

Chairman and the Board

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

SUMMARY REPORT

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Executive Summary

‘British Boards are well-led, but there is room for improvement’

The quality, integrity, skill and wisdom of UK Board Chairmen is seen to be unimpeachable. However, a comprehensive survey of all FTSE 350 Directors raises question marks over the effectiveness of their contributions to Board performance, effective organisational governance and shareholder accountability. These three concerns offer real opportunities for improved performance.¹

‘The CEO and Chairman roles converge and conflict’

The evidence suggests that some UK Chairmen may be edging too far towards either adopting a corporate strategic role aligning themselves with, and/or even superseding the CEO, rather than focusing on their key Board leadership responsibilities. The prime area of concern is around corporate vision and strategy; if tension exists here, the performance of the Board as a whole is likely to be affected. Attention needs to be given to supporting Board performance and managing the CEO’s relationship to the Board.

“I lead the Board; the CEO runs the business”
– FTSE 100 Chairman

“I come up with the vision. The CEO implements it.” – FTSE 100 Chairman

‘Chairman succession is not sufficiently attended to’

Evidence suggests that succession strategy tends to be ill-defined. Board members feel unable to approach Chairmen about the issue.

‘Chairmen are not sufficiently responsive to Board concerns’

There is some evidence of complacency on the part of Chairmen who see their own contribution significantly more favourably than the rest of the Board do. The difference of opinion around contributions may also be contributing to a situation in which Chairmen do not actively seek relevant feedback on their own performance. There may be little or no

“I request feedback on my performance and I emphasise: tell me the truth” – outstanding FTSE 100 Chairman

¹ The quotations in this section and throughout the paper have been obtained from contacts of Professor Andrew P. Kakabadse and were not obtained as part of the survey.

‘permission’ given to criticise, for example.

With a lack of poignant feedback in place, any rigorous succession planning for the Chairman himself may likewise become a problem. This is a particular concern when so many (especially of the best performing Chairmen) are in their 60s.

‘Chairman are not being effectively governed’

The relatively new role of the Senior Independent Director (SID) — theoretically to provide a mirror of scrutiny and support to the Chairman on behalf of the Board and to act as court of last resort for shareholders concerns — has not been well-understood or enacted and is thus underutilised at present. In reality, the Chairman determines the role of the SID and confusion around the role of the SID is typically due to the Chairman. The evidence suggests that there is a very real need for a bridge between the Board and the Chairman, especially where Chairmen lean towards a strategic and visionary role, but this role is not yet being fully embraced by the present generation of SIDs.

“The SID can make an invaluable contribution only if the Chairman allows it. The pity is, few Chairmen give such permission”

— FTSE 100 Director

Taken overall, the research highlights a need for Chairmen to proactively clarify and seek greater accountability for their own contributions and to take a more active role in leading the Board to promote both coherence and performance.

Introduction

All Board members from the UK FTSE 350 were invited to participate as part of an international, non-attributable survey examining the role, contribution and performance of Chairmen and other key members of the Board. A tailored questionnaire was sent out to 2,678 individuals (discarding duplicates where individuals were members of more than one Board). A covering letter from Lord Dennis Stevenson, Chairman of HBOS, highlighted the importance of the study and invited participants to complete the questionnaire, with respect to only *one* Board of which they were a member.

The questionnaire was divided into sections. The first set of questions focused on demographic information about the respondent and the operation of his/her Board. Next, the questionnaire invited participants to give their opinion of the Chairman concerning

- strategy and strategic decision implementation;
- governance;
- risk orientation;

- personal style;
- personal qualities; and
- what determines Board performance.

In addition, the study participants rated the performance of the

- Board;
- Senior Independent Director (SID); and
- Chief Executive Officer (CEO).

In total 286 questionnaires were returned, representing a response rate of approximately 11%. Considering the levels of responsibility held by the respondents and the time pressures that they face, this was deemed to be an excellent response.

This report focuses on the key findings from the survey and highlights areas that require further consideration. Particular emphasis is given to Board demographics, Board performance, Board development and the differing roles and responsibilities of the Chairman, CEO and Senior Independent Director.

Given the differences in perceptions reported by Board Directors, a number of issues that could negatively impact Board performance — particularly with regard to the Chairman — have been identified.

- The roles of Chairman and CEO are not always clearly delineated.
- Chairmen believe they make greater contributions to strategic decision-making than other Board members believe they do.
- Other Board members report that Chairmen do not encourage feedback.
- Chairmen need to do more in managing Board performance.
- Chairmen lack clear mechanisms for their own succession and scrutiny.
- The core role and contribution of Senior Independent Directors is not clearly understood.

Conflicts of Intent

Good Chairmen and CEOs will negotiate their respective roles. This negotiation process is fundamental to Board and corporate success. If a Chairman's views on strategy and vision differ from those of the CEO, the Chairman might overlook critical management duties, including succession planning and evaluation of the Board's performance. By the

“I sit down with my CEO and we parcel out our duties and roles according to the way we see the future”
 – FTSE 100 Chairman

same token, the CEO might underperform because he is not coming under scrutiny if the Chairman sees himself driving company strategy.

Ineffectual Governance

Another risk Boards may face is the lack of clear governance from the Senior Independent Director — we found that Boards are somewhat sceptical of the contribution SIDs make to the Board, whether acting as a link between the Chairman and the Board or as a last port of call for shareholder concerns. If SIDs are not helping to enhance Chairman performance, stakeholders may become unhappy and Board performance may suffer. There is concern that critical messages are not getting to the Chairman via the SID.

“I am the person that all others go to when every other avenue is exhausted, and by that time it is too late. I should have acted before.”
— FTSE 100 SID

Insufficiently in Touch with the Board

Chairmen are also perceived as not asking for relevant feedback on their performance with Boards generally lacking a top-down policy for self-replenishment.

The Age Factor

We found age to be a significant demographic variable, with older, more experienced and less egotistic chairmen generally perceived to perform better. Similarly, the age factor inevitably creates a necessity for effective succession planning — a role which is only loosely embraced at present.

Board Demographics

Table 1 shows a breakdown of the respondents who participated in the survey. The ‘Other’ category includes those with the positions of Chief Operating Officer, Managing Director and Company Secretary.

Table 1: Response by Position

Current position held	Number of responses
Chairman	77
Senior Independent Director	26
Non-Executive Director	75
CEO	30
Finance Director/Chief Financial Officer	37
Executive Director	26
Other	15
Total	286

The sample has the following demographic profile.

- Boards tend to be male dominated, with 1 in 10 respondents (9.1%) female.
- The majority of respondents (71.4%) are well-qualified and hold either undergraduate, postgraduate or master's degrees.
- Age profile differs according to area of responsibility (Table 2). Around two-thirds of Chairmen and SIDs are aged 60 or over. The youngest, however, are more likely to be in the role of Finance Director or Chief Financial Officer.

Table 2: Board Director Age Profile

Age	Chairman	Senior Independent Director	Non-executive Director	CEO	Finance Director / CFO	Executive Director	Other
30 to 39	0.0	0.0	0.0	3.3	10.8	3.8	6.7
40 to 49	1.3	3.8	20.0	20.0	56.8	38.5	26.7
50 to 59	32.0	30.8	38.7	70.0	29.7	50.0	33.3
60 to 69	62.7	65.4	40.0	6.7	2.7	7.7	33.3
70 or over	4.0	0.0	1.3	0.0	0.0	0.0	0.0
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- Over three-quarters (75.6%) of Boards have between 6 and 11 members. Boards with 15 or more members are rare (3.1%).
- For 71% of Boards, meetings are held on a monthly/six weekly basis.

- Meetings typically last for up to half a day (63.5%) or a day (30.8%), rarely longer.

Table 3: Committees of the Board (UK)

Title	% of Boards	% of Board Members
Audit	96%	32%
Remuneration	97%	42%
Nominations	94%	52%
Investments	11%	4%
Information and Communication Technology	1%	1%
Corporate Social Responsibility	22%	8%
Other	18%	12%

- Understandably, the majority of Boards report that they have audit, remuneration and nominations committees.
- 83% Chairmen report that they are members of their respective nominations committee.

Chairman Performance

Chairmen are rated highly by all parties with respect to their

- contribution to effective Board functioning;
- integrity;
- trustworthiness;
- concern for shareholders;
- concern for stakeholders; and
- ability to clearly delineate the role of the Board from that of management.

No significant differences emerge concerning gender and education level when analysing the performance of the Chairman, the Board, the SID and the CEO; however, age emerges as a significant demographic variable. Older Chairmen (60+) are rated as more effective across the range of dimensions of Chairman performance.

However, Chairmen significantly rate themselves higher with respect to their contribution to strategic decisions, governance thinking and application, risk, personal style, personal qualities and performance.

Other Board members display a lower rating for Chairmen in these areas. The greatest differences between Chairman and Board perceptions are in

- encouraging feedback on the Chairman's performance;
- clarifying the skills and experience required of each Board member; and
- evaluating the performance of the Board as a whole.

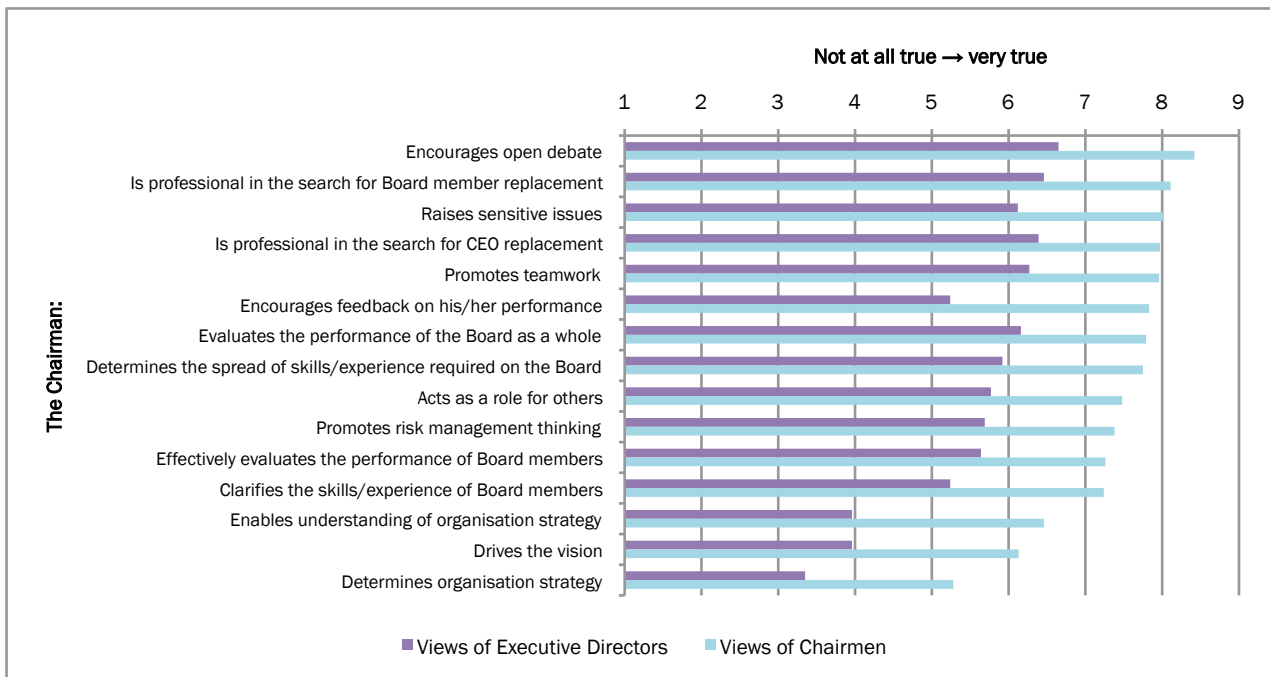
Another area of possible contention concerns strategic decisions. The results indicate that Chairmen believe that they strongly

- drive the vision;
- determine the organisation strategy; and
- enable understanding of organisation strategy.

Other members of the Board, particularly Executive Directors — who are the least positive in their opinion of Chairmen — challenge such perceptions. In fact, the greatest discrepancy of view exists between Chairmen and Executive Directors (see Figure 1). This discrepancy of view focuses on the style and qualities of the Chairmen, in particular in

- encouraging open debate;
- raising and handling tensions and sensitive issues;
- promoting teamwork;
- encouraging challenge; and
- acting as a role model for others.

Figure 1: Contrast of Perceptions: Executive Directors vs. Chairmen



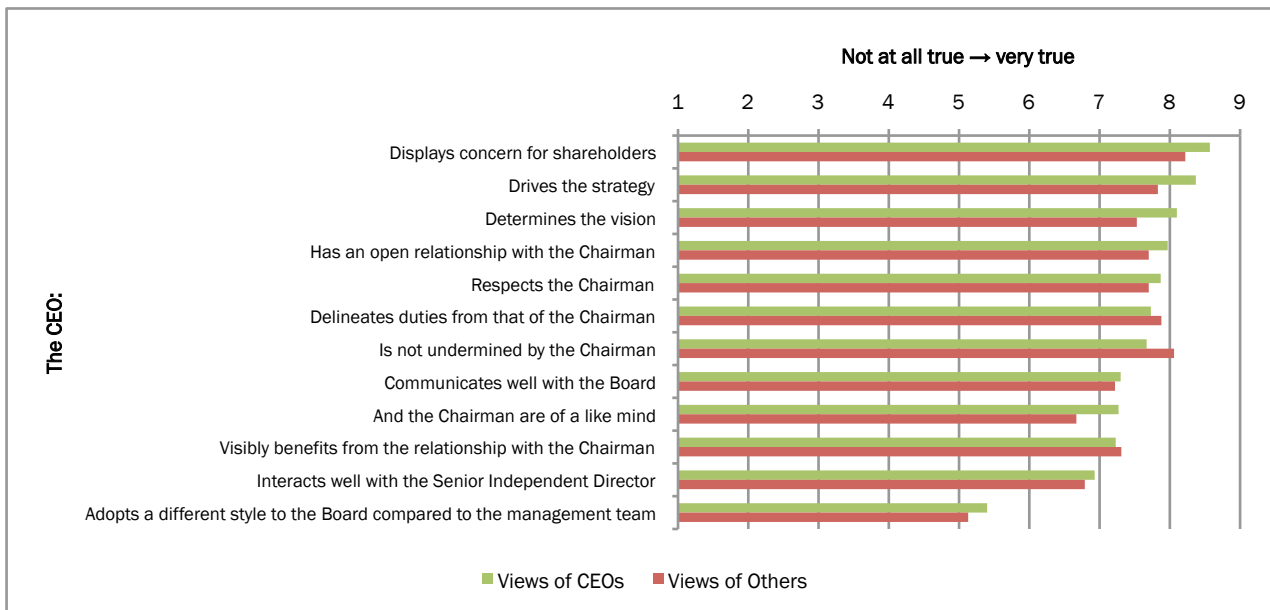
As can be seen in Figure 1, the contrast in the views of Executive Directors and those of Chairmen is substantial. No statistical difference emerges according to whether Chairmen or Board Directors are members of Boards of FTSE 100 companies or not.

CEO Performance

CEOs are rated positively across a number of strategic, operational and communications dimensions. However, CEOs rate themselves slightly higher than other Board members in terms of

- driving the strategy;
- determining the vision; and
- being of a like mind with the Chairman. (Figure 2)

Figure 2: Rating the Chief Executive

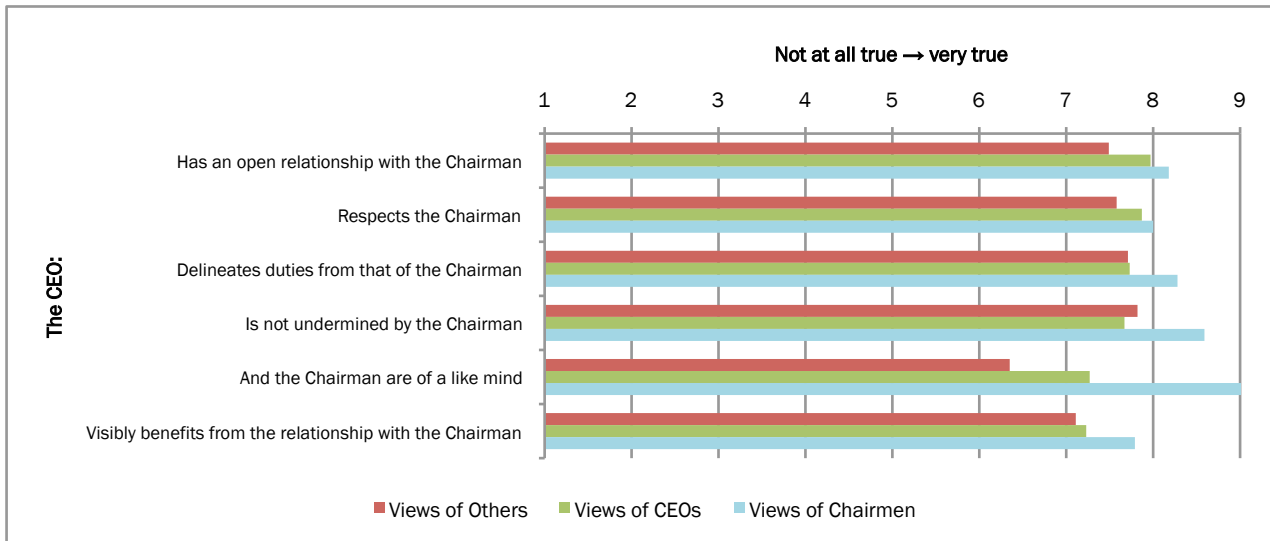


Chairmen believe they drive the vision and determine the organisational strategy, whereas CEOs believe that they determine the vision and drive the strategy. This, unsurprisingly, suggests that CEOs feel pressured by the Chairman. CEOs are more likely to see themselves as being undermined by the Chairman than other Board members do.

Further, comparing the views of Chairmen and CEOs, the relationship between the two is strong at a personal level. As Figure 3 reveals, both believe that

- they are of a like mind;
- they have an open relationship; and
- they have a high degree of respect for each other.

Figure 3: Rating the CEO and the Chairman

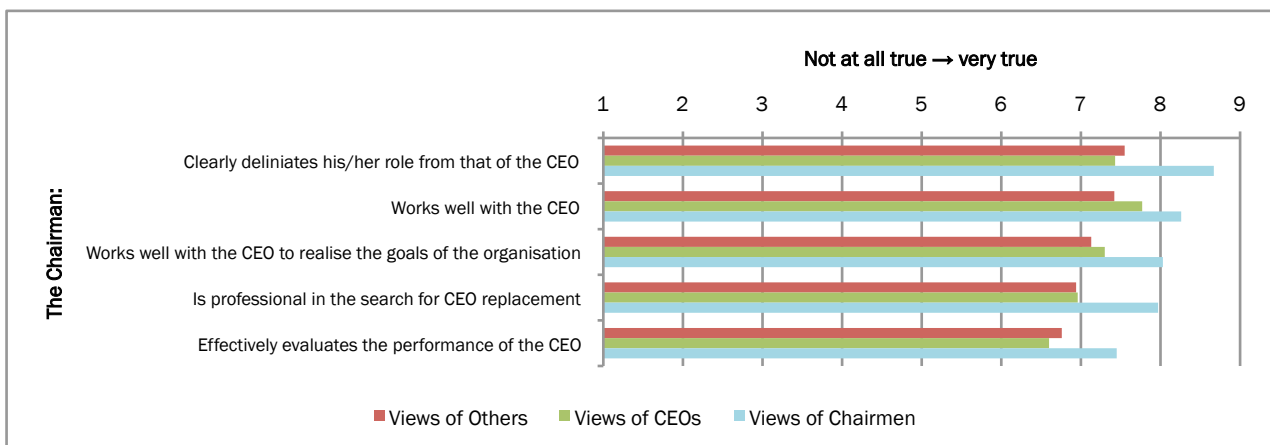


While other members of the Board (the Executive and Non-Executive Directors) generally concur with the shared views of the CEO or the Chairman, they do not rate this relationship as highly.

Other aspects of the relationship between the Chairman and the CEO again show that Chairmen score themselves significantly higher than CEOs (Figure 4), especially in terms of

- working well with the CEO to realise the goals of the organisation;
- clearly delineating his/her role from that of the CEO;
- being professional in the search for CEO replacement; and
- effectively evaluating the performance of the CEO.

Figure 4: Rating the Chairman and the CEO



Senior Independent Director Role and Contribution

The Senior Independent Director’s task is to form a strong relationship with the Chairman and act as a critical resource in addressing issues related to Chairman and Board performance in general. He/she acts as the ‘last port of call’ for shareholders and stakeholders if concerns cannot be resolved through the normal channels of contact with the Chairman, CEO or other Board Directors.

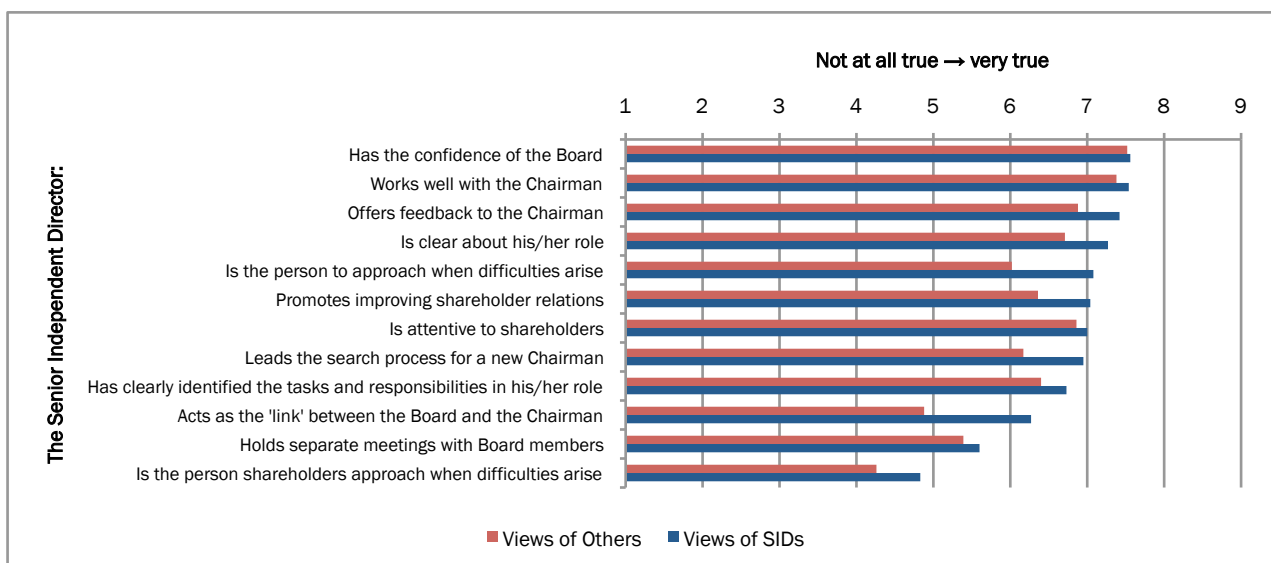
The results show that SIDs spend about 3-4 days a year in discussion with Board members and stakeholders (particularly in assessing the performance of the Chairman) in addition to attending Board meetings.

The survey shows that SIDs are respected by other members of the Board and are recognised as working well with the Chairman. SIDs emerge as being of a similar age to Chairmen and, overall, have the confidence of the Board.

However, there are certain aspects of the role where SIDs’ perceptions of themselves differ from those of other Board members (Figure 5). SIDs report that they are

- the person shareholders approach when difficulties arise;
- the person other Board members approach when difficulties arise;
- the person who offers feedback to the Chairman; and
- the ‘link’ between the Board and the Chairman.

Figure 5: Role and Contribution of SIDs



The SIDs themselves believe they are clear about their role. This is an interesting finding as in prior in-depth interviews from another study the reverse was found to be true.

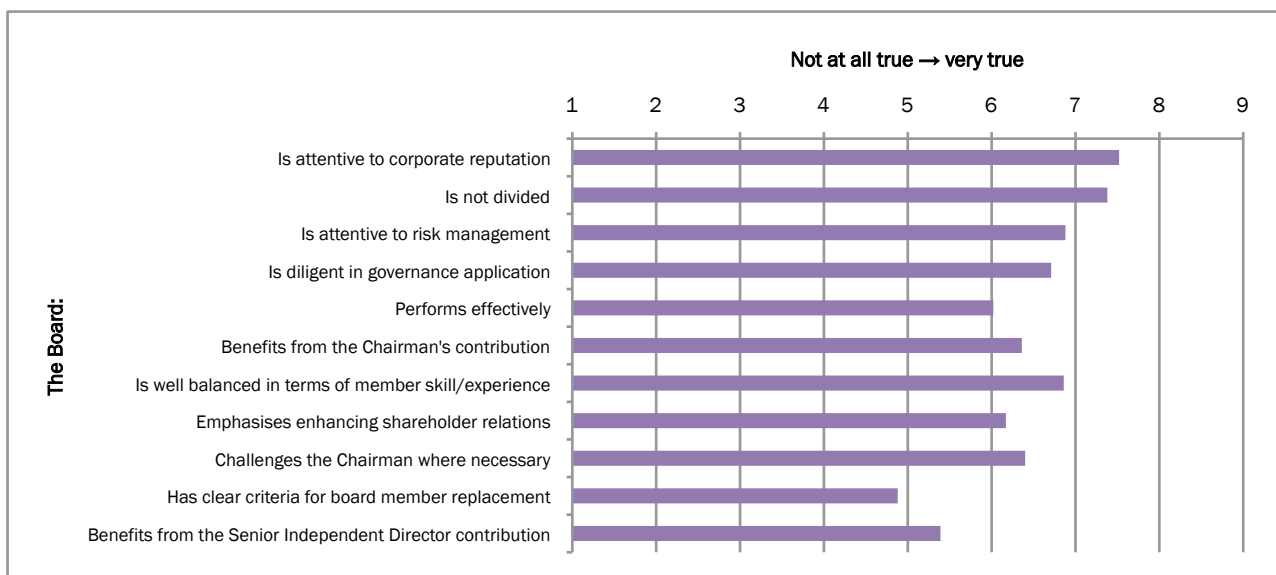
Other Board members disagree, rating SIDs less capable in the above areas. However, in terms of Board development, other Board members consider SIDs to be effectively utilised. These results raise the question of whether SIDs are effectively governing the Chairman on behalf of the shareholders and stakeholders. Their role may need to be re-evaluated if they are only contributing to Board development.

Board Performance

In terms of Board performance, the study participants score Boards highly in terms of being attentive to corporate reputation and also to being cohesive as a whole.

Figure 6 shows that Boards are considered to perform effectively. However, two areas are identified where there is less agreement. These relate to whether the Board benefits from SID contributions and whether it has clear criteria for Board member replacement.

Figure 6: Rating the Board



The greatest disagreement exists between Executive Director Board members and their Non-Executive Director colleagues.

As Figure 7 shows, Executive Directors question whether the Board

- benefits from the Chairman’s contribution;
- performs effectively;
- challenges the Chairman when necessary; and
- is well balanced in terms of member skill and experience.

Figure 7: Contrast of Perceptions: Executive Directors vs. Others



Board Development

The results show that, generally speaking, Board Directors from the FTSE 350 sample consider their Boards to be performing effectively. In areas where differences of opinion exist, further debate is required, specifically around the following questions.

- Why do the views of Chairmen differ significantly from those of Executive Directors and what is the implication of such gaps continuing?
- How open are Chairmen to relevant feedback on their performance?
- How should Chairmen be developed and what are the implications for Boards of not doing so?
- Are Chairmen and CEOs aware of their impact on each other and on their Executive and Non-Executive Directors?
- Whose responsibility is it to drive the vision and to develop and enable understanding of the organisation’s strategy?

- What are the management development requirements for Executive Directors at Board level and should these be different for the Non-Executive Directors?
- What is the role and contribution of the SID and are Boards utilising them effectively?
- What are the impacts of the above on Board and organisation performance?

Conclusion

There is consensus that Chairmen are vital to the effective functioning of the Board and total organisation, are of the highest integrity and are trustworthy. Respondents also agreed that Boards are attentive to the issues of the organisation — particularly to enhancing corporate reputation — and are cohesive and team oriented. There is also consensus that CEOs are focused on realising shareholder value and are supported by their Chairmen. Despite their role and contribution being somewhat unclear, SIDs are also seen to have the confidence of the Board and to work effectively with the Chairman.

This research identified areas where Board Directors agree on aspects of their Boards as well as areas where opinions differ. These differences in perception allowed us to identify a range of factors that could lead to underperformance by the Chairman.

The results of this survey show that critical areas require concentration in order to enhance the performance of Chairmen, Directors and corporate Boards in the UK, particularly concerning

- Chairmen's performance and accountability;
- the nature, purpose and contribution of Boards;
- Chairman and Board member succession; and
- the role and contribution of the SID.

Chairmen see themselves as 'owning' Board performance, but without a different mandate from the CEO and proper governance from the SID, the Chairman could detract from organisational performance rather than enhance it. Chairmen need to be clearer on the elements of organisational performance of which they take ownership.

Two-thirds of the Chairmen responding to the survey are aged 60 or over. Hence, succession is likely to be high on the agenda of many organisations in the coming years. However, it is unclear whether Boards have placed Chairman and Board member succession as a priority issue. Additionally, the broad role of the SID inhibits clarity, even in terms of Chairman succession and development, as 38% of respondents indicate that they do not believe, or are uncertain, that the SID 'effectively leads the search

process for a new Chairman.’ Nevertheless, opinions differ as to how effective the SID is in developing the Chairman.

These findings have implications for understanding decision-making processes and identifying best practices at Board level. They certainly merit further academic research, but more importantly, they need active consideration by all UK Boards which aspire to world class performance.