What Makes an Outstanding Chairman? Findings from the UK Non-Executive Director of the Year Awards, 2006

Victor Dulewicz*, Keith Gay and Bernard Taylor

This paper reports research conducted on detailed behavioural information from the UK Non-Executive Director (NED) Awards 2006. The key findings were that outstanding Chairmen have a high level of integrity, showing high ethical standards in their own behaviour, as well as providing a lead on corporate governance matters. They promote investors’ confidence and ensure high returns to investors. They spend significant time mentoring, developing and advising their colleagues, are team builders, are empathetic and very effective. They encourage contributions from fellow directors and achieve consensus yet they challenge and probe colleagues, especially the executive directors. They have an acute critical faculty and a critical thinking ability.

Keywords: Outstanding chairman, chairmen’s competencies, non-executive director, NED awards 2006

Introduction

Over the past decade a series of public reports – Cadbury (1992), Greenbury (1995), Hampel (1998), Turnbull (1999), Smith (2003) and Higgs (2003) – defined in some detail the role of the Non-Executive Director (NED) in the UK. The recommendations made by these reports were implemented through a series of codes issued by the UK’s Financial Reporting Council (FRC), compliance with which was made a requirement for listing on the London Stock Exchange. The last revision to these codes was made in 2006 (FRC, 2006).

Predictably, in the light of the scandals which had occurred – in the UK (Polly Peck, Maxwell, BCCI, Marconi and Shell) – in the USA (Enron, Worldcom, Tyko and Wall Street) – and in Europe (Mannesmann, Parmalat, Vivendi Universal), the reports and codes emphasised the need for a stronger independent representation on company boards. It was argued that this could prevent executives from committing fraud, restrain them from awarding themselves excessive salaries & bonuses, replace the top management if they proved incompetent and communicate directly with institutional shareholders via a Senior Independent Director (SID). Therefore, on the basis of these reports and codes, the role of the NED has been considerably enhanced and enlarged.

This paper summarises the results of a preliminary analysis of the key competencies (Qualities & Contributions) of outstanding NEDs shortlisted for the Sunday Times NED of the Year Awards for 2006, focusing on the results from outstanding Non-Executive Chairmen, who made up 18 of the 24 shortlisted, 16 of whom gave permission to publish.

The role of the Chairman

Non-executive directors form the recruiting pool for the next generation of chairmen. Gay (2001) reported on a discussion with Sir Adrian Cadbury who predicted an enhanced role for the chairman in the board of the future.

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He suggested that the chairman’s role would become more distinct, because there was going to be more focus on the leadership of the company. Also, the financial institutions would in future focus on the board if things were not going correctly. This would mean that the role of the chairman, who had the time and the skills required to make the board more effective, would be differentiated more sharply from that of the chief executive. It was not just a question of splitting the roles in order to balance the power, although that was obviously important. It was much more important to make the board effective, which required time, commitment and skills. Sir Adrian could not see how the board could ask that of a chief executive when he was also being asked to travel around the world, running the day-to-day business of the company (Gay, 2001).

In his book on the chairmanship, Cadbury (2002, p. 180) suggests that different boards require different types of chairmen. “Boards need to decide what it is they are looking for in their chairmen and what type of chairman would best fit their needs” ... “A particular kind of chairman will suit a particular board at a particular time”. He also states that “One element of choice is between a chairman who will broadly maintain the company on its existing course and one who is likely to feel that a change, either of direction or of pace, is needed” (Cadbury, 2002, p.179).

The role of the Non-Executive Director

Gay (2001) reported that the directors he had interviewed felt that the Cadbury Code had achieved its stated objective of giving non-executive directors a greater influence on the board process and effectiveness. They had more confidence because they were making positive contributions. Most believed that they had improved the performance of the board and their performance as a director. They had helped to set and to maintain new standards. The non-executive directors interviewed seemed to believe that they had played a decision part in this exercise of power. These findings supported the research by Dulewicz and Herbert (1999) who found that non-executive directors significantly enhanced board performance where their power base was at least equal to that of the executive directors.

Cadbury (2002) referred to a survey conducted by KPMG Peat Marwick which revealed that non-executive directors believed that “providing their independent viewpoint” was their most important role. Non-executive directors “bring their independent viewpoint to bear on issues of strategy and governance . . . they see themselves as being on the board to assist in enhancing the business over time, equally and together with their executive colleagues” (Cadbury, 2002, p. 55).

Waldron and Burman (2007) give some valuable practical guidance on the role of non-executive directors. “As well as providing additional skills, expertise and perspective, the appointment of non-executive directors is an effective means of balancing interests in the boardroom. Non-executive directors bring a level of independence and detachment to discussions and the listed public limited companies within the FTSE 350 should have an equal number of executive and non-executive directors; companies outside the FTSE 350 should have at least two non-executive directors.”

The latest Combined Code (FRC, 2006) contains 16 Main Principles, each with Supporting Principles. Those relating to Directors are board effectiveness, division of responsibilities, balance and independence, board appointments, professional development, performance evaluation and re-election. Remuneration covers the level and make up of the package, and the procedures for its determination. Those relating to Accountability & Audit are reporting, internal control, audit committees and auditors. Relations with shareholders embraces dialogue with institutions and the constructive use of the AGM. Finally, Institutional Shareholders deals with evaluation of governance arrangements and the casting of votes.

Differences between listed and unlisted companies

The role of NEDs on listed boards has received much more attention in recent years than their role on unlisted boards but there is reason to believe that governance in unlisted companies may be very different from that in listed companies (Long et al., 2005). They found that on unlisted boards NEDs had a greater degree of involvement in strategic development, financial monitoring, shareholder communication and made a bigger overall board contribution than NEDs on listed boards, but they were less involved in monitoring management, setting executive remuneration, the appointment and removal of executives and succession planning. The ability to analyse risk was considered important in both sectors, but independence was considered less important by NEDs on unlisted boards (Long et al., 2005).

This study covers official list, AIM and private company boards. Waldron and Burman (2007) provide relevant information, by point-
ing out that “some of the provisions of the Combined Code (FRC, 2006) state that they are only relevant to FTSE 350 companies, but in the absence of that qualification it is expected that listed companies comply with the Combined Code; the company should consider carefully before departing from the provisions and reasons should be given. Smaller listed companies may assess the Combined Code and conclude that, given the size of the company, it is disproportionate to comply. Most companies are encouraged to consider the Combined Code as it sets out standards of good practice. The FSA handbook requires all listed companies to state in their annual report whether they comply with the Combined Code, with reasons for non-compliance stated in their Corporate Governance statement.”

Problems in researching boards

Researchers have referred to the difficulties they encounter in working with boards (Pettigrew, 1992; Gay, 2001; Long et al., 2005). Boards prefer to keep their deliberations secret and they are often reluctant to be studied (Long et al., 2005). This makes it difficult for practitioners to challenge conventional wisdom (Gay, 2001). There is thus a paucity of qualitative empirical research in this field. Pettigrew and McNulty’s (1995) comment that “very little is known of the relational dynamics in and around the boardroom” is still true today. Hill (1995) noted that “the normal asymmetry of the interview is reversed when respondents have elite status”.

The literature on NED competencies, and what makes an individual NED outstanding, is also sparse. However, the first major study of UK Boards was set up in 1992 when the UK Department of Employment funded a research project into the working practices of boards of directors of UK companies, in order to focus on good practice for boards and to extend the national work on management standards. A team from Henley Management College, led by Peter Herbert and Victor Dulewicz, conducted the project on behalf of The Institute of Directors [IoD]. The main aims of this study were to help boards to identify their key Tasks and, using a series of Tests of Good Practice, to indicate areas for improvement in performance, and to identify the competencies required by Chairmen, CEOs, Executive and Non-Executive Directors. Data on competencies were gathered from over 340 directors via a major questionnaire survey. The overall results of the study were published in a book entitled Standards for the Board (Institute of Directors, 1999) and the results of the study of the 38 personal qualities (competences) of individual directors were presented by Dulewicz and Gay (1997). The essential NED Competencies (“Personal Attributes”) according to over 50 per cent of respondents were:

- Integrity
- Critical Faculty
- Perspective/Helicopter Ability
- Change Orientation
- Listening, and
- Judgement

The equivalent list of chairman’s competences was as follows:

- Integrity
- Perspective/Helicopter Ability
- Appraising
- Critical Faculty
- Vision
- Strategic Awareness
- Coordinating
- Change Orientation
- Organisational Awareness, and
- Motivating Others

Four of these competencies are shared with the NEDs.

In 2002, the Department of Trade & Industry and HM Treasury asked Sir Derek Higgs to review the role of NEDs on UK Boards. In his report entitled Review of the Role and Effectiveness of Non-Executive Directors, he outlined the role as follows:

- **Strategy:** Challenge and contribute to strategy development.
- **Performance:** Scrutinise performance of management and monitor reporting of their performance.
- **Risk:** Ensure financial information is accurate.
  Ensure financial control systems are robust and defensible.
- **People:** Determine appropriate remuneration for executives. Prime role in appointing (and removing) senior management and in succession planning. (Source: Higgs, 2003, pp. 27–29).

Higgs also commissioned a specific study of NED competencies, which was conducted by McNulty, Roberts and Stiles (2002). They identified five broad competencies:

- Integrity & High Ethical Standards
- Ability & Willingness to Challenge & Probe
- Sensitive Listening
- Sound Judgement
- Strong Interpersonal/Influencing Skills

Two competencies identified by Dulewicz and Gay (1997), Perspective/Helicopter Ability and Change-Oriented, did not feature. Nevertheless, the criteria used in the 2006 NED Awards were based on the role definitions and competencies described by Higgs (2003) above.

The NED Award Scheme

The Non-Executive Director (NED) Awards were conceived by Adam Hart, Business Development Director of the investment bank, KBC Peel Hunt. The purpose was to identify the non-executive director who, judged against a number of criteria, has created the most value for their company and its shareholders. Five organisations sponsored the scheme: KBC Peel Hunt; The Sunday Times; 3i PLC; Henley Management College and Pinsent Masons. There are fundamental differences in the ownership and direction of a company and so it was decided to have three different categories of nomination, from: Unquoted/private equity backed, AIM/Ofex and Official List companies.

Method

Nominations for the awards were solicited by letters to all UK quoted companies, over 2000 significant private companies, a wide range of City advisers (stockbrokers, investment banks, lawyers, accountants and public relations advisers) and from the readers of the Sunday Times. There were 23 full and detailed nominations from unquoted/private equity backed companies, 30 from AIM/Ofex companies and 22 from Official List companies, making 75 in total.

Information was gathered by a questionnaire designed by Victor Dulewicz and was available on paper or on-line, on the Awards’ dedicated website (Hart, 2006). Criteria for the nomination process were derived from the Higgs Report (2003, pp 27-29), as noted above.

Nominators were asked:

- To what degree does the Nominee:
  - Demonstrate an Ability & Willingness to Challenge & Probe the accepted thinking of the Executives?
  - Demonstrate Influencing Skills to win the agreement & trust of colleagues?
  - Demonstrate Sound Judgement?
  - Provide Good Corporate Governance Guidance (on audit, remuneration, risk management etc) and to communicate this to board?
  - Demonstrate Integrity & High Ethical Standards?
  - Contribute and advise on Strategy?
  - Make an impact on the Financial Success of the Board (e.g. increased value of company; attracting investors; raising funds)

They were also asked to:

- Identify any other exceptional qualities/contributions the Nominee shows that qualify him/her for a Non-executive Director Award.

The short-listing process

This was conducted by three Judges based at Henley Management College: Prof Bernard Taylor, Dr Keith Gay and Prof Victor Dulewicz. They rotated as 1st, 2nd & 3rd raters across the three ownership categories. Based on data provided by nominators on the criteria above, they selected the top eight in each category.

Final selection panel

The 12 Judges were from the sponsoring organisations and from major City institutions:

- 3i (Baroness Hogg, Chairman)
- Sunday Times (John Waples, Business Editor)
- KBC Peel Hunt (Adam Hart, Director)
- Henley Management College (Victor Dulewicz, Director, Centre for Board Effectiveness)
- Pinsent Masons (Martin Webster, Partner)
- IoD (Miles Templeman, Director General)
- HSBC (John Studzinsky, Head of Corporate & Investment Banking)
- Schroders (Andy Brough, Fund Manager)
- Invesco (Andy Crossley, Head of Small Companies)
- London Stock Exchange (Martin Graham, Head of AIM)
- Better Regulation Commission (Rick Haythornthwaite, Chairman)
- BDO Stoy Hayward (Dermot Mathias, Senior Partner)

The panel was chaired by Baroness Hogg, also the Chairman of 3i PLC.

Final selection process

Judges assessed the eight short-listed nominations in each category on information on the criteria from nominators; additional information from fellow directors; financial information on company performance; and recent newspaper cuttings. They allocated 50 points across the eight nominees for each ownership category. Finally, they produced a ranking based on the points awarded to each director. The winner of the Privately owned or Private...
Equity-backed unquoted companies Award was Dr Mike Carter, Non-Executive Director, Kudos Pharmaceuticals Ltd. The Quoted Company AIM award was won by Mr John Barnes, Non-Executive Chairman, La Tasca Group Plc and the Quoted company Official List award winner was Mr Paul Myners, Non-Executive Chairman of Marks & Spencer Group Plc.

Results

A content analysis of the information provided by nominators under each criterion was conducted by Victor Dulewicz and Keith Gay and, if necessary, modified. Several clusters of similar competencies (behaviours) emerged from this analysis. These were coded and numbered for each criterion. Similarly, each specific competence was coded for each ownership group – Unquoted/private equity backed (P); AIM/Ofex (A); and Official List (L), and each individual nominee was given a code number.

Table 1: Results for Ability & Willingness to Challenge & Probe

<table>
<thead>
<tr>
<th>C1. Challenges the Executive Directors. (n6)*</th>
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<tbody>
<tr>
<td>L1. Challenged and probed the perceived wisdom of the Exec team to effect a change in the way the company operated and its culture.</td>
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<tr>
<td>L2. Willingness to challenge the Execs and also replace them when it is clear that their strategy is not the same as that endorsed by the board.</td>
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<td>A5. His guidance on secondary equity fundraising and debt refinancing offers a sensible and constructive counter balance to the Execs.</td>
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<tr>
<td>A6. Challenges the Execs to argue the rationale for the recommendations they put forward for adoption.</td>
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<tr>
<td>P1. Never leaves the accepted thinking of the executives unchallenged.</td>
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<th>C2. Challenges &amp; Probes (n6)</th>
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<tr>
<td>L2. At board meetings, he constantly challenges the accepted thinking to ensure the board produces the best outcome for the company.</td>
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<tr>
<td>L5. Constantly challenges and probes, in a very non-confrontational way and always considers the responses he gets when making a final judgement.</td>
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<tr>
<td>A2. Frank and direct in a non-executive style.</td>
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<tr>
<td>A3. Masterly ability to get to the crux of an issue and then get it resolved, even if tough decisions are needed.</td>
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<td>P6. Will often adopt an unpopular “devil’s advocate” position so sponsors of a position have to convince the board of its merits.</td>
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<tr>
<td>P8. His style is unique in being able to make both shareholders and managers realise the current position and enthusiastically embrace change, in a hard-nosed but sensitive way.</td>
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<th>C3. Is a Critical Thinker &amp; has a Critical Faculty (n6)</th>
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<tr>
<td>A3. Has ability to ask the right questions, at the right time, and to identify the real issues.</td>
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<tr>
<td>A3. Has clear, independent thinking, ensures every aspect of the business is questioned.</td>
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<tr>
<td>A4. Has the talent to ask those questions which make you think and particularly to think laterally.</td>
</tr>
<tr>
<td>A4. Invaluable in spotting missed opportunities and pitfalls.</td>
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<tr>
<td>P1. He probed how we could justify the company’s potential move into a new, emerging market.</td>
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<tr>
<td>P7. His analytical ability ensures Board meetings are challenging and he is more inquisitorial than an entire Credit Committee.</td>
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""n" refers to the number of competencies in this cluster.

Typical examples of these competencies are quoted below in italics. The results on the criterion Ability & Willingness to Challenge & Probe are presented in Table 1, from which one can see there are three clusters of similar competencies with six competencies within each one. For Challenges the Executive Directors, a typical specific example is:

Challenged and probed the perceived wisdom of the Exec team to effect a change in the way the company operated and its culture.

Challenges and Probes is typified by:

Constantly challenges and probes, in a very non-confrontational way and always considers the responses he gets when making a final judgement.

The third cluster is Critical Faculty/Critical Thinker:

e.g. Has clear, independent thinking, ensures every aspect of the business is questioned.
Table 2 presents the results on the criterion **Influencing Skills** from which one can see there are two clusters of similar competencies. The first cluster, Effective Listener & Empathy contains six competencies:

-  **Shows empathy for the individual is a great listener and when disagreeing, does so diplomatically, so avoiding confrontation.**
-  **Wins agreement and trust of others by listening first and reaching conclusions second.**
-  **Has ability and empathy to chair a small business.**
-  **Has a “listening ear” but also the spirit to call tough shots when required.**
-  **Sells an idea, then listens to the arguments before coming to his conclusions.**
-  **Is a very good listener and evaluates any subject clearly, however difficult.**

The second cluster is **Encourages Contributions & Achieves Consensus**, which contains five competencies:

-  **Ability to reconcile differences, reconcile parties to a common cause and negotiate final decisions.**
-  **Ensures Execs and NEDs can air their views fully at board meetings.**
-  **Skilled at getting Execs and NEDs to agree, often without either group noticing any concessions made.**
-  **In board meetings, he encourages debate and challenge, facilitates discussions and always moves to an agreed, clear decision.**
-  **Management and shareholders held opposite positions; he worked on re-focusing the company with a new vision and got both parties to agree to a common strategy without either losing face.**

In Table 3 the results on the criterion **Sound Judgement** are presented, from which one can see there are four clusters of similar competencies. The first cluster, **Clear Thinker**, contains five competencies:

-  **He is an intelligent, well informed and a clear thinker.**
-  **His sound judgement is supported by his strategic vision and the commercial and manufacturing logic which underpins it.**

The second cluster, **Broad Perspective** contains two competencies:

-  **Management and shareholders held opposite positions; he worked on re-focusing the company with a new vision and got both parties to agree to a common strategy without either losing face.**

The third cluster, **Effective Negotiator**, contains two competencies:

-  **He handled the M & A negotiations with •• Ltd. (and with other potential acquirers) and negotiated additional milestone-based payments, resulting in an attractive return to investors.**

The fourth and final cluster, **Plays an Impartial Role**, contains only one competency:

-  **When faced with tough decisions on staff, acquisitions or professional teams, plays an impartial role in making the right decisions.**

Table 4 presents results on the criterion **Good Corporate Governance Guidance and Communication**, from which one can see there are three clusters of similar competencies. The first cluster, **Leads on Corporate Governance**, contains seven competencies:

-  **Ensures that all the necessary CG safeguards are put in place and they are not just given “lip-service”.**

The second cluster, **Challenges Corporate Governance Principles**, contains two competencies:

-  **Continues to challenge the rules on CG and their potential conflict with incentivising management.**

The third cluster, **Promotes the Financial Aspects of Corporate Governance**, contains four competencies:

-  **Takes his audit responsibilities very seriously to ensure that the books are completely straight and ensures risk across the business is well managed.**

In Table 5, results are presented on the criterion **Integrity & High Ethical Standards**, from...
Table 3: Results for Sound Judgement

J1. Is a Clear Thinker (n5)
L1. Clearly identified and addressed the issues on the critical path to survival (of the business) and guided delivery of the process.
P7. Although his social skills are well developed, one is confronted by his intellectual rigour in the boardroom.
A2. Intelligent, well informed clear thinker.
A4. In M&A, has an invaluable ability to identify winners and losers.
A6. Often brings discussions to a successful conclusion through the clarity of his thinking and sound judgement.

J2. Has a Broad Perspective (n2)
A3. Focused strategy on maintenance contracts with blue-chips.
P7. His sound judgement is supported by his strategic vision and the commercial and manufacturing logic which underpins it.

J3. Is an Effective Negotiator (n2)
P1. He handled the M & A negotiations with •• Ltd. (and with other potential acquirers) and negotiated additional milestone-based payments, resulting in an attractive return to investors.
P3. Before acquisition, he was one key player in pushing the price to the maximum and holding the nerve of the board who had been tempted to accept a lower price earlier.

J4. Plays an Impartial Role (n1)
A4. When faced with tough decisions on staff, acquisitions or professional teams, plays an impartial role in making the right decisions.

Table 4: Results for Good Corporate Governance (CG) Guidance and Communication

G1. Leads on Corporate Governance (n7)
L2. A firm supporter of CG initiatives, he encouraged the NEDs to meet independently so there is every opportunity for full and frank discussions on board and company management.
L2. The CG requirements for board, committee and director assessment is used as an opportunity to review the entire governance process.
L5. When a director got himself into a position of conflict of interests, he moved swiftly to obtain his resignation and ensured his company was fully reimbursed.
A3. Highlights the importance of CG by making time for discussion at the board and ensuring full participation.
A3. Standards of CG he implemented were higher than those required of an AIM company.
A6. Ensures that all the necessary CG safeguards are put in place and they are not just given “lip-service”.
P7. Good CG is high on his personal mission list since it rests easily with how he perceives his duties as an NED.

G2. Challenges Corporate Governance Principles (n2)
A2. Continues to challenge the rules on CG and their potential conflict with incentivising management.
A3. Believes that CG is about best business practice, not compliance and sets extremely high standards of integrity and sincerity himself.

G3. Promotes the Financial Aspects of Corporate Governance (n4)
L1. Insolvency advice was regularly sought, documented and followed in deciding whether the business should continue to trade.
L1. Dealt appropriately with the difficult matter of ensuring the board protected the creditors’ interests whilst continuing to look after shareholders’ interests.
P8. Takes his audit responsibilities very seriously to ensure that the books are completely straight and ensures risk across the business is well managed.
P6. Set up Audit & Remuneration Committees; implemented regular and timely reporting and regular reviews of board effectiveness, director replacement and development.
which one can see there are three clusters of similar competencies. The first cluster, Leads on Integrity & High Ethical Standards, contains three competencies, a specific example of which is:

He is a strong proponent of the company’s Code of Business Ethics, currently being benchmarked against the best codes in the world.

The second cluster, Exemplar of Integrity & High Ethical Standards in Own Behaviour, contains seven competencies, exemplified by:

Makes it clear by the way he acts that he expects the utmost integrity and highest ethical standards.

The third cluster, Will not Compromise on Ethical Standards, contains two competencies, one of which is:

Insisted that a potential commission payment from a 3rd party supplier should be disclosed immediately to the client.

Results on the criterion Contribution on Strategy are presented in Table 6. One can see that there are five clusters of similar competencies. The first cluster, Strategic Restructuring & Emphasis on Core Business, contains five competencies:

e.g. He orchestrated a comprehensive restructuring, focused on the core business and recruited a new Exec team, which delivered recovery of the business.

Sets the Vision, the second cluster, contains three competencies:

e.g. Developed a vision for the company and a high level plan to deliver it over 5 years.

The third cluster, Strategic Perspective, contains three competencies:

e.g. Has the ability to understand the detail but manages to give a good strategic view and to put it in perspective.

The fourth cluster, Encourages Strategic Review & Strategic Change, contains three competencies:

e.g. Has contributed significantly to the strategy, including identifying the need for strategic review and change; challenging management and advisors; achieving consensus and monitoring implementation.

The fifth and last cluster, Encourages Executives’ Strategic Contribution contains two competencies:

e.g. Encourages clear, sound and realistic strategies that are owned by the Execs; and then supports them.

Table 7 presents results on the criterion Financial Success of the Board from which one can see there are three clusters of similar competencies. The first cluster, Promotes Investors’
Confidence & High Returns, contains 11 competencies. As this is the largest, two typical examples are given:

*Led complex front-line negotiations in maintaining the confidence and support of the company’s diverse group of lenders.*

*He was key to identifying the inherent value in the business and reclaiming this for its shareholders.*

The second cluster, Establishes Good Relations with New Investors, contains three competencies:

*e.g. His impressive personal “pedigree” and reputation has ensured we have never failed to raise funding for an acquisition or attract investors when required.*

The third cluster, Supports CEO on Finance, contains two competencies:

*e.g. Supported CEO in both initial scrutiny and subsequent relationship management with institutions.*

The final, open-ended question covered *Other Exceptional Competencies (Qualities) or Contributions.* Results are presented in Table 8 from which one can see there are five different clusters of similar competencies. The first cluster, Acts as a Mentor/Advisor, contains eight competencies:

*e.g. He has personally developed the Executives into becoming better directors, always seems to get best out of people, and is especially eager to work with the weaker ones.*

The second cluster, Communicates Effectively with Stakeholders, contains three competencies:

*e.g. Able to communicate with stakeholders at all levels.*

The third cluster, Works Beyond Call of Duty contains two competencies, exemplified by:

*Has gone above and beyond the call of duty of a Non-Executive Chairman, working through the night whenever necessary, attending meetings*
WHAT MAKES AN OUTSTANDING CHAIRMAN?

Table 7: Results for Financial Success of the Board

F1. Promotes Investors’ Confidence & High Returns (n11)
L1. Led complex front-line negotiations in maintaining the confidence and support of the company’s diverse group of lenders.
L1. Lobbied shareholders for their support of the divestment and re-structuring plans and utilisation of the funds for the survival of the business.
L2. He undertook a capital re-organisation under which $500m was returned to shareholders.
L2. Showed tenacity in pursuing the delivery of value for shareholders when many in the City were urging the board to sell the company.
L4. He was key to identifying the inherent value in the business and reclaiming this for its shareholders.
L4. Recognised, appreciated the importance of private investors and worked tirelessly to improve communications with them and the institutional holders.
L4. Instrumental in delivering a value-enhancing lender offer and improved funding of the pension fund.
L5. Leaves investor relations to the Execs but adds value in reviewing progress and ensuring just the right amount of time is being spent with investors.
L6. Kept a constant focus on shareholder value and maintained an open mind to allow Private Equity and Trade approaches while developing the company.
A3. Led the company’s floatation, to enable the vision and plan to be implemented.
A5. He tests the financial models of annual budgets and of anticipated returns on possible acquisitions.
P8. His challenging but authoritative style helped shareholders to see the success of the company, working on a very tight cashflow, which led to a successful renegotiation of shareholder debt.

F2. Establishes Good Relations with New Investors (n3)
P6. Is active in all funding rounds and constantly ensures that terms forwarded by subsequent investors translate into “equality” for all investors.
P7. His impressive personal “pedigree” and reputation has ensured we have never failed to raise funding for an acquisition or attract investors when required.
A3. Met investors to ensure their confidence in the company post floatation.

F3 Supports CEO on Finance (n3)
A2. A great personal advisor (to CEO) on all aspects of fundraising.
A2. Put together the management incentive scheme.
A4. Supported CEO in both initial scrutiny and subsequent relationship management with institutions.

at the drop of a hat… the business would not have survived without his outstanding performance.

The fourth cluster, Team Builder, contains four competencies:
e.g. Has an input to all new appointments and needs to be convinced they possess a new skill or expertise that will complement the overall board make-up.

The fifth and final cluster, Enthusiastic & Resilient, contains two slightly different qualities which are both presented:
Faced with difficulties does not panic and demonstrates extraordinary patience.

After a long career in business, he is still greatly enthused by the company, its prospects and its people.

Ranking of clusters of Competencies
The most frequently occurring clusters of Competencies cited by at least 25 per cent of nominators, presented in rank order, are:

- Promotes Investors’ Confidence & High Returns (69 per cent)
- Acts as a Mentor/Advisor (50 per cent)
- Is an Effective Listener & Shows Empathy (44 per cent)
- Leads on Corporate Governance (44 per cent)
- Is an Exemplar of Integrity & High Ethical Standards in own behaviour (44 per cent)
- Challenges the Executive Directors. (38 per cent)
- Challenges & Probes (38 per cent)
- Is a Critical Thinker & Has a Critical Faculty (38 per cent)
- Encourages Contributions and Achieves Consensus (31 per cent)
- Encourages Strategic Restructuring & Emphasis on Core Business (31 per cent)
- Encourages Strategic Restructuring & Emphasis on Core Business (31 per cent)
- Promotes the Financial Aspects of Corporate Governance (25 per cent)
- Is a Team Builder (25 per cent)

Further analyses were conducted to identify which, if any, Competencies were predomi-
nantly from any one ownership group, i.e. Private, AIM, or Listed Company. It emerged that the following clusters were predominantly from Private companies: “Establishes good relations with strategic investors”; and “Is an effective negotiator”. AIM companies provided the majority of examples of competencies clusters:

• Is an effective listener & shows empathy
• Challenges corporate governance principles
• Support the CEO on Finance
• Is an exemplar of integrity & high ethical standards in own behaviour
• Will not compromise on ethical standards
• Sets the vision
• Challenges the Executive Directors
• Is a critical thinker & has a critical faculty
• Is a clear thinker
• Acts as a mentor/advisor

In contrast, Listed companies provided the majority of examples of

• Promotes investors’ confidence & high returns

- Shows integrity & high ethical standards in own behaviour
- Encourages strategic restructuring & emphasis on core business
- Has strategic perspective
- Encourages strategic review and strategic change
- Is a team builder

All of these findings will be discussed in the next section.

Discussion

This paper presents an analysis of the information on eight criteria provided by nominators of outstanding Non-Executives, of whom 18 of the 24 short-listed were Chairmen, and 16 of whom gave permission to publish. So, what does make an outstanding Chairman? The 13 most common competencies’ clusters can be further classified into 4 “supra-clusters” covering Investor Relations; Ethics & Integrity; Intellectual/Cerebral and Inter-personal beha-
Some clusters illustrate good leadership, others good team working; some are external-facing, some internal; some show good personal competencies, others good interpersonal behaviours. Since the criteria in the questionnaire were derived from the Higgs Report (Higgs, 2003), all the evidence is in line with the report’s findings on the role of the NED. However, these main findings show what behaviours are demonstrated by a significant proportion of outstanding Chairmen.

**Investor relations**

The most wide-ranging cluster of Competencies related to Investor Returns, particularly “Promoting Investors’ Confidence and Ensuring High Returns”. This covered leading company flotations and complex front line negotiations, in a challenging but authoritative way, communicating effectively, lobbying shareholders for support, gaining their confidence and keeping a constant focus on producing shareholder value.

**Ethics & integrity**

Another leadership Supra-cluster covered Ethics & Integrity, embracing giving a lead on Corporate Governance by being an excellent example of someone with high integrity and showing high ethical standards in one’s own behaviour, as well as Promoting the Financial Aspects of Corporate Governance. They are likely to make time for corporate governance discussions ensuring participation by all directors, support corporate governance initiatives and set even higher corporate governance standards than required, ensuring corporate governance standards are implemented. They ensure that the Board protects creditors’ interests and that risk is well managed, and they set up Audit and Remuneration committees if they did not exist hitherto. They are also likely to be exemplary in their own behaviour. They have high standards of ethics and integrity, expect the same from others and prefer to mix with those with similar values. They are unlikely to do anything questionable or ask that of others. Their integrity is admired by the Institutions, as well as their openness, honesty and transparency. This is a description of integrity which would probably be endorsed by those responsible for the Combined Code (FRC, 2006).

**Intellectual/cerebral**

The third Supra-competency covers Intellectual/Cerebral skills, relating to

- Challenging the Executive directors and other people generally, demonstrating a range of ways of challenging and probing
- Having a critical faculty and being a clear, critical thinker
- Showing clarity of thought, and
- Strategic restructuring

The first competency covers challenging the current accepted thinking, playing devils advocate, effecting change in the culture and operations and gaining acceptance from fellow directors. They do this by being frank and direct, but in a non-confrontational and sensitive way, although they are willing to replace dissenters as a last resort.

The next two competencies illustrate clear, independent thinking, which can be inquisitorial, asking the right questions which can also encourage lateral thinking. They show intellectual rigour, have clear sound judgement, and can spot the missed opportunities and pitfalls as well as winners and losers. They identify and address issues on the critical path to success or survival. The final competency exemplifies leading and orchestrating the development of a new strategy which sometimes includes plans for restructuring or demerging in order to focus on the core business.

**Inter-personal**

The fourth Supra-competency, Inter-personal, covers the people side of board behaviour, embracing four competencies:

- Encouraging others to contribute and achieving consensus
- Being an Effective Listener and Being Empathetic.

These two are linked and involve ensuring everyone can air their views, encouraging debate, facilitating discussion leading to an agreed conclusion, getting everyone, especially Execs and NEDs, to agree without losing face, reconciling differences and opposing parties to the same cause.

The final two emerged from the open-ended question and so were not specifically in response to a Higgs’ criterion, but nevertheless the current Combined Code (FRC, 2006) has probably encouraged such behaviours to be more prevalent: Acting as a Mentor or Advisor; and Being a builder of teams. These cover personally developing the Execs to know the business inside out, being an excellent guide or coach or mentor to the Execs and sometimes the CEO alone, to whom they provide understanding, support and belief. Being a real team builder involves passing on
one's skills to other directors and being a good team player. Aiming to get complementarity between all group members by influencing all appointments is also an important part of team building.

Differences between ownership groups

As noted in the Introduction above, Long et al. (2005) found a number of differences between the responsibilities of NEDs who were members of boards of both Listed and Private companies. Cadbury (2002) suggests that different types of Chairman are needed for different types of boards. Waldron and Burman (2007) point out that some of the provisions of the Combined Code (FRC, 2006) state that they are only relevant to FTSE 350 companies, although it is expected that most listed companies comply with the Combined Code. Also, most companies are encouraged to consider following the Combined Code as it sets out standards of good practice.

Further analyses of these data showed that some competencies were predominantly from one ownership group, i.e. Private, AIM or Listed Company. Now this could be attributed to the small sample size with only eight nominations short-listed for each group but some of these differences do make sense intuitively. It emerged that the fewest predominant competencies were found from Chairmen of Private companies. Being a negotiator and building relations with new investors were more important. As raising funds is vital to the survival and success of private companies, these findings are to be expected.

AIM companies showed the largest number of predominant competencies. Their Chairmen appeared more likely to be clear thinkers and to challenge corporate governance principles, although they (and directors of Private companies) are not bound by the Combined Code (FRC, 2006). Interestingly, they are also more likely to be exemplars of integrity & high ethical standards in their own behaviour and will not compromise on these matters. They also more likely to be critical thinkers; to challenge the Executives; to set the Vision and to support the CEO on financial matters, perhaps because they have greater experience of business. They are also more likely to have certain interpersonal competencies: to be an effective listener, to show empathy and to act as a mentor or advisor, again perhaps because of their wider experience.

Chairmen from Listed companies were more likely to lead on integrity & high ethical standards and to promote the financial aspects of corporate governance. These findings are probably explained by their need to comply with the Combined Code (FRC, 2006) and to report on this formally. They are also more likely to lead on strategic restructuring, often with an emphasis on the core business; to encourage a strategic review and strategic change. They promote investors' confidence and returns, perhaps unsurprisingly since they do have major institutional shareholders to satisfy. More surprising is the fact that they are more likely to be team builders and team players. This may have been driven by the Combined Codes (Hampel, 1998; FRC, 2006) which advocate board and individual appraisal and development.

Conclusions

The Awards scheme offered a rare opportunity to gather a large amount of detailed information on NEDs from all types of company throughout the UK. Nominations were received from stakeholders on 75 NEDs and twenty-four were short listed. This could be seen as a small sample but invitations were sent to several hundred nominators as well as an open invitation in the Sunday Times and on the Awards’ website. The question might be raised: how representative is the sample? However, the judges were required to identify outstanding directors who by definition are not typical of the population. Great care was taken to produce much relevant data on all the nominees for the Henley researchers and the large final panel of judges, covering both behavioural and financial evidence.

This paper presents the results of a Content Analysis of the data. A separate paper in progress will illustrate by case studies the stories of Chairmen who have turned around their companies or who have achieved remarkable growth and returns to investors. The Awards will be held again in 2007 and it is hoped to replicate this study on an independent sample to see if any differences emerge. If so, this will further extend our knowledge of what makes an outstanding chairman.

References


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