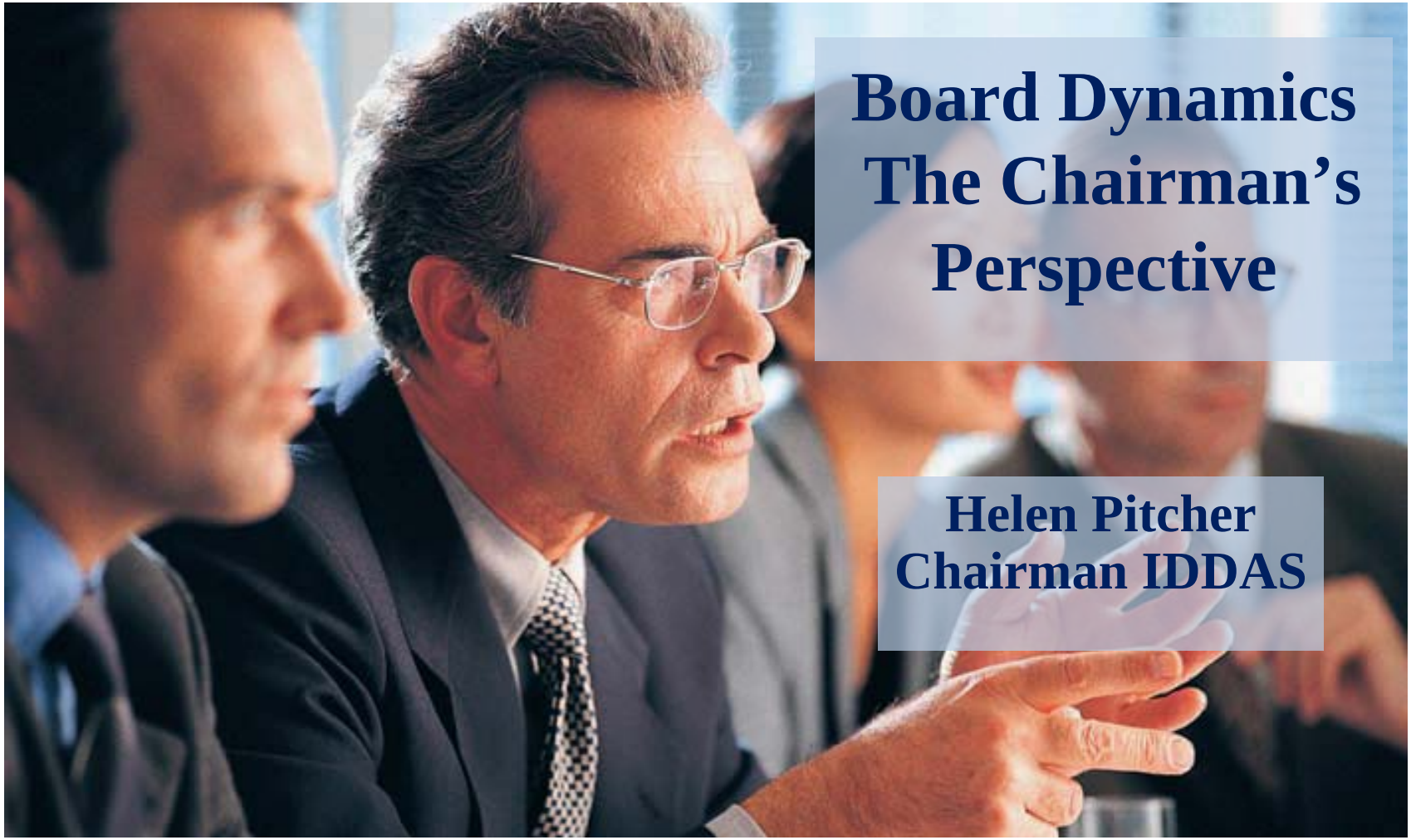


Board Dynamics The Chairman's Perspective

Helen Pitcher
Chairman IDDAS

Introduction

- Welcome
- IDDAS, Board Effectiveness Consultancy
- Why we started this research

Introduction

- Recent publication of the new UK Corporate Governance Code (Walker Report and FSA)
- Key Aspects of the new code
  - Behavioural Leadership
  - Selection and Diversity
  - Challenge and Debate
  - Board Development
  - Annual Elections
  - Risk and Business Model
- Many procedural and statistical based reports
- An opportunity for Chairman to speak directly to us in detail

Structure of Today

Detailed Findings

- CEO and the Chairman
- Skills of the Chairman
- Getting the right people
- Assessing performance

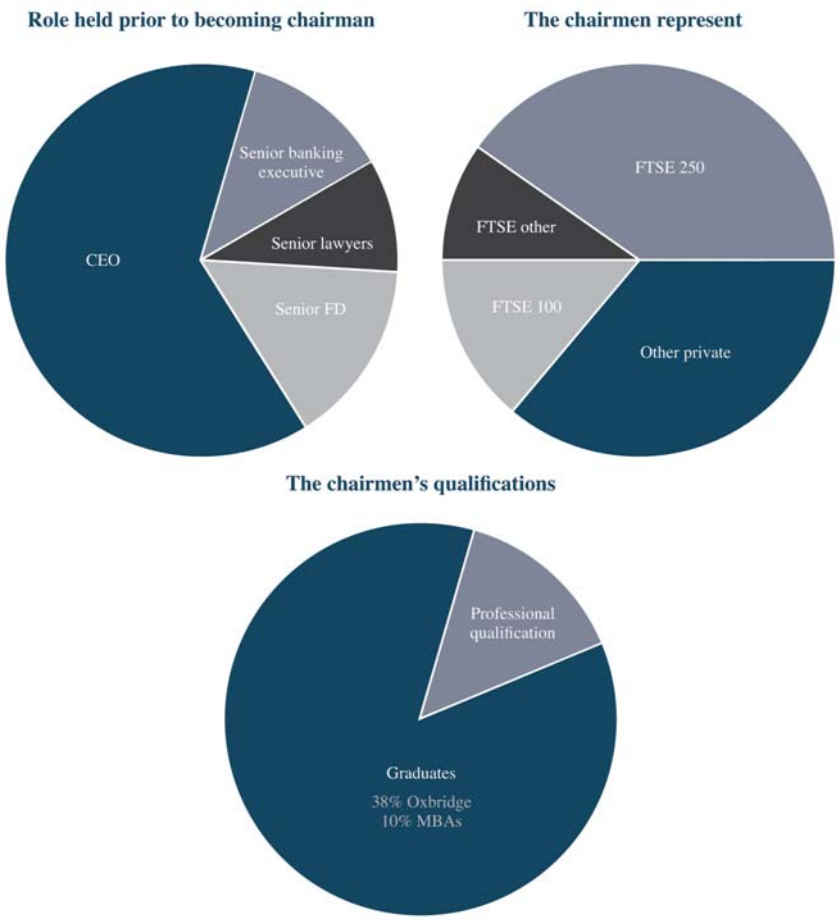
Behavioural Leadership and the New Code

Final Reflections

Questions & Answers

Context and Method

- Approach
  - The Boardroom Dynamics Series
  - One to One interviews with a structured framework
  - Qualitative inquiry and richness of response
  - 21 Chairmen interviewed



Chairman and their Context

- Chairmen's history
- A sea change of views
- Increasingly prominent and exposed role of the Chairman
- UK Corporate Governance Code
- Chairman as a Leadership Dynamics Specialist
- Strong CEOs, Stronger NEDs, more challenge, more review & regulation and greater accountability

Board Dynamics The Chairman's Perspective

Detailed Findings

CEO and Chairman

RELATIONSHIP AND INFLUENCE

- The key relationship as we have seen previously
- Important to explicitly create a clear definition of roles
- Building the right relationship takes time and effort
- Who has control? The vast majority of Chairs are former CEOs so have the capability
- The Chairman's role is to influence through the CEO

"Getting the relationship with the CEO right is the first, second and third most challenging issue"

CEO and Chairman

THE CHAIRMAN'S TRANSITION

- Relinquishing direct power
- A 'Mentor', 'Coach' and 'Counsellor' to the CEO
- To lead not to do

BOARD CONTEXT

- Important and developing balance with the 'new' NED role to make sure NEDs don't take over
- Challenging a dominant CEO when things are going well, a special challenge for Chairman

"Get really excited and enthused by your CEO, or get your colleagues' agreement to fire him"

The Skills of Chairmen

BACKGROUND OF CHAIRMEN

- Strong consensus that Executive Board experience is essential
- Needed to have been CEO or Finance Director!
- Some advantages to knowing the sector but not essential

A BALANCING ACT

- More important skills: listening, influencing, coaching, engaging and building consensus
- Balancing, shareholders interests, personalities & egos and the right amount of challenge

"You must create an atmosphere of challenge, but you do not want it to become too aggressive."

The Skills of Chairmen

THE PROCEDURAL SKILLS

- Good time management and avoid presentation paralysis
- Encourage and facilitate contributions

FORGING A TEAM

- A team dynamic needs to be created
- A variety of ways, but have a plan and strategy

RUNNING AN EFFECTIVE BOARD

- Planning and preparing for: right people, right team dynamics, right information and right atmosphere for challenge and debate

"Boards are not natural teams, and unless you work at it, it's pot luck if they work together"

The Skills of Chairmen

LEARNING THE SKILLS

- No structured approach
- By observation, good and bad
- By doing, NED and practice Chairmanship in other settings, i.e. charities, etc

THE LONELIEST PLACE?

- Surprisingly narrow set of people they turn to
- Almost no mentoring into the role
- Sense of gritted teeth and toughing it out
- Comment on generational shift, from ‘weakness to ask for advice’ to ‘build a support group’

“There is a very wide gulf between effective and non-effective chairman and boards”

Getting the Right People

A BALANCED BOARD

- Achieving the right balance of numbers, disciplines, executive and non-executive, requires careful thinking and planning
- A preference is for a smaller Board as dynamics easier
- NEDs should outnumber Executive Directors

RECRUITING THE RIGHT PEOPLE

- Recruiting NEDs cited as one of the biggest challenges
- Use of headhunters and personal networks

"First of all, you have to be able to choose a broad body of skills that are required to run the company. You have to do the analysis, and then go out and find any skills which are missing."

Getting the Right People

DIVERSITY

- There was universal agreement that having an assortment of skills, experience and perspectives is vital for good performance
- They are looking for different perspectives, often to reflect their customer base
- Little time for political correctness or 'quotas'
- Robust on need for more women and minority NEDs
- A warning note on compromising to achieve the Board, can mute diverse viewpoints

"Diversity is extremely important, because what you want around the boardroom table is differing perspectives; if, for instance, you have 12 goalkeepers, then you won't let in many goals, but you won't score any!"

Assessing Performance

THE BOARD

- A Sense of assessment as an issue in transition
- Wide range of approaches
- Assessment found useful where done systematically
- ‘Peer to Peer’ evaluation problematic
- Developing use of external evaluation which had been found to be productive
- If the ‘Board’ is not directly engaged in the feedback and action process its not enlightening

“It has changed how we operate. You pick out four or five most important things and then commit to having a discussion in the future about whether they happened. For instance, are NEDs making more consistent contributions around the table?”

Assessing Performance

SHAREHOLDERS AND THE CHAIRMAN

- Shareholders have little active interest in the Board assessment process
- Chairman's evaluation highly individualised
- Occasionally vague and sometimes robust
- Interestingly as former CEOs, many are used to more robust feedback, 360s and performance appraisal
- The SID has the 'duty' to feedback to the Chairman

"If you really want to do it, it would involve 360, and external evaluation, and possibly soliciting shareholders' views to see if they feel they're being fed enough information."

Board Dynamics The Chairman's Perspective

Summary

Behavioural Leadership and the New Code

A SHIFT OF EMPHASIS

- Beyond experience and expertise e.g. Finance. These are a qualifying criteria
- Chairman should also possess a range of additional skills, reflected in our report as the most challenging areas
  - Interpersonal skills and influence
  - Ability to create a well functioning 'Peer' team
  - Create an atmosphere of balanced challenge and debate
- A planned progression of Board Development and Succession
- Board Assessment and Development
  - Chairman, the Board's Leadership Dynamics specialist

Behavioural Leadership and the New Code

OTHER KEY ASPECTS

- Selection and Diversity to avoid ‘Group Think’
- Appropriate NEDs Challenge and Debate without disenfranchising the Executive team
- Chairmen sceptical about Annual Elections
- The ‘communal’ competence around the Risk and Business model
- The openness and visibility of performance pay

Final Reflections

- A rapidly evolving and developing Chairman's role
- Need to support and develop Chairman to meet the new demands
- A new Chairman generation with the Behavioural and Interpersonal skills in their DNA
- An ever increasing time commitment to do it right

"You should not underestimate the time needed. You definitely spend more time outside the boardroom than in it, working with the CEO, the executive team and the board."

Chairmen and Diversity on Boards

Earlier IDDAS Report: A Female Perspective Women on FTSE 100 Boards.

- A strategic perspective to women's development
  - Appointment to committees
  - Creating development space
- Creating space for a different perspective
  - Active Listening
  - Building a team approach
- Showing respect and active inclusion
  - Inclusive approach
  - Awareness and balance

What Women Bring to the Board

- Social Intelligence
  - A natural sounding board, good antenna
  - Listening without ego, with empathy, and varying approach
- Courage and Resilience
  - Confidence as a minority
  - Challenge and resilience
- Breadth of View
  - Different perspectives, strategic position
  - Exploring the context
- Energy and Drive
  - Used to working hard, used to multi tasking
  - Diligent at reading material and planning ahead

Women and Challenge on the Board

- Consider what is the best approach to take
  - Thinking it through; raising it early
  - Aware of men's egos
- Social and political intelligence
  - Stakeholder awareness, consensual
- Less confrontational
  - Subtle probing from a different angle
  - Less blunt
- Better Placed?
  - Less riding on outcome, personally or financially

Questions & Answers