TOPIC: Board Leadership - Chairman, CEO, and Lead Director

SUMMARY: This memo provides guidance for boards of directors regarding the pros and cons of differing models of board leadership.

GOVERNANCE PRINCIPLE(S):

Principle V: Independent Board Leadership. Governance structures and practices should be designed to provide some form of leadership for the board distinct from management

Source: Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Traded Companies. Download a complimentary copy at www.NACDonline.org/LeadingtheWay

KEY FINDINGS:

The leader of the board of directors is the chairman, also called the board chair. The board chair may be:

- An Independent chair
- Combined with CEO role
- An executive chair (a former CEO)

PROS AND CONS OF EACH STYLE

COMBINED CEO-CHAIR ROLE

- This approach is practiced by a majority of very large public companies.
- Favored it because it leaves no doubt as to who is in charge of the company.
- A possible drawback is CEO domination of the board, but if the board has a lead director, this model can work.
- Companies identified as having both high governance scores (according to two leading governance rating agencies) and also positive financial performance (having double-digit shareholder returns) tended to combine the two roles.

Source: Report of the NACD Blue Ribbon Commission on Board Leadership
SEPARATE ROLE WITH INDEPENDENT DIRECTOR AS THE CHAIR
- Recommended by governance experts such as Ira M. Millstein, director of NACD.
- Strengthens board independence
- Helps in succession planning
- Improves efficiency of the board
- Fundamental difference in roles (i.e., leading the board, not the company)
- When a board has a lead director (see below), an independent chair is not necessary. Very few companies (about two percent) have both an independent chair and a lead director.

SEPARATE ROLE WITH PAST CEO AS THE CHAIR
- Used in a minority of cases (about one in five)
- Can be effective as a device for transition, but not recommended as a long-term model.
- The past CEO can find it difficult to transition from a day-to-day, hands-on management role to a more lofty governance role.
- If the executive chair is a recent CEO who has been successful, and continues to exercise influence in the running of the company, the current CEO may lack the clear operating authority needed to be effective.

RESPECTIVE DUTIES OF A CEO, CHAIR, AND LEAD DIRECTOR
The following chart sets forth the responsibilities of the board leaders—comparing the distribution of responsibilities in a CEO/lead director model with the distribution of responsibilities when there is an independent/nonexecutive board chair.

<table>
<thead>
<tr>
<th>Areas of Responsibility</th>
<th>Chair/CEO Role</th>
<th>Lead Director Role</th>
<th>Separate Chair Role</th>
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</thead>
<tbody>
<tr>
<td>Chair/CEO Model</td>
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<tr>
<td>Full Board Meetings</td>
<td>Has the authority to call meetings of the board of directors</td>
<td>Participates in board meetings like every other director</td>
<td>Has the authority to call meetings of the board of directors</td>
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<td></td>
<td>Chairs meetings of the board of directors and the annual meeting of shareholders</td>
<td>Acts as intermediary – at times, the chair may refer to the lead director for guidance or to have something taken up in executive session</td>
<td>Chairs meetings of the board of directors and the annual meeting of shareholders (although in some cases the CEO chairs in the presence of the separate chair)</td>
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<td></td>
<td>Suggests calling full board meetings to the chair when appropriate</td>
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<td></td>
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<tr>
<td>Separate Chair Model</td>
<td></td>
<td></td>
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<tr>
<td>Executive Sessions</td>
<td>Receives feedback from the executive sessions</td>
<td>Has the authority to call meetings of the independent directors</td>
<td>Has the authority to call meetings of the board of directors</td>
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<td></td>
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<td>Sets the agenda for and leads executive sessions of the independent directors</td>
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<td></td>
<td>Briefs the CEO on issues arising in the executive sessions</td>
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<tr>
<td>Board Agendas and Information</td>
<td>Takes primary responsibility for shaping board agendas, consulting with the lead director to ensure that board agendas and information provide the board with what is needed to fulfill its primary responsibilities.</td>
<td>Collaborates with the chair/CEO to set the board agenda and board information</td>
<td>Takes primary responsibility for shaping board agendas in collaboration with the CEO, consults with all directors to ensure that board agendas and information provide the board with what is needed to fulfill its primary responsibilities.</td>
</tr>
<tr>
<td>Board Communications</td>
<td>Communicates with the all directors on key issues and concerns outside of board meetings</td>
<td>Facilitates discussion among the independent directors on key issues and concerns outside of board meetings</td>
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<td></td>
<td></td>
<td>Serves as a not exclusive conduit (to the CEO) of views, concerns, and issues of the independent directors</td>
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<td>External Stakeholders</td>
<td>Represents the organization to/interacts with external stakeholders and employees</td>
<td>Typically has no role in representing the organization to external stakeholders. Some boards, however, occasionally ask their lead director to participate in meetings with key institutional investors</td>
<td>Can represent the organization to/interact with external stakeholders and employees at the discretion of the board of directors</td>
</tr>
<tr>
<td>Company Operations</td>
<td>Leads company operations</td>
<td>Has no role in company operations</td>
<td>Has no role in company operations</td>
</tr>
</tbody>
</table>
As stated above, the separate chair may either be an independent non-executive (not the former CEO) or an executive chair (past CEO serving as chair). NACD recommends that the separate chair be an independent non-executive.

Source: Report of the NACD Blue Ribbon Commission on Board Leadership

CITATIONS SUMMARY:
- Report of the NACD Blue Ribbon Commission on Board Leadership
- Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Traded Companies

ADDITIONAL RESOURCES:
- NACD Board Advisory Services

For additional updates or insights on this topic visit www.nacdonline.org and use the “search” function, or go to Governance Resources and visit the bookstore.

ABOUT NACD:
Founded in 1977, the National Association of Corporate Directors (NACD) is the only membership organization delivering the insights and wisdom that corporate board members need to confidently navigate complex business challenges and enhance shareowner value. With over 10,000 members, NACD advances exemplary board leadership – by directors, and for directors – by empowering members through education, a forum for peers to share ideas, and an extensive knowledge base of information and publications. NACD fosters collaboration among directors and governance stakeholders to shape the future of corporate governance.