

## Section 2: Division of responsibilities

### Separation of the roles of the chair and chief executive

A key role for the board is to scrutinise the operations and strategy of a company, ensuring the firm is operated in a way which aligns with its mission, purpose and in the interests of stakeholders. An important element of this is holding company management – including the CEO – to account.

Separation of the roles of the chair – who should be transparently independent – and the CEO is therefore a cornerstone of good corporate governance in the UK. The contravention of this tenet by (a) the combination of the roles, or (b) the designation of an executive chair, should cause significant concern.

There are very limited instances where a temporary combination of the roles may be justified, notably when a chair 'bridges the gap' between the departure of a CEO and the appointment of their successor. Investors must probe companies carefully in these instances, ensuring that this short-term fix is being well-managed and that it does not persist excessively. Investors should expect companies to set out a clear timeline for resolving interim combined roles and to engage meaningfully with shareholders if and where such arrangements extend beyond one year.

The succession of the CEO to chair is a significant issue and is very rarely acceptable. It must be made clear that external search consultants were engaged and that external candidates of at least equivalent stature had been actively and fully considered.

### Board director commitment

The board director role is an increasingly demanding one, particularly when chairing a key committee. It is crucial that directors have sufficient time and energy to fulfil their role properly. Investors should scrutinise directors holding multiple board positions, particularly where they chair more than one complex or global company. Overboarding concerns should be assessed in light of time demands, sector complexity, and crisis-readiness.

## Board directors and chair independence

This calls for a particularly thoughtful application of the 'comply or explain' principle. Investors should consider the following factors in coming to their decision regarding independence:

- Overall corporate governance standards and history.
- Evidence of independence in board directors' conduct, including holding management to account when necessary.
- Confirmation that independence (not just performance) was assessed in the board performance review.

## Evidence base

Engagement with board directors, particularly the chair, gives investors the opportunity to assess the quality and effectiveness of the board overall. A company's annual report is a key resource for investors to consider, as it provides important information regarding the division of responsibilities of the board.

The annual report should contain details of current leadership appointments, including any changes over the previous year. Investors should be mindful of the separation of the roles of chair and CEO, as well as the other commitments and interests that board directors may have in forming their views, including their concurrent directorships, while taking into account the size and scope of these outside companies, as well as whether an individual board director is over-committed.

The annual report should also clearly set out the ways in which the board has demonstrated its effectiveness and addressed any areas for improvement. This should include insight into board-level training and assessment and outreach activities that have taken place throughout the year. It should also include an assessment of the board's diversity of skills, experience and backgrounds.

## What does good company behaviour look like?

- Different roles and individuals within the board work together collectively and effectively. The quality and mix of individuals should give investors reassurance as to the substance and openness of debate within the boardroom, the lack of dominance by any one individual and the avoidance of groupthink.

- The roles of chair and CEO are fulfilled by different individuals. The two roles are distinctly different and should not, unless in exceptional circumstances, be held by the same person. Clear timescales for the persistence of any redundancy within these roles should be set out. Similarly, a company's CEO should not become chair of the company. We would expect significant levels of engagement with shareholders were this to be the case, setting out the reasons for doing so.
- The chair is transparently independent, and – upon new appointments – confirmation is provided to shareholders that the previous chair was not involved in the appointment of their successor. If the chair is not independent upon appointment, the company should consult its investors and provide a detailed explanation as to why it considers the appointment desirable and appropriate. In assessing the new chair's suitability, shareholders must consider:
  - Their calibre, including skills, knowledge and experience
  - The current balance and diversity of the board
  - The nature of the impediment to the proposed chair's independence.
- The nomination committee anticipates change and ensures proper and timely succession planning. The board should endeavour, where feasible, to consult its long-term investors over sensitive board appointments. Boards should disclose their succession planning frameworks, including timelines, criteria, and contingency arrangements. Long-term investors should be consulted on what would be the key skills for sensitive appointments, especially where internal candidates are favoured over external search processes.
- Directors can commit appropriate time to the company. Investors should assess the evidence for other demands on directors' time as well as any significant developments which may have occurred since a director's appointment.
  - This is particularly pertinent to the role of chair, especially where a company is both complex and global in scale or where it operates in a highly regulated sector (such as financial services).
  - It is clear that due consideration has been given by the board and each director to the time commitment required, particularly in the event of a crisis developing.
- Clear mechanisms are in place for shareholder communication. This must include the appointment of a senior independent director (SID) as a key contact for shareholders when the normal channels of the chair, CEO, or chief financial officer have failed to address concerns or are not the

appropriate contact. The SID should play an active role in shareholder engagement, particularly where concerns persist around board leadership, succession, or independence. The SID should also contribute to board evaluation and act as a conduit for investor feedback on governance matters.

- Shareholders are given timely access to online terms and conditions by which directors are appointed.
- No current or prior relationships exist between independent non-executives and the company, which could compromise directors' ability to hold management to account. Shareholders should have a clear sense of any existing or pre-existing relationships between the two parties. The Corporate Governance Code draws out more clearly its expectations regarding this area.
- There should be a clear mechanism in place for a company's engagement with its wider workforce. Companies should be clear about linking their engagement with their workforce to their broader strategy, values and mission.

## How investors should consider voting

We are aware that investors may feel uncomfortable voting against a combined CEO/chair given the pivotal role that a CEO plays in a company (and the investment case). Some investors may therefore choose to vote against the annual report and accounts to signal their concern, short of opposing the combined CEO/chair.

However, we feel that this may not be a sufficiently effective response to what is a very serious issue. We therefore believe that investors should consider voting against the election of the chair if:

- There is a combination of the role of chair and CEO without a convincing explanation as to why, where an 'interim' period extends for more than one year or where there is evidence of poor succession planning.
- Investors judge that the arguments presented to justify the succession of the CEO to chair are insufficient. It is important to note that complexity of the business is unlikely to be sufficient explanation in itself.
- The chair is director of more than four companies and/or a chair of two or more global and highly complex companies (unless there is a compelling explanation as to why this will not impact their availability and commitment).

- The situation of a combined role persists and there remains serious concern that the specific arrangements create unresolvable challenges for board oversight of executive management.
- Material corporate governance failings under the chair's watch are evident. This should include an inadequate response in addressing shareholder concerns.
- Investors should consider also voting against the election of the director responsible for the appointment process (often the SID) when issues persist.

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