

Across the Boards

How Chairmen's Roles Differ Around the World



Board of directors chairmen have a wide range of responsibilities important for organizational success. But recent research has found that practices of chairmanship and board dynamics differ around the world. What are the implications for organizations in the United States, the United Kingdom, and Australia?

How important are the roles of chairmen of the board to the success of their organizations? This question has not been widely investigated, but emerging research is finding that chairmen fulfill a number of functions that are critical to organizational performance, including leading the board; setting the board's agenda; ensuring that board members receive timely, clear, and accurate information; ensuring the transparency of board processes and discussions; evaluating the performance of the overall board and individual directors; and promoting a constructive relationship between the board and management.

It seems simple enough. But it is not quite what it seems, according to the conclusions of an international

survey of boards and chairmen conducted by the United Kingdom's Cranfield School of Management with support from CCL; Manchester Square Partners, a UK-based firm that advises senior executives on career development and transition; and Heidrick & Struggles, an Australia-based provider of senior-level executive search and leadership consulting services. The survey discovered that practices of chairmanship and board dynamics differ around the world.

As a result of corporate practices in the United States and the United Kingdom in the 1980s and '90s that were perceived to be corrupt, greater attention to governance disciplines has tightened up board processes, through legislation and voluntary

by **Andrew P. Kakabadse**

codes designed to better safeguard the interests of shareholders. Prior to the governance movement, shareholders influenced corporate strategy more through their feet than anything else; they sold their shares rather than exercise their rights as shareholders—to do anything else was simply not worth it. Few shareholders pushed for change. Largely because of this shareholder inaction, the oligarchic, aloof top manager came to the fore—the president and CEO acting without restraint.

In the United Kingdom in the 1990s, CEOs and their top teams were considered the root of corporate excess. The Cadbury Report of 1992 stipulated that the roles of CEO and chairman be separated, with the chairman responsible for leading the board, holding the CEO accountable, and ensuring that the board members have a greater say than formerly in strategy formulation, executive remuneration, and senior appointments. The Cadbury Report transformed the world of the British manager. Today role separation is a reality for 98 percent of UK listed companies. Since Cadbury, separate inquiries have recommended governance improvements, but all of them voluntary. In the United Kingdom today, ultimately the chairman decides what governance to adopt.

The Australians took the British line of role separation and voluntary codes, except that greater pressure to comply is placed on Australian firms by the Australian Stock Exchange and the federal government. In the United States, in contrast, role duality still exists for approximately 76 percent of U.S. listed corporations. The president, the CEO, and the chairman are all the same person. For U.S. corporations, ultimate power is in the hands of these individuals. Setting the board's agenda; determining the quality, quantity, and timing of information presented to the board; and leading the management team are the

prerogative of one person. Recent U.S. governance intervention has been through regulation, namely the Sarbanes-Oxley Act of 2002, whereby the president-CEO-chairman and the chief financial officer are legally accountable for transparent, honest, and accurate financial reporting. Research concludes that all other corporate actors help the president-CEO-chairman to achieve his or her goals, in contrast to the British and Australian way of working.

ROLE INFLUENCES

Bearing in mind the divergence of role duality and separation, just how different are the roles of chairmen across the world? The inquiry by Cranfield, CCL, Manchester Square Partners, and Heidrick & Struggles explored the effects of national and regional influences on the roles and contributions of chairmen. Differences of orientation and practice emerged, determined by seven demographics: status, responsibility delineation, vision, recruitment, domicile, role counterbalance, and tenure.

Status

The status of the UK and Australian chairmen is high. UK chairmen view their appointment as the pinnacle of their careers. The role of chairman opens many doors in British society, facilitating access to government and government appointments despite relatively low remuneration, often 10 to 20 percent of what CEOs earn. However, the honor and prestige more than compensate.

Additionally, UK chairmen report little difference in practice between executive and nonexecutive roles. The distinction made is between being full-time or part-time in the job. Irrespective of the individual's number of hours devoted to the job or of the role being executive or nonexecutive, the British chairman's focus is

to attend to the duties of the board and, in so doing, to develop a high level of trust with the CEO, monitoring the CEO's performance but allowing him or her to run the show.

The contrast with Australian practice is substantial. More Australian chairmen hold executive responsibilities, often subsuming and downgrading the role of CEO to that of managing director (MD) or just chief operating officer (COO). The Australian chairman runs the company. Certain Australians expressed irritation with what they called the "quaint British thing" of distinguishing between executive and nonexecutive, which they felt were more or less the same thing.

The distinction between executive and nonexecutive also holds little relevance for the U.S. president-CEO-chairman. Having one individual lead both the company and the board is reality for the majority of U.S. companies. In their role of chairman the majority of these leaders say they are attentive to but also critical of Sarbanes-Oxley. Those who view their corporations as promoting the highest standards of governance believe they have implemented the spirit of the legislation, but putting the details of Sarbanes-Oxley into action is expensive. Those who admit to being governance challenged also criticize the legislation. One U.S. independent board director stated,

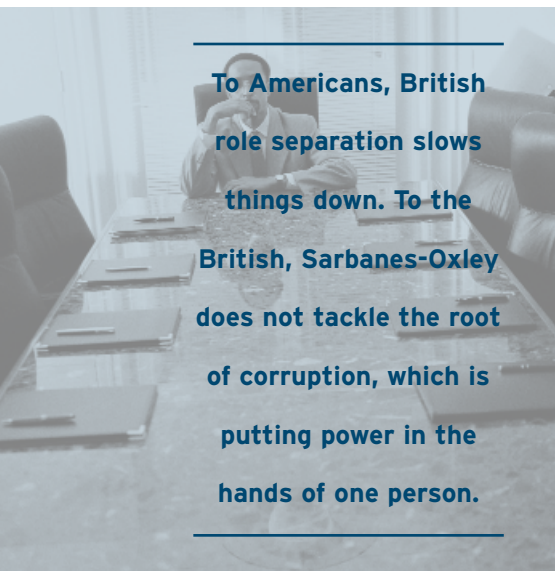
ABOUT THE AUTHOR



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“How can an act of Congress help a board that is overwhelmed (meant *bullied*) by one person when what we need is a strong lead independent director (LID), and that is the last thing our president-CEO-chair will allow?”

The critiques of Sarbanes-Oxley come in two forms. The first is that it is excessive, expensive, and unnecessary; the second is that what is really needed is better leadership, and legislation is not going to help. Other studies have reached similar conclusions. The personality and style of the top leader counts more than anything else. Thus the question remains



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of which is the best way forward, greater accountability or role separation? To Americans, British role separation slows things down. To the British, Sarbanes-Oxley does not tackle the root of corruption, which is putting power in the hands of one person.

In the U.S. organizations that had separated the president-CEO role and chairman role, the two types of leaders independently reported that the move was a positive step forward and that they had no desire to return

to role duality. The checks and balances that come with discussing critical issues improve the quality of decisions. Adjusting to not being totally in charge was considered a problem, but only a temporary one that could be alleviated by good coaching support.

Responsibility Delineation

In Britain chairmen are held accountable for board performance and board decisions. U.S. presidents-CEOs-chairmen and Australian chairmen are held accountable for both board performance and company performance. The only real difference between the Americans and Australians is the legal requirements imposed by Sarbanes-Oxley. However, the Australians have been quick to adopt the tenets of the legislation because of the attraction of trading with the U.S. market.

Among the British chairmen holding executive status, few had any of the traditional line functions reporting directly to them. The British CEO determines the organizational structure that he or she desires and has it ratified by the board. Thus even executive chairmen are more driven by the views of the CEO. The Australians report that the chairman and CEO jointly determine their delineation of responsibilities, although it is plainly evident that the chairman is often the stronger voice.

The most individualistic of the three groups is the U.S. president-CEO-chairman, who unilaterally determines the responsibilities allocated to the roles of chair and CEO. Few of these leaders indicate that they discuss the logic of role allocation with their board members; rather, they simply inform the board of decisions already reached. As the president-CEO-chairman of a U.S. defense contractor stated: “With my future on the line, I will tell you what I do as chairman of the board. I don’t

need Sarbanes or anyone else to tell me that.”

A minority of U.S. chairmen emphasize making time for the members of the board to independently examine issues without the presence of executive management, including themselves in their role of CEO. In effect, the president-CEO-chairman leaves the room so the other board members can continue the debate.

Vision

Driven by role separation, British chairmen admit to being “vision passive.” British chairmen challenge, debate, and ultimately sign off on the vision of the CEO and the management team.

In contrast, the proactive Australian chairman often reports outright determination of the vision of the company. Australian chairmen strongly view themselves as the stewards of the vision. The chairman of an Australian financial services company stated: “I am accountable for both the board and the company. I set the vision. Yes, there is a difference between the Australian and British roles of chairman and CEO.”

Like Australian chairmen, U.S. chairmen confirm their responsibility for determining and driving forward the vision. However, other board members should raise concerns about this approach. When one person shapes the strategic profile of the enterprise, external or independent board directors can feel inhibited, undermining constructive challenge. Encouraging robust debate requires acting as CEO with the management team and as chairman with the board. The difference is in style, balancing being both assertive and conciliatory and being directive and at the same time listening and influencing. Some U.S. chairmen admit that changing style is not easy. Some report going to great lengths to separately win the support of their management team and the board. One

said that in addition to attending board meetings, he visited all board members on their home turf to listen to their concerns and through such personal attention improved board dynamics.

Recruitment

Nationality emerges as a key criterion for the recruitment and appointment of chairmen. In Australia, stringent effort is made to appoint Australians to the role; the purpose is long-term stability. An implicitly held assumption in Australia is that the best executive talent lies overseas, particularly in the United States and the United Kingdom. However, U.S. and UK expatriates who remain overseas for longer than five years face substantial tax burdens; therefore their choices are to return home or become Australian citizens.

The chairman of an Australian food manufacturing company stated: “Our top positions are often filled by Americans who after five years go home. I am the anchor. I keep the company together over the long term, so I have to be home grown and Australian.”

For substantially different reasons, a similar consideration is identified in the United States. The U.S. president-CEO-chairman is by nature hands on, driving the business and providing leadership to the board. The president-CEO element of the role—in terms of track record, experience, and management skills—is given priority over the boardroom and chairman capability. Moreover, market considerations dominate board concerns. Therefore it is critical for the president-CEO-chairman to understand the U.S. home markets because “most of our business is over here,” as the president-CEO-chairman of a U.S. insurance company stated.

A number of Americans stated that if the role of chairman were to be separated from that of president-

CEO, finding suitable candidates for what is a part-time and poorly remunerated job would be problematic. Who would want it?

Of the three groups, it is the British chairmen who display the broadest, most international reach. Proximity to Europe and the United States, the drive for penetration of international markets, and the established practice of role separation position British chairmen to display international understanding. The home market is too small. Thus British chairmen tend to travel more than their U.S. and Australian counterparts. A considerable number of British appointees hold the post of chairman for British, U.S., and continental European companies. Traveling considerable distances to board meetings is viewed as normal, as is accompanying the CEO on international tours—all for a part-time job.

Domicile

An important consideration in the appointment of U.S. and Australian chairmen is the location of the incumbent’s home. Australian chairmen, conscious of their executive accountabilities and the need to attend to operational details, report that it is common practice for the chairman to reside in the city where the company is headquartered. Australia is dominated by the twin cities of Melbourne and Sydney, and calling one of these two cities home is important. If potential candidates are not willing to live there, they may as well rule themselves out as applicants for the role.

From the U.S. dual-role perspective the dominance of the president-CEO role requires being geographically close to the headquarters of the firm. However, in the few cases of role separation, domicile and even nationality are of secondary concern as appointment criteria for the role of chairman.

Role Counterbalance

Who challenges the chairman of the board? Practice in the United Kingdom and the United States is similar. Driven by fears of further scandal and that a strong personality could dominate the board and management, companies have introduced an additional board role; in the United States it is the lead inde-



pendent director (LID) and in the United Kingdom it is the senior independent director (SID). Although it’s early to make a full evaluation, the value of the LIDs and SIDs is acknowledged. Cognizant of the danger of group-think, chairmen and their boards see offering constructive challenge as necessary. However, all admit that this is no easy task, bearing in mind the complexities of boardroom dynamics and the ego of the chairman.

The British report that it is acceptable for the SID to challenge within and outside board meetings. A chairman of a UK bank stated, “British nonexecutive directors offer quiet defiance and sort out their affairs before the meeting.”

Although similarly configured, LIDs operate differently from SIDs. The greatest level of inhibition across the three groups is identified in American boards. The discomfort in

directly challenging the chairman nurtures such an inhibitive atmosphere that a number of board members say their skills and experience are underused. “The chairman knows what he wants and whose skills and experience he wishes to use,” said a board member of a U.S. manufacturing company. “Once that is clear, my colleagues and I respect that and do not challenge.”

In a similar vein, LIDs do not challenge as much as SIDs but rather tend to work together with the chairman prior to board meetings, determining the agenda and



discussing how to address issues, so that by the time of the board meeting the need to challenge is minimized.

The Australian version of the LID or SID is the deputy chairman, but numerous boards report having no such role. Most Australian chairmen report that teamwork is valued at the board level and that any good team has no problem in challenging. But a minority of chairmen and board members report that team-

work is a cover for groupthink. The emerging evidence suggests that Australians are rugged conformists, displaying minimal desire to change.

Tenure

What about staying too long or not long enough on the board? The surprising finding is that constructive and well-handled challenge occurs with greater length of tenure, and it is on this one point that U.S., UK, and Australian respondents concur. The prevailing governance wisdom is that to stay too long disproportionately increases the individual's chances of becoming corrupted. Well, perhaps for some, but not for the majority, the survey concludes. The longer in the role, the greater the insight into the firm's strengths and weaknesses and the deeper the knowledge and confidence in one another as board members. Some of the fiercest and yet most constructive conversations are reported as taking place between people who have known each other for some time. Length of tenure is reported as correlating with high levels of company performance. British and Australian chairmen report that boards—and companies—that perform above average have members who have been in their roles for eleven to fifteen years. U.S. chairmen and board members confirm the advantage of extended tenure and quote eight to ten years as necessary to make a significant impact.

So much, however, depends on the personality and style of the chairman. The high-performing chairman removes the barriers between people and nurtures a culture of speaking one's mind.

GUIDING THE BOAT

The ancient Greeks defined governance in the form of a person, the *kybernetis*—the helmsman of the boat who guides the vessel through stormy waters.

That definition is valuable today. The ancient helmsman adopted particular protocols to help the boat survive the storm, much as today's governance guides the firm through market and performance challenges. What is also important is the leadership style and mind-set of the top man or woman. Just as the Greek helmsman called upon his skill and experience to survive the storm, the integration of leadership with governance makes for outstanding performance.

Yet who is today's *kybernetis*? In the United States, the helmsman is still the president-CEO-chairman. That is not the case in Australia or the United Kingdom, where the chairman and the CEO hold equal or almost equal status and respect.

Leadership today requires displaying outstanding qualities. Given the need for greater understanding of today's global world, it is important for organizations to be cognizant of the substantially different designs for chairmen and boards. Not appreciating the demographic differences that shape the board and key leadership roles leads to unwelcome tension, vulnerability, and risk. Not only does the role of chairman hold different connotations in different parts of the world but also the status, significance, and influence of the role is on the rise.

As organizations are confronted with the complexities of market, shareholder, and governance demands, do not be surprised to find ever greater pressure for role separation in the United States. 