

# Briefing

## The Role of Chairperson and Chief Executive Officer



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The chairperson of the board of directors and the managing director/ chief executive officer (“CEO”) exercise important roles in the corporate governance structure of a company.

It is best corporate governance practice that the roles of chairperson and CEO are performed by different people, although in a small company it may be the case that the roles are combined.

The following table sets out a detailed breakdown of the respective roles:

|      | Chairperson   | CEO   |
|------|---|---|
| Role | <p>The role of the chairperson is primarily to guide the board in its task of setting and helping to implement the company's strategic policies. The chairperson is appointed from his fellow board members and usually is a non-executive part-time position. The chairperson will work closely with the CEO in a 'bridge' role between the board and the executive management team. (see IOD Factsheet: <i>The Role of the Chairperson</i>)</p> | <p>The CEO has the responsibility of ensuring that the day-to-day running of the company and its performance is in accordance with the strategic goals that the board has determined. Typically a CEO is a director of the company but this is not a legal requirement. The CEO usually reports to the chairperson. (see IOD Factsheet: <i>The Role of Managing Director/Chief Executive</i>)</p> |

|                        | <b>Chairperson</b>   | <b>CEO</b>  |
|------------------------|--|---|
| <b>Decision-Making</b> | <p>The chairperson can only make decisions on matters entrusted to him or her by the board. However, the chairperson should ensure that the decision-making processes of the board are effective and that the board challenges sufficiently and effectively major proposals that are put forward by the executive management team as represented by the CEO. The chairperson should encourage every board member to engage in board and committee meetings by which strategic decisions are taken.<sup>1</sup></p> | <p>The CEO is tasked with achieving the strategic goals of the company by directing human and material resources to the appropriate areas and monitoring the performance of those resources. Operational and financial decisions should be made with regard to the running of the company in order to achieve the goals that the board has determined.</p>  |
| <b>Strategy</b>        | <p>The chairperson sets the agenda for the board’s deliberations. That agenda should focus on strategy, performance, accountability and the creation of value for shareholders. The issues relevant to these areas should be reserved for decision by the board exclusively and reserved matters should be identified clearly in writing and made known to the CEO.</p>  | <p>The CEO is responsible for implementing company policy. He or she should direct strategy towards the profitable growth and operation of the company. Longer-term objectives and priorities which are established by the board should be developed. The CEO has a crucial role in ensuring that these strategies are in fact implemented and delivered. Frequently the CEO contributes views to the chairperson to assist the board in devising company strategy.</p> |

1. The (UK) Financial Reporting Council has commented: “An effective board should not necessarily be a comfortable place. Challenge, as well as teamwork, is an essential feature” (*FRC (2011) Guidance on Board Effectiveness, paragraph 1.3*).

|                          | <b>Chairperson</b>   | <b>CEO</b>   |
|--------------------------|--|--|
| <b>Communication</b>     | The chairperson has a responsibility to ensure effective communication with shareholders and other stakeholders. In order to make informed decisions, board members should be given a timely flow of high-quality supporting information.  | The CEO should, on a timely basis, provide the board with adequate impartial information to enable the board to make decisions.  |
| <b>Ethics and Values</b> | The chairperson should set clear expectations concerning the company's culture, values and behaviours and the style and tone of board discussions.   | The CEO should promote the company's cultures, values and behaviours through both the CEO's own example and the day-to-day working environment of the organisation. He or she should ensure that the standards of performance are accepted and understood by management and the employees. |
| <b>Risk Management</b>   | The chairperson should ensure that the board determines the nature, and extent of the risks that the company is willing to embrace in the implementation of its strategy, and to have in place effective monitoring of compliance (legal and regulatory in particular).  | The CEO should put in place operational planning and financial control systems, consistent with the strategy determined by the board, and ensure that there is adequate oversight of these areas.  |
| <b>Administration</b>    | The administration and running of the business ought to be left to the executive managing team. Serious friction, and blurring of respective roles, can occur between a chairperson and CEO if a chairperson attempts to interfere in matters that have been delegated exclusively to the CEO or otherwise in the day-to-day management of the company's business. | The CEO is responsible for the day-to-day running of the company's business.   |

|                             | <b>Chairperson</b>   | <b>CEO</b>   |
|-----------------------------|--|--|
| <b>Finance</b>              | The chairperson should ensure that strategic decisions of the company are informed by consideration of the financial resources and constraints of the company.   | The CEO should monitor closely the operating and financial results of the company against plans and budgets (as determined by the board). It is a key role of the CEO to deliver the strategic goals of the company, within budget.  |
| <b>Business Development</b> | Frequently the chairperson is the company's leading representative and presents the company's goals, business and values to shareholders, the public and the media.  | The CEO should represent the company to major customers and professional associations.   |
| <b>Staff</b>                | The chairperson should, on a regular basis, consider succession planning and the current and future composition of the board and executive management team. The chairperson should take the lead on issues of director development, including through induction programmes for new directors and regular reviews with all directors and of the senior executive management team. | The CEO should build and maintain an effective executive team, effective management and effective management structures within the organisation. The CEO should maintain an on-going dialogue with the chairperson to impart information and as a source of advice to the CEO. |
| <b>Evaluation</b>           | The chairperson should act on the results of any board evaluation. He or she should also provide constructive feedback for the CEO from a board perspective.   | The CEO should ensure that effective reporting mechanisms exist within the organisation to provide feedback at all levels of management. He or she should also establish what action should be taken in respect of any area in which a need for improvement is identified.     |

*Further information is available from*



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