

Preface

The aim of the book is to be of practical use to chairmen and members of boards. It covers the two interrelated themes of corporate governance and chairmanship. They are inextricably linked, because corporate governance is concerned with the system by which companies are directed and controlled, which is clearly the responsibility of their boards of directors. Equally clearly, it is chairmen who are responsible for the working of their boards. Thus, the way in which corporate governance principles are put into practice is primarily a matter for board chairmen.

Although the book is addressed to company chairmen and directors, many of the issues with which it deals are relevant to chairmen of bodies outside the business sector. The principles of codes of corporate conduct provide guidelines which are being applied, in part and not always appropriately, to the governing bodies of colleges, trusts, and a range of voluntary organizations. Similarly, the need to distinguish between the task of direction and that of management is as central to the governance of most institutions as it is to the governance of companies. A discussion of the responsibilities of chairmen for matters of governance should, therefore, be of interest to those charged with chairing organizations of all kinds.

There is also, and this is a welcome development, a burgeoning academic interest in both corporate governance and in the workings of boards. While the book is written primarily for practitioners, it does provide a background to the theory of governance and its application in the business world. I have not hesitated in the book to give my personal views on the issues under discussion. This is to provoke debate and to bring issues to life, not in order to proselytize.

There is no doubt about the profundity of the changes which have taken place in the corporate scene since the committee, which I chaired, began its work. Corporate governance has developed from a subject of interest to a minority of lawyers and accountants to a mainstream influence on the systems and processes by which businesses are run around the world. The way in which English words and definitions have been used worldwide to describe corporate governance in all its aspects adds an international dimension to a study of its development in Britain.

The book traces the way in which corporate governance has emerged as a dominant factor in the manner in which businesses are structured and run, with consequences for other types of organization as well. The principles

underlying the concepts of corporate governance are expressed in codes of best practice and their origins and implications are explained. Since boards of directors are the focus of corporate governance, it follows that the issue for them, and in particular for their chairmen, is how best to implement these governance principles in terms of the constitution and functions of their own boards.

The board scene has been transformed worldwide through the influence of the corporate governance movement. The composition of boards has changed as a result, and so has their structure. The demands made on directors have grown significantly and the issues with which they have to deal have broadened. In a world where, in many cases, power has shifted from the public to the private sector, the expectations which society has in relation to the environmental, social, and ethical responsibilities of companies have risen. The degree to which these expectations have changed is discussed in the book, as are the steps that boards need to consider in order to meet them.

A central issue for boards is the relationship between chairmen and their chief executives, where they are not the same person. Again, similar relationships apply in the majority of other types of organization. The book describes ways in which these two key figures may divide duties between them, as well as considering such issues as their appointment and replacement. One aspect of the division of responsibilities is the role which they share in representing their companies to the outside world.

Against this background of rapid change, a long-awaited reform of company law is being undertaken in Britain. It is the first for forty years, or possibly longer, and the nature and scope of the proposed reforms are outlined and their implications discussed. Although these reforms are a British initiative, they will have their influence on the regulation of companies in other jurisdictions, just as British codes of best practice have done. The direction which company law is expected to take is among a number of governance issues, that are likely to feature on the agendas of chairmen and their boards. One of them is that the governance spotlight may switch, at least to an extent, from boards to institutional investors in the wake of the Myners Report. This opens up a whole new field, whereby pension fund members could begin to exert some influence over the decisions and actions of those who invest on their behalf.

One of the book's themes is the shift in the balance of power over a relatively short period, from weak boards, strong management, and passive investors, to boards strengthening their position in relation to management, and to investors holding boards accountable to a greater degree than before. The question which follows on is, to whom are investors accountable and to

whom should they be? Advances in information technology now provide the means, in an increasingly 'wired' world, for individuals to hold to account the institutions which invest on their behalf.

As the climate of governance has changed, boards have had to adapt to these changes. This is where chairmen play a key role. A basic reason for the book's focus on chairmen is that they are the connecting link between governance principles and the turning of those principles into action. It is their responsibility to ensure that their boards match up to the standards today expected of well-run businesses. These standards are increasingly being enforced by institutional investors and by capital markets.

I have written about the role of chairmen as I have, and have drawn on past writings in doing so, because I continue to be convinced that the value of good chairmanship is underestimated. The difference which competent chairmanship can make to any kind of meeting is profound. I remain astonished that so little has been written on the subject. The paucity of useful guidance on chairmanship confirms an apparent lack of appreciation of the importance of the chairman's role. I still rely on Hugh Parker's *Letters to a New Chairman* for advice and on Sir John Harvey-Jones' *Making It Happen* as an account of effective chairmanship in action. To these I would add the recent publication of Henry Bosch's admirable *Conversations Between Chairmen* and *Conversations with a New Director*. I am encouraged that a Chairman's Forum is becoming established in Britain, as a means of enabling chairmen to meet, to discuss issues of common interest, and to learn from each other's experience.

I have used the word 'chairman' throughout, because that is at present a generally accepted title for those who chair boards and committees in much of the world. In doing so, I use it strictly in its dictionary sense: 'The occupier of a chair of authority; the person chosen to preside over a meeting, a company, a corporate body, etc.' (Shorter OED 1975). The word 'chairman', therefore, applies to women and to men, equally. It is, of course, a matter for the individuals who take the chair at a meeting to decide how they wish to be addressed. No one title is specifically correct. It is a question of personal choice.

My own experience of boards and committees has largely been in Britain, but I believe that the central issues of governance and chairmanship know no boundaries and are universally relevant. My hope, therefore, is that this book will be found useful by those who chair, or who are members of, boards and governing bodies of all kinds, both in Britain and abroad. It will have served its purpose if it helps to stimulate interest in the arts of good chairmanship and good governance.