So what use is a Chairman and a Board of Directors?

In a recent article 'The Times' suggested that Reverend Paul Flowers, the disgraced Chairman of the Co-operative Bank, was selected using the Myers-Briggs personality test.
Without necessarily agreeing with the use of a test, in their words "invented by two amateur psychologists who had read the work of Jung" I do strongly suggest that the observation they quote that "I would be a lot more interested in their knowledge of finance and regulatory matters" is complete and utter rubbish.

In my commercial life I have been blessed with several amazing Chairmen of companies I have worked for. Some were successful in their own right at running companies, some even knowledgeable about some aspects of the business they chaired. But I absolutely would not expect any correlation between their knowledge of the detail of the business and their success as a Chairman. Indeed the best Chairman I ever served under was spectacularly bad at talking to employees; he took no real interest in clients or new business and often would scarcely read board papers. But his ability to run a Board (and he was Chairman of a small bank as well) was phenomenal. He could see who wanted to speak – and ensure they did; he could tell when discussion was needed and, just as important, when it was not. He would make the most senior executives quake in their boots if they failed to do what they should on time, and make it clear that nothing apart from top class performance was acceptable. He would see through any attempt to gloss over a problem and unerringly single out the weakest point in a proposal. All of this by observation of the members of the Board and by making others ask questions or point out problems. It would not matter if a company he was chairing was making ball bearings, banking or managing investments – he would hold the Board together and ensure that they presided over a top quality operation.

Having said the job of the Chairman is not to run the business but to run the Board, I would go on to say that there are probably worse and more dangerous misconceptions about the job of the Board itself. Lord Justice Mummery in the Court of Appeal is quoted as recently saying "A director of a company is appointed to direct its affairs. In doing so it is his duty to use his position in the company to promote its success and to protect its interests". As one might hope from one of Britain's best legal brains, this quote covers everything a Board should do – it sets direction, promotes success and protects the interests of the company on behalf of the shareholders who constitute the company. I would observe that many boards, probably the majority, not just the banks, totally fail to do this – and if the company prospers as often as not it is in spite of the Board rather than because of it. And it is the job of the Chairman more than anyone else to try to keep the Board on track – it is only he who can hold directors back from the sort of detailed decision making that is disastrous if taken in committees rather than delegated to decision makers with relevant skill sets. It is the Chairman who should (but all too rarely does in a modern PLC) ask "does this need to come to the Board? Are we going to improve the prospects for the company if we debate this subject?" Only if the Board restricts its discussions to those matters of vital interest to the future of the company can it give those issues the attention they merit.

A Board meeting will never be a useful place to make decisions about anything – it is a place where decisions can be validated and ratified or, on occasion, vetoed. If you belong to or attend a meeting where the Board is trying to make a decision you should consider resigning at once. The saying “the camel is a horse designed by a committee” is one of life’s most useful metaphors because any committee will tend to coalesce around the lowest common denominator. Often it will agree on a second best course of action because the best will always encounter more opposition if it is radical or far reaching in its consequences. Paradoxically this is where a good Chairman can be fatal – because he may have the skill set to help develop a consensus decision – which will almost inevitably be wrong. The search for consensus is a human characteristic to be admired in many private and social circumstances but in a business environment it is the main cause of many established companies’ decline or financial disaster.

A Board can be dysfunctional in many ways but some of the most common are mistaking the interest of the executives for those of the owners, mistaking Pension Fund and Institutional investment managers for representatives of shareholders, mistaking growth in sales for growth in profits and mistaking the world of accounting for the real world. A good Chairman will ensure that the primacy of shareholders interest is at least occasionally remembered and encourage the Chief Executive to keep some check on the proportion of earnings consumed by senior executive remuneration. Good Chairmen are few and far between.

The Board as a body does best if it restricts itself to allocating responsibility for decisions to the right executives or, in extremis, delegating a decision to a very small group of those most qualified to decide. The full Board can then review, ask questions and make suggestions – or indeed send the proposals back for further development – but it should always recognise it is there to direct, not to make decisions or execute them. Directing is the process of pointing people in the right direction – not of telling them how to get there. The best Chairmen will always guide the Board away from detail, will try to keep conversation about the wood not about the individual trees, and will keep directors focused on discussion which will make a difference to the future of the company. He needs a certain personality to do this, not a detailed technical knowledge, and criticism of the Reverend Paul Flowers’ appointment on the grounds that it was made because of an assessment of his personality is completely wrong. He may or not have had the capability to run a board well, and the circumstantial evidence is that he did not, and the Myers-Briggs tests may be out of date and ineffective but I would back a psychologist’s assessment against financial services industry exams as evidence of suitability to chair a bank any time, even though I chair an examinations board.

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