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Why splitting chairman and CEO jobs won't help

By Timothy R. Chrisman

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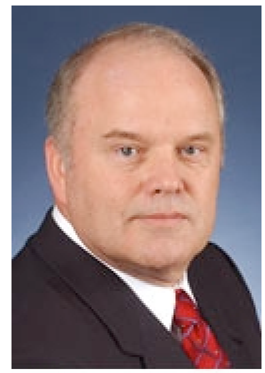
LOS ANGELES (CBS.MW) -- On the great stage of American enterprise, the chorus has been sounding an ominous forewarning for the big stars of corporate America: "Split the CEO and Chairman jobs, or else!"



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Fortunately, the fat lady has yet to chime in.

Because, in this case, the chorus is wrong.

Splitting the chairman and CEO titles will not prevent ethical misdeeds. It will cause inefficiencies in corporate management. It may create confusion that can allow misdeeds to go unnoticed. And it might provide buck-passing cover to board members who should have stopped evildoers. But, it in no way will inhibit a group of miscreants from committing malfeasance.

There are two facts that demonstrate a split in the chairman and CEO positions to be ineffective, burdensome window dressing. First, more than 370 of the Standard & Poors 500 (SPX) companies have one person in both roles. Most of the others have only recently split the roles in order to groom a new CEO as part of a long-term succession strategy.

This is to say, more than two-thirds of the most respected and successful companies in America have, for the most part, operated with a unified position with little difficulty or ethical lapse. It should be remembered that the renaissance of emphasized ethics began because there were big problems at a couple of companies, not a complete failure everywhere.

The second and by far more powerful argument is this: Enron and Worldcom both had split Chair/CEO situations, and they are the reason we must go through this painful, tedious process of changing the way America does business. Why would anyone want to structure firms to be like those whose failure started the reform movement? If anything, the business community should flinch at the idea of being "more like Enron," yet that seems to be precisely the plan. It is so obviously misguided as to make the idea seem Orwellian.

"Chairman & CEO" has long been recognized as the most powerful title in business. It is a sign of someone who has proven to the most demanding audience that he or she is capable of managing great organizations and solving tremendous problems.

History shows that a good, effective CEO almost always makes a good, efficient chairman, and vice versa. The insight that comes from having one person fill both roles allows the CEO to better meet the board's priorities while enabling the chairman to fully understand the situation on the ground. In short, the two leaders of an organization must be in synch, and they can't be much more in synch than if they are the same person.

Splitting the titles creates two inefficient, less-effective positions, each bound by the limits of communication and human interaction, as opposed to one dynamic, seamlessly flowing force of action.
Unfortunately, the performances of a few bad actors have ruined the show for the entire cast. These misdeeds are a sound reason to make systemic changes to the structures and methods by which corporations govern themselves. They are not a reason to make changes that inhibit effective, efficient

management. Rather, they should make changes that ensure efficient, effective systems are also ethical and effective.

Checks and balances

The real antidote for the corruption of an overly powerful Chairman/CEO is not to make the management of a company less efficient. Rather it is to make the entire enterprise more robust and confident through judiciously structured checks and balances by truly independent directors. In this structure, directors must do their jobs, or else they have the same liability as a non-CEO director. The watchword is objectivity. Firms must engage a board majority of non-employee, independent directors to act as a definitive check-and-balance to the dual-authority top executive.

This is something companies should be doing anyway. It is the only real protection against misdeeds of the top executives, no matter how many people hold top titles. The only hurdle to malfeasance that is created by splitting power among several different people is the necessity for antagonists to team up and coordinate their lies. If no one is checking, that is all too easy. If a truly independent board is objectively and honestly reviewing the operations of the firm, it is immeasurably difficult, even for one person.

To some, splitting these positions may seem like a substitute for real reform. In fact it is worse than the status quo. It serves only to create cover and confusion for those who might wish to engage in malfeasance. One can almost envision the whirlwind of finger pointing that will occur when the auditors walk in with uncomfortable questions. This strategy provides only an after-the-fact cover story for directors to blame one or two individuals, as opposed to doing what they should - their jobs.

While many on Wall Street and in the halls of MBA schools fret that the new era of American business offers unprecedented melodrama, it really offers opportunities and incentives. Any business looks to make its personnel more efficient and productive so they add greater value to the bottom line. The combined Chairman/CEO is certainly more efficient. And a properly structured board of truly independent directors who get involved, examine the strategy and performance of the firm (as they should in the first place) and contribute to its momentum makes for a top-down example of dynamic performance.

True independence

Of course, independent directors must truly be free of the employee-directors' whims. They must meet alone to discuss the business of the firm without employees around to guide the discussion toward easy answers. They must assume positions of responsibility and leadership, such as Vice Chairman or Lead Director They must ask hard questions and get real answers. In short, they must allow the Chairman/CEO to do that job, while remembering their job is to "trust but verify."

By adopting a structure with one person wearing two hats, aggressively scrutinized by an independent board, the company actually increases its accountability by narrowing down the list of potential suspects if something does go awry. There is no one to pass the buck to when one person is clearly in charge. Imagine how different the Enron investigation and public debate would be if there were only one person under scrutiny. The question "who knew what and when" could be whittled down to: "he knew everything at all times, or at least he should have."

A firm with one person wearing both the Chairman and CEO titles is set up for an efficient, fluid integration of strategy and tactics. But, that person should not be the final authority for all aspects of the business. It is a properly structured board that must take responsibility and maintain accountability, and its directors, specifically the independent directors, who should be held liable for it.

Because, in the final analysis, that is the job of a director. No matter how many other actors are on the stage.