Should the Role of Chairman and CEO be Split?

By

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In American folklore, the feud between the Hatfields and McCoys has long served as a metaphor for bitterly warring rival parties. However, this twenty-eight-year dispute in the backcountry of West Virginia pales in comparison to the battle that rages among thought leaders about the best way to lead a board. Some steadfastly hold to the notion that the CEO and board chair should be the same person. Others think the roles should be split. A third camp posits that the CEO should have the chair responsibilities with a separate "lead director" position designating the top director position. Shareholder activists strongly support the opinion that the role of chairman and CEO should remain separate, but in reality, the practice of separating the two remains below 50% in larger corporations. Each argument has its merits, but the advantages of separation outweigh the counter point for three reasons.

First, when the roles remain separate, people can address the practical and ethical demands of their unique positions. The CEO needs to spend time doing three things: growing the business, making strategic decisions to grow the business, and developing the bench. When CEOs take their eyes off any one of these balls, dire consequences ensue. Arguably, with the exception of developing talent, two of the three responsibilities mirror the board chairman's duties too, but chairmen have additional duties that create the conflict of interest.

The function of the chairman is to run board meetings and oversee the process of hiring, firing, evaluating, and compensating the CEO. Clearly CEOs cannot perform these duties impartially. Without the direction of an independent leader, the board will find performing these

critical functions much more difficult, if not impossible. On the other hand, when chairmen can play the role of advisors, and the CEO can concentrate on delivering on the strategy, accountability stays clear, and the CEO can retain both the responsibility for results and the decision making authority to ensure success.

Second, splitting the positions guarantees a more reasonable span of control, which cannot happen when the organization relies too heavily on one person in the suboptimal combined leadership structure. The reasons for checks and balances have changed in recent years as executives and boards of directors have experienced a loss of symbiosis. As we remember from science class, symbiosis occurs when there is a close ecological relationship between two different species. Sometimes a symbiotic relationship benefits both species, and mutualism occurs. At other times, one species benefits at the other's expense, resulting in a parasitic relationship. In still other instances competition causes neither species benefits. We have only to open the *Wall Street Journal* on a given day to read corporate examples of each.

The Sarbanes-Oxley Act of 2002 and The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 have created symbiosis challenges and caused executives, especially CEOs, and directors to examine the way they do business. Now, more than ever, directors are taking their responsibilities seriously, speaking up, and striving for results; but in many cases, the evolving relationship between the company's executives and the board has not found the right symmetry. Finding it will depend on several factors—the most critical being checks and balances on span of control. In general, a firm that relies on one individual for virtually all its decision making puts all its proverbial eggs in one basket. If anything happens to that one person, the company takes a disproportionate hit. If that person delivers anything less than stellar performance and decision making, the company takes a disproportionate hit—too risky.

Although researchers offer conflicting data about the advisability of splitting the CEO and chairman roles, common sense tells us there's one thing we cannot question. When the two key roles are unified, the company loses its best shot at limiting one person's power—which can have positive or negative results, depending on the point of view.

Some argue that many successful companies have a combined role, and that their performance exceeds that of competitors that have split roles. The reason is obvious: only those exceptional CEOs who have proven track records had been able to function effectively in the dual role. Less successful leaders have been eliminated. In the short run, therefore, top performing companies have reported that they remain more successful when one powerful, effective leader oversees both the management of the company and the functioning of the board. Proponents of this position also claim that splitting titles dilutes the power to provide effective leadership, creates the potential for rivalry between the separate title holders, and leads to confusion when the company has two public spokespersons. They further claim that CEOs have unparalleled specialized knowledge regarding the strategic challenges and opportunities facing their companies. Similarly, if one accepts the apparently reasonable assumption that the CEO has substantial specialized knowledge, indispensable to the chairman's job, then separating the CEO and the chairman titles necessitates the costly, inefficient, unnecessary, and incomplete transfer of critical information between the CEO and the chairman.

The longer, more general view gives a different perspective, however, and separating the roles still offers the better choice. Eliminating the separate role of the chair subtracts the dispassionate evaluator from the equation. In other words, dual role CEOs, in essence, are left to grade their own homework. Also, boards find firing a non-performing CEO difficult to start with;

if that underachiever is also the board chair, the firing takes on new levels of difficulty. Consequently, in the long run, the dual role scenario does not serve stakeholders well.

The third reason that supports separation of the roles involves the critical role the chairman should serve as dispassionate outside advisor and advocate. Organizations usually choose experienced, seasoned industry veterans as their chairs. These chairmen bring a wealth of knowledge and proven track records to a sometimes underdeveloped and less experienced table of executives. When executives can rely on a strong chairman who is different from their CEO, the chair can act as a lubricant among all entities, especially when inevitable conflict occurs. In these cases, the symbiosis of quadruple mutualism can occur: CEOs perform more effectively; directors realize more success in their roles; the chairman can retain appropriate control; and executives in the firm can access the wisdom and counsel directors can provide.

Strong arguments persist on each side of the splitting questions, with the research offering conflicting and less-than-helpful conclusions, chiefly because those doing the research offer short rather than long-term observations. While the gain may be greater in the short run to combine the positions, a long-term perspective clearly points to separation. Those who stand to lose power and control will be the most vocal critics of splitting the positions, but that's to be expected. After all, the Hatfields and McCoys kept their feud alive for a long time, and dozens of people lost their lives to the warfare. Let's hope corporate America enjoys better luck.

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