



HARCOURT BOARDROOM RESOURCES

PURPOSE AND ROLE OF A “MANAGING DIRECTOR” OR “LEAD DIRECTOR”



Boards frequently ask whether they should appoint one of their members as “Managing Director” or “Lead Director”, alongside the Chairman and the Chief Executive Office. The answer to this question depends largely on the reasons and circumstances of the appointment, and the respective roles of the Chairman, the Managing Director/Lead Director and the CEO.

The more common Corporate Governance (CG) structure will call for a Chairman and a separate CEO, and for a clear distinction between the oversight responsibilities of the board and the executive responsibilities of management. The Chairman runs the board, the CEO runs the company. The former – and the rest of the board – has no management authority and does not represent the company with third parties; the latter has management authority and represents the company.

However, CG practice is rarely as black-and-white. The practices of many countries and the by-laws of many companies build bridges between board and management. The Chairman is often charged by the board to monitor closely the activities of the company, to be the conduit between the board and the CEO and his management team, and to establish a relationship with key shareholders (in coordination with the CEO). The Chairman will often have an office at the company (right next to the CEO’s office), will be awarded a higher remuneration than other directors (including of committee chairs), and will be seen by the outside world as the other “figurehead” of the company.

The extent to which the Chairman is tasked with these additional responsibilities varies from country to country, and from company to company. The United Kingdom is probably at one end of the spectrum in giving the Chairman wide responsibilities (and the corresponding higher remuneration, in multiples of what of other directors receive), whilst the US is at the other end, often considering the Chairman as nothing more than another committee chairperson (with the corresponding lower remuneration, not significantly different from what of the rest of the directors receive). Individual companies will be anywhere along the spectrum depending on their own CG culture and history.

In the United Kingdom, because of the extensive responsibilities of the Chairman, larger listed company boards also have a "Senior Independent Director" (SID). His role is of course to assist the Chairman on the board, but also to carry out duties the Chairman cannot do him/herself: assessment and succession of the Chair, spokesperson of the independent directors in front of the Chair, attendance of meetings with investors together with the Chairman. The idea is that the UK Chairman carries so much on his shoulders that he/she somewhat loses "independence", and that a director – who is of course independent - has to step in to represent the independent directors.

In the United States, whilst the trend is clearly for a separation of Chairman and CEO, there is still a majority of companies with a combined "Chairman & CEO". In these situations, whether in the United States or elsewhere where combined roles are common, the practice has developed of appointing one member of the board as the "Lead Director", normally an independent director, whose role is to assume many of the responsibilities of a Chairman when the two roles are separated. The Chairman & CEO will still chair the board, call the meetings, set the agenda, but the Lead Director will represent the independent directors, ensure that the board functions properly, act as a bridge between the independent directors and management (since the Chairman cannot be that bridge), chair the "Executive Sessions" (sessions of the board without management – therefore without the Chairman & CEO - in the room).

The practice of having either a separate Chairman, or a Lead Director if the two functions of Chairman and CEO are combined is now prevalent across the world. Most CG codes and regulations call for one or the other of these two options.

Outside the United Kingdom, it would be more unusual for the board to appoint a Managing Director/Lead Director with special responsibilities, in addition to the Chairman and a separate CEO, if a Chairman is in place and carries out his duties fully. However, there are exceptions, mainly in two situations:

- First, in transition leadership situations, where the ex-CEO, often the founder of the business, and the board want to put in place a successor to the CEO. In these situations, the ex-CEO will often remain on the board and assume extended oversight responsibilities, as he knows the business perfectly, and can "coach" the new CEO.

However, even in these cases, the distinction between oversight and coaching on the one hand, and management on the other, must be clearly enforced. This would not prevent the Managing Director/Lead Director to participate in certain management meetings or assist the CEO in certain executive functions, but the “yellow line” between coaching and management must be respected - lest the Managing Director/Lead Director be seen as the “real” CEO, never a healthy situation in a leadership transition.

- Second, in situations where the Chairman is not willing to take on the full extent of his/her responsibilities – for whatever reason (age, desire to “coach” himself a new chair, limited time available because of commitment elsewhere, etc.). The Chairperson will then suggest to the rest of the board that a Managing Director/Lead Director be appointed to take on some of the chairmanship responsibilities. The exact definition of the role will depend on the company and the individuals themselves.

Finally, a board should consider how the director who is given extra responsibilities is to be called. There is no clear “standard”, and the languages fluctuates from county to country : Managing Director, Executive Director, Lead Director, Senior Independent Director, etc.

One of the basic principles of CG is that the board does not manage, but oversees and directs. Therefore, titles that lead to confusion as to the true “managerial” or “executive” responsibilities of the individual are not the preferred options. For this reason, the titles “Managing Director” and “Executive Director”, often used in the past, have tended to disappear in the last 10 to 15 years.

The titles of “Lead Director” or, less frequently because of the specifically UK connotation, “Senior (Independent) Director”, are preferable. They are very flexible as to exact content, including whether the director is indeed independent or not, but will indicate to any third-party, and importantly to investors and markets, that the director has special responsibilities vis-à-vis the board or the management or both, but is not the CEO.

Appendix

1/ Role of the SID in The United Kingdom

- Supports the Chair in the delivery of his/her objectives
- Ensures that the views of other directors are conveyed to the Chair
- Attends sufficient meetings with major shareholders, together or in coordination with the Chair or the CEO, to develop a balanced understanding of their issues and concerns
- Ensures that the Chair is passing on the views of the major shareholders and concerns of directors
- Ensures that proper succession planning procedures are in place in relation to the board
- Carries out the annual evaluation of the Chair, taking into account the views of all directors
- Ensures that an orderly succession process is in place for the Chair

2/ Role of a Lead Director* where the CEO is also Chairman

The role is loosely defined, and varies widely depending on the company and the situation. However, if the assumption is that the Chairman & CEO assumes his role of managing the board fully, the Lead Director will take on all the responsibilities the Chairman & CEO cannot carry out because of conflicts of interest. For example :

- Bridge between the independents on the board and management
- Chairs the Executive Sessions
- Coordinates the evaluation of the Chairman & CEO, taking into account the views of all the other directors
- Attends some meetings with shareholders – in coordination with the Chairman & CEO

3/ Role of a Lead Director* where there is a Chairman and a separate CEO

The role of the Lead Director in this situation will depend on how the Chairman and the board wish to allocate Chairman responsibilities to his colleague. For example, a Lead Director may be asked by to :

- Ensure that Committees function adequately
- Be the point person for discussions with CEO
- Ensures that the views of the board are conveyed to the CEO
- Ensure that succession planning is in place, and at the right time ensure that the succession process for directors or the CEO are satisfactory
- Work with the CEO on the board and committee agendas (for the annual plan and for each session)
- Oversees closely the business and the management team
- Ensures that the relationship with key shareholders and the market is adequate
- Coordinates the annual evaluation of the board and the chair – the Chair coordinating the evaluation of the Lead Director
- Etc.

It would be unusual, but is not necessarily unjustified in certain situations, for the Lead Director to attend, on occasions, executive sessions. However, that attendance would have to be handled in a way that does not confuse the leadership order and undermine the authority of the CEO.

* The title “Led Director” rather than “Managing Director” is used for reasons explained in the paper.
