

**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.

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This resource available to: National Association of Corporate Directors (NACD) Members, NACD Faculty

**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](http://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 SYTLE**

**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.

	Chair/CEO Model		Separate Chair Model
Areas of Responsibility	Chair/CEO Role	Lead Director Role	Separate Chair Role
Full Board Meetings	Has the authority to call meetings of the board of directors	Participates in board meetings like every other director	Has the authority to call meetings of the board of directors
	Chairs meetings of the board of directors and the annual meeting of shareholders	Acts as intermediary -- at times, the chair may refer to the lead director for guidance or to have something taken up in executive session	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)
		Suggests calling full board meetings to the chair when appropriate	

<b>Executive Sessions</b>	Receives feedback from the executive sessions	Has the authority to call meetings of the independent directors	Has the authority to call meetings of the board of directors
		Sets the agenda for and leads executive sessions of the independent directors	Sets the agenda for and leads executive sessions of the independent directors
		Briefs the CEO on issues arising in the executive sessions	Briefs the CEO on issues arising in the executive sessions
<b>Board Agendas and Information</b>	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.	Collaborates with the chair/CEO to set the board agenda and board information	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.
<b>Board Communications</b>	Communicates with the all directors on key issues and concerns outside of board meetings	Facilitates discussion among the independent directors on key issues and concerns outside of board meetings	Facilitates discussion among the independent directors on key issues and concerns outside of board meetings
		Serves as a not exclusive conduit (to the CEO) of views, concerns, and issues of the independent directors	Serves as a not exclusive conduit (to the CEO) of views, concerns, and issues of the independent directors
<b>External Stakeholders</b>	Represents the organization to/interacts with external stakeholders and employees	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	Can represent the organization to/interact with external stakeholders and employees at the discretion of the board of directors
<b>Company Operations</b>	Leads company operations	Has no role in company operations	Has no role in company operations

	Officers and employees report to him or her	Officers and employees report to CEO, not to him or her	Officers and employees report to CEO, not to him or her
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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](http://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.