Search light on two chairmen: our findings

Two very different boards and two very different chairman’s roles

It is generally pointed out that the Supervisory Board and the Executive Board are two very different boards. They differ among other things in:

- roles, tasks and responsibilities
- actual and emotional involvement in the business activities
- time spent and remuneration
- degree of task differentiation within the boards
- degree of team spirit/group cohesion and:
- the degree in which they feel responsible for an above-average performance of the company

The most essential is, of course, that the non-executive directors are part-timers responsible for the supervision of the executive directors who are full-time responsible for determining the company’s direction and strategy and for managing its realisation. The Executive Board must explicitly answer to the Supervisory Board.

The degree and way in which the Supervisory Board has to answer for its actions and to whom are – as yet – far less explicit. This is no real issue for non-executive directors.

It is remarkable that, contrary to the usual Dutch terminology of ‘president-commissaris’ en ‘voorzitter Raad van Bestuur’ the first mostly plays the role of chairman while the latter usually plays a presidential role! Generally, the Chief Executive Officer is quite clearly the first man of his board – sometimes explicitly with more powers –, more so than the Chairman of the Supervisory Board. Furthermore, the CEO generally plays a much more prominent role – both in and outside the company – than the Chairman of the Supervisory Board.

The role of the Chairman of the Supervisory Board

The Chairman of the Supervisory Board has no powers of his own and his position has no legal basis. None of the interviewees is in favour of this. Responsibility towards one’s colleagues is considered of paramount importance.

The interviews show very different opinions on the nature and extent of the chairman role. Opinions diverge less on the qualities that he or she should possess.
Practically no one thinks that the Chairman of the Supervisory Board should play the role of:

- figure-head
- provider of direction
- moral leaders of the company

Everyone thinks he should act as:

- chairman of the meeting
- binder of the supervisory team
- reconciler of possible conflicts (of interests) within the Supervisory Board

And also as:

- initiator of appointment and assessment processes in the Supervisory and Executive Board
- first contact in matters which, due to a very personal or highly confidential nature, cannot (yet) be shared with the entire Supervisory Board.

Our conversation partners judged differently on the desirability of roles such as:

- director of processes in the interaction between Executive Board and Supervisory Board
- bringer of delicate or difficult messages from the Supervisory Board to the Executive Board
- ‘detached post’ within the company on behalf of the Supervisory Board in case of a situation of increased alertness
- confidential contact for all non-executive directors, executive directors and possibly even managers from the second echelon

And with respect to roles such as:

- sounding board for the CEO
- coach of the CEO
- mediator in conflicts within the Executive Board

And such as:

- most senior ambassador/advocate
- most senior negotiator in the case of mergers, acquisitions etc.

The estimates with regard to the extra time that the Chairman of the Supervisory Board should spend on his office, compared to ordinary members of the Supervisory Board, range from 20% to 300%!

No one is in favour of a full-time (almost full-time) Chairman. Some indicated that it would be functional, however, if the Chairman had his own room and (part-time) secretary.

Wishes varied as to the Chairman’s profile:

- a ‘very experienced director’
- the ‘most senior of the entire company’ with undisputed authority with all non-executive and executive directors

Some think that the Chairman of the Supervisory Board should thoroughly acquaint himself with the line of business, the company and its strategy, others think this is unnecessary or even undesirable.

Many think the position of Chairman of the Supervisory Board can hardly be combined with that of active executive director. Let alone of CEO in another company.

Hardly anyone supports the idea that the Chairman should preferably be the ex-CEO. On the contrary, most interviewees seriously object to this.

The attitude of the CEO towards the Supervisory Board

From the interviews with CEOs we can distil a diversity of opinions about the use and added value of the Supervisory Board. They vary as follows:

- the Supervisory Board is sometimes a nuisance
- you must remain on friendly terms with the Supervisory Board
- you cannot expect too much from the Supervisory Board
- you must educate the Supervisory Board
- the Supervisory Board can really be of use
- you must enable the Supervisory Board to fulfill its role
- the Supervisory Board is your most trusted adviser
- the Supervisory Board keeps you alert, forces you to clarify what you want
- the Supervisory Board really contributes to good strategic decisions

The majority of the CEOs demonstrate that they have a positive image of the interaction with, and the added value of the Supervisory Board.

We think these ideas are influenced by three factors:

- the CEO’s character: can he accept a superior authority?
- the respect that the Supervisory Board can gain on the basis of experience and performance
- the degree to which the personalities of the CEO and the Chairman of the Supervisory Board match

Within this context the CEO’s expectations of his communication with the Chairman of the Supervisory Board are interesting:
• some CEOs need a reliable sounding board with respect to matters that they cannot (yet) openly discuss in the Executive Board
• many CEOs want to be able to talk to the Chairman of the Supervisory Board about very delicate or confidential matters before they communicate them to the entire Supervisory Board
• many CEOs think it is desirable that the selection of items for the Supervisory Board meeting should be discussed beforehand with the Chairman of the Board
• some CEOs hope that the Chairman of the Supervisory Board will act as an advocate of the proposals of the Executive Board
• many CEOs want to be able to have a serious discussion with the Chairman about composition of and succession in the Executive and Supervisory Board

Many CEOs seem to realise that by expecting too much from a Chairman of the Supervisory Board, they may get him into trouble with respect to the other members of the Board and also restrict his freedom of action as a non-executive director.

A few quotations
• It is important that there is a fit (between the two chairmen). The chemistry.
• The chairmen have to guide the process. It is important that they get along with each other, that their styles match.
• The Chairman of the Supervisory Board is allowed to have more knowledge than the others but only temporarily and where it concerns business matters.
• The Chairman of the Supervisory Board should always be able to answer for his past knowledge and secrets.
• As Executive Board you must constantly build credibility by providing much information and by thorough preparation of decisions to be made, to prevent the Supervisory Board from taking action itself.
• I have seldom experienced that there was preliminary consultation with regard to the agenda. Normally speaking, the Executive Board is responsible for that.
• Consultation between the two chairmen is important. A personal relationship does entail the risk, however, that certain matters are only partly dealt with or not dealt with at all because of this relationship. Taking one’s own responsibility becomes more difficult.
• As Chairman of the Supervisory Board you must lobby a lot: calling individual non-executive directors etc. You also play an important role in reappointments.

Our view

The importance of a prominent role for the Chairman of the Supervisory Board

The efficiency and effectiveness of the supervision surely benefit by the Chairman of the Supervisory Board being able to pay explicit attention to the processes in and around the Boardroom. We would like to see him as the regisseur par excellence of the supervision process.

As a chairman he, more than the other members, is responsible for the Supervisory Board operating and behaving adequately, alertly and unitedly. He must see to it that the experience and insights gained are used fully. He takes the lead in matters concerning the composition of the Supervisory Board. He plays an essential role in the preparation of the succession of the CEO. This also applies when the Supervisory Board considers it necessary to interfere in the composition of the Executive Board.
Furthermore, he has the modest yet important task, somewhat more than the ordinary non-executive directors, to keep a finger on the pulse with regard to quality and unity of management and with regard to the atmosphere in the company. He may sometimes offer assistance in this area or intervene cautiously.

Doing this he should expressly avoid that he:
- does too much
- acts alone
- loses contact with his own board
- hampers the CEO or competes with him

He must keep sufficient distance from a business, emotional and relational point of view. That also implies that he must be careful and reserved in his roles of sounding board, mediator and, possibly, coach of the CEO. He must keep his hands free.

He should never be keen to stand out either internally or externally at the expense of the CEO. Yet, he should not be entirely invisible and he should surely not be unfindable.

So in our view, the Chairman acts as a ‘detached post’ of the Supervisory Board on behalf of the Supervisory Board. Basically, he has no powers of his own. In exceptional cases, however, he may be given a specific mandate. He keeps his fellow non-executives fully informed of his faits et gestes and of his findings. If he thinks it necessary to withhold specific information, he must always be able to account for this afterwards.

We certainly think it advisable to lay down the specific responsibilities and tasks of the Chairman in internal Supervisory Board regulations which also include the rules to be observed. The actual interpretation of the Chairman’s role will be geared to the specific situation and the preferences and styles of those involved.

We expect that the Chairman of the Supervisory Board will have to spend twice as much time on the company than an ordinary member. In particular, he must be more easy to reach and quickly available in case of crisis or other exceptional circumstances. As a consequence, his position is hard to combine with that of CEO of another company.

**The Chief Executive Officer**

A CEO who, in principle, has difficulty recognising the role and authority of, and answering to a Supervisory Board and who does not enable the Supervisory Board to fulfil its role adequately, is not suited to be a leader of a large, listed company. This is not meant as an argument in favour of an obedient CEO. The CEO must behave with self-confidence and assertiveness towards the Supervisory Board but he should also be mature and cooperative. Only then will there be a solid (power) balance.

**The balance between the boards**

There must be a proper balance between the two boards and between their chairmen. Mutual trust and respect must grow and be maintained.

To this end, the Supervisory Board should demonstrate such a combination of ‘actual added value’ and ‘well-balanced influence’ as to create room for a productive interaction with the Executive Board/CEO.

This is illustrated by the diagram below

**HOW DOES THE EXECUTIVE BOARD LOOK UPON THE SUPERVISORY BOARD?**
The challenge of the Peters Committee must be taken up

The Peters Committee, set up under the auspices of the VEUO (Association of Securities-Issuing Companies) and the VvdE (Amsterdam Stock Exchange Association) has recently published forty recommendations which largely relate to composition, task, appointment, remuneration and method of working of the Supervisory and Executive Board. More specifically, the Peters Committee had been instructed to study how the influence of the supplier of capital on supervision and management of the company could be enhanced.

Key words in the report of the Peters Committee referring to the supervisory system: accountability, increasing transparency, professionalisation of the method of working and a more active attitude.

The Committee hopes that its recommendations will lead to the preservation of the Dutch system of supervision, management and capital supply in its basic design, but that it will meet the requirements of modern times in a better way by practical innovations and more active players.

The objective, scope and method of the Peters Committee differed from those of our preliminary investigation, and although we wonder whether the shareholder’s interest is not dealt with too one-sidedly, there appear to be many points of agreement between the recommendations of the committee and the views formulated by us.

The Peters Committee calls its report an impetus to change and an invitation to discussion. It recommends that in the general meetings of shareholders of 1998, management report on an examination of the degree of influence that the suppliers of capital have. It also recommends that an organisation be set up to monitor, evaluate and publish the implementation and observance of its recommendations concerning Corporate Governance. The Committee says not to expect much from change in legislation and regulations. Its approach opts for the way of self-regulation.

Noblesse oblige: in the next eighteen months, the supervisors and directors of the large, listed companies will have to spend time and energy on self-reflection and vision development with regard to the actual interpretation of the concept of Corporate Governance in their companies.

We think that the results of our investigation and the views formulated by us contain elements which may enrich and help to structure the discussion in the Dutch Boardrooms about some of the recommendations of the Peters Committee.

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<table>
<thead>
<tr>
<th>CHAIRMAN SUPERVISORY BOARD</th>
<th>reserved ‘technical chairman’</th>
<th>wise respected ‘director’</th>
<th>status and power minded ‘monarch’</th>
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<tbody>
<tr>
<td>dominant and authoritative ‘ruler’</td>
<td>insufficient opposition</td>
<td>balancing</td>
<td>struggle for powers</td>
</tr>
<tr>
<td>powerful, inspiring ‘president’</td>
<td>workable</td>
<td>optimum</td>
<td>unproductive tension</td>
</tr>
<tr>
<td>participative, binding ‘chairman’</td>
<td>insufficient dynamics</td>
<td>workable</td>
<td>undesirable division of roles</td>
</tr>
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A sharp awareness of roles in both chairmen may lead to difficult character combinations functioning reasonably after all.

Effective, less effective and disastrous combinations of chairmen. A good fit between the two chairmen is essential as is illustrated by the matrix below.