Separation anxiety

In many situations, it may be far from clear whether the roles of CEO and chair should be filled by different persons.

BY DOUG RAYMOND

Over the last decade, a growing chorus of voices has been calling for the separation of the roles of the chief executive officer and chair of the board of directors of a public company. If a core function of the board is monitoring and oversight of management, that role is significantly compromised, so the argument goes, if the manager is in charge of the oversight body. Isn't this like the fox guarding the hen house? And with the push from many quarters towards a governance model based on skepticism of managements' alignment with the shareholders, this approach may appear pretty reasonable.

Of course, there is another model for board governance, where the directors are more focused on effective stewardship of the business than on scrutinizing management and questioning their motives. This more collegial model also includes significant oversight responsibilities but under most circumstances they are not seen as the board's primary functions.

With the current focus on board independence and in light of the increasing number of shareholder proposals demanding the separation of chair/CEO positions, boards should engage in a considered discussion as to whether the roles of CEO and chair should be filled by different persons. This discussion should include both the current CEO and, if not the same person, the chair. It should also include a meaningful opportunity for the other directors to separately discuss the matter on a confidential basis.

However, the answer to this inquiry can be far from clear, and may largely depend on where a particular board sits on the continuum between the oversight and stewardship models of corporate governance. It also inevitably depends on the culture of the boardroom and how the directors interrelate. As with much else in the boardroom, as in life, it is rare that one size fits all. Each board should decide how this issue should be handled to best support its particular governance structure and culture.

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Where command is unified in a combined CEO/chair, decision making can be streamlined, particularly in turbulent times or during a crisis. A single leader can speak with clear and unambiguous authority, making it easier to set objectives. Dividing these roles may create tensions within the decision-making process and in establishing accountability for those decisions, particularly if the separate functions of the positions are not well articulated. This lack of clarity can become a distraction both for management and the board, and may make it difficult for the CEO and chair to establish a workable division of authority, particularly if there is an absence of personal chemistry between the CEO and chair.

In considering the most appropriate leadership structure for a specific company, remember that a CEO will likely consider himself or herself to be a CEO first, and chair, second. For this reason the combined CEO/chair may be more personally invested in running the company than in developing effective board processes. Also, a CEO who is the chair may become defensive if management decisions or proposals are challenged in the boardroom, and consequently may seek to avoid fully engaged discussions when such issues arise. Unless a strong board culture exists, in this situation good governance can suffer.

At the same time, separating the roles of chair and CEO can create difficulties, particularly if the CEO views the position of chair as a matter of personal pride or prerogative. Also, if there is a separate board chair, he or she must be sufficiently expert with the company's business and industry to understand the issues raised and to hold the respect and trust of the CEO and other managers. Otherwise, the board could become ineffective as its chair loses the respect of the management team.

Whether the board decides that its chair will be the CEO or an independent director, the board should also determine whether it wants to have a uniform policy on the issue or whether it will decide this issue on a case-by-case basis, based on the individuals involved. A uniform policy may avoid debating the issue every time the question arises, but it also limits the board's flexibility to decide, based on the circumstances. On the other hand, leaving the question open on a case-by-case basis may give the board flexibility, but it can also lead to unpredictability and instability within the leadership structure, as well as put the board in the position of making potentially awkward decisions about its CEO.

Particularly in turbulent times, it is important that the board of directors act effectively to oversee and support the company and its management. Failure to do so can have dramatic repercussions and significant negative effects on the company and its constituents. The board should carefully consider whether, and how, the two crucial roles of board chair and CEO should be combined or separated, to support the most effective board processes. ■

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