

# INTRODUCTION

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## A Question of Style

*There is a difference between leadership and management. Leadership is of the spirit, compounded of personality and vision; its practice is an art. Management is of the mind, more a matter of accurate calculation, of statistics, of methods, timetables and routines; its practice is a science. Managers are necessary; leaders are essential.*

—Field Marshal Lord Slim,  
Address to Australian Institute of Management, 1957

If there is one topic about which little has been written, and even less consensus achieved, it is the role of the chairman of the board in the North American context. The very title conjures up connotations of grandeur, like Admiral of the Fleet. In reality, the chairman of the board is probably *the* pivotal figure in projecting the image of a successful and profitable corporation.

If one were to ask the majority of board chairmen what they considered to be their primary function, one can guarantee many different responses, so vague is the concurrence. This book attempts to present an understanding of the function of chairman and to define the essential aspects of what constitutes the role. This book also will provide practical assistance to board chairmen. Much of what is included has relevance to organizations in the not-for-profit and volunteer sectors, many of which have substantial budgets and should, wherever practicable, follow closely the lines upon which a successful business is operated. Some of the key issues also have parallels. For ex-

## Chairman of the Board

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ample, the vital relationship between the chairman and the chief executive officer, which is considered in some depth, has a parallel in considering the relationship between the chief elected officer, often called the chairman, and the chief staff officer of a volunteer organization, increasingly called the president.

It is also written with a view toward helping chairmen and potential chairmen of medium-size and smaller enterprises, although chairmen of large companies also may feel that this book offers practical assistance. The book will be especially useful for the first-time chairman and for the board of a recently listed public company or one soon to be seeking an initial flotation.

Even the person acting as chairman of a privately held enterprise that has outgrown the ability of its founders to handle everything themselves will find useful information in this book. The principles of sound corporate governance remain the same; only the scale changes.

## ORIGIN OF THE ROLE OF CHAIRMAN

The title “chairman of the board” raises a number of interesting connotations. According to the *Oxford English Dictionary*, the word “chairman” is gender neutral, as it comes from the same root as the word “human” and is defined as the occupier of a chair of authority, the person chosen to preside over a meeting, a company, a corporate body. The terms “he,” “she,” “his,” and “her” are frequently used within this text to reflect the fact that men and women both serve as chairmen. Perhaps Sir Adrian Cadbury puts it best in the introduction to his fine book *The Company Chairman* when he states: “I come back to the word ‘chairman’ because, leaving aside the seventeenth century use of the word for someone whose occupation was to wheel bath-chairs, its dictionary definition is both established and precise.”<sup>1</sup> Wherever the term “chairman” appears, it is intended to have equal application to both sexes.

Although some people prefer to use “chairperson” or even “chair,” the traditional term is more appropriate. More important, the term “chair” really confuses the person with the office. One can seat someone in the chair or, in the university sense, create a chair for a professor, but the chair denotes the office, not the person occupying it.

It is a strange thing, but the actual position of chairman is also ill-defined both from a statutory and practical aspect. Put simply, the chairman, in the context of this book, is the person whom the board

## A Question of Style

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of directors elects to take the chair at a meeting. It need not be the same person for every meeting, and the directors in theory can choose whoever they wish from among their number to preside over their activities. In reality, they rarely do.

Legally, all directors have equal responsibilities, have one vote, and the majority prevails. Even the practice of allowing the chairman a second or casting vote is outmoded. In simple terms, if a resolution fails to receive a majority of votes, the motion is lost. Conversely, there is nothing to say that the chairman votes only if there is a tie, although some old-fashioned bylaws still perpetuate this practice. The chairman has an obligation to vote just like every other director, and in this situation an abstention is not necessarily a recommended course of action, but it does constitute a recorded vote. Further, a majority vote commits the entire board, whatever the position of individual directors, unless of course the resolution or decision is illegal or *ultra vires* (outside or beyond the authority of the board).

The development of the role of chairman has acquired increased significance in recent years. According to Cadbury:

The pace of business activity has become more hectic and public attention focussed on companies has become greater. Companies have grown larger and more international and have extended the range of goods and services which they supply. Their growth had involved bids and mergers on an increasing scale. The public is now only too conscious of the impact which such events as takeovers, closures, and the ups and downs of trade in general can have on their lives.<sup>2</sup>

Because the role of chairman is evolutionary, one has to allow for a degree of customization according to the personalities involved and, importantly, the stage of development of the corporation itself. But the most important aspect must be for the chairman to ensure, as far as possible, that the board is effective and that it provides the leadership, in a strategic sense, that the company needs.

One danger is that a board may tend to micromanage: become involved in some of the minutiae of operational management that is not really part of its brief. It may consider that fulfilling its role of monitoring management is its principal focus, which it is not—it is only one of them. A chairman must maintain a careful balance between the board setting objectives for management to achieve and becoming too deeply involved in their achievement. As Cadbury puts it: “The board drives and encourages as well as checks.”

## Chairman of the Board

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One of the most frequent objections raised to boards of directors is that they still remain “old boys’ clubs.” In addition, membership of a board, particularly a high-profile one, is still regarded as a sinecure without specifically ensuring that the board incorporates those two key elements: competence and an appropriate balance of membership.

Therefore, the modern role of the chairman is to oversee that the board:

- Concentrates on strategic leadership and focuses on an appropriate and realistic vision
- Is constituted with a good blend of skills, experience, and business competence
- Ensures that the corporation has a realistic set of goals and objectives, and the policies, procedures, and resources in place to achieve them
- Regularly monitors the achievement of these goals and is provided with the appropriate information it needs to allow it to be effective

## THE ART OF CHAIRMANSHIP

The role of the chairman is not something engraved in stone. It will vary over time according to the type and size of the organization, whether public, private, or not-for-profit, whether the organization is encountering smooth sailing or is in crisis. In fact, it will vary constantly, and the chairman’s skill will relate in large part to his or her ability to cope appropriately and to motivate others to do the same.

The art of chairmanship and the ability to chair meetings are both skills that directors sometimes are asked to undertake. And yet there is currently little, if any, formal training for the position, unarguably one of the most important roles in any organization. The position of chairman of the board is complex. The person occupying it has responsibilities that include ensuring that the board fulfills its obligations and commitments, that it is organized appropriately and working effectively.

Too often, chairmen have learned by sitting on boards and from others. This informal approach does not reflect the vital importance of the role, nor does it do justice to the influence chairmen have on the quality of corporate governance exercised by the board as a whole. A good chairman must be an astute politician, a diplomat, a strategist,

## A Question of Style

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and a referee, and have a good head for detail. Other “hats” the chairman must wear will emerge throughout this text.

Numerous books and publications cover the field of corporate governance and are devoted to the duties and responsibilities of corporate directors. With today’s increasingly litigious society and legal liability exposure for officers and directors, the need for education for directors is manifest. No longer can board members be expected to fulfill their wide-ranging and far-reaching obligations without some kind of education. Gone are the days when board positions were regarded as (relatively) well-paid sinecures without any concomitant onus to perform in a proactive manner.

One of the earliest examples of a good chairman practice that I know came when the person in question visited the offices of an organization and met with the senior executives a few days prior to the meeting, examining every item on the agenda. The staff were quizzed as to why each agenda item was required and what the objectives were. At the end of this briefing session, the chairman had decided which items were most important in terms of priorities, which items were potentially contentious, which items needed further study and discussion, and so on. As a result, the board meeting was highly productive, there were very few surprises, and contributions from all concerned were maximized.

## LEADERSHIP AND STYLE

Chairmen also vary in style. Style can range from blatant autocracy to benign democracy, with a multitude of shades in between. While there is no blueprint for success, those who place themselves at the extremes will rarely achieve the best results. A small degree of autocracy may benefit the organization in times of crisis, when things are not quite as well ordered as they may be in a steady state. However, boards led by chairmen who rely almost totally on achieving bland consensus may find that some of the more difficult issues tend to get deferred. Lack of a decision can be worse than an incorrect one.

As stated, a good chairman is a prepared chairman, one who has done the homework and has anticipated problems. In most instances, several colleagues will have been sounded out and their input and support secured. In the extreme, the chairman may even suggest tabling an agenda item for further consideration rather than force a vote that

## Chairman of the Board

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will divide the board rather than unite it. Consensus does not imply either unanimous agreement nor “rubber stamping.” Rather it suggests intelligent compromise through constructive dialogue. The chairman’s role in avoiding controversies is, therefore, very important and supports strongly the concept of adequate advance preparation.

“Instant decision making” by some board members is another cross that chairmen may have to bear. Board meetings now have to consider an agenda with very profound implications concerning risk and due diligence and the applications of appropriate levels of care and skill. The tendency to react precipitously, therefore, has to be resisted. At the same time, positive contributions from board members must be encouraged. The dividing line between remarks that show adequate consideration of an important issue and the need just to be seen (or heard) participating in an impulsive manner is sometimes very fine. The chairman must develop expert skills in guiding the board ever so diplomatically so as to achieve the desired results.

I have left the essential need for the board to apply checks and balances on the day-to-day management of the organization until the end of this introduction. Many businesses still combine the role of chairman and chief executive officer in one individual. Because of this, boards sometimes find it difficult except in the most extreme circumstances to perform their monitoring role effectively. Chapter 3 addresses the need, or otherwise, to separate these key functions. Assuming for the moment that the chairman is able to guide the board in performing the statutory need to monitor performance and, where necessary, take steps to correct an adverse situation, the chairman then must be in a position to ensure that the board is able to oversee that appropriate action is taken.

This book does not repeat in detail the basic duties of a board member, although it does provide an oversight of how the board operates and its basic responsibilities so that chairmen can become familiar with these requirements. The primary goal is to guide chairmen through the most important facets of the job and to assist them in obtaining a sound appreciation of how to perform effectively. Chapter 8 addresses the question of board effectiveness. The chairman of the board is not exempt from this assessment of professional competence. If a chairman is not performing to the level of at least a passing grade, then he or she should give serious consideration to either consciously addressing these shortcomings or passing the baton on to an appropriate successor.

## A Question of Style

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There are no perfect credentials for writing a book of this nature. The experience of one individual, however broad, is invariably limited. What has been learned in one jurisdiction may not be totally applicable in another. However, besides relying on experience gained from a large variety of boardroom situations over many years, the author has consulted a number of excellent texts in preparing this book. The aim is to supplement knowledge rather than to educate from a zero base.

The issues facing boards of directors today are complex and often have profound implications both for the organization and in a personal sense. If, after reading this text, chairmen are able to consider themselves a little better prepared for the task to which they have been elected, the undertaking will have been worthwhile.