ISSN: 2634-1050

CORPORATE GOVERNANCE & BOARDS

VIEWS & INSIGHTS

ISSUE 5
JUN 2021

HELLENIC OBSERVATORY OF CORPORATE GOVERNANCE

ΕΛΛΗΝΙΚΟ ΠΑΡΑΤΗΡΗΤΗΡΙΟ ΕΤΑΙΡΙΚΗΣ ΔΙΑΚΥΒΕΡΝΗΣΗΣ

ISSN: 2634-1050

Splitting the Leadership Roles of CEO and Chairperson

The leadership structure within any company constitutes an important issue and continues to remain under considerable debate. The topic remains controversial despite the fact that the percentage of companies where one person holds both posts has long been declining. This may be due to several both theoretical and practical reasons, as well as, to various incidents in which corporations have portrayed an inability to monitor executive decisions which in turn, has led to the eruption of corporate scandals. This fact combined with the prolonged financial crisis, have led to an increased interest in numerous serious corporate governance practices and the saliency of who leads the corporate board. The shift away from combining the two roles stems from a philosophy of accountability and corporate responsibility. By separating them, a company can clearly distinguish management authority from board authority and empower the chairman and CEO to pursue their respective duties without concern that interests in one position might negatively influence the other (Foster, 2019).

The question of whether the roles of chairman and chief executive officer should be held by separate individuals has long been a source of conversations, and sometimes conflicts, in boardrooms and among shareholders. One of the major functions of the board is to supervise management. If the chairman of the board is also in management, then that person is in effect marking their own exam papers.

As a result, the monitoring function of the board attracts the majority of the attention as compared to other primary board roles — which is to advise and provide resources to the firm. At the same time, legislation, codes, and regulations have placed great emphasis on the need for the separation of the roles of the CEO and the Chair of the board in light of enhancing further the element of independence (e.g., UK Corporate Governance Code, 2020).

Academics, regulators and practitioners tend to agree that these two roles/positions are distinct and should not be held by the same person. They also argue that the decline of some major corporations' performance is mainly attributed to CEO duality, causing a failure to independently monitor the boards and consequently top management decisions. Hence, they strongly recommend that a separation of the two roles is critical.

This view is embodied in various reports like the UK Corporate Governance Code (2020), the G20/OECD Principles of Corporate Governance (2015), the ICGN Global Corporate Governance Principles (2017) and NYSE Corporate Governance Guide (2014).

On the other hand, there is a number of CEOs and governance experts who argue that there is not one ideal leadership structure and that each company should adopt the configuration

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that better fits its needs. For example, separation of the roles could put the CEO of a multinational corporation at a disadvantage when dealing with political leaders, peers, and major stakeholders outside the boundaries of the country (Korn Ferry, 2017). Moreover, as reported by FT (2019) there have also been examples where a strong leader was able to combine the two roles successfully over a long period of time. Jamie Dimon, deserves credit for steering JPMorgan for more than a decade as both CEO and chairman. Typically, companies wait until a new CEO steps into the role to separate the chairmanship. Researchers for a 2016 Stanford study found that succession prompted chairman-CEO separation 78% of the time. However, there can be change even when a CEO remains in place. Renault, for example, separated its chairman and CEO positions after its last dual executive, Carlos Ghosn, was arrested in Japan on charges of financial misreporting at Renault's partner company, Nissan (Foster, 2019).

One issue that should be emphasised is that although there is much discussion on the CEO duality, there is not enough light shed on the independence of the role holders. It is also argued that independence of the chairperson in cases of separation, should also be ensured. Needless to mention that this does not happen by allocating the role to the company's recently retired CEO.

The Corporate Reality: US and Europe

In the United States, the number of non-executive chairpersons has been gradually increasing. In 1998, 16 percent of the S&P 500 had non-executive chairpersons (i.e. someone who was not the CEO) and by 2008, the same figure climbed up to 39 percent. In 2016, it increased to 51 percent indicating that more than half have become non-executives (Korn Ferry, 2017). Nevertheless, with a closer look, many of the non-executive chairs are former CEOs of the company, and therefore they cannot be considered as truly independent. By looking at the figures, all 16% of non-executives in 1998 were former executives and the same held true for more than half of the non-executives in 2008. This trend has started to change during the very recent years where the majority of selected non-executive chairpersons are preferred to be independent. In Europe, it is observed that splitting CEO and Chair positions is far more common. German and Dutch regulators hold it as a requirement, while in the United Kingdom, there is no company listed in the FTSE 150 that combines the role of CEO and Chair (2020 UK Spencer Stuart Board Index). Within the UK context, the corporate governance code (FRC, 2020) specifies that a CEO should serve as a Chair of the company only in exceptional circumstances and after seeking advice of the shareholders. The business press has well documented this pressure by reporting campaigns that have been launched by various institutions. Nevertheless, as FT (2019) reported, there are numerous examples of dominant CEOs who captured the board. A prominent example is the case of Royal Bank of Scotland where the presence of Tom McKillop — a former pharmaceuticals executive with no banking qualifications — served as chairman since 2006 but was unable to save the bank from near-collapse.

Combined Chair/CEOs can be found on 48 percent of Spain's largest companies and more than half the CAC 40 companies in France according to LGIM (FT, 2021a). It is interesting to mention that one of the top 20 investors has decided to *punish* those large companies that still maintain the positions combined (e.g., BlackRock, JPMorgan, Facebook) and hundreds more globally. Their intention is to vote against the re-election of all combined chair/CEOs from the current year onwards (FT, 2021a).

The Current State in Greece

Looking at the Greek reality and further considering the evidence as presented in the Reviews of the Hellenic Observatory of Corporate Governance (www.hocg.eu), it is clear that Greece is more closely aligned to the American practices but remains still distant from the practices of its European counterparts.

The third annual study that included data of all Greek listed companies in 2008 showed that 56.1% of the companies adopted a separated board structure. It is noteworthy to mention that these results do not differ significantly from the first two studies of the observatory (HOCG, 2007; HOCG 2008).

However, similar to the findings from the US companies, not all of them are independent while in the Greek study, the findings show that only 39.7% of the Chairpersons are separated and independent, although had all criteria of dependence been captured in the study, there would be an additional percentage among them proving somehow dependent to their company. As shown in diagram below, figures have shown minor variation, with 2018 reaching the highest degree of independence since 2009 (based on the measured criteria).

The recent legislation in Greece (law 4706/2020) requires that every company has a non-executive chairperson in the board; suggesting that when this is not followed, the company will need to assign a vice chairperson that can enhance the required independence.

ISSN: 2634-1050

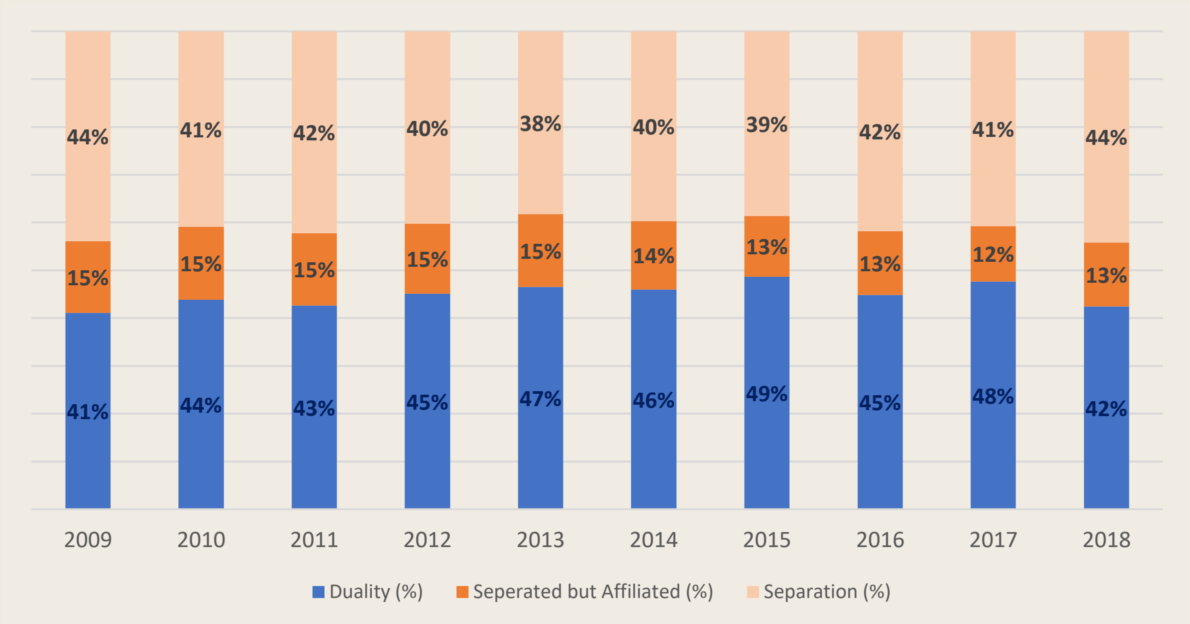

Diagram 1: Duality in Greek Listed Companies (2009-2018) HOCG data

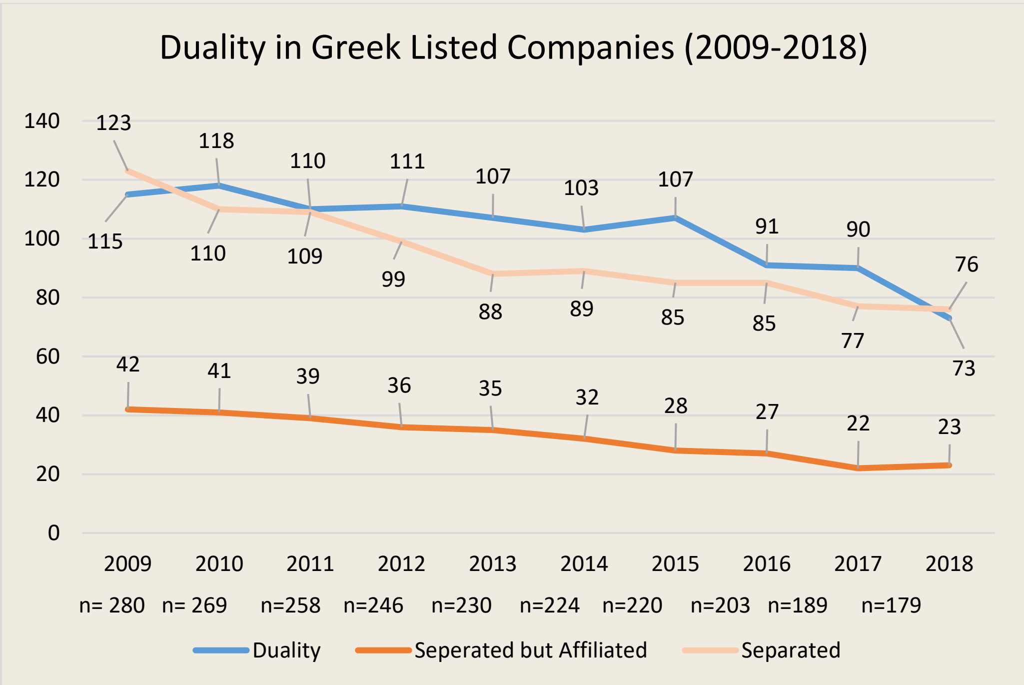

Diagram 2: Duality in Greek Listed Companies (2009-2018)

Discussion

Irrespectively of the academic arguments for or against the separation/duality what is important to consider, is that "allowing the CEO to also serve as board chairperson (CEO duality), compromises the ability of the board of directors to fulfil its governance role. Given that two of the central roles of the board of directors are to monitor the actions of top management and to evaluate their performance, CEOs who also serve as chairpersons of the board are, in effect, expected to monitor and evaluate their own performance" (Rhoades et al, 2001).

Business leaders and pressure groups generally agree that to manage today's large, global companies is a massively complex, challenging, and time-consuming job so splitting the roles, can free up the time of CEOs to focus on additional areas of the business. At the same time, it is argued that the chair's job has become more time-consuming and demanding, especially in light of greater compliance and reporting requirements. It can be a full-time job to ensure that one follows best practices and manages the board and it becomes a substantial responsibility in today's organisational environment. Similarly, it can be argued that "there is enough 'CEO work' for a CEO to give up the chairman's role" (McKinsey Quarterly, 2004).

A suggested way for companies to proceed to the direction of separating the CEO and Chairperson positions is to start considering independent candidates from a pool of externals for the future succession of the Chairperson's position.

Independence is a complicated issue to deal with and despite the various codes with recommendations and regulations in place, real independence can remain questioned:

"Amazon chief executive Jeff Bezos will step aside later this year to become executive chairman" (FT, 2021b).

The choice to maintain or even recombine the chairman and CEO roles tends to have roots in the economic environment. During the 2008 recession, for example, the proportion of S&P companies with combined positions temporarily plateaued at around 60% rather than continuing its downward trend (Foster, 2019). Boards likely feared that separating the two roles could cause change that would be particularly distracting during an economic downturn.

The chairman and CEO positions are different. If the CEO is also the chairman, it can look as though the CEO reports to himself or herself. However, every executive and situation are unique. Boards must carefully consider whether and when to combine or separate the chairman and CEO roles before they make a decision either way.

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Dr. Ioannis Gkliatis

MBA Director, Hertfordshire Business School, University of Hertfordshire, Senior Research Fellow of the Hellenic Observatory of Corporate Governance.

Dr. Dimitrios N. Koufopoulos

Director of the Global MBA programme at the University of London, Visiting Professor in the School of Law, Centre for Commercial Law Studies, Queen Mary University of London, UK, Honorary Research Fellow at Birkbeck University and Founder and Director of Research at the Hellenic Observatory of Corporate Governance.

Dr. Chris Grose

Assistant Professor, Department of Accounting and Finance, International Hellenic University, Senior Research Fellow of the Hellenic Observatory of Corporate Governance.

Dr. Epameinondas Katsikas

Lecturer in Accounting at Kent Business School, University of Kent, Senior Research Fellow of the Hellenic Observatory of Corporate Governance

Konstantinos Athanasiadis

Senior Research Associate, Hellenic Observatory of Corporate Governance, PhD Candidate Birkbeck University.

Michail Fygkioris

Senior Research Associate, Hellenic Observatory of Corporate Governance.

Vaslios Katsoulis

Senior Research Associate, Hellenic Observatory of Corporate Governance

Published by the **Hellenic Observatory of Corporate Governance**.

Citation: HOCG (2021), "Splitting the Leadership Roles of CEO and Chairperson", Corporate Governance and Boards: Views and Insights, Issue 5, June, ISSN: 2634-1050

DOI:http://dx.doi.org/10.13140/RG.2.2.27941.83688

Accessed at: https://hocg.eu/wp-content/uploads/2021/06/HOCG-Issue-5-Splitting-the-Leadership-Roles-of-CEO-and-Chairperson.pdf

Email us: info@hocg.eu

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