

The Chairman: Who's in charge around here?

Simply put, this is where the 'buck' stops for a board to achieve its fullest potential..

By Dennis Cagan

Dennis Cagan is a seasoned chairman, CEO, board director, high-technology executive and entrepreneur, having founded or co-founded over a dozen different companies. He has served on over 50 corporate boards, both private and public, predominately early and mid-stage technology companies. He is currently serving on several boards and consults on forming boards. He is a frequent *Directors & Boards* author and speaker at the Private Company Governance Summits co-produced by *Directors & Boards*. He has written a book on board effectiveness, titled *The Board of Directors for a Private Enterprise*, which will be published by AuthorHouse in 2017.

The chairperson of a corporate fiduciary board of directors generally leads the board meetings. Many see this person simply as the ceremonial head of the board. But besides presiding over Robert's Rules of Order, what is the chairman or chairwoman's real responsibility?

Well, stated irrevocably, they should be the senior arbitrar of fiduciary responsibility and behavior — in other words, the chair is where the board buck stops.

Recently I was asked, "What makes a good chairman of the board?" The best answer is not a checklist of qualities or tasks, but rather an *outcome*. My response is that a good chair-

person is a director who leads their board to continually be the best that it can be in executing its fiduciary duties to the shareholders, and in questioning and guiding management in the best interests of building enterprise value.

This goes beyond managing the meeting through the agenda items to also include taking proactive actions to add missing expertise to the board, removing any directors who are no longer adding substantial value to the board, and always presiding over all meetings in a manner that ensures and protects an open, respectful, and thoughtful discussion of all matters before the board. A great chair must continue to maintain the respect, trust and confidence of the other directors, the management and the shareholders/owners.

While the chairperson presides over the company's board of directors' meetings and other activities, he or she will usually not have any executive responsibilities unless of course they are both the chairperson and CEO. Over the last few years, due to public encouragement, it has become best practice to separate these roles.

The CEO is, of course, a company's top decision maker, and all other executives answer to him or her. The chairperson of a company is the head of its board of directors, with no executive reports. Any authority the chairperson possesses is strictly that which is stipulated by the company bylaws or bestowed by the board itself. The balance of power between the CEO and the chairperson is best viewed as supportive, yet also a check and balance system to insure that the strategy, operations and culture of the firm are consistently in the best interests of all the shareholders.



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AN EFFECTIVE CHAIR ENSURES THAT BOARD MEMBERS' PERSONALITIES AND INTERPERSONAL APPROACHES ARE A GOOD FIT WITH THE COMPANY AND BOARD CULTURES.

The basic varieties of chairs

There are several basic varieties of chairs:

- *The chairman or chairwoman who is not an employee.* The most traditional situation is a chair who has no executive functions. They may be an independent director or a former employee.

- *The chairperson who is also CEO.* This chair/CEO simply fills both roles simultaneously. They have the full responsibility and authority of both positions.

- *The executive chairperson,* who is an employee but is not CEO. This position is generally a full-time job, and they may have the chairmanship duties as well as some high-level or even other management responsibilities, but specifically not the CEO role.

- *The presiding or lead director,* who acts as the alternate or independent leader of the board if the CEO is also the official chair. When there is a chairman/CEO, best practices call for an independent board director to serve as a shadow or alternate or backup chair, primarily taking the board lead in situations where the CEO might have potential conflict of interest issues.

A matter of 'fit'

The job of all board members is to learn all about the business, the way it makes money, its risks, its people, its culture and values, and its customers, and to use their collective judgment and experience to oversee company matters on behalf of the shareholders. It is important to note that simply being qualified to sit on a particular company board does not make an individual suitable. In addition to

matching their skills and experience, an effective chair will also ensure that the board members' personalities and interpersonal approaches are a good fit with the company and board cultures. A good chair can take the lead when needed, step into the background when necessary, and always keep the fiduciary obligations and constructive goals of the company in sight. As once stated by Jack Krol, former chairman and CEO of DuPont Co., "You want someone who has the conviction of their opinions, but is collaborative with other directors."

One of the things that you eventually realize if you are on a well-chaired board is that all the opinions around the table are not the same, i.e., in agreement. As a result, not all board votes are, nor do they need to be, unanimous. The most important goal should be that all reasonable relevant aspects of the issue have been appropriately surfaced and explored. Has the board thoughtfully and respectfully probed all the details and drawn out the broadest range of alternatives, solutions, and possible actions that would most benefit the organization? Based on my experience, my highest praise goes to chairpersons who possess the courage to embrace the tough, even unpopular, decisions and actions, in the interest of the enterprise.

In conclusion, in my view no matter how exceptional, qualified and diverse a board may be, without the leadership of a strong, skilled and well grounded chairperson it risks not achieving its fullest potential at best, and severe dysfunction at worst. ■

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A chairman's fate at the hands of a founder

A few years ago a friend of mine declined a board seat I offered him. He had just retired as the CFO of a \$30 billion public company. He had reported to the founder-chairman-CEO. My friend told me that his boss had decided to split the chairman/CEO roles in an effort to respond to investor pressure, and he named

my friend as chairman of the board while he retained the CEO title.

Some years passed and eventually the founder stepped down and replaced himself as CEO. When he relinquished the CEO title, he re-assumed the chairmanship title.

Upon reading about this in the business press, I sent my friend an email asking him if this meant that

he might not have to work as hard, and perhaps he would now be able to consider sitting on another board. I got a chuckle when I received a quick response: "Sorry, Dennis. He assumed the chairmanship from me, and he has now elected me as vice chairman . . . but I'm still doing all the work."

— Dennis Cagan