A guide to separating the roles of CEO and chair

Having the right structure and composition at the top of a company is essential for success. Legal & General Investment Management (LGIM) believes that the roles of chair and Chief Executive Officer (CEO) should be separated.

The concentration of power in the hands of a single individual can be seen as an advantage for a company. For example, having a single person is thought by many to facilitate quick decision-making. However, LGIM believes that, on balance, the perceived advantages do not outweigh the risks of such a structure. Instead, a separate chair and CEO provides a balance of authority and responsibility that is in both the company’s and investors’ best interests.

BALANCE OF AUTHORITY AND RESPONSIBILITY

### CEO
- Day-to-day management of the company's business
- Leading and executing the strategy
- Dialogue with investors on company performance

### Board chair
- Board and management oversight
- Setting the board agenda
- Board composition and succession planning
- Dialogue with investors on high level strategic topics, governance and management performance

### THE ROLE OF THE CHAIR: A NECESSARY DISTINCTION

The roles of chair and CEO are substantially different and therefore require distinct and complementary skills and experience.

While the CEO focuses on running the company’s business, day-to-day operations, leading and executing the company's long-term strategy. The chair, along with the rest of the board, is responsible for overseeing the actions of management. They are expected to act as a counter-power and constructively challenge the executive directors.

In most markets, the chair represents the board as a whole and is the primary point of contact for dialogue with investors; especially to discuss high-level and long-term strategic topics.

Whilst the chair is involved in the key strategic decisions of the company, they must always adopt a measured approach to ensure they do not act as an executive or, conversely, under the influence of the CEO.

In addition, the chair leads the evaluation of the board, including company management. They are also responsible for the running of the board, setting the agenda, board composition and succession planning matters, such as the recruitment of a new CEO.
BALANCING POWER ON THE BOARD
We think that where a single individual is tasked with both exercising management duties and challenging management simultaneously, this inherently presents a conflict. We believe that separating the two roles ultimately contributes to help a more efficient exercise of both the CEO and the chair duties.

NOMINATION AND SUCCESSION OF THE CHAIR
In addition, the combination of the roles often brings succession planning issues. Most companies indeed find it difficult to appoint the right individual to replace a combined CEO-chair who has had a strong influence and power over the company for many years. This is why, when the time comes for the replacement of the combined CEO-chair, LGIM always expects a company to split the two roles and appoint a permanent independent chair.

Whilst LGIM would not expect a retiring combined CEO-chair to take on the single role of chair, we acknowledge that their presence may remain beneficial for the board after they have stepped down. We therefore encourage boards who wish to continue to benefit from the experience and skills of a retired combined CEO-chair to appoint them as a non-executive director of the board for a stated limited period of time. Allowing them to have a formal position on the board ensures their role and influence remains transparent for all stakeholders.

APPOINTMENT OF A LEAD INDEPENDENT DIRECTOR ON THE BOARD (LID)
In some markets, the appointment of a lead director is recommended to mitigate the negative effects of the combination of the roles of CEO and chair. LGIM acknowledges they have an important role on the board and expects all boards to comprise a LID, however they cannot be substituted to the chair as they have different roles and skillsets. For more details on our approach to the role of the LID, please consult our separate article on the topic available on our website.

LGIM's expectations:
• LGIM acknowledges that changes to the board structure are not without risk and may take time. However, where the roles are currently combined we expect companies to separate the two positions when the incumbent leaves the board.
• Where a company decides to split the roles of chair and CEO, we expect it to ensure that the chair is sufficiently independent to exercise their functions.

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)
LGIM is the investment management arm of Legal & General Group, a FTSE 100 company. We are one of Europe’s largest asset managers and a major global investor, with assets under management of £985 billion.*

To learn more about how LGIM approaches key environmental, social and governance issues, please visit our website: www.lgim.com/uk/en/capabilities/corporate-governance/

* Source: As at 30 June 2018, the total value of assets under management across the group was £985 billion, including derivative assets and assets managed by LGIMA, an SEC Registered Investment Advisor.

Important Notice
This document is designed for the use of professional investors and their advisers. No responsibility can be accepted by Legal & General Investment Management Limited or contributors as a result of information contained in this publication. Specific advice should be taken when dealing with specific situations. As required under applicable laws Legal & General will record all telephone and electronic communications and conversations with you that result or may result in the undertaking of transactions in financial instruments on your behalf. Such records will be kept for a period of five years (or up to seven years upon request from the Financial Conduct Authority (or such successor from time to time)) and will be provided to you upon request.

© 2018 Legal & General Investment Management Limited. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the publishers.

Legal & General Investment Management Ltd, One Coleman Street, London, EC2R 5AA

Authorised and regulated by the Financial Conduct Authority.

M1775