

The most common causes of tension between boards and their CEOs are either a misunderstanding of the relationship between governance and management roles, or a lack of mutual respect (or both). Maintaining an effective and productive relationship is not always simple. It can be particularly confusing when the board consists of a majority of executives. However, the distinction must be made to ensure the board fulfils its role without doing management's job, thereby muddying the waters of accountability.

*Separation
between
director and
manager roles
not simple but
critical*

Role of the chair

Good boards are created by good chairs. The chair creates the conditions for overall board and individual director effectiveness.²³

*Good
governance is
a team activity*

Legally, all directors are equal and the chair is simply 'first among equals', holding no formal authority beyond that of other directors. Further, the chair is chair of the board, not of the organisation.

However, when it comes to driving board effectiveness, the chair is normally the key player and good practice governance supports a proactive approach to the task. The chair's role is pivotal in managing the board's group dynamic, playing to the board's strengths and maintaining regular contact with directors between meetings. Chairs tend to affect a board's performance, not only by the tasks typically assigned to them, but also through the implicit standards of performance they set, either by the example of their own behaviour, or in the way they hold individual directors accountable for their contribution and performance.

Attributes of a successful modern chair include personal integrity and authority, without domination; intellectual capacity, decisiveness and a determination to follow through and achieve goals.

At the same time, some of the most successful chairs are 'conductor' chairs who have the capacity to bring out the best in directors and ensure that they all contribute to boardroom discussions and sound decision making without engaging in the debate themselves or dominating discussion.

Another important attribute of a chair is the capacity to draw diverging points of view together through skilful summation of the main arguments, thereby enabling the board to reach consensus much earlier than would have been achieved if the debate was prolonged.

²³ Tricker, 2014, op cit.

The unique position and legal expectations of the role of the chair emerged more clearly through a landmark decision in 2003, *AISC v Rich*.²⁴ Justice Austin of the NSW Supreme Court Equity Division refused an application by John Greaves, the former non-executive chair of OneTel Limited, to strike out the action brought against him by the Australian Securities and Investments Commission (ASIC). Justice Austin stated:

*It is now commonplace to observe that the standard of care expected of company directors, both by the common law and under statutory provisions, has been raised over the last century or so. One might correspondingly expect that the standard for company chairmen has also been raised.*²⁵

In light of the case law and current good practice guidance, the chair's role is to:

- ensure the information flow to the board is appropriate and comprehensive;
- ensure the board is kept properly informed about the organisation's financial affairs, including its cash flows;
- manage the board and facilitate an appropriate environment for robust board discussion and effective decision making;
- commit sufficient time to the job and not become overburdened with other director roles or other commitments in general;
- create a constructive relationship with management, acting as a conduit between management and the board;
- act as a mentor and sounding board for the CEO, monitoring performance and being fearless in bringing them to account, if necessary;
- respond promptly and comprehensively to concerns raised by other directors;
- lead corporate governance issues, including being aware of directors' and executives' conflicts of interest and managing any such conflicts;
- ensure the board addresses all the major strategy issues that can affect the organisation's prosperity, reputation and sustainability; and
- engage the board in assessing and improving its effectiveness.

²⁴ *ASIC v Rich* (2003) 44 ACSR 341; [2003] NSWSC 85.

²⁵ *ASIC v Rich* (2003) 44 ACSR 341; [2003] NSWSC 85, at [71].

The personal attributes of a chair (displaying respect, patience, humour, listening skills and goodwill) can be crucial to the success of a board meeting. This is where directors come together formally to address their work and the chair's skills as a board leader will be tested. The wisest chair holds back on expressing a personal view and aims to remain neutral to ensure other directors are not inhibited in their own expression.

In *Leading the Board*,²⁶ Professor Kakabadse suggests successful chairs display six disciplines:

- delineating boundaries (role clarity);
- sense making (sponsoring a positive chemistry);
- interrogating the argument (guiding and shaping the quality of discussion between management and the board);
- influencing outcomes (achieved via airing all sentiments, views and concerns);
- living the values (trust in the role requires matching words to behaviour so that these are not undermined); and
- developing the board (world-class boards invest substantially in the development of their directors).

In addition, research suggests those chairs who are inclusive leaders (as they embrace diversity and lead a diverse board) possess six signature traits (recognising that as traits, they are learnable capabilities, not inherent immutable characteristics):

- cognisance — because bias is a leader's Achilles heel;
- curiosity — because tapping into different thinking enables growth;
- cultural intelligence — because not everyone sees the world through the same cultural frame;
- collaboration — because a diverse thinking team is greater than the sum of its parts;
- commitment — because staying the course is hard; and
- courage — because talking about imperfections involves personal risk taking.²⁷

²⁶ A Kakabadse and N Kakabadse, 2008, *Leading the Board: The Six Disciplines of World-Class Chairman*, Palgrave Macmillan, Basingstoke, UK.

²⁷ Deloitte, 2015, *Fast Forward: leading in a brave new world of diversity*, 30 June, pp 9, 18–35, report commissioned by Chartered Accountants Australia and New Zealand available at www2.deloitte.com/.../fast-forward-leading-brave-new-world-of-diversity.html (accessed 29 March 2018) .