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Corporate Governance Initiative

Ward Howell
TALENT EQUITY INSTITUTE

Chair Survey 2015

Chairs of the board of Directors: Findings from a Global Survey

Contents

About the INSEAD Corporate Governance Initiative

The INSEAD Corporate Governance Initiative (ICGI) harnesses INSEAD's expertise in multiple disciplines – accounting, finance, economics, strategy, risk-management, entrepreneurship, family governance, organisational behaviour and corporate social responsibility - for a comprehensive and sustainable response to the challenges facing directors today. ICGI is unique because of INSEAD's academic emphasis and international outlook. It combines faculty competence and institutional visibility with the aim of:

1- educating international board members to master corporate diversity;

2- conducting research with a global focus and developing innovative pedagogical materials on the most fundamental issues faced by boards;

3- hosting forums of peer-to-peer exchanges to address the many challenges facing boards and promoting the highest professional standards of conduct. The initiative brings an unmatched international viewpoint to its activities thanks to INSEAD's position as The Business School for the World.

www.insead.edu/governance

About Ward Howell Talent Equity Institute

Talent Equity Institute is a research arm of Ward Howell, talent equity consultancy headquartered in Moscow and providing services to business and government leaders in Russian and other emerging markets.

It operates through three segments: executive services (executive assessment, search, onboarding and development); corporate governance, and organizational development services that focus on building and enhancing talent management systems. Ward Howell is committed to accumulating and disseminating best management practices among its clients and beyond; in 2008 it started an in-house research center, the Talent Equity Institute, with the objective to create new, innovative models and tools for working with leadership capital.

Survey goals

Relatively little is known about board Chairs.

Unlike their counterparts on the executive side – CEOs – board leaders attract less research interest, and most of it focuses on the advantages and disadvantages of combining the CEO and Chair positions. Chairs are not an easy target for researchers since most of their work is done behind closed doors. They deal with highly sensitive matters and rarely appear in public.

In designing this survey, we wanted to shed light on this little but key actor in the boardroom and find answers to the following questions:

- Who is in the Chair of today's corporate boards?
- How does one become a Chair? What motivates this choice?
- What do Chairs actually do in and outside the boardroom?
- What challenges do they face and how do they overcome them?
- What contribution does the Chair make to the organization?
- How do company characteristics (type of ownership, life-cycle, size, geography) impact the choice and the work of the Chair?

[1] Academic and practitioners' publications on Chairs include:
Bezemer, P, Peij, S, Maassen, G, Van Halder, H. (2010) The changing role of the supervisory board Chairman: the case of the Netherlands (1997–2007).
Brickley, J A, Coles, JL, & Jarrell, G (1997) Leadership structure: Separating the CEO and Chairman of the board. *Journal of Corporate Finance*, 3(3), pp 189-220;
Coles, JW, & Hestrely, WS (2000) Independence of the Chairman and board composition: Firm choices and shareholder value. *Journal of Management*, 7, pp 119-139;
Kakabadse, N., Kakabadse, A (2007) Chairman of the board: Demographics Effects on Role Pursuit;
Krause, R; Semadeni, M (2013) Apprentice, departure and demotion: an examination of the three types of CEO-board Chair separation. *Academy of Management Journal*. 3 (56), pp. 805-826.
Lorsch, J (editor) (2012) *The Future of boards: Meeting the Governance Challenges of the Twenty-First Century*. Harvard Business Press.
Waelkli, U, Zeller J (2012) Old captains at the helm: Chairman age and firm performance;

Methodology and sample

We asked 600 Chairpersons – active or recently retired – to complete a questionnaire. We received 118 valid answers via e-mail or during INSEAD executive and board development programmes on our Fontainebleau campus in 2014-15, a 20% response rate.

To complement the survey data, we asked 11 participants to anonymously comment on the findings. Respondents represented 30 countries.

The companies they chair(ed) are in diverse industry sectors.

The majority of respondents Chair the boards of medium-sized companies that operate in one or two countries. A number of them chair large multinational corporations.

The longevity of the companies – how long they have been in business – is as follows.

The dominant forms of ownership are private and public, although others are represented.

As the sample presents a fairly diverse picture, the data collected from the survey allow for interesting aggregations and comparisons.

Table 1. Nationality of respondents

Region	Country	Number of Respondents
Americas	Canada	2
	USA	2
Asia-Pacific	Australia	2
	Indonesia	2
	Japan	1
	South Korea	1
	Sri Lanka	1
Continental Europe	Belgium	11
	Denmark	1
	Finland	2
	France	7
	Germany	4
	Italy	2
	Luxembourg	2
	Netherlands	11
	Switzerland	3
Eastern, Central Europe & CIS	Estonia	1
	Hungary	1
	Kazakhstan	2
	Latvia	1
	Lithuania	1
	Russia	19
	Kuwait	1
	Lebanon	3
	Nigeria	2
	Oman	1
	Saudi Arabia	2
	South Africa	1
	UAE	1
UK	UK	26
No nationality indicated		2
Total		118

Chart 1. Industry distribution of companies

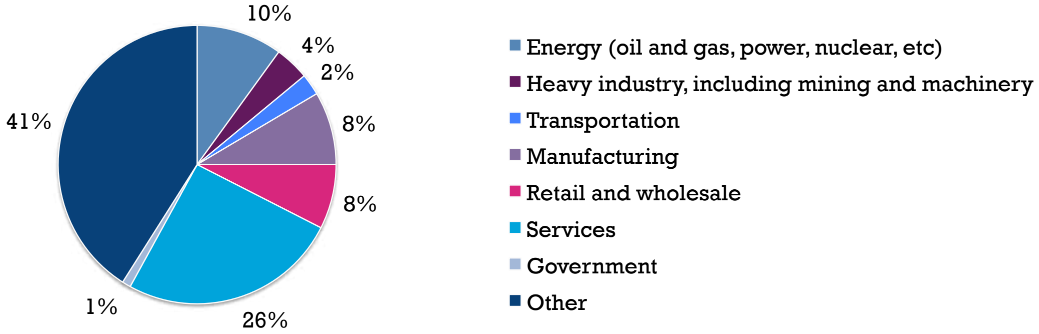


Chart 2. Company size

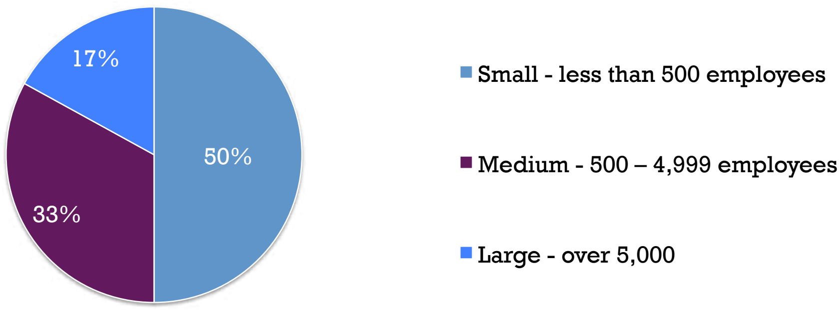


Chart 3. Company age

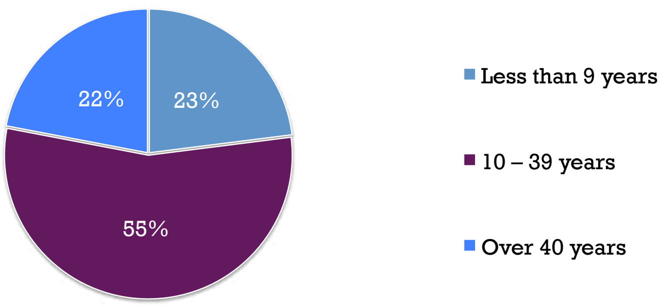
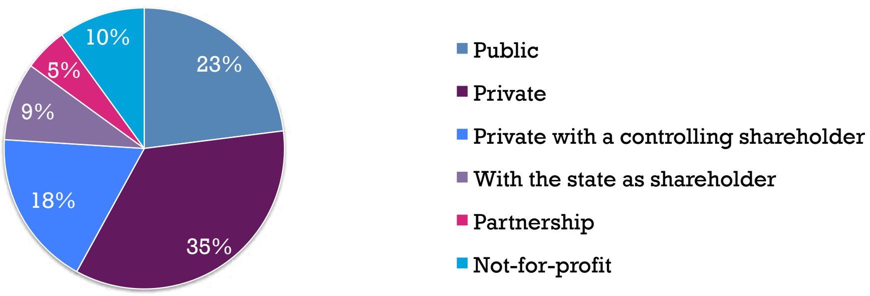


Chart 4. Types of ownership



A Profile of The Chair

The large majority of our respondents are men (91%) – predictably senior men, both in terms of age, board experience and overall business experience. A significant number – 41% – are 50 or less. We believe this trend of younger Chairs will continue. Chairing the 0 is no longer a ceremonial function. Being the Chair today requires – amongst other things – high levels of energy and agility. A surprising feature of our sample is that the Chairs are younger than the CEOs of large companies. According to a Spencer Stuart report, only 22% of CEOs from S&P 500 companies were 50 or less.

Chart 6. Experience serving on boards

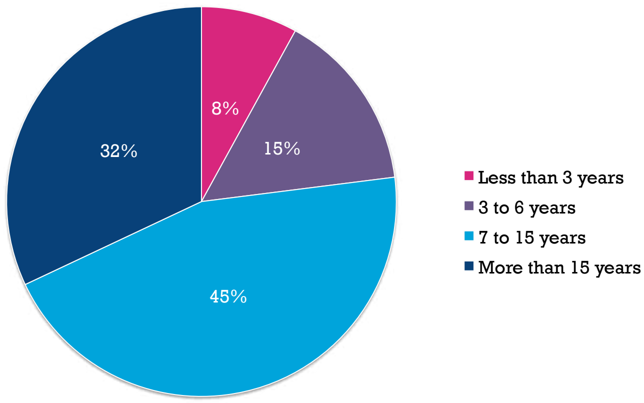
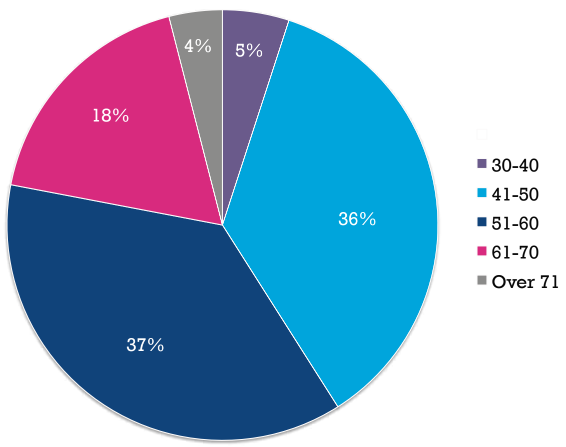


Chart 5. Age of Chairs



Our respondents are experienced directors: three quarters have more than 7 years of board experience.

Most survey participants have come through the executive ranks, having been CEOs and Executive Directors. A noticeable number have an academic background.

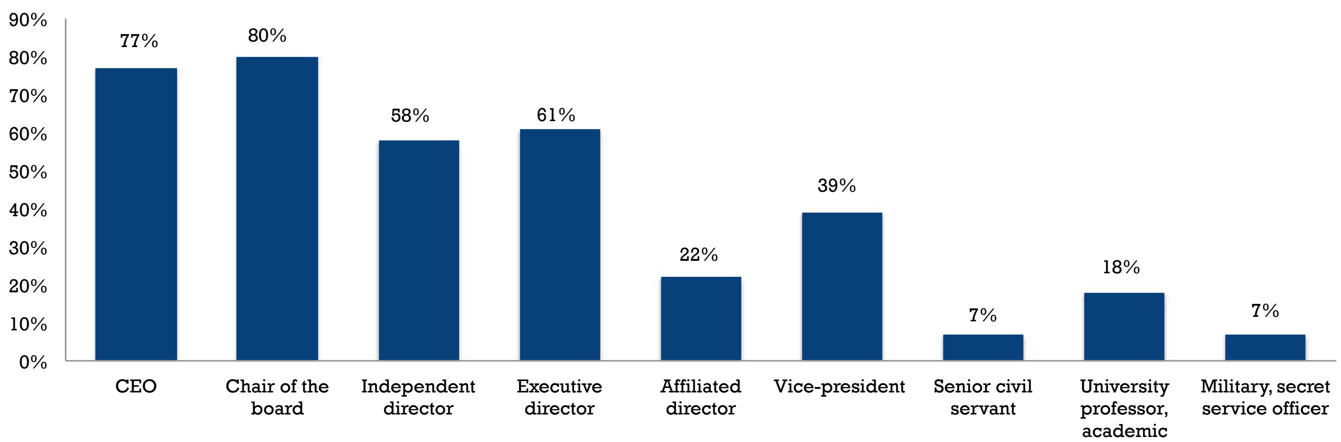
A majority hold (or have held) a CEO position – this seems to be the main path to the Chair.

Our respondents are well educated: 72% have a master's, 17% a PhD, and 11% a bachelor's degree.

Predictably, a good number of survey participants have served on many boards as directors. In addition to having a CEO background, director's experience is key to being appointed Chair.

Almost a quarter of respondents could be classified as 'celebrity Chairs' – they currently preside over three or more boards of directors. These people are somewhat older than other

Chart 7. Previously held positions



respondents (30% are over 60, compared to 22% in the general sample), are very experienced in corporate governance (48% have more than 15 years' experience on boards), and one third are shareholders of the companies they Chair. Importantly, those companies are either small or medium size, which appears to confirm a trend that is becoming the norm – for a person to Chair only one board.

Incumbents, their boards and shareholders understand a new reality of engaged and active Chairs and opt for exclusivity.

One participant shared his story: *"I replaced one of the company's founders as a Chair. When offering me the job they made it clear that it should be my only Chairmanship. I agree with them – to be effective I need to concentrate. It also gives me more ownership to feel that this is my only board."*

The average Chair's tenure amongst respondents of our survey is not long: 40% have held the position for 1-3 years, although a number have chaired the board for over a decade. If we compare our sample with the S&P data for CEOs, we see that the CEOs' tenure tends to outlast that of our Chairs. Perhaps our sample is somewhat biased towards Chairs new to their positions. We could not find reliable data elsewhere on Chair tenure for comparison. As indicated later in the report, tenure is one of the factors to have a noticeable impact on the satisfaction, challenges and contribution that the position entails.

Chart 8. Number of boards (currently) Chaired

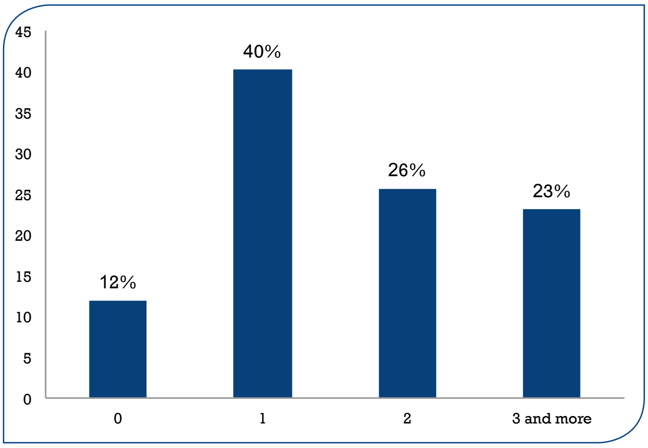
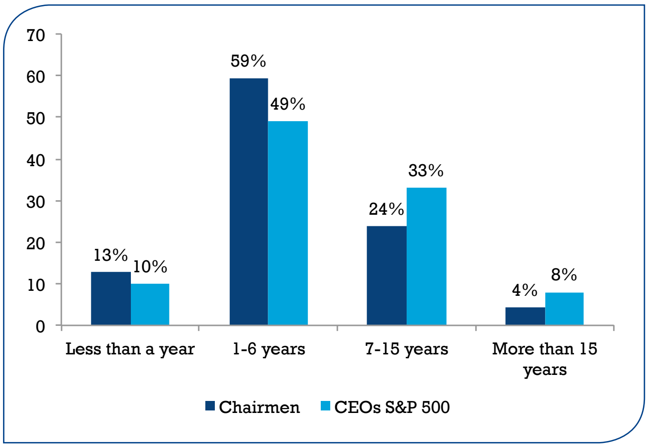


Chart 9. Chair and CEO Tenure



Women Chairs

The Chairwomen (9% of respondents) who completed our survey come from developed and developing economies: Australia, Belgium, the Netherlands, UK (2), South Africa, Kuwait, and Russia (2). One did not indicate her nationality. On aggregate, these Chairs:

- are older than their male peers (two thirds of Chairwomen are over 61),
- have more formal education (40% have PhDs)
- are less likely to have held executive positions – some come from academia and are professional directors – but have more years of professional experience
- have spent more time serving on boards and have presided over boards longer than their male counterparts in the sample.

In short, the Chairwomen in our survey draw upon traditional sources of power – age, experience, education and academic achievement – to govern in what has traditionally been a male-dominated boardroom environment.

As one of them explained: *"To become a Chair, a woman needs to be head and shoulders above everyone else. It does not necessarily mean she has to be more masculine than men around her – though this may happen – but she has to be a clear favourite. She needs to have something that clearly puts her in the first place."*

Who is Mr. Chair?

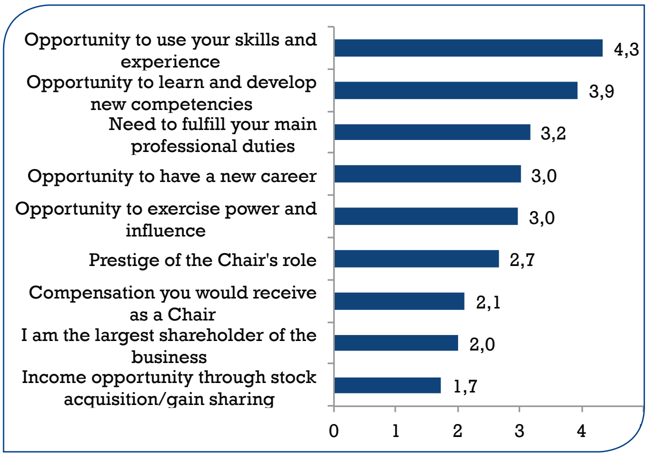
If we draw an aggregate portrait from the survey, the typical Chair is a 55-year-old man with a master's degree, who has held the roles of CEO, VP and independent director before becoming Chair. He currently sits on three boards and Chairs one of them. He has Chaired a privately-owned company with a few thousand employees for the last three years, has no stock in the company, and receives an annual compensation of $100,000 for his work.

Motivation, remuneration and job accession

According to the survey, financial gains are not at the top of the 'motivational pyramid' for Chairs, professional interests are. Respondents reported that they wanted to become Chairs in order to put their skills and experience to productive use and/or have a new career (social motive) – predictable features of experienced and successful people.

More surprisingly, many look for opportunities to learn (a developmental motive). The latter finding contradicts the traditional image of the Chair as a 'fount of wisdom to share with board members and executives.' We believe that this reflects the fact that Chairing the board has become a job in its own right that both requires personal development and simultaneously provides opportunities for it.

Chart 10. Chair's motivation
(1 – not important to 5 – very important)



According to our respondents, the prestige of the position is not a big motivator, nor is the financial component. The last finding is perhaps not surprising: most Chairs have successful careers behind them and have achieved a level of financial security. However, we see significant differences in how the companies they chair remunerate them (see next section).

Age difference has very little impact on what motivates people to become Chair (see Table 2). The only two significant variances are easy to explain: younger Chairs put a stronger emphasis on the learning opportunity, while senior Chairs emphasize the opportunity to use their skills. We see more controlling shareholders amongst younger Chairs.

Table 2. Motivation, by age

	Under 50 years	Over 60 years
Need to fulfil your main professsional duties	3.2	3.3
I am the largest share-holder of the business	2.4	1.6
Prestige of the Chair's role	2.5	2.6
Oppor-tunity to use your skills and experience	4.3	4.6
Compen-sation you would receive as a Chair	2.0	2.3
Opportunity to exercise power and influence	3.0	2.9
Opportunity to learn and develop new competencies	4.2	3.4
Opportunity to have a new career	3.0	3.0
Income opportunity through stock acquisition / gain sharing	1.7	1.6

For Chairwomen, opportunities to use their skills and to learn are even more important (scoring 4.7 each on the 1 to 5 scale), while the financial gains are less important to them than for male directors. Analysing the survey data, we distinguished four categories of respondents:

1. People who combine **CEO and Chair positions** (referred to as Chair/CEO)
2. People **who have never been a CEO** (non-CEO)
3. Chairs who **are or have been CEO in another company** (external CEO)
4. Chairs who are **shareholders in the company**.

We expected to find differences in what motivates each category to become Chair. In fact, respondents displayed similar attitudes, with one exception.

Table 3. Motivation by category

	Chair CEO	Non CEO	External CEO	Shareholder
Need to fulfil your main profes-sional duties	3.5	2.8	3.2	3.3
I am the largest share-holder of the business	3.0	2.0	1.7	4.6
Prestige of the Chair's role	2.4	2.5	2.8	2.1
Oppor-tunity to use your skills and experi-ence	4.3	4.0	4.5	4.2
Compen-sation you would receive as a Chair	2.1	2.1	2.1	2.0
Oppor-tunity to exercise power and influence	3.0	3.0	2.9	3.0
Opportu-nity to learn and develop new com-petencies	4.2	4.0	3.8	3.9
Opportu-nity to have a new career	2.9	3.1	3.0	3.1
Income opportunity through stock acquisition / gain sharing	1.5	1.7	1.8	1.8

'Opportunity to use your skills and experience' tops the list for all four categories if we exclude such technical factors as 'being the largest shareholder' which is only fully applicable to the fourth category. All categories are driven by professional rather than financial motives – even independent Chairs rank compensation as being of low importance.

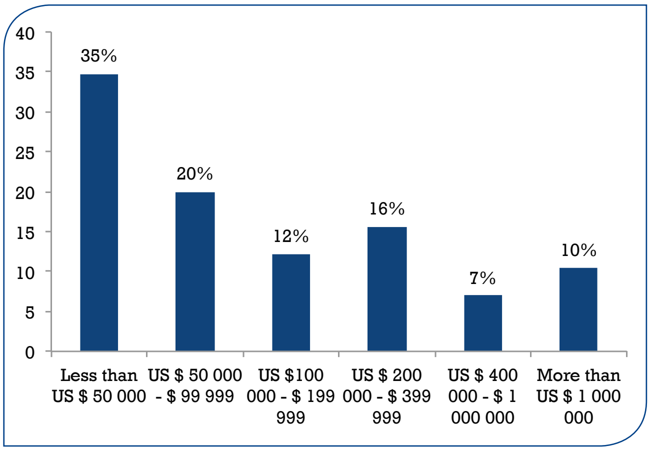
In addition to rating the factors of motivation suggested by the questionnaire, respondents mentioned other aspects that attracted them to the job, which we grouped into five clusters.

1. **To do good:** This was most often cited, as in: *'Opportunity to bring about good for civil society'; 'Give back to the business community'; 'My desire to provide good governance'.*
2. **A sense of duty:** *'I have a duty to this company and its shareholders'; 'Others wanted me to become a Chair'; 'I feel committed to the organization'; 'To serve my family'.*
3. **Networking:** *'To enter a very exclusive circle of people'; 'To expand my network'.*
4. **Career move**
5. **Challenge**

Compensation

The survey participants reported highly divergent levels of remuneration, although more than half receive relatively modest compensation (less than $100,000 a year).

Chart 11. Chair compensation



Predictably, company size has some impact on the Chair's compensation, with almost half of small companies paying less than $50,000 a year. However, the percentage of companies paying the Chair more than $1 million a year is almost the same for small, medium and large.

Chart 12. Chair compensation by company size (%)

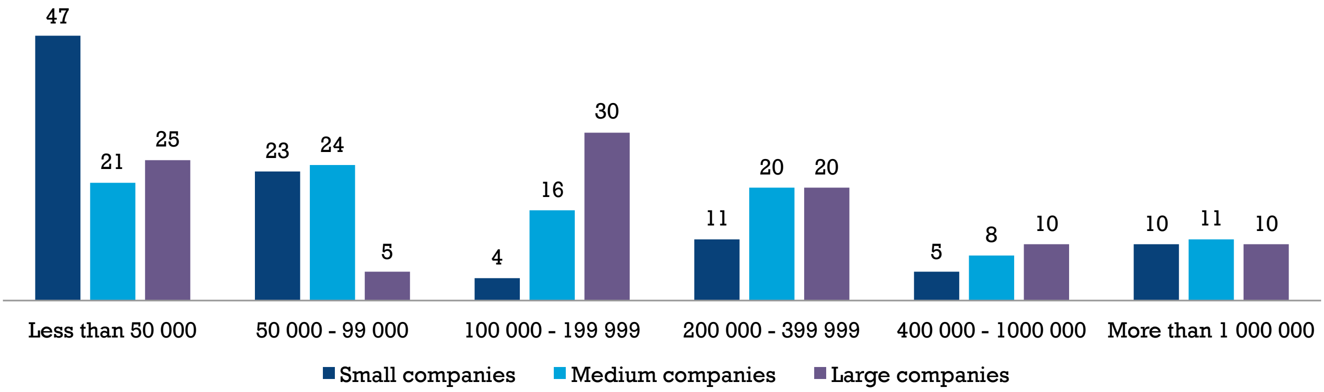


Chart 13. Chair compensation by company size and ownership structure (%)

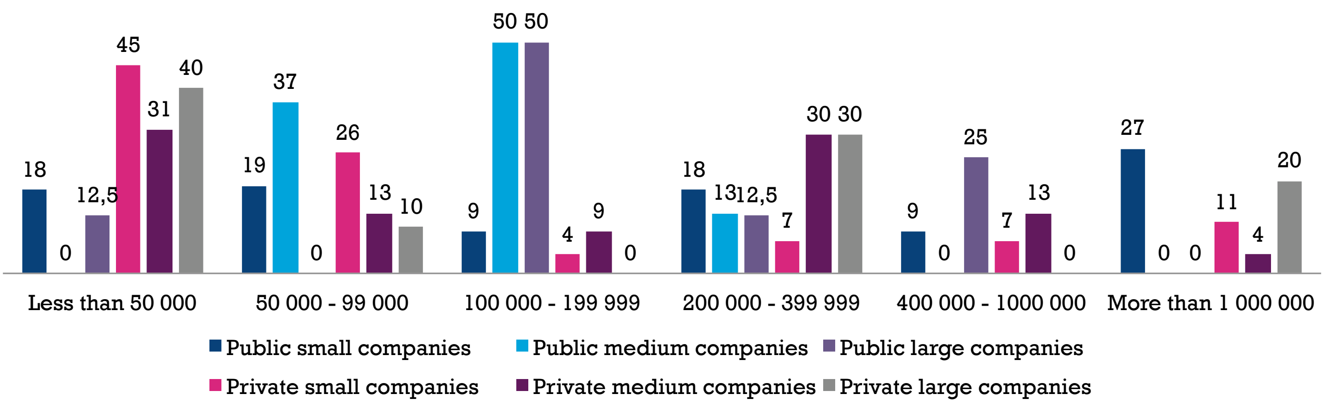
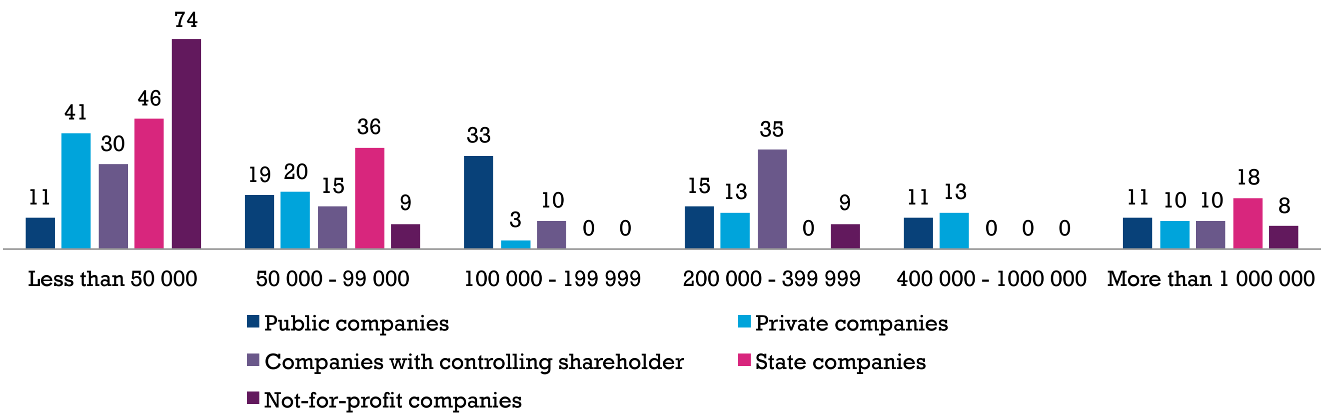


Chart 14. Chair compensation by ownership structure (%)



We expected to find a strong correlation between company size and compensation at publicly listed companies, which are subjects to more external scrutiny. However, the correlation is not strong, although we recognize that our small sample size does not allow for conclusive statistical analysis.

The picture is even more surprising when we look at Chair compensation and company age. One fifth of the Chairs from young companies receive more than $1 million a year. We believe this indicates that the 'market' for Chairs is not well developed – compensation thus tends to reflect personality, background, and relationship with shareholders rather than the size of the business. Another hypothesis is that smaller companies may be more dependent on their Chairs for performance, justifying the upward pressure on compensation. Regional differences have a noticeable impact on compensation.

Not-for-profit organizations predictably reward their Chairs modestly. So do state-owned companies, though it is interesting to note that there are exceptions at the high end. For commercial enterprises, type of ownership has no visible impact on the levels of compensation.

Contrary to what we expected, the Chairs who are members of a controlling family do not receive significantly higher income than other board leaders. At the same time there are more millionaires among them than in any other category in spite of the fact that their companies are somewhat smaller than others in the sample. One explanation for this 'premium' may be that those Chairs reported their total income from the company including dividends. Another may be that family companies do not benchmark the Chair's compensation against their peers and are generous in rewarding the Chair, although one respondent clearly had a different justification – total commitment: *"I eat, sleep and breathe this company. I devote 24 hours a day, seven days a week to it. No wonder I should be paid at least as well as my CEO."*

Does age or board experience affect Chair's compensation? The answer is yes. 50% of seasoned Chairs earn more than $200,000 compared with 31% of younger Chairs. Of those who receive compensation below $50,000, 41% have served on boards for less than six years, and only 29% have more than 15 years of experience.

Women Chairs are not discriminated against in terms of compensation. The distribution of their income follows that of the sample as a whole: one makes more than $1 million a year, another is paid in the $400,000-$1,000,000 range, and four are in the $200,000-$400,000 range.

Accession to the job

We expected a significant number of appointments to involve proactive work by board nomination committees and by professional search firms, especially for Chairs in public companies. The data showed that such cases are the exception. Shareholders play a decisive role in finding and selecting a future Chair. The best route to the job is to have professional dealings (34% of respondents) or personal relationships (21%) with the former. Knowing board members (20%), knowing the CEO and other executives professionally (15%), or privately (9%), also helps.

In their comments, survey participants identified other important informal channels to the Chair: shareholders' and company advisors such as investment bankers, lawyers and management consultants; government officials (not for state-owned companies) and director's virtual networks (such as the INSEAD International Directors Programme and IN-BOARD alumni networks). It is interesting that the results are no different for public companies, where a stronger impact of the board and its committees and the CEO on the Chair's selection might be expected.

In our sample, 'professional relationships with some shareholders' (33%) and 'directly approached by some shareholders' (30%) are the two mostly cited channels for public companies. Professional search firms (18%) and nomination committees (11%) come some way behind.

It appears that, when it comes to nominating the Chair, formal governance gives way to more informal efforts led by shareholders. We believe that this illustrates two aspects of contemporary governance practice:

Shareholders recognize that the role of a Chair is critical to the business, but they do not fully trust existing governance mechanisms to select the right person. Instead they get directly involved, even if it means crossing formal boundaries and undermining governance prescriptions.

In choosing a Chair, shareholders emphasize trust and soft skills over professional qualifications, hence network-based recruitment supersedes the executive search approach that is standard for CEO and other executive positions. One of the survey participants shared the following story of his recruitment:

"The controlling shareholder, with whom I had worked as an advisor two years ago and whom I have seen from time to time since, called me and invited me for lunch. Over the meal he talked about the company, its board and a need to have an independent Chair. Before the main (course) arrived, he offered me that position. I asked about a nomination committee and other directors (it is a public company). He said they would love to work with me even though he had not asked any of them yet. I replied that I would agree if they liked to work with me and I would like to work with them after having personal meetings with each of them. He arranged the meetings, which looked more like I was interviewing them for a job than vice versa. I was appointed within a month."

The picture for women is somewhat different: a professional affiliation with board members is the most frequent channel, followed by being directly approached by shareholders, and, more surprisingly, replying to an ad (in two cases out of eleven).

The work of the Chair

The modern philosophy of governance prescribes a well-defined, even somewhat limited, role for the Chair of the board: to preside over a collective decision-making body, organize its work effectively, and represent it in relations with key stakeholders such as executives (CEO), shareholders, regulators, etc. However, the reality is more complex.

In some organizations the Chair takes over from executives as the key 'mover and shaker'; in others, the Chair asks the board to rubber-stamp management's or owners' decisions. Realizing that it would be very difficult (though surely interesting) to study what Chairs do by observing them on the job, we aimed for insight into these issues by asking survey participants about their particular challenges, how they allocate their efforts to their various priorities, and their satisfaction with the results.

Main challenges

Two out of the top four challenges for the participants in the survey are related to the boardroom and two to a larger board environment, but they all concern human interactions. The number one challenge – **the relationship with a controlling/large shareholder** – is worthy of further discussion.

According to the contemporary governance paradigm, the Chair is the leader of the board of directors and is responsible for ensuring it is effective. Shareholders as such are not part of this equation; in theory, and according to most prevailing legislation, they elect the board, and the board elects its leader – the Chair. The shareholders watch from a distance and can, if unhappy with the Chair, vote the dismissal of the whole board at the General Assembly. To avoid such a negative outcome, major shareholders are often closely involved with the board and with the Chair (as we saw in the section on Accession). Building constructive relationships with them creates a productive and trusting environment for the board's work and is one way to protect it from negative and harmful shareholder interference.

One survey participant shared his experience:

"I had some very painful experiences as a Chair of a private company. So before accepting my current job I made a deal with the controlling shareholder, who is a son of the founder: we see each other once a month and two days before every board meeting and discuss any subject either of us finds worth discussing. I listen to his recommendations attentively, but keep an independence of judgment. I don't put on the board agenda any nomination or investment decision without consulting him first. If he wants to talk to directors, he lets me know and I organize a meeting, but he is not welcome to the board meetings. We had to go through some little skirmishes initially, but in general it works for the board and for him."

Managing a difficult board member is the second biggest challenge. This reflects the fact that a board of directors is a potentially fragile organism whose leader has to handle people that may not be inclined to cooperate with the rest of the group in order to ensure effective functioning of the whole.

According to one Chair:

"The board is a classical case where the weakest element determines performance of the whole system. In my current board I have a director who loves China and does not like to listen. He tries to bring China into every discussion we are having, and often does it without really knowing what has already been said and understood. His remarks may seriously derail our collective work and drive some directors crazy.

I tried to give him some coaching outside of the board room, but it was not effective. Now I monitor him with special attention and when he wants to start bringing up his points, I summarize the previous discussion, reframe the discussion point, and give him two minutes to speak. Or I ask him to open a discussion."

Level of collaboration and teamwork among board members is the number three challenge. board members are usually successful mature professionals with multiple affiliations and busy agendas. Many of them are or have been CEOs or senior executives, and have a habit of ruling rather than collaborating. Making them listen not speak, making them supportive of each other and of management rather than challenging both, making them question their own position rather than that of a colleague (i.e. operating in a horizontal rather than vertical format) is a serious challenge for any Chair. Add to that that they only come together 4 to 10 times a year, and it becomes a major challenge.

One respondent shared his experience:

"The board I Chair has 3 acting CEOs and 3 ex-CEOs, two serial entrepreneurs, one former Minister, three active board Chairmen, one former general and acting directors from 22 boards. They share 5 PhDs and 11 Masters' degrees; their collective net worth is above 2 billion pounds. And there are only eight of them."

Informational asymmetry with CEO and other executives. The CEO spends somewhere from 2,800 to 3,500 hours a year managing the company and has a dedicated team to prepare and feed information about the business to him. Typically, a non-executive Chair spends from 20 to 50 hours conducting board meetings, and somewhere from 20 to 100 hours directly and indirectly preparing for them. Very rarely does a Chair have any staff at the company preparing and transmitting company-related information (though this may be changing).

According to one survey participant:

"The information challenge is enormous. I accept that I will never have the same information as management does. I deal with it by picking key indicators and ratios and following them; by asking the CEO to produce a monthly information memo to the members of the board and having him talk about major events at the beginning of every board meeting; by regularly talking to senior executives; by making field trips, and by reading financial and management accounts."

Surprisingly, challenges such as 'Low motivation and absenteeism of board members' and 'Insignificant time commitments of board members' – often cited as major obstacles to board work in academic and business literature – did not seem to worry our respondents. This may reflect the fact that boards have become more engaged and directors more responsible and involved. One survey participant commented:

"Perhaps I am a young (49 year old) and inexperienced (3 years) Chairman, and have not seen the 'good old days', but I never had an issue with low motivation or poor preparation of directors. They take their roles very seriously and find the time and resources to be continuously engaged."

The list of top challenges for female directors is similar to those of the whole sample:

1. Managing non-conforming (special cases) board members – 2.9
2. Level of collaboration and teamwork among board members – 2.7
3. Diversity in board members' backgrounds – 2.6
4. Relationships with external stakeholders such as clients, suppliers and government – 2.6

Table 4. Top challenges for different categories of Chair

Chair Type	Challenge 1	Challenge 2	Challenge 3
Chair/CEO	Relationships with large shareholders	Relationships with minority shareholders	Managing non-conforming (special cases) board members and Level of collaboration and teamwork among board members
Non-CEO	Relationships with large shareholders	Managing non-conforming (special cases) board members	Level of collaboration and teamwork among board members and Relationships with minority shareholders
External CEO	Relationships with large shareholders	Insignificant time commitments of board members	Managing non-conforming (special cases) board members and Informational asymmetry with CEO and other executives
Chair/ Shareholder	Relationships with large shareholders	Managing non-conforming (special cases) board members	Level of collaboration and team work among board members

However, they give more weight to such challenges as directors' diversity and relationships with outside shareholders.

It is interesting that different categories – Chair/CEO, external CEO, non-CEO and Chair/Shareholder – have very similar top challenges. This suggests that their challenges are principally driven by external factors rather than, leaders' backgrounds, and that the work of the Chair should be seen as universal in nature.

In their comments, survey participants referred to other challenges which were mostly relationship-driven and confirm the above hypothesis. These comments can be grouped into the following categories:

- **Diversity** – cultural, geographical, diverse agendas and interests of stakeholders.
- **Legal constraints** – laws, corporate governance codes, shareholders' agreements, veto rights.
- **Family-shareholders-board-CEO–company** – (managing divergences and conflicts in roles and interests) – directors wearing three hats: shareholders, board members, executives; unclear borders between board and management; shareholders' intervention into management; dealing with owner-CEO
- **Managing oneself** – priorities and time allocation between different boards; how much time to spend as a Chair; workload and issues planning.

How to overcome these challenges? The survey gives one hint: years of experience as a Chair result in effectiveness and create confidence and ease with the task. Respondents with longer tenure did not rank any challenges as overly important.

Chair contributions and priorities

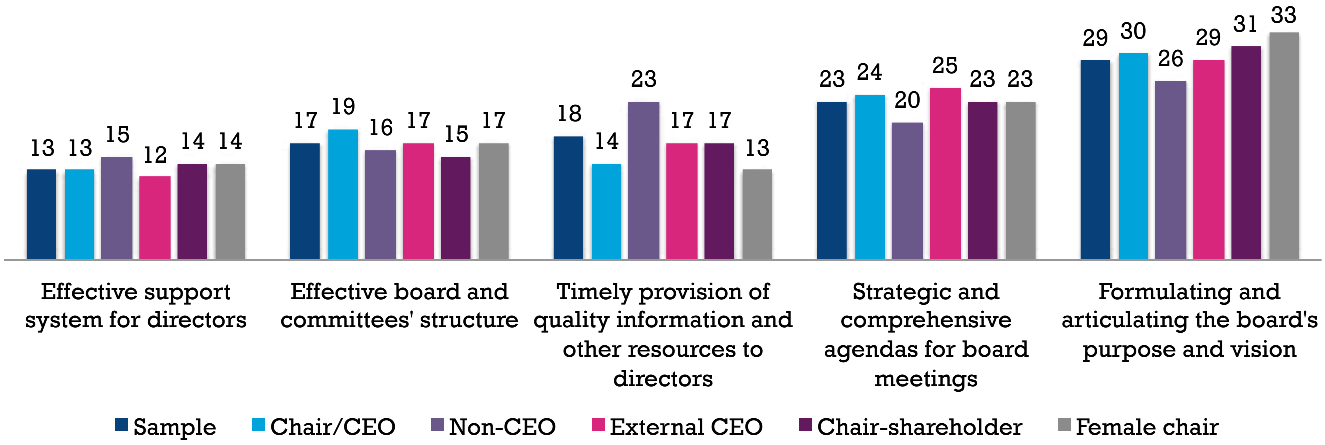
By asking what they contribute to each of the four critical roles of the Chair (ensuring effective board process, developing a competent and collaborative board, managing CEO and executives, and representing the board in relationships with external stakeholders) we sought to gauge directors' perceptions of priorities and understand how Chairs actually allocate their time and effort.

Ensuring Effective board Process

We did not expect 'the vision thing' to be one of the top priorities for many Chairs. Our experience with boards suggests that Chairs and directors often consider this a 'soft issue' and do not wish to spend much time on it. However, the survey found that the Chairs perceive themselves as actively working with directors in formulating and articulating the board's purpose and vision.

The agenda takes almost a quarter of the Chair's attention, which reflects its undeniable importance to the board's work.

Chart 15. Contribution to ensuring effective board process (%time)



The lesser focus on materials is probably a sign of maturity – less experienced Chairs pay more attention to preparing materials or fully delegate this to management.

One of the participants openly admitted this: *"I know how important information is and yet I leave it to management to prepare and to structure it. Frankly speaking, it is just very convenient for me."*

Older Chairs (over 60 years) pay more attention to board meeting agendas and providing effective support to directors, less to the board's purpose and vision. This may reflect that the purpose and vision have already been well-defined and articulated, or that they belong to the 'old school' which does not consider vision to be essential to a well-functioning board.

Creating a competent and collaborative board

We expected Chairs to concentrate on setting and enforcing rules and mentoring directors, but the responses proved us wrong.

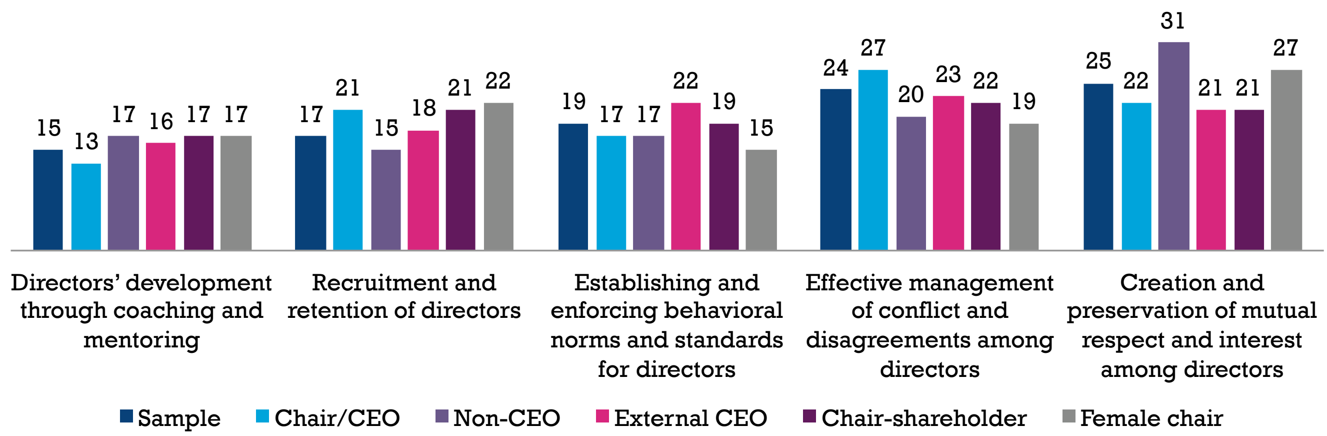
Building trust and working relationships turned out to be the number one priority for the respondents, although this was not always the case, according to one of them:

"When my uncle prepared me for taking over as a Chair about ten years ago, he told me: 'These guys may not like each other and even fight sometimes – they all have big egos. Don't worry about that, you don't need to have a team; you need to have their brains, names and networks.' First I followed his advice, but then I realized that the board could do much more if we cooperated. So we spoke about it, set up simple rules, and I try to make sure we stick to them. Initially some people were reluctant – we even had to let go one veteran director who we just could not get to listen to others¬. But then board members began to appreciate the team spirit. I believe we give to the company more than my uncle's board did."

According to the survey, Chairs are not that active in forming the board ('selecting directors') or developing board members. As we saw earlier, shareholders play a leading role in selecting future Chairs, as may be the case with regard to other board members. As far as mentoring directors, Chairs not only have limited opportunities for this due to the nature of their work (a part-time activity with a limited number of face-to-face sessions in a year) but may also consider fellow board members beyond mentoring. One participant openly expressed this philosophy: *"I don't consider directors' mentoring a part of my job. They don't need mentoring, they are mature people, and they actually get paid for that."*

For older Chairs, 'creation and preservation of mutual respect among directors' and 'director's development through coaching and mentoring' are more important than for the sample as a whole – a reminder that such functions require status and experience from the mentor-to-be.

Chart 16. Chairs' contribution to creating a competent and collaborative board (% concentration)



Managing the CEO and senior executives

Survey respondents make a significant contribution to what many governance experts consider one of the most important functions of the board – CEO selection and appointment. They also spend a lot of time on CEO evaluation and mentoring, but do remarkably less in the areas of executive compensation, succession planning and development of other senior executives, either leaving room for others in the governance arena such as board committees and the CEO, or neglecting these areas.

It is interesting that Chairs without a CEO background consider their contribution to CEO selection less important. Chair-shareholders actively mentor the CEO and executives, as do female Chairs. Succession planning is at the very bottom for every group, suggesting that it remains one of the biggest challenges for boards and their leaders.

Representing the board in relationships with external stakeholders

In representing the board to external stakeholders, the item 'Maintaining constructive relationships with shareholders' received the highest score overall and tops the list of challenges for three categories (Chair/CEO, non-CEO, external CEO) as their most significant contribution. The survey responses suggest that

Chart 17. Chairs' contributions to managing the CEO and executives (% time)

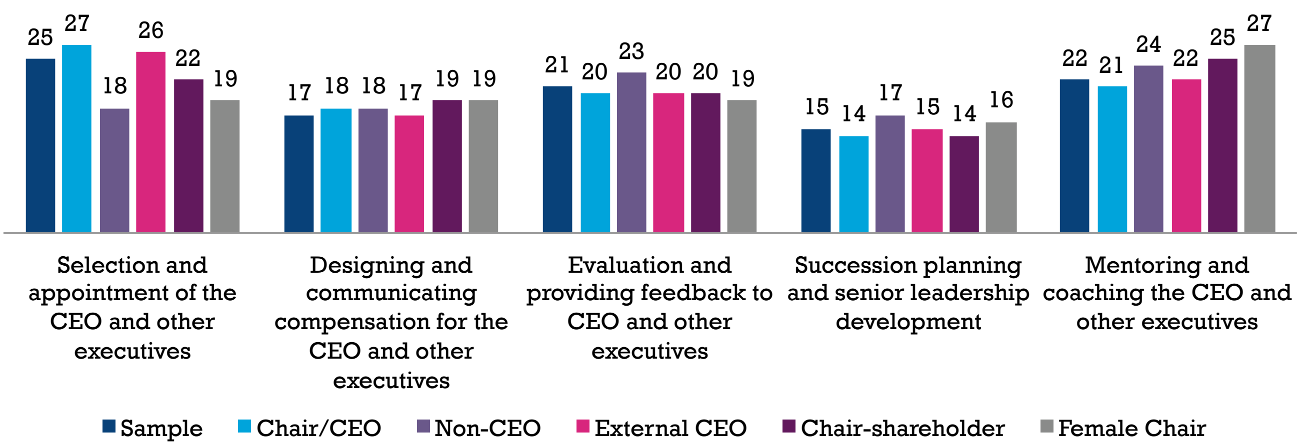
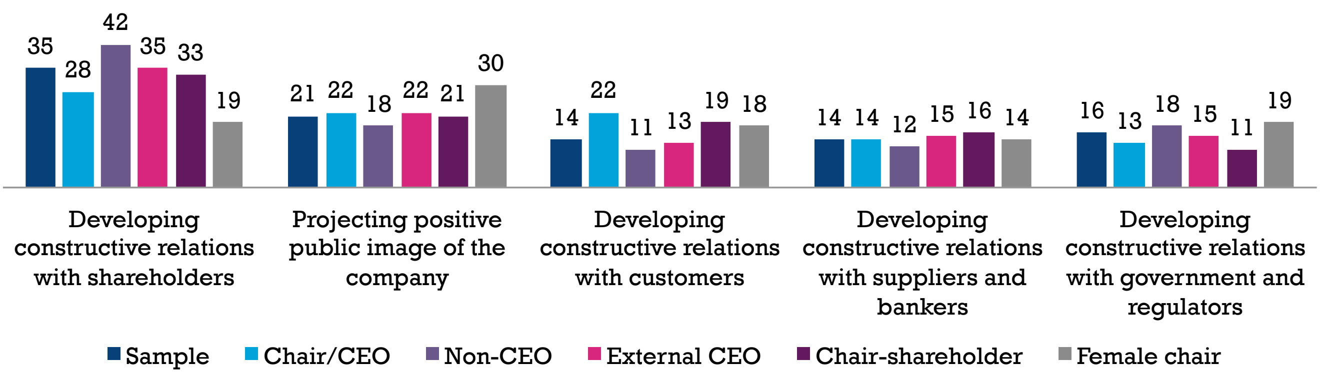


Chart 18. Chair's contributions to representing the board in relationships with external stakeholders (% concentration)



Chairs of both public and private companies consider it a personal priority and responsibility to maintain productive relationships with shareholders and their representatives. In the words of one respondent:

"For the board to be productive, it needs to have the full support of the shareholders – two families in my case. I take time to meet with the families regularly, to sit down and to take them through what we are working on. It is not in my job description, but I consider it the most critical part of my job."

The challenge of establishing constructive relations with shareholders seems to become even more significant with years of experience: older Chairs gave the highest score to this category compared to others.

Chairs who took part in the survey believe that they help the company to maintain a positive public image; even outsiders ('non-CEOs' in our terminology) dedicate a significant share of their attention to it. One female Chair indicated that it constituted 80% of her contribution. This reflects a trend for Chairs to recognize society as one of the key stakeholders in the company, and the need to be more visible and active in the public sphere.

According to our survey, Chairs are less active with external business stakeholders such as customers and suppliers. This may be the reflection of a particular philosophy articulated by one of the participants: *"My view is that the CEO should be our company's business face. I stay away from customer meetings and other external relations."* Even so, the fact that these stakeholders are on the Chair's 'radar screen' and work with them directly and indirectly demonstrates that Chairs and the boards they lead increasingly engage with various company stakeholders, in line with the contemporary corporate governance paradigm.

Survey participants added specific areas where they make other significant contributions to the board and the company. Most of these go beyond the strict definition of the Chair's role (i.e. to run the board and represent the board to other company stakeholders) as listed below (number of mentions in brackets):

_ Developing and reviewing strategy (4)

_ Sharing industry, market, people, general business knowledge – educating executives (4)

_ Raising funds (4)

_ Business development – new partners, new geographies, new markets (3)

_ M&A (2)

_ Communicating with financial community (3)

_ Being company's public ambassador (3)

_ Talent recruitment (2)

_ Risk management (1)

_ Speaking on behalf of the company in mass media (1) insuring compliance (1)

_ Crisis management (1)

_ Employee engagement (1)

_ Conflict resolution for management team (1)

Although we may have doubts about the appropriateness or effectiveness of the Chair's intervention in resolving conflicts within a management team or developing business strategy, our respondents underlined the fact that in addition to their primary duties many have other organizational roles: special project manager, being the public face of the company, deal-maker, arbiter, etc.

In camera sessions of the board

A recently advocated governance instrument is the session held *in camera*, also referred to, rather oddly, as 'executive sessions', in which the board meets without executive directors including the CEO. We included a question about such sessions in the questionnaire to see how popular this has become.

Two thirds of the participants use this governance instrument, and one quarter do so on a regular basis. Experience seems to favour use of *in camera* sessions – a much higher number of newly appointed Chairs report that they do not use this format. We noted a generational difference – twice as many younger Chairs (below 50) report that they regularly conduct *in camera* sessions as their more senior peers (above 60).

Satisfaction: Company, board and Chair

Self-esteem does not seem to be a problem for board leaders – they are more satisfied with their own personal contribution (giving themselves, on a scale from 1 to 5, a mean score of 3.9) than with the work of the board (3.6) and the company's performance (3.8). This is somewhat counterintuitive since the main task of a Chair is to ensure the board's performance.

Chairs with less than three years of experience are more critical (perhaps realistically so) in evaluating their personal contribution, board and company performance – rating these 3.8, 3.5 and 3.7 respectively. With experience, evaluations go up but the gap between self-evaluation and evaluation of the board's performance remains.

Chair/CEOs are the most critical in evaluating personal contribution (3.4) in comparison to their evaluation of the board (3.9) and company performance (4.0).

Chairs who are members of controlling families are the second most self-critical (3.7), although in general they are quite close to the overall sample. A notable result is that female Chairs report the largest difference between their evaluations of board performance (3.5) and company performance (4.2).

Chart 19. How often do you use *in camera* sessions of the board? (%)

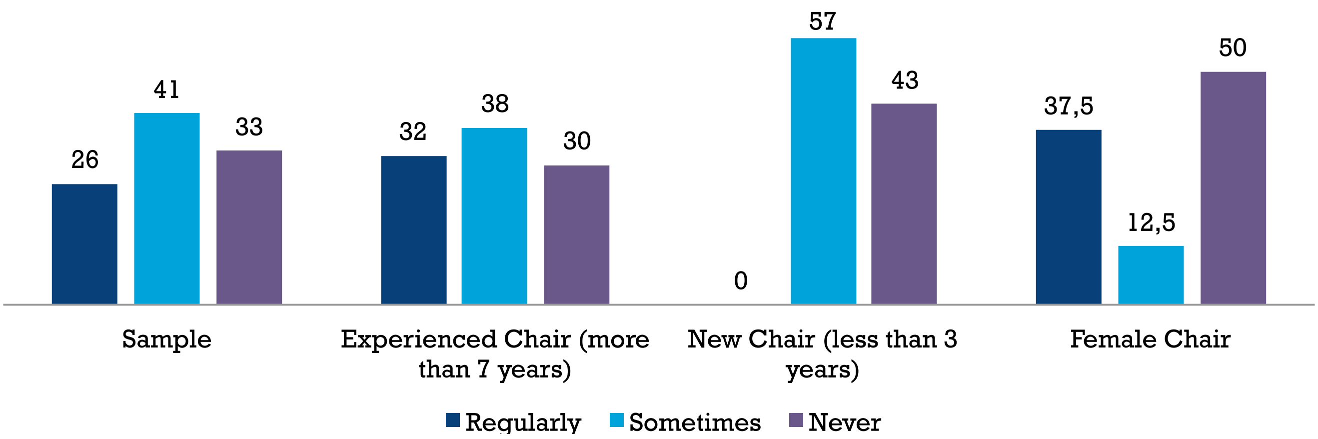
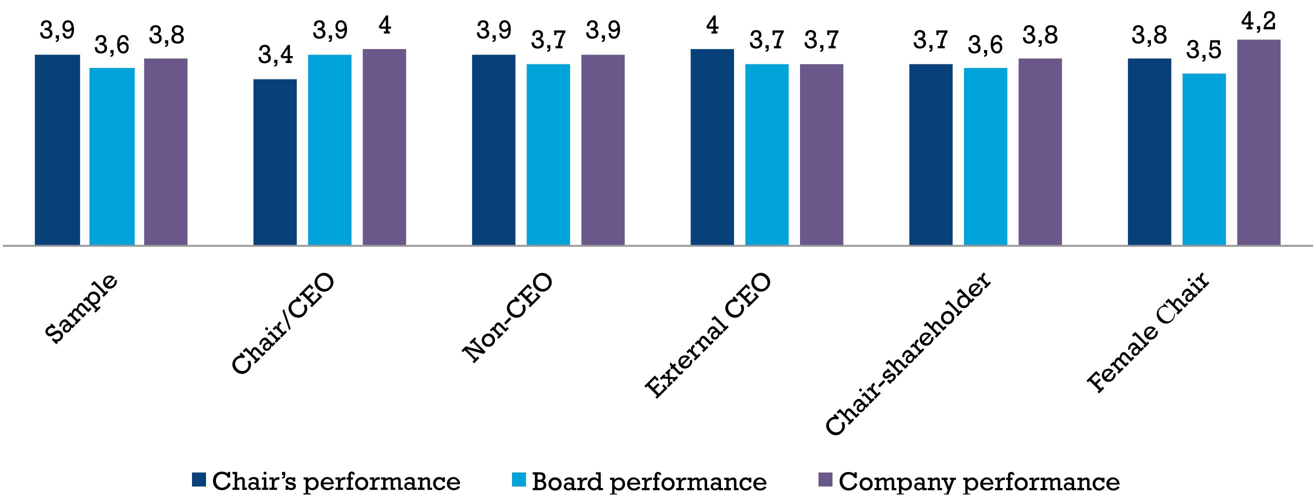


Chart 20. Satisfaction by different categories of Chairs



Chairs and contingencies

Company size, life cycle and ownership structure

Company size, life cycle and ownership structure are three major contingencies found to have a strong impact on the actual governance model of an enterprise. These structural contingencies contribute to differences in Chair backgrounds, challenges and levels of satisfaction.

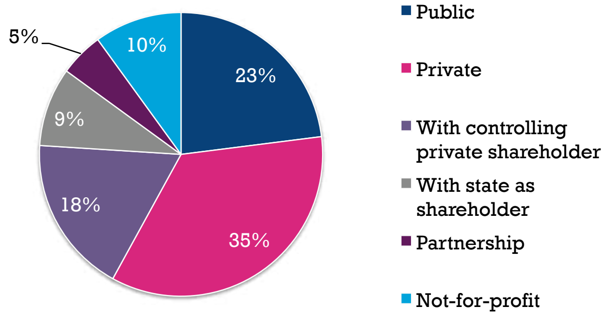
Smaller companies attract mostly independent Chairs, as do young enterprises. Young companies have a higher percentage of independent Chairs, often with previous Chair experience. This may reflect the recent trend in favour of separating the CEO and Chair positions, but may also be contributed by the need for a "neutral" referee amongst founders or the search for someone experienced in governance matters. These companies also have a significant number of academics as Chairs. At young companies, boards of directors are likely to fulfil a legitimization function: a Chair with experience and high social status reinforces this.

Medium-size companies have a higher percentage of Chairs with an executive background, but less experience of serving on boards. In contrast, large companies try to attract experienced Chairs, as well as civil servants (perhaps because of their ownership).

Mature companies have more board leaders with relevant industry experience and have a higher percentage of 'inside' Chairs – i.e. current and ex-CEOs.

Ownership structure is one of the key determinants of a company's governance system. Chart 21 summarizes the types of companies that participated in the survey from an ownership point of view. We found some impact of the ownership structure on the Chair, but less than we expected – we thought that Chairs from public and private companies would have different challenges and would contribute in noticeably different ways.

Chart 21. Type of ownership in survey sample



Public companies have a higher percentage of independent Chairs than other types, but it is still not very high at 22%. Seemingly the task is too important to delegate to an 'outsider'. Not surprisingly, their Chairs have extensive experience as independent board members. Only 13% of them have no previous industrial experience, while 70% have more than seven years in the industry. Industrial experience is clearly important, and not only for the CEO.

Private companies value trust over independence – less than 20% of them hire outside Chairs. Most of the time their Chairs are owners or members of the family, often people who were vice-Chairs or executive directors on the same board.

Table 5. Top challenges for Chairs of public, private, and not-for-profit (NFP) companies

Type of company	Challenge 1	Challenge 2	Challenge 3
Public	Relationships with large shareholders	Managing non-conforming (special cases) board members	Level of collaboration and teamwork among board members
Private	Relationships with large shareholders	Relationships with minority shareholders	Managing non-conforming (special cases) board members
NFP	Managing non-conforming (special cases) board members	Relationships with external stakeholders such as clients, suppliers and government	Diversity in board members' backgrounds and Insignificant time commitments of board members

Not surprisingly, not-for-profit organizations have the highest percentage of independent Chairs (58%) with vast CEO experience (more than 80%).

Ownership structure seems to have a somewhat minor impact on the Chairs' challenges, contributions and levels of satisfaction (see Table 5 and charts 22-24).

Regional differences

For the purpose of analysing geographical differences we grouped survey participants into four regions – Great Britain, Continental Europe, Middle East and North Africa (MENA), and Russia – leaving out respondents from other countries.

Chart 22. Chairs' contributions to ensure effective board process (% of concentration)

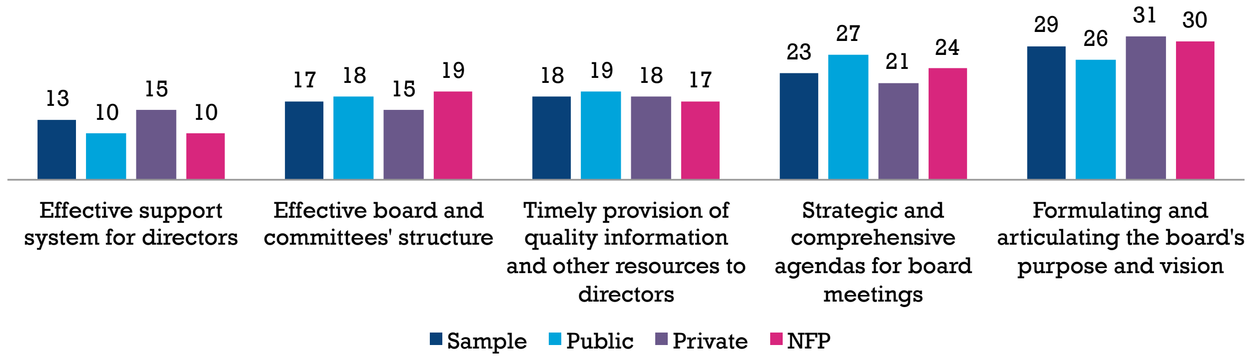


Chart 23. Chairs' contribution to ensure a competent and collaborating board (% of concentration)

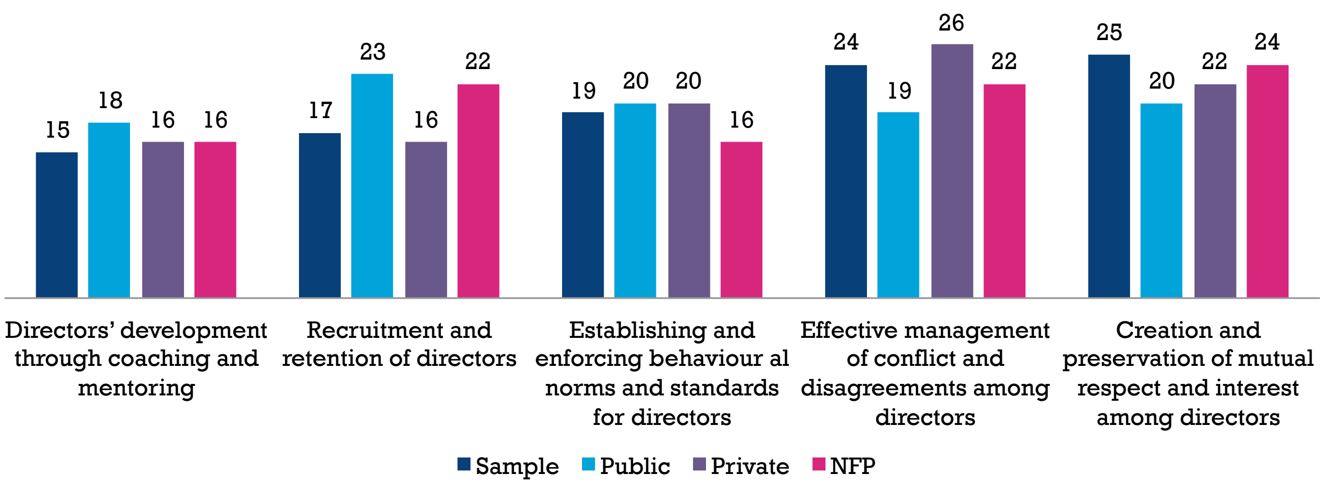


Chart 24. Chairs' contributions to manage CEO and executives (% of concentration)

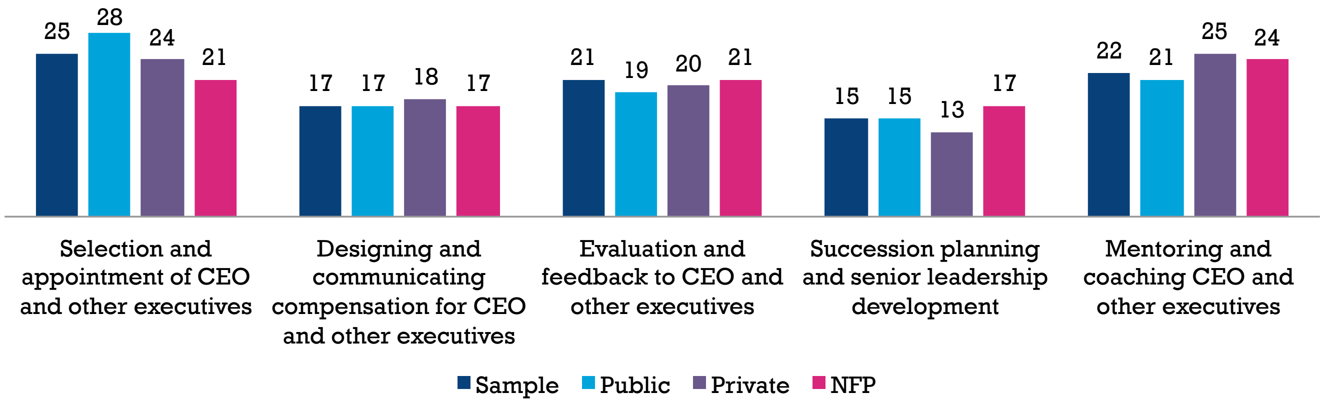


Chart 25. Chairs' contributions to represent the board in relationships with external stakeholders (% of concentration)

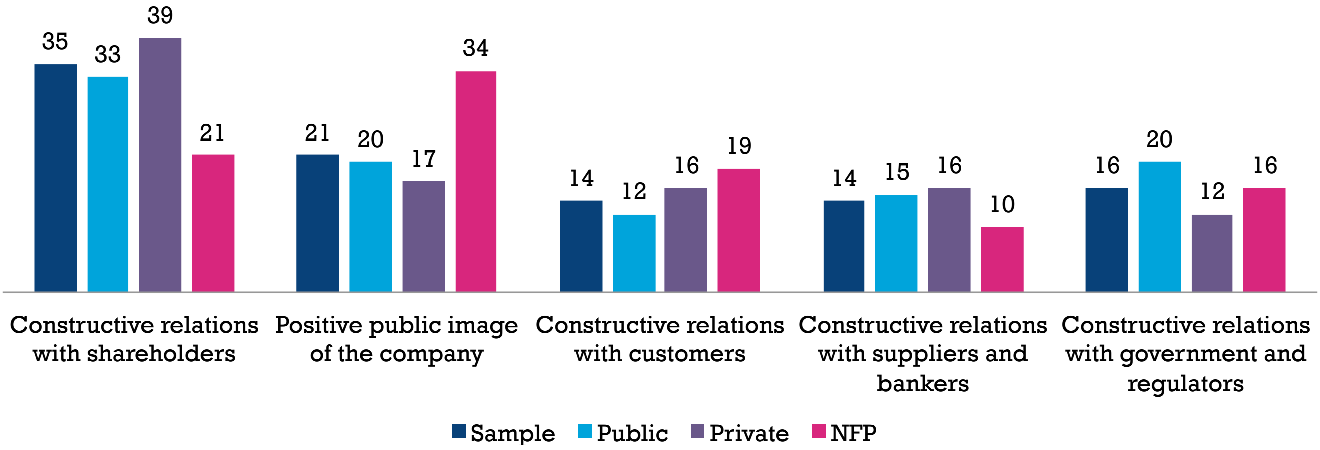


Chart 26. Chairs'satisfaction with own, board, and company performance

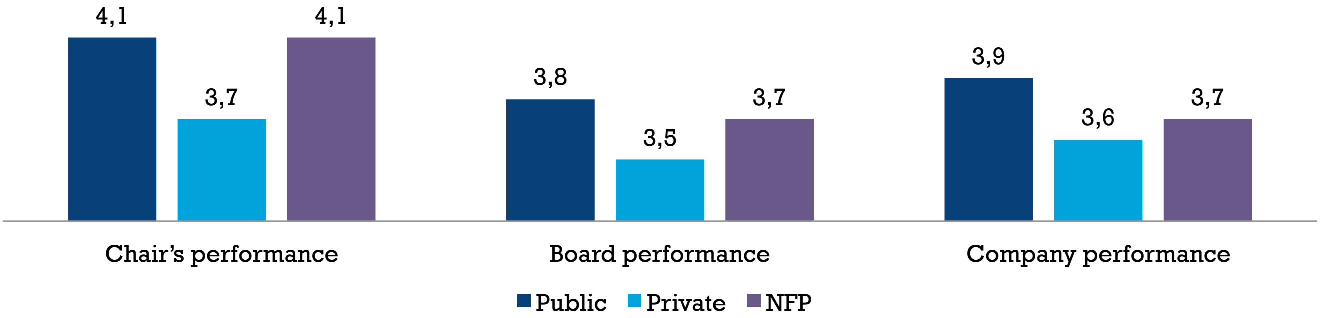


Chart 27. Age distribution, by region (%)

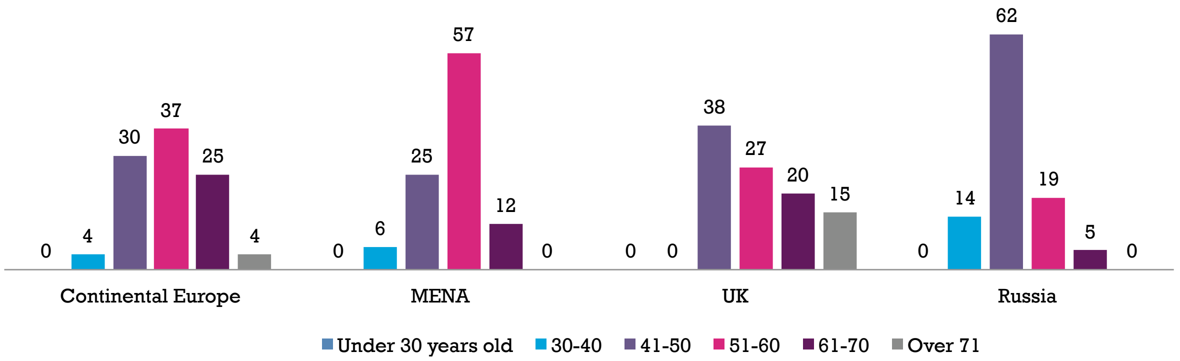


Chart 28. Years in the position, by region (%)

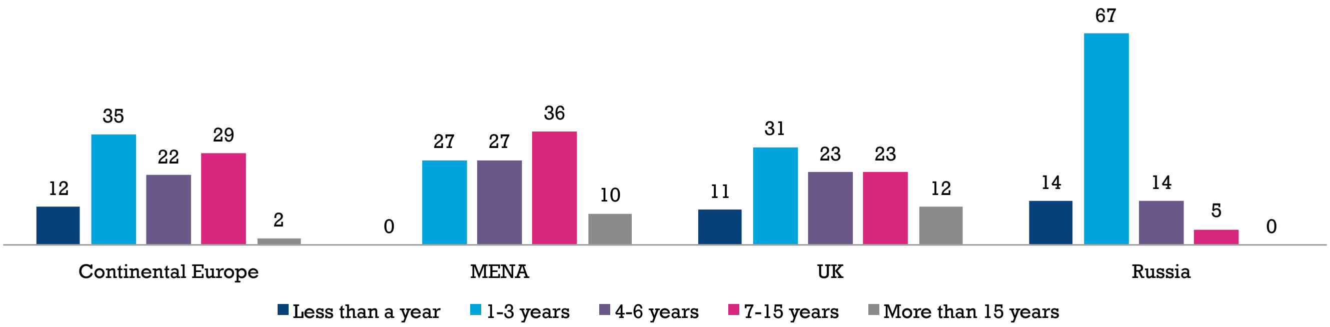


Chart 29. Chair recruitment channels by region (%)

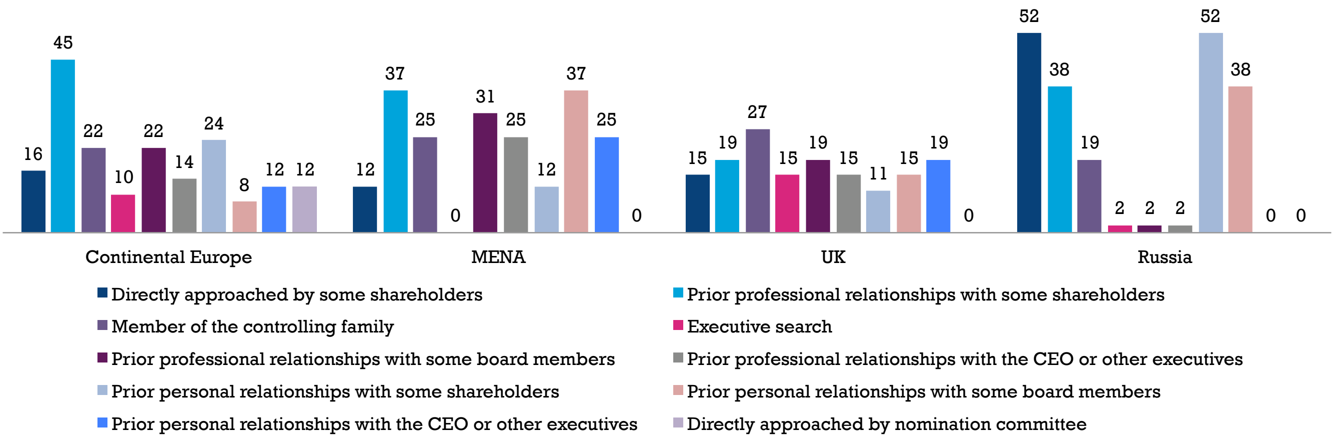
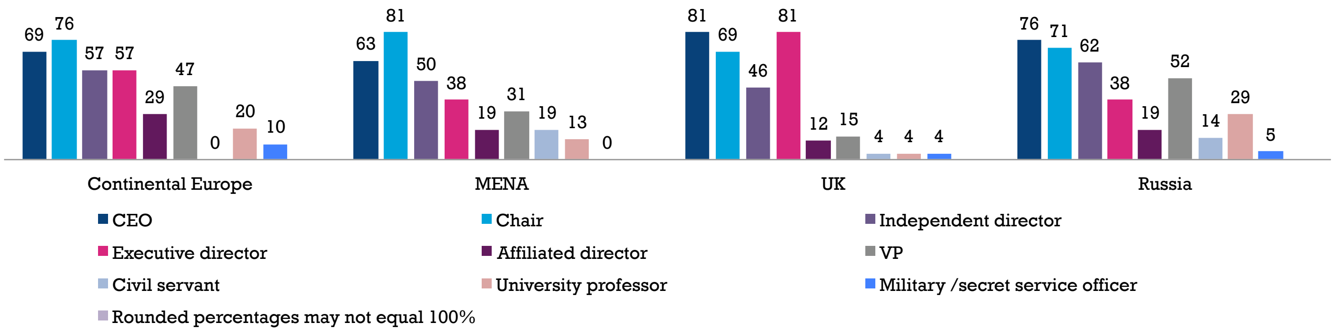


Chart 30. Chair's previous experience, by region (%)



Russia stands out as a country of short Chair tenure, with 80% serving three years or less. This could partially be explained by legislation that require boards to be re-elected annually. More likely it reflects a tendency for short-term appointments, as seen from significantly shorter CEO tenures, themselves a consequence of poorer selection and feedback processes, and/or differences between CEOs and their boards and/or owners (see Chart 28). An alternative hypothesis may be the introduction of a new generation of CEOs and Chairs.

The MENA has the highest percentage of long-serving Chairs, reflecting a cultural long-term orientation, as well as ownership dominance, as confirmed by the higher percentage of Chair-shareholders in that region.

There are significant regional differences in how Chairs' accede to the position (see Chart 29).

In Russia, recruitment is almost exclusively the domain of shareholders, who are very proactive and mostly rely on informal channels. Informality also rules in the MENA, although professional relationships with board members and executives weigh in heavily. In mature economies such as in the UK and Continental Europe, we see a variety of channels used. Again, executive search firms and nomination committees do not play an important role. The most visible difference between the UK and the rest of Europe is the lesser importance of personal connections – it's much more professional in the British context.

Continental Europe is somewhat different from the UK in appointing people with academic and military backgrounds to the Chair (see Chart 30).

Russia has the highest number of professors amongst Chairs, reflecting the high esteem in which academia is held there. The Middle East has the highest number of civil servants, reflecting the close links between business and government in the region.

We expected to find that Chairs in the MENA and Russia received significantly higher compensation packages but there was no evidence of this. Around 40% of Chairs in Continental Europe get more than $200,000 a year, compared with 24% of those in Russia and 38% of in the Middle MENA. However, Russia has the highest number of millionaires among Chairs, which cannot be explained by a higher concentration of family members in the Chair, since it has the lowest rate of Chairs who are members of controlling families.

Table 6. Chair's top challenges by region

Region	Challenge 1	Challenge 2	Challenge 3
Continental Europe	Relationships with majority shareholders	Managing non-conforming (special cases) board members	Relationships with CEO / senior executives
MENA	Relationships with majority shareholders	Relationships with minority shareholders	Insignificant time commitments of board members
UK	Managing non-conforming (special cases) board members	Relationships with majority shareholders	Relationships with minority shareholders
Russia	Managing non-conforming (special cases) board members	Relationships with external stakeholders such as clients, suppliers and government	Relationships with majority shareholders

Chart 31. Chairs' contribution to ensuring effective board process, by region (% of concentration)

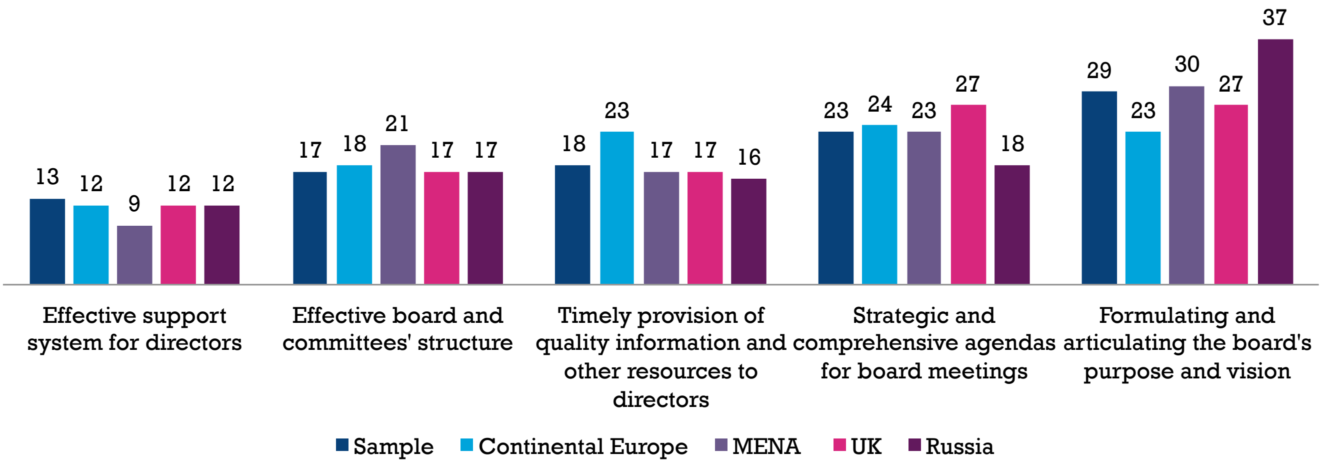


Chart 32. Chair's contributions to competent and collaborating board, by region (% of concentration)

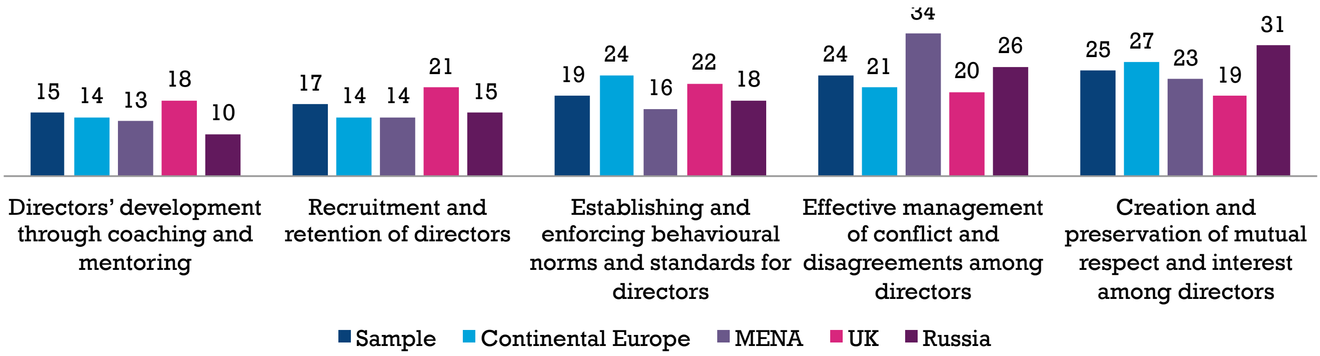


Chart 33. Chair's contributions to managing CEO and senior executives, by region (% of concentration)

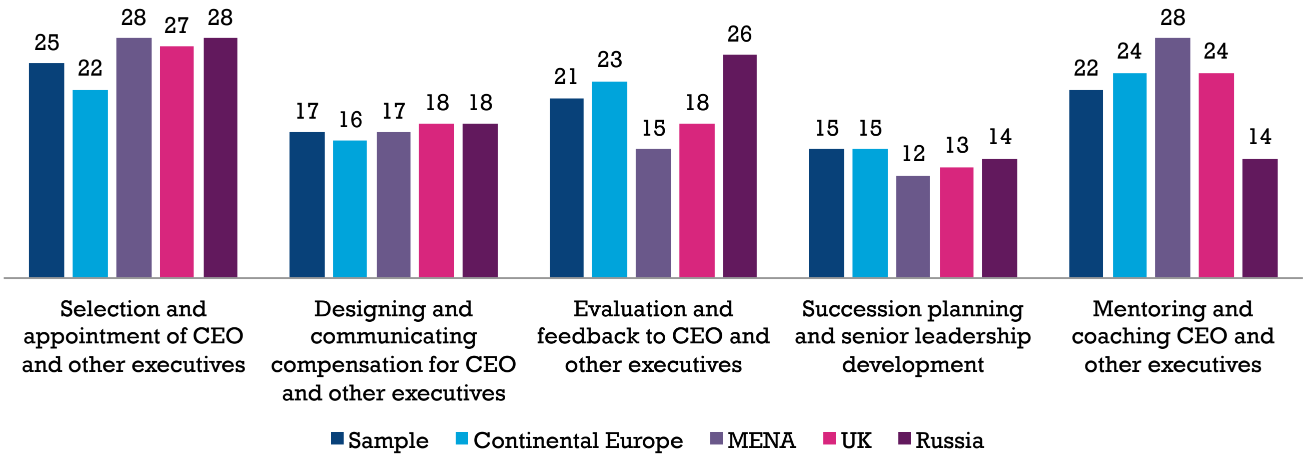


Chart 34. Chair's contributions to representing the board in relations with external stakeholders, by region (% of concentration)

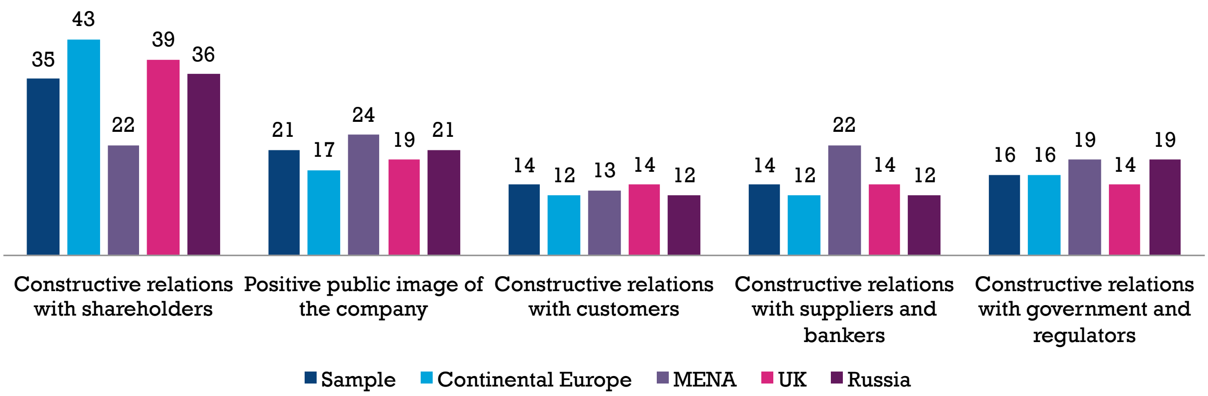
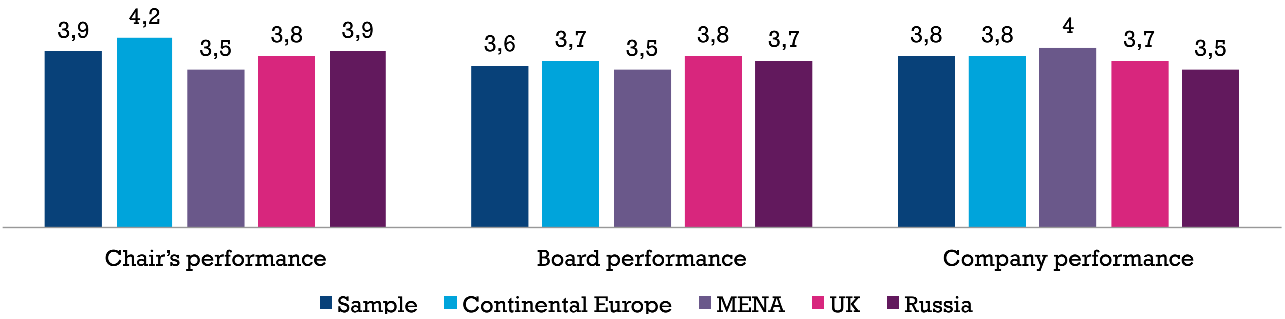


Chart 35. Chairs' Satisfaction by region (scale of 1-5)



Taking a closer look at recruitment channels, however, more than 50% of Russian Chairs come to a board via a personal relationship with shareholders. Ironically, having a personal relationship can either mean the lowest compensation (if you accept the Chair as a favor to a shareholder) or the highest (if the shareholder is more generous to someone he knows well or is eager to have on his side).

The Chair's challenges are similar amongst all regions, indicating that there are many universal or common elements to their work.

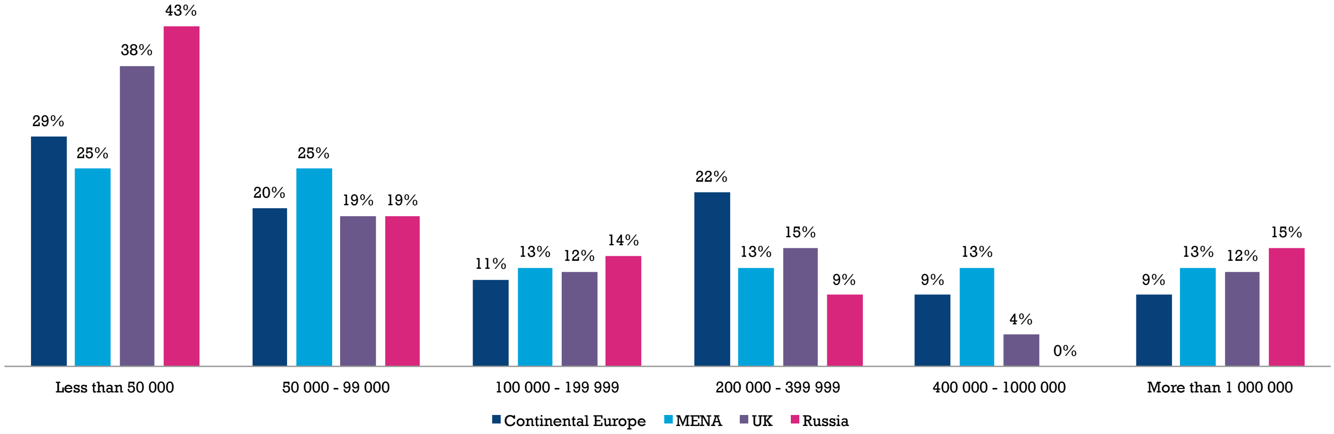
However, there are a few notable differences that reflect the specific nature of the role in different contexts. In the UK and MENA, Chairs mention relationships with minority shareholders as an important challenge. Chairs from the MENA struggle with managing other directors, who have many commitments and may lack discipline and collaboration skills. The importance of status also does not help Chairs from the region: they have to be careful in managing board members with strong egos.

In Russia, Chairs put relationships with external stakeholders as their second most important challenge. We believe that this reflects the fact that many of them are company founders and continue to perform some executive functions, especially in relation to external stakeholders such as government or key customers and suppliers.

Overall, Chairs are satisfied with their leadership, their boards, and their companies. Any differences are small but revealing. Chairs from Continental Europe report the highest level of satisfaction with their contributions; their responses follow the general trend – higher satisfaction with personal work and lower with the board's performance, with the company's results in the middle. Other regions show different dynamics.

Chairs in the UK evaluate their contribution, board performance and company performance at the same level, possibly signalling either a belief in the strong link between the three, or a consequence of a de facto causality. Those from the MENA are the most modest in self-evaluation and the most generous in appraising company performance. Russian board leaders are the most conservative in evaluating company performance.

Chart 36. Chair compensation by region (%)



Conclusion

The data from our survey provide rich material for analysis and insight. We have presented the outcomes that we found interesting and relevant to the Chair's work. More analysis could and should be done to develop further insights, but first conclusions were drawn and are summarized here.

The job of the Chair is no longer ceremonial. It is real, requires not only experience, stature and wisdom, but also time, energy, mental agility and the ability to learn. Contemporary Chairs have considerable board and executive experience – which to a large extent is what puts them in the job. Their leadership and authority are defined not by past performance but by their actual work. They are engaged, agile, strategic and continue to learn.

The Chair's job is important. The key stakeholders – owners – rarely delegate the task of selecting a Chair to the board or to professional recruiters; they are directly involved in the selection and give preference to candidates with whom they already have a professional or personal relationship. Trust is the key factor in selecting a Chair, which is why network-based recruitment is the dominant form.

The survey suggests that the demands on female Chairs are larger than on their male counterparts. Female Chairs, who represented less than 10% of the survey respondents, are more senior, more experienced and have more education than their male colleagues.

According to the survey, people accept the Chair position to 'advance the cause', to put their competence to productive use, and to learn. The latter finding is quite remarkable since most of them are quite senior and accomplished professionals. Lifelong learning is a vital driver for Chairs.

Although financial motivation is low on the list of the Chair's priorities, some receive significant material remuneration for their services. We found a weak correlation between the company size and the Chair's remuneration. Each Chair appears a unique case, and remuneration is determined by that uniqueness rather than traditional CEO remuneration characteristics such as company size.

The Chair's work is mostly about human relationships inside and outside the boardroom. The survey respondents confirmed awareness of this fact. High on their priorities for the task are developing vision and purpose for the board, mutual respect and interest amongst directors, and CEO selection and mentoring. Interestingly, Chairs see relationships with shareholders (especially large ones) as their number one challenge and number one priority.

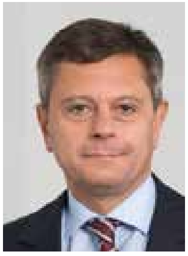
Although work with internal stakeholders such as shareholders, directors, CEOs and other executives takes the lion's share of their attention, Chairs recognize the importance of external stakeholders, society at large, and devote their efforts to interacting with them.

Chairs on average are more satisfied with their personal contribution than the contribution of their boards, which reflects a high level of self-esteem.

Company size, age and especially ownership structure impact where board Chairs come from, what they consider their principal challenges, and how they organize their work. By pointing to the existence of core universal elements of Chairs' work in today's environment, the survey underlines that the similarities are stronger than the variances.

Regional differences are the strongest differentiator: Russian Chairs carry the highest proportion of executive functions, are the most critical in assessing board and company performance, and are more likely to come from academia. Chairs from the MENA are the most modest in self-assessment and most generous in evaluating their company performance (possibly reflecting their collective culture) and struggle with high-status directors who commit insufficient time to their board duties. UK board leaders see working with both large and minority shareholders as their core challenges. Chairs from Continental Europe are the longest serving, the most satisfied with their own work, and least satisfied with the contribution of their boards.

Authors



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Veronika Zaviega is a Project Manager Research & Insight at Ward Howell Talent Equity Institute, a leading Russian executive search and leadership development company. She specializes in research on the topics of leadership and corporate governance (boards of directors, CEO succession). In collaboration with Professor Stanislav Shekshnia, Veronika Zaviega completed a number of research projects for INSEAD, the World Economic Forum, Forbes Russia, Forbes Kazakhstan, etc. She joined Ward Howell in 2011 and first focused on executive search projects. Prior to joining Ward Howell she worked in the press relations office of one government agency.

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Tables & Charts

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