Norges Bank
Investment
Management

Separation of chair-person and CEO

Position paper

Norges Bank Investment Management position

The board should exercise objective judgement on corporate affairs and be able to make decisions independently of management. The board should be chaired by an independent non-executive member. The roles of chairperson and CEO should not be held by the same individual.

Background

The board is responsible for guiding company strategy, monitoring management performance and providing accountability to shareholders. Ensuring that the board functions effectively is of fundamental importance to shareholders. This position paper considers the importance of separating the roles of chairperson and CEO for the independence and effectiveness of the board.

Combined roles are on the decline globally, even in the US where they are still dominant among the largest companies. In the UK, combining these roles has become rare since a recommendation on separation was codified in 1992.

Some jurisdictions allow the combination of board chairperson and executive positions. The German, Dutch and Scandinavian markets do not allow combined roles. We note that the separation of chairperson and CEO can be a source of contention between shareholders and boards..

Arguments for the position

Chairperson and CEO have fundamentally different functions
In leading the board, the chairperson is ultimately responsible for guiding company strategy, monitoring management and promoting shareholders' interests. The CEO is responsible for implementing company strategy as approved by the board, and for the day-to-day management of the company.

Monitoring management performance requires separation of roles
The responsibilities of the board include hiring, remunerating, monitoring and, when necessary, replacing the CEO. For the board to be independent in carrying out these responsibilities, it cannot be chaired by the CEO.

An independently led board can better support management
The board should support management and provide guidance. A chairperson who is independent from management can better provide objective guidance and is less likely to have inherent conflicts of interest.

Arguments against the position

No clear evidence that separate roles lead to higher performance
Many successful companies have a combined chairperson and CEO. Empirical research is inconclusive as to whether separate roles create superior value. If the company is financially successful, there is no reason to insist on a separate chairperson.

A board chaired by a non-executive can lead to inefficiency
A board with a non-executive chairperson will seek to assert its authority. Any conflict between the chairperson and the CEO may undermine investor confidence in the company. Many stakeholders will also prefer to relate to a single decision maker in the company.

The company will not be able to recruit the best CEO if not offering both roles
Some candidates will prefer to assume both roles and be fully in charge. Separate roles may be seen to reflect a lack of confidence in the abilities of the CEO. A combined chairperson and CEO will be seen as a CEO with a stronger mandate and therefore as a more attractive position.

Norges bank investment management considerations

Weighing the arguments, and based on our experience as a global investor, we find that a non-executive chairperson is in a stronger position to guide strategy, oversee management and promote the interests of shareholders. This position reflects our principled approach to corporate governance.

We believe that a clear division of roles and responsibilities is necessary to ensure effective oversight and controls. This may be particularly relevant when monitoring management performance and deciding on a remuneration policy for the CEO and management.

We also observe that some boards decide to allow the combination of roles for certain phases of a company’s life. Where a company has a combined chairperson and CEO, the board must ensure that this governance model is limited to a set period. The board should put in place measures to mitigate any conflicts of interest, including in the hiring, monitoring and remuneration of management. The board should report regularly to shareholders on the effectiveness of these measures.

This position will serve as a basis for our discussions with company boards.