SpencerStuart

Becoming a non-executive chair

Contents

Becoming a non-executive chair

This is a guide for people who aspire to become chair of the board or are becoming a chair for the first time. For those who have had a successful executive career, it is a hard transition to make and yet it can be a deeply satisfying one. The mature executive learns to lead a team or a business, but the hardest task is to lead leaders. Some CEOs do that. All chairs should. It is the ultimate form of leadership and the most subtle.

Our purpose here is the describe the steps to becoming a chair, what the role involves, and the personal characteristics needed to chair a board effectively. We focus on non-executive chairs of quoted company boards, although we briefly consider other types of board. This guide draws upon the findings from Spencer Stuart's Chair Forum, an initiative to develop the chairs of the future, as well as several decades of experience of advising boards, helping to appoint chairs, observing their work at close quarters and supporting them in their role. Chairs adapt to the role in many different ways. The transition does not come naturally to most people. To be done well, the role demands exceptional qualities, called upon to the full during the global pandemic of 2020.

SUMMARY

The guide begins by setting the scene, looking at recent appointments and some of the issues these chairs have encountered. There follows a description of the search, interview and appointment process. Next come thoughts about how a new chair embarks on the role, with a look at critical tasks — what to do and what not to do — and some of the wider responsibilities. Then, a look at the proper relationship between the chair and the CEO, with background on their different remits. Finally, a word on other matters, such as leadership style, tips on personal development and the relative merits of the non-executive and executive chair models.

WHY NOW?

This is a great time for anyone thinking of becoming a FTSE chair for two reasons: the opportunities are becoming more numerous and the role more interesting.

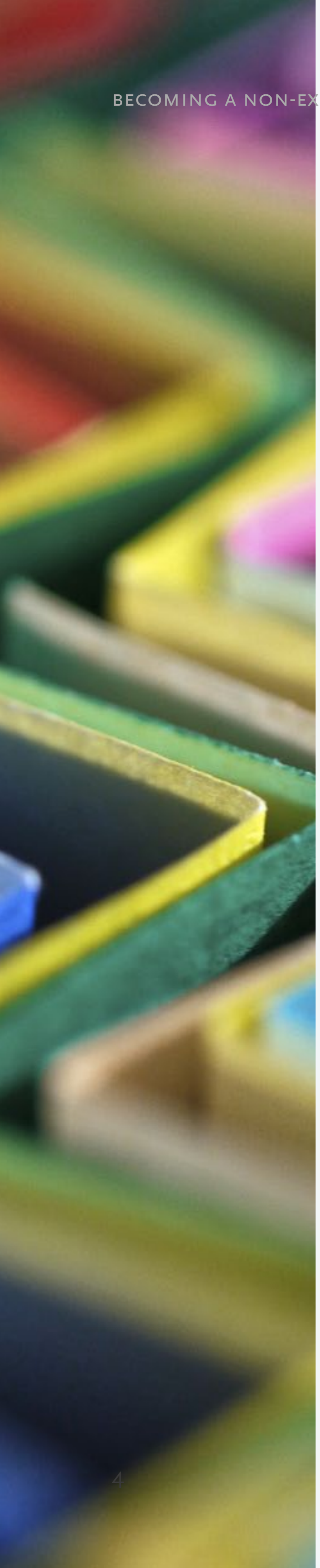
At the time of writing, several boards were delaying chair succession for obvious reasons related to the pandemic. Looking further ahead, we anticipate an increase in the number of chairs likely to retire in the next few years, brought about by the recent change in the UK Corporate Governance Code that advises against chairs remaining in post more than nine years from the date of their first appointment to the board. Companies have the option to comply or to explain.

The responsibilities of the chair are more onerous than used to be the case and the time commitment necessary is more significant. Public expectations of the role of companies in society are growing, driven by political demands, investor pressure and grassroots movements. New reporting requirements reflect a growing focus on stakeholder interests. Recently, many boards have been struggling to ensure the company's survival, to rapidly reassess strategy in an uncertain and fast-changing business outlook, or even to look for previously unheard-of opportunities in the crisis.

In both normal and extraordinary times, the board, led by the chair, sets the company's purpose, establishes a long-term vision for the business, shapes its response to societal demands and safeguards its social licence, taking a position on matters such as climate change, sustainability, the treatment of employees, suppliers and customers. Large institutional investors such as BlackRock, State Street and Vanguard stress the importance of corporate purpose and culture often in the form of annual open letters to public companies. These longer-term shareholders require evidence of an all-round sustainable business model if they are to remain loyal investors.

Shorter-term investors are a very different matter. These investors are becoming increasingly vocal and assertive when they believe performance could be improved. Activists can behave like hostile pressure groups at the gate or can, on occasion, come onto the board as fellow non-executive directors and true business partners. Increasingly often, long-term institutional investors work in alliance with activists in an attempt to improve the performance of investee companies. Either way, the buck stops with the chair.

Never before has the pressure to move in opposite directions — satisfying both short- and long-term expectations — been so strong. The board, led by the chair, sets the response, balancing conflicting demands of investors and other stakeholders. Part of the role involves reconciling contradictions. This makes it all the more interesting.



At the same time, generational change is working through the boardroom. As a number of veteran chairs retire, they are making space for new leadership.

Spencer Stuart takes chair succession very seriously. Our biggest concern is to ensure a source of qualified chair candidates who will support the competitiveness of the businesses we serve. As one of the market leaders in chair appointments we have learned much from this experience that may be of value. This guide is for the next generation of chairs who will be leading the boards of the future.

Context

FRESH LEADERS COMING THROUGH

More than half of FTSE 100 boards are currently led by people who are chairing a listed company board for the first time. Of the 46 chair appointments in the FTSE100 in the four years to the end of calendar 2019, 24 went to individuals who had never chaired a quoted company before.

The arrival of a new generation of chairs, usually former executives, with fresh ideas and fresh approaches should be celebrated.

In this way the UK economy can continue to benefit from the most experienced business talent in the land. That people are willing to work for longer, albeit part-time, has to be a competitive strength for UK PLC and the UK economy as a whole, as it broadens the pool of chair talent.

At the same time, a FTSE boardroom is challenging ground for a new chair to tread. Newcomers will be all the more effective if they can draw on the best practices identified by veterans, while jettisoning conventions that no longer work well. This guide seeks to draw out best practice as seen through boards in action.

Issues for new chairs

WHY BECOME A CHAIR?

Common motivations include some or all of the following: a sense of purpose; a desire to share one's cumulative wisdom and experience with the next generation of leaders; to give back to the business community; to stay intellectually engaged and challenged; and to continue to exercise leadership skills, albeit in a different setting/context.

Take pleasure in ensuring the success of others while taking no public credit.

AM I SUITABLE TO BE A CHAIR?

If you believe you fit most of the criteria in the following checklist, then you are a good way towards answering the question. A chair should:

» It is important that you can really empathise with the company and what it does. You will be spending a lot of time there;

» Remember that the he chair is much less important to the company than the CEO;

» Take pleasure in ensuring the success of others while taking no public credit. It has been said that a good chair takes more than his or her share of the blame and a little less of the credit. If you are the story, something is wrong;

- » Wish to lead, yet not in an executive way. Some of the most interesting candidates are attractive because they have had a successful executive career as hard charging drivers of value. Yet in this context, leading from the front is counterproductive. Such individuals will need to park their executive impulses outside the boardroom;
- » Be relaxed about giving advice, then standing back and letting the executive team execute;
- » Have a clinical, disinterested view of your own position in relation to the company; have nothing to prove;
- » Be prepared to serve the interests of the company, its shareholders, employees, customers and wider stakeholders and sometimes at your own expense; for example, being prepared to stand down in response to a major mistake in order to protect the position of the CEO;
- » Also be prepared, in extremis, to step in to be the CEO, should the company for any reason unexpectedly lose the incumbent CEO;
- » Be happy to lead from the front in bad times and from the back in good times;
- » Be able to switch from providing challenge and critical scrutiny when the company is doing well to supporting the executive team when their backs are against the wall;
- » Be prepared to lead a board outside your core domain of expertise. This is necessary to avoid conflicts. The most senior chairs in the FTSE often sit on other boards in unrelated sectors, while keeping the number of board seats they hold to a sensible minimum. Perhaps only one of their boards is in a sector where they gained their executive experience.

» Possess appropriate personal characteristics. While every chair is by definition unique, common traits include:
  - Foresight, meaning the ability to look and act beyond the executives' horizon, commitment to a long-term sustainable approach;
  - Good humour and calmness under pressure, an ability to conjure calm from chaos;
  - Humanity, understanding and respect for others;
  - Being a good, active listener;
  - The courage to hold one's own interests subservient to those of the company;
  - Emotional intelligence to read the mood of the board and decipher non-verbal clues;
  - Social accessibility and an ability to be at ease with all employees from the most junior to senior;
  - The toughness needed to hold onto the course when it is right to do so, despite cross winds;
  - Complete lack of sentimentality, meaning the ability to fire people, including the CEO, and to change tactics when this is deemed essential;
  - Huge amounts of intellectual curiosity about how different business sectors work.

The next step at this early pre-appointment stage is to address practicalities.

Have you the time to take on this responsibility?

In recent years, it has become essential for a would-be chair to demonstrate that he or she is not overly burdened by other board positions. Overboarding is the current hot issue. To avoid votes against your election or re-election at the AGM, it may be necessary to decline or surrender other opportunities to make room for the chair role.

Shareholders, led by proxy agencies such as ISS and Glass Lewis, will automatically vote against the appointment or re-appointment of chairs perceived to be sitting on too many boards. The most widely used benchmark is that applied by ISS, which runs a simple points system.

Any person who holds more than five roles, or mandates, at listed companies will be classified by ISS[1] and Glass Lewis[2] as overboarded. Some institutional investors draw the line at four. For ISS, a non-executive directorship counts as one mandate, a non-executive chair counts as two, and a position as executive director (or a comparable role) as three. For chairs, adverse vote recommendations will first be applied to any non-executive positions held. The chair position itself will be targeted where the individual is being elected as chair for the first time or, when they hold three or more chair positions, or if they hold an outside executive role.

The points system has been criticised for being insensitive to the variances between similar mandates on different boards. Chairing a

1 Proxy Voting Guidelines, ISS, November 19, 2019
2 2020 Guidelines: An overview of the Glass Lewis approach to proxy advice, United Kingdom

global bank and a small manufacturing company are very different responsibilities and yet they are given the same weighting. For the time being, however, this is a fact of life.

Ultimately, whether or not you are overboarded can depend on how hard you want to work. Some executives are going plural relatively young because they see plural life as a full-time second career. Other directors like to keep time at hand for pursuing other personal interests.

The implication for you is obvious: be clear about your intended work-life balance and be discriminating about what other roles to accept so that your agenda is sufficiently clear to accommodate a chair role. A meaningful chair role will involve a time commitment of up to three days per week. If it is a major financial services board, the chair may need to devote four days per week, becoming in effect full-time. In any event, doing the job well does not leave room for much else.

The company's legal counsel may help you clarify what all this means for the precise number of board positions you can hold. In the end, ask the commonsense questions. Are there actual or perceived time conflicts? What will this do for your reputation? You have only one reputation to lose.

How long can you serve?

Under the 2018 UK Corporate Governance Code, a chair is deemed to be time-expired after nine years on the board and should retire at that point unless the company is prepared to explain why not. Before this latest version of the Code, the nine-year clock started at the time of the appointment as chair; previous years served as a non-executive director on the same board were not counted. This new Code recommendation took effect in January 2019 and has led to a rise in chair retirements.

The good news for prospective new chairs is that more roles are going to be available over the next few years. The bad news is that the once well-tried route to chair via a non-executive directorship on the same board is now harder to make work unless the company feels it can provide a cogent explanation for non-compliance (e.g. the appointment of a new CEO) or unless a director becomes chair within approximately three years of joining the board.

One third of the 46 new chairs appointed to the FTSE 100 between 2016–2019 were members of that board when appointed. Interestingly, four of them were senior independent directors (SIDs) of the boards they later chaired. Under a strict interpretation of governance rules, SIDs should not aspire to chair the same company unless they step down from that role, as one of the SID's responsibilities is to lead chair succession.

As a result of the recent change to the UK Code, the runway available to chair candidates already sitting on the board has now become shorter than it was. Expect internal chair appointments to become less frequent.

How does the appointment process work?

As you approach your first chair role, it is helpful to understand the steps involved in the appointment process. How the nominations committee manages the chair appointment will be an eloquent demonstration of the governance standards of the board you seek to chair. It will be especially revealing of the balance of power between the executive team and the non-executive directors. This appointment process can set the terms of engagement for the future chair.

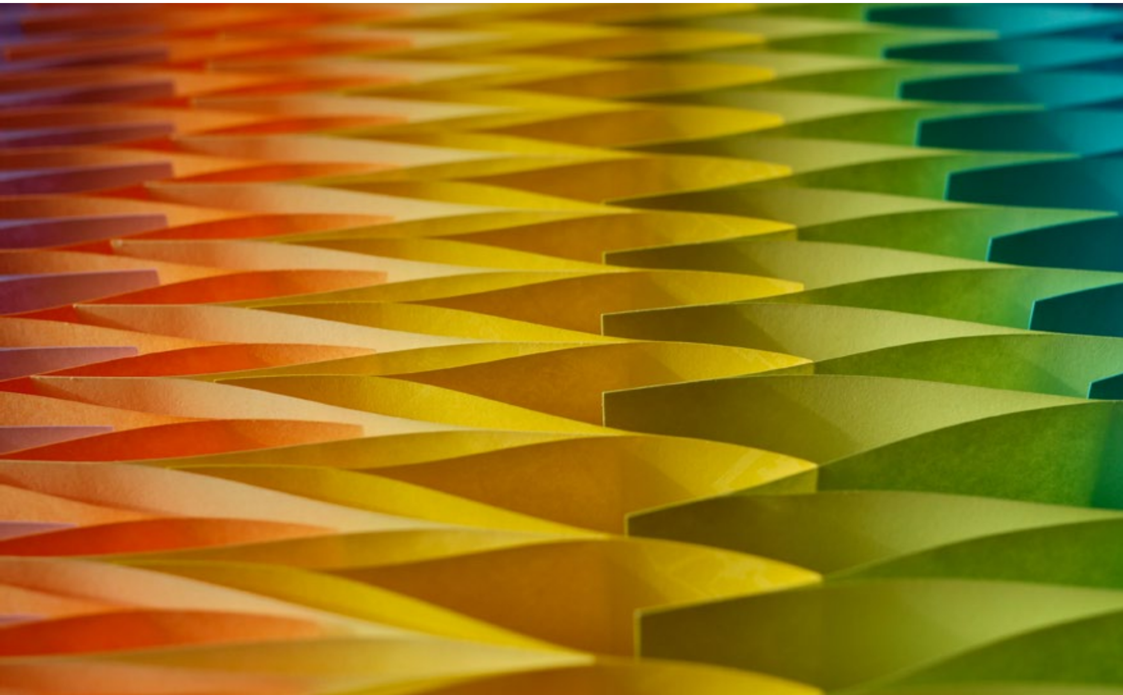
Candidates for chair must be independent in the sense of having no material commercial relationship with the company, competitors or suppliers. But the chair ceases to be regarded as independent by the UK Corporate Governance Code from the moment of appointment, a reflection of the chair's unique position; much closer to the business and more involved than the non-executive directors.

If the appointment process deviates markedly from the guidelines below, the candidate should seek at the least to understand why.

Succession planning is likely to be initiated — but crucially not led — by the chair, usually well before the end of the maximum nine-year term. In fact, the average tenure of chairs in the top 150 companies in the FTSE was just under five years according to the *2019 UK Spencer Stuart Board Index*. Our view is that six years gives the chair a better chance to make a positive impact.

A natural occasion for the chair to initiate this kind of discussion is during the annual review with the SID. The chair should ideally say when the process should start and should not wait to be asked to consider retirement. He or she then stands aside as chair of the nominations committee, which now becomes the responsibility of the SID. The SID should only initiate the chair's retirement if the chair has already stayed too long or has lost the confidence of the board.

Ideally, the timing of chair and CEO succession should be informally understood well in advance. An effective board will discuss succession planning every year. Timing is usually predicated on a combination of what the term limit demands, the expectations of the likely retirement of the CEO and the strategic outlook. Yet, it is all too often the case that chairs stay too long in the role.



If it is time for the chair to move on, it is up to the SID to make the point discreetly in a private conversation — and then to manage the appointment process.

It is most important that before handing over the chair search process to the SID, the chair should privately sound out the SID, to see if he or she wishes to be a candidate. The SID, if not a candidate, then picks up the baton and sounds out the other non-executive directors to see if any of them might be interested and to understand colleagues' views on potential internal successors. Clearly if the SID is a candidate, he or she must stand aside and another senior member of the board should take on the process.

The chair's role is to guide, hire and fire the CEO, so the chemistry needs to work. Potential challenges to the new relationship need to be spotted early.

If a board member has little chance of being appointed, now is the time for the SID tactfully to set their expectations, thus avoiding potential embarrassment and hurt feelings. If you are an external candidate, it is clearly important to know if there are internal contenders. It is a legitimate question and no surprise that chair candidates ask it early in the process.

The SID will work with the nominations committee to draw up a role specification, select a search firm, manage the identification and appraisal of candidates and the appointment of the next chair. In nearly every case, a FTSE100 chair succession will be assisted by a search firm, as recommended by the UK Corporate Governance Code. Usually, the company secretary and the HR director will also be involved, handling administration and regulatory matters, and offering wise advice and insight. They can be helpful sounding boards for the SID and, in better resourced companies, play an increasingly valuable role in chair succession.

Most importantly the CEO should be kept closely enough involved for the nominations committee to know if the relationship with the prospective new chair is going to work well. The chair's role is to guide, hire and fire the CEO, so the chemistry needs to work. Potential challenges to the new relationship need to be spotted early. Getting that right is more art than science, although culture fit assessment tools are increasingly being offered by search firms to help inform whether the new chair's behavioural style and values will be compatible with the CEO, and indeed with the board as a whole.

Although the CEO is involved in the process, he or she should not control it. In very rare cases, the CEO does take the lead in handling chair succession, for example if he or she happens to be founder of the company or a major shareholder. If the CEO is seen as too dominant in the boardroom, the chair succession process can provide an opportunity to reset the relationship, although experience suggests that getting the balance right is hard to achieve without changing the CEO.

The CEO wields an implicit veto, but ideally should not be put into a position of having to apply it. If as a candidate you suspect that the CEO is either too much or insufficiently involved, this is the moment to ask probing questions of the SID and/or the search consultant.

Closing the appointment

Typically, a chair candidate will have an initial, first filter, meeting with the SID and one other non-executive director. Then comes the CEO, followed by interviews singly or in a group with the other non-executive directors. Towards the end of the process, the candidate should also meet the CFO, possibly other members of the C-suite, and the HR Director.

It is obviously unwise to run an appointment process that disregards the view of the investors who own the company. As a candidate, it helps to be aware of how your profile is likely to resonate with the largest shareholders.

Expect the search firm managing your candidacy to carry out deep due diligence, even if, or especially if, the search consultant knows you well.

If the nominations committee senses that your appointment might be controversial, the SID may find it useful to get several people, including the corporate broker to take confidential informal soundings about you from major investors, without necessarily revealing the company name or that an appointment is on the cards.

It can of course sometimes be hard for a nominations committee to know, on its own, whether a chair candidate might be a controversial choice in the eyes of others. So, expect the search firm managing your candidacy to carry out deep due diligence, even if, or especially if, the search consultant knows you well.

No mention will be made of the company's name, and no commitment implied. Full details will be revealed to referees only when the role is actually being offered to you. The moment formal references get under way, usually at a late stage after an offer has been made, you as a candidate are committed to the role.

Any board worth your consideration will strive to keep the search confidential.

The appointment is ultimately the board's decision. Big investors will expect to be informed only just before an appointment is made, rather than consulted at length early. Investors will expect to see evidence of a systematic succession process, but clearly not the details. The premature release of names will drive away potential candidates. Any board worth your consideration will strive to keep the search confidential.

Well before you receive an offer, you will of course wish to carry your own due diligence on the business. It is recommended that you spend additional time with the CEO. Ideally, at least one of these meetings should be informal to allow you both to get a deeper understanding of each other's personality and values. Your relationship with the CEO is critically important, and if you don't see eye to eye, walk away.

Spend time with the CFO, with each non-executive director and with the outgoing chair. Consult the external auditors, the corporate brokers and financial advisers working with the company. Ask yourself if there is a cultural fit and whether you share the board's values and ethics.

Understand the company as well as an outsider can: the operations, the business model, the people, the challenges and opportunities. Read analysts' reports and media coverage in addition to the annual report and other background information on the company.

Get to grips with the sector, the competitors and the market: issues, trends, macro factors, disruption, etc.

Learn what you can about the company culture, defined by the Financial Reporting Council as the combination of values, attitudes and behaviours demonstrated by a company in its operations and relations with its stakeholders. Review the company's social media activity as well as third-party platforms such as Glassdoor; this will give you a sense of the company culture, style and tone.

A good search consultant should be in a position to provide a balanced and well-informed view on the board and the business, bearing in mind your interests as well as the company's interests.

Taking over

The transition to chair is like the handover of control between two pilots. There is no room for ambiguity.

Once the announcement of your appointment has been made, the handover should be short. It does make sense to have a brief interregnum, during which you should sit in on one or perhaps two board meetings as an observer, but not for much longer than that. The run-in period is also an opportunity to make your first introductions to executives in the C-suite and below, and to spend time out and about in the business getting to see and understand it first-hand. It is particularly helpful at this time to get close to the company secretary/legal counsel, who will play a critical role in helping you to manage the board. At the early stage, it is important to get a sense of the quality of the senior HR team, who are increasingly involved in board appointments.

After those initial sessions getting to know the board and executive team, power should transfer quickly from the outgoing to the incoming chair. It helps for there to be complete clarity about who is responsible for what and when responsibility changes hands. One chair likened the transition to the handover of control between two pilots of a plane. There is no room for ambiguity at this moment.

FIRST STEPS

Once you have been appointed as chair, what next? You will face a number of specific tasks necessary to get started in the role.

» Insist on a formal induction process, to answer the questions and issues raised during your pre-appointment investigations, to acquire a detailed grasp of the functioning of the board, the committees, the executive team, other key players, the company's operations, the key issues facing the business, and the future direction and strategy of the company.

» Understand the strategic challenge. This is one of the most important aspects of the chair's role and the first thing you have to get comfortable with. Though written by the CEO, the strategy must be blessed by the chair and the rest of the board.

» Spend time early in your tenure to get to know the SID. After your appointment, the SID's role in relation to you changes radically. No longer is he or she leading the chair search process, closely scrutinising the suitability of each candidate, including you. Now the SID has become your business partner, a member of the board you now lead. That relationship must therefore be reset.

» Set the board agenda. The agenda is best discussed at first with the CEO. The company secretary will also help you manage the agenda. Decide on the annual cadence of subjects to be covered.

» Define the culture of the board as you would wish to see it; set formal and informal rules of engagement.

» Raise the topic of succession. The best time to set expectations about the CEO's tenure is at the moment of taking office. Leaving it later can lead to misunderstandings; it is up to you as the new chair to initiate that discussion. Tenure expectations — yours and the CEO's — should be agreed at this early stage.

» Establish where the responsibility lies for strategy. The role of the board and the executive team on strategy varies considerably between companies. It is best practice for strategy to be developed by the executive and then debated and agreed with the board in such a way that the directors feel that they have become co-authors of the strategy. Strategy should be owned by the board as a whole.

» Define how you will relate to the CEO. This is your most important working relationship. It can change.

Lift off — succeeding in the role

As you settle into the role, a number of ongoing tasks need perennial attention. In the following pages we take a look at each of these in turn.

WORKING WITH THE CEO

This is a multifaceted job, so it is hard to single out simple guidelines for success. That said, the one element in every successful chair is, as mentioned above, an effective relationship with the CEO.

The demands on today's CEO are extraordinary. A relationship with the chair based on mutual trust and regular contact can make for a powerful partnership.

You will have already spent quality time with the CEO during the appointment process, well before any agreement is made on whether to proceed with your appointment. Your ongoing relationship must be based on mutual respect and trust, short of close friendship and yet not arm's length.

You can make life less lonely at the top for the CEO by acting as a sounding board, mentor and advocate. The demands on today's CEO are extraordinary. A relationship with the chair based on mutual trust and regular contact can make for a powerful partnership.

You are ideally placed to form a dispassionate view of the CEO's performance, taking into account the views of fellow board directors. Nothing about the your relationship with the CEO need compromise your freedom to take action and remove the CEO if that is considered by the board to be in the best interests of the business and its shareholders. When a CEO departs, your continued presence in charge of the board reduces the level of trauma in the business. While the CEO is in place, you can play a helpful role in succession planning.

If the relationship is flawed, whether too close or too combative, all other board functions are under threat. The implications for the company at large, beyond the board, can be serious.

But how to build and develop a good professional working relationship over time? The answer is through a clear understanding between the two of you concerning your respective roles and obligations. That understanding should be based on a number of guiding principles, as follows:

- The two roles must be complementary, described in well-defined, terms. You are responsible for managing the business of the board while the CEO runs the business of the company.
- You and the CEO must ensure that you are each appropriately informed of the other's current areas of activities. How often you choose to meet is a personal matter, but the protocol, including frequency, should be clearly understood by both sides. Some communicate all the time, informally by text, others hold a weekly meeting. Most CEOs loathe a formal agenda for such meetings; an exchange of current points and questions is better.
- You and the CEO must be seen to work closely together as a team. Your relationship is one of mutual trust.

» The relationship must be frank and open, with problem areas being addressed early. It is vital that the CEO can share ideas and concerns with the chair. You should be prepared to act as a confidant, but it is a partnership in which you are the senior partner.

» You should have direct access to senior staff as you deem necessary. Familiarise yourself with the marzipan layer — the executives who report up to the C-suite. Plan how you will go out and about to get to know the business on the ground. Methods include site visits, participation in occasional team meetings or informal dinners with groups of key players.

» Decide whether to have an office on site and how often to be there. A physical presence of some kind is essential; absentee landlords are not appreciated.

» You and the CEO must agree on your respective roles vis-à-vis major tasks and new initiatives.

» You should have a shared vision for the long-term future of the group.

» There should be agreement on the fundamental strategy for the group and for the accumulation and allocation of capital.

» A shared approach to dealing with public affairs and employee relations should hold. It is vital to agree on principles and who does what. In normal times, the CEO would lead on both matters, drawing on the advice of the chair.

» Encourage your CEO to provide views on your board directors and their contribution.

» These guiding principles should only be modified by mutual agreement.

PERFORMANCE MANAGEMENT

- » Monitoring their performance and the implementation of the agreed strategy is one of the board's principal tasks and one of the priorities of your leadership.
- » Your relationship and evaluation of the performance of the executives should be dynamic and ongoing, not episodic.
- » You must ensure there is adequate time set aside to review the CEO's performance, and that of other members of the senior executive team.
- » This review is often done at a non-executive's meeting around the board table. This is to be welcomed, but at least twice a year the board should meet, perhaps informally, to discuss CEO and senior team performance.
- » As to the CEO's personal targets, these are yours to set and will be reviewed by the board.
- » CEO targets should always reflect the strategic priorities and objectives and should be genuine and stretching.
- » In addition, more granular observations, or tasks set, will show you whether the CEO is listening.
- » Beware personal targets that are not directly business related and objectively measurable. Nothing betrays a weak chair as much as a relationship with the CEO where the parameters are ambiguous.

COMPOSITION OF THE BOARD

» Building and developing the board is your responsibility. What kind of board do you want? Do you have it? Decide whether your board has the right range of skills and experience to reflect the strategic priorities.

Never seek to cover an executive weakness by a non-executive appointment.

» Never seek to cover an executive weakness by a non-executive appointment; too many boards make this mistake.

» Decide on your optimum board size and work towards it.

» Ensure you have the right CEO — your most important appointment — followed by the CFO, senior independent director and general counsel/company secretary. Select the best committee chairs and plan the composition of the board over time.

» Lead the board in explaining your choices and demonstrating objectivity.

» Plan succession, including your own. The timing of yours should be phased with CEO succession wherever possible, so as to avoid changing the holders of both roles in the same year. Planning should be led by the timing of the CEO's likely move, as every chair would admit that the CEO is the hardest of the two positions to replace. Some companies have succeeded in changing both roles in the same year despite their best efforts to avoid it. All the more sense, in this case, in having a ready list of potential CEO successors — emergency appointments for the immediate future as well as planned succession — available at all times.

» Ensure the board is diverse in every sense. Gender and ethnicity are just the start. It is also critical that the board is composed of people with different personalities and styles. Diversity, especially gender, is a requirement of the Code. The diversity principle is, more importantly, underwritten by common sense. A truly diverse board is likely to have a better-quality debate, leading to better decisions and better outcomes. The board needs to be strong and confident enough to support a maverick in the pack. Seek a gender/ethnic balance that reflects your customer base and your workforce.

MANAGING THE BOARD

- » Hit the ground running; leadership abhors a vacuum.
- » Get to know the relevant stakeholders and their views.
- » Understand the constraints upon you and how they can be turned to advantage.
- » Prioritise the changes you wish to see; not everything can be done at once. There is a rhythm to corporate life but seek to set your own drumbeat.
- » Lose no time in establishing meaningful values that will guide the organisation. These are informed by the primary need to elevate long-term interests of all stakeholders above short-term considerations. The values will inform how business is done, how the company understands its obligations, when it should go beyond mere compliance, and why.
- » Make sure the board debates and agrees codes of conduct and value statements. Ensure that these are understood throughout the organisation and beyond, clearly and unambiguously. These must be comprehensive.
- » Controlling the messaging is key; disregard what does not serve stakeholders' interests and ensure that the CEO is on message when talking about values.
- » Manage the performance of the non-executive directors, working with the SID; influence the personal development of individual members. Through interactions with other board members, outside as well as in board meetings, the chair sets the tone and values of the entire board. The culture of the board will influence that of the entire business.

- » Ways of keeping close to non-executive directors' thinking include preparatory one to one phone calls before board meetings and pre-board dinners. The chair should speak to everyone.
- » Hold perceptive board reviews and see that actions are delivered. Board reviews should be forward-looking in intent, not just a quality check on whether current processes and the quality of debate are as they should be.
- » Encourage strong relationships between the board and the executive team. You and the non-executives should show that you are connected to the organisation, regularly spending time in the business, visiting operations and bringing back your observations to the CEO. The board should cycle through the executives, inviting them to make presentations when opportune and useful, so that the board gets to know them.

STRATEGY

- » The board should own it. A common complaint among non-executive directors is that pre-occupation with governance has resulted in less time available for discussion of strategy. This is an implicit acknowledgement of the ownership of the strategy by the whole board, and by further implication, it is as much your strategy as it is that of the executive.
- » Strategy is not created in a vacuum and must evolve through an iterative process at board level. But the board will not be responsible for beginning this process. That falls to the executive team, who will draft and refine the strategy. Generally, it will have been the subject of executive committee meetings before it arrives at the board

» The chair's challenge is to ensure that the board members become co-authors of the strategy, to ensure the board is closely engaged in the strategic-thinking process. How else can they be expected to effectively monitor its implementation?

» A number of tools are available to you to ensure that sense of co-authorship of strategy. The simplest is the annual strategy day. Better still is the growing practice of bi-annual strategy board days which involve the board in the inception phase as well as the later evaluation stage.

» A strategy committee can be a repository of some part of the board's responsibility and can be present at the early stages of strategic thinking. It cannot, however, be a substitute for formal board wide engagement and approval.

» A good chair will seek mechanisms whereby NEDs can contribute their wide perspective to the initial framing of the company's strategic direction.

» The chair should lead the board's monitoring of progress against the agreed strategy and keep the question of whether the strategy is the right one under review. It is more common now for boards to devote a significant chunk of time at each board meeting to discussing particular aspects of strategy relating to divisions, geographies, functions or projects, for example.

It is your task to ensure that board issues a statement of purpose for the company

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PURPOSE

» Now more than ever the purpose of a company is paramount. A well-articulated and compelling purpose – one that is both relevant to its future direction and shapes decisions – is a powerful asset and underpins reputation.

» Is the wider purpose of the company simply explained and easily understood? It is your task to ensure that board issues a statement of purpose for the company as part of the company's reporting, as recommended by the UK Corporate Governance Code.

» The wider purpose of the business is clearly much more than a compliance issue, however. Your task as chair is to ensure that the management integrates a sense of purpose in all of the company's activities. Only then will the formal written statement of purpose be credible.

RISK

» Ensure that the approach to risk is intelligent, not just compliance led. This is a main board responsibility, even if a risk committee exists. Many financial services companies have separate risk committees for good reasons. Yet, risk must be seen in a holistic way, not as a specialist subject. The pandemic is an excellent example of a multi-dimensional risk running across the full range of the board's activities.

» Most audit committees concern themselves with the financial risks present in the business or which threaten it. All risks are the responsibility of the executive to identify and mitigate insofar as these arise from the general operations of the company. Oversight of this process is the task of the whole board.

- It is important to establish where the responsibility lies for oversight of each type of risk, but risk management will always be an executive responsibility — it is the job of the appropriate board committee to monitor that it is being done effectively.
- A risk committee is often required in companies where the principal risk is financial, such as in the financial sector (particularly banking). In the case of industrial companies, the equivalent of a risk committee can be found in the health/safety/environment/security committee.
- Where there are separate audit and risk committees, the boundaries of responsibility between the two must be absolutely clear. In such cases, it may well be appropriate for the same person to chair both committees and for there to be some joint members.
- Is the board ready to act promptly in the event of a crisis? Ensure that procedures for dealing with the unexpected are in place, with clear roles and responsibilities identified. If the board does not conduct crisis planning, including holding crisis response tests, consider whether it should. How many boards were ready for the consequences of Covid-19?

COMMITTEES

- Ensure appropriate committee membership, including chairs.
- Ensure that information flow and good processes support the board and committees. Committees can helpfully take much of the day-to-day regular work away from the main board and undertake preparatory thinking, thus freeing the main board to focus on issues needing debate and on the longer term. Bear in mind that while you may delegate to a committee, responsibility remains with the board as a whole.
- Ensure that the reporting from committees back to the full board is of high standard.

SHAREHOLDERS AND STAKEHOLDERS

» Establish an authoritative relationship with investors who have different time horizons and views on value. This includes establishing a confident relationship with activists, in which you listen to their views and ensure that the board is where possible a step ahead of their concerns. Be your own toughest activist.

» Ensure the board is considering the interests of all stakeholders, especially on environmental, social and governance (ESG) matters.

» Ensure that the views of the workforce are taken into account, as required by the UK Corporate Governance Code (2018). This is typically through the appointment of one of the non-executive directors as the board member responsible for workforce engagement. A few companies have workforce representatives on the board, but this is rare among unitary boards.

OTHER EXTERNAL RELATIONSHIPS AND THE GOVERNANCE BURDEN

» Manage external relationships carefully (e.g. with regulators, government ministers, NGOs), bearing in mind the broad purpose of the company.

» As for the governance environment, it is your task to insist on high standards and see that they are met. Correct standards must be appropriate ones. Not every company could or should adopt the entire rule book. The point is that deviations from the Code should be adopted deliberately, in the interests of the business, not by sloppy default. Think carefully about when not to comply and how to explain.

MANAGING MEETINGS

- » Get the mechanics right to your satisfaction. Nothing is too minor — for example, seating plans might be worth considering in some cases, albeit not to everyone's taste.
- » Agree an annual programme to discharge formal and informal business. A strong relationship with the CEO and the company secretary will aid in setting up this annual agenda.
- » Any director should be able to request an item to go on the agenda. Be clear what items require a decision and what are for information — ensure the former have adequate airtime.
- » Remember, the board is your meeting, so you must be happy that all issues are covered to your satisfaction.
- » Board discussions must be actively managed by the chair, don't let them roll along. Encourage directors to speak up so there is a proper debate. Provide an accurate summary of the discussion before closing any topic.
- » Boards are social structures, so informal meetings and dinner events can provide opportunities for the chair to hold individual or group discussions with non-executives, to introduce the next layer of management to the board, and to cover special items with knowledgeable presenters.
- » The frequency of formal meetings is at your discretion, as is the board timetable. Your guiding principle should always be to make sufficient time available for discussion, challenge, disagreement and accord.
- » Although the formal meeting is when decisions are made and recorded, groundwork can take place in the corridors and on other informal occasions. However, the decision-making process must be transparent and minuted.

- Think about the location of board meetings — few messages have more power than the presence of the board in the field.
- All your board members should have easy access to board papers, through whatever medium suits you and them.
- Always be alert to the asymmetry of information between the executive and the NEDs. Do everything you can to close that gap, e.g. visits to sites; full availability of management documents; opportunities to meet with executives outside the boardroom.
- Ensure that the company secretary has the confidence of your colleagues; that office should be a conduit for objective advice in the boardroom.
- Support individual directors if they require additional training and development and, on occasion, external, independent advice — it's their right.

LEADERSHIP STYLE

Although there is no one way to run a board, all good chairs deploy an arsenal of 'soft' weaponry. Here are some suggestions:

- Sound out non-executives on potentially difficult or divisive issues in advance of meetings.
- Be an active listener and guide. Effective chairs take in opinions, intervene when necessary and sum up arguments brilliantly.
- Know how and when to opine.
- Introduce an element of humour; lighten the mood when necessary.
- Play the orchestra. Know when to invite interventions from different board members with different approaches; the vocal and opinionated at the right moment, the quiet and reflective at another moment. The quietest players may be used to make that decisive point right at the end of the debate.
- Adopt an inclusive style to decision making. Ensure that every board member brings a view to the table. If necessary, formally go around the table asking for opinions. Don't let anyone hide.
- Know when to build a consensus and when, by contrast, to lead a divided board to a decision.
- Handle significant variances of view elegantly, but do not feel that consensus is necessary every time.

Be an active listener and guide. Effective chairs take in opinions, intervene when necessary and sum up arguments brilliantly.

PERSONAL DEVELOPMENT

A good way to prepare for chairing a FTSE board is to take one non-executive role, or indeed a succession of them, as early as possible in your executive career. This is a great opportunity to observe another chair than your own at work, to broaden your experience by virtue of having to take a board position with a business that is neither a competitor nor a customer of your main employer, and to become accustomed to the advisory approach expected of non-executive directors.

Experience as chair of a board committee or as a senior independent director is also good preparation and something that nominations committees look out for. If you have acquired non-executive experience in this way, then it becomes all the more credible to switch from a board-level executive role, on or soon after retirement, to a chair role.

Mentoring and training from veteran chairs is also helpful. Spencer Stuart provides this service through its regular Chair Forum.

Conclusion

When the Cadbury report proposed nearly three decades ago that the roles of chair and CEO should be split, the report's critics did not expect that chairs would become more powerful figures. Yet this has become the case as a consequence of the professionalisation of boards and the wider expectations placed on boards by shareholders and other stakeholders.

The job has become more difficult and much more interesting. It is seen by many, not least by those who have held the role for a few years, as the most interesting and perhaps the most difficult form of corporate leadership. If you do it well, almost nobody outside the board will notice. If you do not succeed, your failure will be very public.

Those who really have the skill and aptitude to go for it deserve to be supported and celebrated.

APPENDIX 1:
Remits of the chair and chief executive

The UK Corporate Governance Code advises that “the responsibilities of the chair, chief executive, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available.” Just how those responsibilities are defined is the responsibility of the chair. What works? Best practice is suggested below.

The chair

The duties of the chair arise from his or her position as the senior officer of the company and from the responsibility for presiding over the official business of the company and the board. The chair’s duties include:

» Managing the business of the board and presiding over its meetings; resolving differences between directors and seeing that decisions are reached promptly; ensuring that all directors receive the information that is required for the proper performance of their duties.

» Keeping under review with the board the general progress and long-term development of the group and ensuring that effective strategic planning for the company is undertaken by the CEO, consistent with creating shareholder value.

» Ensuring the submission to the board by the CEO of objectives, policies and strategies for the group, including the group annual budget.

» Monitoring progress towards the timely and effective achievement and implementation of the objectives, policies and strategies set by the board and ensuring that appropriate decisions are taken promptly by or on behalf of the board.

» Ensuring that the corporate governance of the group is maintained in line with current best practice policies agreed by the board.

» Advising the nominations committee and the board, after appropriate consultation with all directors, on candidates for appointment as CEO and directors of the company, including executive and independent non-executive directors; also advising the board on the retirement or removal of the CEO and other directors from office.

» Providing advice to the CEO on how he or she will allocate duties to individual directors and assign ad hoc responsibilities or special tasks to directors or groups of directors.

» Recommending to the board the membership and functions of committees of the board and, with the agreement of the CEO, major changes in the organisation of the group.

» Participating with the CEO as appropriate in external communications, including relations with the company's shareholders, governments, other public organisations, other companies, the media and the public generally. External relationships are usually the remit of the CEO, supported by the chair in an ambassadorial capacity. But there may be times when the chair should come to the fore: usually moments of crisis when the chair has the opportunity to provide support and cover for the CEO, thus allowing the CEO to focus fully on dealing with current pressing problems. In better times, the chair may choose to take what looks like a back seat, allowing the CEO to enjoy the limelight.

The CEO

Above all, the chair must be clear about the remit of the CEO. As the senior officer of the company responsible to the chair and the board for directing and promoting the profitable operation and development of the company consistent with the primary objective of creating shareholder value, the CEO's duties will include:

» Having responsibility for effective strategic planning for the group consistent with the objective of enhancing long-term shareholder total return (normally share price and dividends) and for preparing objectives, policies and strategies, including the annual budget and strategic plan, for submission to the board.

» Having regard to s.172 of the Companies Act 2006 and environmental, social and governance issues that may affect the company's licence to operate.

» Ensuring that appropriate objectives, policies and strategies are adopted for each of the businesses or divisions of the company, that appropriate budgets are set for them individually, that their performance is effectively monitored, that guidance or direction is given where appropriate, and that guidance is given to the company's subsidiary and related companies as to the policy favoured by the company, as a principal shareholder.

» Ensuring that such action is taken as is necessary to secure the timely and effective implementation of the objectives, policies and strategies set by the board and of decisions taken by or on behalf of the board.

» Being responsible to the board for the development of the company and its profitable operation, including the profits, cash and costs of all businesses.

- Exercising executive stewardship of company physical and human resources.
- Ensuring that the group complies with all relevant legislation.
- After appropriate consultation with the chair, allocating duties to individual directors and assigning ad hoc responsibilities or special tasks to directors or groups of directors.
- Chairing the executive committee.
- Agreeing with the chair and then recommending to the board any changes to the executive committee, including appointments and nominations, retirements and discharges.
- Leading the group's processes for communicating to, and consulting with, employees.
- Together with the chair, being responsible for public relations, relations with the company's shareholders, governments, other public organisations, other companies, the media and the public generally.
- Regularly keeping the chair informed on all matters that may be of importance to the group, including its current performance and progress.

APPENDIX 2:
Non-executive or executive?

This guide has focused on the UK convention of non-executive chair, which has been the norm in the UK as well as Continental Europe for decades. In the FTSE 100, no chair was 'technically' executive at the time of writing, though usually a small handful exist. They tend to be founders of their businesses or non-executive chairs who have temporarily assumed executive power during a crisis such as an unexpected CEO transition.[3]

The situation is very different in the US, where 74 of the chairs in the S&P100 were executive at the time of writing, and of these, 64 combine the roles of CEO and chair. The US trend is towards a greater number of non-executive chairs. Looking at the wider community of S&P 500, half of boards split the chair and CEO roles between two individuals in 2018, compared with 39% of boards a decade earlier.

Which works best, the executive or non-executive chair model? Should the chair and CEO be separate people or the same? There is no clear answer. Both models work well in very different environments. There are, however, some helpful observations.

Splitting the roles of chair and chief executive officer results in a clear delineation between the purpose of the board and the responsibilities of the executive, and results in a more effective dynamic between the

3 It is worth noting that in February 2020 LGIM announced an escalation of its voting policy towards combined CEO and board chairs, with the decision to vote against combined roles at director elections globally.

two. This is the most basic principle of UK governance, proposed by the Cadbury Report in 1992. The notion of splitting the roles was greeted with a fair degree of suspicion at the time, only to be adopted by the majority of UK boards by the turn of the century.

Such is the importance of the board to the health of the company that it requires a skilled chair who is not distracted by the daily pull of the business to devote sufficient time and energy to its management.

Occasionally, an executive chair becomes necessary in the UK when the company is undergoing an abrupt strategic change. CEOs serving under executive chairs tend to have an operational rather than strategic remit, although it is possible — as is the case with one FTSE 100 company at the time of writing — for an executive chair to lead the company without a CEO.

Seen from the North American perspective, however, splitting the roles of chair and chief executive officer does not necessarily improve the effectiveness of the board or the performance of the company. There may even be evidence that not separating the roles is sometimes beneficial.

Advocates of separation of the roles of chair and CEO in the US admit there is no proven economic benefit for their case.

Splitting the roles, US experience indicates, would not lead to any significant improvement in governance beyond what has already occurred, notably the rise of the lead director. Lead directors have proved effective in ensuring that governance concerns are addressed without having to strip CEOs of the chair title and responsibilities.

The success of the lead director role may be a reason why a growing number of companies have had the confidence to take the next logical step, to appoint a non-executive chair.

It can be argued that splitting the roles increases the amount of control against corporate malfeasance. The chair keeps the CEO honest, is the argument. Yet, there is no evidence that the incidence of wrongdoing on boards differs greatly on either side of the Atlantic.

Bear in mind that a non-executive chair is not considered independent under the UK Code, only independent until the moment of appointment.

There is a deeper conclusion. No rules or regulations can guarantee that a leader will remain honest. Sometimes, an apparently flawless governance environment provides cover for deeper issues. It all comes down to the quality of the individual appointed as chair. It is down to you.

About Spencer Stuart's Board Practice

Spencer Stuart has been helping companies around the world to strengthen their boards and improve their effectiveness by sharing governance best practices for over 50 years.

Our global Board Practice has a strong presence in local markets, a deep knowledge of governance issues and an international network of experienced consultants.We work together seamlessly to identify high-quality independent chairs and directors who add value to the strategic direction of our clients' companies.

Our clients include publicly quoted, private equity-backed, major private and family-owned businesses, as well as start-ups and non-profit organisations.

We contribute to the understanding of effective governance through our many board-related publications, including our annual Board Index series.

Our global team of board specialists has unrivalled knowledge of the director candidate pool and the judgment and experience to help clients make wise decisions about board composition and succession. We have conducted more than 1,600 board director searches globally over the past three years.

We are committed to all aspects of diversity in the boardroom. We have recruited over 2,200 female directors for clients around the world, a figure that is rising steadily. Over the past three years, 36% of our placements have been women.

OUR BOARD SERVICES INCLUDE:

Board advisory

We advise board and committee chairs on governance best practices and counsel them on succession planning, director orientation and ongoing education.

Board assessment

Using a methodology refined over many years, we conduct board assessments for clients around the world that result in high-performing, more effective boards.

Director recruitment

With our unparalleled access to and knowledge of the candidate pool, we place outstanding non-executive chairs and directors who add value to the boards they join.

CEO succession planning

We assist boards with the important and complex task of CEO succession planning, helping organisations design a process that is effective, fair and credible.

Chair Forum

In 2019, we launched the Spencer Stuart Chair Forum to help train aspirant or recently appointed chairs.

Directors' Forum

Since 1995, Spencer Stuart has been running its highly acclaimed UK Directors' Forum role-playing programme at London Business School for prospective non-executive directors.

Both these events are supported by a faculty of experienced board practitioners from inside and outside Spencer Stuart.

*Visit **www.spencerstuart.com** for details on how to contact your nearest Board Practice consultant.*

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Further reading

A wide range of articles relating to the role of the board and that of the non-executive director can be found on the Spencer Stuart website, *www.spencerstuart.com*. Here is a selection:

UK Board Index

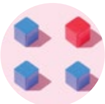
2020 will see the 25th edition of the UK Spencer Stuart Board Index, a comprehensive review of governance practice in the largest 150 companies in the FTSE rankings.

Boardroom Best Practice

What makes an effective board? Best practices from Spencer Stuart, based on extensive board advisory and director recruitment work with many of Europe's leading listed companies.

Boards Around the World

An interactive exploration of how boards around the world compare in terms of diversity, composition, compensation and more.



Now Is the Time to Revisit Your Emergency Succession Plan: Leadership Continuity and the COVID-19 Pandemic

The COVID-19 pandemic presents new leadership continuity risks for companies. Here are best practices for emergency succession planning.

CEO succession: Managing a successful outcome — virtually

During the coronavirus crisis, boards are having to rethink their processes, including succession planning. We offer advice on conducting a virtual succession process at the C-level.

The Digital Dilemma: Optimising board composition in the digital era

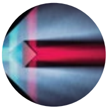
How should boards keep pace with technology trends? Hiring a 'digital director' is not the only answer.

In a New Era for Boards, Culture Is Key

Amid growing scrutiny on board performance and diversity, we explore the main types of board culture styles and the questions boards should ask when changing their cultures.

New Director Onboarding: 5 Recommendations for Enhancing Your Program

All too often, onboarding programs fall short. We offer some ways to close the gaps.



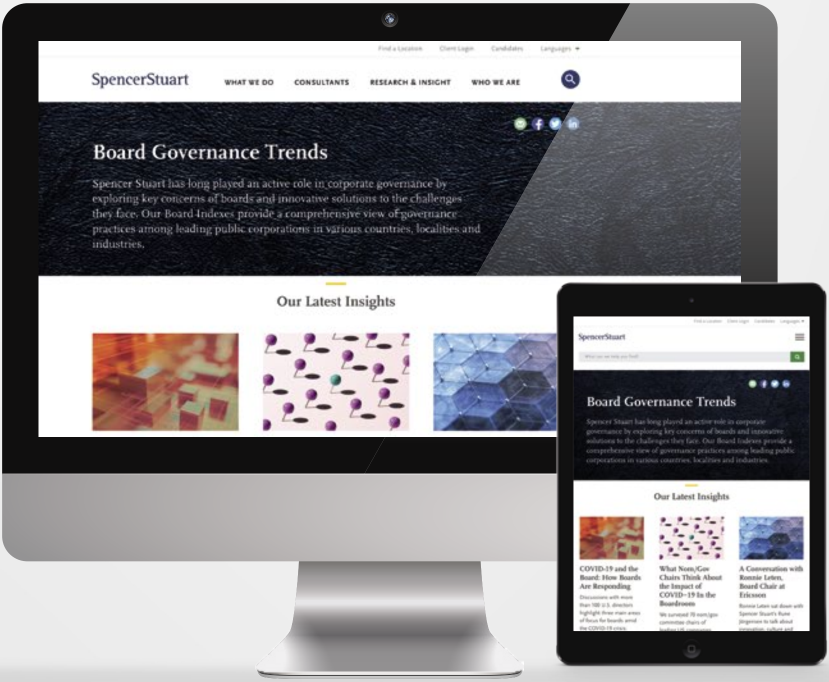
How Next-Generation Board Directors Are Having an Impact

Board chairs and next- gen directors weigh in on how the growing number of younger members are changing the dynamics of the boardroom.

Finding the Right Fit: Assessing first-time candidates for non-executive directors

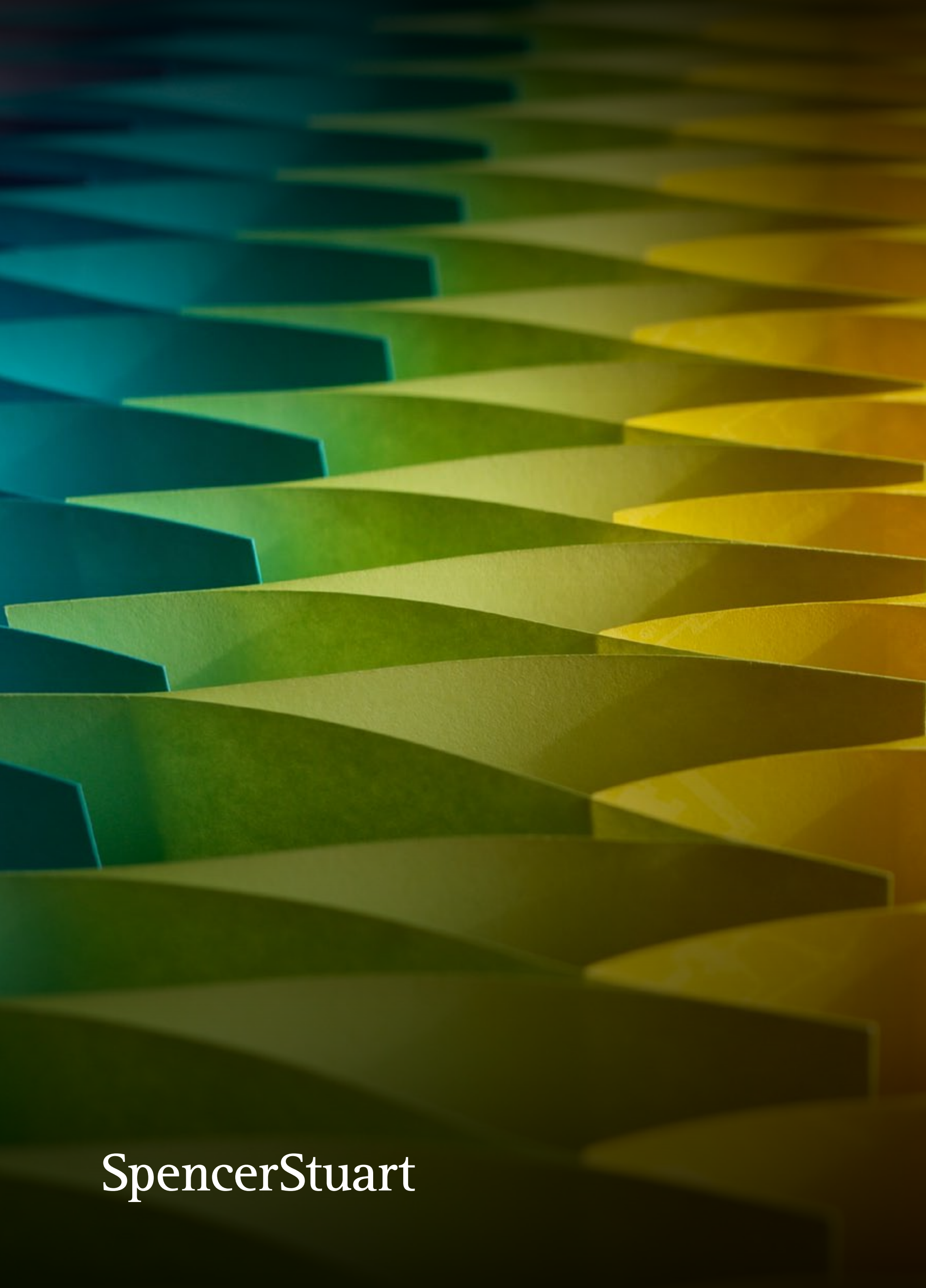
A framework to help boards determine the readiness of a new director.

Board Governance Trends: A Global View



Visit Spencer Stuart's one-stop online resource for the latest data in board composition, governance practices and director compensation among leading public companies in more than 20 countries. Board Governance Trends is an exclusive source of insight into the way board practices are changing around the world and how they compare across countries.

Visit **spencerstuart.com/bgt** for more details.



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