

By Peter Giblin and Paul Dimitruk

Public companies when looking at the need to separate the roles of Chairman and CEO have to understand the dynamics that are found with the individuals concerned, plus the board. Whatever the solution, ultimately it is the investor and public's perception that needs to be managed.

# Getting More Value Out of the Chairman/CEO Relationship

**P**ublic companies are coming under increasing pressure to separate the roles of Chairman and CEO. This split is recommended inter alia by the Higgs Code in the UK, and is becoming an established trend in both the US and France. In Germany, the separation is already mandated by law.

The split is intended to prove beneficial for companies, allowing an increase of balance, complementarity, clarity and predictability. Organisations, as a result, should strive for a proper equilibrium, transforming the Chairman/CEO relationship into something that functions akin to the US constitutional principles of fostering 'checks and balances', 'advice and consent' and a 'separation of powers'. The separation should improve the company's prospects and performance. An effective Chairman/CEO relationship gives investors greater confidence, attracts and retains good executives, and creates value for the business. If this relationship is mismanaged, however, value may be quickly lost.

In practice, getting this important relationship right can be surprisingly dependent on the individuals and personalities involved. Certain attributes

emerge as the key issues in ensuring a good Chairman/CEO relationship and effectively resolving any personality conflicts.

## Ingredients for a Good Relationship

An effective Chairman/CEO relationship primarily requires honesty, mutual trust and confidence, and a clarity of roles. Honesty means fostering open communication between the two individuals that addresses both praise and criticism. The CEO should communicate with the Chairman frequently and openly, letting the Board rest assured that it is getting early warning of emerging issues and problems, so that it is always 'ahead of the curve' and can address problems in a considered, proactive way.

In turn, the Chairman must be able to detect and convey to the CEO how other important constituencies may view the CEO's actions and views, regardless of whether it is critical or negative. An effective Chairman will play devil's advocate to a CEO, and should help draw out constructive criticism and suggestions from the board at an early enough point to allow for vigorous dialogue.



**“An effective Chairman/CEO relationship gives investors greater confidence, attracts and retains good executives, and creates value for the business”**

Trust and confidence are about believing in the other's abilities. Clarity of roles is about who does what. In part, an effective relationship results from a clear differentiation between operational and supervisory responsibilities. The CEO is responsible for running the company, but as Chief Executive Officer, that person must execute the strategy of the board. By contrast, the Chairman's job is to supervise the board that delivers the strategy; the Chairman's role should not consist of getting over-involved in operational matters.

One high-profile example of a partnership that worked well was at British Airways under Lord King and Colin Marshall (also now Lord). King, the Chairman, had a clear view of the strategic repositioning needed to create 'the world's favourite airline', which he combined with a strategy of providing to the CEO 'guidance without interference' at the operational level.

However, clarity of roles is also about external communication. For example, the Chairman might be strong and effective at running the board, but might not be comfortable going in front of TV cameras in the event of a crisis. Chairmen often make good news announcements but leave the delivery of bad news to executives, often the financial director.

The actual division of roles should relate to individual personality. If it suits the Chairman to talk to the major investors, while the Chief Executive goes on TV, why shouldn't this arrangement be implemented? Success derives from using the individuals' different qualities and offsetting personal weaknesses. The important point is not always who does what, but rather that internal discussions and debate are necessary to produce a successful, forward-thinking strategy.

Marks & Spencer is a recent example of a company that suffered from the fact that the clarity of the company's external message was undermined by its board. A non-exec forced out Chairman Paul Myners against the apparent wishes of Chief Executive Stuart Rose (never mind the view of the Chairman). At the same time, an unhappy compromise meant

that incoming Chairman Terry Burns would not take the chair until mid-2006.

To investors this reshuffling created a loss of clarity and cohesion. Investors might well have been asking whether they should just ignore Myners. Myners himself may or may not have been kept in the loop. He may not have been included in some meetings and may have found difficult atmospheres in the ones he did attend.

The lesson here is that if a decision to replace a Chairman has been made, it should be implemented without delay so that the company can move forward without creating the impression of internal division.

### **Problems, Problems.**

#### **So what sort of personality conflicts can arise, and how should they be addressed?**

One classic problem in the Chairman/CEO relationship arises when one of the individuals does not publicly face up to a problem, and importantly, does not communicate his/her concerns early enough. This could be an operational problem that might balloon into a reputational risk.

When the problem finally does emerge as a distinct threat, trust between Chairman and CEO inevitably breaks down. The 'hider' is embarrassed and looks bad. This sort of situation can arise, when the CEO has a cautious personality or is over-territorial. Equally, the CEO might be over-optimistic that a problem will just go away. The net effect, however, is that a potentially alarming issue about which the Chairman should have been warning people about is treated as an operational issue, thus compromising the chair.

Part of the solution involves structurally improving management information, which makes it harder to keep issues quiet. The Chairman needs to know what is going on in the business, something that sounds obvious but is not always the case.

The relationship-based solution is about constantly working on personal communications. There needs to be enough trust, so that the Chief Executive feels confident enough to go to the Chairman early on, and say that the company may have a problem. Early warnings help cement the relationship, and give time to agree on an action plan. For example, the CEO could aim to resolve the issue (particularly if it is purely operational) and then report back with (hopefully) a positive resolution; part of the board could take on the issue; or an external consultant

could be employed.

A second conflict could arise from what might be called the 'power of personality', where one individual exhibits a very strong personality and does not accept any dissent.

There are strong personalities who are effective, in part, because they are also good listeners; they know where they are going but they are open to persuasion. Virgin's Richard Branson, who has virtually become a one-man brand, can be seen in this category. He is clearly smart enough to pick good people to run his diverse businesses, and then let them get on with it. Then there are the bullies like Robert Maxwell, the larger-than-life former media mogul, who exhibited a less laissez-faire approach.

While a Chairman who plays devil's advocate should be able to foresee and head off conflict, such intervention could anger an intolerant or egotistical Chief Executive.

### Same and Different

A matrix of possible interactions between Chairmen and Chief Executives with personalities of varying strengths is worth considering.

For example, a strong-minded Chairman and a weaker Chief Executive can produce a company that is effectively run by an Executive Chairman, with the Chief Executive simply following orders as Chief Operating Officer (COO).

UK supermarket group Morrisons exemplifies the tensions that can result from a dominant Chairman. As Executive Chairman, Ken Morrison seems to believe there is nothing anyone can teach him about retail; he checks the fruit, the lighting, and is in the shops seven days a week. Importantly, he has also questioned the value of having non-executives at all. This problem suggests an inclination to surround himself with weaker executives, which means the business becomes acutely dependent on one man getting it right.

Investors have had growing doubts about the group's takeover of Safeway, and to combat this, senior non-exec David Jones led the search for more non-execs to help the supermarket group out of its 'hole'. He had to act in spite of public griping from Ken Morrison, a public tension that hurt investor confidence, and squandered an opportunity to send a positive message to the investor community by bringing in new directors.

At the same time, boardroom tension inevitably

means that Morrison himself will have been distracted from thinking about the operational side of the business. Imagine how investment decisions may be delayed. Such boardroom dysfunctionality will permeate down through the workforce and even through to customers.

By contrast, a scenario involving a weak Chairman and a strong Chief Executive means that board members simply have to hope that the CEO is doing the right thing, because the Chairman has less effective tools of observation and regulation. In such situations, the rest of the board may also be

**“One classic problem in the Chairman/CEO relationship arises when one of the individuals does not publicly face up to a problem, and, importantly, does not communicate his concerns early enough. This could be an operational problem that might balloon into a reputational risk”**

weak, although if it is strong it needs to replace the Chairman. A weak Chairman may fail to identify dissenting views among directors or ensure that valid objections are addressed. Dissent may then break out openly or through the media as a result. A weak Chairman combined with a weak Chief Executive is a recipe for disaster. The business may well appear to have no leadership in such a case, and the management may be too complacent operationally, neglecting to confront problems in the hope they will simply go away on their own. Finally, of course, both the Chairman and the Chief Executive can have equally strong personalities. In fact, two strong personalities is often the best combination, provided the relationship involves communication and trust. Relationship difficulties caused by two big egos can be managed by breaking down problems into smaller elements and then addressing them at that lower level. However, if the pair don't or won't talk to each other, the board may have an obligation to make a change. Where one person holds the job of Chairman and Chief Executive, the risk of over-dominance at the expense of a balance of power is particularly acute. The ousting of Morgan Stanley's Philip Purcell, whose leadership style might be described as 'my way or the highway', followed a very public revolt



by former executives. In one newspaper advertisement, the self-styled 'group of eight' wrote, "To see talented, respected leaders tossed aside by the CEO (Purcell) for unknown reasons raises troubling questions about the leadership, governance and direction of the firm."

The row with Purcell came after a number of boardroom shake-ups, which lead to a board packed with 'yes-men'.

When one person holds the combined roles of Chairman and CEO, that person should identify a senior non-exec to play the devil's advocate role and serve as a sounding board for ideas. That person should not use their enhanced structural power to establish a dictatorship.

### The Eternal Boardroom Triangle

Whether the positions of Chairman and Chief Executive are filled by the same person or by two different people, the board should still provide a counterbalance.


The Chairman, CEO and board all have different roles, and the third in this 'eternal triangle' can and should often help out, when there is tension between the other two. For example, if the Chief Executive is off-hand with the board, someone might talk to the Chairman about improving the relationship. Ideally, of course, relationship issues would be fully addressed in recruitment and succession planning, which would hopefully avoid later personality conflicts. Part of a Chairman's

challenge in searching for a new CEO should be to find a complementary character. If the Chairman is a bit aloof, the CEO should be easier going; if the Chairman is good on strategy and vision but struggles with finance, then a good choice for Chief Executive might be a man who is excellent with numbers.

Running candidates for the CEO position by the board is a key means of ensuring that the Chairman does not simply appoint someone whose attributes mirror their own. Of course, personality conflicts can and do develop over time and with changing circumstances. At the very least, though, a good Chairman and board should seek to get the right balance of power at the outset.

The best CEOs have always known that a strong, open, trusting, communicative and anticipative relationship with their boards has been a material ingredient in ensuring a successful enterprise over the long term.

In an ideal world, all directors would speak their minds, no-one would take offence, there would be a vigorous debate, a decision would be made, and everyone would rally round and support it. However, in the real world, the Chief Executive or Chairman may need to manage or facilitate that process.

Where the roles of Chairman and Chief Executive are unified, non-execs must, in turn, ensure they step up to the challenge and establish an effective relationship with the CEO/Chairman 



**Paul** is CEO of PortBlue, a company that provides expert systems, primarily in the healthcare, national security and law enforcement sectors. Paul is also Chairman of Partners Capital. Prior to founding PortBlue, Paul was Chairman of Pareto Partners from 1991 through 2001 and was its Chief Executive from 1993 through 1999. Pareto is an investment management firm and the largest currency risk management firm in the world. Paul has been on the Boards of over 20 companies in the UK, USA and Europe.

**He can be contacted at [Paul.Dimitruk@portblue.com](mailto:Paul.Dimitruk@portblue.com)**

**Peter** is a Visiting Professor to the Faculty of Management at Cass Business School. He is also the Principal of the Giblin Company, which coaches senior-level decision-makers and helps clients identify, attract, manage, develop and evaluate talented personnel. Peter has 30 years experience as an executive search consultant in Europe and the United States. In addition Peter has practised corporate and tax law in the United States and France, and was Managing Director and worldwide head of finance and administration for Samuel Montagu & Co., the British Merchant bank.

**He can be contacted at [p.giblin@city.ac.uk](mailto:p.giblin@city.ac.uk)**

