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There are few relationships more critical to the good governance of an organisation than that between the chairman and the chief executive.

(I am assuming that these two positions are held by different people, which is standard practice in the UK and most of Europe, but not always in the United States).

For this relationship to be effective, it is essential that both individuals know their roles and do not stray into the remit of the other. So let us examine the specifics of the chairman and chief executive’s responsibilities, and consider where potential fault lines may lie.

The shorthand often given for these two roles is that it is the chairman’s job to run the board and the chief executive’s job to run the company.

To unpack this a little, the chairman is responsible for ensuring that the company is rigorously and robustly governed. The chairman must ensure the board is properly constituted – that it includes people with the necessary skills, experience and time to add value to the board’s discussions – and
that it receives sufficient information to discharge its duties effectively.

The question of information flow is vital. A board may include the brightest and best luminaries of the commercial world, but they will be rendered helpless if they do not know what is going on in the business. A strong chairman will ensure the right financial information reaches the board, so that directors may assess current trading, track actual performance against forecasts and plans, and gain insight into the level of risk being assumed.

To be useful, information must be thoughtfully summarised and edited before being delivered to the board. I recall a conversation with a UK non-executive director who said the financial information presented to the board on a monthly basis was more than 2,000 pages long. I remember a second director telling me that after joining the board of a major UK company, she called the company secretary after her first set of surprisingly skinny board papers arrived asking where the financial information could be found. Neither is ideal – financial information should be comprehensive yet pertinent and digestible. The information should cover what the directors need to know to understand the business, not what management want them to know.

Of course, financial information is just one part of the picture. Directors should be kept up to date on the soft factors that underpin corporate success (or failure). How is the company advancing innovation, how are relationships with key stakeholders such as customers, staff and local communities, how robust is the supply chain, what is the health and safety record, is the business model sustainable on social and environmental grounds?

But it is not the board (and chairman's) job solely to serve as a policeman, charged with keeping the company and its management in check. It is also the board's job to drive the performance and future success of the organisation. The chairman's role is not to set strategy but to ensure there is a vigorous process for bringing researched and evidenced strategic options to the board to consider, test and challenge.

I have always enjoyed the following quotation from Sir John Harvey-Jones, a high profile UK chief executive from the 1970s and 1980s, who said:

“Management consultants are there for every conceivable part of the manager’s job. But you try getting advice, guidance, a course, or a specialist book on the skills of being a good director of a company, and you will find almost nothing except a great deal of mystique.”

“The job of the board is all to do with creating momentum, movement, improvement and direction. If the board is not taking the company purposefully into the future, who is?”

As a description of the chairman's role, “creating tomorrow's company out of today's” is as good as any.

If such a description sounds somewhat ephemeral and lacking in concrete definition, well, yes it is. That is part of the fascination of the chairman's role – to think in longer-term and more abstract ways about the future of the business and the drivers of success than senior managers, with the day-to-day pressures of their role, may be able to achieve.

Indeed, I would add a further dimension to the chairman's role that also lacks easy definition, namely responsibility for the values and culture of the organisation. It is the board's responsibility, led by the chairman, to establish the company's purpose and the values by which it will operate. It is then incumbent on the board to monitor whether the right practices and behaviours are embedded throughout the organisation. Let us not forget that Enron's board of directors not once but twice waived the company's own ethics policies to facilitate executive participation in the
off-balance sheet activity that was to sink the business and land several of those executives in jail.

Next to all this, the chief executive’s role appears relatively straightforward – run the company! Of course it is more complex in reality, involving making sure that the organisation has the right strategic plan, and the financial and human resources to deliver it. The chief executive is responsible for understanding the company’s markets and how they are changing; he or she must have deep knowledge of the company’s own operations, and their strengths or weaknesses. They must recruit and retain a talent top team, develop strong, trusted relationships with key customers and suppliers, keep track of the competition, consider M&A opportunities, oversee the budgeting and performance management process, and act on a thousand other daily points that require urgent senior attention.

In short, the chief executive must demonstrate leadership, both internally and externally. Because, to be absolutely clear, it is the chief executive and not the chairman who is the visible ‘face’ of the organisation. A company has only one leader, and it is the chief executive.

Both chairman and chief executive must ensure that they do not assume responsibilities that rightly belong to the other. The chairman must not attempt to try and manage the company – he or she has no executive responsibilities and should not become involved with allocating operational tasks.

Equally, the chief executive should not seek to ‘manage’ the board. A board that consists solely of the chief executive’s friends and allies is unlikely to be a source of effective challenge and oversight. The chief executive should of course be consulted on the areas that fall within the chairman’s remit described above. Indeed the chief executive’s input might be the most important opinion that the chairman and the board will seek. But the chief executive must recognise that the board is there to hold him or her to account, and to evaluate his or her performance.

And, of course, ultimately, it is the chairman’s job (in consultation with the rest of the board) to replace the chief executive if they feel the success of the company depends on a change of leadership.

In business, as in other walks of life, unconstrained authority is a recipe for poor long-term decision-making and behaviour; self-confident chief executives recognise this fact and understand that operating in an environment of challenge and accountability will enhance and not limit their success.

And now to the all-important question: how should the chairman and chief executive work together?

Both individuals must invest time in forging a relationship of trust and respect. The two need not be friends. In fact, it may be better if they are not, given that it may fall to the chairman one day to dismiss the chief executive. Of course they must be on friendly terms and should socialise as part of developing their relationship, but a modicum of distance is required as well.

A chairman should be a mentor and source of counsel to the chief executive, and the latter should feel able to open up about problems and dilemmas. Communication is essential. To ensure a healthy dialogue and regular pulse-taking, chairmen and chief executives should lock in a regular time to speak on the phone and meet in person. A weekly call and a monthly face-to-face meeting is probably the minimum, though of course many may interact more often than this. The key is to ensure a happy balance. Too little communication, and both the chairman and chief executive will lose sight of each other’s responsibilities. But a chairman who occupies an office every day next to the chief executive may
be unable to resist the temptation to find things to do, straying into areas that are rightly the chief executive’s.

Finally, it helps if there is an independent, trusted third party who can monitor the relationship between the chairman and chief executive. In UK governance, this individual is usually the Senior Independent Director, and in the US, the Lead Independent Director. Whatever their title, this person is responsible for ensuring that the chairman and chief executive’s relationship is neither too close nor irreparably broken down. This lead director should be responsible for conducting an annual evaluation of the chairman, and should be a conduit for any concerns from other independent directors about either the chairman or chief executive’s performance.

Like any human relationship, the bond between chairman and chief executive will ebb and flow, there will be good times and bad, cross words and making up. Also, like other human relationship, defining and understanding each other’s roles, and committing to regular and open communication lies at the heart of a strong, trusted union that will stand the test of time.