

NOVEMBER 11, 2002

ECONOMIC VIEWPOINT

By Jeffrey E. Garten

Don't Let the CEO Run the Board, Too

Despite sweeping new legislation and a more aggressive Securities & Exchange Commission, effective reform of corporate governance comes down to the performance of boards of directors. Some recent progress aside, these boards still have much to do. One imperative is for them to separate the often-combined positions of chairman of the board and chief executive. While such a separation goes against U.S. corporate traditions, where power is commonly concentrated in one person, it is standard practice in Canada, Britain, and Continental Europe. And in the post-Enron environment, it is an idea whose time has come for our companies, too.

When the CEO also runs his company's board, a number of fundamental conflicts of interest can exist. It is much more difficult for a board to monitor a chief executive's performance and hold him accountable for results if the CEO is also the chairman. This is why so much emphasis has been placed by Congress, regulators, and shareholder groups on having board members with no financial or significant business ties to the companies they oversee. But independent directors alone won't suffice.

Andrew S. Grove, who is chairman of Intel Corp. ([INTC](#)), while Craig R. Barrett is its CEO, made the point to me this way: "The separation of the two jobs goes to the heart of the conception of a corporation. Is a company a sandbox for the CEO, or is the CEO an employee? If he's an employee, he needs a boss, and that boss is the board. The chairman runs the board. How can the CEO be his own boss?" In a recent survey of board members from 500 large U.S. companies, McKinsey & Co. found similar views. Nearly 70% of respondents said a CEO should not run the board.

There is another, perhaps more important reason to separate the roles. Some 80 million Americans own stock in companies today, many of them depending on the income for retirement or their children's education. Chairing a board has therefore become a far greater public fiduciary responsibility. It is also a full-time job. It's not plausible to expect one person to successfully run a major company in an increasingly risky and hypercompetitive global economy and also do everything a good board chairman should do--setting the board agenda, ensuring the board gets the highest quality information, and facilitating communications both among board members and between them and management.

To understand the full scope of the chairman's job, read *Corporate Governance and Chairmanship: A Personal View*, a new book by Britain's Sir Adrian Cadbury, who chaired Cadbury Schweppes PLC ([CSG](#)) between 1975 and 1989. In it, he shows how the jobs of chairman and CEO require different skills and temperament and precisely why the chairmanship itself, when done well, is a far more demanding and specialized job than Americans generally appreciate.

Attorney Ira M. Millstein, who has advised boards as diverse as General Motors Corp. ([GM](#)) and Walt Disney Co. ([DIS](#)), adds another point. "CEOs need to be comfortable taking educated risks," he told me. "At many critical junctures, a CEO needs his board to stand behind him. The more independent the board is, the more significant its support will be. A separate chairman adds important credibility."

To be sure, most of Corporate America hates this idea. I have heard highly regarded chairmen-CEOs such as Lawrence A. Bossidy, recently retired from Honeywell International Inc. ([HON](#)), argue that creating two jobs out of one risks making two people vie for control, with adverse impact on the company's strategy and execution. Others point to companies such as AOL Time Warner Inc. ([AOL](#)), where the chairman-CEO separation hasn't prevented deteriorating performance or undistinguished governance. But there are success stories, too--great corporations such as Intel, Toyota ([TM](#)), BP ([BP](#)), and Nestle ([NSRGY](#)) that

have split the top position and built institutions with substantial long-term values.

New York Stock Exchange Chairman and CEO Richard A. Grasso told me he opposes the idea of separating the top two jobs, favoring instead an independent lead director who would meet after each board meeting with just the other independent directors. But the arrangement is too casual, given the responsibilities and the time commitment involved. After all, no matter how constructive and intense periodic discussions with other directors are, they constitute just one part of managing the board. There are, of course, serious issues to consider. Should a retiring CEO become the chairman or would an outsider be better? How should a chairman be compensated? Under what circumstances should a board remove its chairman? Answers would have to materialize with experience.

Fundamental in any system of governance, public or private, is the concept of checks and balances. The American CEO-centric system of corporate oversight lacks too much of it. It's time for a change.

Jeffrey E. Garten is dean of the Yale School of Management. A former investment banker, he is the author of *The Politics of Fortune* (jeffrey.garten@yale.edu).