

Prepared for Keith Walker

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CHAIRMAN OF THE BOARD: A PRACTICAL GUIDE BY BRIAN LECHEM

“The chairman has an obligation to vote just like every other director.” Lechem (p. 3)

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A Question of Style:

Brian Lechem attempts to demystify the role of the chairman, in his book, *the chairman of the board: A Practical Guide*. Lechem states that, “if there is one topic about which little has been written, and even less consensus achieved, it the role of the chairman of the board”. Lechem argues that since the role of the chairman is evolutionary in nature, “one has to allow room for customization according to the personalities involved”. Lechem further remarks that the position of chairman can be complex at times and therefore requires a shape shifter of sorts, due to the challenges and demands of today’s board environment. (p. 1-7)

Primus Inter Pares:

First among equals—the chairman has no special powers. However, he/ she does play a pivotal role. Listed below are a brief of some of the roles the chairman is expected to perform:

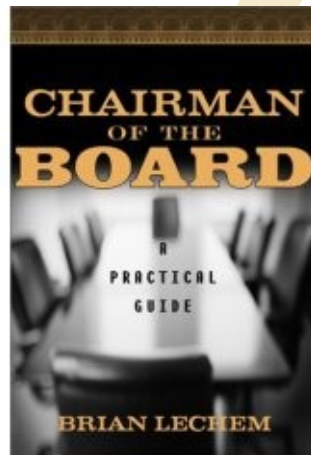
1. To provide a non-dictatorial style of leadership;
2. To provide structure, maintain balance and preserve boards mandate and agenda and;
3. To maintain a balance in the discussion and provide order when required.

“Thus the chairman’s role is one of guiding destiny, neither pre-empting nor frustrating the participation.”

(p. 8-15)

“The chairman’s primary task is to act as chairman of the board. Whatever other roles and responsibilities may have been allocated, that of chairing of the board is his alone”

Lechem (p. 12)



<http://www.adena.com/adena/mo/chpay50.jpg>



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“To fulfill this role, the chairman must be well briefed and have the required temperament, personality, and public speaking skills”
Lechem (p.14)

“Unlimited Power is apt to corrupt the minds of those who poses it”

William Pitt, Earl of Chatham 1770 (Lechem p.31)

Building the Board:

Lechem outlines the importance of picking the right person for role of chairman. “This is why, in representing the interests of all shareholders equitably, it is so important to realize the team concept ... where consensus building is paramount.” All interests are represented, not only for the majority shareholders benefit, but the minority shareholders win as well. Lechem admits that “the old boys club” still applies heavily in some smaller to midsize companies, however, he says that, larger companies are increasingly having elections on who should assume the top job as oppose to just appointing him or her. (p. 16-19)

Once chosen for the top job, is the chairman ready? Lechem, in his research, found that 50% of all new directors are poorly versed in what is expected of them and are need of training and orientation, no matter how great they appear on their resume and interview they still some fine-tuning. (p. 27)

The ideal chairman should have the following traits and characteristics:

- An effective communicator whose contributions is concise, objective and clear
- Socially competent with a touch of humour
- Independent of mind without prejudicing loyalty to colleagues and the board
- A good listener who can focus on key issues and respond with sound advice
- Democratic in balancing the interests of the shareholders against the interests of other involved with the business
- Constructive in expressing ideas and opinions, even when critical
- Able to perform effectively as an individual when divorced from the structure and props of his or her own organization
- Unimpressed by either the prestigious or of the financial aspects of the appointment
- Positive in making statements and proposals, and unwilling acquiesce in silence (p.20)

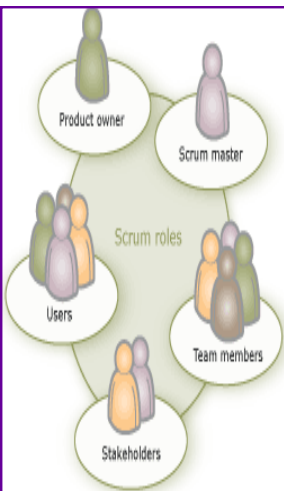


www.netspirit.d

Separation of Roles or Concentration of Power?:

Lechem found that in the scenario of the Chairman and Chief Executive Officer, their is a tremendous concentration of unquestioned power. Lechem sites, James Gilles, in his book *Boardroom Renaissance*, he talks about the superpowers that some chairman and CEO's have acquired. Gilles write, “clearly the CEO holds a great deal of power, in fact if not in law... if he is also the chairman, he controls the meetings.” Lechen cautions on these types

of management structures, he outlines several sources that advice against the “chairman and CEO scenario”, he contemplates on how these organizations are able fulfill their checks and balances, and ethical responsibilities to the shareholders? Lechem prefers the chairman to be separate from the CEO, this is due the overwhelming duties that come with either job. But, that is not to say that a Chairman and CEO cannot perform his/her duties effectively. (p. 31-36)



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“The role of the CEO can be very isolated. All CEO’s desperately need to know how they are performing.”

Lechem (p. 40)

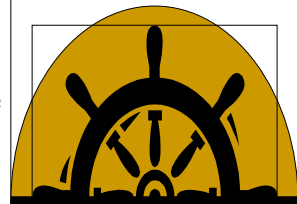
Establishing the Agenda:

Lechem says, “one of the important roles of the chairman is to organize, structure and chair effective board meetings.” The primary reason for holding board meetings is to guide the company or organization towards prosperity. Sound and purposeful decisions need to be made in the best interest of all parties involved with the company or organization. The board membership needs to be informed and briefed on every issue in order for them to delegate the employees in order for them perform at their utmost ability. How the board works, according to William Houston and Nigel Lewis: “the

board formulates corporate aims that are acceptable to a spread of shareholders who may not have common objectives. Some may be long term investors who do not mind whether dividend payouts are subordinated to creating long term cash flow; other may be short term investors who wish to maximize their return.” Lechem states, “the key to successful meetings is the agenda”, the agenda is the map that will guide the board to the desired outcome. Last words, “proactively” and “acting diligently” remain the cornerstones of an effective agenda, and ignorance is no excuse. (p. 45-58)



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“One fundamental difference between a board and a management meeting is the presence of the independent directors who are not responsible to the chief executive”
William Houston and Nigel Lewis
Lechem (p.49)

“Surround yourself with best people you can find, delegate authority, and don’t interfere”

President Ronald Reagan, 1984 (Lechem p. 59)

Setting the Direction:

In setting direction, Lechem sites, Simon Wootton and Terry Horne, in their book, *A Step by Step Approach to Strategy*. Wootton and Horne contend that strategy is essential if a company or organization is to achieve success. They outline 12 key strategic thinking principles:

- Think analytically about the likely impact of technology, economics, markets, politics, law, ethics and social trends;
- Think numerically when carrying out an audit of strategic capability;
- Think reflectively about problems and responsibilities;
- Think predictably when forecasting the future;
- Think imaginatively when writing a mission statement;
- Think visually about ways to realize the mission statement;

- Think creatively about how remove obstacles and remove pitfalls;
- Think critically when evaluating the economics, efficiency, effectiveness, feasibility and the risks of available options;
- Think empathetically about the consequences for individuals;
- Think ethically about the social and environmental implications;
- Think pragmatically when writing a plan to manage the changes;
- Think politically about obtaining the support of key stakeholders and decision makers, when implementing the plan;

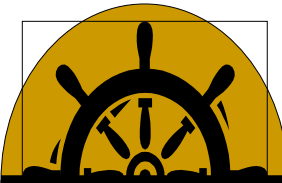
Lechem (p. 62)



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www.emmasdiary.co.uk



“While it is obviously the task of management to be able to recognize and control such risks, the board must play a vital and crucial role in maintaining a strict oversight of the situation”

Lechem (p. 85)



“Any chance you can bite him yourself? I've really got a lot on my dish right now.”

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“The most prevalent sin of many corporations is providing the board with insufficient information.”

(Lechem p. 74)

Minefield of Legal Liability Exposure:

Lechem asserts that, “in today’s litigious climate, the chairman of the board and all board members must behave in a diligent manner... prudent and diligent behavior on part of the board of directors can help to steer the company clear of difficult situations.”

Lechem says, there are areas of vulnerability, so in recent years new legislation has been implemented and has increased regulations. One way of curtailing improprieties is increasing and imposing sanctions on perpetrators. Among the common sins of board members is providing misleading or incomplete infor-

mation. What this means is, if anyone caught in violating the statutory regulations, is subject to civil liability. Furthermore, there are new laws protecting the environment. Lechem states, “environmental protection legislation also places requirements on directors to ensure that the corporation takes a proactive stance in preventing pollution... if a spill or other damage occurs, appropriate steps and legally specified actions must be taken to deal with the situation.” So, with that said, prudence and diligence are necessary components of today’s boards and chairman. (p. 68-86)

Assumption of Risk— “the three core principals of internal control that must be instituted and maintained by listed companies”:

1. Present a balanced and understandable assessment of the company’s position and prospects.
2. Maintain a sound system of internal control to safeguard shareholders’ investments and the company’s assets.
3. Establish formal and transparent arrangements for considering how the financial reporting and control principals should be applied. (p. 83)

“The act of delegation: To assign responsibility (and communicate authority) while maintaining ultimate accountability” Lechem (p. 87)

Delegation—The Use of Board Committees:

In every organization, there is room for improved efficiency of task delivery; this is essentially what committees bring to the table. Lechem remarks, “hence the need to establish committees... they are formed to help the board perform its duties more efficiently by dividing the workload.” There could be numerous types of committees formed at any given time as need arises. Among these is the audit committee, the key attributes are: 1). The ability to ask the right questions at the right time; 2). Keen analytical skills; 3). Motivation and; 4). Persistence.

Lechem (p. 87-104)

***“His promises were, as he then was, mighty;
But his performance, as he is now, nothing”***

William Shakespeare, King Henry VIII (Lechem p. 105)

Board Evaluation– Assessing the Passing Grade:

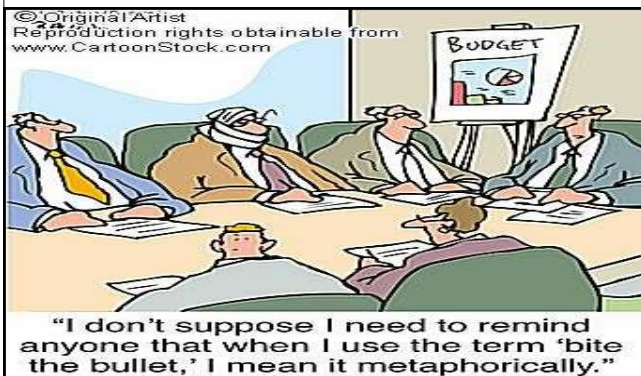
Lechem states that chairman are essentially trained on the job by more experienced members from the board. “In fact, even if directors are interested in learning the finer points of the job, limited material has been available to help them.” So, not only are they discouraged but also the means to facilitate them is not there. In the area of effective performance, success is the only indicator that a job has been sufficiently performed. However, Lechem stresses that checks and balances cannot be overlooked. The board also needs to focus on the future and not dwell on passed successes, because things change very quickly in the world of finance. According to Lechem, the most effective way to assess how a board is performing is to develop a questionnaire to judge how they (board), and chairman are performing. Five degrees of response are suggested: 1) Just Developing; 2) Room for Improvement; 3) Meets Most Criteria; 4) Optimal Performance and; 5) Not Applicable. (p. 105-110)



es.geocities.com



“The analysis of board performance questionnaires is also quite a critical procedure, as the objective is to try to identify key trends”
Lechem (p. 112)



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“There is only one boss. The customer. And he can fire everybody in the company from the **chairman** on down, simply by spending his money somewhere else.” Sam Walton

<http://www.mkpress.com/MFL/>

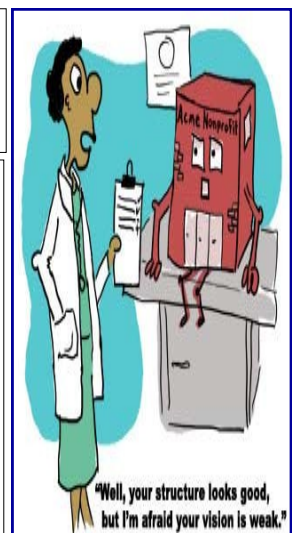
“The record of family firm survival through to the second and third generation is discouraging—30% to 13% respectively”

Lechem (p. 124)

The Supercharged Board:

The ultimate goal is success, the company and its stakeholders need to insure continued profits with a maintained- high priced stock value. Lechem sites Sir Ronnie Hampel, “the importance of corporate governance lies in its contribution both to business prosperity and accountability.” Board maintenance is also required for continued success, this is achieved through bringing new members

to speed, in doing this- problems can be avoided in the long term. Another mechanism that is effective is self assessment, “how are we doing as a board”? This examination of the board needs to be critically objective in order to serve any lasting function. Lastly, if the board is to remain supercharged, its members and chairman need to be innovative, without innovation any lasting sustainability will be lost. (p. 121-136)



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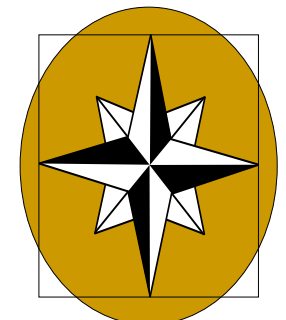
It was the moment of truth, after which they all got back to lying.

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“I ran the wrong kind of business, but I did it with integrity “

**Stanley Biddle Burrows
(Lechem p. 140)**



“It is preoccupation with possession, more than anything else, that prevents men living freely and nobly”

Bertrand Russell, quotes for Everyday Inspiration (Lechem p. 140)

A Question of Ethics:

The definition of ethics can vary greatly depending on whom you ask. Lechem remarks on Stanley Drucker’s statement on ethics: “ethics stay in the preface of the average business science book... that is to say, no one pays too much attention to how business is conducted, but that one knows that one should.” When money and careers are involved, ethics is often an annoying fleeting afterthought. Lechem says, “the identification of ethical issues may present difficulty. Sometimes ethics tends to overlap with personal morality.” Fortunately, this is slowly changing; some investment funds will not deal with companies that deal with

questionable countries in their labour practices.

At the corporate level, the list of ethical malpractice, including:

- 1) Fraud;
- 2) Bribery and Corruption;
- 3) Misleading Advertising and;
- 4) Unfair Competition;

Lechem further states, “within the companies themselves there are many opportunities for improper behavior which is much less tolerated today than it was a few years ago.” There are numerous laws, a code of conduct that speaks to ethics and companies. Today’s business environment is changing, but it is very slow.

(p. 140-152)

“When I do good, I feel good; when I do bad, I feel bad. That's my religion.”

President Abraham Lincoln

www.wisdomquotes.com/cat_ethics.html

“For the individual board member, it’s a question of diplomatic assertiveness. As with other topics at the board table, directors should start by asking a few open-ended questions and continue asking until they are satisfied with the answers.”

Question #1:

What is our company’s strategy to manage ethics?

Question #2:

Who is responsible for ethics in our company?

Question #3:

Are people in our firm equipped to recognize and resolve moral dilemmas?

Question #4:

Are people in our organization provided with a safe opportunity to discuss ethical issues of concern?

Question #5:

Do we reward or punish ethical integrity and moral courage if it has a negative impact on the bottom line?

<http://www.ethics.ubc.ca/papers/invited/5questions.html>

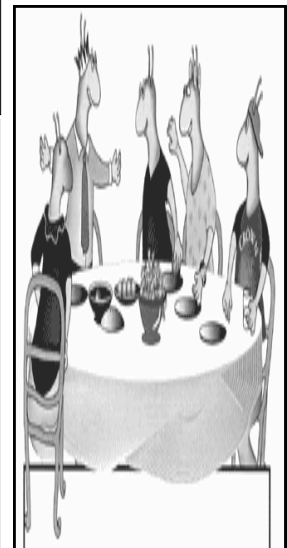
“Efficiency is doing things right. Effectiveness is doing the right thing” Zig Zigler, Quotes for Everyday Inspiration (Lechem p. 154)

Public Affairs:

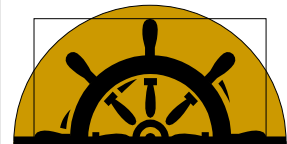
How can boards establish effective policy? Lechem writes, “those who control the propaganda machine control the country. The first targets of those planning coups are the radio and TV stations. The ability to manipulate information is disproportionately powerful and effective.” With that stated, if a company can spin a positive representation of itself to the public, then it is well on its way to unhindered prosperity. It is no secret, with the globalization of business, a company needs to have a positive relationship with government. With free-trade and transcontinental transactions, as a business doing business abroad, you need a positive working relationship with

government and other connected governmental entities. Lechem cites James Gilles, “the change to the international marketplace means... two of the most obvious and important priorities for directors must be:

- 1) To adopt proactive strategies to work with all levels of government to put in place policies that ensure that Canadian firms are not at a competitive disadvantage because of domestic economic policies with firms domiciled in other jurisdictions; and,
- 2) To ensure that the enterprises for which they are responsible are managed strategically within the context of the global marketplace. (Lechem p. 154-158)

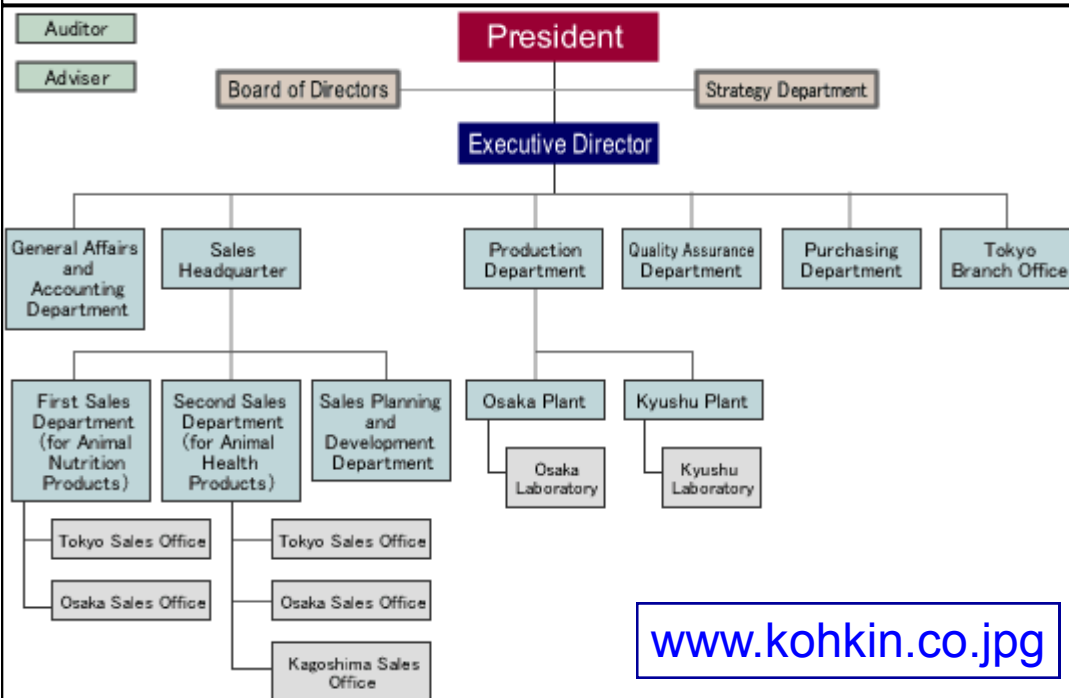


www2.ucsc.edu



“It is highly recommended that companies consider instituting a written code of conduct for the conduct of its business and the behavior of its employees”
Lechem (p. 149)

The following organizational chart reflects a typical company organizational chart and its components.



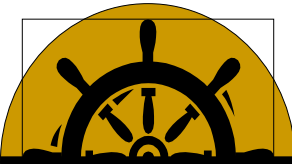
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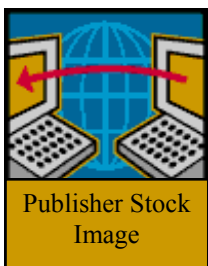
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**“A director has a duty to use care and diligence in fulfilling the functions of office and exercising the powers attached to that office”
Lechem (p. 153)**



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“The nature of men is always the same; It is their habits that separate them” Confucius, *Analects*, ca. 500 B.C.

The Volunteer Board:

According to Lechem, volunteer boards range from large charities, professional, hospitals, universities, trade, secular, advocacy, religious, sports organizations and many others. Among the many unique features of volunteer or not-for-profit organizations, they do not pay Canadian income tax (except for investment tax). Volunteer boards rotate much more frequently than that of profit corporations; they also place a heavier emphasis on trust. However, despite its many attributes volunteer boards can experience certain failures. The following are some challenges that face not-for-profit organizations:

- 1) Failure to clarify sufficiently the mission, vision, purpose, and ob-

- jectives of the organization;
- 2) Failure to define adequately the roles and responsibilities of the board vis-à-vis staff;
- 3) Failure to understand what is required to maintain an effective oversight of a not-for-profit organization;
- 4) Failure to address properly the needs of the membership and, where different, the “moral owners.”
- 5) Failure to gain the full support of members, volunteers, staff, and other participants, such as government, and the community at large.

However, despite these challenges, volunteer organizations continue to thrive and evolve in Canadian business today.

(p.166-178)

“If you can keep your head when all about you are losing theirs and blaming it on you. If you can trust yourself when all men doubt you, but make allowance for their doubting too” Rudyard Kipling (*Lechem p. 179*)

The Ultimate Sanction:

What is board culture? Lechem says it a way of doing things. Lechem states, “the key to board culture is board effectiveness. A cohesive team allows for productive dialogue while also allowing the opportunity for constructive dissent.” The chairman must allow for growth and evolution within the board and allowances must be made for contrary viewpoints in order for sustainable growth. The Leighton and Thain model as follows, looking at the old and new board cultures: (p. 181)

Old Behavior	New Behavior
Approach – Passive	Active
Function – Ratification	Leadership
Style – Reactive	Assertive
Old Culture	New Culture
Beliefs –Directors are honoured guests, cheerleaders	Directors are trustees, leadership agents to the shareholders
Values – Prestige, Ego etc.	Servant leadership
Attitudes – Follow the group	Take charge, responsibility
Norms – Guardedness	Openness
Traditions – Formality	Informality
Rituals – Process, Politics	Penetrating analysis
Heroes – Powerful, Wealthy	Professional, Modern Leaders
Role Models – Old fashioned	Counsellors and Coaches

“Chairman have an all important role in managing disagreement and dissent”

Lechem (p. 188)

Summary:

In short, Brian Lechem gives a brief overview of the chairman of the board's role in the company's organization. The chairman, essentially is the one at the helm of the ship, but just like any good old sea captain, he needs to be aware of all the potential dangers that lurk; and good shipmates to make it through successfully. The chairman has to be a role model, a visionary, effective tactician, action oriented, open minded to suggestions and new ideas, innovative, and above all, he/she has to be the leader. This book is written for chairman or would be chairman. It gives a quick synopsis of the dynamics of the chairman in action. Lechem talks about board structures, the potential for legal liability, delegating authority, board evaluation and self assessment. Lechem also talks at length on ethics in the board room and various types of other boards, from huge profit seeking organization to volunteer or not-for-profit organizations.

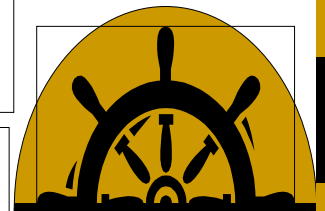
“The Chairman must never fail to manage the broad process- “ *Lechem (p. 188)*

Critical Evaluation:

Brian Lechem has written a good book on boards and chairmanship. *Chairman of the Board: A Practical Guide* is a relatively easy read, the layout is straightforward with clear headings and he arrives at the point fairly quickly. Lechem, especially did a good job on the chapters dealing with *ethics* and *volunteer boards*. The book is relatively small, around 200 pages including the index. Overall, I enjoyed reading the book, like I said; Lechem has written a good book. However, I personally feel he could have done a better job in certain areas. First of all, there are no diagrams, not even one, no pictures (a picture is worth a 1000 words), no organizational charts to give the reader a sense of what a generic board looks like. Lechem also neglected to mention the use of technology in the board room. I would like to know how a teleconferencing meeting might look or behave if your board members are all at different locations. Will a machine or computer program eventually replace the chairman or other board members? I feel these are legitimate questions, considering the rapid growth of the technological industry along with the globalization of business. Lechem could have also included web sites where you can do further research or seek further clarification. Lechem could have provided examples of how other countries run boards. For example, what do boards look like in China, Germany, and Saudi Arabia and so on? All in all, a good read, a good book. I would strongly recommend this book to people interested in boards or people who are currently in boards.



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“The chairman's job, indeed any board position, will never be a sinecure or an accolade. It is, and always will be, extremely hard work, but the results can be remarkably gratifying”
Lechem (p. 189)

