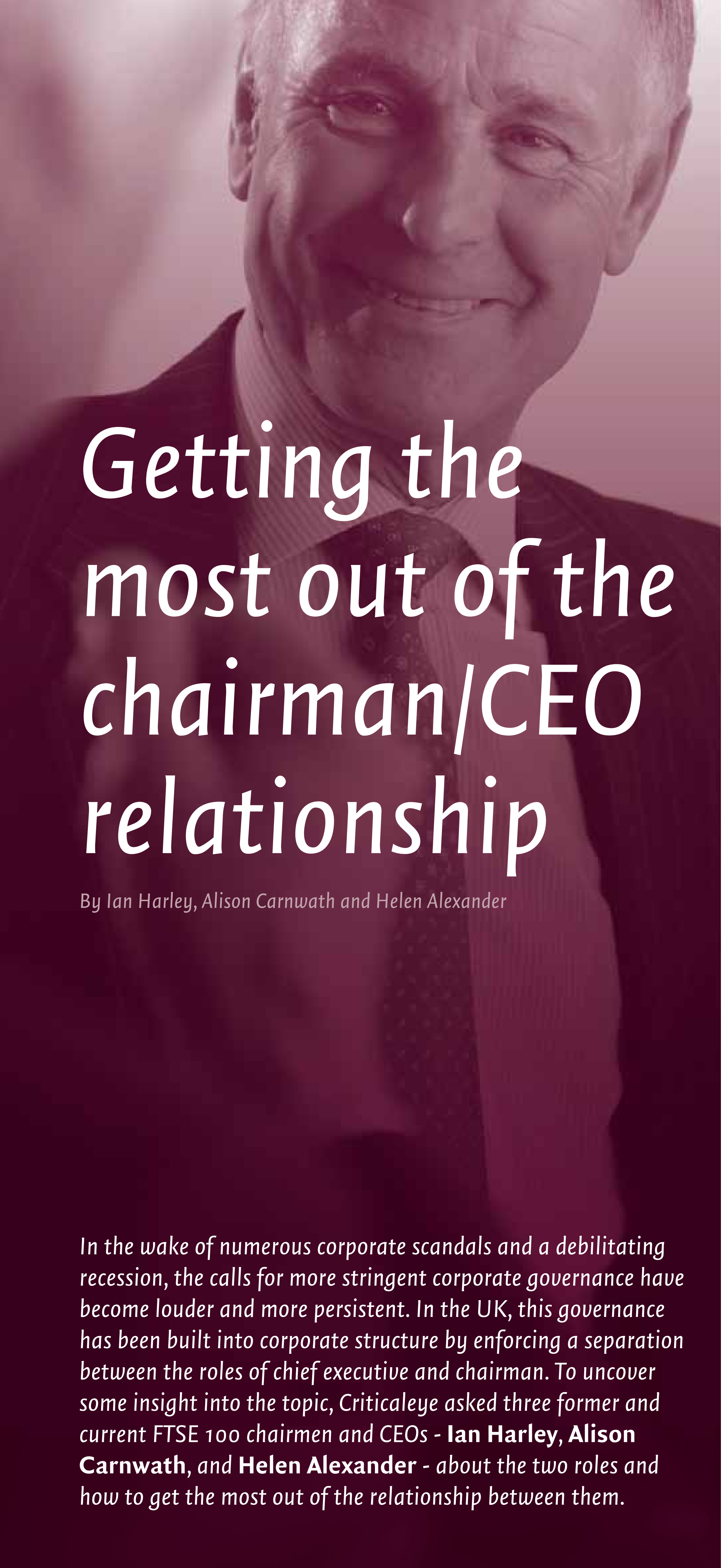

THE NETWORK
OF LEADERS
CRITICALEYE

Getting the most out of the chairman/CEO relationship

By Ian Harley, Alison Carnwath and Helen Alexander

In the wake of numerous corporate scandals and a debilitating recession, the calls for more stringent corporate governance have become louder and more persistent. In the UK, this governance has been built into corporate structure by enforcing a separation between the roles of chief executive and chairman. To uncover some insight into the topic, Criticaleye asked three former and current FTSE 100 chairmen and CEOs - **Ian Harley**, **Alison Carnwath**, *and* **Helen Alexander** *- about the two roles and how to get the most out of the relationship between them.*

In the wake of the numerous corporate and financial scandals that have befallen the business world in the past decade, there have been frequent calls for stricter governance. In the UK, this governance has been built into corporate structure by enforcing a separation between the chief executive and chairman.

Although this is not widely practised outside the UK, organisations the world over are looking at the benefits of dividing the roles.

Sometimes seen as a 'critical friend', the chairman must challenge the CEO, whilst also being his/her sounding board and counsel through thick and thin. The background of the chairman and CEO relationship goes back to how their respective roles were attained.

Many believe that, ideally, the chairman should be elected first and then appoint (or at least be part of the appointment process of) the CEO. This is simply because it is much easier for the chairman to believe in and support an individual that he/she appoints.

Once the chief executive and chairman are established in their roles, a trusting relationship must be built. This relationship sets the tone and culture for the entire organisation. Both at the pinnacle of their executive and non-executive careers, the CEO and chairman have defined roles with the organisation. In short, the CEO runs the business and the chairman runs the board – any crossover can spell disaster for the organisation.

Criticaleye asked three former and current FTSE 100 chairmen and CEOs - **Ian Harley**, NED and Audit Committee Chairman at John Menzies, **Alison Carnwath**, Chairman of Land Securities and **Helen Alexander**, President of the CBI and NED at Centrica and Rolls-Royce - about the roles of the chairman and CEO and how to get the most out of the relationship between the two.

Why is it advised that the roles of chairman and CEO be split?

Ian Harley: They are two different jobs which require two different skill and experience sets. Furthermore, there is more than enough for two people to do. In terms of governance, it helps immensely with checks and balances and better control.

For the relationship to work, it helps to have two people who are (not entirely, but in many ways) complementary. The last thing you want is two people with similar personalities as that is certainly a recipe for disaster. When you get two complementary individuals then you can end up with a very efficient working unit, giving you better control of the business.

Helen Alexander: If you've got unfettered power in one person, the whole notion of how you deal with governance becomes much more complicated. The chairman clearly has a different responsibility to the CEO so, over the years, it has become much clearer how those roles can be differentiated.

Such a check and balance process may make decisions slower, but that is usually for the better. Two sets of eyes across a strategic proposal are better than just one. It is very useful to have somebody who has distance and antennae attuned to external and internal stakeholders who can give courage, support, and extra vim and vigour to the right decisions.

Alison Carnwath: There are very good practical reasons why there should be a division of responsibilities. The roles were originally divided because it was felt that executives were wielding too much power. I also see that with my own experience in the USA, where the roles are typically still joined together.

In most circumstances, keeping the roles separate works. However, I'm not of the view that that will always be the case, even though it is considered best governance practice. Actually, there are circumstances where you have to allow yourself the freedom to have the joint role. That might be the case with a company that is smaller or newly floated, or does not have the right succession planning in place. Of course, governance gurus will tell you that all of these have been dealt with, but that isn't always the case.

How should the roles be split?

Alison: The chairman is in place to manage the board and ensure that it is effective. The board needs to understand the organisation's strategic, operational, and financial issues with the CEO ensuring they have all the pertinent information.

The chairman has to ensure that the board has a good relationship with the chief executive, leaving him/her to run the business. It's not fair for a chief executive to have to spend too much time worrying about the board.

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Ian: Some aspects of the role are optional, but the core is not - the chairman must be the one who manages the board, its agendas, succession, skill set and recruitment. Once the board has approved the strategy, then the CEO can be given as much leeway as he/she needs to deliver that strategy.

Helen: As a CEO you are responsible for the daily running of the business. That means overseeing the people (your employees, your customers, the press, the shareholders) and the implementation of strategy. The buck stops with the CEO in terms of performance and reputation. However, he/she doesn't have the power under the current governance structure to authorise strategy. This must be discussed with the chairman and the rest of the board.

The chairman should be considering if the board possesses the right set of skills and experience, whether they are given the right information, whether the proper subjects are on the agenda and whether enough time has been allocated to discuss the issues.

A private role of the chairman is to be a sounding board for the CEO – to be able to talk through difficult issues with him/her. Giving courage and support to the CEO is important because very often he/she is trying to push in a direction and is finding resistance. One of the most valuable things the chairman can do is to ring up and say, "Keep doing what you're doing – it's the right thing."

Why is the relationship between the individuals in these two roles so critical? And what are the key ingredients to its success?

Ian: It's critical because any diffidence at that level sets the tone for the rest of the organisation - if it is running seamlessly, it sets a marvellous tone for the organisation as a whole.

It's also a case of two heads being better than one - the whole is greater than the sum of the parts. That's a powerful message, both inside and outside the organisation.

On the other hand, if there is friction, it becomes public very quickly.

Alison: The chairman and chief executive are bound to have a closer relationship with each other than the chief executive has with other board members. A strong relationship between chairman and CEO means that the issues that can't be discussed in the boardroom (due to agenda driven board meetings) can be aired between them in a way that foresees the possible issues and crises, and heads them off.

One shouldn't forget the advice that a chairman should be able to impart as there are some tough decisions that chief executives want to talk through. The chairman should be supporting the CEO relating to all the tough decisions going through to the board.

Ian: At the top of my list are mutual respect and an appreciation of the respective roles. They must understand what the other is trying to do and what he/she is charged with doing. Openness, honesty and, above all, trust. When trust goes, it all goes and the relationship is doomed.

On a practical level, a common view of the company's strategy is critical. The chairman must be saying the same as the CEO in a public forum as everyone, whether a sell-side analyst, a buy-side analyst, the press or commentators, will be looking for any hint of a difference in what the two are saying.

Helen: The relationship between the two should not be based on blind trust – it must have support as well as healthy challenge. It's important that the direction is shared and that, even if the views on how to get there are different, it is discussed.

Equally, it's very important that the chairman and chief executive sort out their differences and don't bring them into the boardroom. That means either that they have done just that (and, by the way, it is a good thing to have differences and to talk them through) or that they are very transparent about what their different views are, so that the rest of the board can engage in the discussion without thinking that they might be treading on somebody's toes.

What is the role of non-executives in forging and maintaining this relationship?

Alison: The non-executives who add the most value are those who, when they were in the role of chief executive themselves, had to handle different issues that arose with governance and shareholder related matters. Their advice on how they dealt with such situations is invaluable. There are non-executives who may come from a similar industry background that can impart commercial acumen, share stories and anecdotes as well as experience on emerging strategic or operational issues.

Ian: The key role for NEDs is to support the status quo and the individual roles of the chairman and CEO (as well as the individuals themselves) so that there's no room for dissidence.

The worst scenario on a board is factions - if you've got a board where you have the chairman's people and the CEO's people then you have a big problem.

Helen: I think it goes back to having the right mix of skills, experience and, crucially, an atmosphere of trust. It can take quite a long time for a board to get comfortable enough with each other to have disagreements.

An open culture in the boardroom is critical, so that the non-execs can make

if there is friction, it becomes public very quickly sure that everything is discussed and that things are recounted in a way that is not personalised and you're talking about the issue and not the person. It is important to be able to name the elephants in the room – so that they become discussable.

Is there ever a need for an individual on the board to fulfil a 'counterbalance' role in respect to the chair and CEO?

Ian: Essentially, you are talking about the senior independent director (SID). The role of the SID is a tricky one. Hopefully the only time a SID is needed is once a year, in a session wherein all the non-execs gather to evaluate the chairman and discuss how the board is functioning.

The last thing the SID wants is a phone call from a shareholder saying that that they want to talk to him/her because they can't talk to the chairman anymore.

Helen: I think the role of a deputy chairman (or a SID) is helpful because if there is an issue with the chairman then there is another 'go to' person. Very often in groups of the size of a board, there is one person who evolves into that position naturally. Whilst it is better if that role is official, it is not crucial.

In terms of board assessment these days, one of the elements is an evaluation of the chairman – and the person who can deliver such a judgment must be independent. So, to answer the question, there is a role, but it is more for emergencies than anything else.

Alison: Non-executives want the relationship to be working well and if it's not – and this may well be just simple things, such as the chairman not devoting enough time or the chief executive not providing the information which a chairman thinks he/she ought to have – then the goal is to provide strong advice but to have a good nose for how that relationship is working.

The non-executives must want the board to run well because the beginning of the end of any company is if a board starts, in an unorganised way, to dissemble.

Is the 'face' of the company different internally and externally? Is one for the chair and one for the CEO?

Alison: Internally, the 'face' is interchangeable but the relationship between the two is crucial. For example, it's very important that the chairman is seen to be supporting his/her chief executive in everything that they say and do. If they are not seen to be fully supportive of each other, if the chairman is not seen to be backing the chief executive, then the organisation will begin to wonder if the company is going in the right direction.

Externally, the chief executive has to be the business face for the City, but the chairman also has a role in dealing with shareholders.

Incidentally, it is also very important that the chairman, and as many directors as possible, are at analysts' presentations as they can learn from the questions that are being asked.

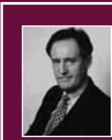
Ian: Chairmen don't need to have a very high internal profile. Everyone wants to 'eyeball' the CEO – to hear what they have to say to make sure they are receiving the same message from their line bosses.

Speaking to politicians and regulators is often part of the chairman's realm. By this, I mean policy, rather than day-to-day stuff. A company can make use of the chairman to lead the charge on some of these things – handling regulators often comes slightly easier to the chairman than it does to the CEO for example.

Also, the chairman may deal with institutional investors, especially if there are issues with corporate performance. There would be an expectation for the chairman to be involved in things like remuneration strategy.

Helen: : I don't think you can have one face inside and one face outside – that doesn't work. If the CEO can't be the face, then there may be an issue with him/her. There are shades of variation around that because, if the chairman is the only person who is very comfortable being the face and the CEO isn't, then the chairman will probably end up doing a little bit more of the public element.

Certainly, the shareholders will need to be comfortable with the chairman and have enough access that they can talk to him/her in order to form a meaningful relationship, but obviously, the shareholders also need to have confidence in the CEO. For delivery of a message, the shareholder will typically want to hear it from the CEO.

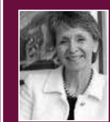


Ian Harley
Associate, Criticaleye

Ian has almost 25 years of FTSE board experience, gained at Abbey National plc, Rentokil Initial plc, and British Energy plc. He was CFO and CEO during his 9 years on the Abbey board, spent 8 years on the Rentokil board as a NED and Audit Committee Chairman, and 7 years on the British Energy board as a NED, SID, Deputy Chairman and Audit Committee Chairman.

Alison Carnwath
Chairman, Land Securities plc

Alison is Chairman of Land Securities, a Senior Independent Director at Man Group plc, an Independent Director at Paccar Inc; a Non-executive Director at MF Global and at ISIS Equity Partners plc, where she also serves as Chairman of the Investment Committee and Management Board. She is also a Senior Adviser to Lexicon Partners and Financial Dynamics. Alison is a fellow of the Royal Society of Arts and holds a BA and an honorary doctorate (LLW) from the University of Reading.



Helen Alexander
President, CBI

As well as being President of the CBI, Helen is Chairman of The Port of London Authority and of Incisive Media. She is also a non-executive Director at Centrica and Rolls-Royce plc. She is Senior Advisor at Bain Capital and was Chief Executive of The Economist Group from 1997 to 2008, having joined the company in 1985. Helen is Senior Trustee of the Tate Gallery, trustee of the World Wide Web Foundation and Chair of the Business Advisory Forum of the Said Business School, Oxford.

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