



THE COMPLEX CEO-CHAIRMAN RELATIONSHIP

And what this means for Entrepreneurs looking to hire one...

CONTENTS

1. Overview
2. Playing Both Sides Of The Net
3. What Does The CEO Need From A Chairman?
4. Textbook Chairing - Pure Independence
5. When The See-Saw Tips
6. Appointing A Chairman - I
7. Appointing A Chairman - II
8. Appointing A Chairman - III
9. Being A Chairman Isn't Everyone's Cup Of Tea

OVERVIEW

- There is a real art to this appointment. A good Chairman was appreciated as a real asset by every interviewee that had one
- There are plenty of formal definitions of the role of the Chairman. However templates, no matter how worthy, are always cookie-cutter. Size, stage, phase, type of company, sector, personalities, country will mean that for the far-less-systematised unlisted Board no single recipe will be The Answer
- The *realpolitik* of the Boardroom is that it is all *ultimately* about who has *power* or in other terms *control*. Somewhere along the journey from NewCo to ListedCo the balance of power tips. Put simply in NewCo “the CEO fires the Chairman” whilst in ListedCo “the Chairman fires the CEO”
- The *realpolitik* of the *day-to-day* relationship between a CEO and their Chairman is far more nuanced and complex than simply “where, in extremis, do the votes lie?” and is centred on relationship, communication and influence

Playing Both Sides Of The Net

- Russia vs America in the Cold War *ultimately* would have been about whose nukes could inflict more damage. However *practically* both sides were keen to avoid Armageddon. Boardroom conflicts will not end with literal catastrophe but they are about as stressful as business ever gets and super-distracting
- An experienced Unlisted Chairman summed up this day-to-day reality by saying the Chairman needs to play on both sides of the net in heading the Board
 - *“Chair is hired by CEO as founder, Chair can be fired by CEO as founder*
 - *Chair’s role in replacing CEO in instances of sustained underperformance or fallouts around strategy [MB: or sudden CEO incapacitation where Chair is likely to have to be the stand-in CEO pending resolution/replacement]*
 - *Chair’s role in holding CEO to account on behalf of shareholders, aggressive VCs in particular*
 - *Chair’s role in being coach, mentor and shield to the CEO, from aggressive VCs in particular*
 - *Should complement the Board and strengthen the Company”*

What Does The CEO Need From A Chairman?

- Two serial entrepreneurs I interviewed gave remarkably similar answers
 - *“The CEO will need two things from a Chairman - pastoral support & tough love”*
 - *“Chair fights your [CEO] corner against investors or bashes you down”*
- Specific comments referred to more “job description” type qualities and the unsurprising side of the net founders prefer the Chairman to play
 - *“Chairmen need respect, gravitas, relevant skills. Role is very very different in different companies”*
 - *“A Chairman needs to be empathetic”*
 - *“You want a Chairman as partner”*
 - *“A Chairman is a human shield especially against capital providers when they misbehave”*
 - *“[When there are] fights amongst capital providers [the Chairman] takes pressure off executives”*

Textbook Chairing - Pure Independence

- Textbooks say that the Chairman needs to be neutral. The reality however as we have seen in that in the early stage Company this cannot be the case - not just because of sheer voting power but the fact that few Startups would survive the departure of the founder who is the driver, creator, glue and visionary
 - *“A neutral Chairman?! Unrealistic. At small company stage you need passion”*
- Over time as the firm matures, ownership and control become more dispersed. It is at this stage that the Chairman becomes the independent head of the Board portrayed in textbooks. His role in influencing, and relationship with, key capital providers becomes a source of power in itself
 - *“An independent Chairman is very important”*
 - *“The Chairman is the impartial role”*
 - *“A Chairman is an arbiter, a mediator, who balances stakeholders”*
 - *“A ‘neutral’ [on the Board] is always useful – a professional Chair of Board does that”*

When The See-Saw Tips

- Somewhere along the journey the founder goes from being comfortable on their throne in their own kingdom to having to polish their boots and do some unaccustomed square-bashing as they are held to ever-more mature Company Board standards. This is quite some lifestyle change. As a CEO who had crossed that Rubicon and recently acquired a high-powered Chairman said
 - *“Rest assured my new Chair comes with its own challenges, I am having to quickly adjust back to having a boss!”*
- Ultimately this involves becoming ever-more of an employee, working for your own creation. Some founders will want to go the whole way from NewCo to FTSE and will adapt but next to none will equally enjoy Startup and listed worlds
- Not all founders want that and whilst they still have control will prevent their *business* crossing the Rubicon preferring to be cosy and “in charge” rather than growing and “losing control”. This “lifestyling” of the business may be nice for them perhaps but is not for the shareholders who are then locked-in. It is one major advantage of VCs on the Board who will drive liquidity events regardless

Appointing A Chairman - I

- Naturally this is an extremely important hire for the founder to get right. A great Chairman will be invaluable to them and their business. Equally they can't sack too many Chairmen without raising eyebrows
- In the early days of NewCo there is a limited ability to attract a star Chairman
 - *“Chairman? Most [Startups/ScaleUps] don't have a decent one”*
 - *“At first you can choose an Angel but the further you go up the curve the more you should spend time finding the right one experienced in handling growth”*
- In the Tech world coding tests are a key interview technique. This is a useful analogy for recruiting Chairmen
 - *“When interviewing the potential Chairmen - give them recent difficult strategic situations or challenges you have had and where the current Chairman didn't necessarily find the right way. We did this and with the Chairman we eventually found, we were super-impressed with his robust answers to various situations which we wouldn't have had the confidence to try on our own”*

Appointing A Chairman - II

- Your ideal Chairman needs to be something of a shapeshifter, purring along like a Bentley on smooth roads, but equally show no naivety and plenty of realpolitik when the going gets tough and you get assailed by bandits (inside the Company, on the Board or outside the Company)
- Do not forget that you are unlikely to be The Greatest Company Ever. So unless you are blessed with good fortune you will find it hard to appoint your Fairy Godmother Chairman
 - *“I am getting five Chairman offers a month (as I understand compliance and business) and I’m not that good [MB: excessive modesty no doubt] there are just so few in the market”*
 - *“Be realistic, but still aim high”*
- As with all things time and effort goes a long way
 - *“We spent six months courting a new Chairman. It was super-time-consuming but the time was very well spent - it was worth it”*

Appointing A Chairman - II

- **As with recruiting NEDs what you need relates to gaps in your armoury**
 - *“[Different Companies have different] types of desire for Chairman - mentor, figurehead, door opener”*
 - *“Our new Chairman brings different skillsets. Air cover and protection. Good Board meetings. Brings perspective on the industry and how we interact with it”*
 - *“Chairman as Rolodex model and/or with BigCo Board or extensive Startup experience to manage factions and to eg deal with VCs when they turn aggressive”*
- **Process is an important balance to strike - not too much, not too little**
 - *“Our Chairman brought regulatory credibility”*
 - *“Our Chairman helped formalise things by just the right amount. We thought we knew the key risks but the act of formalising them was very helpful”*
 - *“We had to sack our Chairman – he had too much focus on minutes, agenda, bureaucracy and not enough on growing the business”*

Being A Chairman Isn't Everyone's Cup Of Tea

- **Former CEOs/founders who became Chairman often found that the actuality was rather different from their expectations**
 - *"I was a Chairman a couple of times but I hated it" [serial founder/CEO]*
 - *"I don't think I would be Chair again if I had known what it involved"*
 - *"It's a very different thing. In some ways I don't like being more of a referee, I preferred being a player" [Serial CEO/Chairman]*
 - *"As Chairman you need to be a chameleon - so many different needs/modes"*
- **Early-stage Chairing can be tedious and hence it can be a challenge to find experienced Chairmen - one factor which leads to the Chairman role needing to be rotated over time. One interviewee related to me his feelings when approached by an enthusiastic, if relatively naive, founder in search of a Chairman**
 - *"They don't realise how much time I am going to have to spend changing nappies and teaching them the ABC"*

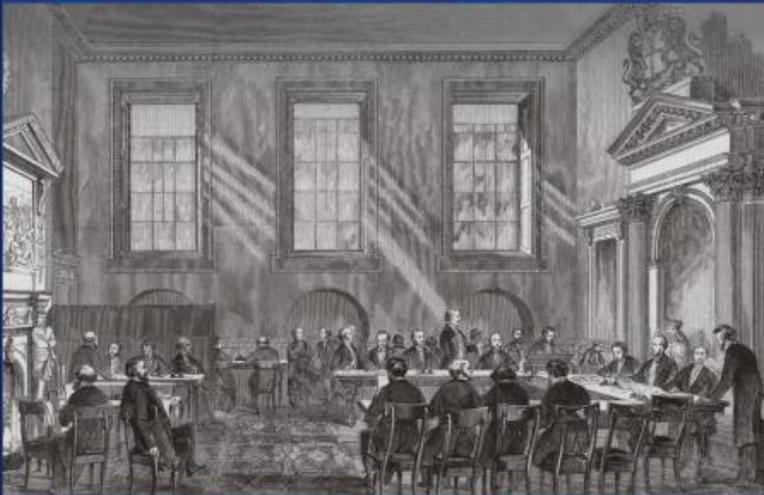
Great Chairman are rare so the CEO/founder needs to think through why an experienced Chairman needs all the risk/hassle with their company - the “we are unique” pitch sounds very lame after hearing it for decades and successful Chairmen are hardly poor

However a great Chairman is a real blessing for any entrepreneur and their business. Serial entrepreneurs always prioritise getting the right Chairman no matter how time-consuming the process be it via your network at first or later via head-hunters

THE REALPOLITIK OF THE UNLISTED COMPANY BOARD

MAKING YOUR BOARD
AN ENGINE OF GROWTH

Content and Context



MIKE BALIMAN

17/17 5* reviews on [Amazon](#)

“Essential reading for business founders with ambitions to grow.” Dan

“Genuine practical insight alongside valuable historical context. Excellent work!” Moorad Choudhury

“Great reference work with insights from many real world situations.” Julian

The
unlisted Board
com

August 2021