

SPLITTING THE ROLES OF CEO AND CHAIRMAN OF THE BOARD

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Recent corporate scandals have focused attention on corporate governance issues, one of which is the role of the CEO and his/her relationship with the Board of Directors. Presently, most major companies have CEOs who also hold the position of Chairman of the Board. In an effort to improve corporate governance practices, it has been suggested that companies split the roles to facilitate the mission and oversight of the Board and to guard against a potentially domineering CEO, which has been a perceived problem in several recent corporate failures such as Enron and Worldcom, and most recently in the shareholder dissatisfaction at Disney.

CEO-Chairman Split Movement

The recent trend of separating the positions of CEO and Chairman received a boost in January 2003, after the Commission on Public Trust and Private Enterprise of the Conference Board recommended that companies consider splitting the positions, or at least appointing a presiding Director. "The commission recommended that the Board should provide an appropriate balance between the powers of the CEO and the independent directors and suggested three approaches:

- Separating the office of chairman and CEO;
- Having a non-executive chairman and a lead independent director, or if the chairman and CEO are the same position;
- Establishing a presiding director position for leadership of the independent directors."

Additionally, the roles of Chairman, lead independent Director, and presiding Director should be clearly defined.

CEO-Chairman Split Support

Supporters of shareholder proposals to separate the roles of Chairman and CEO generally believe that shareholder interests are best served *only* if the CEO is required to report to a Board chaired by an independent Director. Proponents also argue that it is impossible for the Chairman to evaluate his/her own performance effectively; and therefore, should not determine his/her own compensation.

The table below indicates where the S&P 500 presently stands in regards to this recent trend: ²

Chairman is ...	# Instances	Percentage
NOT CEO and is Outside Director/Independent Director	31	6.2%
Former CEO	65	13.1%
Current or Former Executive	9	1.8%
Chairman/CEO	392	78.9%
Total	497	100.0%

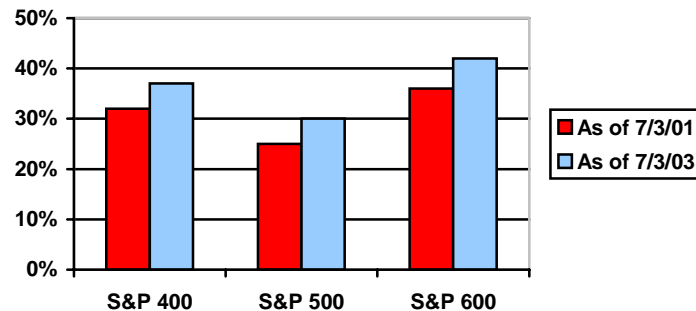
¹ Commission on Public Trust and Private Enterprise. The Conference Board. 2003.

² Exclusive special report on CEO/Chairman splits in the S&P 500: How many and How independent? The Corporate Library, 2003.

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Percent of Companies with Separate Chairman and CEOs

According to ISS Data, the percentage of companies that separate the Chairman and CEO into distinct positions has increased from 45% in 2001 to 50.4% in 2003. This increase appears to be across the board in all S&P sectors including the S&P 400 (mid-cap sector), S&P 500 (large-cap sector), and S&P 600 (small-cap sector).³



Compensation Trend

After companies split the roles of their CEO and Chairman, the data indicates that the Chairmen who are independent Directors do not typically receive additional compensation over that of other Directors. However, Chairmen that were former CEOs continue to be compensated as employees, not as Directors. Additionally, to prevent pay conflicts between the CEO and the Chairman when the positions are separated, it is strongly recommended that neither of them should serve on the Compensation Committee.

Conclusion- Implications

In part due to the recent awareness of this trend, companies are moving in the direction of splitting the positions of CEO and Chairman, with the expectation of improving corporate governance. This shift is expected to develop an open and positive relationship between the CEO and the Chairman. As this change occurs, a large amount of mutual respect, understanding, and tolerance will be required. With the separation of these roles, the CEO will be better able to concentrate on managing the business, while the Chairman will manage the Boards corporate oversight functions and ensure that the Directors are able to effectively fulfill their responsibilities.

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³ Ibid Footnote 2