



## CEO-as-Chairman Still the Rule in US

**US companies are far more likely to appoint a lead independent director than separate CEO and chairman into separate roles.**

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Lead independent director or non-executive chairman?

This is the choice companies are making these days to meet governance standards.

So far, it's clear that most companies in the US are more comfortable with the former rather than splitting up the CEO and chairman roles.

According to a new report from Moody's, more than 60 percent of S&P 500 companies had a lead or presiding director in 2005, up from 26 percent in 2003.

In contrast, just 15 percent of larger US companies had a non-executive chair, which is more commonplace in the United Kingdom and Canada.

This 15 percent figure, however, is inflated, argues Moody's, since about half of non-executive chairs are either former CEOs of the company, former CEOs of entities the company has taken over, or do not qualify as independent for other reasons.

To play a meaningful role, Moody's says a presiding or lead director must, among other duties, have the authority to call for meetings of the independent directors, help set agenda items at all board meetings, and also take responsibility for coordinating the response of outside directors to any crisis.

"Independent board leadership is important because boards are collegial bodies that can react too slowly to bad news," says Moody's managing director Ken Bertsch, an author of the report, in a statement.

In general, Moody's says the presence of either an independent chair or a lead director improves board effectiveness.

"We believe the arguments against independent board leadership are outweighed by advantages offered by clarity of accountability and the strengthened ability of independent directors to respond quickly in a crisis," it elaborates in its report. "However, the success of any given structure is dependent on the individuals who hold key roles and how they work together. It is important that the chair and CEO roles are defined, and that the responsibilities and limits of each role are respected."

The push for either a lead director or independent chair comes from several sources, notes Moody's.

In 2003, a Conference Board commission said every board should consider appointing an independent chair. If the chair and CEO roles are combined, the commission said, a board should appoint a "presiding director" with broad responsibilities, including, at a minimum: "presiding at executive sessions of the non-management directors; serving as the principal liaison to the independent directors; having ultimate approval over information sent to the board; having ultimate approval over the board meeting agenda; and setting meeting schedules."

In 2004, the Blue Ribbon Commission on Board Leadership of the National Association of Corporate Directors (NACD) recommended that all boards appoint an independent leader of the board using one of two leadership models: a non-executive chairman who is leader of the whole board, or — in the event that the CEO serves as chairman — a "lead director" who is independent.

In 2005, The Business Roundtable said that "Although no one structure is right for every corporation, it is critical that the board has independent leadership." The Roundtable suggested the alternatives of independent chair, a lead director or a presiding director.

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