Rotman School of Management
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CLARKSON
Centre for Board Effectiveness

CEO/Chair Structure in Canada compared to the U.S. in 2013

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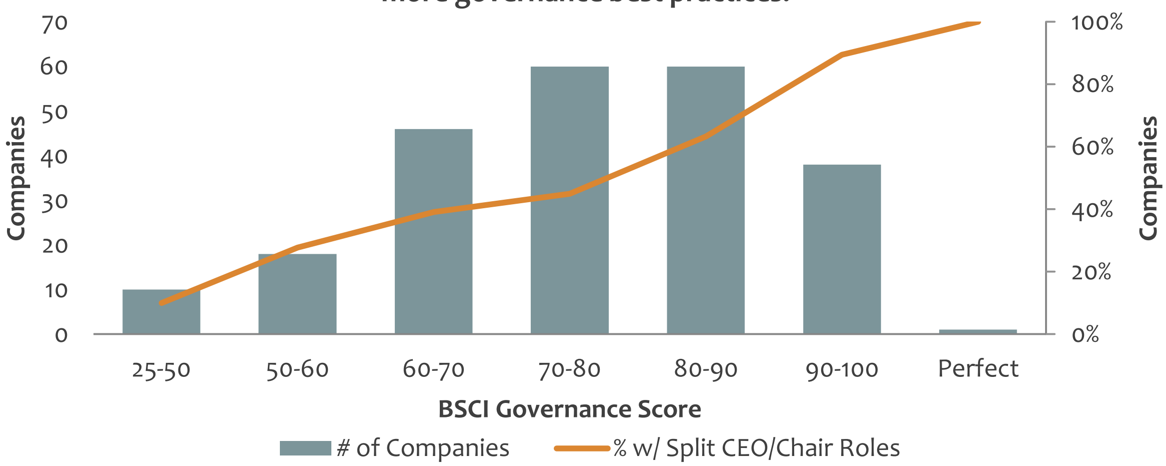
Introduction

Four years ago, the CCBE published a paper examining the connection between splitting the Chair and CEO roles and the adoption of other governance best practices. At the time, the U.S. was lagging behind Canada in splitting the Chair and CEO roles despite a growing consensus that an independent Chair can be an important element of effective governance oversight.

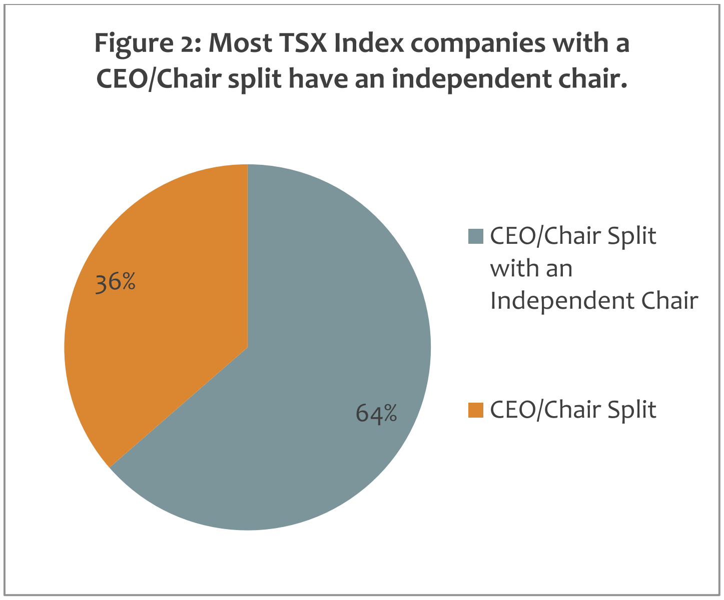
In 2013 the S&P/TSX Composite Index (TSX Index) continues to be ahead of the curve compared to U.S. counterparts in this regard, but the U.S has showed progress since 2009. In this report, I'll be exploring the current state of CEO/Chair split structures in the U.S. compared to 2009 along with the governance impact of an independent chair on Canadian boards.

Figure 1: 2013 TSX Index Companies with Split/CEO Chair Roles tend to adopt more governance best practices.



CEO/Chair Separation in Canada

A majority of TSX Index boards in Canada have separated the CEO and Chair roles. The 2013 Clarkson Centre *Board Shareholder Confidence Index (BSCI)* found that 84% of TSX Index issuers had a CEO/Chair split. Moreover, 61% of boards have a fully independent chair. Figure 1 illustrates that a CEO/Chair split is more prevalent among companies that practice good governance, as measured by the BSCI.



Generally, research on splitting the CEO/Chair roles considers that the value in this structure is primarily derived from having an independent Chair, which decreases the potential for conflicts of interest at the board level.[1] The CCBE has found that issuers with CEO/Chair split are also more likely to implement other governance best practices (Figure 2).

CEO/Chair Separation in the U.S.

More U.S. companies have separated the CEO/Chair role since we last reported in 2009, but movement has been relatively slow. According to a Russel Reynolds report in December 2012, S&P 500 companies with a CEO/Chair split comprised 44%[2] of the index compared to 37% in 2009.[3] The slow movement in the U.S. has been partly a result of resistance from many CEOs to share power.[4] Indeed, a high profile case at JP Morgan Chase & Co. found CEO/Chair Jamie Dimon winning investor support to retain the dual role after he threatened to resign if he had to share power.[5]

Shareholders in the U.S. have become increasingly concerned with separating the CEO/Chair role since 2009. Non-binding shareholder proposals calling for an independent chair policy have almost doubled

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[1] Millstein Center for Corporate Governance and Performance, *Chairing the Board: The Case for Independent Leadership in Corporate North America*, http://web.law.columbia.edu/sites/default/files/microsites/millstein-center/2009%2003%2030%20Chairing%20The%20Board%20final.pdf, page 3, 2009

[2] http://www.russellreynolds.com/sites/default/files/corporate_board_-_splitting_the_ceo_and_chairman_roles.pdf

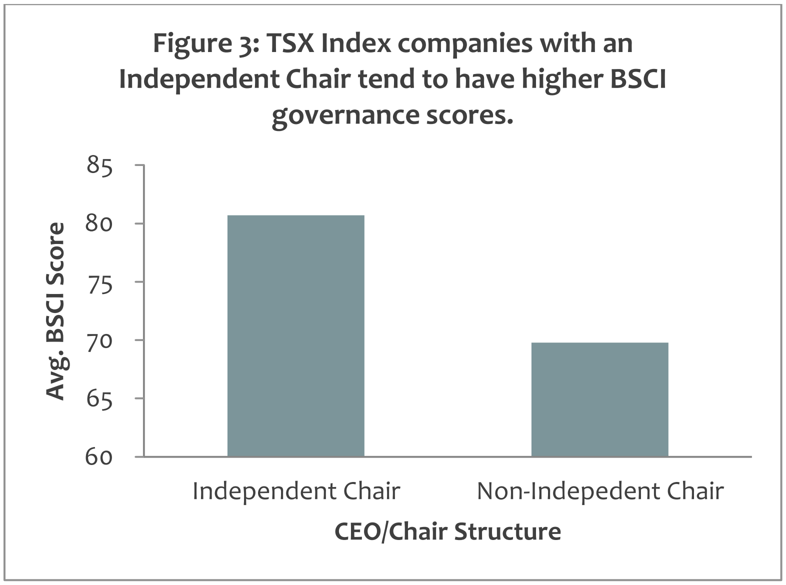
[3] http://online.wsj.com/news/articles/SB123816562313557465

[4] http://online.wsj.com/news/articles/SB123816562313557465

[5] http://www.bloomberg.com/news/2013-05-21/victory-for-dimon-as-jpmorgan-shareholders-reject-ceo-chairman-split.html

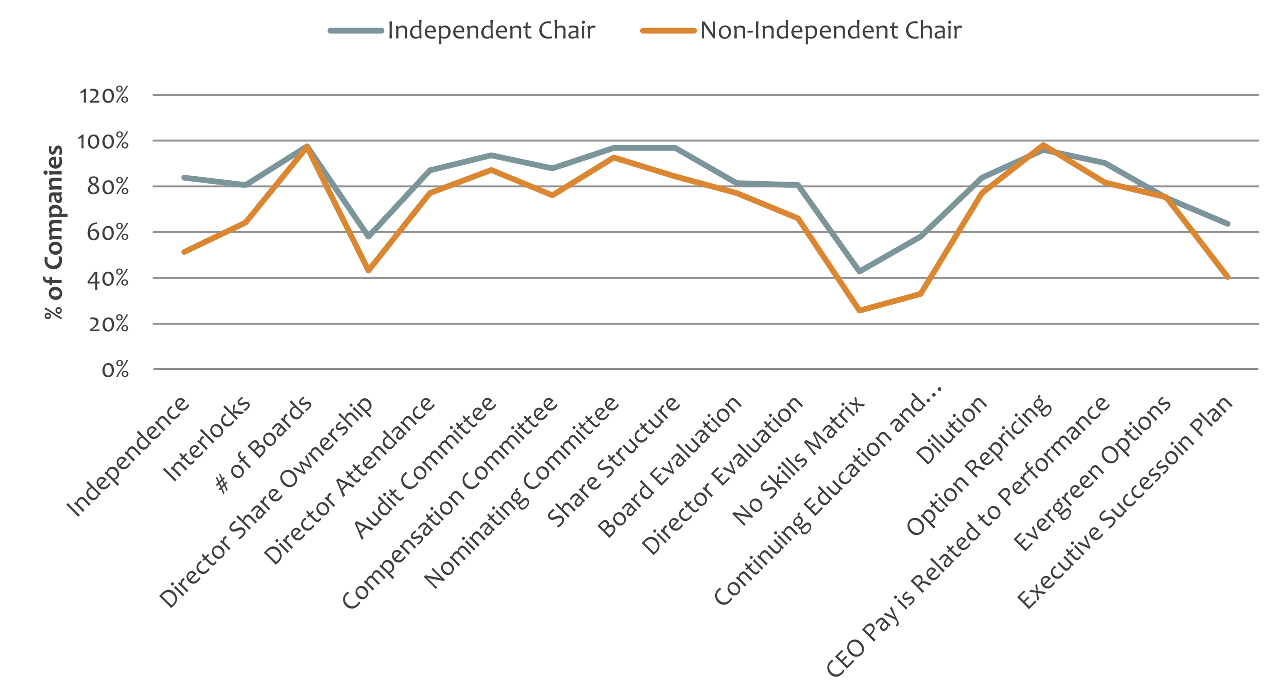
from 20 in 2009 to 39 in 2013. However, proposals have been largely unsuccessful as companies do not tend to separate the CEO and Chair roles solely on the outcome of non-binding shareholder proposals.

Independent Chair Governance Impact



Evidence in Canada indicates that publicly listed companies with an independent chair adopt governance best practices at a higher rate than their counterparts with non-independent chairs (Figure 3). This same trend in 2009 led the CCBE to suggest that an independent chair could be the 'gateway' to good governance. Indeed, as figure four illustrates, TSX Index companies with an independent chair have higher adoption rates for most governance best practices.

Figure 4: 2013 - boards with an indepednent chair are more likely to adopt governance best practices



Board Turnover and Diversity

In an earlier CCBE board diversity report, we found that board turnover is a significant hindrance to the pace at which boards increase diversity in Canada. In that report, we also found that boards with independent chairs tend to have more formal processes in place that impact board renewal. As a result we expected boards with independent chairs to have lower director tenure than the rest of the TSX Index. As illustrated in figures five and six, boards with an independent chair on the TSX Index have higher female representation and shorter director tenures than average. Indeed, it seems that formalized renewal processes contribute to higher turnover which has led to higher diversity and lower tenures on the TSX Index.

Figure 5: 2013 TSX Index Board Diversity

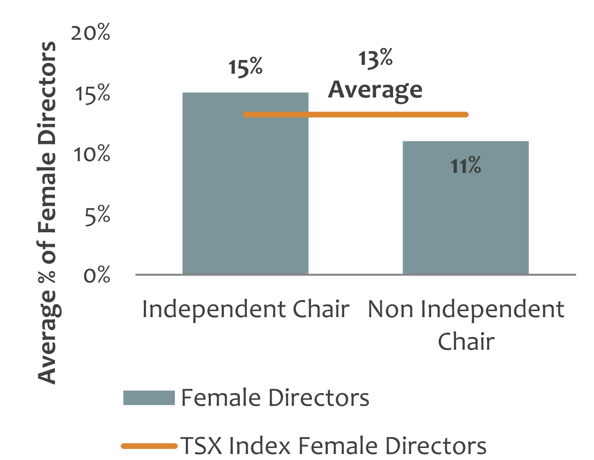
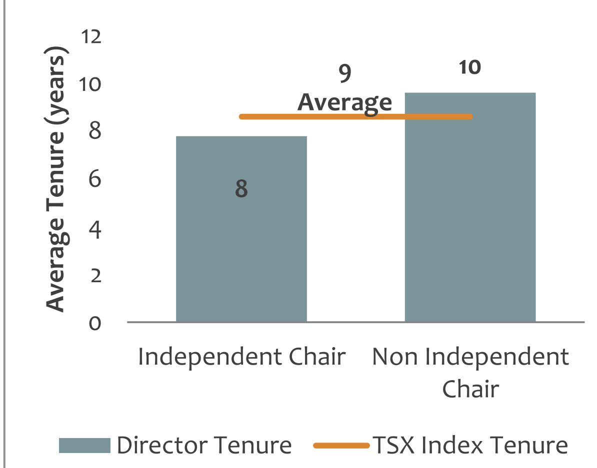


Figure 6: 2013 TSX Index Director Tenure



Conclusion

Our analysis, both in 2009 and 2013, has indicated that boards with independent chairs typically adopt more governance best practices. These boards are driving the evolution of governance in Canada. These boards also have higher gender diversity and lower director tenure than the rest of the TSX Index. Only 54% of TSX Index boards had an independent chair in 2013. This is perhaps one of the few remaining significant barriers to further governance evolution in Canada.