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**The Role of the Chairman**

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**1. The role of the Chairman in a nutshell:**

Good Boards are created by good Chairmen. The Chairman creates the conditions for effective Boards and the effectiveness of individual Directors.

The Chairman has the same legal duties as other Directors.

It is the responsibility of the Chairman to lead the Board and manage Board Meetings. It is the CEO’s responsibility to run the Company.

In crisis the Chairman must keep the Board as functional as possible – maintaining the balance between driving for decision-making and ensuring open discussion

The essential tasks of a Chairman are as follows:

* To lead the Board, sets its Board Agenda which should be primarily focused on strategy, performance and values.
* To promote a culture of openness and debate – managing the Board’s relationship with the executives and in particular the CEO and ensure the Board is an effective working group.
* To demonstrate the highest standards of integrity and probity, and set clear expectations concerning the company’s culture, values and behaviours, and the style and tone of Board discussions.
* To ensure that all Board members receive accurate, timely and clear information to debate the right issues.
* To conduct Board meetings effectively getting all Directors involved in the Board’s work and ensuring the Board focuses on its key tasks
* To ensure that the Non-Executive Directors commit both time and focus to their role; effective and engaged Non Execs should put in 40 days pa a year not just on the standard compliance and Governance issues but to get know the company by visiting clients and company sites and talking informally with staff. The effective Board will spend up to 12 days a year on strategy, compared with just four for low-impact boards. These engaged Non Execs will know enough about the company’s stress points to make meaningful suggestions on how to improve strategy.
* To ensure effective communication with shareholders (as appropriate).
* To take responsibility for the Board’s composition, development and succession planning.
* To engage the Board in assessing and improving its performance.
* To oversee the induction and development of Directors including Non Execs.
* To support the Chief Executive/MD.

Most Non Execs say they have much more to give and a good Chairman will encourage them to contribute more. Strong ethics, good culture and proper conduct come from the top – a good Chairman ensures these are present in the company he leads.

The Chairman of each Board Committee (Audit, Risk, Remuneration, Nomination etc) who should ideally be Non-Execs fulfil an important leadership role similar to that of the Chairman of the Board.

The Chairman can be an Executive (full time) Chairman or a Non-Executive (part time) Chairman.

A poor or weak Chairman will lead to a dysfunctional and ineffective Board.

**2. The UK Corporate Governance Code**

The Corporate Governance Code applies to listed companies which does not include AIM Companies although they, growth companies and organisations without shareholders such as Mutuals, NHS Trusts etc should aspire to comply with the provisions of the Code some key ones are as follows:

* “The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.” (Main Corporate Governance Code Principle A.3)
* “The Chairman is responsible for setting the Board’s agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman should also promote a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executives and Non-Executive Directors.”
* “The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman should ensure effective communication with shareholders.” (Supporting Principles A.3)
* “The Chairman should on appointment meet the independence criteria set out in B.1.1, but thereafter the test of independence is not appropriate.” (A.3.1)
* “The Chairman should hold meetings with the Non-Executive Directors without the executives present.” (A.4.2)
* B.7.1. All Directors of FTSE 350 companies should be subject to annual election by shareholders. All other Directors should be subject to election by shareholders at the first Annual General Meeting (AGM) after their appointment and to re-election thereafter at intervals of no more than three years. Non-Executive Directors who have served longer than nine years should be subject to annual re-election. The names of Directors submitted for election or re-election should be accompanies by a sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.
* B.1.1. The Board should identify in the annual report each Non-Executive Director it considers to be independent. Non Execs who have served on the Board for more than nine years from the date of their first election no longer meet the independence criteria.
* “The Chairman can Chair the Nominations Committee (but not when dealing with the appointment of a successor to the Chairmanship).” (B.2.1) Chairmen should not however have the power to hire and fire Board Directors as the Corporate Governance Code says succession planning and hiring power should belong to the Nominations Committee which the Chairman can be a member of and can even Chair but which must have a majority of independent Non Execs with the Chairman not counting as an independent Non Exec.
* “The Chairman should ensure that new Directors receive a full, formal and tailored induction on joining the Board.” (B.4.1)
* “The Chairman should regularly review and agree with each Director their training and development needs.” (B.4.2)

The Financial Reporting Council’s “Guidance on Board Effectiveness” document: <http://www.nonexecutivedirector.co.uk/images/files//Guidance-on-Board-EffectivenessFRC.pdf> has some interesting things to say about the role of the Chairman.

**3. What makes an effective Chairman?**

Being a good Chairman requires considerable skills including:

* Effective engagement with the business, the Executive and Non–Executive team and the market.
* Creating the right Board ‘dynamic’ and ‘culture’ - just how open to constructive challenge and debate are we? Is everyone heard? How far down is visible? It is all about team dynamics and harmony.
* Strategic review and risk management oversight.
* Enabling the Executive team to take effective action.
* Limiting hubris and striking the right balance of confidence and humility.
* Managing communications with markets and stakeholders.
* Stress testing and constructively challenging to ensure Executive team have performed.
* Being happy for others to take the credit.
* Putting the company’s interest ahead of everything else.
* Being the invisible hand.
* Identifying and dealing with underperformance factors.
* An innate ability to “do unto others as you would have done unto you” as productive business is all about relationships.

The principle considerations of Chairmanship are clear...the difficulty is putting them into practice.

**Good Chairmanship can go unremarked...**and is always more difficult than it appears.

Good Chairmanship is the culmination of learning from experience: ‘the all-rounder of all-rounders’.

Areas where Boards are not working well are generally due to a lack of trust and respect plus either the wrong or ineffective Non-Executive Directors.

**The Chairman should:**

* Act as a buffer between the CEO and other Board members as well as investors. For this reason, it is important that the Chairman is truly independent and not a crony of the CEO.
* Have the ability to effectively listen to the CEO.
* Be aware of the problems of having a Board packed with the Chair or CEO’s appointees and seek to prevent this. The Chair should engage with the company investors & shareholders to ensure that the Non Execs are truly independent so that they can function effectively.
* In venture-backed businesses there are often stresses between investors and Executives which an alert Chair will seek to resolve in the most constructive way.
* Be neutral and at all costs to avoid and prevent conflicts of interest.
* Understand the [business](http://www.growingbusiness.co.uk/the-role-of-a-chairman.html) – sector experience is usually beneficial but not essential for an effective Chairman although the Chairmen of the UK Banks leading up to the financial crisis might well have performed better if they had been from a banking background.
* Ensure that the Non-Executive Directors on the Board have sufficient time at their disposal (not more than 3-4 other roles) to understand the business and contribute.
* Appoint all the Non Execs to a subcommittee – Audit, Risk, Remuneration and most importantly to the Nomination Committee which should create a succession plan and report to the Board.
* Not constantly second-guess the CEO or try to run the company; that is the CEO’s job. But a good Chairman can help create the strategic vision and be a sounding board for the CEO.
* Be a good listener as well as something of a diplomat if the going gets rough. A good Chairman keeps Board Meetings short and to the point. They should not be long drawn-out affairs which waste time and sap energy. Short meetings with a focus on key strategic and Governance issues are the ones which work best.
* Carry out regular (annual for FTSE companies) Board Evaluations and act on its recommendations;
* Ensure effective communication with shareholders and other stakeholders and, in particular that all Directors are made aware of the views of those who provide the company’s capital.
* Insist that proper Corporate Governance standards are met. For instance, proper management accounts should be produced regularly. This is not easy in young companies with limited resources, but crucial for the health of the business. The Board papers should be sent out a week ahead of the meeting and any papers missing the deadline should wait until the next meeting so Board members are not presented with a plethora of last minute information.
* Ensure that the Board Pack is of a manageable and readable size.
* Be well connected and able to help companies’ access customers, the right advisers and possible business partners. There is a perception that Chairmen are a ‘nice to have’ but not an essential component of a well-run business - nothing could be further from the truth.
* Not dominate the Nomination Committee who should meet regularly, ensure the Non Execs meet independence criteria and produce an effective succession plan.
* A good Chairman will evaluate the performance of the Executive in the Boardroom and ensure the Executive and Non-Executive Directors contribute effectively.

**4. Financial Reporting Council (FRC) Guidance on Board Effectiveness**

“The Chairman should demonstrate the highest standards of integrity and probity, and set clear expectations concerning the company’s culture, values and behaviour and the style and tone of the Board discussions (para. 1.5)”.

“The Chairman, with the help of the executive Directors and the Company Secretary, sets the agenda for the Board’s deliberations’ (para.1.6)”.

“The Chairman of each Board Committee fulfils an important leadership role similar to that of the Chairman of the Board, particularly in creating the conditions for overall committee and individual Director effectiveness’ (para. 1.8)”.

“In a quoted company for the appointment of a Chairman, the Nomination Committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises (B.3.1)”.

**5. Role requirements of a Chairman**

* Time Commitment – The Chairman is expected to commit to expend whatever time is necessary to fulfil his duties and should not have too many other roles.
* Experience – Good understanding of the role of a Chairman and able to operate effectively in such a role at the highest level.
* Knowledge – The Chairman must have a good understanding and experience of Boardroom and Corporate Governance issues.

**6. The Chairman and Board packs**

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information (Supporting Principle to B.5) in their Board packs. These should not be any more than 100 pages ideally – however the average FTSE Board pack is 288 pages which will take the average Director 9 hours to read probably resulting in it not being read which will likely mean that the Non Execs do not understand what is going on in the business and therefore do not add value.

Under the direction of the Chairman, the Company Secretary’s responsibilities include ensuring good information flows within the Board and its Committees and between senior management and Non-Executive Directors, as well as facilitating and assisting with professional development as required. (Supporting Principle to B.5)

**7. The Chairman and division of responsibilities**

The roles of Chairman and Chief Executive should not be exercised by the same individual. The division of responsibilities between the Chairman and the Chief Executive should be clearly established, set out in writing and agreed by the Board (A.2.1)

A Chief Executive should not go on to be the Chairman of the same company. If exceptionally a Board decides that a Chief Executive should become a Chairman, the Board should consult with major shareholders in advance and set out its reasons to shareholders at the time of the appointment and in the next annual report (A.3.1)

Few stories about corporate Britain have caused as much uproar in recent years as Sir Stuart Rose’s move to make himself Chairman as well as[CEO](http://www.growingbusiness.co.uk/the-role-of-a-chairman.html) of Marks & Spencer in 2008. As soon as the appointment was announced, a major shareholder revolt developed.

One of the core principles of good Corporate Governance – embodied in the so-called ‘Combined Code’ – is that quoted companies should split the Chairman and Chief Executive roles. Britain has been generally acknowledged as a world leader in Corporate Governance.

The independent Chairman role is fundamental to this as a counterweight to strong-willed CEOs. The former’s role is to represent the interest of all shareholders. As such it is as helpful to private [companies](http://www.growingbusiness.co.uk/the-role-of-a-chairman.html) as it is to public ones – providing the appointment is the right one.

**8. The Chairman and performance evaluation**

The Chairman should ensure the Board carries out regular competency evaluations to assess the skills the company’s Board requires to prosper and to identify any gaps or weaknesses of the Board and, where appropriate, propose through the Nomination Committee new members be appointed to the Board or seeking resignation of Directors (Supporting Principle to B.6).

**9. The Chairman and shareholders**

The Chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual’s performance continues to be effective and to demonstrate commitment to the role (B.7.2).

The Chairman should ensure that the views of shareholders are communicated to the Board as a whole. The Chairman should discuss Governance and strategy with major shareholders (E.1.1).

The Chairman should arrange for the Chairman of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM and for all Directors to attend (E.2.3).

**10. What differentiates an outstanding Chairman?**

* Charismatic personality with gravitas
* Good communicator and listener – good relationships are created through good communications which in turn are achieved by regular contact
* Able to see the big picture: strategic view
* Ability to run an effective Board
* Accomplished at drawing out ideas and closing them down
* Broad experience and good networks
* Ability to offer support and advice
* Able to gain shareholder confidence and create shareholder value
* Business acumen and ability to get to key issues quickly
* Ability to motivate
* Experience of having been through business or economic storms

A poor Chairman will cause a lack of leadership and lack of control of the Board and can come about through:

* Not being involved enough in the business
* Too busy on other commitments
* Being too domineering, arrogant or unapproachable
* An inability to make decisions
* A lack of sector knowledge
* Poor communication skills.

**11. Summary**

Good Boards are created by good Chairmen.

A good Chairman is crucial to the effective running of the Board and an effective Board is in turn crucial to the success of the company or organisation.

**Written by Chris Spencer-Phillips**

**MD**

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**October 2013**