

ROLE OF THE CHAIRMAN OF THE BOARD

By: James Verdonik and Kirby Happer

The role of the Chairman of a Board of Directors varies depending on numerous factors, including the other positions with the corporation the Chairman has. The Chairman might be a CEO as well, or the president, or even all three, Chairman, President and CEO. In addition, if the Chairman is a former CEO of the corporation, perhaps the person who selected the current CEO, the Chairman may play a very powerful role.

The bylaws of a company will generally define any reserved rights or duties for the Chairman. Chairmen generally are elected by the Board of Directors and preside at Board meetings and at shareholders' meetings. Chairmen frequently serve as officers of the company as well and in some cases are *ex officio* members of committees.

Until a Chairman is elected, the president of the company usually acts as *de facto* Chairman. By-laws are usually written so that the Chairman's role is automatically filled by a high ranking officer, usually president and/or CEO, until a Chairman is elected and in the event of vacancies.

If the Chairman's only position is "Chairman" and not also CEO, President or some other office, then his main role is to lead meetings of the Board of Directors. The leadership role of the Chairman is also influenced by the size of the corporation and the composition of the Board. Leadership from the Chairman is more critical where the number of Board members is large or the Board is composed of representatives of multiple interest groups than if the Board is small or homogeneous.

Because the Chairman may be called upon to make procedural decisions that can affect issues of importance to conflicting constituencies of the Board or shareholders, it is advisable that the company adopt rules of procedure for meetings of the Board and the shareholders, as well as for committees. While procedural rules need not always be followed with military zeal, it is important to have an established procedure in place in the event of a dispute so that the Chairman can make an objective and fair ruling by consulting agreed upon procedural rules. Boards frequently adopt well known familiar procedural rules like Robert's Rules of Order or other similar rules for meetings. The Chairman should be familiar with the rules the company adopts and enforce them fairly.

Procedural decisions by the Chairman tend to be rare in companies that are performing so well that all constituencies are satisfied and working to move the corporation in the same direction. Procedure increases in importance in proportion to the level of conflict within the corporation. One might even say that if procedural rules become very important, it is a sign that the corporation is in trouble.

It is important that the Chairman be organized and follow all rules and regulations imposed by state law and the by the corporation's by-laws and other agreements in order to

ensure the effectiveness of all meetings. If a Chairman does not jump through the right hoops, action approved at a meeting could be challenged and invalidated.

Another one of the duties of the Chairman is to call meetings of the Board of Directors and the shareholders. The ability to call a special meeting can be an important power, especially if the Board is divided over a particular issue or over the general direction of the corporation and a regular meeting is not scheduled in the near term.

Chairmen often set the agenda for Board meetings, which gives the meetings their direction and scope. By adding or omitting issues from the agenda, the Chairman can have a great deal of power over the meeting and the direction of the company. A simple thing, such as putting an item last on the agenda may mean that the item is never addressed or is addressed in only a perfunctory way as it is not uncommon for Board meetings to end in a rush as Directors head to the airport to catch flights home.

“What makes an effective Chairman?” To be an effective leader and mediator, a Chairman must be trusted by the other members of the Board of Directors and by the officers and management of the company as well as the shareholders. In order to gain the trust of peer Board members, as well as management, it is important that the Chairman be fair.

A good Chairman should also be open minded and should encourage Board members to voice their views. This is critically important because the whole concept of having a Board of Directors is based on the belief that the best decisions are those that are made after a free and open sharing of views by people with different types of experiences. The effectiveness of a Board of Directors is severely limited if meetings are run by the Chairman in a way that discourages discussion, questions and conflicting opinions.

The Chairman, however, must also ensure that meetings are run efficiently. Board members have limited time to attend meetings and often become bored and impatient with endless debate. Business decisions must be made quickly to enable the company to compete. Therefore, the Chairman must balance encouraging discussion and questions with moving a meeting forward to make important decisions within relatively short time periods. On occasion, this means the Chairman must call an end to discussion and call for a vote before all Directors feel they have had sufficient time to convince others of the validity of their viewpoints. Terminating debate and driving the Board to a decision without discouraging Directors from sharing their views in future meetings is the hallmark of a good Chairman.

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