Chairman and chief executive officer (CEO): that sacred and secret relationship

Andrew Kakabadse
Cranfield School of Management, Cranfield, UK

Nada K. Kakabadse
Northampton Business School, University College Northampton, Northampton, UK, and

Ruth Barratt
Cranfield School of Management, Cranfield, UK

Abstract

Purpose – To examine an under-researched area, namely the dynamics of chairman-CEO interrelationship and its effect on the enterprise.

Design/methodology/approach – A qualitative methodology has been adopted through in-depth interviews with chairmen, CEOs and non-executive directors on the nature of chairman-CEO interactions and their effects.

Findings – Four critical themes form the basis of this paper, chairman's role and contribution, nature of chairman-CEO relationship, impact of the chairman-CEO relationship on board effectiveness and the attributes of an effective chairman.

Practical implications – Enhances understanding of the determining influence of the chairman-CEO dyad on board and organisational performance and also on the influence of formative context on this dyadic interaction.

Originality/value – One of the few studies that has explored through in-depth interviews the chairman-CEO relationship.

Keywords Corporate governance, Chairmen, Chief executives, Boards of directors, Social dynamics

Paper type Research paper

Introduction

Whilst the relationship between the chairman[1] and the CEO has been acknowledged both in theoretical treatise (Burton, 2000) and through empirical studies (Ng and De Cock, 2002) as an important variable for attaining effective board performance, most studies stop short of entering into in-depth analysis identifying the critical components which determine the nature of this dyadic interaction. Attention to the interpersonal characteristics of the chairman/CEO and chairman and board relationships has been sparse but some progress is being made in the area of SME boards (Burton, 2000). Yet, lack of research into the chairman-CEO interaction is at odds when juxtaposed against the considerable and growing interest for empirical study in the area of corporate governance, board performance and assessment, non executive directors' (NEDs) role and contribution, and the organisation's contribution to social capital.

A four-fold explanation is provided as to why the chairman/CEO interaction has not been given greater attention at a time when the performance of boards is under intense scrutiny. First, a historical legacy of agency theory and rationalist models of organisational functioning, particularly dominating the field of corporate governance, has positioned intra-organisational top management relationships as an "unrequired" area of study (Westphal, 1998). The perspective from the past has been: design the organisation according to enterprise strategy and the remainder is "noise" (Kakabadse and Kakabadse, 2004). Second, the corporate governance literature is still dominated by US-based research where the roles of chairman and CEO are mostly entrusted to the same person – the "president leader" (Johnson *et al.*, 1996). Even with the passing of the Sarbanes-Oxley Act (2002) addressing corporate and director transgressions, still minimal interest is given to chairman/CEO/president role, contribution and capabilities. Greater attention has and continues to focus on the role and contribution of the "top" leader (Johnson *et al.*, 1996). Third, access difficulties have been and remain a source of constraint in studying "managerial elites" (Pettigrew and McNulty, 1998). Limited access to observe directors' behaviour in the boardroom context has been noted by Kahl (1957, p. 10) who states that "those who sit amongst the mighty do not invite sociologists to watch them make the decisions about how to control the behaviours of others". According to Daily *et al.* (2003, p. 379), directors of US boards fear allowing external scrutiny of boardroom activities as that may increase their risk of being subject to shareholder lawsuits. Fourth, corporate studies have adopted a broader strategic and less behavioural interest, whilst studies of senior managerial work and behaviour have concentrated upon individuals and their job roles rather than upon the relationship between job holders who work together (Stewart, 1991, p. 511). As the majority of studies concentrate on the individual such as the CEO (Kakabadse and Kakabadse, 2004a), or due to recent emerging interest, the non-executive director (Pettigrew and McNulty, 1998; Barratt *et al.*, 2003), interpersonal boardroom dynamics and the ecological context of relationships remains as virgin territory. Despite some scholarly attention, studies still remain "one stage removed form the direct observation of boards in action" (Pettigrew and McNulty, 1998, p. 850).

For the reasons outlined, the emerging view is that boardroom and company performance examination has tended to neglect contextual concerns (Barratt *et al.*, 2003). As a result, director and board performance effectiveness remains underexamined as board structure and composition analysis cannot adequately explain the variance of behaviour of board members (Pettigrew and McNulty, 1998). For example, NEDs who are recruited as truly independent (i.e. not employees of the firm and do not have business ties with the firm aside from their directorship) and who are inclined to behave in an independent manner, may be prevented from realising their independence due to information asymmetry. Moreover, deference to authority confounds the propensity by NEDs to exercise control over CEO decisions as current power dynamics may be influenced by past CEO dominance transactions (Pettigrew and McNulty, 1998).

Thus, on the basis that the chairman/CEO interaction in particular, and board performance in general, can only be understood within the formative context of each particular enterprise (Kakabadse and Kakabadse, 2004), this paper presents the findings of an exploratory study of the chairman/CEO relationship and its impact on

board effectiveness. Bearing in mind contextual considerations, role theory is used as the conceptual lens for this study. An overview of the relevant literature on dyadic interactions precedes presentation of participants' experience and privately held views concerning boardroom dynamics and the nature of chairman/CEO relationship. It is concluded that the chairman/CEO relationship is pivotal for effective boardroom performance.

Chairman and CEO
Dyadic analysis
Katz and Kahn (1966) provided a three-fold, psychologically-oriented framework for the analysis of roles involving job holder activities and expectations, the expectations of others of job holder behaviour and their reactions to such behaviour. Others pursued role-based functional analysis examining whether there exists a "complementarity of functions" termed "role constellation" (Hodgson *et al.*, 1965). Further, Stewart (1991) examined work sharing between district administrator and district nursing officer termed "role sharing". An additional functional orientation is the determination of explicit and implicit role boundaries, termed "boundary spanning", and the potential for clashes between roles spawning role conflict (Barratt *et al.*, 2003). It was Bartel (2001) who brought together the psychological and functional orientation of role analysis through his study of individuals who regularly engage in boundary spanning activities, i.e. interaction across the organisational boarders. Bartel (2001) concluded that these individuals need to be more psychologically flexible to maintain high levels of confidence in their capacity to continually challenge and re-determine agreements and delineations between their and others' activities and domains. In this sense, board directors have been seen as boundary spanners serving as stakeholder representatives and guardians spanning issues such as corporate financial performance and corporate social performance (Barratt *et al.*, 2003).

Additional to role as a determinant of the nature and quality of dyadic relationships, is context. Hodgson *et al.*'s (1965) inquiry into role constellations concluded that where the division of emotional labour between the CEO and other senior staff holds positive connotations, a complementarity between senior managers can emerge forming a relatively integrated whole (Table I). Stewart's (1991) demands, constants and choices (DCC) action-based inquiry model analysis of the relationship between chairman and district general managers (DGMs) in UK national health service (NHS) organisations discovered that chairmen play a variety of roles that widely differ in nature due to the roles played by their DGMs. Stewart (1991, p. 523) concluded that the roles of chairman and DGM are mutely dependant, implying that their degree of dependency is contextually determined (Table I). From such a base, and over the last decade, the importance of context in understanding individual and boardroom interactions has been increasingly acknowledged. The "formative context" within which a board and its members operate is likely to vary substantially, with each having their own specific "peculiarities" (Kakabadse and Kakabadse, 2004). The complexity of organisational "formative context", namely, institutional arrangements, cultural values, ethnic tastes, quality and nature of executive training, background and cognitive frames that shape the daily routines, ideology and objectives of individuals and their relational proximity/interactivity, suggests that it is unwise that boardroom performance and its governance should be viewed as processual, control-based routines.

Author	Study type	Relationship for effective performance
Hodgson et al. (1965)	Study of role constellations	Specialisation of various members complement and balance; form a relative integrated whole. Specialised/differentiated roles should represent a *modus vivendi* that provides reward and a satisfying way of living for CEO. Sharing in executive teams provides for harmony of interaction
Katz and Khan (1966)	Theoretical treatise	What individual job holders do is shaped by the expectations that others have of their behaviour and the extent they recognise/accept these expectations
Roe (1977)	Interviews with business leaders regarding changes in their roles	Chairperson and CEO roles (when separated) vary across organisations, dependent on: company structure; and personalities
Chitayat (1984)	Interviews with chairman and GMs in service industry in Israel[a]	Chairman is consultant and coach to CEO
Stewart (1991)	Longitudinal study of relationships between GMs and chairmen	Chairperson and CEO roles (when separated) vary across organisations depending on: company structure; personalities; time chairman gives to the role. Concludes that: Chairman holds five roles in relation to DGM Partner Executive Mentor Consultant Representative
Coombes and Wong (2004)	Secondary data from 350 FTSE companies in UK and S&P 500 companies in USA	Identification of chairman capabilities, include: time to devote to running the board; knowledge of the industry; willingness to play a behind-the-scenes role; independent (i.e. not grey); and served on the board for several years but not as CEO or executive at the same enterprise

Note: [a]GM = general manager
Source: compiled by the authors

Table I.
Chairman-CEO dyad:
performance
considerations

Duality/separation analysis
In Continental European and in UK enterprises, the separation of CEO and chairman positions is now common practice (Dahya and Travlos, 2000), whereas role merger predominates US firms (Figure 1). The reason role separation has taken on such importance is that investors have concluded that enterprises are more stable and incur less risk over the long term if they resist domination by a single, all-powerful CEO/chairman (DGA, 2004). In addition, an emerging opinion amongst institutional investors is that the role of chairman should be occupied by a non-executive director (DGA, 2004). The two-tier board system of governance driving Germany and

Figure 1.
Percentage of enterprises
that have split chairman
and CEO role
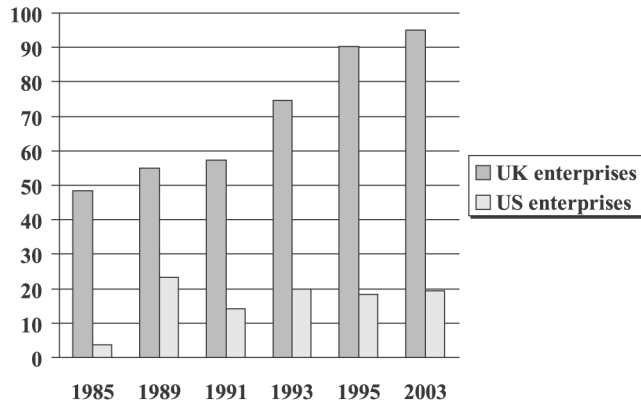
Source: Compiled from Dahya and Travlos (2000); DGA (2004); Coombes and Wong (2004)

The Netherlands requires role separation by law. The supervisory board comprises of and chaired by non-executives whilst the CEO (or equivalent) leads the management board.

Increasingly, other countries are favouring chairman/CEO role separation. The Johannesburg Security Exchange (JSE) requires listed companies to split the roles of chairman and CEO. The splitting of CEO and chairman is also adopted in Japan (DGA, 2004). In France, although legislation allows for the split of roles, the prevalent *Société Anonyme* structure where the "président directeur-général (PDG)" (akin to combined chairman/CEO) runs both the board and the company, remains as the preferred top executive configuration. The Viénot Committee examined this practice and concluded that boards have the option to divide the role or monitor the PDG (Viénot, 1999). Recently, in the USA, shareholder activists and the New York Stock Exchange expressed preference for separating the roles of chairman and CEO. However, such sentiments, nor the effect of corporate transgressions, have gained sufficient momentum to pressure US legislation to introduce role separation. Just under 20 percent of the Standard and Poor (S&P) 500 firms have divided the two top corporate positions (DGA, 2004; Coombes and Wong, 2004). The president/CEO, being also the chairman of the board of US corporations, remains standard practice for the last 15 years for 81 percent of enterprises (Coombes and Wong, 2004).

Thus, a particular momentum in favour of role separation has arisen from the corporate governance codes of countries outside the USA (DGA, 2004). In the UK, for example, the Cadbury Committee was constituted to examine the lack of confidence in financial reporting by UK quoted companies. Inadequate director accountability which was seen to lead to scandals such as the collapse of companies such as the Bank of Credit and Commerce International (BCCI), Polly Peck, Coloroll and Maxwell Publishing. After extensive consultation with interested parties, the Cadbury Committee recommended that companies adopt governance structures and practices known as the Code of Best Practice. It was specifically recommended that the roles of chairman and CEO be separated (Cadbury, 1992). The Cadbury Committee considered the CEO role as a full-time post, responsible and accountable for operational activities,

the setting and implementing of corporate strategy and ultimately for the performance of the company. In contrast the chairman was viewed as a part-time, independent position, responsible for ensuring that the board works effectively (Cadbury, 1992). Accordingly, the chairman's role should involve monitoring and evaluating the performance of the executive directors, including that of the CEO, and as such should be distanced from day-to-day company operations, as well as attending to all boardroom affairs through, for example, ensuring that non-executive directors have all relevant and necessary information for board meetings (Cadbury, 1992). The Cadbury Report was considerably influential in promoting a dual top executive role structure in UK firms, from 48.4 percent in 1985, 90.2 percent in 1995 and 95 percent in 2003 (percentage of the FTSE 350 British firms; Table II).

However, research on whether role separation improves corporate performance and/or corporate value has been contradictory and inconclusive. Boyd (1995) found that companies that pursue role duality perform better than those with chairman/CEO role separation. In contrast, Daily and Dalton (1994) position role duality as a sign of concentrated CEO power which, combined with a lack of monitoring of board decisions, has negative consequences for corporate performance. Others, as Dalton *et al.* (1998), indicate that duality has no effect on firm performance. In contrast, and utilising similar performance measures, still others (Slatter and Lovett, 1999) found evidence in favour of splitting the roles of chairman and CEO (Table III). Whilst the ambiguity of findings can be partly explained by the different research methodologies applied including sample size and the number of variables under investigation, other effects often ignored in quantitative studies such as a corporate culture, ethical norms of behaviour and the levels of honesty expected in business (Kakabadse and Kakabadse, 2004), also determined this broad spectrum of conclusions.

Even though research results and the popular press highlight that structure is no panacea for board effectiveness, on balance it appears that the argument for separating these two key roles is more persuasive. Boards are provided with a structural basis for acting independently through a dynamic boardroom culture which will allow the chairman and other board members to both challenge and counter balance the influence of the CEO (Coombes and Wong, 2004).

Country	Separation of CEO and chairperson (listed companies)	"Comply or explain" principle (if role not separated)	Legal requirement
UK	95%	Yes	No
USA	18%	N/a	No
Australia	90%	Yes	No
Canada	65%	Yes	No
Belgium	25%	N/a	No
France	20%	N/a	No
Germany	100%	N/a	By definition (i.e. two-tier board)
The Netherlands	100%	N/a	By definition (i.e. two-tier board)
Japan	100%	N/a	No (custom)
Russia	100%	N/a	Yes
South Africa	100%	N/a	No (JSE Security Exchange)

Source: Compiled from Dahya and Travlos (2000); Coombes and Wong (2004); DGA (2004)

Table II.
Chairman/CEO role
separation (2003)

Issues	Arguments for role separation	Arguments against role separation
Checks and balances	Essential for checking CEO power	Risk that the CEO will focus on shorter goals (i.e. reward system geared to achieve short-term goals)
Board independence	Detached and objective board; probe and encourage debate at board meetings	Short-lived: longer chairman stays in the job, the less independent he/she becomes
Long-term vision	Chairman can help maintain a longer-term perspective	Non-executive (i.e. part-time) chairman without commitment to the job is not likely to be independently minded
Accountability	Different roles can create synergy; CEO focuses on running the business; chairman discharges board responsibilities	Robs CEO of authority to do the job properly (i.e. chairman may attempt to usurp the CEO's function)

Source: Compiled from Coombes and Wong (2004); DGA (2004)

Table III.
Arguments for and
against role separation

The study

Due to the relative poverty of inquiry pin-pointing the chairman/CEO relationship as pivotal to effective board performance, a qualitative study examining the dyadic nature of this relationship, was undertaken. The study aim was to reach understanding of each study participant's experience of the chairman/CEO relationship and its impact on the workings and performance of the board. Considerations of effectiveness of board performance were derived from the perceptions of individual board members on the basis that the relational element of effectiveness of performance could not be ignored. Being an exploratory study, the privileged, insider information that some refer to as "the behind-closed-doors stuff" (Coombes and Wong, 2004), "black-box of boardroom deliberation" (Daily *et al.*, 2003) or being privy to the "inner sanctum", or "inner Cabal", was obtained in part by observation of how the boards of four international corporations functioned over a 26 month period and, in part, through one-to-one, in-depth interviews with individual board members, namely chairmen, CEOs and NEDs. The four boards were of similar size (average eight members) and structure (separation of chairman and CEO roles). Given the networked nature of non executive directorships, each study participant drew on their experiences of a variety of role perspectives, such as chairman, CEO (who acted as a non-executive chairman elsewhere or CEO elsewhere), or NED. Although 26 individuals participated in this study, at the time of the study the respondents aggregately occupied 46 board roles. One participant held an additional five NED appointments. Twelve participants had experience beyond UK boards being NEDs on boards of multinational corporations. Further, one of the four participating chairmen held two additional chairman roles.

Participants were asked to reflect on the way their board operates in terms of effectiveness, to describe events or incidents in the boardroom relating to the chairman/CEO relationship, and to reflect on the nature of their role and contribution to the board as well as on the role and contribution of other board members. The intention of the authors was to access personal, relational narratives. Previous studies have shown that personal narratives can provide a

rich source of data concerning the ways individuals frame social experiences in order to pursue inquiry of socially constructed organisational processes (Ng and De Cock, 2002).

All interviews were tape-recorded and transcribed thus collating detailed narratives from each respondent. These scripts were subsequently analysed and coded. Emerging themes and frameworks were amended in the light of the next transcription. The analysis involved "grounded" theorizing, since through reflecting upon the meanings of repeatedly used expressions such as "dialogue", "boundary", "role delineation", "closeness", it became possible to interpret the specificity and diversity of experiences.

Findings

Four themes emerged from analysis of interview data and observation of boardroom interaction, namely:

(1) chairman's role and contribution;

(2) nature of the chair/CEO relationship;

(3) impact of the chair/CEO relationship on board effectiveness; and

(4) attributes of an effective chairman.

Chairman's role and contribution

The study participants consider that the role and contribution of the chairman substantially differs from one company to the other, according to variance of context, principally company performance and the nature of critical decisions required. Dependent on the individual's skills of boundary spanning and degree of pro-activity in promoting clear communication, the study participants conclude an effective chairman to be one, who is sensitive to contextual demands and appropriately "parallels parental ambiguities in the sense of having to be supportive, protective and nurturing versus being disciplined and offering admonishment" (chairman, Board 4). In delineating the themes that emerged concerning the balancing of contrasting demands, three areas determining the chairman's contribution to board effectiveness emerged, namely, creating a platform for participation, respecting role delineation and managing boardroom dynamics.

Platform for participation

Creating the opportunity and environment for boardroom participation is reported as fundamental to enhancing board effectiveness. Quality dialogue in terms of nurturing "air space" of a non-judgmental nature, where board members feel able to question operational concerns as well as the crafting of strategy, is perceived as crucial. The emergence of meaningful dialogue is attributed to the quality of the chairman/CEO relationship:

> The Chairman sets the tone in the board and his moral integrity establishes the foundation for board effectiveness. Further, much of what goes on in the boardroom depends on the Chairman/CEO relationship. It is these magic ingredients that makes a board effective or not (NED 2, Board 1).

A number of the study participants attributed the opportunity to openly discuss the critical issues facing the company, a reduction of blocking tactics and greater exhibition of co-operative behaviour, as a reflection of the skills of the chairman:

Overall, I think we are an effective board as we are moving slowly forward in the set direction without caving in to the market pressure for quick returns. Much of this is really board effectiveness as the Chairman creates a safe haven and atmosphere, where we can sit and re-examine each issue (CEO, Board 1).

If, on balance, discussion around the table flows freely without dominance from any one person and all agenda items get sufficient air time, you are in an effective boardroom. It is my role to create that environment. In a way, my role is to stabilise when things get out of kilter and to create a sense of synergy from multiple voices. A lot of my energy and time is spent on creating right processes and the maintenance of effective relationships (Chairman, Board 1).

Whilst certain of the study participants more focused on the quality of the chairman/CEO relationship and others considered that the skills of the chairman promotes broad and open discussion, a third body of opinion highlighted that the chairman needs to be both bounded with and separated from, the CEO. As establishing a sound and positive interaction between the chair and CEO was welcomed by all, equally however, the chairman was reported as needing to address poor CEO performance, and if necessary, dismiss the CEO:

If I feel isolated then I have two choices. Stay and try to make it effective or leave. In the past I have exercised both choices, we had to go to the Chairman in order to sack the CEO (NED 4, Board 1).

From the study participants' perspective, the challenge a chairman faces is with whom to discuss the topic of a poor performing CEO. Should the issue be brought to the board's attention and discussed with the NEDs? – if yes, then the building of trust between the chairman and the successor to the CEO could be undermined.

Role delineation
The study participants were almost unanimous in their opinion that the primary role of the chairman is to run the board, and that of the CEO to manage the company. However, numerous examples were offered that illustrated a contrasting scenario whereby the chairman was effectively driving the company forward or of an over dominant CEO controlling the chairman. Whether respecting or not respecting of each other's role, the study participants concurred that the chair/CEO relationship had a major effect on boardroom dynamics:

I've experienced Chairmen who run the board and micro-manage the CEO, as well as the CEO who controls the board and the business. If the Chairman/CEO relationship is relatively balanced then you may have an effective board (NED 1, Board 4).

A Chairman tends to be this sort of middle figure between the executives and the non executives. If there is a little bit of trouble brewing, he is someone you can sit down with and close the door behind and say . . . so that he can sort it out before next board meeting (NED 3, Board 1).

The study participants recognised that the separate roles of chairman and CEO, to a greater extent, had clearly delineated activities and responsibilities. However, elements of each role required clarification and negotiation between the chairman and CEO. Therefore, tensions between the two could be attributed both to the idiosyncrasies of their personal interaction and also to poorly delineated, peripheral responsibilities.

Despite facing the frustration of unclear roles and the fact that certain chairmen and CEOs do not respect each other, the majority of study participants considered the delineation of roles to be a distinct advantage over North American practice:

> In the American system you have the Chairman, President and CEO, head chef, all in one guy – one executive and fifteen non executives and that is not untypical. The Chairman/President/CEO comes before the non-executive committee and is basically explaining how he takes sole responsibility. He is the decision maker. I think it is pity that Sarbanes-Oxley did not address this issue. Here, it is implicitly understood that the Chairman leads the board and the CEO, the enterprise but, of course there are many variations (chairman, Board 3).

Boardroom dynamics
Effectively managing the dynamics of the board was recognised by the study participants as a substantial challenge. "No board is the same even though the companies may be in the same industry addressing similar issues." (NED 2, Board 4), was a strongly-held view. The idiosyncratic nature of each board, determined on the one hand by the operational and strategic issues facing the enterprise, and the personalities and attitudes of the board members and their ways of interacting with each other, nurtures a unique dynamic. Many of the study participants adopted the analogy of family dynamics to explain their boardroom experience:

> Imagine that you have two grown up children who visit you for the family gatherings with their partners and that your new partner has a couple of children of their own who still live at home. As a parent, you manage these events so that not only your children feel at home but also their partners and your partner's children, and above all that your partner is feeling comfortable so that they all feel at ease and look forward to the next family event. Well that is my role on the board. I need to manage the grey and the independent NEDs, the executives and the CEO so that they want to talk to each other. If the CEO is mature then I worry less, but if, on the other hand, the CEO needs to grow up, then I have to work twice as hard otherwise the NEDs will feel that they have to take sides and they will not talk freely to each other (chairman, Board 4).

It was clearly stated that the mindset, orientation and attitude of each board member could not be taken for granted from one meeting to the next and, in so doing, the special skill of the chairman was that of not making assumptions from one meeting to the next. The requirement is to create the "space" to draw to the surface the diversity of views, feelings and beliefs of each board member over particular issues:

> Yes, we have good people on this board with business acumen and a wealth of experiences, but so do other boards. All the right skill mix, structure, independence and other political correctness are wasted if there is no synergy. I think that what makes this board special is our Chairman. He has a special quality in managing a platform for NED contribution (NED 1, Board 2).

> Our boardroom is filled with high powered people. We all have a lot of experience, influence and grit. Our egos can stand in the way and if the Chairman can not synthesise our rows, energy and strengths, we would be either highly polarised or highly Machiavellian. Either way, we would be dysfunctional (CEO, Board 2).

In providing opportunity for the NEDs to engage, the study participants confirmed that the chairman needs also to display that his relationship with the CEO is sufficiently robust to withstand tenacious dialogue:

In every boardroom, there are many powerful forces whether latent or active. It is the Chairman's role to harness this power and transmit it to the CEO, who then uses it outside the boardroom in the form of strategy and other market signals. And if you fail to harness this power into one vision, then the dreaded happens – the split within the board and next thing you know, share price is down and flailing (chairman, Board 2).

However, the study participants were equally conscious of the inability of chairmen to turn all tensions between board members into synergies and consistently manage the dynamics of the board:

Their mutual attachment (CEO and finance director) was neither acknowledged nor ignored – it was just there and the Chairman did not know how to handle this massive energy that he created. I guess we were all in their awe and we too added to the invincibility myth, the rest, the ensuing collapse, you know ... (NED 3, Board 4).

If a couple of people create a special synergy and the Chairperson does not manage it timely, even if inevitably these individuals' feelings may get slightly bruised, then the problem gets a life of its own (CEO, Board 3).

You can have all these talented and clever people on your board and they all can be your friends or not, but if you cannot create a positive synergy between them, then a negative one sets in and all is lost. You will forever run around preventing disasters (Chairman, Board 3).

Chairman/CEO relationship

Where the chair/CEO interrelationship was seen as working well, the study participants adopted terms such as "mystical-like", "special relationship", "personal chemistry", "shared philosophy". The development of a close and personal affinity was reported by a few as due to previous knowledge of each other possibly dating back to university days, captured in the phrase "old boys' network". However, the critical reason for strong ties was attributed to the ability of the chairman and CEO to interpret information and events in a mutually synergistic manner, irrespective of their previous or current personal affiliation, or what other writers have termed as "psychological closeness" (Jones, 1995):

The Chairman should have no particular attachment to the CEO or senior management. He should be truly independent but at the same time he must share certain chemistry with the CEO, otherwise it will be a tense and even unworkable relationship. If they share affinity for each other based on trust, respect or desire to succeed or learn from each other, then they can create magic in a very special way. On the other hand, if their attractiveness is based on something else, such as complementary dysfunctionality, than you may have a classic Butch and Sundance Kid combination. I've seen both (NED 3, Board 1).

It is a relationship of double helixes. Certain distance but then it must be a meeting point. A very basic genetic imprint and if the genes are healthy then you have an effective relationship and an effective board. In a way that's what makes the relationship mystical (CEO, Board 1).

The similarity of interpretation of circumstances and events between the chair and the CEO was emphasised by the study participants as holding greater importance than similarity of beliefs and attitudes. Equally, the lack of psychological closeness between the two parties was interpreted by the participants as a distinct difference of interpretation of events, partly attributed to personality distinctions, than differences of vision or desires for the future:

> I have a great respect for both. They handle their situation with great dignity and style. They are very different people to the extent that every single word, data and event is seen in a completely opposite direction. To put it bluntly, if you are to show them a picture of an orange, one will tell you that is a grapefruit and other that is a lemon. The only commonality would be that they are all citrus (NED 2, Board 3).

> The Chair and I have relationship that is polite and that's really as far as it goes. On one occasion I nearly lost control and caused an almost complete breakdown in our relationship. I couldn't imagine the relationship gaining greater value in the future (CEO, Board 3).

> Basically we just get on and do the job. We do not have a relationship outside the boardroom. That's because we basically hold different philosophies that rub each other up the wrong way, but we both play a straight game with integrity and professional trust. Generally he likes to get to a quick solution, because his interest is focused only on the financial side of business – the bottom line, whilst I believe in this entire stuff about triple bottom line. Saying that, we both share a common interest – a genuine success for this organisation (Chairman, Board 3).

Impact on board effectiveness
The study participants also acknowledge that the chairman is not solely responsible for the nurture of the "magic relationship". The CEO's contribution is equally important. Professional integrity and trust emerge as salient attributes of the chair/CEO interrelationship effect on board performance:

> Even with the most vigilant Chairman on the board, if a CEO is not open and trustworthy, he can ruin the company between board meetings (NED 4, Board 2).

It was also stated that effective boards need quality information from executive management:

> Not all information but quality and timely information and, if the CEO does not share the right information with a board, we are all out of the loop thus making it only the CEO's show (NED 3, Board 1).

Thus, a balanced exchange of information supported by relationships that are supportive of both the chair and the CEO were considered as substantially contributing to board effectiveness:

> You can say that I have a personal relationship with the Chairman, but on this board everyone has. All our relationships are rather personal. It's because of the way that relationships have evolved under his Chairmanship. There's always a business reason for the conversation or the meeting, lunch or whatever it might be. He is somebody who works through on personal relationships. I respond to his needs rather than my own. Having said

that, it's easier "getting personal" with him than with some members of my team. We both really understand each other even in a silent way which is great at meetings (CEO, Board 4).

Certain of the study participants offered a contrasting view of board effectiveness, namely as one of prevention of dysfunctional tensions arising due to the sound nature of the chairman/CEO relationship, as opposed to that of working towards developing a positive dynamism in the boardroom:

Good boardroom relationships are an asset, but in themselves do not guarantee success. But on the other hand, having poor relationships and in particular between Chairman and CEO guarantees problems. These may vary in degree and intensity from subtle nuances, not getting the best from the NEDs to antagonistic and defensive behaviours, discomfort and anxieties and in general poor decision making which consequently may lead to low confidence of key investors and ultimately poor share performance (NED 2, Board 4).

Attributes of an effective chairman

Recent studies highlight that the ideal chairman devotes whatever time is required to the board, especially if greater involvement is required than first realised (Coombes and Wong, 2004). Equally, a sound knowledge of the industry, coupled with an independence of mind, and having already served on the particular board in question, have also been identified as desired chairman attributes (Coombes and Wong, 2004).

Although these attributes were mentioned by the study participants, the capacity to work through board tensions whilst striving towards gaining a shared perspective from board members, emerged as the more critical attributes for a chairman:

He is exceptionally capable – a quintessential Chairman. He can see through you and cut through nonsense, but at the same time he can generate space for real quality interactions where ideas can spark and flow freely, which at the end of a meeting he skilfully fuses to a new way forward. Our occasional boardroom sparks can easily turn into fires, if not skilfully handled. He possesses a certain distant/closeness that is motivating but difficult to capture (CEO, Board 1).

The study respondents highlight that the capacity for independence to engage in and resolve disputes and minimise dysfunctional interactions, needs to be coupled with a "sense of presence", cloaked by a masterful maturity that does not evidently display ego but more a quiet sense of character:

Some people just have that indefinable quality, that "*je ne sais quoi*" whilst others have to work at it. The Chairman needs to have presence in the boardroom but at the same time to give space to others. His role is one of the consolidator and for that reason he must be highly venerated by others, otherwise you have bunch of oversized egos or one super large ego running your board (NED 1, Board 1).

Many think that a good Chairman needs to be ego-less. The reality is that an ego-less Chairman is someone who has lost the zeal for work. On the contrary, a good Chairman needs to have a big ego, but his ego must be mature, like the ego of a proud father whose son is doing well in school. The Chairman's power is continuous and unbounded creating board norms which pave the way for a CEO performance that is visible to the outside world (Chairman, Board 1).

The personal qualities of presence, maturity and sense of independence were the ingredients identified by the study participants for attaining consensus on the board. Highly effective chairmen were described as able to "see meetings ahead", namely a point in the future when consensus is more likely to be attained. Thus, reaching meaningful decisions as well as postponing decisions in order to revisit issues at subsequent board meetings, was reported as part of the same skill set:

> A good Chairman is someone who achieves consensus on the board irrespective of the outcome and issue at hand. The Chairman's role does not require value judgments but consensus. … On reflection, I think that I have probably legitimised many illegitimate decisions. But that was expected from my role (Chairman, Board 2).

> A perfect Chairman is someone who, most of the time, creates board cohesion and achieves consensus on issues under consideration that is moderated by ethical considerations in terms of means or ends (Chairman, Board 4).

Discussion

This study highlights two critical dynamics impacting on perceived board effectiveness; the latent and underlying potencies of a board and the manifest, emerging dynamics evident through board member participation (Jones, 1995). In realising the power of hidden potency, the study participants report that an outstanding Chairman is able to comfortably raise submergent concerns to the realm of evident and workable dynamics.

People can easily become conflicted creatures, not only driven by self interest and a desire to self maximise, but also, to varying degrees, to benefit others and their environment, voluntarily devoting time and resource for social good (Etzioni, 2003). Within the context of a board, a comparable range of self interest and social good perspectives emerged, partly driven by the orientation of each board member as well as their "rationalist" view of their purpose and contribution to the board. Such breadth of discretion leads to a diversity that requires bridging for the meaningful governance of the enterprise (Ward et al., 2004). However, the building of "social and psychological" bridges in order to attain consensus is, at times, not realised, thus allowing for hidden perspectives to gain a hold of the board undermining the firm principle of cabinet responsibility (Kakabadse and Kakabadse, 2004a). The study participants constantly referred to the disarray that arises when decisions are not meaningfully made and/or proactively implemented.

Therefore in working towards board effectiveness, recognising, understanding and focussing on the "hidden potencies" that underlie the evident dynamics of a board, precedes providing sensitive attention to relationships in order to build board members' confidence to discuss what is viewed as "undiscussable" (Kakabadse and Kakabadse, 1999). The emergent view is that the chairman is the one responsible for nurturing a positive climate of exploration and dialogue in a manner that the CEO and other board members find acceptable (Duke, 1994).

However, the responsibility for maintaining a board environment of openness and response to challenge, particularly in terms of raising "sensitivities", was reported as the shared responsibility of the chairman and CEO. Numerous study participants ascribed the term "inner cabal" to the chairman/CEO relationship emphasising that as

the hub of the board. Such recognition is profound considering the origin of "cabal". The term "cabal" emanates from classical cabbalistic theology which interlinks the union of male and female with divinity rather than obedience to divine will through laws and rituals (The Zohar, 1931). For a Cabbalist, the greatest tragedy is the destruction of unity within the deity, namely the separation of the tenth aspect, Shekhinah, from her metaphorical "husband" the sixth aspect of the divine, Tif'erath. In a similar vein, the study participants emphasised that no alternative exists other than for the chairman and CEO to continuously build on their relationship:

> The CEO and I don't actually work hard at our relationship because we get on well, but we do work on it. I suppose we are lucky in that respect, because if we didn't get on as people, we would have to work really, really hard at it and I would have less time to devote to development of relationships with other board members (Chairman, Board 4).

No amount of attention to governance controls and procedures is perceived as compensatory for an effective working relationship between the chairman and the CEO. In fact, the study participants indicate that effective governance application is dependent on the chairman and CEO nurturing a supportive and transparent relationship and manner of interaction.

This study concludes that the subtleties of the chairman/CEO relationship can only be contextually appreciated. The effect of formative context in determining the nature of individual experience, interaction and processes of socialisation is concluded as profound. It is not just up to the two incumbents to make something positive of their dyadic form but their attention to the circumstances in which they find themselves equally has a distinct impact on the development of this two fold interaction, the consequence of which can reverberate for years.

Note
1. The term chairman refers to the role not the gender of the role incumbent. The study participants, males and females, indicated their preference for the term chairman, not chairperson or chairwoman.

References

Barratt, R., Korac-Kakabadse, N., Kakabadse, A. and Barratt, M. (2003), "Corporate social responsibility in the board room: the need for a coherent business case", paper presented at the European Academy of Business in Society 2nd Annual Colloquium, Copenhagen.

Bartel, C.A. (2001), "Social comparison in boundary-spanning work: effects of community outreach on members' organizational identity and identification", *Administrative Science Quarterly*, Vol. 46 No. 4, pp. 379-413.

Boyd, B.K. (1995), "CEO duality and firm performance, a contingency mode", *Strategic Management Journal*, Vol. 16 No. 3, pp. 301-12.

Burton, P. (2000), "Antecedents and consequence of corporate governance structure", *Corporate Governance Review*, Vol. 8 No. 3, pp. 194-203.

Cadbury, A. (1992), *Report of the Committee on the Financial Aspects of Corporate Governance*, Gee, London.

Chitayat, G. (1984), "Working relationships between the chairman of the board of directors and the CEO", *Management International Review*, Vol. 24, pp. 65-70.

Coombes, P. and Wong, C.-Y. (2004), "Chairman and CEO: one job or two?", *The McKinsey Quarterly: A New Era in Governance*, Vol. 2, pp. 43-7.

Dahya, J. and Travlos, N.G. (2000), "Does the one man show pay? Theory and evidence on the dual CEO revisited", *European Financial Management*, Vol. 6 No. 1, pp. 85-98.

Daily, C.M. and Dalton, D.R. (1994), "Corporate governance and the bankrupt firm", *Strategic Management Journal*, Vol. 15 No. 6, pp. 643-54.

Daily, C.M., Dalton, D.R. and Cannella, A.A. Jr (2003), "Corporate governance: decades of dialogue and data", *Academy of Management Review*, Vol. 28 No. 3, pp. 371-82.

Dalton, D.R., Daily, C.M., Ellestrand, A.E. and Johnson, J.L. (1998), "Meta-analytic reviews of board composition, leadership structure, and financial performance", *Strategic Management Journal*, Vol. 19 No. 3, pp. 269-90.

DGA (2004), *Corporate Governance Indicators: 1996-2004*, Davis Global Advisors, Inc., New York, NY.

Duke, S. (1994), *Meaningful Relationships*, Sage, London.

Etzioni, A. (2003), *My Brother's Keeper: A Memoir and a Message*, Rowan & Littlefield, New York, NY.

Hodgson, R.C., Levinson, D.J. and Zaleznik, A. (1965), *The Executive Role Constellation*, Harvard Business School, Boston, MA.

Johnson, J.L., Daily, C.M. and Ellstrand, A.E. (1996), "Boards of directors: a review and research agenda", *Journal of Management*, Vol. 2 No. 3, pp. 409-38.

Jones, P. (1995), *Studying Society: Sociological Theories and Research Practices*, Collins Educational, London.

Kahl, J. (1957), *The American Class Structure*, Rinehart, New York, NY.

Kakabadse, A. and Kakabadse, N. (1999), *Essence of Leadership*, International Thomson, London.

Kakabadse, A. and Kakabadse, N. (2004), "Discretionary leadership: from control/co-ordination to value co-creation", in Cooper, C. (Ed.), *Leadership and Management in the 21st Century: Business Challenges for the Future*, Oxford University Press, Oxford.

Katz, R. and Kahn, R.L. (1966), *The Social Psychology of Organizations*, Wiley, New York, NY.

Ng, W. and De Cock, C. (2002), "Battle in the boardroom: a discursive perspective", *Journal of Management Studies*, Vol. 39 No. 1, pp. 23-49.

Pettigrew, A. and McNulty, T. (1998), "Sources and uses of power in the boardroom", *European Journal of Work and Organisational Psychology*, Vol. 7 No. 2, pp. 197-214.

Roe, C.G. (1977), *The Changing Role of the Chief Executive*, Jean Macgregor, Chalford Hill.

Slatter, S. and Lovett, D. (1999), *Corporate Turnaround: Managing Companies in Distress*, Penguin, London.

Stewart, R. (1991), "Chairman and chief executive: an exploration of their relationship", *Journal of Management Studies*, Vol. 28 No. 5, pp. 511-27.

Viénot, M. (1999), *Recommendations of the Committee on Corporate Governance (Viénot II Report)*, AFEP-MEDEF Committee, Paris.

Ward, K., Bowman, C. and Kakabadse, A. (2004), *Designing World Class Corporate Strategies: Value Creating Roles for Corporate Centres*, Elsevier/Heinemann, Oxford.

Westphal, J.D. (1998), "Collaboration in the boardroom: behavioural and performance consequences of CEO-Board social ties", *Academy of Management Journal*, Vol. 42 No. 1, pp. 7-24.

(The) Zohar (1931), Sperling, H. and Simon, M. (trans.), Abalson, J. (introduction), Vols. I-V Set No. 64/1250, The Soncino Press, London.

Further reading

Kakabadse, N. and Kakabadse, A. (2004), "Editorial", *Corporate Governance: The international journal of business in society*, Vol. 4 No. 4, pp. 1-3.

Corresponding author
Andrew Kakabadse is the corresponding author and can be contacted at: a.p.kakabadse@cranfield.ac.uk