

**WHAT MAKES AN
EXCEPTIONAL CHAIRMAN?
REQUIRED QUALITIES FOR
CHALLENGING TIMES**



A Research Report by Alvarez & Marsal

I was delighted to participate in the recent research programme into "What makes an exceptional chairman?" initiated by Alvarez & Marsal. Inadequate leadership and governance have contributed to the underperformance and failure of a number of major and smaller companies during the recent economic crisis. We need to understand how, as leader of the board, the quality and performance of chairmen can be enhanced.

Based on the views of current practitioners rather than those of external 'experts', this research is the 'inside story', with leading chairmen sharing their experience of both what they have seen work, and not work, in different business situations. We all provided our own, personal observations based on many years of board experience, and shared our observations on serving with some of the great (and occasionally not so great!) chairmen in the past. A&M has distilled from our various reflections those qualities which, in my view, mark out exceptional chairmen.

As the research concludes there is no 'Eureka' moment, but rather it comes down to strong board leadership and thoughtful chairmanship, together with rigorous implementation of board management principles. The research identifies eight behaviours displayed by exceptional chairmen, and compares these with some of the requirements laid out in other best practice guidance. It underlines that what marks out exceptional chairmen is not procedure, structure or even chairing skills, but engaged and informed board leadership. It drills into some detail as to how exceptional chairmen demonstrate this, and which styles are appropriate in different situations.

Moreover, it underlines the challenge of how to learn the skills of becoming a good, or even great, chairman. Most of us as chairmen were clear that we are still refining our own approaches and welcomed this research. The more information, analysis, guidance and mentoring that can be provided in this area the better.

For businesses to navigate through the current economic turmoil and to seize the opportunities, we need exceptional chairmen. I commend this research as a valuable contributor to raising standards in the boardroom.

Sir Roger Carr

INTRODUCTION

The sheer extent of the financial crisis caught companies and their leaders unprepared. They were not ready for the turmoil, or for the persistent market uncertainty that has followed.

In the continuing uncertainty, 'business as usual' no longer exists and continual adaptation is now the corporate norm. Even when markets recover, transformation needs to be at the top of the agenda and the skills of a chairman are now truly being tested.

Much has been written about what the role of the chairman encompasses and the processes that help chairmen fulfil their roles, yet little, if anything, is known about what makes a chairman both an exceptional chair and their outstanding role model for future chairmen. Global professional services firm Alvarez & Marsal set out to discover what distinguishes exceptional chairmen from their peers in today's turbulent economy.

This report is based on the collective insights of 22 current and past chairmen, most of whom chair FTSE 100 and 250 companies, who have drawn on their experiences of working with over 120 chairmen in their careers.

Our select panel of interviewees were asked to consider the qualities of chairmen they had worked with and which attributes and behaviours make for an exceptional chairman in challenging times. They were also asked what impact these behaviours - and the lack of them - have on the performance of the board and, ultimately, the business.

The gathered output was then tested at a roundtable dinner with participants drawn from chairman, executive and CEO roles in private equity owned, privately owned, and large and mid-sized listed companies.

This new research reveals some valuable characteristics that will help chairmen of today, as well as of tomorrow, to benchmark and improve performance, highlighting the attributes of exceptional chairmen display in a crisis. Interestingly, the research provides a new emphasis on existing corporate governance guidance, as well as new insights on active board leadership.

Alvarez & Marsal would like to thank our chairman panel for their participation in our research - we hope you find their views insightful. We are also grateful for the research and analysis skills of Dr Henry Marsden and Derek Klyhn of Møller PSF Group based at The Møller Centre, Churchill College, Cambridge. A&M also supports the drive for greater diversity on boards. However, in the interest of clarity, we have continued to use the accepted term of chairmen in this report, which should be taken to include both genders.

Malcolm McKenzie
Managing Director
Alvarez & Marsal

Research Methodology

The interviews with 22 chairmen from FTSE 100 and 250 companies and other high-profile bodies were conducted by independent researchers using the Repertory Grid technique.

Each interviewee was asked to compare and contrast the qualities of six chairmen they had worked with by considering what made one chairman respond differently to the others during challenging times. No forced questionnaire was used – the qualities were entirely those raised by our chairmen panel.

Drawing from direct experience, the process identified things that outstanding chairmen do that others do not. It also identified how those characteristics manifest themselves in terms of behaviours and the observed consequences of those behaviours.

This research approach enabled each chairman to think deeply about, and clearly articulate their views on, the attributes and behaviours that make for an exceptional chairman in challenging times.

The output from this panel was then tested during a roundtable dinner with a further 16 participants drawn from chairman, executive and CEO roles in private equity owned, privately owned, and large and mid-sized listed companies who were asked to confirm, contest or enlarge on the initial results.



What Makes an
Exceptional
Chairman?

SECTION 1: THE EIGHT BEHAVIOURS OF AN EXCEPTIONAL CHAIRMAN

Our research has identified the key attributes displayed by exceptional chairmen in challenging times. Although most difficult to maintain during periods of duress, these characteristics are displayed throughout a chairman's tenure and across all aspects of their management of the business.

We have also compared these attributes with the guidance for chairmen provided by the Higgs Report and the more recent guidance note published by the Financial Reporting Council. This emphasises that 'good boards are created by good chairmen' and the importance of the chairman demonstrating 'ethical leadership.' In its detail, the guidance provides lists detailing the chairman's role, rather than the qualities which come out of our research.

Firstly, and most importantly, an exceptional chairman understands the business, its culture, people and processes. This understanding encompasses recognising and embodying the values of the business as much as having knowledge of the business operations and the marketplace. An exceptional chairman also understands the wider industry and prepares the company for all eventualities, from further market disruption to opportunities to improve competitiveness. This is based on their deep knowledge of the company and sector. Extensive knowledge of a sector or type of sector (e.g. heavy manufacturing) is as important as the chairman's ability to apply his or her accumulated experiences into effecting transformational change and preparing the business for future challenges.

Secondly, exceptional chairmen never consider themselves a one-person success. They create strong teams that have real influence on the company's direction by building an

effective board of non-execs and establishing a complementary working relationship with the CEO and their team. They implement change through the CEO, but are ready and able to step in at the right time to provide air cover to alleviate pressure. In short, they provide strong active leadership of the board.

Not afraid to take tough decisions in adversity, this type of chairman has an infectious enthusiasm and commitment to change which has a ripple effect, creating a 'can-do' attitude throughout the company. With internal stakeholders on board, the chairman uses strong communication skills to engage shareholders and other external stakeholders with change.

In short, the exceptional chairman ensures their company is fit to face the range of challenges that lie ahead in today's uncertain corporate and economic conditions.

We discuss the eight characteristics revealed by our chairmen's research below.

1. UNDERSTANDING THE BUSINESS

Exceptional chairmen are fully committed to their role and their company, and according to our interviewees, do their homework to ensure that they are adding value to the role. They make it their mission to develop a profound understanding of their firm's market, operations, values and shareholder expectations. Drawing on deep commercial experience, they quickly identify the needs and issues of the business.

Although immersed in company matters, their knowledge of the wider industry and the macro-business environment alerts them to potential risks. They develop carefully

constructed strategies to deal with the challenges facing their organisations, and engage with their boards at an early stage to discuss potential courses of action.

Understanding and foresight enable an exceptional chairman to spot not only threats, but also opportunities as they arise. Going well beyond the information presented at the board, an exceptional chairman often makes a point of meeting people at multiple levels in the business.

Having fostered a culture of transformation from board-level down, and engaged internal and external stakeholders, the chairman knows what capability the business has to respond effectively to difficulties and seize opportunities to create market advantage.

"The exceptional chairman has a clear view of what is going on at the company and is able to provide focus and clarity. The board and management are confident that they are tackling the key issues."

A chairman's lack of understanding of the company and wider industry has damaging consequences for the company. With little insight into the business, the less able chairman is prone to making poor decisions that introduce inefficiencies to the operation. The less able chairman is unable to spot opportunities to improve competitiveness, and misses the warning signs that could help steer the company clear of danger during challenging times. Often there is little productive and informed dialogue with the CEO. Unaware of potential risks, they are unable to prepare the board for crisis and jeopardise company performance and reputation.

2. PREPARING FOR THE FUTURE

Our interviewees agree that it takes a proactive and forward-thinking chairman to prepare a company for change, creating an environment where transformation is a constant. Armed with a clear picture of the company's current position and a vision for the future, the exceptional chairman creates a strategy robust enough for challenging times.

Transparency around this strategy, which is heavily based on the chairman's knowledge and past experience, alongside a culture of open communication, enables frank discussion at board level, resulting in team decision-making.

But chairmen with an eye on the future do not just prepare their companies for crises; they are constantly on the lookout for the next opportunity and have a long track record of adding value. They have a strong point of view on the strategy, but are canny over whether to express it or withhold it while measuring the board's views and the company's capability to take advantage of, or deal with, the oncoming situation.

In preparing for the future, an exceptional chairman is also planning the next management team. Succession planning is a difficult skill to master, but one that is becoming increasingly important to investors. Shareholders are more confident in a chairman with a track record of finding the right people for the right positions, and they know that their knowledge of the company and insight will help recruit quality leaders.

An exceptional chairman's preparation builds a strong business that is prepared for all eventualities, including their own departure.

"A clear template for the future gives a framework that improves board discussions and decision making."

The less able chairman is not comfortable with change and compromises the future prosperity of the business. Fond of the status quo and struggling with transformation, the less able chairman has one of two responses when change is required: avoid the challenge which disempowers the board from making big decisions, or actively undermine change. Whichever the response, the less able chairman has no clear vision to prepare the company for today's challenging market.

3. BUILDING AND GETTING THE BEST FROM THE BOARD

For the exceptional chairman, change is a feature of everyday business. Their strongest tool for introducing evolutionary transformation is an effective board.

Exceptional chairmen know how to attract and retain the best non-execs for their board. Beyond this, they know how to mould them into a team and to get the maximum value from each team member. This quality is particularly important during challenging times when non-execs play a vital role in making tough decisions, including selling off parts of the business or removing the CEO. According to the chairmen we interviewed, exceptional chairmen build a team of non-executive directors characterised by mutual trust and respect. Their leadership style and powers of persuasion enable them to attract high-calibre non-execs.



SECTION 1: THE EIGHT BEHAVIOURS OF AN EXCEPTIONAL CHAIRMAN



Feedback and discussion are actively encouraged to create a motivated team, causing each director to feel they add genuine value at the board table. This team is willing to get behind company strategy and play a full part in discussions to ensure the business is moving in the right direction.

Exceptional chairmen are not pushovers, however. They have firm views about the direction of the business. Outstanding at corporate governance and a disciplined operator, they challenge their executives and bring clarity and focus to the board.

By creating a unified board, the chairman, working alongside the chief executive, can rapidly and effectively implement a strategy for change to deal with challenging times.

“A successful chairman can substantially improve the quality of people on the board. They will build a team of non-executives who will add value to the debate, strategy and overall performance of the company.”

The less able chairman fails to engage non-executive directors in debate and excludes them from the decision-making process. In return, they offer little contribution as they feel they have no influence in the direction of the company. Without due consultation, the less able chairman makes the wrong choices and leads the company into trouble. With such an uncomfortable atmosphere, the less able chairman finds it difficult to attract quality non-execs to the board.

4. WORKING WITH THE CEO

The relationship between chairman and CEO is the lynchpin in a successful board. Although the chairman is very much in command, they are not a dominating force; instead they create an environment where open debate thrives.

Once satisfied that the right chief executive is in place, an exceptional chairman openly backs them. When challenges need to be met, an exceptional chairman develops the transformation through their motivated and enthusiastic CEO and provides full and open support to the CEO's lead.

Acting as a mentor, the exceptional chairman develops the confidence of the CEO as a leader. By clearly defining the chairman and chief executive roles, they establish the foundation for a solid working relationship.

To ensure mutual trust, the chairman encourages two-way communication, and cultivates an open relationship in which the CEO can approach the chairman in confidence, knowing that views and concerns will be heard and given due consideration. However, exceptional chairmen do not excessively rely on the expertise of their CEO, and do not simply rubberstamp decisions. With their thorough understanding of the business, they are prepared to challenge operational decisions – without ever undermining the chief executive. The exceptional chairman is also able to build this relationship when they both know the CEO's tenure is in the chairman's hands.

"A chairman's expertise will determine whether the CEO is enthusiastic and ready for change."

Tension is created when the less able chairman fails to differentiate clearly their role from that of the CEO. The resulting confusion disrupts the management structure and leads to conflict. The chairman undermines the CEO, who then becomes disrespectful at board meetings. A lack of trust also means that the CEO is not open and frank with the board, potentially leading to ill-informed decisions that are damaging to the business.

5. PROVIDING AIR COVER

In difficult times, the exceptional chairman becomes the driving force behind crisis management and sets direction for the company. Our interviewees describe how the exceptional chairman takes command of difficult situations and ensures that the board and management team are ready to act as a unified team in response to the crisis. Due to the chairman's foresight the board is prepared for change, and the firm's stakeholders are open to transformation, trusting the chairman's leadership, even when there is a need to take measured risks to safeguard the performance of the company amid market turbulence.

Though they trust the CEO's abilities and rely on the CEO to implement the strategy for change, exceptional chairmen also recognise the need to provide air cover in times of crisis. Often having the ability

and experience to take on any or all chief executive duties, an exceptional chairman only steps in where needed to alleviate strain. Thorough knowledge of the business and an understanding of the strengths of the CEO enable the chairman to provide exactly the support that is needed.

The chairman creates space for the CEO to focus on the management of the company by taking on the necessary front line roles, including communication with media and external stakeholders.

Exceptional chairmen's formula is to prepare the company for the challenges that are somewhat inevitable, even though their exact nature cannot be predicted. They challenge ahead of the issues, provide support and direction, and know when to step in and lead from the front as they emerge.

"The chairman who can take on front line roles during a crisis will give the CEO time to handle the situation and focus on the management of the company."

The less able chairman becomes a 'dead weight' in times of crisis, disagreeing with the direction of the company, but not prepared to lead the way, struggling to direct the board and forcing informal leaders to fill the leadership void. The less able chairman also fails to provide the air cover that would allow the CEO to focus on crucial operations during a crisis. To avoid risk and exposure, the less able chairman is unwilling to take the big decisions - at a time when inaction has the potential to derail the business.

SECTION 1: THE EIGHT BEHAVIOURS OF AN EXCEPTIONAL CHAIRMAN

6. TAKING TOUGH DECISIONS

One of the chairman's most difficult jobs is to confront the issues at the heart of the business. Based on a granular understanding of the business, the exceptional chairman quickly identifies the issues holding back the company.

Focused on long-term success rather than potentially short-term operational activity and results, they know when to push for tough decisions and which decisions to make – even if that means changing the composition of the leadership team or replacing the CEO.

Typically, a chairman has three strategic options when it comes to implementing change. They can: help develop the strategy for change (which would be led by the CEO), then publicly embrace and support it; replace the CEO, consult stakeholders and manage the change through; or step in themselves, taking on operational responsibilities and leading the management team.

What sets exceptional chairmen apart is their ability to cut through complex issues and reach clear decisions, along with the unerring quality of their decision-making. They are quite prepared to place their own reputation on the line by making the big decisions that will generate the best returns.

“The exceptional chairman provides the handrails for decision making and focus.”

The less able chairman dislikes being pushed out of his or her comfort zone. When the big decisions have to be made, the less able chairman is reluctant to come forward and set out a strategy for change. They will often defer to the CEO, allowing them to dominate boardroom discussions. The chairman rubber-stamps the CEO's decisions, much to the frustration of non-execs, who find they are unable to challenge poor decisions.

7. INSPIRING AND ENERGISING LEADERSHIP

The chairman is responsible for setting the cultural tone of the board – developing and embedding values as well as encouraging performance.

With experience, capabilities and comfort with their role, the exceptional chairman brings a vigour and energy to the board. Our interviewees drew attention to the motivating and enabling impact this infectious energy has on those around an exceptional chairman. It creates a sense of common purpose, a virtuous circle of confidence and a 'can-do' mentality among their directors and all the way through the organisation, reinforcing and embodying company values throughout.

However, exceptional chairmen are careful not to allow their personalities to dominate. They remain low-key unless visibility is needed. Skilled at building relationships and trust, they take an inclusive approach to their boards. They are willing to be challenged on their own preconceptions and enjoy open and rigorous debate.

Unfazed in times of trouble, the exceptional chairman inspires directors' confidence in their own ability to cope with pressures, energising and engaging them to meet the challenge. This helps sustain morale in the face of adversity, and the board will follow the chairman confidently through a storm to calmer waters.

Confident in their chairman, the directors are willing to operate as a team and contribute fully to the firm's strategy for change.

“An exceptional chairman is comfortable in their own skin in times of trouble.”

The less able chairman wants a quiet life, happy to keep a low profile while allowing the company to drift without real direction in benign times. This chairman has no appetite for transformation, does not inspire confidence in challenging times and is unable to provide a clear strategy or create urgency for change. Low morale results and a sense of inevitable failure filters through the company.

8. COMMUNICATING WITH STAKEHOLDERS

Our interviewees highlight effective communication - with all stakeholders - as one of the exceptional chairman's secrets of success.

We have seen how by nurturing a culture of two-way communication, the exceptional chairman gains the confidence of their directors and provides clarity in the boardroom. The chairman draws attention to crucial issues and encourages open debate to engage the management team, giving them a major role in decision-making and an active role in the change process. This creates a team of motivated players united behind the plan to transform the business.

With internal stakeholders on-side, the chairman can be confident that the company is moving in the right direction. However, their next job is to ensure the buy-in of the external stakeholder set: shareholders, the markets and the media, and potentially also regulators and government.

Exceptional chairmen recognise that communicating the strategy to the outside world, and giving stakeholders confidence in the company's future direction will help keep external pressures at bay. They make themselves visible and will stand up to shareholder pressure, if necessary.

They do not allow themselves to become driven by their own profile, however. They never undermine their CEOs, nor lose sight of the number one priority: improving the long-term performance of the business.

"The exceptional chairman makes people feel engaged, which is key to responding to change."

Through an inability to lead the board through transformation, the less able chairman loses the confidence of the board in today's challenging environment. Once respect is gone, it is then very difficult for the chairman to assert influence. Having lost internal credibility, the less able chairman faces an uphill struggle to engage external stakeholders. Shareholders quickly become frustrated in the knowledge that they are not getting the returns from a company capable of a better performance.



SECTION 2: PROPOSITIONS AND QUESTIONS

As well as providing a strong foundation for understanding what differentiates excellent chairmen in challenging times, the research has provided a number of propositions to support chairmen on key issues.

PROPOSITION 1: THREE CHALLENGING CONTEXTS

From their reflections, the chairmen drew on their experiences to clarify the nature of the challenges they had seen exceptional chairmen navigate. Through these discussions it became apparent that in the context of a chairman's role, there is no such thing as a "steady state" environment. Chairmen need to be aware they are always facing one of three potential challenges.

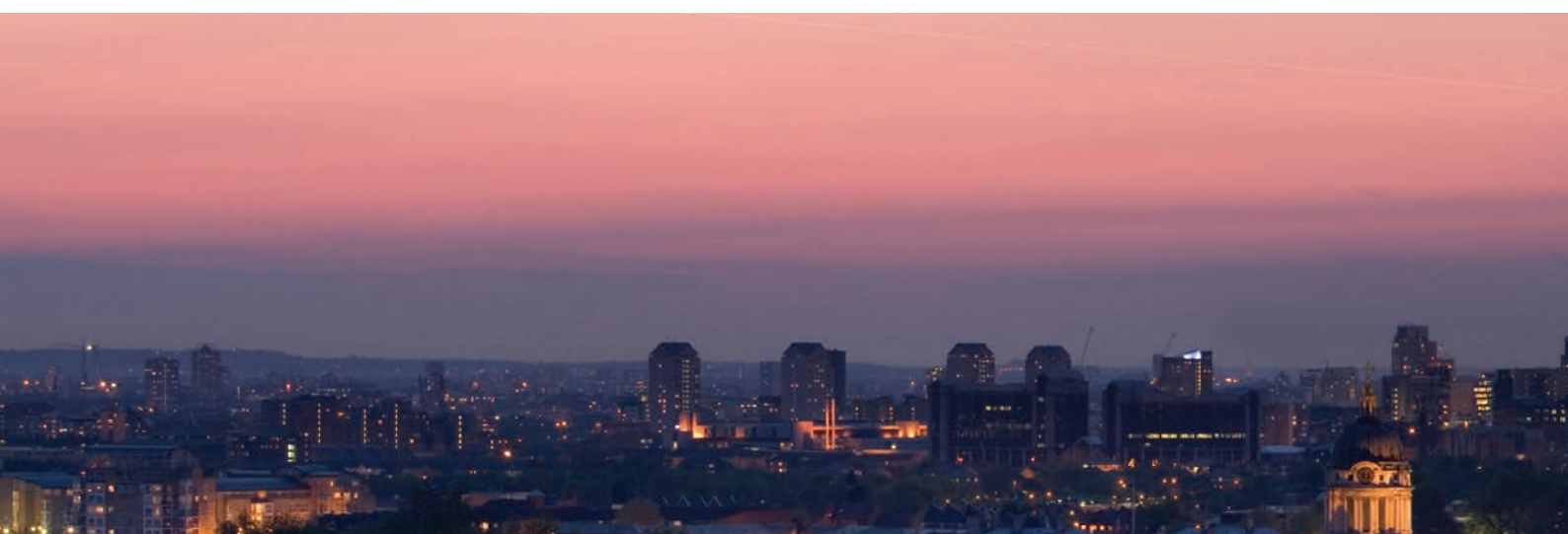
The first is **planned change**. Illustrative examples of this included: trying to move the organisation from good to great; being presented with a growth opportunity that

must not be missed; needing to respond to changing regulation. An exceptional chairman is able to significantly impact the capability of the organisation to face up to, and implement, the planned change drawing on many of the eight behaviours identified in Section 1.

The second is the **turnaround**. Often at the request of stakeholders, the chairman is brought into a business either struggling with market change or experiencing sub-optimal performance in some way. This was a common occurrence in the collective memories of chairmen and was often preceded by the previous chairman and chief executive not addressing or being able to resolve fundamental issues impacting the organisation. In these situations, exceptional chairmen are sought to initiate the transformation of these businesses and turn them around.

Exceptional chairmen were seen as those who thrived in this context and brought about significant business improvement through the eight behaviours identified, often addressing the most difficult questions, such as "is the CEO up to this?" immediately.

Thirdly, and finally, there is the **company in crisis**. Collective recollections indicated that these highly unpredictable events ranged from accidents to incidents, dysfunctional boards to allegations of corruption and departures of key people. Chairmen interviewed were clear that these often carry reputation-damaging consequences for the individuals involved, as well as future for the company. Highly successful chairmen really stood out in these times, both through their solid work in making the company prepared to respond and by their often valiant personal reactions.



PROPOSITION 2: TWO TYPES OF TRANSFORMATIONAL CHAIRMAN

The second, related proposition generated by the research indicated that chairmen could be grouped by their collated characteristics. This raises the question as to whether different types of chairmen were better suited to one of the three challenges discussed above and if so, would any type be preferred over the others for any challenge facing an organisation. Or, is there a specific type for a specific situation, and is one type better than the other?

The research findings show that a chairman that is ill-prepared can survive in a benign market, but rarely survives in challenging times. The interviewees warned that such a chairman's lack of energy or lack of ability to meet the challenge damages shareholder

confidence along with the ability of the business to respond.

“The ill-prepared chairman is not a catalyst. Out of their depth, and incapable of intervening, they may not spot the obvious strategic issues.”

This type of chairman is often ill-at-ease in the face of a challenge and their leadership fails to engage the board and to attract quality non-executives. The resultant, often dysfunctional board is unlikely to have a real influence on the direction of the company, right at a time clear direction is most needed. Poor decisions go unchallenged, inefficiencies creep in and there is a lack of real urgency.

In a changing market landscape, chairmen who are ill-prepared tend not to last long

and often do not reappear. It is unlikely that a chairman of this type would be labelled exceptional, so for the purposes of the second proposition, this report is limited to two types of chairman: a “turnaround” chairman who excels in a challenging context and then looks to move on; and a “renaissance” chairman – one who is good in all seasons.

THE TURNAROUND CHAIRMAN

The “turnaround” chairman relishes the challenge of ‘fixing’ a struggling company and thrives in a state of flux. As referenced earlier, it was a common occurrence in the collective memories of chairmen interviewed that experienced chairmen were often brought in under pressure from shareholders when it becomes obvious a company is floundering.



SECTION 2: PROPOSITIONS AND QUESTIONS

This type of chairman has a strong ability to get right under the skin of the business, and quickly get to grips with the critical issues. Should the CEO be identified as one of the problems, the turnaround chairman is not afraid to take the mantle, or bring in an interim management team, until a replacement is recruited.

A troubleshooter who excels at driving fast-paced change, this chairman sets achieving rapid turnaround as the first priority. However, this can sometimes only be achieved at the cost of board unity. Turnaround chairmen may not always see themselves as part of the long term future of the company, so towards the end of the turnaround period their minds turn to the appointment of a strong successor.

For all their strengths, turnaround chairmen may not want to stay in a position for the long term and companies may struggle to retain them once stability is restored, or find them distracted and their attention diverted to another business in their portfolio demanding their time and energy.

“A chairman who works well during a steady state often struggles with change. A chairman who is good at transformation doesn't always want the steady state. A good chairman will be preparing for crisis.”

“Chairmen who love change will not find a steady state rewarding.”

THE RENAISSANCE CHAIRMAN

The “renaissance” chairman possesses confidence and self-assurance, without arrogance, and an ability to attract the right people to the right positions.

Our interviewees portray a meticulously prepared all-rounder, who responds to challenge with an infectious enthusiasm. Renaissance chairmen have a deep understanding of the business, and expect the same from their non-execs. These attributes enable them to assemble a balanced board, a fully engaged management team, and to create a culture where debate is encouraged. Their directors can air their opinions and feel they have an important influence on the transformation process.

The renaissance chairman's relationship with the CEO is a key success factor in driving change according to our interviewees. The CEO works with executives to formulate a change strategy, which is then shaped and fashioned in discussion with the board under the leadership of the chairman.

“The flexible chairman has a positive ripple effect throughout the company, generating speed of response and change.”

The renaissance chairman knows when to step in and provide air cover for the chief executive as the transformation programme rolls out. While generally staying out of frontline operations, they will provide operational and PR support when needed to keep the CEO focused on the day job.

This approach keeps stakeholders aside - board, non-execs, senior management, government and shareholders - keeping external pressures at bay and preventing internal power struggles.

Both the “turnaround” and “renaissance” chairman have their merits. However, the renaissance chairman is more likely to drive long-term corporate success through good times and bad, while the turnaround chairman is more likely to have greater expertise in the high pressure situation of a turnaround.

In unpredictable times, a key issue for corporates is the type of chairman they turn to in order to gain optimal performance.

“A company needs a chairman who can operate effectively in both the steady state and a period of transformation. Why go for second best?”

SECTION 3: COMPARISON WITH EXISTING GUIDANCE FOR CHAIRMEN

In March 2011, the FRC issued Guidance on Board Effectiveness, a guidance note updating **Good Practice Suggestions from the Higgs Report**, last issued in 2006. This update reviews the various influences impacting a management board's ability to be effective, highlighting executive roles and governance processes as having a key effect on outcomes.

When the predecessor to the UK Corporate Governance Code was introduced in 1992, its focus was predominantly on clarity of roles, responsibilities, accountability and transparency. The newest guidance note recognises that '...while these are necessary for good governance, they are not sufficient on their own. Boards need to think deeply about the way in which they carry out their role and the behaviours they display, not just about the structures and processes that they put in place.'¹

When asked what made an exceptional chairman, our interviewees referenced board leadership style, business understanding and tough decisions. There was little reference to adherence to governance practice.

This suggests that they may be viewing this as a 'hygiene factor' that is necessary, but by no means sufficient, for outstanding performance, and not what marks out the exceptional chairman, particularly in challenging times.

Throughout our research, the chairmen panel referenced many examples of behaviour types; however, the eight characteristics this report considers were those behaviours most consistently and frequently mentioned as differentiators. Some, if not all, of the other FRC points were mentioned by



SECTION 3: COMPARISON WITH EXISTING GUIDANCE FOR CHAIRMEN

the interviewees, but these were not the differentiating characteristics between exceptional and unexceptional chairmen.

In fact, when we compare the FRC's list of 15 aspects included in a chairman's role to the eight behaviours identified by our panel of chairmen, whilst there is a match for many on the list, the emphasis

is different. The eight behaviours focus on chairmen providing active board leadership (e.g. inspiring and energising leadership) rather than the roles and processes of board management.

This apparent difference actually illustrates the dual expectations of a chairman's role – our research has described what a chairman

needs to **do**, whereas the FRC guidelines are a description of what a chairman needs to **achieve**.

¹ Guidance on Board Effectiveness, Financial Reporting Council, March 2011

RESPONSIBILITY	WHAT A CHAIRMAN NEEDS TO DO (The Eight Behaviours)	WHAT A CHAIRMAN NEEDS TO ACHIEVE (FRC Guidance)
Leading the Board	Inspiring and energising leadership	Demonstrating ethical leadership
Focussing the board where it matters	Understanding the business	Setting a board agenda focused on strategy, performance, value creation and accountability
	Preparing for the future	Ensuring timely flow of supporting information
		Working with board to identify 'appropriate' level of strategic risk
Ensuring board effectiveness	Making tough decisions	Ensuring board has effective decision-making processes, and applying appropriate level of challenge
		Ensuring board's committees are properly structured with appropriate terms of reference
Creating a board that is engaged and aligned and in which relationships are effective	Building / getting the best from the board	Encouraging all board members to engage in board and committee meetings
	Building / getting the best from the board	Fostering relationships between NED and the executive team
	Working with the CEO	Develop productive working relationships with all execs, and CEO in particular
	Providing air cover	Consulting the senior independent director in accordance with the Code
	Building / getting the best from the board	Succession planning and board composition
Developing the board for the future		Responsible for director development
	Making tough decisions	Acting on results of board evaluation
		Managing own development needs
Effective board communication with stakeholders	Communicating with stakeholders	Ensuring effective communication with all stakeholders

CONCLUSION

In an era of economic crises and continual change, the role of the chairman has become ever more crucial. The current environment imposes greater responsibility and a higher profile on the chairman – recent events have shown how, when things go wrong, the chairman can be first in the firing line.

Our research among leading chairmen has identified eight key behaviours to drive successful performance, whatever the prevailing market conditions. From immersing themselves in the business and supporting the CEO to engaging and inspiring the board, anticipating the future and resolving critical decisions about the leadership team, the burden on chairmen is heavy and complex.

The picture that emerges is much more active than expected. It focuses on the chairman providing strong, active leadership of the board team, shaping strategy and taking tough decisions. This contrasts with the more accepted picture of chairing a board of respected individuals, providing oversight, risk management and good governance. Moreover, much of the existing guidance for chairmen implies a different set of priorities to that emerging from our research – one key aspect is that the eight behaviours provide more granularity on what is required for exceptional board leadership.

It is interesting that the panel participants engaged in relatively limited discussion on the actual medium-term financial and business performance that was realised. Perhaps this was viewed as an outcome (rather than driver) of the exceptional boards – however, if the research was conducted among chairmen of private equity held businesses, it would be interesting to see if

this aspect received more focus.

Our roundtable discussion raised several issues that were not identified by the initial research panel. These included the type of ownership of the business (e.g. privately owned, publicly listed or indeed mutual), the importance of the chairman defining a clear set of values for the business and the need for strong financial skills in the chairman. It is worth noting that type of business ownership undoubtedly influences both leadership style and success criteria, and there was debate over whether the exceptional chairman required deep financial skills themselves. There was strong support for the chairman clearly defining the values of the business, which is a more active approach to the first behaviour identified by our chairmen panel.

The research has also provided greater clarity on the role of the chairman in terms of planned change, turnaround and crisis. One size doesn't fit all. There is a key decision regarding whether to appoint a 'turnaround chairman' versus a 'renaissance chairman' with a longer term focus. However, it is clear that the days of the status-quo or ill-prepared chairman are over.

It is important to say that no secret 'eureka' insights were uncovered. The collated personal perceptions of our chairmen panel identified eight insights into the behaviours of chairmen they themselves typified as 'exceptional'. Taken individually, each insight is very much the application of appropriate, active leadership, particularly when boards of companies are facing turbulence, whether through performance or economic market pressures.

The chairmen, however, stressed the

skills they admired in others was not the realisation that these behaviours are important but instead, the ability to integrate them successfully into a disciplined approach to board leadership. Success comes from real application, not just knowledge of concepts.

Given the rapidly shortening economic 'boom to bust' cycles across the economy and the likelihood that many markets will continue to experience low growth, future chairmen will have less time to gain industry and individual company knowledge during 'peace-time' periods. This poses more of a challenge for them when the economy comes under pressure.

Other than learning on the job and, perhaps making irrevocable mistakes, today's newly appointed chairmen have limited forums in which they can acquire the skills necessary to become truly exceptional chairmen of the future. There is a need for more guidance on the active board leadership that will be required alongside the good governance requirements already identified through FRC guidance. If this were complemented with strong (and actively encouraged) mentoring by the existing outstanding chairmen on best practices, tomorrow's chairmen would be better equipped for real application of these skills in the future.



THE CHAIRMEN PANEL



- Dame Helen Alexander**, DBE, Chairman, Port of London Authority, Past President, CBI
- Eric Anstee**, Formerly Chairman, Mansell plc
- John Barton**, Chairman, Next plc
- Sir Victor Blank**, Formerly Chairman, Lloyds Banking Group plc
- Sir Richard Broadbent**, Chairman, Tesco plc
- Sir John Buchanan**, Chairman, Smith & Nephew plc
- Sir Roger Carr**, Chairman, Centrica plc, President, CBI
- John Devaney**, Chairman, National Express Group plc
- Sir Peter Gershon**, CBE, Chairman, Tate & Lyle plc
- Ken Hanna**, Chairman, Inchcape plc
- Baroness Hogg**, Chairman, Financial Reporting Council
- Nick Land** Formerly Chairman, Ernst & Young
- Jim Leng**, Formerly Chairman, Corus Group plc
- John Lovering**, Formerly Chairman, Mitchell and Butlers plc
- Steve Marshall**, Chairman, Balfour Beatty plc
- Sir John Parker**, Chairman, Anglo American plc
- Sir Ian Prosser**, Chairman, JKC Oil & Gas plc
- Sir Simon Robertson**, Chairman, Rolls Royce Holdings plc
- Derek Sach**, Global Head, Global Restructuring Group, Royal Bank of Scotland Group plc
- David Tyler**, Chairman, J Sainsbury plc
- Alan Thomson**, Chairman, Hays plc
- John Weston**, Chairman, MB Aerospace

All of our chairmen panel have held multiple and diverse board roles. Please note that we have only included the most recent relevant positions.



Alvarez & Marsal
One Finsbury Circus
London, EC2M 7EB
+44 207 715 5200

© Copyright 2014 Alvarez & Marsal Holdings, LLC. All Rights Reserved.

www.alvarezandmarsal.com