executive's standing in relation to the executive team. But the danger is that executive confidence is preserved only by effectively censoring non-executive concerns.

The alternative is to insist that executive confidence is best secured through fostering accountability rather than inhibiting it. This is the essence of complementary non-executive relationships:

It is vital that the non-executives really hold the executives to account at board meetings, because otherwise the executive commit themselves to a course of action and then try to show that it's happening even if it isn't. What I try to do is breed a culture where concerns are expressed and people try to work together to get them right, rather than not facing up to them.

The very fact of being held rigorously accountable at regular board meetings has a profound effect on executives. Arguably, the greatest benefit of a complementary board is the permanent presence of the non-executive in the minds of the executive:

Knowing the calibre of the non-execs itself sets testing standards for the executives. You think very carefully about the quality of the information and more importantly the proposals you put to the board. No executive team wants the board to consistently throw out their ideas as being inadequately conceived or reasoned. So the first and most important thing that the board does is to set challenging standards for the executive to live up to.

Part 2 Building the complementary board continued

Of course, if 'setting challenging standards' simply takes the form of a hostile inquisition, it is likely to be resented. The role of the chairman and non-executives is to help the executive to succeed:

The value it adds is in the questions the non-executives bring, the comments they make in support of what you are trying to accomplish. The non-executives ought not to catch you out on the detail because by definition you've got all the knowledge and information. And really I think if you are smart you pull from the non-executives all their experience – you draw them in and milk them for all they are worth.

The goal should be a virtuous dynamic of increasing openness, reciprocal trust, deeper engagement and higher quality debate in which executive thinking is increasingly permeable to non-executive influence:

Especially where the environment is changing, the board needs to know about the issues early, before the executive make their minds up. That's why we have issues on the board which are not for decision but where the executives are exposing their thinking.

Such early elicitation of non-executive perspectives is perhaps the fullest expression of complementary roles. Whatever the details of the particular issue and discussion, it expresses the executives' confidence both in themselves and in the value of non-executive insights. It requires knowledgeable non-executives, but by drawing them into the executive thought process it further augments their knowledge. And by giving them opportunities to shape the executive's longer-term thinking, it bolsters the executive's confidence in an emergent course of action. As one chief executive described it:

The role is crucial in supporting the proposition for change, because these things are not without risk and it is reassuring to get business women and men saying: 'We've listened to it and we think it is right. It feels right, do it!'

Risk is unavoidable in a complex, dynamic and inherently uncertain environment. In such a context it is rational to acknowledge the inevitable incompleteness of individual thought, to invite others to probe, challenge and play devil's advocate to one's stated position, and to draw as extensively as possible on the related experiences of other organisations. In short: to acknowledge and recognise the value of complementary board relationships.

Part 3 Boards in crisis

Understanding the negative routes and how you handle the negatives seems to be much more interesting and difficult than handling the positives.

This section explores some elements of the chairman's role under the less benign conditions of crisis. If the chairman does not succeed in establishing effective complementary relationships, the consequence may be a series of disconnections within the board. These may be both generated and ignored over extended periods of time, especially if financial performance is satisfactory. But cumulatively they create the conditions for a failure of accountability, exposing the board to criticism both from inside the company and from the press and investors. And when crisis hits, disconnections within the board all too readily become the faultlines along which the group divides, making resolution all the more difficult.

The dynamics of disconnection

In my interviews, I asked about the conditions and consequences of schism in key board relationships. Much has already been said about the way opinion has turned against the combined chairman/chief executive role; but the separation of roles can go too far:

I believe people learn very much better through their own experience than through portentous advice, so in the early days I let him have much more rope than perhaps he ought to have had and he burnt his fingers rather severely about three times. Each time he came back to me and said: 'How should I have played this?' and I said, 'Well, this is the way I'd do it in future'.

Arguably, this experienced chairman is setting his new chief executive up to fail – possibly to convince him that he needs his chairman. In this instance, it was the chief executive who survived and the chairman who left.

A chief executive who defensively keeps knowledge of a failure from the chairman, a chairman who is felt by the chief executive simply not to understand the business, a chairman approaching retirement who effectively withdraws from the business, or a chairman who fails to address poor performance: all these are, probably inadvertently, creating the conditions for future crisis.

Perhaps most serious of all is a failure of trust between a chairman and chief executive in what had been assumed to be a relationship of integrity. Here the damage is both professional and personal, effectively destroying individuals' ability to continue working with each other. Any distance or tension in this relationship unavoidably makes itself felt in the wider relationships between other executive and non-executive directors.

Non-executives are constrained by time pressures:

Non-execs are frequently very busy and don't have time – then it's hard for them to play more than a passing role, which can be quite dangerous.

Almost by definition they are semi-detached from the business – and 'independence' can all too easily become dependence on a dominant chairman.

The chairman basically made up his mind that he didn't want input from the non-execs, but he didn't have the wisdom to know which bits of the business were not doing well. The management of the meetings was poor, it was difficult to understand what the conclusions were, time was allocated to the wrong issues – resulting in frustration for executives and non-executives alike.

Of course, the non-executives have some responsibility here:

It's changing a bit now with the younger ones, but the majority of non-execs on a board tend to be a bit traditional and will not speak up on those sort of occasions. They will tend essentially to follow and if a strong chairman wants something he will get it.

It seems all too possible for a sort of paralysis to grip non-executives so that despite private disquiet nothing is said publicly:

There was talk among the non-executives of forming a posse to go and see the chairman to express their concerns but they never went. They were comfortable talking in board committees about things within the realm of their previous experience; but it was different when they were talking about the whole business, which is quite a complicated one on which they only focused their attention once a month. It's not that they were afraid of making fools of themselves, but they didn't have the confidence in their own judgements.

Since the chairman is the essential bridge between the executive and non-executives, a disconnect here inevitably undermines the effectiveness of the non-executives. There is the potential for a vicious circle in which poorly informed non-executives, a badly managed process, or competition between chairman and chief executive result in inappropriate or inconsequential contributions from the non-executives. This only confirms executives' sense that they do not understand the business, giving the polarisation further impetus.

Because the centre desperately wanted to tell the board it was all OK, guess what the divisions were feeding them? The finance director's job was to see through all that, but he didn't blow the whistle for the chairman, which is his job. The chairman failed to notice the warning signs, and the other non-executives did not pursue their questioning sufficiently.

There is a dynamic of disconnection: small effects of individual conduct, seemingly inconsequential in themselves, gradually accumulate and have knock-on consequences for the wider web of board relationships. In such a dynamic, seemingly innocent actions can erode board accountability.

The weight of external accountability

So far the focus of the report has been exclusively at the internal dynamics of boards. I argued earlier that the force of board accountability can be gauged by the extent to which the non-executives' concerns are perpetually present in the minds of the executive. In a similar fashion the entire board – executives and non-executives, chairman and chief executive – is subject to external systems of accountability: the

Board Faultlines

Figure 1 The Complementary Board

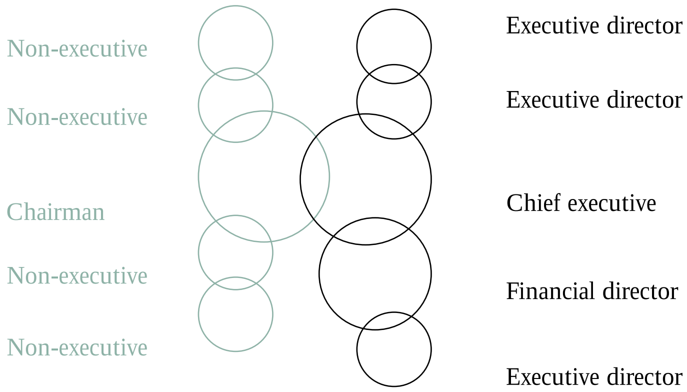
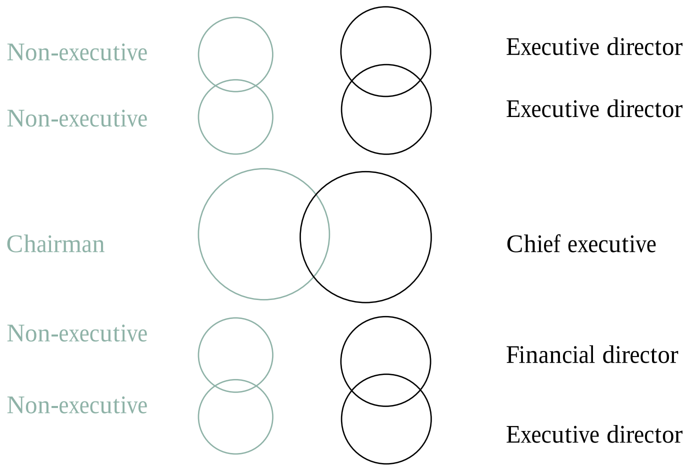


Figure 2 The Personal Board



Board Faultlines continued

Figure 3 The Competitive Board

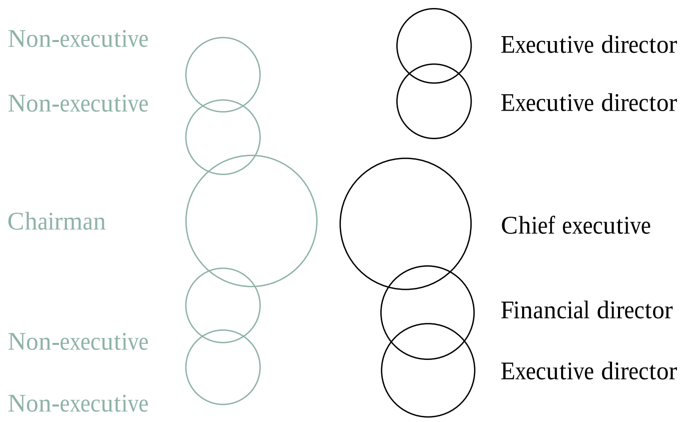
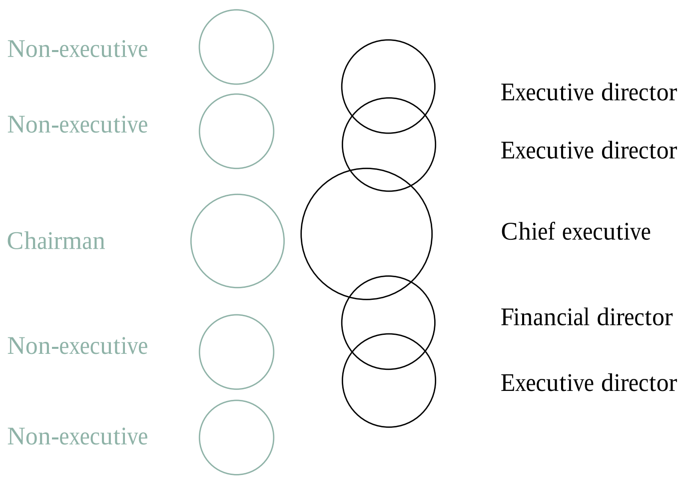


Figure 4 The Captured Board



Part 3 Boards in crisis continued

regular reporting of financial performance, its effects in terms of analyst opinion and investor sentiment, and consequent movements in the share price. This external, distanced accountability can itself complement the internal board processes. As one chairman put it:

One's entire existence is improved by checks and balances. That's why we have boards, that's why we have shareholders. On a given day you may hate them for criticising you, but over time you can build on these criticisms. The worst thing in the world is secrecy and back scratching, and that's why transparency is good.

Everyone I spoke with acknowledged the pragmatic necessity of actively managing investor relations. For the chairman this typically meant chairing the AGM, and supporting the chief executive and financial director in presentations to analysts and major institutional investors. Some of the rules that govern the conduct of this external accountability are similar to those for board relations. The value of transparency is that it reduces the risk of shocks and surprises that undermine trust in a company's management.

What is absolutely clear is that you cannot hide. You are in a goldfish bowl and you've got constant inputs and opinions from quite well-informed, very analytical people. Part of the trick here is to try to win their confidence and understanding – so don't commit if you can't deliver, because that puts you back on the spiral of credibility problems. Better to keep the story going consistently, then they can see you're serious.

As with internal accountability, external transparency and the discipline of the stock market acquire a perpetual presence in the minds of executives. But while there are parallels between internal and external accountability processes – the importance of openness to secure trust, and the way it allows others' interests to shape conduct – there are also important differences.

The knowledge of remote analysts and investors is inevitably less subtle and refined, so there is a greater potential for disconnection:

The business was being valued by analysts and investors on the basis of a continued acquisitions strategy yielding continuous growth. It simply wasn't possible, so my first task was to correct that impression.

Directors need to work very hard at 'explaining what we are about and why people should invest in us'. This is a particular problem for directors of SMEs, who sense that analysts and investors are increasingly reluctant to invest the time and energy to understand their businesses. Even larger companies are concerned that, since deregulation, the influential work of analysts is linked to generating sales rather than providing objective information:

One has to remember that analysts are employed in many cases by brokerage houses, which want them to write a story that will produce volume sales. I think an awful lot of the City's reputation for short termism comes out of the relationships between analysts and their employers, and analysts and the media. One thing you have to learn is to run the business in spite of the analysts – they're free to change their minds every three months, and you cannot change the strategy of the business to accommodate them.

Institutional investors were also felt to be working in an increasingly competitive market with very short time horizons:

If you actually talk to the top institutions they will say, quite legitimately, 'Look, we're managing this money, the market is now looking at our three month performance, we know your story is right and we'd love to stay with you, but we can't for a while. We'll be back.'

Unlike internal board accountability, external perceptions are expressed through the impersonal mechanism of the market, rather than challenge and counsel. In buying and selling there is little or no loyalty or dialogue:

Are we to believe that the value of this business has actually oscillated around like the share price has in the past 12 months?

Most directors felt pressure to deliver short-term financial performance that could at times work against their strategic orientation:

On all the boards that I have been involved in, the people are trying to take a longer-term view and they're irritated that the market doesn't always seem to understand longer-term decisions.

Earlier in this section I suggested that, over time, disconnects along the key axes of board relationships can erode the effectiveness of internal board accountability. The weight of external perceptions can encourage board members to address emergent concerns sooner rather than later, knowing that failure to do so will threaten their individual credibility and reputation. But external perceptions can also make internal change unavoidable if the external credibility of the board is to be repaired.

The institutional investors regard me as being in charge of the business. I assume I have total responsibility for the business. In the end the shareholder phonecall will come to me suggesting that I reconsider the structure of my board or the direction of the business, and asking what I'm doing about it. And if the answer is nothing then it's off with my head as well. If you wait till you get that phonecall, you've delayed too long.

Established complementary relationships between chairman and chief executive, and between non-executives and executives, offer some protection against such external crises of perception: ideally the board will have anticipated them and generated solutions before they reach crisis point. At the very least, complementary relationships will preserve the board's coherence and unity in the face of external pressures. By contrast, under the weight of external criticism any latent disconnects in relationships are more likely to become the faultlines along which the board divides against itself.

Exercising the ultimate responsibility

This is the supreme moment – when the chairman exercises his influence, leadership and authority to remove the chief executive.

Part 3 Boards in crisis continued

All board relationships, complementary or otherwise, are conducted in the knowledge that the chairman has the ultimate responsibility and authority to remove the chief executive. This is what makes some chairmen feel that their role is hardly 'non-executive':

You have the ultimate responsibility and you have to be willing to be executive in throwing somebody out. If things go sadly wrong, the one person in the end is the chairman.

What of the experiences of chairmen who have had to exercise this ultimate responsibility? Initially to offer anything other than absolute support, internally and externally, would be to confirm any speculation:

The press are likely to be on to it very early, and your first reaction is that you have to say at that point, 'This guy has my full support'. Then you have a period of time in which to demonstrate whether it's OK or just a long goodbye from that point onwards.

But the tone and character of the relationship between chairman and chief executive will already be changing. Several chairmen spoke of how their own executive instincts became stronger as their concerns over the chief executive's performance started to mount. The boundaries between the two roles start to disintegrate. A similar change of tone is likely to be felt at board meetings:

Ever since I arrived we've had a policy of drawing the non-executives much further into the business than in the past – but all of them were more watchful, more thoughtful, more questioning at board meetings.

Under the force of external pressures, differences of instinct and temperament are likely to reveal themselves:

It's easy to support the team when things are wonderful and the sun is shining. The real test is when you hit difficulties: that's when you need support rather than resident critics. Human beings being what they are, some are more dovish and others hawkish, some more courageous and others more risk averse.

When the executive needs support, the chances of receiving it will be strongly influenced by the history of relationships – their closeness, the level and degree to which there is established trust – and non-executive understanding of executive strategy:

When the shit hits the fan what you want is that they are there, solid, resilient, they absorb, they get very strong. If you have a guy who points the finger, you have really lost.

At some point in this process, the chairman may feel obliged to move against the chief executive. Timing is critical:

Having established a relationship with the chief executive, having understood the business, trying meanwhile to manage the board, what do you do if at some point during that process you start saying to yourself: 'Well, this guy can't do it'. The hardest thing is to decide when you're supposed to act. At what point do you actually say to the non-executives, 'Look, there's a problem', or to the chief executive, 'This isn't working'? By definition, you're in conflict the minute you do decide – so then what do you say to your shareholders, to the institutions?

Only the chairman can decide when to move. Until that moment there is no alternative but to give the chief executive public support. After it, a dynamic of change is unleashed. Non-executives, who are already likely to have been consulted, must share in the formal decision to dismiss the chief executive. Their perceptions will be an important element in determining the timing.

It's hard to make the judgement about firing people. I've always tended to err on the side of letting the guy run until it's clear in everybody's mind that he has to go, because then the foundation for the new guy is well laid.

To move prematurely might risk rebellion from loyal non-executives – the board might even turn against the chairman. But waiting too long risks damaging the chairman's credibility along with that of the departing chief executive. Almost by definition the board's move against the chief executive impacts on relationships with the wider executive.

These impacts play out in what is likely to be an extremely demanding period as the chairman seeks to create the conditions for business recovery. The immediate task is to find a successor. If there is a viable internal candidate the interregnum may be quite short; it may even be possible to put the succession in place before any public announcement of the changes. But any search for an external successor is likely to be hampered by external perceptions of crisis. At this point the part-time, non-executive chairman may be required to play a very full executive role:

Forget all this non-executive business. Fire the chief executive and you're in charge for as long as it takes to get a new squad in place. During that period you've worried your suppliers, your banks, the institutions. The press are onto you like hyenas, the analysts are writing you down all over the place and you're trying to get management back into some sort of shape to run the business just as you're discovering that things are worse than you thought.

First-hand experience of such a crisis is arguably the most powerful incentive any chairman can have to get the best possible chief executive, and to establish the strongest possible relationships and board processes to secure the success of this person and their executive team.

Part 4 The values of the chairman

Sometimes one needs people at the top who are sufficiently successful to allow themselves to be good, but perhaps did not get there by being good.

Some former chief executives viewed their present role as chairman as second best, a pale shadow of their former importance. But for others, after the painful withdrawal from executive power, the chairman's essentially different role seemed to offer a certain liberation. It is precisely this freedom from the immediate pressures of personal achievement that opens the way for the chairman to be the guardian of the company's values.

A check on absolute power

By any standards the demands placed upon a plc chief executive are huge. The dynamics of economic, market and technological change, stubborn resistances to change from within the organisation, and the unpredictable fluctuations of investor sentiment all have to be reconciled within strategies for which the chief executive is held personally responsible. Often it is only individuals who are in some way driven to achieve success who are attracted to such a testing occupation. The internal and external scrutiny to which their every action and decision is subjected is both the measure and the price of this success.

To drive the company's success, very considerable powers are ceded to the chief executive. But this power, in its effects on the mind of the chief executive, has the potential to create many of the perils and failures of corporate leadership. At worst the personal drive for success, coupled with the very real powers associated with the office can over time reanimate and feed infantile fantasies of omnipotence and omniscience – an individual can come to see any difference of view as disloyalty or disrespect. Through too close an identification with their present success individuals can become scornful of the abilities of those around them, and in this way convince themselves that they are irreplaceable. An individual can gradually lose sight of their institutional obligations and the transience of the role; they can begin to treat the organisation as a personal fiefdom. A sense of moral superiority can emerge; an individual feels themselves to be set apart, imbued with almost magical powers, and, perhaps most dangerously, above the law – a law unto themselves.

These potential perils of executive power in large part reflect the very considerable stresses of the job of chief executive – the tension between their highly visible and personally consequential responsibility for the performance of the company, and an almost complete dependence on others, both near and far, to deliver it. The danger is that success, both corporate and personal, becomes a goal that has to be pursued at all costs – with all the poisonous effects this can have on the quality of decision-making, corporate morale, company culture and eventually corporate reputation.

Guarding against such possible excesses is one of the ways in which the chairman can complement the chief executive. Released from the immediate pressures of performance, the complementary chairman has a vital role to play in checking dangerous tendencies by embodying and insisting on certain core standards in the conduct of both the board and the wider corporation.

Part 4 The values of the chairman continued

Custodian of long-term values

Although ethical values may seem tangential to the delivery of short-term performance, they are essential to maintain wealth creating capability:

The chairman has to operate partly by example – it's very important for a business to operate with integrity because in the longer term that is what attracts people to come and work for you, it's what attracts suppliers and subcontractors, it's what creates customer loyalty. They are all financially beneficial in the longer term.

The chairman's conduct is taken in all its detail as a standard to be followed: anything less than integrity will also become a rule to be emulated. This is most immediately evident in direct relationships in and around the boardroom, but will ripple down through the organisation and in time come to be reflected in the corporate reputation.

As well as leading by example, the chairman is well placed to address issues that might otherwise escape attention in the pressure for immediate performance. A critical example is succession planning – discussed in detail in our earlier report, *Taking charge: what makes CEO succession work?* Good governance processes often unravel on succession issues – in the failure to develop or retain potential future chief executives, or in entrenched attitudes that dangerously defer organisational change and renewal. Yet such dangers can be readily addressed by creating appropriate board agendas, routines and processes. New chief executives will probably not give much attention to their succession, but the chairman could avoid many hazards later by introducing the topic early in their relationship.

Other examples might include standards of supply sources, equal opportunities, or health and safety and environmental issues, where it is all too easy to overlook the potential for reputational damage as public perceptions of corporate responsibility change. Here again the chairman's intervention may pre-empt decisions that could come back to haunt the board years down the line.

He was in some measure the inspiration and most importantly the custodian of the social values that the business committed itself to. I don't mean the standards observed by the audit committee, I mean the standards of citizenship that were core to the enterprise. These were genuinely moral values, things we actually did in all manifestations of the company, not to buy goodwill but because this is what you should do.

Having already let go of executive power, and possibly mourned its loss, the chairman can play a vital role in ensuring that the longer-term interests of the institution – its reputation, the development of appropriate skills and competencies – are addressed, and not damaged by the dominance of essentially personal interests.

Postscript: Dos and don'ts of chairman succession

The recruitment and appointment process

- Take the appointment of a new chairman as seriously as that of a new chief executive. Don't rely on informal discussions and approaches. Handle the appointment through a formally constituted nominations committee.

- The committee should focus on three key issues:
  – Does the candidate understand the complementary nature of the role, or do they still hanker after executive power? Don't appoint someone who will compete with the chief executive.
  – Does the candidate bring to the business a complementary knowledge? Will they give sufficient time to build their company-specific knowledge?
  – Is there potential for good chemistry between the candidate and the chief executive?

Establishing the relationship with the chief executive

- From day one seek to build conditions of trust between yourself and the chief executive.

- Expect initial misunderstandings and confusion. Attribute them to the newness of the relationship, not the chief executive's devious motivations.

- Explicitly negotiate the boundaries of the relationship and its rules of conduct. Keep each other in all communication loops – no surprises, good or bad.

- Meet regularly with an open agenda. A monthly pre-board meeting to decide the agenda is insufficient.

- Remember that executive responsibility lies with the chief executive. Influence through asking the right questions. Don't steal the glory – take pleasure in the chief executive's accomplishments.

- Do you know enough about the business to be of value to the chief executive? Build your knowledge through regular contact with the senior management team. Keep the chief executive informed of who you see and what you learn – again, no secrets.

Creating the conditions for non-executive effectiveness

- Can the current non-executives bring complementary knowledge and experience to support the work of the executive? Are they credible with the executives? If not, plan changes with the chief executive.

- Make explicit your time expectations for new non-executives.

- Develop a formal, systematic training and familiarisation programme for new non-executives.

- Review the board process and annual cycle. Do they allow full use of the non-executives' capabilities?

- Are the non-executives sufficiently informed on the key issues? Is the right information going to them in the right form at the right time?

Postscript: Dos and don'ts of chairman succession continued

- Is enough space given to board discussion of key strategic issues? Don't take strategy to the board fully cooked.
- Establish informal feedback mechanisms for learning of non-executive concerns.
- Formally review the performance of the chief executive and board at least annually.
- Review succession planning, including your own, at least annually.
- Don't dominate board discussions, but seek to focus key issues.
- Balance contributions.
- Support non-executive questioning and challenge.
- Encourage non-executive contact with the chief executive and other executive directors outside formal board meetings.
- Seek to embody in your own conduct the standards of integrity that will build the reputation of the business.

Saxton Bampfylde Hever plc
35 Old Queen Street
London SW1H 9JA
Telephone: 020 7227 0800
www.saxbam.com