

Is Your Chairman A Leader?

by Richard M. Furr and Lana J. Furr

As corporate boards develop their own leadership beyond that of the CEO, the quality of that leadership becomes ever more important. Has your board sought to define precisely what it needs in a board chair—and is your current chairman up to the task?

Strong board, mediocre board or weak board. Which is your board—and why is it that way? Who does your board follow? Do directors see the connection between their board's performance and the quality of its leadership?

More boards now define their roles more specifically and evaluate themselves and their directors because it has come to be expected by regulators and investors who demand good governance. However, few boards define the role of the chairman or board leaders clearly, or evaluate the effectiveness of the chairman.

Boards rarely work to assure good board leadership with the same rigor that they now apply to the CEO and the full board.

Little attention is paid to board *leadership* despite its impact on the board's effectiveness. Board chairmen range from effective to neglectful to domineering to self-serving. The popular business press is filled with good and poor examples of board leadership at the chairman level. However, boards rarely put into their governance practices the means of assuring good board leadership with the same rigor that they now apply to the CEO and full board.

Beyond defining the role, the personality of the leader shapes how the leader behaves if he follows natural instincts and habits. It is what the chairman does or does not do, and the way he does it, that affects board behavior and performance. The chair's leadership behavior affects the board's effectiveness because the board is a social system. This system

contains a mix of personalities and relationships that extend beyond the boardroom into the community and other business relationships.

Good board leadership enables the board to attract, retain and leverage the talent of strong directors. Weak board leadership causes good directors to be concerned about the liabilities inherent in the board's practices. In the end, weak leadership often causes strong directors to exit the board, leaving it in the hands of its weakest directors.

We will address the responsibilities of the chairman's role to ensure *effective* board leadership and ultimately the best in corporate governance. We will then elaborate on the effects of various personalities as they exercise the chairman's role and the effects of those patterns of behavior on the board's work.

Ultimately, the chair's role is to lead a team—the board. First, consider the definitions of “team” and of “leader.” An effective team is:

- A small group of people possessing the necessary expertise;
- Striving toward a common vision, purpose, and set of goals;
- Possessing an equal stake and commitment;
- Using a common working process;
- Holding themselves mutually accountable.

At the board level all of these components of a team must be carefully built, maintained and evolved over time as the vision and strategy of the organization changes.

It is the chair's overall responsibility, as the leader of the board and the overall leader of the organization, to see that the components of an effective team are put in place. This includes the board culture, which provides the context in which the board functions.

A leader is someone who creates conditions which enlist and focus the talent and energy of others towards a common purpose, vision and set of goals.

Dr. Richard M. Furr is president and **Lana J. Furr** is vice president of Furr Resources, an organizational and executive development practice. [www.FurrResources.com]

That definition fits what is needed from the chairman of the board.

As leader of the board, the chair has several very important responsibilities:

□ *Leader of the board's culture.*

While the board may have talented people, the conditions that affect how the group works together as a social system strongly shapes whether and how directors contribute, how decisions are made, and board performance. The chair must be willing to take charge, and say what needs to be said (albeit tactfully). The chair continuously ensures that the culture of the board nourishes effective dynamics that shape good dialog, participation and decision-making.

The chair uses his credibility to convey board expectations through words, through modeling, and by asserting consequences when the board's culture is violated.

To do this the chair must have the authentic respect of colleagues on the board. This respect is earned by prior performance, trust, demonstrated approaches to team leadership, integrity and fair process. This respect is important in interacting with all constituencies. The chair must use this credibility to convey expectations in words, in modeling, and in asserting consequences where the culture is violated or ignored.

□ *Ensures an effective strategic planning process.*

As a team, the board, along with executive leadership, needs to have a clear and shared picture of the vision for the company and of the strategy to achieve that vision. It is up to the chairman to see that there is an effective board process to provide strategic input about the vision and strategy. The board represents shareholders and an external perspective. The chairman must be able to facilitate a strategic level discussion, and have the vision to see its implications for the company. The chair must effectively manage executive defensiveness that may occur when its thinking is respectfully challenged.

Finally, the chair needs to respect the time demands on directors while ensuring that the directors understand the time commitment they are expected to make to have a quality discussion, including planning retreats as required.

□ *Takes responsibility for the board's composition and development.*

An "A" team has to have "A" players. As the company grows, market and regulatory conditions change, competition changes, and stakeholders demand more. The board must be prepared to anticipate and deal with more complexity. As with management, sometimes the organization outgrows its leaders, and they need to be changed.

The chairman must assume key responsibility for seeing that the board is bringing on the caliber of talent needed to do its job in the future—and making room to do so if necessary. The chair must also ensure that directors are serious about their responsibility to seek and use developmental resources to be an "A" director.

To do this, the chair must be able to link the company's evolving vision and strategy and the talent level needed on the board for it to fulfill its role. This may require some form of board development or discussing plans for directors to step down from the board so other critical competencies can be added.

□ *Engages the board regularly in assessing and developing its performance.*

Another key to improved board effectiveness is to regularly reflect on how well the board is doing its job. Feedback is central to awareness, learning and changing of behavior. The chair needs to ensure this reflection occurs and is done in an effective manner.

The chair needs to set the bar as high for the board itself as the board does for executive management. The chair should ensure that adequate time is given to reviewing and developing governance practices, to ensure that development goals are set and followed through.

□ *Communicates expectations to directors and manages board performance.*

Being a director should not be a free ride, just as being hired in an executive role is not a free ride. A

director should know what the board expects in terms of his or her ongoing performance. Directors should be expected to fulfill such standards as set by the board. It is the chair's role to see that expectations are communicated to all directors, reviewed periodically and that performance issues are addressed with any director not meeting expectations.

The chair must be a clear and firm communicator of the standards set by the board. Additionally, the chair must be able to set aside personal relationships with directors who may not be meeting expectations and see that the director understands what is expected and gets a chance to meet those standards. If this fails to work, the chair must see that the director is asked to relinquish his or her seat.

Completing the picture of the chairman's role, the following duties are also commonly included in the job description of the role:

- Acts as a liaison between the board and management.
- Serves as an articulate and informed spokesperson to all constituencies.
- Ensures the succession planning and CEO evaluation process occurs.
- Schedules and facilitates meetings, creating effective 12-month agendas (with others' input).
- Ensures directors have the information and lead time required for decision-making.
- Establishes and facilitates decision processes for the board to do its work.
- Ensures effective committee structure and committee leadership succession.
- Hires and oversees independent advisors as needed.
- Ensures all remedial actions required by regulatory bodies are handled.

You can see that the chair's role is much more than scheduling and chairing meetings and reviewing financial information. In fact, the primary responsibilities have to do with ensuring the board has the talent to do its job, operates with an effective culture and creates conditions for the board to fulfill its role.

These areas are the ones where many boards are missing the leadership needed for the best corporate governance. Much attention is given to compliance

issues. Yet, despite their importance, those improvements rarely, if ever, create a board that becomes a competitive and strategic asset, or one that contributes to sustained corporate performance.

For the board to operate effectively, it needs the chair to fulfill the role described above. However, there are countless examples of boards that do not function optimally because the personality of the chair limits his effectiveness in that role.

We have seen this result in practices that actually endanger the organization's survival. More commonly, it results in mediocre performance from the board, frustration among the best directors and a CEO whose hands are tied and who is inclined to leave if the situation appears to have no end in sight.

At different times in a corporation's life it needs different things from its leaders, including the chairman. A good chair recognizes when it is time to relinquish the chairmanship.

Some chairs see the need to change what has been their approach as an executive leader to fulfill the role of chairman. When Andy Grove moved up to become chair of Intel, he found it required significant personal change on his part. He said, "The most important tinkering I had to do was with me. Their concern was my tendency to speak up too much, to suck all the oxygen out of the room."

It is also important to recognize that at different times in a corporation's life it needs different things from its leaders—including the chairman. This means that directors need to be able recognize what the board needs in its leadership at a particular time and to have developed good succession options for the role of chairman.

A good chair recognizes when it is time to relinquish the chairmanship to someone else as the needs of the company evolve. If the chair fails to recognize this, the independent directors need to be savvy and courageous enough to "call the question" instead of riding the same horse until it drops. The risk of not addressing when the chair needs to change is often

How Well Is Your Chair Performing?

A Chairman's 360-Degree Review

Think about these questions to help you analyze how well your chairman is performing. How would you rate your chairman on a one to five scale with five being best?

Our chairman . . .

Includes succession planning for management and board leadership on the meeting agenda at least twice a year.

Insists on an annual comprehensive board evaluation and then follows through to ensure that the board acts on the information and makes changes to improve the board as a result.

Confronts director performance issues when they occur.

Insists that director candidates be selected on competencies instead of relationships.

Ensures that there is enough evolution or change in membership on the board to create space for adding director competencies as company strategy evolves.

Insists that the board confront tough issues that many directors would just as soon avoid.

Insists that directors spend the time necessary to do the job well—attending strategic planning and board development retreats.

Sets the bar high for director participation in strategic planning. (Is not content for directors to merely react to and approve management thinking.)

Manages his own personal interests, agendas and emotions in the role and is open to views different from his own.

Brings resources to the board, independent of management, to improve board effectiveness.

the very future of the organization.

There are several personality types among chairmen that could make it difficult for the person to effectively fulfill the role. This creates challenges for the board to do its work.

The pliant chairman. This person may be a “pleaser” who has very little mind of his own. He is constantly trying to find the position of the people on the board he feels most compelled to please. He can be quite tactful, gracious, humble, likeable and caring. He avoids conflict and is unwilling to assert

what may be an unpopular stand. He may also allow certain directors (the ones whose approval he seeks) to dominate the board either visibly or indirectly through backroom conversations.

A board with a forceful, bullying chairman will generally lose its most capable players. They see their views holding little value, and their involvement a waste of time.

The “my way” chair. This chair can accept only one answer, and it has to be what he wants. He may ask for others’ views, then “yes but” all opinions except those that agree with his. This may be done in a tactful way, rather than a bullying, argumentative or emotional manner.

If it is done in an overt, forceful manner, the board will generally lose its most capable players. They see their views holding little value, so their involvement with the board is a waste of their time. Those who remain may be willing to “go along” just to stay in the game.

Enron appears to have been a good example of this personality. It can even look like an elegant form of bribery as directors get something they value highly (income, status, nice trips, donations for organizations they lead or support) as long as they go along with the chair’s wishes in the dance that is created in meetings.

The “in the weeds” detail chair. This person may be great at methodical detail, which has value at a functional level. However, at the strategic level and in the role of chairman, it can cause the board to agonize over things they have little business dealing with since it is the role of management. More importantly, this usually occurs at the expense of time that could be spent in dealing with the important strategic, directional matters that are the true role of the board.

There is usually little vision or systemic thinking, and the meetings become boring to visionary, strategic thinkers. The CEO concludes that the board is usurping management’s role.

No leadership ability or interest. This person is

good technically—creative, an engineer, a computer guru, a financial wizard—whose love and gift is dealing with the product. He may have been one of the founders of the company, and was named chairman.

Perhaps, after several very successful years of the company's growth, it became clear to him that he did not want to be chairman. He felt he was not good at it, was not really interested, or it took him away from his passion. The board is essentially leaderless and not well managed in terms of good governance. Someone else on the board needs to step up to the role, creating a real board leadership.

□ *The self-serving chairman.* This is the egotistical person who primarily seeks to meet his own needs, at the expense of others and companies he uses for that purpose. At the extreme, this can easily morph into a mindset of "I deserve all of what I am asking for." This belief may well lead to behavior that goes beyond ethical, legal or moral standards and becomes abusive or illegal.

The person may try to take advantage of his position to use corporate contacts and resources for his own purposes. There have been many examples of this with the Enron, Tyco, Global Crossing and WorldCom being among the most visible.

□ *The procrastinator.* This person is indecisive and unwilling to commit to a path forward until the last minute. As a chair, he may postpone items for discussion, "Let's see if this matter resolves itself. Maybe we won't have to deal with it." It can present itself in the boardroom as "Let's get some more

information before we bring it to a vote," or "Let's look for a less expensive way to do it."

The board needs to address key issues, especially the politically and socially awkward ones. Yet with this chairman, important issues can stay on the back burner and become a perpetual source of frustration to good directors and a good CEO.

There are many combinations of these various personality types. A chair may be on an ego or power trip, which combines the high-control and self-serving type, or a perfectionist which combines the high control and "in the weeds" person. Whether singular or in combination, each can have a devastating effect on the board's performance.

In the new world of corporate governance, directors need to be as savvy about developing a job description for and selecting the chair as they are about conducting a search for the CEO. If a prospective CEO will also be the chair, that creates an additional set of competencies to be screened during the selection process.

Investors and industry analysts are alert to changes in the chair's role. They know the potential influence that person will have in the company. Directors must pay attention to whether their chair actively creates the role (not just following in the footsteps of how the predecessor did the job), if he fulfills the role effectively and completely, and if his or her personality is suited to the leadership the company needs at this point in its development. The chair's role is pivotal to a high performing board. Is your chairman a leader? ■