Public trust in US corporate leadership is at an all-time low. Previously the bedrock of constituent relationships in US industry, trust has been undermined by the recent rash of highly visible corporate fraud and accounting cases where senior leaders have completely violated the trust bestowed upon them. An unfortunate consequence of these events is that many corporate executives currently tend to be regarded as “guilty by association,” regardless of their natures or their behavior.

This associative guilt—that all or even most senior leaders are inherently prone to dishonesty and/or open to temptation—creates a number of issues, not the least of which is how top executives can be more closely monitored without interfering in their ability and autonomy to run the company. This is no small feat. What is needed are governance structures and processes that enable Boards to monitor CEOs and safeguard their integrity, while not impeding their ability to do their jobs.

Among a variety of proposed solutions, one structural fix has been repeatedly endorsed: split the roles of CEO and Board Chair, requiring that they be filled by two people and—in many cases—stipulate that the Chair be someone who is “independent” of management. On its surface, the idea makes good sense. Splitting the roles establishes a clear separation between management and the Board, which, in turn,
should increase the Board’s autonomy, independence, and power—all of which, ideally, will lead to their greater oversight of management. But in the rush to eliminate executive conflicts of interest and implement structural safeguards for executive integrity, a number of arguments have been made—both in support of and in opposition to splitting the CEO and Chairman roles—that require more careful consideration. Splitting CEO and Chairman roles, while certainly advantageous in specific situations, doesn’t guarantee trust or improve corporate oversight at all. Worse still, holding too tightly to the idea that this is a solution presents new dangers if Directors believe that this structural change somehow answers investors’ demand for improved corporate governance.

Current Ideas in the US Regarding the Non-Executive Chair Position

Perhaps the most definitive US guidelines on this issue were developed by a 2003 Conference Board Blue Ribbon Commission. Studying a broad array of corporate reforms, the Commission concluded with a strong recommendation that companies split the Chair and CEO roles (or use an outside lead or presiding Director to lead the Board and to convene executive sessions without the CEO participating). This recommendation, however, was not unanimously supported and was even publicly opposed by some commissioners involved in the study, most notably John Biggs, former Chairman and CEO of TIAA-CREF. The lack of unanimity underscores the fact that there are no simple answers for ensuring proper executive oversight or integrity, and that splitting CEO and Chair roles is no guarantee for either.

While some companies are beginning to move in the direction of separating the roles of CEO and Chair, many of them and their shareholders seem also to have reservations. For example, between February 2003 and March 2004, the S&P 500 showed only a slight decline—from 391 to 376—in the number of US companies maintaining shared CEO and Chairman roles. As of this writing in May 2004, close to 50 shareholder proposals are pending which call for splitting the roles. Despite the fact that investors have been the primary instigators behind those companies that have split the roles, such proposals have received scant shareholder support, as evidenced by recent defeats at Boeing, Tyco, GE, Altria, Bristol-Myers Squibb, Cendant, Merrill Lynch, PG&E, Sprint, Coca-Cola, Verizon, and Wachovia.

What does seem to be occurring at a faster rate here in the US is the installment of a Lead or Presiding Director who is “independent”
Separating the Roles of CEO and Chairman of management. A 2003 Board Survey, conducted by Oliver Wyman Delta in collaboration with the Center for Effective Organizations at the University of Southern California (USC), asked Directors from approximately 200 of the nation’s top 1000 companies about various Board practices, including the use of independent non-Executive Chairs. As shown below, respondents report a 5 percent increase in the practice of designating a non-executive Chair, along with a 17 percent increase in the practice of installing a Lead or Presiding Director. Further analysis revealed that Boards that have a separate, non-executive Chair or independent Director who provides Board leadership are significantly more likely to adopt good governance practices, including:

- Evaluations of the Board and individual Directors
- Training of Directors for their role and the firm’s strategy
- Annual strategic retreats and regular executive sessions
- Having Board committees (rather than the CEO) control the selection of new Directors and committee members

An interesting point here is that these Boards seem to be doing a number of things to improve their overall corporate governance. Based on this data, it appears that progressive Boards, while moving to install either independent non-executive Chairs or lead Directors to guide their activities, almost always are making other changes as well.

**Pros and Cons of Having a Non-Executive Chair**

A number of arguments have been made for separating the roles of CEO and Chairman, which may or may not involve also installing an “independent” Chair. Those favoring such a split often cite the 95 percent or so of companies among the United Kingdom’s FTSE 350 that have separated CEO and Chairman roles. A similar argument is that somewhere around 80 percent of companies in Canada have independent Chairs. However, these statistics alone don’t necessarily prove better governance of these companies.

What we do know is that the management and governance structures in the UK have evolved in a very different context than what is found in the US. The apparent preference in the UK for splitting the roles was precipitated by the 1992 Cadbury Code of Best Practices—which required that companies split the roles or explain their

<table>
<thead>
<tr>
<th>Please indicate whether the Board currently has the following practices:</th>
<th>Yes</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>Yes, has for more than a year</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Yes, have adopted in the last year</td>
<td>5%</td>
<td>38%</td>
</tr>
<tr>
<td>Adoption is currently being considered</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>No, considered and decided not to adopt</td>
<td>40%</td>
<td>38%</td>
</tr>
<tr>
<td>No, never considered</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>No, had it and decided to eliminate</td>
<td>2%</td>
<td>2%</td>
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</table>

| A non-executive Chair who is not a present or former employee of the company | 10% | 40% |
| An independent Director who provides leadership to the Board (e.g., lead Director, presiding Director) | 29% | 20% |
decision not to. At that time, it was also common to find more executive Directors than would typically be found on US Boards. Pressure from both investors and the media was strong, and by 1994, only 25 percent of the top 1,000 companies in the UK continued to have a single executive simultaneously fill both the CEO and Chairman roles.

It’s important to note that in the UK, the role of Chair is a prestigious and sometimes symbolic position. British Chairs of corporate Boards tend to have longer tenures than their American counterparts, with many functioning in the role for upwards of a decade. US Chairmen are typically required to commit more time to the job, have shorter tenures in the position, and are paid considerably more. Obviously, these are all factors that impact a Chairman’s “independence.”

A note here on “independence” seems in order. There are varying degrees of “independence” or the lack thereof. As shown in Figure 1, true (and perceived) independence hinges on such factors as company employment history/status, financial arrangements (stipend, salary, stock, options, etc.), physical proximity (e.g., office on the premises), specificity of role delineation (including inclusion in corporate by-laws), psychological ties (e.g., relationship with the CEO, status with the rest of the Board), and even personality (e.g., propensity to take charge, need for visibility and publicity, etc.). Some of these factors can be specified and some managed, but others are “undiscoverable” and will remain—even to the scrupulous researcher—unknown. To drive for complete and guaranteed “independence” is futile.

Aside from the arguments based on the successful splitting of roles in the UK and/or Canada, a number of other arguments have been made both for and against separating CEO and Chair roles. Below are the ones we’ve heard most frequently:

**Pros**

**Oversight Requires Independence.** This argument is predicated on the idea that extending “independent” oversight of management beyond what already exists in the Board and other regulations is a cure for corporate malfeasance. This idea is at the crux of the Conference Board recommendations.

**Distributes (or Balances) the Workload.** While the argument for balancing the workload appears valid on the face of it, it does not support the argument for appointing a non-executive (independent) Chair since another top executive in the Chair position can share the workload with the CEO. However, this idea has been behind decisions at places like Dell (Michael Dell and Kevin Rollins), Microsoft (Bill Gates and
Steven Ballmer, and Intel (Andrew Grove and Craig Barrett) to separate the roles and install an existing executive in the new role (CEO or Chair). It can be argued that some activities, such as setting the Board agenda, are best carried out by an independent Chair to eliminate the possibility that a CEO can manipulate the agenda for self-serving reasons. Similarly, split roles may also enable the CEO to focus on short-term priorities and the Chairman to bring a longer term perspective. When working well, it differentiates the work of the Board from that of management.

Two Minds Are Better Than One. While it may be more laborious and time intensive, having two perspectives on an issue can improve decision making. It also forces the two leaders to spend more time together in preparation and planning in anticipation of having to lead a Board meeting and to present positions to the Board.

Stakeholders Are Demanding Director Independence. While neither arguing for or against the wisdom of this trend, it is nonetheless a fact that stakeholders are increasingly demanding an independent Chair and independent Directors. A perusal of the sponsors of 2004 proxy votes on this topic shows representation from unions (Teamsters, AFL-CIO, United Association), investors (pension funds), and community groups (e.g., Sierra Club).

Split CEO-Chairman Roles Are Becoming an Explicit Investment Rating Criterion: Corporate governance is now included as a factor in investment ratings by such organizations as Standard & Poor’s and Moody’s, and Institutional Shareholder Services (ISS) explicitly includes split roles as a factor in its rating process.

Cons
At the same time, an equal number of compelling arguments have been made pointing out the pitfalls and risks of splitting CEO and Chairman roles:

Sharing Power Is Unrealistic and (Often) Unacceptable. Since the shared role is by far the norm in the US, most candidates for the CEO position:

Figure 1: Perceived Independence of Chairman—Influencing Factors
a) Are already accustomed to functioning in the dual role mode,
b) Prefer the combined responsibilities, and/or
c) Regard separating the roles as somehow reflecting poorly on the
   Board’s confidence in him/her.

In its recent search for a new CEO, Coca-Cola has been turned down
by several high-profile candidates, at least one of whom openly
expressed fear that one or more powerful Board members would be
too meddlesome.¹

**Creates Unclear Roles and Responsibilities.** Even with explicitly
defined roles, the reality is that situations will emerge where CEOs
and Chairmen will be unclear about where their responsibilities begin
and end. This ambiguity will only be accentuated when the individu-
als involved are strong-willed and (as stipulated) “independent.” To
maintain that this potential problem is “solved” by corporate bylaws
either severely limits the power of the Chair to the point of being ine-
fectual in providing oversight, or ignores a reality compounded during
times of crisis.

**Creates a Position That Is Hard to Fill.** By its very nature, the indepen-
dent, non-executive Chair position is demanding on many levels. To
lead the Board effectively, this independent Chair must understand
the business, the industry, changing markets and technology, and
the overall corporate strategy. While these are areas that a CEO func-
tioning in the Chair role can be expected to know, most independent
Chairmen will have to master this information—and stay on top of
it—through their own continuous effort. Serving in the lead govern-
role without at least these skills could be hazardous.

**Provides No Guarantee of Good Governance or Company
Performance.** Unfortunately, splitting CEO and Chair roles in no way
 guarantees “good” governance. For examples, see Enron, WorldCom,
and Global Crossing.

**Increases Administrative Complexity.** Obvious problems are created
by having two people’s schedules and needs to coordinate instead of
one. But even more vexing is the challenge of bridging the will and
intent of senior management with the will and intent of the Board if
this process is overseen by two individuals, namely, the CEO and inde-
pendent Chair.

**May Create an “Overly Ambitious” Board.** Experience indicates that
a strong, independent Chair is perceived as an ally by other indepen-
dent Board members, who, in turn, take this as a signal that their status and power have increased. A “heavy-handed” Board can create problems with management and company operations. A similar danger is the unwitting creation of an over-ambitious Chair who throws Board governance into a state of total disarray, or, conversely, an under-ambitious Chair who is simply a mouthpiece for the CEO.

Does Installing a Non-Executive Chair Really Make a Difference?

With all of these pros and cons regarding split roles, one invariably asks if splitting the roles of CEO and Chair really makes a difference. Many researchers claim that there is no evidence to support the notion that splitting roles improves performance in any measurable way. In April 2004, Forbes magazine published an analysis of 11 companies that have split the roles since 1997. Of these 11, only five outperformed the S&P 500 during this period, but as a group the 11 have outperformed the market by 11 percent. Interesting, perhaps, but no cause-and-effect relationship has been established here.

In addition to the lack of real evidence supporting either approach, vis-à-vis overall company performance, a separate issue is that the new independent Chair position is difficult to fill. During an ISS-sponsored event in March 2004, Charles Elson, Chairman of the University of Delaware’s corporate governance center, stated clearly that the role of non-executive Chair, if designed to satisfy the intended outcomes of its proponents, will be difficult to fill and sustain, requiring a “very special and rare person.”

One potential catch-22 will undoubtedly center on the conflict between real (and, more importantly, perceived) independence and the requirement for significant compensation. The need for significant compensation will increase as the requirements for Chairmen become more demanding. Similarly, in addition to the increasing fear of liability, the non-executive Chairman position is envisioned by most experts as requiring at least a 50 percent commitment of time to be done well. While many non-executive Chairman candidates are likely to be financially secure and independent, the level of compensation required to attract and retain these candidates to commit to this level of work will undoubtedly raise questions about their true independence. And these compensation arrangements will also bring into question how likely it is for a non-executive Chair to go against the will of the CEO and perhaps the other Board members as well.

Given the status, skills, time, and exposure to litigation, not to mention unflattering press, that the position will demand, just how many qualified individuals will be willing to accept this job? Board recruiters are already finding a very different climate than existed in the pre-Sarbanes-Oxley days, given the increase in scrutiny coupled with increased personal liability. Corporations seeking candidates with the required stature and experience are finding candidates who are hesitant to start what is, in effect, a new career in (by definition) a new company in a volatile climate of possible litigation and shareholder revolt.

When Does a Split Make Sense?

There is no question that, at times, the division of roles does make sense in specific situations. We have seen situations, for example, where two senior leaders of a company have worked so closely that eventually they decide to use the split Chair/CEO structure to divide formally the workload and do what each likes to do best, e.g., long-term versus shorter term planning and execution. In the case of Dell, for example, President Kevin Rollins has a long history of close collaboration with Michael Dell (including adjacent offices separated only by a sliding glass door). According to a Dell spokesperson, all that really changed when these roles were “split” was Rollins’s business
A significant change in governance architecture may be completely ineffectual or, worse, potentially harmful.

card. At Citigroup, under pressure, Sanford I. Weill handed over the CEO job to Charles O. Prince, then the head of Citigroup’s investment bank and a longtime friend. Oracle CEO Lawrence J. Ellison relinquished the Chairman role to Jeffrey O. Henly, who had been the chief financial officer. Obviously, these structural changes do not satisfy demands for an independent Chair.

Another scenario we touched upon earlier is a crisis situation, which can come in many forms. If the crisis stems from a loss in confidence by shareholders and/or the Board that stops short of removing the CEO, then installing an independent Chair might be a wise decision. Of course, crises come in many other forms (both short- and long-term), and it could also make sense to use an independent Chair to provide counsel, time, and focus. We wonder if recent cases of crisis mismanagement (Dow Corning, Perrier, Coca-Cola, Target, Martha Stewart) don’t cry for the independent perspective and focus that a non-executive Chair could bring.

In our work, we’ve observed that one of the best times to split the roles, if a company has decided such a split is prudent, is during periods of CEO succession. Traditionally, the exiting CEO, a seasoned mentor and partner who knows the organization extremely well, assumes the Chair role, creating an obvious opportunity to install a “new” leader in the CEO role. Organizations that do this often call the former CEO and new Chair a “non-executive Chair,” which is technically true. However, this maneuver is a far cry from what proponents of separating CEO and Chair roles have in mind in their demands for an “independent” Chair.

Succession can also create an opportunity to install an independent Chair, someone with no former ties to the company. This is particularly attractive if the exiting CEO is leaving in disfavor, a situation that is increasingly common.

Complementary Actions

As proposed initially, a significant change in governance architecture may be completely ineffectual or, worse, potentially harmful. Many of the arguments against splitting the roles are valid, despite the best efforts to define roles and carefully select candidates. We propose that the most beneficial approach comes from instituting systematic and enduring governance practices, practices that progressive Boards are beginning to adopt with increasing frequency. These include:
• **Create a Lead or Presiding Director.** Creating a Lead or Presiding Director position was proposed by the Conference Board Blue Ribbon Commission as an alternative to splitting the CEO/Chair positions. Adopted by one-fifth of all US public companies in 2003, this practice has increased from only 3 percent of companies in 2002. The recent USC/Oliver Wyman Delta Board survey results indicated that 17 percent of Boards we polled initiated this practice last year.

• **Align Board Composition With Corporate Strategy.** Many corporate strategies call for particular talents on the Board. For example, an organization planning to grow through acquisition would be well served to have at least one Director who has experience in mergers and acquisitions. A careful examination of Director capabilities in light of strategy often suggests the need for a change in Board composition.

• **Use Systematic, Comprehensive Board and CEO/Chair Evaluations.** Creating accountability and oversight clearly calls for regular performance reviews. In our Board Survey, 56 percent of Directors polled reported that their Boards’ performance is formally evaluated, up from 42 percent in 2001. While a move in the right direction, this figure is surprisingly low given NYSE Board evaluation requirements that went into effect in 2004. Even more surprising in this era of heightened attention to corporate governance is that Directors are rarely evaluated on an individual basis. Only 24 percent of the Directors we polled said that their Boards regularly evaluate individual Directors, up from 19 percent in 2001, but still fewer than one in four. And only 79 percent of these Directors reported that their Boards have a formal process for evaluating their CEO’s performance. This is up from 67 percent in 2001, but anything less than 100 percent is, in our opinion, too low.

• **Ensure Active Involvement of the Board in CEO Succession and Strategy Formulation.** Every indication suggests that CEO succession has risen to the top of many Directors’ priority list. Yet the USC/Delta Organization & Leadership Board Survey shows that one third of responding Directors feel insufficiently engaged in CEO succession, and half rate the effectiveness of the succession process as less than favorable. Clearly, this is an opportunity for the Board to get more deeply involved in their effort to protect the interests of concerned constituencies. Similarly, Boards are too often asked to rubber stamp corporate strategies, with one-third of the Survey respondents reporting that “less than sufficient” time is devoted to this important activity.

• **Ensure Strong Board-Senior (non-Director) Management Communication.** Perhaps the most compelling argument for separating the CEO and Chair positions is to minimize the possibility that a CEO can act as a screen or filter of information.

<table>
<thead>
<tr>
<th>To what extent: Does the Board have independent information channels that provide useful information about company operations and management practices?</th>
<th>To a very small extent</th>
<th>To a small extent</th>
<th>To some extent</th>
<th>To a great extent</th>
<th>To a very great extent</th>
<th>% Favorable (% of directors who responded to a great extent/to a very great extent)</th>
</tr>
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<tbody>
<tr>
<td>Does the Board have independent information channels that provide useful information about company operations and management practices?</td>
<td>5%</td>
<td>24%</td>
<td>43%</td>
<td>26%</td>
<td>2%</td>
<td>28%</td>
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Information to which the Board has access. Data from the USC/Oliver Wyman Delta Board Survey suggests that Boards need to identify and access more information channels, beyond those provided by management, to get a clear picture of how the company is being managed and how well it is operating.

There is a caveat here: providing the Board with access to information regarding operations and management practices must be preceded by a clear separation of roles and responsibilities between the Board and management. Significant disruption and frustration results when management feels that the Board is overly intrusive and/or the Board feels underutilized or prevented from carrying out its charter. An active dialogue and agreement about the optimal degree of Board engagement in various governance activities is well worth the investment of time.

**Summary**

Separating the role of the Chairman and CEO may be too facile a solution to a more complex set of issues. There are times when the separation of CEO and Chair roles makes sense and instances where a non-executive (independent) Chair is needed. But there is no single structural solution to any organization’s woes, and blind submission to demands from external forces may do more harm than good.

Boards must do the hard work of considering the benefits of separating the roles and the benefits of keeping them unified. Although some corporations seem to have found a way to destroy their reputations amazingly quickly, and their Boards are aptly charged with being asleep at the switch, separation of CEO and Chair roles may not be the solution. Heading off corporate malfeasance requires ongoing diligence, including many of the interventions already being instituted by progressive Boards.

When the need for change is indicated, there must be a conscious decision to reject quick fixes. A long-term solution might require structural change, for example, but significant change usually requires systemic modifications to the ways that the Board and management operate and how they work together. This requires a look at the overall composition of the Board, leadership of the corporation and the Board, how the Board receives information, how they assess themselves and against what relevant criteria and, finally, the direction of the business.

*If the independent Chairman is a substitute CEO with less business savvy, or if the CEO believes that the Board is now someone else’s responsibility, similar mischief will occur.*
Ultimately, structure is less important than defining roles and the working relationships (and behaviors) that evolve over time. Identical structures used in different settings can have dramatically different results. Whether the solution involves creating a lead/presiding Director or a non-executive Chair, the real challenge is to invest the time in defining roles, in building the relationships, and in assessing and improving these relationships over time. Parallel challenges are inherent in CEO-COO relationships, which we discuss as “a balancing act on the threshold of power.”2 The key to successfully separating power is getting clarity around who is responsible for what (and where each person’s responsibilities end), how leaders work together, and how they actively manage both of these factors over time.

It would be nice to think that the complexities of corporate failure could be solved by separating the CEO and Chairman role. Our view is that in many instances this makes the best sense. In other circumstances, however, it will intensify failure because so few people are truly trained to understand the fundamental role and requirements of governing. If the independent Chairman is a substitute CEO with less business savvy, or if the CEO believes that the Board is now someone else’s responsibility, similar mischief will occur. The best solution is for the Board to take stock of itself, determine its strengths and weaknesses, and select the structure and leadership that best fits the business needs at this time.

Notes


About Oliver Wyman Delta

Oliver Wyman is an international management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational change and transformation, and leadership development.

Oliver Wyman Delta works with CEOs, executive teams, boards, and other senior executives, in the design and implementation of large scale, transformational change with impact across the enterprise. We help leaders increase their individual effectiveness, teams improve their collective performance, and organizations achieve their strategic objectives.

We bring our deep understanding of the leadership challenges at the top of the organization and proven approaches to:

- Maximize CEO and senior executive effectiveness
- Enhance senior team performance
- Build an engaged and high-performing Board of Directors
- Manage executive talent and CEO succession
- Redesign organizational structures and processes
- Manage the dynamics of change
- Develop and implement new strategies
- Shape a culture consistent with your strategy
- Use communications to engage and mobilize
- Apply metrics to measure performance and impact

To obtain further information about Oliver Wyman Delta, please contact us at deltinfo@oliverwyman.com or the telephone numbers below.

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