Chair and CEO: To Split or not to Split?

By Beth Braverman

This so-called best practice isn’t yet universal.

In September, insurance giant AIG became the latest high-profile corporation to bestow the additional title of chairman on its CEO, Peter Zaffino.

“The AIG board of directors has great confidence in Peter’s ability to continue executing on AIG’s transformation and growth strategy designed to create long-term, sustainable value,” the board’s then-nonexecutive chairman, Douglas Steenland, said in a statement.

Microsoft combined the chair and CEO roles in June for Satya Nadella. Companies like Berkshire Hathaway, AmerisourceBergen and ExxonMobil all have CEOs who serve a dual role

But even so, splitting the jobs is widely considered a best practice by corporate governance experts.

CHARLES ELSON
Encompass Health
Blue Bell Creameries

JOHN DIONNE
Clear Channel Outdoors
Cengage Learning (chair, audit)

EMILY PETERSON ALVA
Public boards
Alkermes plc
Amneal Pharmaceuticals
Private board
Atlanta Life Insurance Company

DAVID PITTAWAY
The Cheesecake Factory, Inc. (chair, audit)
Shelf Drilling, Inc. (OSE)

"In order to monitor effectively, the board should control its own agenda and its own meetings," says Charles Elson, **Directors & Boards'** executive editor-at-large, a director of Encompass Health and the Edgar S. Woolard Jr. Chair in Corporate Governance at the University of Delaware.

In general, boards have moved toward having one person serve as CEO and another as chair. Only 33 companies in the S&P 500 index have combined the CEO and chair roles over the last five years, compared with 100 that have split the posts, according to ISS Corporate Solutions. Nearly 60% of all S&P companies today split the role of chair and CEO, compared with just 37% a decade ago.

John Dionne, a director of Clear Channel International, Caesars Entertainment Corporation and Cengage and a lecturer at Harvard Business School, says he prefers boards to have separate people holding the roles of chair and CEO.

"The CEO is running the company, and the chairman is running the board," Dionne says. "The board is the governing body, and you really don't want the person running the governing body also running the company. It's really that simple."

In addition to reducing potential conflict, splitting the role frees up the CEO's time to focus on executive responsibilities, rather than worrying about handling board issues. For example, Dionne says he recently called the Clear Channel chairman to discuss three topics that he thought might be worth addressing with the CEO.

“The chairman handled all three of them,” Dionne says. “He either had the answer or was able to take care of it. So having a separate chair streamlines the board’s communication with the CEO. Otherwise, the CEO can lose half their day on a phone call with a board member.”

A separate chairperson can offer an often-helpful outsider perspective on business challenges. Plus, having a separate chair can be helpful in the event of a crisis.

“In an emergency situation, the chair often jumps into the CEO role for a short period of time,” Dionne says. “Having a person close to the business but who isn’t a part of management is really quite important.”

Still, it can be difficult to remove the role of chair from an existing CEO, so boards often wait until a CEO exits to split the jobs for their successor.

“The CEO may come in and say that they want the chair role because their predecessor had it, but the board has to take a strong position on that and say ‘no,’” Elson says. “They can explain it’s not personal, it’s just good governance to have it split. To me, someone who demands to be the chair might not be someone you want to be the CEO.”

Having a CEO serve as chair can also make a company a target for activists. More than half of governance proposals submitted by shareholders this year (and nearly half last year) were requests for an independent chair, according to Sullivan & Cromwell’s recent Proxy Season Review.

This focus by shareholders may be misguided, says David Pittaway, a director on the boards of the Cheesecake Factory and Shelf Drilling. More important than the titles held by the CEO is the person’s actual responsibilities, he adds.

“What matters is whether the board has the freedom and authority to question what management is doing,” Pittaway says. “If there’s a person called ‘chair,’ they may preside, but in my experience, boards are pretty freeform operations, and directors can speak up and raise the issues that they wish.”

Rather than putting energy into whether a CEO also has a chair title, directors should be able to hold the CEO accountable, whether or not they’re also the board chair.

“You’re going to see a lot more separation of the titles,” Pittaway says. “But unless the fundamental issues of who has authority gets resolved, it’s not going to make any difference.”

However, shareholders aren’t the only ones clamoring for companies to split up the role. The SEC has also required some companies to make that change in recent years, including a high-profile case in 2019 when Elon Musk had to give up his role as chair of Tesla’s board as part of a settlement with the securities regulators.

Emily Peterson Alva, a director on the boards of Alkermes and Amneal Pharmaceuticals and a faculty member at the Herndon Directors Institute, says the decision of whether to split the roles of CEO and chair is not always black and white, and there might be circumstances in which the duality makes sense.

“In plenty of cases, the dual role is a risk,” she adds. “But the responsibility of a thoughtful, fiduciary director is to examine the situation on an individual basis that includes the specific history and current circumstances of a company as well as the functional skills and contributions of the CEO in question.”

Still, especially given the increased public scrutiny, it’s a decision that boards with a CEO/chair should consider carefully, Alva says.

“There’s an appropriate and respectful way to evaluate these questions, just like evaluating succession planning, that doesn’t create a defensive response from fellow board members or the CEO,” she says. “The onus is on the board to have a process for these discussions.”

Beth Braverman is a freelance journalist who writes about corporate diversity, impact investing and personal finance.

SIDEBAR:
Stepping Down but Not Aside: When a Retiring CEO Becomes Chair

There are many reasons that a departing CEO may step into the role of board chair: to smooth the transition for the new CEO, to preserve institutional knowledge or because the CEO asked for the role as part of the succession planning process.

In some cases, the chief executive is also the company founder or largest shareholder, as in the case of Jeff Bezos’ assumption of the executive chair role upon his retirement as Amazon CEO. Regardless of the reason, having a recently retired CEO serve as chair of the company’s board can create several challenges for the company.

“As an independent director, I’d worry that there would still be a deferential allegiance to that chairman because of history. That would put in question the independence of advice coming from the executive team beyond the CEO,” says Emily Peterson Alva, a director on the boards of Alkermes and Amneal Pharmaceuticals and a faculty member at the Herndon Directors Institute.

Sometimes that deference extends beyond executives to the board itself, Alva says, particularly if the company thrived under the retiring CEO.

“There’s a sensitivity to high-performing CEOs when the business has done well,” she says. “There’s a sacred-cow dynamic where the board doesn’t ever want to be at risk of showing a lack of respect or appreciation, or risk alienating that outgoing CEO by having a conversation that is, by definition, confrontational to the recipient.”

High-profile boards whose CEOs have recently retired into a chair role at the company include Walgreens Boots Alliance, Procter & Gamble and The Walt Disney Company.

David Pittaway, a director on the boards of the Cheesecake Factory and Shelf Drilling, says that while there can be benefits to having a departing CEO step into the role of chair, there can also be drawbacks, especially for the new company chief.

“There’s always a danger that people won’t see the new CEO as having authority and will continue to turn to the old CEO to ask their opinion on decisions,” Pittaway says. “It’s a question of whether the new CEO can or will deflect that sort of thing and act as an advisor.”

Charles Elson, executive editor-at-large for **Directors & Boards**, a director of Encompass Health and the Edgar S. Woolard Jr. Chair in Corporate Governance at the University of Delaware, agrees that appointing an outgoing CEO the chair can cause more problems than it solves.

The new CEO in such circumstances may face additional opposition when trying to put new initiatives in place or overhaul problem areas of the business.

“As chair, the retired CEO may be eager to prevent the new person from changing things that they’ve established or critiquing what they’ve done,” Elson says. “It’s like having your in-laws live with you. It’s really better for the company just to move on.”