

Chairman and the Board

A Study of the Role, Contribution and Performance of Australian Board Directors

SUMMARY REPORT

Professor Andrew P. Kakabadse

Cranfield University, School of Management, UK

Professor Nada K. Kakabadse

Northampton Business School, The University of Northampton, UK

Mr David Pumphrey

Heidrick & Struggles, Australia

Dr Andrew J. Myers

AJM Associates, UK

Contents

Executive Summary	3
Introduction	4
Characteristics of the Board	4
Overall Findings	6
Influences on Opinion	7
The Chairman	8
The Chairman/CEO/MD Interface and the Board	9
The Deputy Chairman	11
Board Performance	12
Conclusion	13

Executive Summary

‘Chairmen are trusted and respected, but need to improve relations with deputy chairmen’

There is general consensus that Chairmen are trustworthy individuals of integrity. The openness and mutual respect in their relationships with CEOs and MDs is ranked highly by all Board members and their commitment to organisational goals is valued.

Nevertheless, there is a perception, particularly among Deputy Chairmen, that Chairmen seek insufficient feedback on their own performance. Similarly, Deputy Chairmen see Chairmen as being ill-disciplined, suggesting that there is room for improvement around the area of internal governance.

‘The role of Deputy Chairman is not well understood’

While Deputy Chairmen have the confidence of their Boards and are deemed to work well with their respective Chairmen, the results of the survey show that their own role is not widely understood. In particular, their role as a link between the Chairman and their Board, alongside their role as mediator — the person to approach when difficulties arise — are both identified as weak points by survey respondents.

In addition, their relationship with the CEO or MD is seen as fragile, particularly among CEOs and MDs themselves. All of this suggests that a better understanding of the role and responsibilities of the Deputy Chairman would enhance their effectiveness.

‘Board process, although well advanced, still merits scrutiny’

In general, the survey findings have a range of implications for the decision making process at Board level. It is clear that processes for Board member replacement are well developed, but continuous improvement in this area is considered necessary.

Further, Chairmen and Deputy Chairmen need to develop a more cohesive view of how approaches to board member replacement can be enhanced.

Introduction

Board directors from a large database of Australia's top organisations were invited to participate in an international, anonymous survey on the performance of Chairmen and the Board. A questionnaire was sent out to a cross section of Board members which consisted of approximately 1,134 individuals (after discarding duplicates where individuals were members of more than one Board). Respondents were asked to complete the questionnaire with respect to *one* Board of which they were a member.

The questionnaire was divided into a number of sections. The first section focused on the respondent's demographic information and the operation of the Board. The second section of the questionnaire invited participants to give their opinions of the Chairman in the following areas:

- Strategic decision making
- Governance
- Risk
- Style
- Qualities
- Performance

In further sections, participants also rated the performance of

- the Board;
- the CEO or MD; and
- the Deputy Chairman.

In total, 207 questionnaires were returned, representing a response rate of approximately 18%. Considering the nature of respondents and the time pressures that they face, this was deemed to be an excellent response rate for a postal survey of this kind.

This report focuses on the key findings from the survey and highlights areas that require consideration at Board level.

Characteristics of the Board

Table 1 shows a breakdown of respondents from the Australian survey by the position they currently hold. A sizeable number (26.1%) hold the position of Chairman.

Table 1

Current position held	Number of responses
Chairman	54
Deputy Chairman	9
Non-Executive Director	107
CEO/MD	21
Chief Financial Officer/Finance Director	11
Chief Operating Officer	2
Executive Director	3
Total	207

The sample has the following demographic profile:

- Boards tend to be male dominated with only about 1 in 10 respondents (10.1%) being female.
- The majority of respondents (73.4%) are well-qualified and hold either undergraduate, postgraduate or Master's degree.
- The age group differs by area of responsibility and role (see Table 2) with around three-quarters of Chairmen and Deputy Chairmen aged 60 or over. The youngest are more likely to be in the role of Finance Director or Chief Financial Officer.

Table 2

Age	Chairman	Deputy Chairman	Non-Executive Director	CEO/MD	Other Directors
Under 40	0.0	0.0	0.9	0.0	0.0
40 to 49	3.7	0.0	6.6	15.0	37.5
50 to 59	24.1	22.2	35.8	75.0	37.5
60 to 69	64.8	55.6	52.8	10.0	25.0
70 or over	7.4	22.2	3.8	0.0	0.0

In terms of the way the Board operates:

- over three-quarters (81.6%) work on a Board that has between 6 and 11 members. Boards with 12 or more members are rare (2.4%);
- in 74.4% of cases Board meetings are held on a monthly or six weekly basis; and
- meetings typically last for up to half a day (34.8%) or a full day (50.7%), but rarely longer.

Understandably, the majority of boards report that they have audit, remuneration and nomination committees (see Table 3). 72% of Chairmen report that they are members of their respective remuneration committee.

Table 3

Committees of the Board	% of Boards	% of Board Members
Audit	97%	59%
Remuneration	91%	50%
Nominations	70%	41%
Risk/Compliance	58%	31%
Safety and Environment	19%	9%
Investment	12%	8%
Human Resources	10%	3%
Corporate Social Responsibility	7%	3%
Information and Communication Technology	5%	2%
Other	13%	9%

Overall Findings

The survey was divided into a further four sections in which respondents were asked to rate the Chairman, the Board, the CEO or MD and the Deputy Chairman, each on a number of issues. In general, the results are positive.

Chairmen are rated highly, specifically with respect to their

- trustworthiness;
- integrity;
- concern for shareholders;
- delineation of their role on the Board from that of the CEO or MD; and
- delineation of the role of the Board from that of management.

Boards are rated highly on their

- cohesiveness and robust teamwork;
- attentiveness to corporate reputation;
- diligence in governance application; and

- attentiveness to risk management.

CEOs and MDs are identified as having good working relationships with Chairmen and are rated highly on their

- resilience to standing up to the Chairman;
- concern for shareholders;
- open relationship with the Chairman;
- respect for the Chairman;
- driving of the strategy; and
- delineation of duties from those of the Chairman.

Deputy Chairmen are rated highly on

- the confidence held in them by the Board; and
- their ability to work well with the Chairman.

The survey results emphasise the lack of role clarity concerning the Deputy Chair and cast doubt on their performance effectiveness.

Influences on Opinion

We tested whether individuals' background can have a significant influence on their opinion with respect to Board and business issues. However, the survey reports no significant¹ variations in opinion across demographic variables such as the respondent's age, gender and education level in the analysis of the performance of Chairmen, Boards, Deputy Chairmen and CEOs.

The only demographic variable which had a significant effect on the performance ratings of the different positions on the Board was the respondent's own position within it. The greatest difference of opinion emerges between Deputy Chairmen and all other respondents. In addition, longer and more frequent Board meetings were generally associated with higher ratings of Chairmen performance.

¹ p < 0.01

The Chairman

The survey shows that Chairmen rate themselves higher with respect to strategic decision making, governance, risk, style, qualities and performance.² Other members of the Board rate them lower in these areas. The most significant divergence in opinion between Chairmen and other Board members is visible in respondents' ratings of the Chairman's ability to

- effectively evaluate the performance of the Deputy Chairman;
- discuss sensitive issues with the Deputy Chairman;
- encourage the Deputy Chairman to intervene when necessary;
- encourage feedback on their own performance; and
- clarify the skills and experience required of each board member.

Although other Board members already rate the Chairman moderately highly, the Chairmen rate themselves as being better on the characteristics above. The greatest discrepancies appear to be between the views of Chairmen and Deputy Chairmen³.

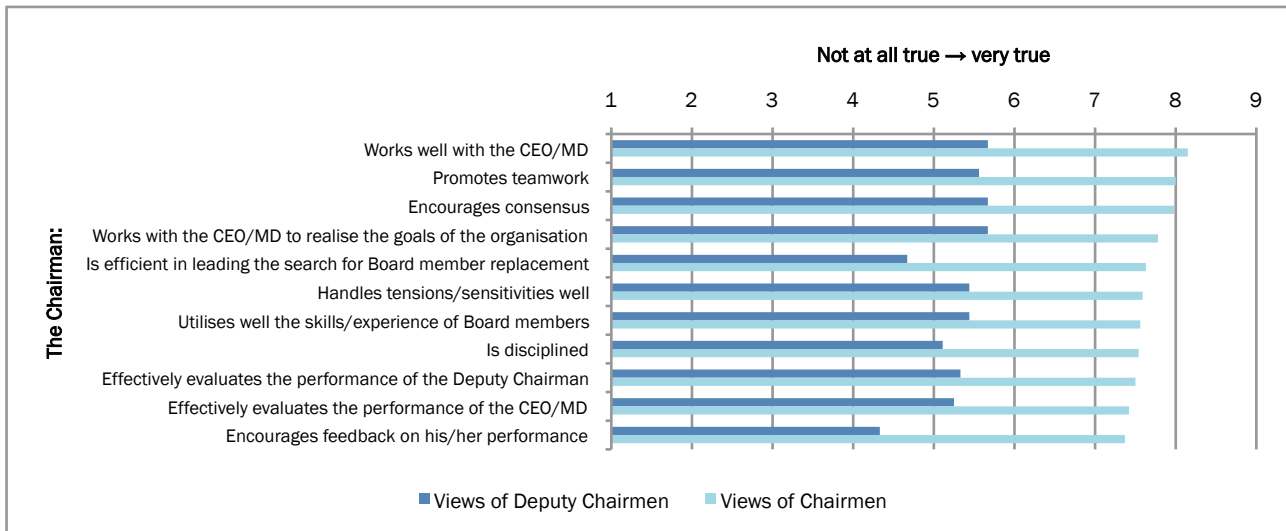
The ratings of the Chairmen by Deputy Chairmen are shown in Figure 1. The greatest differences in opinion can be seen in the ratings of the style and qualities of the Chairmen and in particular with respect to the extent to which Chairmen

- encourage feedback on their performance;
- are efficient in leading the search for Board member replacement;
- work well with the CEO or MD;
- promote teamwork; and
- are disciplined.

² In many cases, however, the results are not statistically significant.

³ Only nine respondents were Deputy Chairmen.

Figure 1

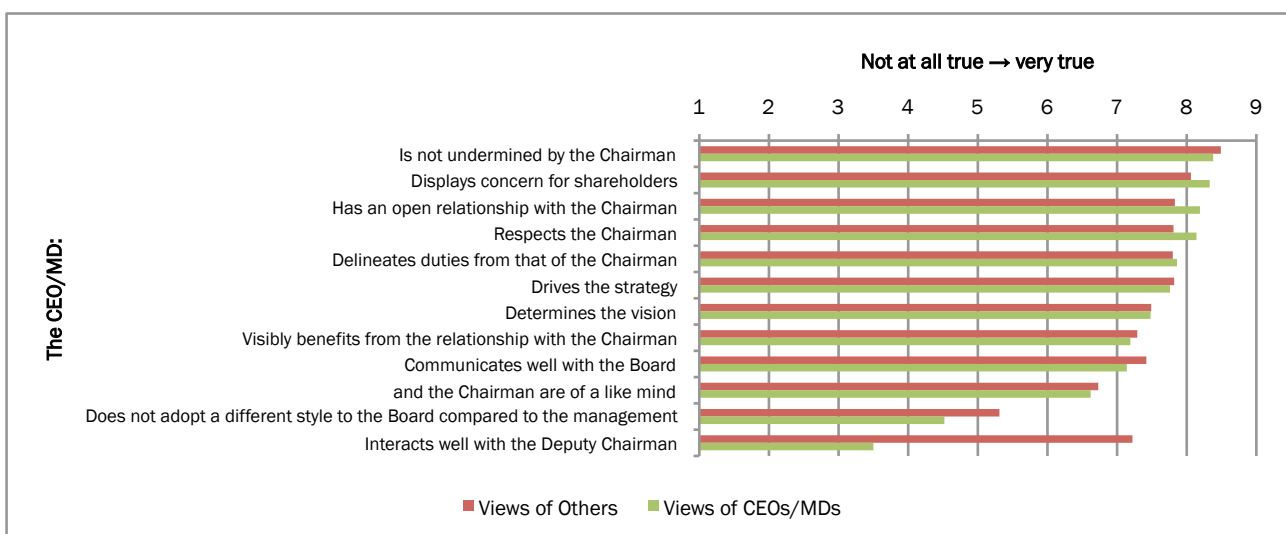


The Chairman/CEO/MD Interface and the Board

Figure 2 highlights the performance of the CEO or MD, as viewed by CEOs and MDs and others from the study respondents. There is general consensus around most areas of CEO or MD performance. However, differences of opinion emerge in respondents views on

- how well the CEO or MD interacts with the Deputy Chairman; and
- whether the CEO or MD adopts a different style to the Board when compared to the management team.

Figure 2



The survey responses illustrate a strong shared understanding between the Chairman and CEO or MD. The CEO or MD and the Chairman both believe that the CEO or MD

- has an open relationship with the Chairman; and
- respects the Chairman (see Figure 3).

Figure 3

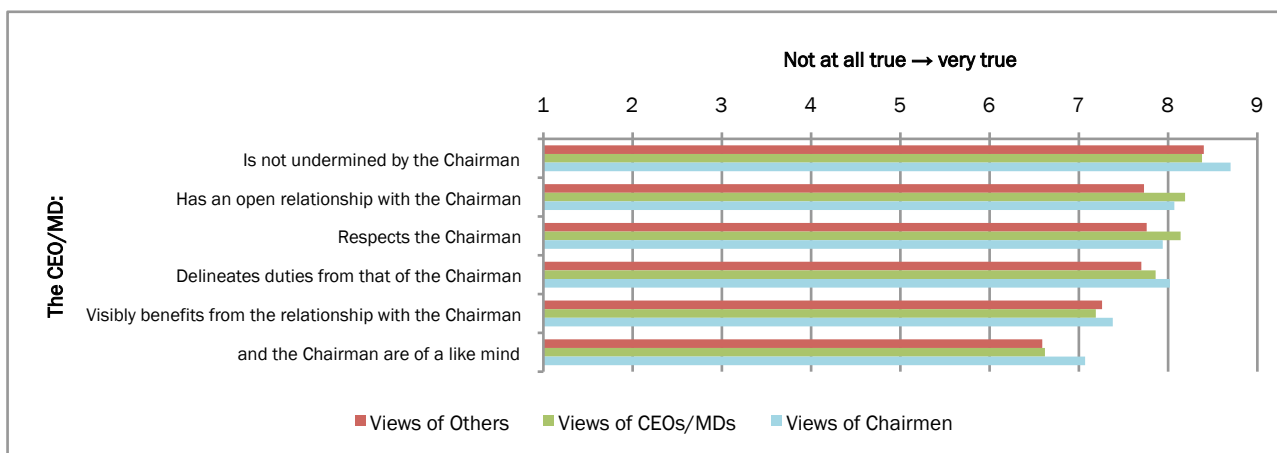
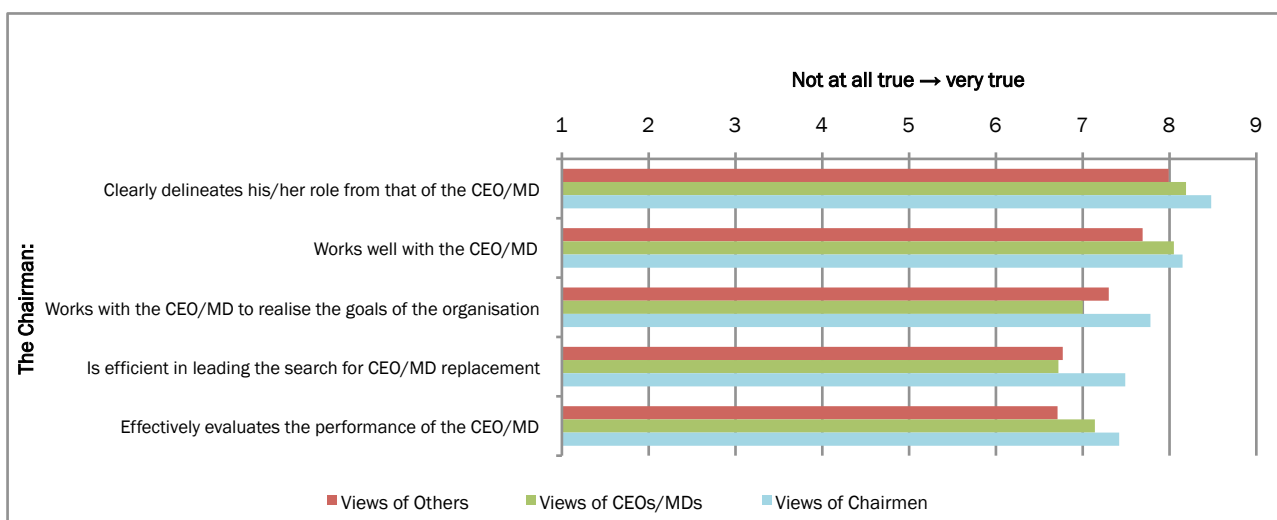


Figure 4 shows that Chairmen rate themselves slightly higher than CEOs or MDs rate them on a number of factors, particularly their ability to work with the CEO or MD to realise organisational goals and their ability to lead the search for CEO or MD replacement.

Figure 4



The Deputy Chairman⁴

The survey shows that the role of Deputy Chairman is looked upon favourably by other members of the Board. Deputy Chairmen are perceived to work well with Chairmen and to have the confidence of their Board. Nevertheless, there are certain aspects of the role of Deputy Chairmen where views differ enormously.

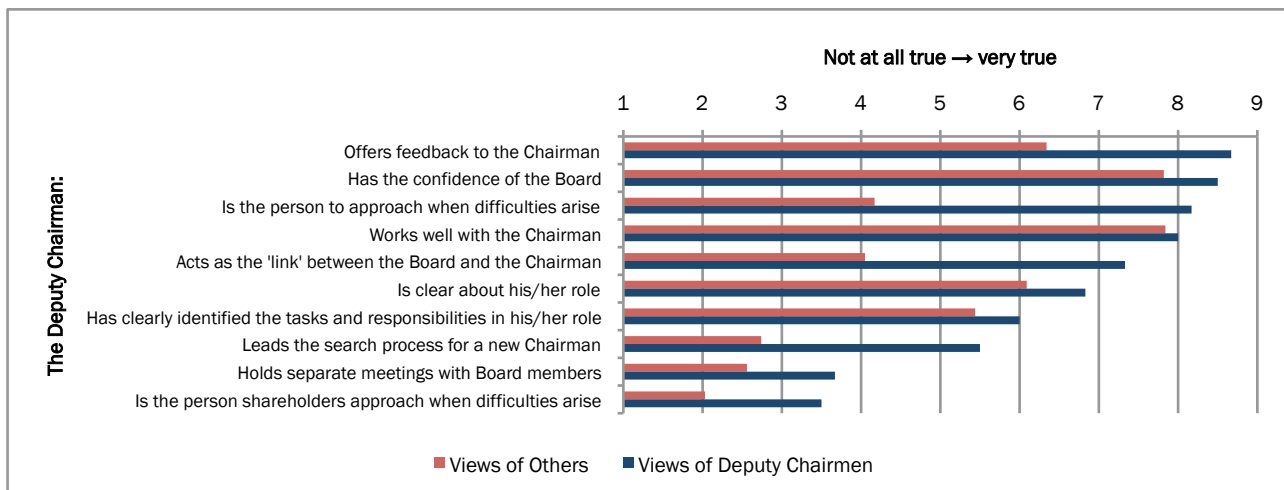
There is contention about the role of the Deputy Chairman in three key areas, namely

- links with the Chairman;
- links with other members of the Board; and
- offering feedback.

Compared to other Board members, the Deputy Chairman is significantly more likely to believe that it is he himself who

- is the person to approach when difficulties arise;
- acts as the 'link' between the Board and the Chairman;
- offers feedback to the Chairman; and
- leads the search for a new Chairman (see Figure 5).

Figure 5



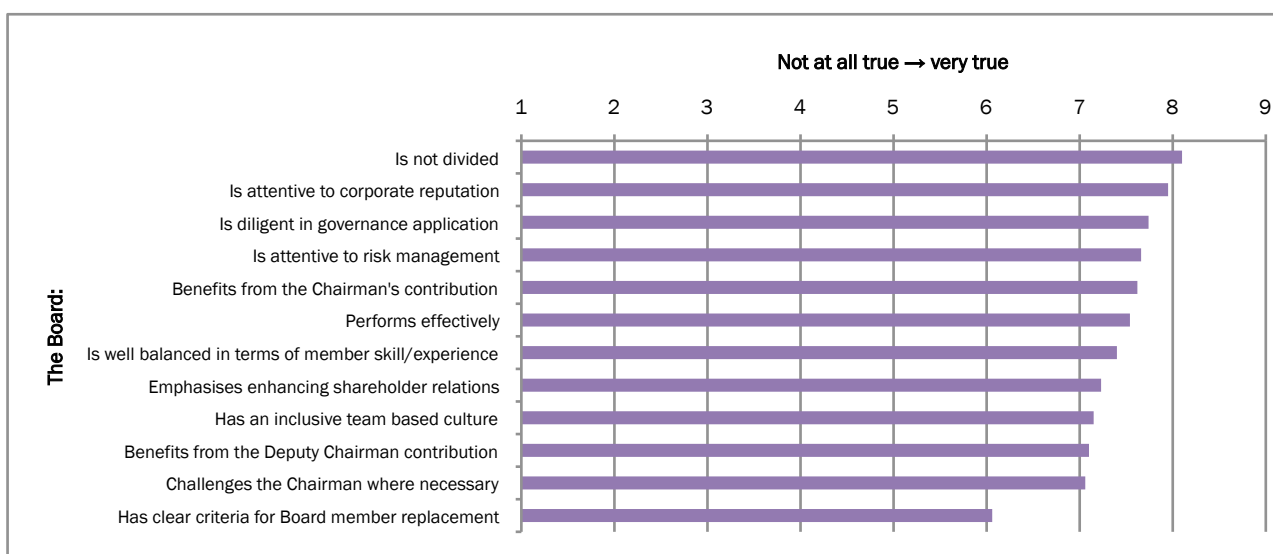
⁴ The results presented in this section are based on the 21.2% of Boards which reported having a Deputy Chairman.

Board Performance

Respondents rate Boards highly in three key areas, namely in their:

- shared understanding and cohesion — not being divided;
- attentiveness to corporate reputation; and
- diligence in governance application (see Figure 6).

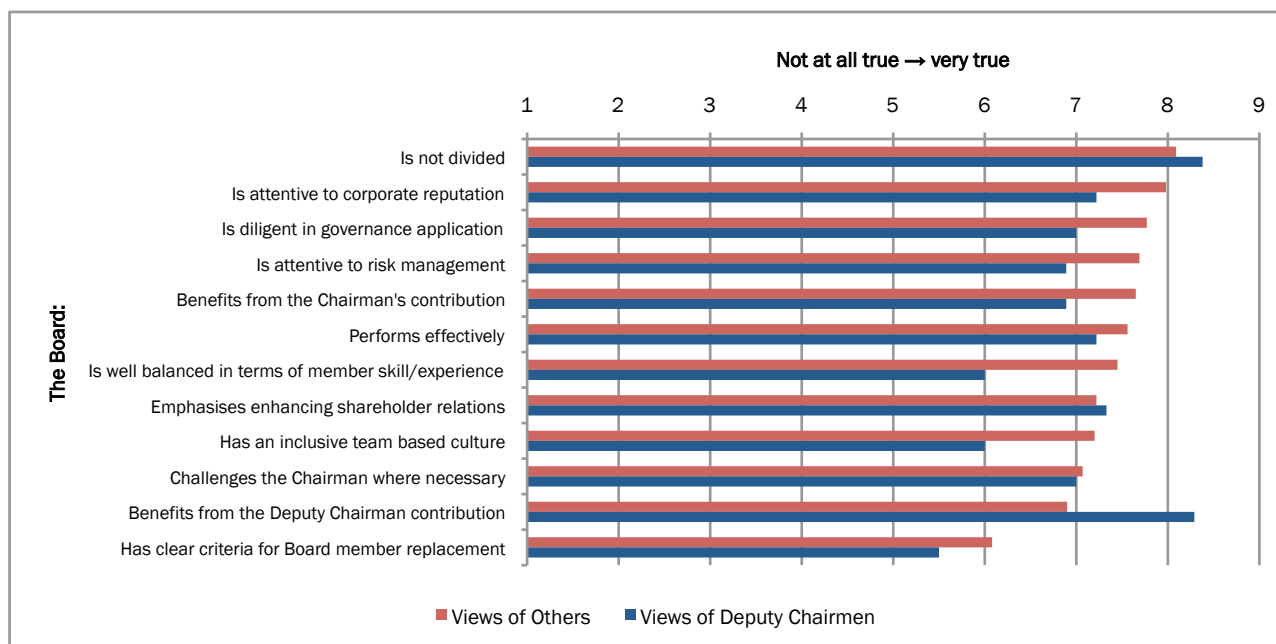
Figure 6



When comparing the views of Deputy Chairmen to those of other respondents, there is general consensus (see Figure 7). However, noteworthy differences of opinion are visible in three areas, around whether the Board:

- benefits from the Deputy Chairman's contribution;
- is well balanced in terms of member skill and experience; and
- has an inclusive team-based culture.

Figure 7



Conclusion

While the results show that Australian Boards are performing and exhibit a high level of teamworking, it is clear that there is still room for improvement in their performance. A number of questions should be debated in order to gain a better understanding of future Board composition, operation, impact and process:

- How open are Chairmen to feedback on their performance? How open are they to development? What impact are they having at Board level?
- Are the Chairman and CEO or MD aware of their impact on their relationships with Executive and Non-Executive Directors?
- Are there any management development requirements for Executive Directors at Board level?
- What is the role of the Deputy Chairman? Are Boards utilising them effectively?
- What are the impacts of the above on the decision-making process and organisational performance?

It is also important to consider how the answers to these questions might change in the future and to identify key issues which might affect future Board performance:

- What will Boards in Australia look like in five to ten years time? How will they be run?
- How will the Board be a necessary and essential part of the running of the business?

- How important will the role of the Deputy Chairman be?
- How will Board member replacement take place?

The final question is an important one. Approximately two-thirds of the Chairmen responding to the survey are aged 60 or over so their replacement is likely to be a matter of concern for many organisations in the near future. It is evident that Boards have been attentive to this need by establishing clear criteria for Board member replacement, although the survey results suggest that this issue should be a higher priority for Boards.

In addition, the role of the Deputy Chairman in the Chairman replacement process has not been made obvious. Respondents generally indicated that they did not believe that the Deputy Chairman 'leads the search process for a new Chairman'. It is also worth bearing in mind that most Deputy Chairmen have a similar profile to Chairmen, in that they are predominantly aged 60 or over.

The findings in this paper identify a number of issues which would benefit from further research. In particular, the concerns around Chairman governance and Board member replacement would merit additional study. Most important, however, is the need for Australian Boards to consider the implications of these conclusions for their performance, both now and in the future.