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CORPORATE GOVERNANCE

# FUNCTIONS OF A CHAIRMAN

**W**E have come a long way from the first Malaysian Code on Corporate Governance (MCCG) published in March 2000 immediately after the Asian financial crisis.

The MCCG, then, was about “Best Practices”. Now, it talks merely of “Practices”. This makes sense. Is there an ultimate best practice or should we strive for better practices?

Corporate governance (CG) remains a work in progress. Since its introduction 22 years ago, the MCCG was reviewed and updated in 2007, 2012, 2017 and last year to ensure that it remains relevant and is aligned with globally recognised best practices and standards adapted to the local landscape.

What was not envisaged in the MCCG 2000 has now found its way as an advocated practice in the MCCG 2021.

## The role of chairman

The MCCG 2000 only mentioned the chairman in passing, in that it stated that a decision to combine the roles of the chairman and chief executive should be explained.

But since then, the role of the former has been better appreciated and elucidated. There are more exacting expectations and guidance on the chairman’s functions.

The chairman sits at the pinnacle of the public-listed company (PLC) — in a way. When we refer to the board as setting the tone at the top, the chairman plays the apex role in setting that tone.

The MCCG 2021 advocates the practice of appointing a chairman who is responsible for in-

stilling good corporate governance practices, leadership and effectiveness of the board.

The MCCG 2021, in its guidance, spells out the seven key responsibilities of the chairman.

**First**, the chairman should provide leadership for the board so that it can perform its responsibilities effectively.

**Second**, it is the responsibility of the chairman to lead the board in the adoption and implementation of good corporate governance practices.

The chairman sets the agenda of board meetings in consultation with the company secretary. This provides a valuable opportunity to ensure that CG issues are addressed effectively.

The role of the company secretary has evolved over time. It is no more of merely advising on administrative matters; they are now on advising boards on governance matters.

A suitably qualified company secretary possesses the knowledge and experience to carry out his/her functions.

They are expected to have knowledge of company and securities law, finance, governance, and other areas of compliance, such as the listing requirements.

A competent company secretary can advise the chairman on current CG advocated practices and emerging CG trends. Between them, there is a good opportunity to ensure that CG is addressed sufficiently at board meetings.

**Third**, apart from setting the board agenda, the chairman is responsible for ensuring that directors receive complete and accurate information in a timely manner.

Regulators generally hesitate to

quantify what is timely, leaving it very much up to the companies.

Earlier versions of the MCCG have refrained from doing so. But the MCCG 2021 guides that, as a general practice, directors should receive information and materials at least five business days in advance of the board meeting.

This guidance may very well be also used for the conduct of the board sub-committee meetings.

**Fourth**, the chairman leads the board meeting and discussions. This is where the role of the chairman to set the board culture comes into play. Board culture transcends to management culture as the tone is indeed set at the top.

**Fifth**, a good chairman encourages active participation and allows for dissenting views to be freely expressed. A myriad of views will ensure better decisions are made as various perspectives would have been considered.

It is good to be mindful of the saying that “where all think alike, no one thinks very much” when it comes to board selection.

The chairman may have the challenging task of steering board members back to the agenda when they go off-tangent and bring to closure a discussion.

There is a risk that some board members will belabour a point ad nauseam. Interpersonal skills and empathy would be among the top-ranking attributes of a good chairman.

**Sixth**, the chairman manages the interface between the board and management — a conduit of sorts.

Management will recommend, through the chairman, areas that management feels should be addressed by the board. In return, the chairman will communicate

some board decisions and sentiments to the management, especially when it meets without management presence.

The board-management interface is crucial as the board’s functions are distinct from management’s — the board provides oversight and the management manages. There is always the risk of boards micro-managing. The mantra for boards should simply be “nose in, fingers out”.

**Lastly**, the chairman must ensure steps are taken to provide effective communication with stakeholders and that their views are communicated to the board.

The very definition of CG alludes to the relevance of stakeholders apart from shareholders.

The definition of CG states that it has “the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders”. This will include engaging with employees and relevant non-governmental organisations (NGOs).

Employees’ treatment and NGO actions are among the major issues plaguing some PLCs with substantial impacts on a PLC’s bottom line and its reputation.

Shareholders can only elect members to the board. The wisdom of getting the right person as chairman rests with the board members.

The board appoints the chairman from among its members. In a way, the chairman is constrained by the directors that shareholders appoint to the board.

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