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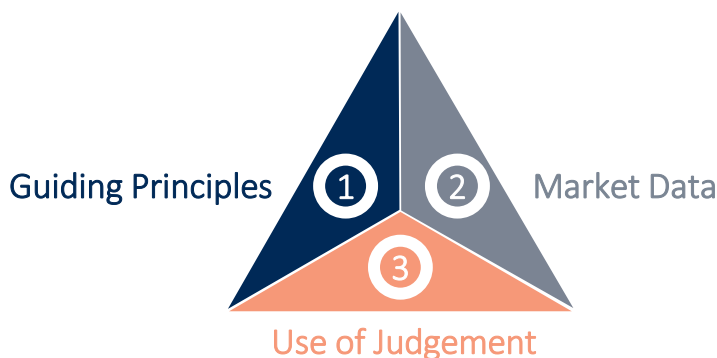
Executive Chair positions are relatively uncommon among publicly traded companies in Canada, but they are more prevalent in the United States. In Canada, it is considered best practice to separate the roles of Chair and CEO. Combining these roles can lead to inherent conflicts of interest and a lack of clear accountability since the Chair is accountable to the shareholders while the CEO is accountable to the Board¹. When the positions of Chair and CEO are separate, the Chairs can be categorized as either "Executive" or "Non-Executive" (non-CEO) Chairs.

Typically, Executive Chair positions are held by former CEOs and/or founders, and they are often more involved in day-to-day affairs compared to non-Executive Chairs. The responsibilities of an Executive Chair may include providing guidance on business development or strategic initiatives, strengthening the company's relationships with existing stakeholders, and facilitating the transition of the CEO to become the primary point of contact for internal and external stakeholders. Executive Chairs are commonly found in situations where their presence ensures continuity or stability during a transition period and/or brings added value to maintaining the relationship between the Board and management. It is important to note that when an Executive Chair is appointed to the Board, it is a good governance practice to also appoint an engaged Lead Director to minimize the potential for conflicts of interest or the perception thereof.

Given the above, determining an Executive Chair's compensation can be a relatively complex exercise. To assist Boards in making informed decisions, we have outlined key considerations below.

Approach

When determining Executive Chair compensation, relying on **guiding principles, market data and judgment** will be needed to determine an appropriate pay range, relative to the CEO.



1. Guiding Principles

Prior to establishing compensation levels, it is essential for companies to have a clear definition of the roles and responsibilities of both the Executive Chair and CEO. **This clarity will guide the determination of appropriate pay levels, ensuring that the pay ratio between the two positions aligns with their respective scopes of responsibility and accountability.**




Alignment on the following principles can also be considered:

- Should the Executive Chair be paid "like an executive" (i.e., participate in incentive programs) or "like a director" (i.e., receive retainers)?
- What is the desired signaling (internal and external) for the Executive Chair role and how does that affect the compensation package?
- Is the Executive Chair role a transitional one?

¹ [Building High Performance Boards](#), Canadian Coalition for Good Governance, 2013.

2. Market Data

Once there is alignment on the guiding principles, companies can refer to publicly available information as a point of reference. **Given there are relatively few instances of distinct Executive Chair and CEO roles, there is no standard market approach to follow.** The circumstances surrounding the Executive Chair role, such as whether the incumbent is a founder / major shareholder, or the level of their involvement in the business, are critical inputs that can influence the determination of compensation levels. Below are three TSX60 company examples that highlight the wide range of practices, each of which represent Executive Chairs who are founders.

	Executive Chair Target Total Direct Compensation	CEO Target Total Direct Compensation	Pay Ratio (% of CEO)
 Canadian Natural	\$14.2	\$4.6	308%
	\$13.5	\$12.3	110%
 Couche-Tard	\$9.2	\$14.0	66%

Source: 2022 Company Proxy Data; \$CAD MM

3. Use of Judgement

As with CEO pay decisions, the Board will need to apply judgement when determining how to apply the guiding principles and interpreting the market data. **The application of judgement will differ from company-to-company as the guiding principles will also be distinct to each company's situation.**

The assessment may include the following considerations:

- The Executive Chair's (or CEO's) experience and tenure
- Specific company circumstances requiring an Executive Chair role (i.e., is the Executive Chair there to compliment the CEO's experience? Or is the role more suited to set the strategic direction for the near future?)
- To what extent is the Executive Chair acting in an "executive" capacity vs. providing strategic oversight?

Summary

The level and structure of compensation for Executive Chair roles varies widely, highlighting the importance of aligning on guiding principles before discussing pay. In our experience, we see Executive Chair compensation ranging from 40% (lower-end) to 100% (higher-end) that of the CEO. Ultimately, judgement will need to be used when determining how to apply the guiding principles and market context to the individual in the role, while keeping in mind what is best for stakeholders.

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