

Chair leadership: An inside look at how well board chairs perform

An Insync Surveys study in conjunction with Board Benchmarking

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Introduction

This report, our first for 2010, deals with boardroom perspectives on the clarity of the role and responsibilities of the chair, their relationship with the CEO, how well chairs carry out their duties and the extent to which the chair's performance is assessed. This is the fifth in a series of boardroom perspectives. This report is based on the views of 778 directors who sit on 92 different Australian and New Zealand boards. The first four reports were based on views of 625 directors from 79 boards.

Little has been known about what happens behind the boardroom door in relation to how chairs carry out their roles. This research report now shows that most chairs are considered to be effective by their boards. However, boards could be clearer in defining the role of the chair and would benefit from an appropriate assessment of the chair and the performance of the committee chairs.

Key findings

This study has revealed that:

- disappointingly, only just over a third of all directors (39%) believe that their board has appropriate documentation on the chair's role and responsibilities (page 7)
- most chairs (79%) have a constructive working relationship with the CEO, but only 43% of directors say the performance appraisal of their CEO is handled well (page 8 and 9)
- operationally chairs are getting it right; the majority of directors believe their chair has an effective personal leadership style (78%), decision making process (72%) and manages the board's workload (64%) (pages 10, 11 and 12)
- measuring chair and committee chair effectiveness isn't up to scratch with only 16% and 10% of directors respectively agreeing their performance assessments are comprehensive (pages 13 and 14)
- directors under 45 years are consistently more critical of chair leadership processes than those aged over 64

About this study

This study is the fifth in a series on board performance. These studies focus on the views of directors regarding the major areas of the effectiveness of boards, based on Board Benchmarking's WhatWhoHowDo™ Framework.

Insync Surveys is an authorised distribution partner of Board Benchmarking's Board Effectiveness Survey.

About the sample

This study is based on the views of 778 directors who sit on 87 Australian and 5 New Zealand boards. They have responded to 120 hard-hitting, best practice survey statements of Board Benchmarking. The boards included in the study represent a broad cross section of organisations ranging from ASX organisations (including in the top 10), to private companies, associations, not-for-profits and government entities.

The data were gathered between January 2006 and September 2009. The majority of directors in the research sample are males and non-executive directors, with the largest age segment being 55-64 years. The sample is almost evenly split between organisations with a profit versus a not-for-profit motive.

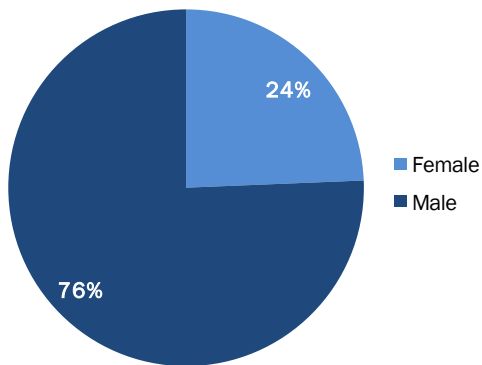
Females are:

- more likely to be under 45-54 years of age
- equally likely to be directors in profit or not-for profit organisations
- more likely to have at least five years' experience as a director

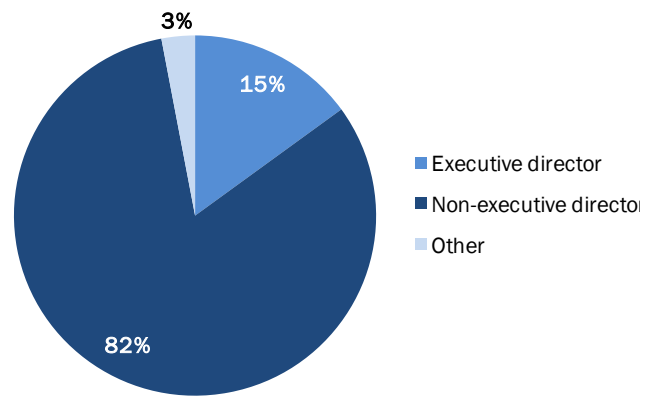
Males are more likely to:

- be over 55-64 years of age
- hold a director position in a corporate organisation
- have more than nine years' experience as a director

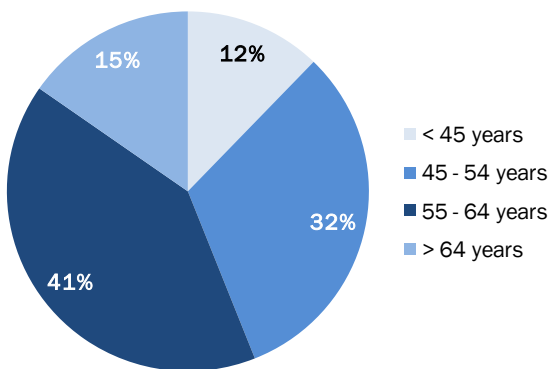
Gender



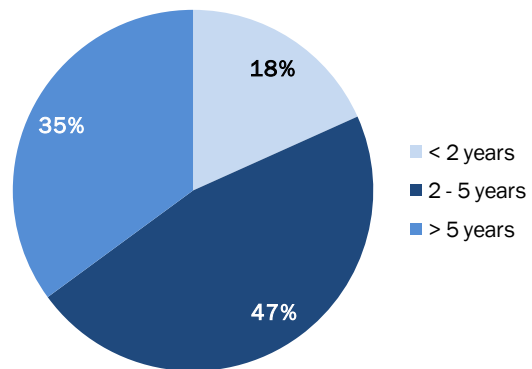
Independence



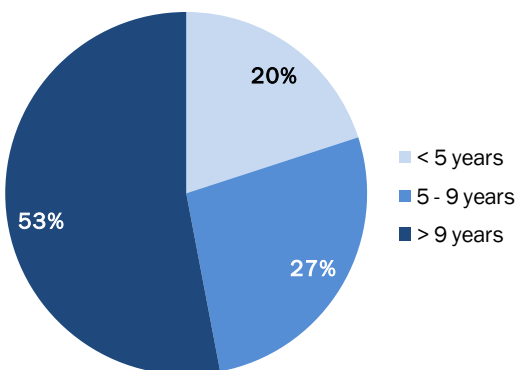
Director age



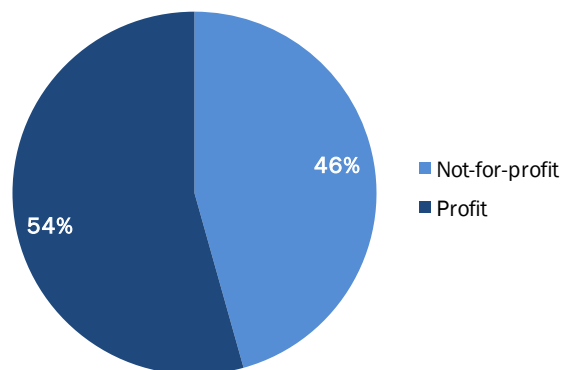
Director tenure



Director experience



Motive

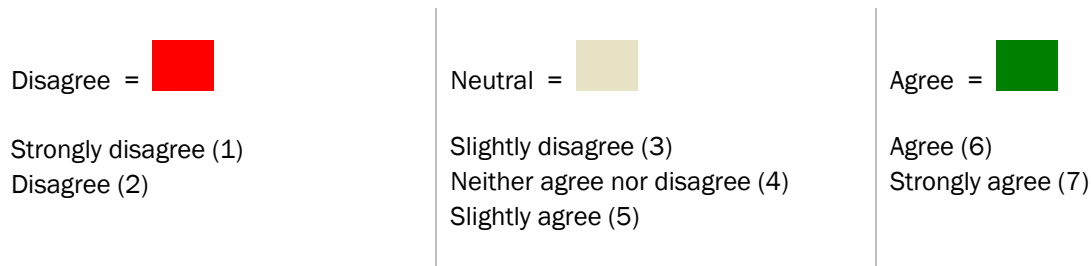


Methodology

Data gathered from the self assessment of directors who completed Board Benchmarking's Board Effectiveness Survey have been used as a basis for this study. The survey is based on Board Benchmarking's unique WhatWhoHowDo™ Framework, as explained at www.boardbenchmarking.com. The Board Effectiveness Survey is used by organisations' boards to highlight areas of strength and areas where improvements can be made. It also acts as a yardstick against which to measure outcomes of improvement initiatives.

The survey has 120 statements measured on a seven point scale where "one" represents strongly disagree and "seven" represents strongly agree. The survey is unobtrusive and is designed to be completed by directors online within 30 minutes.

This study highlights differences among demographic groups. To do this, the seven rating options are aggregated under the titles of "disagree", "neutral" and "agree" as follows:

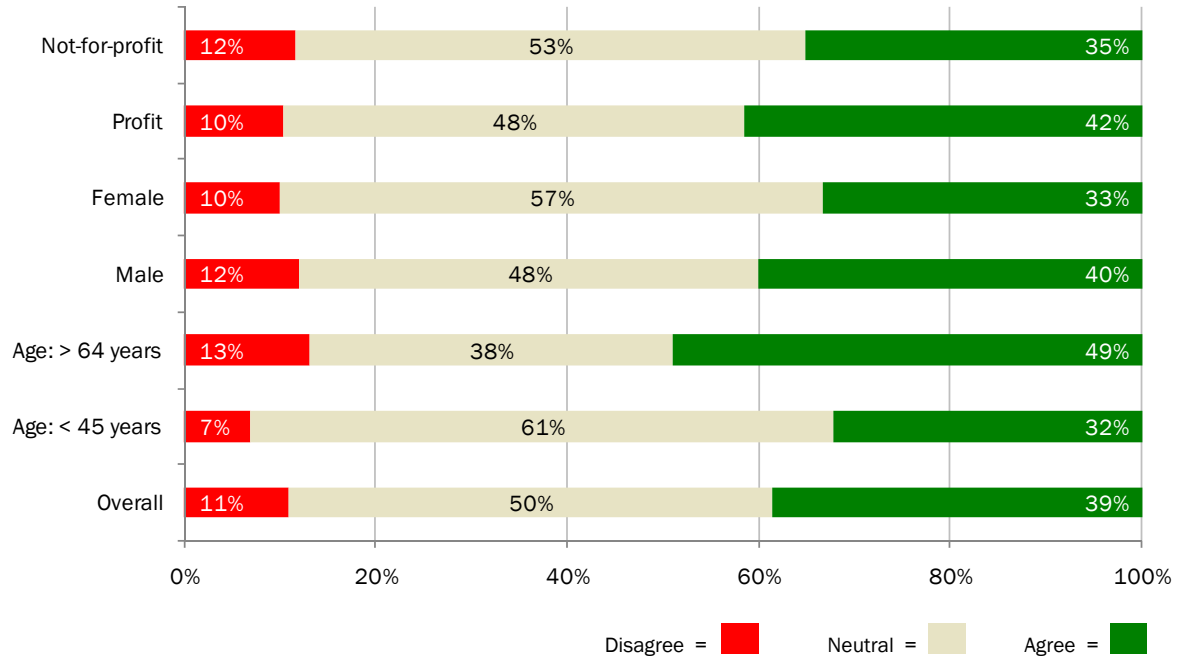


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1. Responsibilities of the chair

Response to the survey statement: “Our board has appropriate documentation of the role and responsibilities of the chair of the board”



The role of the board chair has become one of the most important in an organisation. However, only just over a third of all directors (39%) believe that their board has appropriate documentation on the chair's role and responsibilities which is disappointing.

While male and female directors have similar views on most board matters, female directors are much more critical of their boards when it comes to clarity of the chair's role and responsibilities. Only 33% of females agree that there is appropriate documentation about the chair's role and responsibilities, while 40% of males are in agreement. Female director views are similar to those directors aged under 45 years.

A clear statement of the role and responsibilities of the board chair is essential because:

- it acts as important input into the selection of a new chair and for succession planning
- it provides both the chair and all other directors clear guidance as to what the chair must do and how their role should be carried out
- it forms part of the performance appraisal of the chair

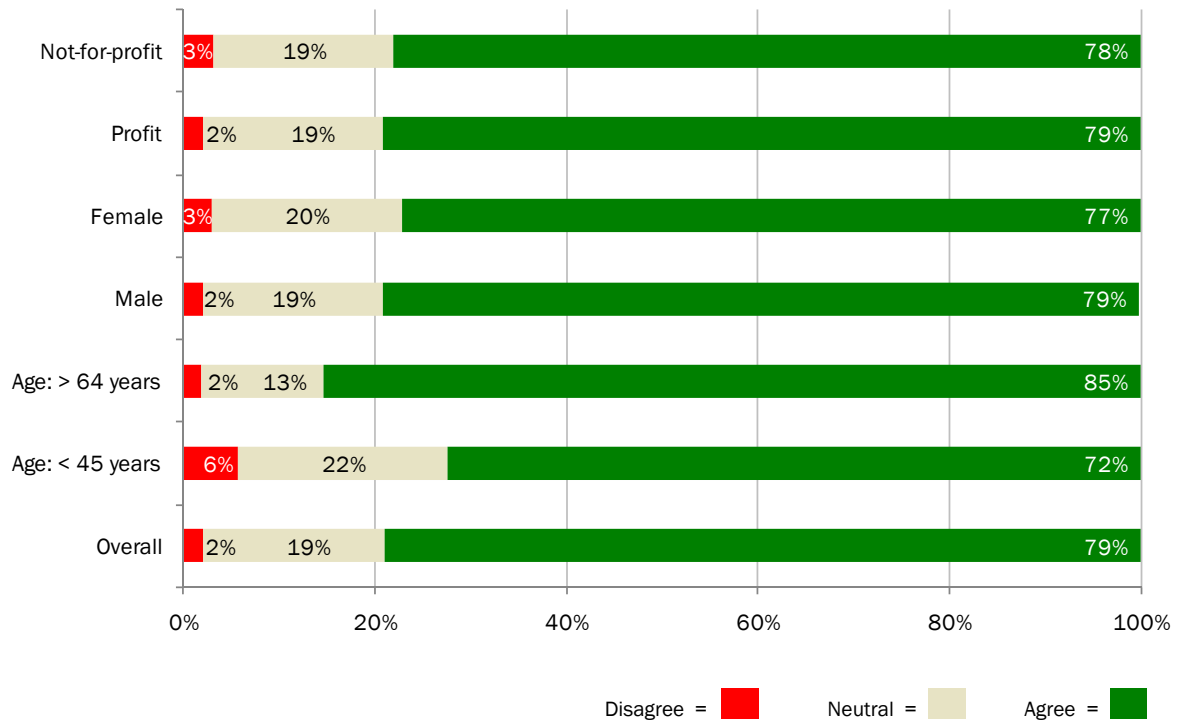
Just as boards insist on appropriate position descriptions for their CEO and senior staff, they should ensure that one is also developed and updated for the important role of the chair.

All directors, either at induction or during annual reviews of governance documentation, including charters and role descriptions, should ensure that they are made aware of the chair's role and reconcile it with their roles as directors.

Insync Surveys has prepared a sample position description for a chair which can be obtained by emailing nbarnett@insyncsurveys.com.au.

2. Chair’s relationship with the CEO

Response to the survey statement: “Our chair has a constructive working relationship with the CEO”



One of the most important roles of the board is to select, remunerate, support and – if and when appropriate – replace the CEO.

As the chair spends more time with the CEO than other directors, it is vital that they have a constructive working relationship. Positively, just 2% of directors overall disagree with the statement “our chair has a constructive working relationship with the CEO”.

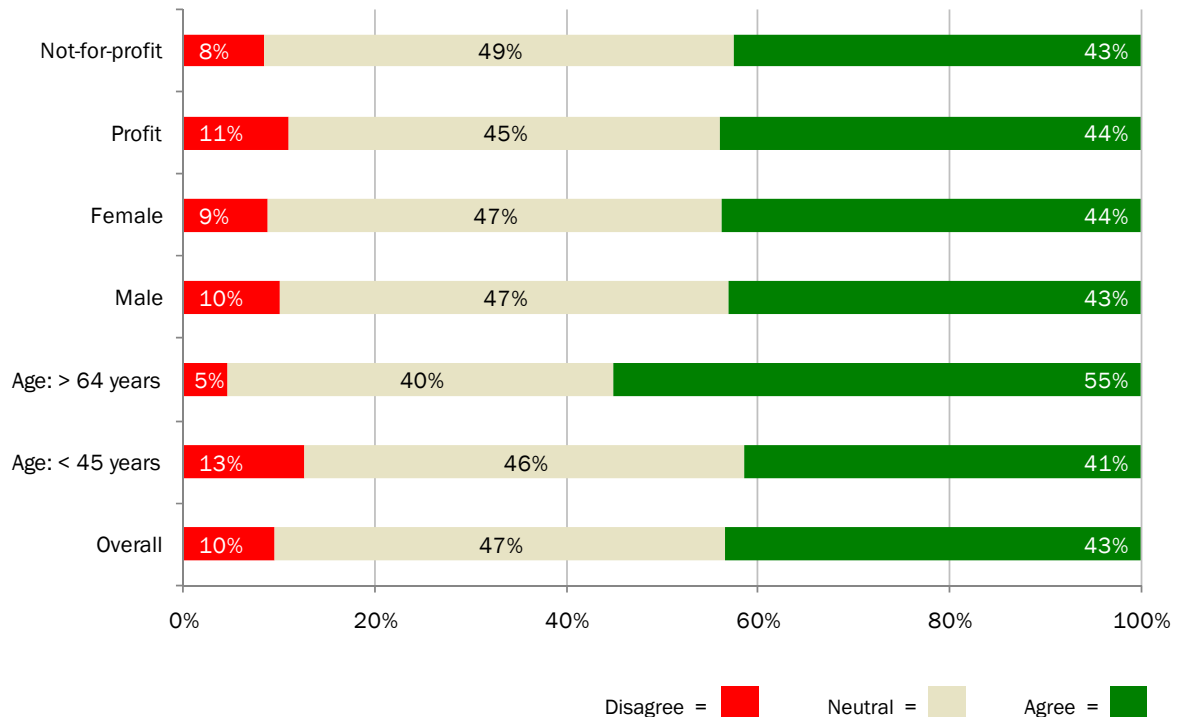
In the small percentage of cases where the chair and the CEO do not work well together, it is important that prompt steps are taken to improve the situation. Sometimes, a poor working relationship will be a result of a view that the CEO is ineffective or not the appropriate person. If this is the case, the chair may need to take the lead in ensuring the CEO is promptly replaced.

In the words of a prominent Australian chairman: “My role is to do all I can to support the CEO until the board decides he or she is the wrong person and then it is time for me to arrange their replacement”.

In day-to-day situations, time will be spent by the chair mentoring and coaching the CEO, understanding the CEO’s main challenges, discussing and getting on top of important issues, reviewing agendas and being well briefed for board meetings, agreeing priorities, and ensuring the board is appropriately informed on all important matters.

3. CEO performance appraisal

Response to the survey statement: “The performance appraisal of our CEO is handled well”



This is one of the more disappointing results in this study, with only 43% of directors overall agreeing that the performance appraisal of the CEO is handled well and 10% actually disagreeing. This is an area where significant benefit can be gained by boards appropriately addressing such deficiency, as most CEOs appreciate and respond to a constructive, transparent and thorough performance appraisal process.

Only 41% of directors aged under 45 years agree that the CEO’s performance appraisal is handled well, whereas 55% of directors aged over 64 years have that view; again showing younger directors are more critical. This could be explained by the fact that younger directors have grown up during a period of more rigorous performance appraisals, not only of CEOs, but of senior management and all employees. It could also be the result of many CEO appraisals being undertaken exclusively by the chairman, the remuneration committee or sometimes by an “inner-cabinet” of the board, without appropriate feedback to the other directors.

The chair must ensure that there is an appropriate process for the CEO’s performance appraisal, including input from non-executive directors. It needs to be handled well and appropriate feedback needs to be communicated to other directors through remuneration committee reporting and collective board discussion.

A CEO’s performance appraisal that is handled well will:

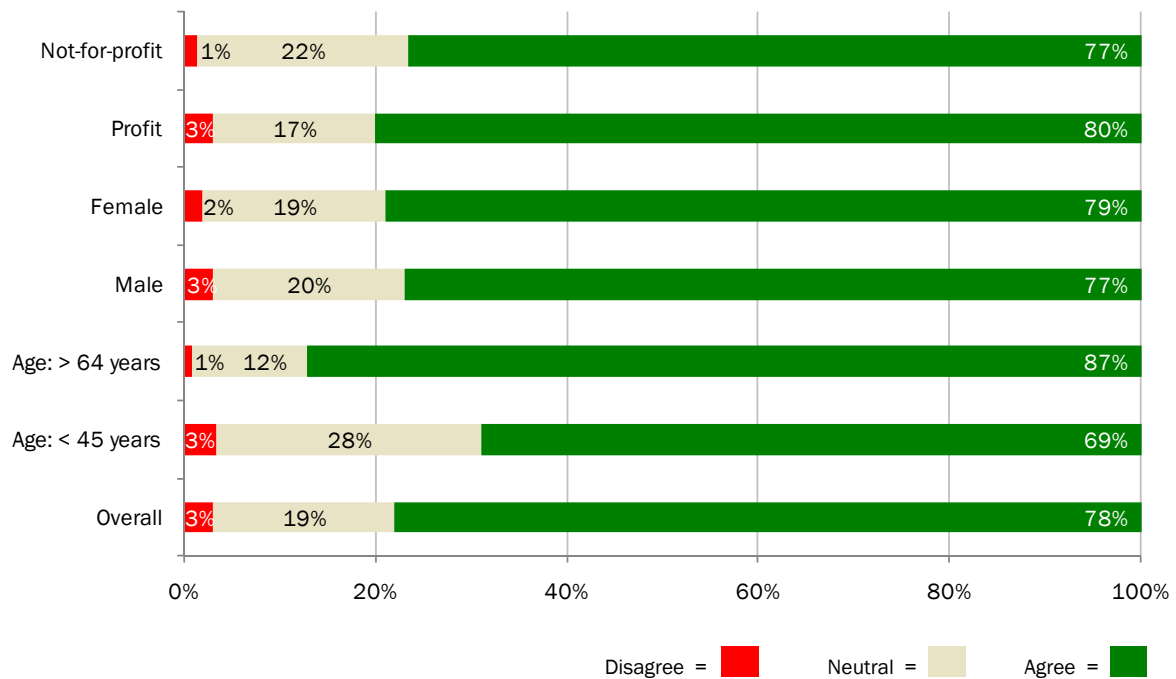
- be based on an agreed process and timing and be well documented
- include an appropriate comparison of actual CEO and organisation performance against predetermined performance criteria
- be constructive with a view to the CEO’s ongoing development and for CEO succession planning
- include appropriate input from and feedback to all directors

It is particularly important that an appropriate performance appraisal with a transparent performance management process, along with clear and agreed accountabilities, is conducted of a poorly performing CEO.

Insync Surveys has recently developed a CEO 360 Survey to assist Boards implement a process that ensures all directors have an appropriate input into assessing the CEO's performance and that a constructive, well documented and robust performance appraisal of the CEO occurs.

4. The chair's leadership style

Response to the survey statement: "Our board chair has an effective personal leadership style"



Responses to the survey statement: "Our board chair has an effective personal leadership style" show that boards are performing very well in this area. With overall agreement levels at 78%, this achieves one of the better scores in the database of 120 survey statement responses.

It is pleasing to see that all categories of directors, including male, female, older and younger, believe their board chair has an effective personal leadership style.

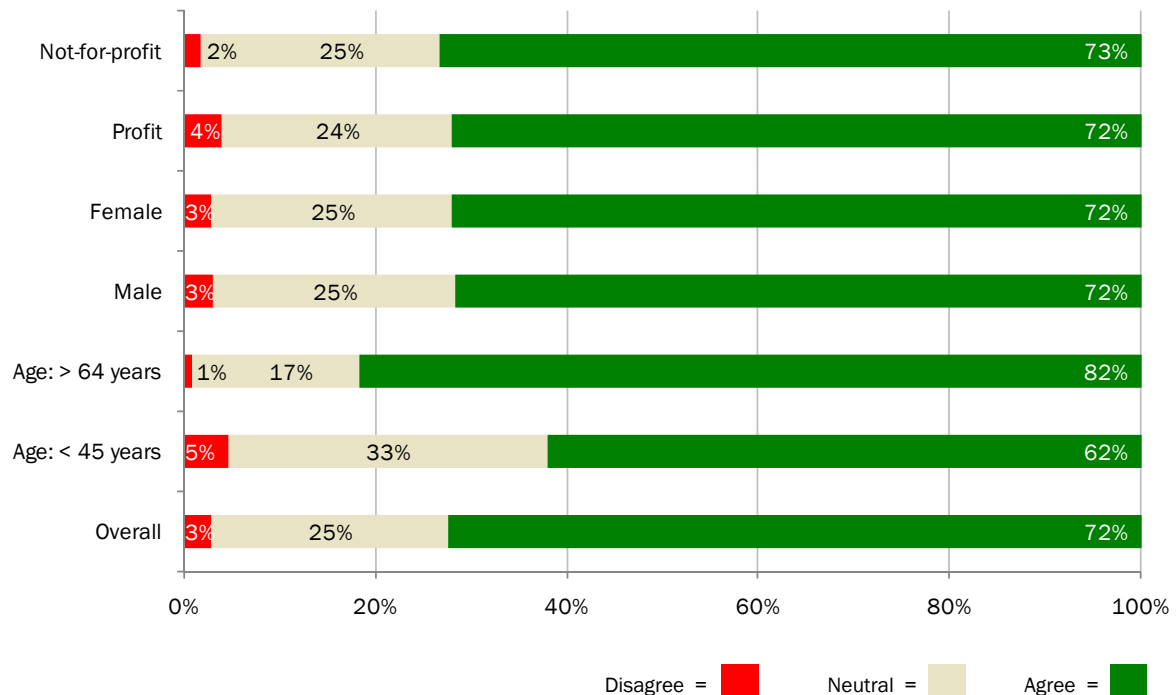
An effective leadership style will be courteous, collaborative, sensitive, yet decisive. An effective chair will know when and how to exhibit just the right amount of influence and power of persuasion. The appropriate balance of these attributes is difficult to achieve and that's why not all good directors would be good chairs.

Chairs have a challenging role with numerous internal and external stakeholders to consider and engage with. Chairs need to relate well with their fellow directors, the CEO and leadership team, the organisation's shareholders and other important stakeholders. They need to exhibit all the attributes of a leader and continually insist on high standards of performance and integrity.

Chairs must be good at assessing the views and mood of all relevant stakeholders, be adept at distilling the essence of important matters and working towards consensus.

5. Decision making process of the chair

Response to the survey statement: “Our board chair conducts an effective decision-making process”



Company shareholders who do not get insights into the workings of the boards that represents them will be happy to know that 72% of directors overall agree that their board chair conducts an effective decision making process.

An effective decision making process will require:

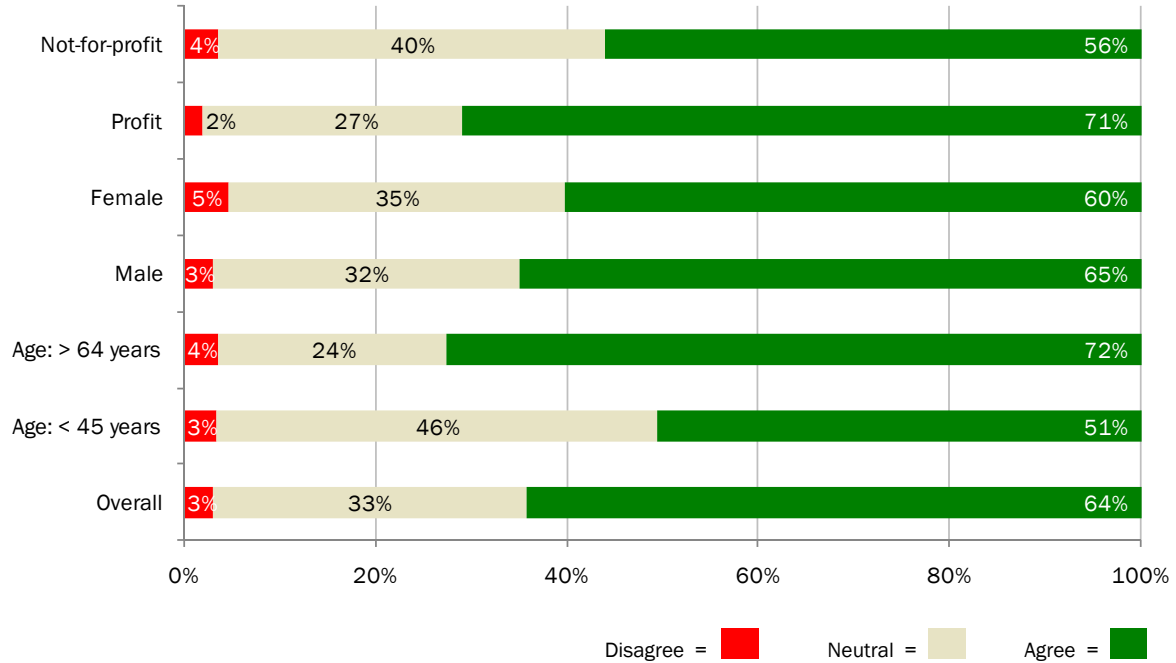
- setting the agenda and priorities to ensure crucial issues are dealt with effectively and within an appropriate amount of time
- all relevant information to be provided, all relevant alternatives to be considered by management, transparency around which alternatives were rejected, along with management’s recommendation and their reasons
- rigorous debate with all relevant perspectives brought to bear
- steps to ensure the most appropriate decision is made
- managing boardroom dynamics during the decision making process
- full support from all directors on the final decision, even if there has been some opposition

The step that boards sometimes neglect is ensuring rigorous debate and that all relevant perspectives are brought to bear. Rigorous debate is often dependent upon the effectiveness of the chair.

This rigorous debate was referred to as “a disciplined process of challenge” by Sir David Walker in the 2009 Walker Review on corporate governance in UK banks and other financial institutions. Sir David Walker stated that “the essential challenge step in the sequence was missed in some board situations and must be unequivocally embedded in the future”.

6. Managing the board’s workload

Response to the survey statement: “Our board chair ensures that the board’s workload is dealt with effectively”



It is pleasing to see that the majority of directors (64%) agree that the board’s workload is dealt with effectively. There are also low levels of disagreement.

Many boards are now dedicating more time to actively planning their annual agendas to ensure they complete their duties and the functions throughout their calendar of meetings. The annual agenda also provides a good reality check for a board that might be susceptible to falling into the trap of focussing on the operational detail of the organisation, rather than the material matters requiring their deliberations or approval.

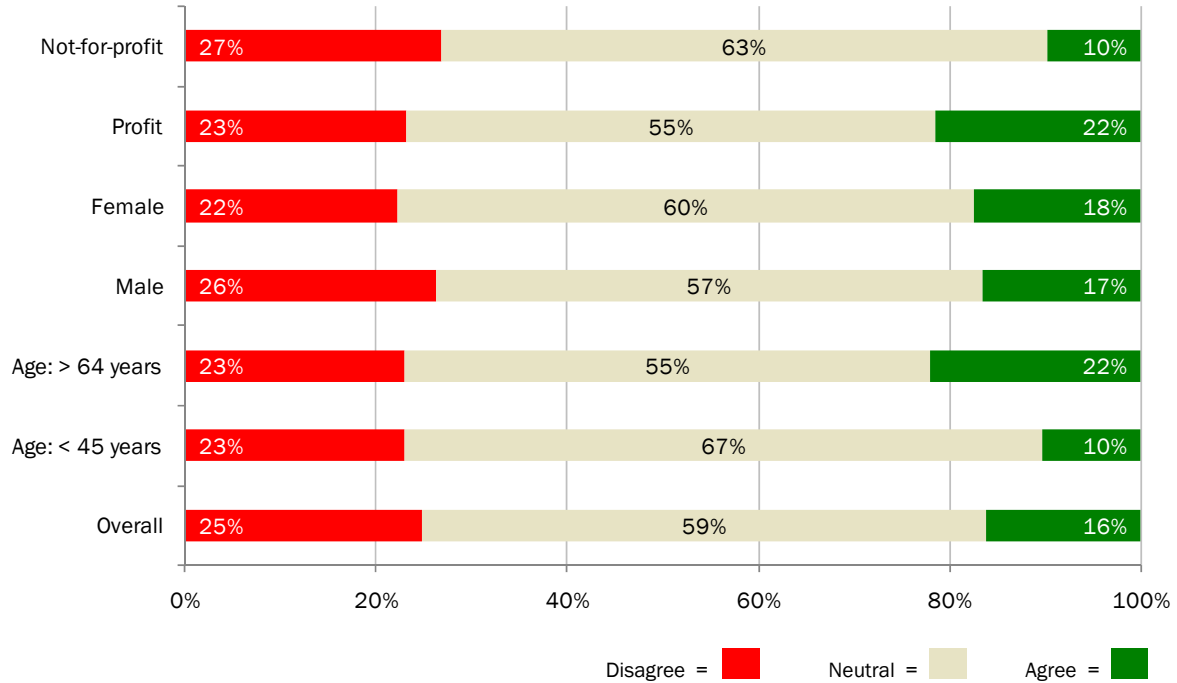
The board’s workload has increased significantly over the last decade, mainly as a result of the rise in compliance obligations, investor scrutiny and the greater liability for directors.

Board meetings have increased in frequency and duration over that period. In addition to board meetings, directors will spend time reading and preparing for meetings, attending strategy sessions and other retreats, preparing for and attending board committee meetings, preparing for and attending ad hoc meetings in relation to major transactions and other important matters.

It will be important for a board chair to ensure that the board’s workload is appropriately shared between the full board, committees of the board and individual directors, with all being kept appropriately accountable. The importance of board committees is also covered in Section 8 (page 14).

7. Assessing the effectiveness of the chair

Response to the survey statement: “We conduct a comprehensive assessment of the effectiveness of our board chair”



Only 16% of directors overall agree that their board conducts a comprehensive assessment of the effectiveness of their chair. A large 25% actually disagree with 59% being neutral. This is a similar result to the next survey statement in relation to committee chairs (see section 8). These are two of the lowest responses in the database of 120 survey statements.

Having an effective board chair is a fundamental prerequisite for an effective board.

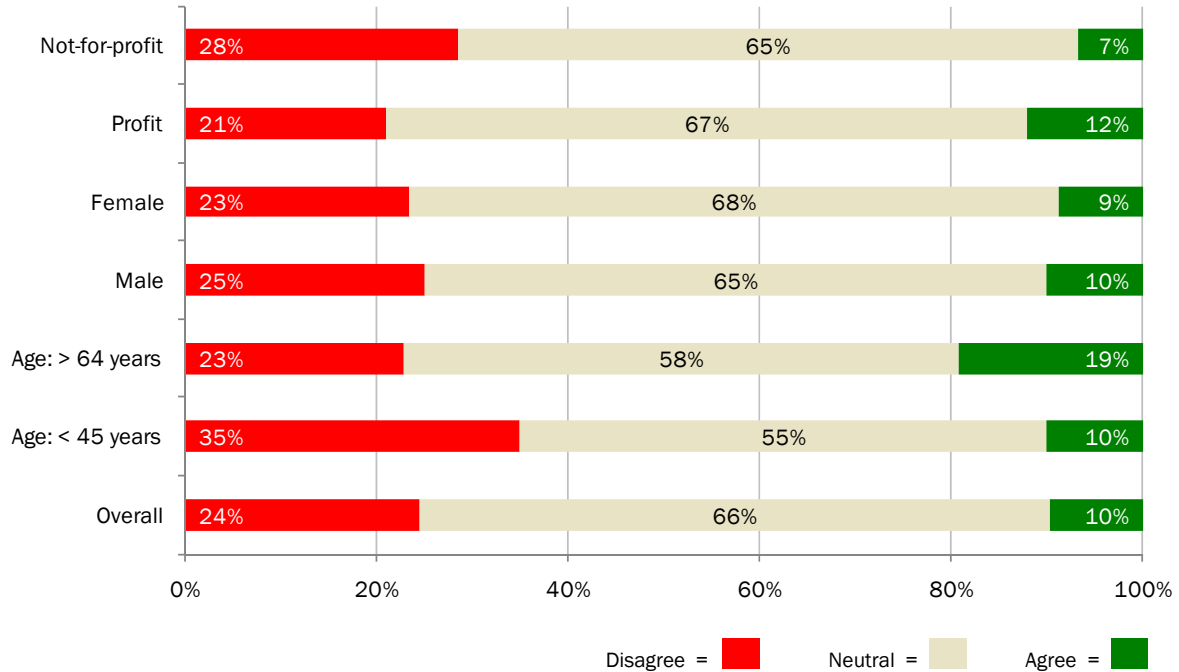
Fortunately, previous sections of this report show that the large majority of directors believe their board has an effective chair. In the circumstances where the chair is ineffective, boards should have a process for clearly identifying such and ensuring that appropriate action is taken which will often be to replace the chair.

Most boards would benefit from having appropriate, detailed and up-to-date documentation of the roles and responsibilities of their chair (see section 1). This statement will make it clear to the chair and other directors as to the extent of the chair’s role and how it should be carried out. It will also be an important input for assessment of the chair’s effectiveness.

The assessment of the chair’s effectiveness is normally carried out by a survey of board members. It can be incorporated into the individual director self and peer-assessment process. The deputy chair or a designated member of a governance and/or nomination committee would normally debrief the chair on the results of the assessment. He or she would also normally be responsible for advising the chair of any concerns directors have with the chair’s performance throughout the year. A survey of the chair’s effectiveness should be well designed, carried out on an independent basis at appropriate intervals and aligned with chair succession planning activities.

8. Assessing the effectiveness of committee chairs

Response to the survey statement: "We conduct a comprehensive assessment of the effectiveness of each of our board committee chairs"



Only 10% of directors overall agree that their board conducts a comprehensive assessment of the effectiveness of each of their board committee chairs.

A similar low response was also made in relation to the assessment of the effectiveness of the chair in the previous section.

A large 24% actually disagree, with 66% being neutral. This is one of the lowest levels of agreement in the entire database of 120 survey statements. Having an appropriate committee structure, with clear roles and responsibilities, is important for ensuring the board workload is appropriately distributed. Also see section 6 in relation to board workload.

Board committee performance can be improved by:

- ensuring there is a clear charter for each committee
- developing a clear statement of roles and responsibilities for each committee chair
- a comprehensive assessment process that identifies strengths of each committee and of each committee chair (which can then be leveraged for the benefit of the board) and areas for improvement for which action will be required

Assessments can take place by way of a survey of board members or it can be incorporated into their individual director self and peer-assessment process. A survey of management, normally reporting to or dealing with the committee, to help identify committee strengths and areas for improvement may also be considered appropriate.

Board Effectiveness Review to increase performance

It is important that all directors are clear as to the role and responsibilities of the chair. Boards must ensure they have an effective chair, that the chair has a constructive working relationship with the CEO and that the effectiveness of the chair is assessed at appropriate intervals.

As the effectiveness of the chair is so important in determining the effectiveness of the board, the *Board Effectiveness Survey* referred to herein includes appropriate survey statements in relation to the effectiveness of the chair.

Most people understand the importance of a regular health check to determine whether they have any risks to their health. Even if there are no obvious signs of ill-health, most people after a certain age ensure they have an annual check-up.

They do that check-up with a competent doctor who knows dozens of the most common areas of poor health and early warning signs of disease. Such doctors know what blood tests, scans and other tests to carry out. Occasionally, extra tests are needed if certain initial tests are not conclusive.

In a similar way, Insync Surveys recommends a regular check-up for boards and management committees to determine if there are any risks to their “health” and if they are operating at their maximum capacity or contrary to accepted practices.

Insync Surveys offers the following world class surveys that determine the extent to which boards, committees and directors are effective.

	Individual matters covered	Time to complete (mins)
Board Effectiveness Survey	120	30
Audit Committee Effectiveness Survey	120	30
Board Risk Survey	75	25
Board Risk Committee Survey	98	30
Management Risk Committee Survey	98	30
Director 360 Survey (of all directors)	24	25
Other surveys important to boards include:		
Organisation Alignment Survey (for employees)	120	25
Employee Risk Culture Survey		
senior employees	56	15
all employees	27	7

Feedback from users of these surveys commonly include ... “easy to complete”... “searching and comprehensive questions” ... “focuses things quickly” ... “hits the mark”.

Further details are available at www.insyncsurveys.com.au and www.boardbenchmarking.com

About Insync Surveys

Insync Surveys is a 2009 *BRW* Fast 100 company. With offices in Melbourne, Sydney and Perth, we deliver customer, employee, board and other stakeholder surveys for some of the largest organisations in Asia Pacific, including: Cathay Pacific, Foster's, Toll, AXA, Medibank Private, WorleyParsons, the New South Wales Department of Community Services, the Victorian Department of Primary Industries, Tourism Western Australia, iiNet, Fairfax Digital, QLD Department of Emergency Services, TT-Line (Spirit of Tasmania), Melbourne Cricket Club, many local councils, most university libraries and Mission Australia. This experience allows us to benchmark your results. Insync Surveys' organisational psychologists help your organisation to improve performance and the working lives of your people.

Visit: www.insyncsurveys.com.au
Contact us: info@insyncsurveys.com.au

About Board Benchmarking

Board Benchmarking has two world class measurement tools: its Board Effectiveness Survey and Audit Committee Effectiveness Survey. Both are available globally and are distributed via authorised distribution partners, which include: KPMG Australia, Insync Surveys, Oppeus, Westlake Consulting and Gerard Daniels.

Board Benchmarking has carried out over 100 board and audit committee surveys for organisations ranging from large public companies and government organisations to private companies, associations and not-for-profit entities. Board Benchmarking's surveys are powered by integrated benchmarked stakeholder survey specialists, Insync Surveys.

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