



Beyond Governance
Creating clarity, improving business

The Role of a Chair: Some Practical Guidance



Introduction

Most organisations or companies will appoint a Chair. This position can be seen as a “figurehead”, “ambassador” and, along with the CEO, the “public face” of an organisation, however there are additional key responsibilities and requirements for this role. This guidance will touch upon all aspects of the role but will aim to focus on the main factors which will help a Chair both comply with their statutory and regulatory responsibilities and add value to their organisation.

Chairs most often in the public eye are not necessarily examples of either best practice or effectiveness. There have been many cases supporting the reasons why corporate governance best practice has always split the roles of Chief Executive (CEO) and Chair. Executive chairs do exist but are highly unusual in the UK, certainly in companies of any scale.

The main difference between the CEO and the Chair is that whilst the CEO runs the company as an executive director, the Chair runs the board as an independent, Non-Executive Director (NED). The Chair’s primary role, therefore, is to ensure that the board is effective in its task of setting and implementing the company’s direction and strategy. Neither “outranks” the other because their roles are distinct but their relationship in both a personal and professional capacity is fundamental to the success of the business. After all, both the CEO and Chair will represent the company to customers, suppliers, government, shareholders, financial institutions and in the community.

Having said this, to perform the role well, an in depth understanding of the business is vital. Also, commercially, a good Chair will be well connected and able to help a company access customers and opportunities. This is just one of the ways that the role adds value.

2018 UK Corporate Governance Code (the ‘Code’) Requirements

Although not all organisations are obliged to adopt the Code, it contains a number of good governance principles recognising the importance of the role of the Chair which all organisations should consider. These include, acting as governance champion, maintaining independence and objectivity and, through effective leadership of the board, promoting a culture of openness and debate. Indeed, many different sectors, such as education, charity and healthcare have developed their own governance codes which all reference the Code as best practice.

The Code identifies the Chair as having an important role to play in the company and champion corporate governance. This approach should be applicable to all organisations. There are several specific references to the Chair in the Code. Principle F states that:

“The Chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.”

Elsewhere in the Code, the Chair should:

- seek regular **engagement with major shareholders** to understand their views on governance and performance against the strategy and gain a clear understanding of the views of shareholders (Provision 3)
- be **independent** on appointment and not formerly the CEO (Provision 9)
- **hold meetings with the NEDs** without the executive directors present, chiefly to discuss their performance (Provision 13)



- not remain in post beyond **nine years** from the date of their first appointment to the board. This period can be extended for a limited time if the Chair was an existing NED on appointment. (Provision 19)
- consider having a regular externally facilitated **board evaluation**. In UK listed FTSE 350 companies this should happen at least every three years. (Provision 21)
- **act on the results of the evaluation** by recognising the strengths and addressing any weaknesses of the board. (Provision 22)

Practical Application of the Code and Other Requirements

The Board: The Chair is responsible for leading and setting the agenda for the board, focusing on strategy, performance oversight, culture, stakeholders, and good governance. Part of the role is to act as a balance, challenge, sounding board and mentor to the CEO. For this reason, it is important that the Chair is truly independent.

Board and Committee Meetings: Please refer to the separate note “Chairing Meetings” which goes into detail about this aspect of the role. There will always be a lot of meetings to attend. The Chair will normally chair all board meetings and the Nomination Committee.

Nomination Committee: As Chair of the Nomination Committee, the Chair will lead on initiating diversity, change and planning succession in Board appointments (other than in relation to the appointment of a successor as Chair). Through this committee, the overall size and composition of the board in terms of age, experience and personality of the directors regularly review. This responsibility requires the Chair to have a genuine interest in people.

Other Committees: The Chair will not be a member of either the Remuneration Committee or the Audit Committee but can attend the meetings and provide input. The number of committees requiring the Chair’s membership or attendance will vary from company to company.

Remuneration: Together with the CEO, advising the board in its determination of the fees of the NEDs (other than the Chair).

Information Flows: With the support of the Company Secretary, ensure that the board receives accurate, timely and clear information, both as a part of and away from the normal meeting cycle. Board meetings, as part of the formal decision-making process, should take place regularly and remain focused on the key themes and issues relevant to the company.

New Director Inductions and Development: Lead the formal induction programme for new directors, and in addressing the development needs of the individual directors to ensure that they have the skills and knowledge to fulfil their role.

Board Evaluations: Evaluating annually the performance of each board member in his/her role as a director and ensuring that the performance of the board as a whole and its committees is evaluated annually. Holding meetings with the NEDs without the executives being present.

Investor Relations: Ensuring effective communication with shareholders and that the views of shareholders are communicated to the board as a whole. The Chair must be accessible to shareholders.



Annual Report: As a minimum, the Chair will “open” the annual report and provide a letter to shareholders as part of the AGM process. As the leader of the board, the chair will contribute to elements of the corporate governance sections, and provide input to the report as a whole, with a focus on board leadership and effectiveness.

Stakeholder Management: This is a statutory duty for all directors, but the Chair will have a greater role to play than others. A good Chair will want to know the organisation inside out with particular focus on the key stakeholders and regulators (if applicable).

Time Commitment: Over boarding is a concern for stakeholders. Ensuring enough time to add value to all the organisations a Chair is associated is important and a Chair should not be on the board of more than five listed companies, therefore. Directors spend a lot of time preparing for and attending meetings and talking to different people so they must be realistic and not over commit.

The AGM

Whereas modern AGMs have evolved to become shareholder or member events, providing an opportunity for engagement and questions, the main purpose of the meeting is administrative. Therefore, most companies will prepare a Chairman’s script which sets out all the resolutions and can be updated each year in line with the agenda.

The routine business which must take place can be summarised by the acronym “ADDA”:

- Laying of **A**ccounts
- Paying a **D**ividend
- Appointing **D**irectors
- Appointing **A**uditors and fixing their remuneration

The approach to the day itself will differ from company to company. However, the Chair will be front and central to the AGM, and this is one meeting where the Chair will do most of the talking. When it comes to election or re-election of directors, the resolution relating to the Chair is normally introduced by the Senior Independent Director.

Personality Requirements

Networking and relationship management are both part of the job and fundamentally a Chair must enjoy that side of life. A natural **curiosity** is essential. Without a genuine **interest in people**, it would be difficult to act as chair of the Nomination Committee considering its responsibilities. The Chair must also maintain conversations with other NEDs and directors and contacts outside of the normal meeting cycle.

Soft skills are essential to hone and should not be neglected. Gravitas should be combined with approachability. The Chair must be a **good listener**, **neutral**, **objective** and **open-minded** and sometimes, a **referee**. This should help resolve differences in the most constructive way possible.

Must be a **strategic thinker** and see the value in **planning**.

Empathy: Not everyone will understand the role or the pressures it brings on time especially. However, everyone will have different expectations of a Chair so understanding people is important.



Key Relationships

An effective Chair cannot perform the role in isolation. As previously stated, considering the best interests of all stakeholders is a statutory duty for all directors but the Chair will often play a greater role than others.

The CEO: As discussed earlier, a truly independent Chair will act as a buffer between the board and the CEO and ensure that the normal healthy tension that exists in boardrooms is utilised and not abused.

The Company Secretary: A key relationship and the secretary will often see the Chair as their “sponsor” as governance champion and in return will be the main support, for meetings especially. This relationship relies on mutual respect to be effective.

Senior Independent Director (SID)

This role was introduced following the Higgs’ Report in 2003 and has evolved over the years to become a key support to the Chair. Under the Code:

The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the Chair and serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the Chair present at least annually to appraise the Chair’s performance, and on other occasions as necessary (Provision 12).

The SID will also share the burden of investor relations and provide another route for NEDs to address any concerns or issues.

Other Directors and Executive Managers: Open, fair and inclusive discussion which challenges executives, where appropriate, should be developed.

Employees: The Code requires companies to implement a formal mechanism for ensuring that matters raised by the workforce reach the boardroom, but this can be achieved informally too. In order to understand the business fully, the Chair must have a good understanding of its people. This can be achieved from site visits and holding meetings away from the head office. Remember that in any organisation, “nobody is nobody”.

Investors: If the Chair has neglected the investor relations or stakeholder management element of the role, they could face a vote against their re-election at the next AGM.

To be effective, **practical contacts** in the organisation such as the CEO’s Executive Assistant and IT support must be established.

Final thoughts

The role of the Chair will vary depending on the organisation. However, an effective Chair needs to be comfortable with people. Many stakeholders will not appreciate what the Chair does, but will perhaps think they do, this can lead to a variety of requests for input and time that may not be achievable. Understanding the demands and priorities of the role will help to manage the ‘people’ aspects. Like any job worth doing there are challenges to negotiate and be aware of but the rewards on offer in this role are unique.