

What are the Differences Between CEO & Chairman?



What is one of the biggest motivations for founder-CEOs to move to Chair role at some point during a PE-backed company's value creation/hold period?

The opportunity to spend less time working "in" the business, and more time "on" the business (reference: world-recognized small business author Michael Gerber, see explainer video, starting at 1 min 50 seconds on YouTube, <https://www.youtube.com/watch?v=Vh8iwn8NYTU>)

Chairman

CEO



Focus on Company Vision & Values



Focus on delivering on the financial goals of the organization



Discovery of new M&A, partnership & alliance opportunities



Negotiating, closing & realizing synergies with acquisitions, partnerships & alliances



Medium term strategy



short term strategy & tactics



Industry performance benchmarking



Internal KPI setting, measurement & management



General communication with larger groups



Communicating directly and personally with small groups.



Storytelling, educating potential buyers



Ensuring financial house is in order and company delivers on forecasts in support of ultimate sale/transaction

In our practice, we observe that outgoing founders and Chief Executive Officers maintain a desire to remain connected to the companies that they have helped build, while also ensuring the continued success of the organization during a time of transition. As we see the Baby Boomer generation coming of retirement age, we expect the Executive Chairman position to become more prevalent.

Companies transitioning from a long-term Chief Executive Officer and involved in CEO succession planning, especially for a company founder or head of a family-owned company, are looking to retain and capitalize on the outgoing CEO's institutional knowledge while ensuring a smooth transition to the new leader. In response to this need, some creative companies are transitioning their outgoing Chief Executive Officer to the position of Executive Chairman of the Board. The Executive Chairman position allows the organization to leverage the former CEO's personal client relationships and institutional knowledge while allowing him to retain employee rights and benefits, assist in the transition process, and gradually phase out of CEO responsibilities.

Compensation differences between CEO & Executive Chair

The Executive Chairman position typically participates in the company's executive compensation programs including base salary, annual incentives, and long-term incentives, albeit at lower levels compared to the CEO. The average pay ratio for the Executive Chairman base salary is approximately 75% of the Chief Executive Officer's salary. Total cash compensation is approximately 70% of the Chief Executive Officer's total cash compensation. Interestingly, the Executive Chairman compensation relies more on base salary and bonus, whereas the Chief Executive Officer compensation is more weighted toward long-term incentive compensation. We believe that this difference in pay mix is due to the fact that Executive Chairmen usually have an existing significant ownership stake, likely earned during their CEO tenure.

[exerpted from, "Executive Chairman: An Emerging Trend in CEO Succession Planning [from CAP, www.capartners.com]