

Roles and Practices of Board Chairs Across the World

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An effective board chair needs to master three key challenges: interacting with key shareholders, leading a diverse board, and maintaining a productive relationship with the CEO and management. What tools and practices are available to help a chair do so?



The two studies by the INSEAD Corporate Governance Initiative on board chairs (see box) have provided valuable insights into the profiles and practices of board chairs across the world.

There are broad similarities in how chairs from different countries define their jobs and go about them. All respondents consider their main task as to provide effective leadership to the board. They identified shareholders and CEO/management as their two other key constituencies. The type of shareholders (reference shareholders versus financial investor in a public company) have the strongest differentiating impact on the work of the chair. Cultural specifics manifest themselves in details such as which meal a chair shares with directors or the length of the CEO's report.

In the first study, the major challenges facing board chairs were identified and grouped as follows:

- Interacting with shareholders, specifically reference shareholders (which are shareholders that have a significant equity or emotional

stake in the company, for example, a financial investor who has a majority stake, or a founding family which controls ten per cent of the company).

- Leading a diverse group of professionals (the board).
- Establishing and maintaining productive relationships with people who “eat, sleep and breathe the company” (the CEO and other executives).

The second and most recent study looked at the practices and approaches of board chairs in dealing with these challenges. This article will focus on the findings of how they go about doing so.

Mastering Challenge 1: Relationship with Shareholders

Chairs work hard at establishing and maintaining productive relations with the owners of the company, although what they mean by that is defined by the context. In dealing with stakeholders, some give priority to compliance, while others focus on performance. For some,

INSEAD Board Chair Surveys

2015: Chairs of the Board of Directors: Findings from a Global Survey

- Global survey of 132 board chairs and directors from 30 countries.
- Provided insights into demographics, motivation, background, remuneration and challenges of board chairs.

2017: Board Chairs' Practices across Countries: Commonalities, Differences, and Future Trends

- Field research with a team of experts in Belgium, Denmark, Italy, The Netherlands, Russia, Singapore, Switzerland, Turkey and the UK.
- Face-to-face semi-structured interviews with 74 experienced chairs.
- Focus on the specific practices and instruments used by board leaders in different countries to deal with the challenges.

it is about the board's effectiveness; for others it is the company's effectiveness and value creation. In working with shareholders, chairs use formal and informal tools and channels.

Chairs in companies with reference by shareholders tend to focus on performance and sustainability, and actively use formal and informal channels. They emphasise the importance of maintaining a constructive dialogue with shareholders for the benefit of the company, but not in the boardroom. They stress the importance of protecting the independence of the board and also exerting their authority over its workings. As one puts it: "We operate under the two meetings principle: one is for directors (the board), another for shareholders. If you happen to be both, learn to behave yourself."

Specific practices used to manage relationships with reference shareholders (irrespective of country) include:

- Asking shareholders to fill in a structured questionnaire about their position on key issues such as growth, dividends, acquisitions, and owners' pride;
- Briefing shareholders on the outcome of a board meeting;
- Having an informal dinner with large shareholders before every board meeting;
- Inviting shareholders' representatives to board meetings to hear their positions and concerns;
- Inviting the largest shareholders and independent directors for a working dinner once a year;
- Organising informal shareholders' meetings before important board meetings;
- Interrupting the board meeting to conduct an emergency shareholders' meeting;
- Creating a WhatsApp group for shareholders to exchange news.

Chairs from public companies with widespread shareholdings emphasise compliance, fairness and equity. The intensity of their interaction is noticeably lower and they often operate in a reactive mode. They cited the following practices:

- Consulting the top 25 shareholders on executive compensation;
- Appointing a special representative as a voice for minority shareholders in board discussions;
- Inviting representatives of minority shareholders to the board meeting to express their expectations and concerns;
- Providing the same data to majority and minority shareholders;
- Staying on after the AGM to meet minority shareholders and answer their questions.

Mastering Challenge 2: Leading the Board

A board of directors is not an easy group of people to lead. Directors are usually accomplished professionals and mature people, with multiple affiliations and important leadership roles in their own right.

Our research found that chairs accomplish this task by engaging, enabling and encouraging board members – what is known as the 3E leadership style.

Engaging board members' talents in the service of the board is no simple task, particularly as the board meets only a few times a year, its members work in different locations, come with multiple affiliations and have limited availability. As one chair puts it: "You need to make sure they are physically there, they are emotionally engaged, they know what we are talking about, and they put their brains to collective work."

The most widespread practices for engaging board members were:

- “Calling every director and asking if they are happy with the next meeting’s agenda or would like to change something.”
- “Dinner with non-executive directors is a good way to re-engage them on the eve of a board meeting.”
- “I tell every candidate up front – ‘If you are not ready to commit 40 days of your time to this board, let’s stop here.’”
- “I ask every new director to sit down with every other board member before her first meeting.”

Enabling board members to work effectively as a group requires pre-meeting, in-meeting and post-meeting work that goes far beyond mere discussion facilitation. According to one of the interviewees: “I have enormous power without having any material resources. By controlling what goes onto the agenda, how the discussion question is framed, who gets to speak first, I can make a huge difference to the outcome. I have to use this power wisely for the benefit of the board.”

The following behavioural strategies enable productive collective work:

- “I need to think very clearly about whom I ask to talk first and who talks last about the specific topics. Who is irritated by who or what? Who is brooding about what? I need to be very alert about recognising body language.”
- “I start with an informal in-camera session. I want to know what’s on their minds and what their current concerns are. It is a way for all of us to clear our hearts and minds before the official meeting starts.”
- “I try to take as little room as possible. My task is to help others speak their minds.”
- “I rarely express my position. If I do, I speak last.”
- “Asking questions in a Socratic way, even if you know the answer, is a good way to get other points of view to come alive.”

Encouraging board members involves keeping them motivated and productive by providing feedback, creating opportunities for reflection and learning, and strengthening their links to the board and the company. One respondent revealed: “These people (directors) rarely get feedback – they are successful high-powered individuals – but it does not mean they don’t need a pat on the back or a word of encouragement. I regularly let them know how I value their contribution and how they could make it even more valuable.”

- “We close every board meeting with a short reflection session. I ask each director three questions: ‘What went well? What did not go so well? What we could have done differently?’”
- “Once every year we conduct an off-site dedicated to improving board dynamics. With the help of a facilitator, we brainstorm how to improve and try out new approaches.”
- “Once a year I invite every board member for lunch and we talk about what she/he wants to discuss.”
- “I invite every board member to my home for a meal and we talk about his performance and how I could be more helpful.”

Mastering Challenge 3: Interacting with CEO/management

The CEO is a very important counterpart of the chair. In most cases, we found the chair-CEO relationship to be intense, complex and more nuanced than prescribed by the regulations. Contextual factors such as their respective relationships to the ownership, previous career experience, and individual personality played a decisive role.

We identified five “ideal types” of chair-CEO relationships and practices that support them:

- **Collaboration.** This is in the form of close, intense and well-structured interactions between professionals with equal status. Examples cited include:
 - “We have an open agenda meeting or a phone conversation every two weeks.”
 - “We set every board meeting agenda together.”
 - “We go on business trips together – it helps to build trust and have the same picture.”
 - “The CEO and myself conduct a debrief after each board meeting.”
- **Mentoring.** A senior chair person may mentor a junior (CEO) with the main goal of helping the latter learn and to perform with his greater knowledge, experience and resources of the chair. Some of the specific practices include:
 - “We establish developmental objectives for the CEO and we have formal mentoring sessions with him once a quarter.”
 - “The CEO develops strategy – I listen to him and challenge his assumptions.”
 - “The management team comes to me for advice since I am old! I mentor them. We have a Socratic encounter and I teach them to think by asking them questions.”
- **Commanding.** This is when a more senior person (the chair) gives orders to a more junior person (the CEO). Examples of behaviour strategies include:
 - “I question and challenge CEO both privately and in the board room. If he doesn’t get it – I tell him what to do.”
 - “I promote a healthy work/life balance with the CEO and his team. Some need to be pushed to take a vacation. Sometimes I have to push them to look broader than just the organisation.”
 - CEO prepares a monthly update report for the chair.
- **Advisory.** In this case, a junior chair provides advice to a senior CEO. Here, the CEO shapes the relationship and the chair is reactive. Some of the practices cited are:
 - “I come to see him every month; we speak one-to-one, very informally. I update him on the board’s work, ask his opinion on important issues. He may ask my views on anything from Obama politics to the last remuneration committee meeting. Sometimes he asks for help in specific deals. I feel that he values my advice.”
 - “Quite important in my relationship with the CEO, who is also a majority shareholder, is to help him keep his two roles separate. This leads to heated discussions sometimes.”
- **Cohabitation.** In this instance, the two professionals of equal status work independently towards goals that they have independently defined. Interaction is mainly formal, cooperation being limited to what is required by regulations. Examples of supporting practices include:
 - “I never talk to the CEO’s direct reports – it’s his responsibility.”
 - “I write to all board members to solicit ideas for the annual board agenda, the CEO is one of them. I don’t feel I need to do anything special for him.”

None of these five “ideal types” exists in its pure form. While the types are exclusive, we found that most chair-CEO relationships have a core note which resonates with one of them. ■

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