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Independent board chair—trends and issues

Cooley LLP
Brad Goldberg, *Partner*
Beth Sasfai, *Partner*
Milson Yu, *Partner*
Jon Avina, *Partner*
Amanda Weiss, *Special Counsel*
Shari Ness, *Special Counsel*
Michael Mencher, *Special Counsel*

Board effectiveness is one of today's hot corporate governance topics, and the appropriate board leadership structure is a key part of this discussion. In this chapter, we explore the more recent trends and considerations relating to the topic of board leadership structure. While there has been a clear shift toward independent board leadership, views on whether that independent leader should be a true independent chair separate from the chief executive officer (CEO) or a lead independent director (LID) serving alongside a combined CEO/chair vary among companies, investors, and other stakeholders.

Fundamentals of board leadership structure

A company may mandate a specific board leadership structure in its bylaws and/or corporate governance guidelines by requiring an independent chair separate from the CEO or, alternatively, that a LID serve alongside a combined CEO/chair; however, companies often do not prescribe a specific structure in order to preserve flexibility to determine which leadership structure is most effective for the company based on its circumstances at any given time.

The duties of a board chair typically include presiding over board and shareholder meetings, calling board meetings and setting their agendas, serving as the liaison between management and the independent directors, serving as the main contact person for other board members, and acting as spokesperson for the board to stakeholders.

A LID is an independent non-employee director appointed to represent the independent directors and perform certain leadership duties in the absence of an independent chair. Common baseline responsibilities often partially overlap with the traditional chair role and include the authority to call board meetings and set or collaborate with chairs on meeting agendas, to call and preside at meetings of independent directors, and participate in stakeholder engagement. In practice, however, LIDs often exercise less authority than a typical board chair. LID best practices include LID participation in CEO succession planning and acting as an advisor to committee chairs. The scope of the LID role varies among companies; however, due to a number of factors—such as board and CEO preferences, power dynamics, company circumstances, and investor pressure—there has been a trend in recent years toward expansion of the role, driven primarily by investor and proxy advisory firm expectations. While institutional investors and proxy advisors vary in the degree of specificity of their expectations for LIDs, a common theme is the importance of sufficient responsibilities to be able to ensure independent oversight or, as Vanguard puts it, "sufficiently robust authority and responsibilities [to] provide a strong counterweight."

Securities and Exchange Commission disclosure obligations

The Securities and Exchange Commission (SEC) requires companies to disclose their board leadership structure in proxy and information statements. Specifically, Item 407(h) of Regulation S-K requires companies to disclose, "whether the same person serves as both principal executive officer and chairman of the board, or whether two individuals serve in those positions." Further, "[i]f one person serves as both principal executive officer and chairman of the board", companies must disclose whether they have "a lead independent director and what specific role the lead independent director plays in the leadership of the board. This disclosure should also indicate why the [company] has determined that its leadership structure is appropriate given the specific characteristics or circumstances of the [company]."

This SEC disclosure requirement, as well as proxy advisory firm and institutional investor policies discussed further below, requires companies to give thoughtful consideration to their board structure and the scope of any LID role.

So, why have an independent chair or a LID?

Why combine roles

Advocates of combining the CEO/chair roles posit that it creates synergies that allow management to respond more efficiently to board feedback, in addition to creating clear accountability. Such advocates state that separating the roles creates an artificial divide with little practical benefits and duplicates leadership, thereby leading to less efficient decision-making and internal confusion. In addition, CEOs may have more in-depth knowledge of a company's business and industry or greater strategic vision and, for industries where technical, regulatory, or competitive knowledge is most acutely important, having the same deeply informed person in both roles can ensure that a company's strategy is shaped by an appropriate understanding of the core business. Further, in industries where the pace of innovation and competition is most intense, not having to coordinate with a separate chair may allow for greater real-time integration of strategic direction and technical execution, particularly as the CEO is often perceived as the best position to understand the challenges and opportunities in a particular fast-evolving sector. More prosaically, advocates of combined roles also note that requiring the roles to be separate can make recruitment of a new CEO more difficult, as the expectation of some CEO candidates is to lead both the board and management.

Why LIDs are seen as indispensable to boards with a combined CEO/chair

When a company combines the CEO/chair roles, a LID can serve as a counterweight, allowing the board to exercise effective independent oversight and decision-making without undue influence from the CEO. A LID can also facilitate open and candid discussions, particularly when it comes to evaluating CEO performance, and assist in driving the board's agenda.

Why independent chairs are sometimes preferred to LIDs

Proponents of separating the CEO/chair roles rebut the arguments above, stating that the role of the CEO and management is to run the company, while the role of the board is to provide independent oversight over and management of the CEO. They posit that the role enhances the board's independence and leads to better monitoring and oversight. These proponents believe that having an independent chair allows for a clear distinction between the roles of the board and management; eliminates potential conflicts of interest in the areas of management performance evaluations, executive compensation, succession planning, and the recruitment of new directors; gives one director clear authority to speak on behalf of the board; allows the CEO to focus completely on strategic, operational, and organizational matters; and fosters a thoughtful and dynamic board that is not dominated by the views of senior management.

While a LID can provide an independent counterweight to a combined CEO/chair, the LID shares authority with the chair, which can blunt the impact of the role. In addition, a LID is only effective to the extent the particular individual in the role is able to work cohesively with the CEO/chair while maintaining independence.

Impact of board structure on company performance

Academic research has indicated that having an effective board structure is more about having the right individuals in leadership roles—individuals who are competent and set the right tone and culture—than whether a company has an independent chair versus a combined chair and CEO. For example, in a 2015 paper, "*Seven Myths of Boards of Directors*" (Rock Center for Corporate Governance, Stanford Closer Look Series—CGRP51, 30 September 2015), and subsequent 2019 article, "*Loosey-Goosey Governance: Four Misunderstood Terms in Corporate Governance*" (Rock Center for Corporate Governance, Stanford Closer Look Series—CGRP79, 7 October 2019), David F. Larcker and Brian Tayan of Stanford University point out that research shows no consistent benefit from requiring an independent chair, citing multiple studies, including:

- one meta-analysis across 31 studies that found no correlation between chair status and performance;
- one study examining the impact of a change in independence status that found no impact on performance;
- one study that found that forced separation leads to worse performance; and
- one review of 48 studies that found that independence status has no impact on performance, managerial entrenchment, organization risk taking, or executive pay practices.

As discussed above, even a LID with well-defined responsibilities may lack the authority and level of involvement of an independent chair as a practical matter because the LID shares responsibilities with the CEO/chair. Moreover, it is important to choose an individual who can work productively with and is respected by the CEO/chair if the LID is to be effective.

The statistics: what can they tell us?

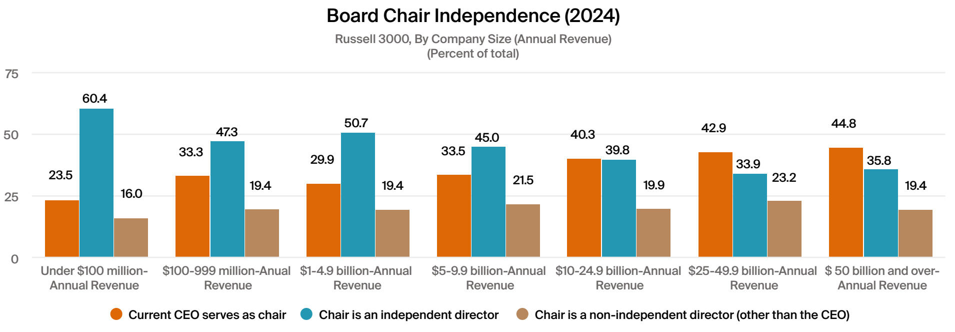
According to survey data from The Conference Board and environmental, social and governance (ESG) data analytics firm ESGAUGE in 2024, 41.2% of S&P 500 boards had the current CEO serving as chair in a combined role, 39.8% had an independent chair, and 18.9% had a non-independent chair other than the CEO. Based on the data, the percentage of S&P 500 companies combining the CEO and chair roles decreased from 48.7% in 2018 to 41.9% in 2022 but has since plateaued. In a survey released in 2024 that reviewed proxy data from 1 May 2023 through 30 April 2024, Spencer Stuart reported that among 104 S&P 500 boards with executive or non-independent chairs, 101 had identified a LID (Spencer Stuart, "*2024 U.S. Spencer Stuart Board Index*"). Four boards did not report having any form of independent leadership, either as a chair or as a LID.

In a report published by The Conference Board and ESGAUGE in June 2022, (Merel Spierings, "*Board Leadership, Meetings, and Committees*"), the author concluded that the growing percentage of independent chairs from 2018 to 2022 was "likely driven by CEO succession events, as well as the growing workloads of board and management, rather than shareholder proposals calling for CEO/board chair separation." The report noted that shareholder support for such proposals had remained in the 30% range, while boards and management faced increased workloads as they grappled with "a multitude of crises, fundamental transitions in business models, and growing demands for companies to address ESG issues and the needs of stakeholders." The report further noted that, of the 27 CEO succession announcements at S&P 500 companies through June 2022, only one company chose to replace a departing CEO/chair with someone who would assume both positions.

When looking beyond the S&P 500, data from The Conference Board and ESGAUGE as of December 2024 suggest a strong correlation between company size and board leadership model, with a majority of the largest companies (those with annual revenues of $50 billion and over) having a combined CEO/board chair or otherwise non-independent chair and a majority of the smallest companies (those with annual revenues of under $100 million) having an independent board chair.

As shown in the figure in the next page, nearly 45% of companies with annual revenues of $50 billion and over had a combined CEO/chair compared to just 23.5% of companies with annual revenues under $100 million. Meanwhile, over 60% of companies with annual revenues under $100 million had an independent chair compared to 36% of companies with annual revenues of $50 billion and over.

Based on data from 50 initial public offerings that took place in 2021, 65% of companies that completed an initial public offering in 2021 had a combined CEO/chair at the time of the initial public offering. However, the correlation between company size and board leadership role held even among these companies, with only 44% of companies with annual revenues under $100 million at the time of the initial public offering having combined roles, compared



Source: ESGAUGE, 2024.

to 65% to 70% of companies with higher annual revenues.

It is likely that smaller companies with more limited resources seek to benefit from having an independent chair who can focus on managing board affairs and leading the board, freeing the CEO up to focus on managing the company, while larger companies seek to benefit from the synergies achieved by having the same individual in both roles.

Data from the same 50 initial public offerings also showed variation in board leadership structure by type of pre-initial public offering investor, with approximately 70% of venture capital–backed companies having combined roles (75% for founder-led companies) at the time of the initial public offering compared to just 50% of private equity–backed companies. This difference between venture-backed companies and private equity–backed companies is not surprising given that private equity–backed companies are often still controlled by the private equity sponsor following the initial public offering and accordingly more likely to have a separate chair appointed by the private equity sponsor to counterbalance the CEO.

With respect to policies on board leadership, the trend since 2018 has been a shift toward greater flexibility, with the percentage of companies with a flexible leadership structure policy increasing at both S&P 500 companies (from 72% in 2018 to 76% as of December 2024) and Russell 3000 companies (from 63% in 2018 to 70% as of December 2024), according to data from The Conference Board and ESGAUGE.

Independent chair proposals: persistent, but not driving adoption

Since the mid-2000s, shareholder proposals calling for an independent chair have been one of the most common types of governance proposals. Following a spike in 2023, in which 84 shareholder proposals (approximately half of which came from a single proponent) calling for an independent chair went to a vote, independent chair proposals fell back to a more historically typical 42 in 2024. The increase in such proposals in 2023 was not accompanied by a significant increase in average shareholder support levels, however, which have remained between 28% and 35% from 2013 through 2024. The last time an independent chair proposal passed was in 2021, garnering only 52% support.

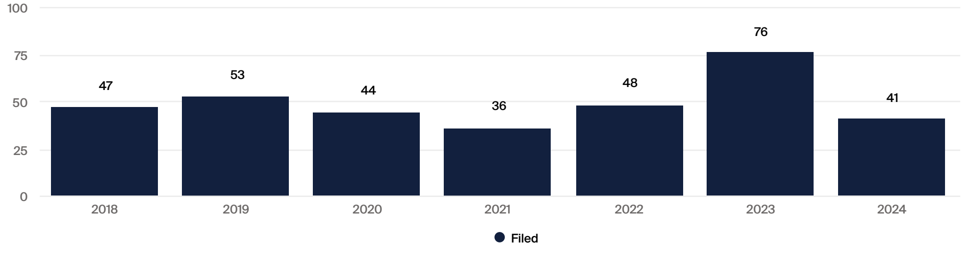
Shareholders appear to be persuaded by company arguments that mandating a separation of the chair role is not in shareholders' best interests. These arguments include: (i) that mandated separation impedes the board's ability to use its experience, judgment, and insight, as well as shareholder feedback, to determine the best board leadership structure based on a company's then-existing facts and circumstances; (ii) that an independent LID with robust responsibilities provides a strong independent counterbalance to the CEO/chair; and (iii) that the company's performance is better evidence that its approach to board leadership is effective.

Although, as noted above, it has likely been factors other than independent chair proposals that have driven trends toward the separation of the CEO and chair roles, data from ISS Corporate Solutions (ISS) indicates that larger companies with a combined CEO/chair should continue to be prepared to receive independent chair proposals (see "*Investors Press U.S. Boards to Separate Chair, CEO Roles*," posted by Subodh Mishra, Institutional Shareholder Services on the Harvard Law School Forum on Corporate Governance on 12 October 2023).

As the data show, a significant percentage of companies in the S&P 500 without independent chairs continue to receive independent chair proposals, with nearly one in four such companies, for example, receiving a proposal in 2023. By contrast, only a very small percentage of Russell 3000 companies that are not in the S&P 500 continue to receive such proposals.

Independent Board Chair—Shareholder Proposals

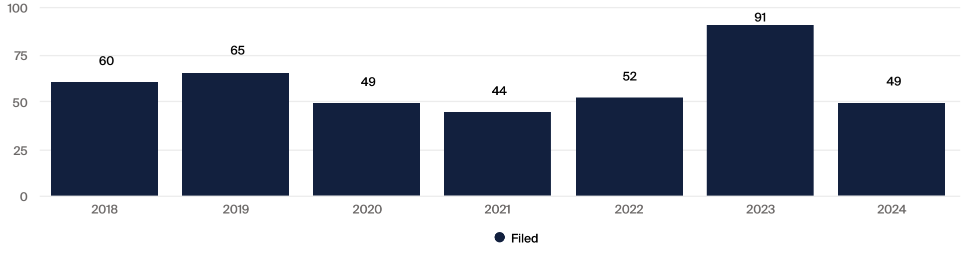
S&P 500
(Number of proposals)



* Findings for the current year may not yet be statistically meaningful.
Source: ESGAUGE, 2025.

Independent Board Chair—Shareholder Proposals

Russell 3000
(Number of proposals)



* Findings for the current year may not yet be statistically meaningful.
Source: ESGAUGE, 2025.

Proxy advisory firm and institutional investor voting policies

The policies of proxy advisory firms and institutional investors favor strong independent board leadership either through an independent chair or presence of a LID.

ISS voting policies state that ISS will generally support independent chair shareholder proposals. However, during the period from 2022 through September 2024, ISS only supported 58% of such proposals.

Factors that ISS will take into account in making its recommendation with respect to an independent chair proposal include: the scope and rationale of the proposal; the company's current board leadership structure; the company's governance structure and practices; and company performance. ISS states that it will consider how the board's current leadership structure benefits shareholders and/or specific factors that may preclude the company from appointing an independent chair, if such disclosure is provided by the company, and that boilerplate rationales will be viewed less favorably. For example, ISS took a mixed view on independent chair shareholder proposals received by major financial institutions during the 2024 proxy season, recommending for such proposals at institutions with ostensibly robust LIDs where recent developments, such as leadership transitions or controversies, raised questions regarding the ability of LIDs to provide sufficient independent oversight.

A weak or poorly-defined LID role that fails to serve as an appropriate counterbalance to a combined CEO/chair role is more likely to result in a "for recommendation" from ISS on an independent chair proposal. ISS considers a robust LID role to be one where the LID is elected by and from the independent members of the board and has clearly delineated and comprehensive duties.

Glass Lewis (GL), on the other hand, states that it does not believe that having an independent lead or presiding director who performs many of the same functions as an independent chair (e.g. setting the board meeting agenda) provides as robust protection for shareholders as an independent chair and that it typically recommends that its clients support separating the roles of chair and CEO whenever that question is posed in a proxy statement. However, unlike ISS, GL may recommend against the chair of a company's governance committee if the company has neither an independent chair nor a LID.

Meanwhile, the largest institutional investors, such as Blackrock, Vanguard, and State Street, will generally defer to companies on leadership structures if the LID role is robust. Such investors generally look for disclosure regarding the scope of the LID role.

Conclusion

Advocates for an independent chair emphasize that separating the positions enhances corporate governance by reducing the potential for conflicts of interest and providing more effective oversight over CEO performance. Proponents of a combined CEO/chair role argue that it provides greater efficiency and unified leadership, especially in fast-moving industries where strong, decisive direction is critical, and that a robust LID role can serve as a check and balance on a CEO/chair. As discussed above, there is no one-size-fits-all approach, and companies will need to continue to determine which leadership structure is most effective for the company based on its circumstances at any given time.

Natalia Rezai
Associate
Email: nrezai@cgsh.com

Natalia Rezai is an associate at Cleary whose practice focuses on corporate governance, securities laws and disclosure and domestic and international corporate and financial transactions. Her experience includes representing management and boards of directors on SEC disclosure requirements, advising clients on equity and debt offerings, public company mergers and acquisition and debt finance and debt restructurings. Some of her notable clients include Synopsys, Levi Strauss, MercadoLibre, Zoetis, Ontario Teachers' Pension Plan, Walgreens Boots Alliance and América Móvil, among others.

Natalia received her J.D. from the William & Mary School of Law, and her B.A. from Stanford University.

Columbia
Law School

John C. Coffee, Jr.
Columbia University Law School
Adolf A Berle Professor of Law
435 W. 116th St.
New York, NY 10027
Web: https://www.law.columbia.edu/faculty/john-c-coffee-jr
Email: jcoffee@law.columbia.edu
Tel: (212) 854-28-33

A prolific scholar, sought-after speaker, and frequent news commentator, John C. Coffee Jr. is active in several fields, and is a recognized leading authority on securities law, corporate governance, white collar crime, complex litigation and class actions. He is also the Director of the Columbia Center on Corporate Governance.

Professor Coffee has been elected a Fellow of the American Academy of Arts and Sciences, and is also a Life Fellow of the European Corporate Governance Institute and the American Bar Foundation. He has also been repeatedly listed by the National Law Journal on its annual list of "The 100 Most Influential Lawyers in America" and LawDragon has elected him to its Hall of Fame for M&A lawyers.

For his work in white collar crime, Professor Coffee was awarded the Donald Cressey Award for Lifetime Achievement by the Association of Certified Fraud Examiners in 2011. For his work in corporate governance, in 2018, Coffee received the Allen & Overy Law Prize for "The Agency Cost of Activism: Information Leakage, Thwarted Majorities, and the Public Morality," a paper exploring how the interests of activist investors can conflict with those of other shareholders.

Cooley

Cooley LLP
55 Hudson Yards
New York, NY 10001
Web: www.cooley.com
Tel: +1 212 479 6000

Brad Goldberg
Partner
Email: bgoldberg@cooley.com

Brad is Co-Chair of Cooley's Corporate Governance and Securities Regulation Practice, and has extensive experience advising companies on all aspects of their compliance with US securities laws and the listing requirements of the major US exchanges, particularly in connection with and following their initial public offerings. He regularly counsels' management, boards of directors and board committees on a wide range of matters, including SEC and stock exchange reporting and disclosure requirements, board and executive compensation, corporate governance, shareholder proposals, the impact of proxy advisory services, and responses to formal and informal SEC inquiries. His practice also involves advising companies on a range of matters relating to corporate aircraft and private plane use.

Beth Sasfai

Partner
Email: bsasfai@cooley.com

Beth Sasfai is Co-Chair of Cooley's Corporate Governance and Securities Regulation Practice and leads the firm's ESG & sustainability advisory practice. She regularly advises boards of directors and management on a wide range of corporate governance, disclosure and regulatory compliance matters – including corporate governance policy and trends, shareholder engagement and activism, shareholder proposals and proxy season matters, and environmental, social and governance. She is a seasoned professional with a distinguished career spanning 20+ years in a fortune 20 company, which positions her as a trusted advisor to boards and executive teams.

Milson Yu

Partner
Email: myu@cooley.com

Milson represents private and public companies and investment banks in various capital markets and corporate transactions, including initial public offerings, follow-on and secondary offerings, and debt offerings. Milson also counsels public companies on a full range of corporate and securities matters, including SEC reporting obligations and corporate governance.

Jon Avina

Partner
Email: javina@cooley.com

Jon's practice focuses on corporate, securities, governance and related matters for many of the world's most disruptive technology companies. For 25+ years, Jon has represented a variety of private and public companies on general corporate and transactional matters valued in the billions of dollars—including numerous high-profile initial public offerings (IPOs), venture capital financings, and mergers and acquisitions.

Amanda Weiss

Special Counsel
Email: alweiss@cooley.com

Amanda's practice focuses on assisting public companies on a range of matters, including Securities and Exchange Commission reporting and disclosure, corporate governance, and the listing requirements of the major US exchanges.

Amanda regularly advises clients on issues ranging from SEC and stock exchange disclosure requirements, corporate governance, board and committee structures, and conflicts of interest to shareholder proposals, director independence, the impact of proxy advisory firms, and responses to formal and informal SEC inquiries. She also focuses on new developments and changing practices in governance and disclosure matters.

Shari Ness

Special Counsel
Email: sness@cooley.com

Shari's practice focuses on helping both US domestic and non-US public companies navigate the complex and ever- changing landscape of securities, disclosure and corporate governance requirements imposed by the SEC and the major US stock exchanges.