
CHAIRMAN
CEO

THE EXECUTIVE BOARD CHAIR: BOON OR BANE?

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The role of the Executive Board Chair, combined with the CEO position or otherwise, has been a bone of contention for some time now. There is growing regulatory and investor pressure to, at least, separate the roles of Chairman and CEO. Yet, a majority of listed companies, especially family firms, continue to have Executive Chairs. Are there compelling reasons to have such a position, or is it a means of concentrating and keeping power?

The year is 2012 and you are a member of the board at Walt Disney. After a prolonged history of combined Chairman/CEO roles dating back to Roy Disney in the 1960s, and under shareholder pressure during CEO Michael Eisner's tenure, the roles were separated in a high-profile split in 2004. With a new CEO, Bob Iger, now in place for seven years, you must decide on whether to retain separate roles or to recombine the roles. What would you recommend and why?

Before you provide a recommendation, it bodes well to look at the prevailing trends and practices, and the rationales for them.

Trends

According to data compiled by Deloitte in 2012, 76 per cent of companies in the FTSE 100 Index, 55 per cent of companies in the Toronto Stock Exchange, and half of companies in Germany's DAX 30 have Independent Board Chairs.

Even in the US – long a bastion for Executive Chairs – the data reflects a trend increasingly bucking. According to the latest Spencer Stuart Board Index, among S&P 500 companies, combined Chairman/CEO roles declined from 71 per cent in 2005 to 52 per cent in 2015.

Over here, according to the Singapore Directorship Report 2016, Executive Chairs are also shrinking but remain in the majority (54 per cent) compared to two years ago (57 per cent). Approximately half of the Executive Chairs hold combined Chairman/CEO positions, while a mere 20 per cent of Board Chairs are Independent. (Ed: See "Types of Board Chairs" on page 32.)

Prevailing Wisdom

Proponents of the separation of the Chairman and CEO roles argue that it enables a stronger governance structure and provides a better balance of power. According to Adrian Chan, Head of Corporate, Lee & Lee, "The extent of debate and discussion at the board may be dampened if the roles are not divided. Due to over-concentration of power in one single individual, there are fewer checks and balances if he or she goes down the wrong path."

In essence, the board as a whole and the Chairman, in particular, is supposed to hire, fire, evaluate and compensate management (including the CEO). A combined Chairman/CEO would be hard pressed to carry out these duties leaving aside his or her personal interests. It follows, then, that separating the Chairman and CEO roles, can lead to stronger governance and oversight.

Independent Directors are Key to Good Governance

"It is common to find that Executive Chairs of listcos are founders of the firms and have an intricate knowledge of the business. Therefore, I consider it an advantage and beneficial to the shareholders and stakeholders to have an Executive Chair.

As the business grows, it is prudent to have a separate CEO to oversee operations and ensure smooth execution of the company's business plans.

The important factor to ensure good governance when the company has an Executive Chair is to have strong and competent independent directors on the Board."

Mr Serge Pun
Executive Chairman, Yoma Strategic Holdings

With increased focus on corporate governance, the call for enhanced checks and balances has grown louder – from institutional shareholders, advisory firms and regulators.

Indeed, the Singapore Code of Corporate Governance (the Code) states that "the Chairman and the CEO should in principle be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the board for independent decision making." (Guideline 3.1).

The UK Code requires similar separation of the Chair and CEO position, explaining that "no one individual should have unfettered powers of decision." (Main Principle A2).

The Contrarian View

While the trend towards the separation of roles is clear, to put things in perspective, the fact is that more than half of the S&P 500 continue to have combined Chairmen/CEOs and more than half of listed companies in Singapore similarly have Executive Chairs.

An Executive Chair Is Ideal When Expediency is Needed

"The main advantage of having an Executive Chair is expediency. Management and the board are quickly aligned and in an ideal situation, the board has a very clear and comprehensive idea of the management changes and company strategy. This is because a good Executive Chair, with the benefit of seeing the "whole picture" should co-ordinate and act as a very efficient hub for management and board.

I personally think that such a role is ideal in a company going through massive change where speed is critical. In such a situation it is important for the board to be kept abreast of the changes in the company and to give management their support and views on a timely basis, instead of only after the fact at quarterly board meetings.

Having said that, the Executive Chair should not enjoy unfettered powers and to that end, many Singapore organisations have good structures in place with checks and balances created through the office of the independent directors.

Organisational risk comes about when the same person has been in power for too long and enjoys unshackled power. There are many good executive chairmen who have played their role for decades but you will find that these are often competent and honourable people operating within the framework of a good organisational structure with checks and balances."

Ms Chew Gek Khim
Executive Chairman, The Straits Trading Company Limited

Too Simplistic to Say One Way or The Other

"My view is we need to first consider where the economic vested interests lie, as this will have a great impact on how decisions are made. In the US for example, where most listed companies have a high degree of institutional shareholder ownership, the financial horizon is typically five to seven years.

Whether a company is family or entrepreneur-led, institution-held, or government-linked, will have implications on its goals, underlying objectives, and time horizon. Having said that, while an Independent Chair may not have a significant stake in the company, he or she needs to be mindful of protecting the interests of all shareholders, and not only the minority.

Second, when we talk about checks and balances, it is important for the Chair, whether Executive or Independent, to understand the business. If say you have a CEO who has a majority stake, and an Independent Chair who does not understand the business, how much of a check and balance is that?

We therefore should not have just one way of thinking about the Executive Chairman's role. In my mind, it's too simplistic to say the Chairman and CEO role should always be separate."

Mr Ron Sim
Executive Chairman, OSIM International

In 2005, Jay W. Lorsch and Andy Zelleke argued in a *Sloan Management Review* article that splitting the Chairman and CEO roles results in blurred lines of responsibilities, distracts both parties and creates power struggles.

Executive Chairs are able to combine the detailed executive knowledge of the business and its needs, with the authority and clout that the position of chairman brings. Decisions can be made more swiftly and definitively.

Basil Chan, Independent Director of Yoma Strategic Holdings, which has an Executive Chair said, "The Executive Chair embodies the face and personality of the company more than if the roles were split. This is especially when dealing with third parties and negotiations in developing countries where the understanding of corporate governance is less mature and these parties look to the Chairman as the ultimate authority."

But does the separation of the roles matter to performance? Several research studies suggest there is little correlation, if any, that performance improves when the roles are separate.

A 2006 *Harvard Business Review* article, "Before You Split that CEO/Chair..." cited three studies from the US, UK, and Switzerland which independently concluded that there was no statistically significant variation in performance between companies that have combined Chair/CEO roles and those that do not.

In several instances, shareholders seem perfectly content with the state of affairs. In 2014, JPMorgan Chase shareholders rejected a proposal to separate the roles with more than two-thirds voting "against". The following year, shareholders withdrew a petition to vote, once again, on splitting Jamie Dimon's role.

Impact of Ownership Structure

While weighing the benefits and drawbacks of an Executive Chair comes down to the balance of power, there is another critical factor that must be considered – ownership, particularly when the company is majority founder or family-held.

In Asia, including Singapore, a good proportion of listed companies are closely-held entrepreneurial ventures or family businesses.

The case has often been made that a unified Chair/CEO role in such firms would ensure strong central leadership and oversight in alignment with shareholders' interests, as they are invariably in it for the long haul.

A 2013 study, Asian Family Firms by CGIO of NUS Business School and DBS, found that 43 per cent of the family firms on SGX had combined Chair/CEOs, 2.5 times more than the 17 per cent of non-family firms.

Before we reach a conclusion that combined Chair/CEO roles are inevitable in closely-held companies, a look at family-controlled companies around the world paints a different picture.

The Credit Suisse CS Global Family 900 comprises the 920 largest family-owned companies in the world, all of which are publicly-traded with market capitalisation of at least US$1 billion, as well as family-owned stakes of at least 20 per cent.

Significantly, among the 10 largest family-controlled companies, only two – Facebook and Nike – have a combined Chair/CEO. (See table, "Top Family-Controlled Listed Companies".)

Which perhaps adds yet another dimension for consideration: the company's life cycle.

Novartis has its origins in three companies, all founded in the 18th century. Fritz Hoffmann-La Roche launched his company in 1896. Anheuser Busch InBev's predecessor companies were likewise founded in the 1800s.

In contrast, Nike only came into being in 1964, and Facebook in 2004.

It would thus appear that for a family-controlled company to survive and thrive for centuries or more, across multiple generations, requires an evolution of its ownership and management structure, which then flows through to governance mechanisms and the propensity for an Executive versus an Independent Chair.

It Depends...

As with most issues of substance, there is rarely a one-size-fits-all approach.

Top Family-Controlled Listed Companies

Company	Family	Chair	CEO	Chair Type
Novartis	Sandoz	Joerg Reinhardt	Joseph Jimenez	Independent
Roche	Hoffman-Oeri	Christoph Franz	Severin Schwan	Independent
Walmart	Walton	Greg Penner	Doug McMillon	Non-Executive
Facebook	Zuckerberg	Mark Zuckerberg	Mark Zuckerberg	Executive
Anheuser Busch InBev	Lemann, Sicupira, Telles	Olivier Goudet	Carlos Brito	Independent
Oracle	Ellison	Larry Ellison	Mark Hurd	Executive
Samsung Electronics	Lee	Lee Kun Hee	Oh-Hyun Kwon	Non-Executive
Volkswagen	Piëch-Porsche	Hans Dieter Pötsch	Matthias Müller	Non-Executive
Kinder Morgan	Kinder	Richard D. Kinder	Steven Kean	Executive
Nike	Knight	Mark Parker	Mark Parker	Executive

Between 1991 and 2002, William George had the unique experience of being Chairman and CEO of Medtronic, as well as Chairman only, and CEO only. In a piece published in *McKinsey Quarterly* where he reflected on common governance pitfalls, he states that "one's perspective about a board's governance is strongly influenced by the seat one holds—independent director, Chair and CEO, CEO only, or Chair only."

How then can boards mitigate the potential risk of unfettered power, if an Executive Chair is deemed appropriate?

If there is an Executive Chair but a separate CEO, part of the answer would be to ensure that the responsibilities of each are well spelt out and played out successfully.

If the two roles are concentrated in one person, then boards should have a greater number of independent directors, and appoint one as the Lead Independent Director. The Code requires that the number of independent directors increases to at least half from one-third when the Chairman is not independent. (Ed: see also article on "Lead Independent Directors" on page 33.)

However, ultimately, how effective a board is depends on the boardroom dynamics and how well the other board members deal with the greater concentration of power in the hands of an Executive Chair.

As to whether there should be an Executive Chair or not, it does depend on the circumstances of the company. The reality is that circumstances differ and the role of the Executive Chairman similarly needs to be viewed through different lenses.

Which brings us back to Walt Disney.... the board ultimately decided to once again combine the two roles. ■