

3.1 Managing Director/ Chief Executive

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The first building block of Corporate Governance to be put in place in a company is the Managing Director (also known as the Chief Executive). In start-ups this position is generally filled by the founder.

Whatever the size or nature of the company, the role of the Managing Director/ Chief Executive is to ensure that the company achieves its strategic objectives and to provide leadership and direction to staff.

His/her role depends on the stage of growth of the company. Typically, the scope of the role becomes more clearly defined as the company develops and the supporting Corporate Governance framework required is clearer. For example, once such a framework is developed, the Managing Director/ Chief Executive may delegate some responsibilities to members of the Management Team.

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Role of the Managing Director/ Chief Executive

- Develop and deliver on the company's strategic plan in the most effective and efficient manner
- Accountable for the overall performance of the company and for the day-to-day running and management of the company's business, under delegated authority from the Board

Responsibilities of the Managing Director/ Chief Executive

- Implement the Board's policies and strategies
- Develop and present the strategic and annual business plans to the Board for approval
- Report to the Board on progress against the strategic and annual business plans on a regular basis. Typically, reporting against the annual plan will be monthly, while reporting against the strategic plan will be less frequent, although it should be at least two or three times a year
- Manage the day-to-day operations of the company
- Manage, motivate, develop and lead members of the Management Team
- Manage resources efficiently and effectively to achieve the company's objectives
- Chair Management Team meetings
- Take a leadership role in establishing or developing the company's culture and values
- Ensure that there is a fit between strategy and culture, and the company's processes and structure
- Ensure that appropriate internal audit processes and procedures are in place (in liaison with the Head of Company Internal Audit and/or the external auditors, if a Board Audit Committee is not in place). (See Section 3.8 on Audit Committees)
- Develop and implement a risk management plan
- Ensure that there is a succession plan in place

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Insights and practical suggestions

- The scope of the responsibilities given to the Managing Director/ Chief Executive must be carefully considered. He/she must have sufficient freedom to take key operating decisions without detailed scrutiny by the Board. There should be absolute clarity on what decisions the Managing Director/ Chief Executive can and cannot make
- The Managing Director/ Chief Executive should agree with the Board the specific performance objectives to be achieved in both the short and long term
- The Managing Director/ Chief Executive's contract of employment should clearly define the roles and responsibilities of the position
- Ideally, the roles of Managing Director/ Chief Executive and Chairperson should be separated so as to ensure there is true independent oversight
 - Given that the Managing Director/ Chief Executive controls the quality, quantity, and timing of the information that is presented to the Board, if the same person is also the Chairperson of the Board, true independent oversight cannot be guaranteed
 - Chairing a Board is an exacting and professional task. The qualities required are not necessarily the same as that for a Managing Director/ Chief Executive. The job of the Chairperson can be made more difficult by combining this role with the different and equally vital task of managing the company
- The working and personal relationship between the Managing Director/ Chief Executive and the Chairperson should be a supportive one based on mutual trust

The role of the advisor

- In the early stages of a company's existence, the Managing Director/ Chief Executive may consult an advisor before appointing a Chairperson or putting a formal Board in place
- The role of the advisor may be one of mentor, confidante, business advisor etc. No matter what it is, the role should be committed to paper so that there is absolute clarity on what it is. By doing this, it is less likely that the advisor will be perceived as a shadow Director

A shadow Director is one who can be said to have 'real influence' on the affairs of the company. That influence does not have to penetrate the full range of the company's affairs, but is particularly significant when it affects those areas concerned with Corporate Governance and financial management. Professional advisors, bankers, solicitors and accountants would not normally be considered to be shadow Directors, provided that, and so long as, their advice is given in a professional capacity (Section 27 of the Companies Act 1990)

- Advisors need to be aware of the legal implications of their role, since liability issues may arise if actions are taken based solely on their advice

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Key legal implications

- The standard form of Articles of Association as set out in Table A of the Companies Act 1963 provide that the Board can appoint a Managing Director from amongst its members and can delegate to such appointee any powers exercisable by the Board. The Managing Director/ Chief Executive is, in effect, delegated authority to manage and take decisions on the day-to-day running of the company. The duties, powers and remuneration of the Managing Director/ Chief Executive are not fixed by law, but are entirely at the discretion of the Board and can be amended or withdrawn by the Board at will. The title Chief Executive is a term often used instead of Managing Director although in the case of a Chief Executive s/he may or may not be on the Board. Where the Board wishes to use the term Chief Executive or indeed wishes to appoint a Chief Executive who is not on the Board, the Company's Articles should be redrafted accordingly
- The Managing Director (and in the case of a Chief Executive who is a Director) is both an officer and an employee of the company
- If the Chief Executive is also a member of the Board, the legal implications outlined in 3.3 and 3.6 need to be considered

10 Questions most likely to be asked by a Board of the Managing Director/ Chief Executive:

- 1 What are the critical challenges facing the organisation in the coming six months/year?
- 2 How is the company performing against budget and its competitors?
- 3 What are the key leading indicators (e.g. enquiries, orders booked, sales pipeline) and lagging indicators (e.g. sales invoiced, cash balances) you use to judge the health of the business?
- 4 Have the resources been managed and deployed in the best way possible, to achieve the company's objectives?
- 5 What are the company's major strengths and weaknesses?
 - (a) How can the company build upon its strengths and minimise its weaknesses?
 - (b) How can the company enhance the effectiveness of its operations in light of its challenges and opportunities?
 - (c) What changes, if any, should be introduced?
 - (d) Currently, what are our most important business initiatives?
- 6 What contingency plans have been prepared to cope with unexpected events? Is there a risk management plan?
- 7 What are the most critical performance criteria for staff?

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- (a) How are the key executives performing?
 - (b) How does the Managing Director/ Chief Executive assess and manage the performance of those who report to him/her?
 - (c) To what extent has the Managing Director/ Chief Executive motivated and developed the key members of the team during this year?
- 8 Who would succeed the Managing Director/ Chief Executive if s/he was not available for whatever reason?
- 9 What structures are in place to facilitate succession planning?
- 10 Is the Board providing sufficient support to the Managing Director/ Chief Executive in his/her role?

10 Questions a potential Managing Director/ Chief Executive should ask before accepting appointment to the position:

- 1 Why am I being asked to consider this position?
- 2 What skills are required for this position?
- 3 Do I have the necessary experience to fill this position?
- 4 What is the mission and objective of the company?
- 5 What are the key issues facing the company?
- 6 What is the financial status of the company? What are the key messages from the management accounts?
- 7 What skills are available around the Management Team table?
- 8 Do I envisage having a good relationship with the Chairperson of the Board?
- 9 How does the Board interact with the Management Team? Is there a good relationship in place?
- 10 Are the necessary resources available to enable the company to achieve its ambitions?