Can Chairmen Lead?

By Stanislav Shekshnia , INSEAD Affiliate Professor of Entrepreneurship and Family Enterprise

The characteristics of highly effective chairmen.

In June 2013, I helped a large private transportation company to upgrade its governance system. The change, among other things, included the creation of a board of directors with an independent chairman. We offered the job to a newly retired CEO from an engineering company, who had some previous director's experience, but had never chaired a board himself. Recently I met with the key actors in the governance system – the company's founders, the chairman and another independent director to assess the situation.

The feedback was generally positive – the board approved the 2014 budget and management incentives, selected an external auditor, changed organisational structure, hired two senior executives and fired one. But all of the interviewees I met with expressed disappointment regarding the 'lack of leadership' from the chairman. The chairman himself confirmed their view: "*I cannot lead. It's an awkward situation – I have the most senior job in the* *company, but I cannot change anything – I have no power or resources*."

That sounded familiar. In the past many chairmen, especially former CEOs have complained to me about their lack of authority to exercise leadership. Were they right? Our two-hour conversation with the transportation company chairman caused a change of mindset – he discovered that he had both the leadership agenda and the mechanisms to advance it. Yet I did not tell him anything new – we just framed the situation differently.

Leading change

Leadership is an *activity* of mobilising people and their resources to achieve meaningful goals which cannot be achieved through existing routines. The transportation company's shareholders had expected the new chairman to bring about changes to the way their board of directors operated, which would make them more productive and more satisfied with their work. This in turn, they hoped would have a positive impact on the performance and value of their business. But the chairman was unable to deliver. From our conversation I found out that he had not only struggled with tools to influence the board, but did not have a vision – an essential component of effective leadership. Due to his CEO background, he could not see what kind of change agenda he could bring to the company as chairman.

I shared two cases which I felt were relevant to his situation. In the first case, a newly elected independent chairman of a successful public company, which was controlled by its energetic and authoritarian founder, decided that his principal mission was to turn the company into a learning organisation, starting with the board and the CEO. In the second case of a recently privatised energy company, the chairman now represented a new controlling shareholder. His priority in the first year on the job was to instil a performance culture in the company.   After reflecting on my stories the chairmen seemed to become enlightened: "*We also need a performance culture. And we are too internally-focused; we need to learn from other companies. But even if I decide to promote these causes I have no instruments to do it – the processes seem to be quite rigid – board meetings, committees, agendas… I just conduct meetings*".

Chairmen do not possess leadership skills that corporate executives are accustomed to – managers reporting to them, budgets, executive orders, business units and service functions, but they do have at their disposal a number of tools to advance their leadership agendas. We reviewed some of them with the chairman of the transportation company.

You have the power

Attention of key players. The chairman of any company commands a resource no other member of an organisation, including the CEO has – the attention of people who make things happen. Chairmen have virtually unlimited direct access not only to people who make key decisions – directors and shareholders - but also to people who execute them – the managers. This unique position makes any chairman potentially a very powerful leader. Intelligent and consistent application of other ways to implement his vision transforms this potential into effective leadership.

Board agendas. Chairmen decide what should be discussed at the board and allocate the board's time to each item on the agenda. This is a powerful tool to steer attention to his leadership vision and to encourage other directors and executives to adopt and carry it into the organisation. Profound discussions initially create awareness and then cause interest in the subject matter, both fundamental elements of a change process. The chairman of the energy company (from my example) put performance reviews as the number one item on the agendas of all five board meetings of the year following the privatisation, and allocated sufficient time to them. Not only was the message clear that they were serious about performance, but board members and senior executives were given a forum for establishing new standards and developing a common language in the area of performance management and productive corporate culture.

Board sessions. Chairmen run board meetings – they choose formats, presentations, discussions, Q&A sessions, individual remarks, allocate time to speakers, frame questions and formulate resolutions. This gives chairmen extra levers to influence other participants and advance their leadership agendas. In the case of the public company, the chairman made it the norm to bring examples of external best practices no matter what question was being discussed; often invited external and internal experts to share their views with the board and executives; and requested that internal benchmarks be a part of all management presentations. During discussions, he repeatedly asked questions such as, "What have we learned?", "How are we going to learn?", "Who can we learn from?"

He also made the assessment of learning potential a mandatory requirement of all acquisition and investment proposals presented to the board. This approach made key members of the company including the CEO, aware that corporate learning is an important element of organisational development. Furthermore, it ignited interest in the subject since managers could see how benchmarking could help them to fulfil their duties. Finally, this approach provided executives with frameworks to start experimenting with knowledge management and moved them to the next stage of change process – the trial of new behaviours.

Board committees. Although in most countries chairmen do not have the formal authority to nominate board committees, in practice they have a great influence over the process. By defining committees' composition, their membership and agendas, chairmen promote their leadership vision and create new organisational vehicles for advancing them. The new chairman of Novartis, Jorg Reinhardt, believes that "innovation is the key to success". Under his guidance, Novartis' board created a Research and Development Committee while abolishing two committees which concentrated on more traditional performance and investment issues.

Board composition. The same is true with regard to the board composition's management. To help advance the leadership agenda, the chairman promoted those who shared his vision, and had the knowledge and social competencies to advance it on the board and let go of people who blocked it or had very different priorities. When the chairman of DTEK, Oleg Popov, felt that the company should make leadership capital its first priority, he replaced some 'technocratic' directors with people with a more humanistic outlook and experience in leadership development.

Executive compensation and evaluation. I do not believe that the amount of money paid to executives has a significant impact on their behaviour on the job. However, the way their pay is structured and most importantly the factors they are evaluated against noticeably influence what they do and how they do it. Chairmen have a great opportunity to advance their leadership vision by designing executive compensation and conducting evaluation sessions with key executives. A strong believer in innovation and performance through collaboration, Reinhardt, chairman of Novartis, led his board to compose remuneration of senior managers so that it was more dependent on the overall group's results. Conversely, the chairman of the energy company introduced a very significant individual performance component to the compensation of his top executives to advance the culture of personal responsibility and accountability.

Role models

Last, but not least, chairmen could be effective role models to realise their visions and change other people's mind-sets and behaviours. Directors and executives watch them continuously, spot consistency and discrepancies and both consciously and subconsciously adopt some of their behaviours. Oleg Popov not only expects his executives to find and develop talent, but takes the time to meet individually with the 200 members of the DTEK's leadership talent pool. These meetings send a strong message to the company about how serious the board is about leadership development. The founder-CEO of the public company admits that his chairman's stand on corporate learning produced a "revolution in his mind" and he catches himself systematically repeating the chairman's favourite questions in discussions with his managers. Leading by example, works well in the chairman's case because of the special status and organisational centrality of that position.

I have had the privilege of meeting a number of chairmen who have demonstrated effective leadership styles and have had a lasting impact on their companies. They come from different backgrounds, have different personalities and demographics. But they all share four characteristics which I believe helped them to become real organisational leaders. They had an ambition to lead; they had a vision; they were aware of the constraints and opportunities that came with the chairman's position and adapted their leadership accordingly; and they were passionate and persistent in advancing their leadership agenda. Nothing out of the ordinary, but taken together, these attributes produced great results.

Two days after our meeting, the chairman of the transportation company called to inform me that he had decided to make risk management and corruption prevention his leadership priority for the next 12 months. He wanted to create a risk management board committee, bring a director experienced in risk management to the board and to change executive compensation to reflect his new priority. He had already had some discussions with other directors and they supported the idea. The chairman sounded passionate, determined, but specific and practical – just like a leader.

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