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Don't Force Firms to Split CEO and Chair

By DENNIS CAREY

The latest bad corporate-governance idea to come out of Washington: Senator Charles Schumer's bid to split the chairman and CEO roles at public companies.

About the Author

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Washington has a history of trying to make the engine of American free enterprise safe from democracy. Last time around it was Sen. Paul Sarbanes and Rep. Mike Oxley, whose Sarbanes-Oxley Act, many CEOs believe, forced boards to focus more on compliance than on important strategic matters.

The latest gambit is a proposed legislated mandate, introduced by Sen. Schumer (D-N.Y.) last week, that public companies split the chairman and CEO roles. Unfortunately, Washington is seizing the missteps of a troubled global economy to apply mandates that fly in the face of common sense and proven results.

Driving the bill is a misinformed notion that splitting the roles will lead to better governance and even better management. The fact is many of America's largest corporations exercise good management and governance – with combined chairman and CEO roles.

Today, more than 60 percent of America's largest corporations combine the chairman and CEO roles, according to a Korn/Ferry study of the Fortune 100. One major strength of the American system of corporate governance is its flexibility to respond to the unique culture, history and personality dynamics of each board. In Europe, splitting the chairman and CEO roles has been commonplace for many years, and there isn't a shred of evidence that European companies or U.S. companies with split chairman and CEO roles are faring any better than U.S. companies that have not done so.

Look at A.G. Lafley at Procter & Gamble; Ed Breen, who I placed at Tyco; and George Buckley, who I placed at 3M; and many more. Does Sen. Schumer think that taking the chairman title away from Mr. Lafley will make things better at P&G? Would the Senator take the chairman title away from Mr. Breen, who rescued a scandalized major corporation from meltdown and executed a masterful split of Tyco into three successful public companies?

As a recruiter who recruits CEOs and directors, I am wondering where one will find the hundreds of directors who will have time, beyond that which they already spend serving on their current boards, to become a board chairman. Will this change in role make them more effective than they already are as lead directors? Has Sen. Schumer any evidence that Sam Palmisano, a very successful chairman and CEO of IBM, would take on the role of chairman of Exxon in lieu of his current role as lead director of Exxon? Potential CEO recruits may have concerns about an automatic split of the chairman and CEO role and a blanket approach to managing their individual businesses.

Furthermore, it is not the role of government to mandate changes in companies' governance structures. This right belongs firmly to the shareholders and to the board. Any decision to split the chairman and CEO roles should be based on a multiplicity of factors weighed by the board. It may be helpful, for example, in a transition to a new CEO or riding through a turbulent period. And, if the board fails to act if a split is warranted, shareholders, much like what just happened at Bank of America's annual meeting, can vote with their feet.

Splitting the chairman and CEO roles in no way ensures good governance. Indeed, Sen. Schumer might want to recall that WorldCom, leading up to its collapse, had a split chairman and CEO. He also might want to recall the Hewlett-Packard debacle, when a boardroom leak led to a temporary management and governance implosion when a chairman, separate from the CEO, launched an investigation that included accessing phone records of directors.

It is unfortunate that a world economic crisis has forced so many well-intentioned people to forget that putting more government mandates in place may very well have unintended consequences. Sarbanes-Oxley, for instance was intended to prevent the very financial maneuvering that has helped lead to the current financial crisis in which we find ourselves today. Sarbanes-Oxley clearly didn't achieve much at all, aside from weighing down audit committees with burdensome compliance matters and thousands of immaterial restatements at a huge expense of money and time, according to an article in June's Harvard Business Review that I co-authored with Northeastern professor H. David Sherman and Sprint CFO Robert Brust. The audit committee's time could have been better spent on risk management and important strategic decisions that could have prepared and in some cases, I believe, may have prevented companies from the current fiscal meltdown.

Sen. Schumer, before you do anything rash, call a good cross-section of chairman and CEOs who have successfully managed their companies and brought extraordinary value to their shareholders. If you push this bill, I urge you to consider the unintended consequences. Consider that Congress, not the shareholders and the boards they have elected, will be voting on shareholders' rights to choose individual or combined chairmen and CEOs.

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