مركز الحوكمة
CENTER FOR GOVERNANCE

SHOULD THE CEO BE ON THE BOARD?

Understanding the Governance Implications of CEO Participation

A PIF COMPANY

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Center for Governance

Report

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Board composition: should the CEO be included?

Board composition is a critical component of corporate governance. While considerations like director independence, diversity, and skill sets are widely considered in board formation, one often underexplored question is: *Should the CEO serve as a board member or alternatively lead the executive team as a non-board member?*

In many jurisdictions, the issue of whether a CEO should be a board member is neither controversial nor widely discussed. The board status of the CEO is largely determined by prevailing business norms, governance practices and legal requirements.

In US and UK companies, for example, it is taken for granted that the CEO will serve on the board of directors. In other jurisdictions, like Germany and Norway, the opposite is true due to the locally specific demands of corporate law and regulation.

Existing literature and academic studies, which are predominantly oriented towards the governance practices of boards in the English-speaking world, rarely discuss the implications of a CEO serving (or not serving) on the board. In addition, there is a lack of statistical data in many markets relating to this issue.

In some countries, including Saudi Arabia, there are no historically defined expectations or legal requirements about whether the CEO should be a board member. Companies are required to form their own judgements about where to locate the CEO in the governance structure.

The advantage of this situation is that it provides boards with flexibility around how they design this aspect of governance. However, it also requires them to determine, on a case-by-case basis, the pros and cons of including or omitting the CEO from the board. Is it efficient or desirable from a governance perspective? What risks and benefits are associated with it?

The mission of the CEO is both similar and different to that of other board members. In principle, both seek to advance the best interests of the company and its stakeholders. However, they pursue this objective in different ways. While the board provides strategic oversight and focuses on high-level decision-making, the CEO is responsible for executing strategy and managing daily operations.

On the face of it, there are credible arguments why a CEO should be appointed to the board. From the board's perspective, the presence of the CEO facilitates direct access to company-specific information and know-how. It may also be seen as important that the person running the company on a day-to-day basis should be intimately involved in decision-making about the company's future. From the CEO's perspective, sitting on the board may make it easier to guide the board's strategic narrative and manage the information that flows to board members.[1]

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[1] Li, M. and Roberts, H. (2015). *CEO Board Membership: Evidence from NZ Data*. Available at: https://nzfc.ac.nz/archives/2015/papers/programme/145.pdf.

But there are also potential risks associated with the CEO joining the board – including the concentration of too much power in one person and the blurring of lines between governance and management.

This report investigates the implications of CEO board membership through interviews with experienced chairs, board members, governance experts, and CEOs across various regions of the globe. In this way, it seeks to provide companies and boards with relevant insights into whether appointing the CEO as a board member might make sense for their organization. Attention is also paid to the power dynamics that may exist within companies, which may affect their approach to CEO board membership.

CEO board membership practices around the world

Global and historical practices

In the United States, the CEO is typically a board member. CEOs have historically been omitted from the board in certain specific circumstances, e.g. when serving as an interim CEO or during a period of transition. Non-board CEOs are also a feature at some NGOs and private equity-controlled companies. However, this does not reflect normal market practice and is rarely observed at listed enterprises.

The situation is similar in the UK, where 98% of the CEOs of the 150 largest FTSE companies served on the board in 2024. The main exception to this relates to the boards of registered charities, where CEOs are generally precluded from serving on the board of trustees.[2]

The UK Corporate Governance Code is a strong advocate of the concept of the unitary board - consisting of both executive directors (such as the CEO) and non-executive directors.[3] This is seen as promoting alignment and collaboration between directors with operational responsibilities and those providing independent oversight. Although there is a clear division of responsibilities between the two groups, they share the same legal duties under company law.

In other English-speaking countries - such as Australia, New Zealand and South Africa - it is also standard practice for CEOs to serve as board members. The South African King IV Code on Corporate Governance even recommends that *"As a minimum, the chief executive officer (CEO) and at least one other executive should be appointed to ensure that it has more than one point of direct interaction with management"*.

In France, the CEO (Directeur Général) is normally required to serve on the board as part of a one-tier board (the most commonly adopted board structure in French companies). However, CEO board membership is less usual if the company chooses to adopt a two-tier

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[2] Spencer Stuart (2024). 2024 UK Spencer Stuart Board Index. Available at: https://www.spencerstuart.com/research-and-insight/uk-board-index/the-board

[3] Available at: https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/

board. Overall, 5.5% of board members in the CAC40 index of leading listed companies are CEOs.[4]

The Nordic region provides an interesting example of where companies generally adopt a one-tier board structure but often exclude CEOs from board membership. Some Swedish boards include CEOs in their composition, although many do not. CEO board members are even less common in Finland and Denmark.[5] The strictest case is Norway, where the law does not allow the CEO to serve on the board of directors.[6]

Corporate law in Germany, Austria and Poland mandates a two-tier board governance framework for most larger companies. According to this structure, companies have two distinct boards: a supervisory board composed of non-executive directors and a management board headed by the CEO. Such a legally-mandated split prevents CEOs from serving on the supervisory board.[7] This is also the predominant situation in several other European countries – such as the Netherlands, Slovenia, Hungary and the Czech Republic – where the two-tier approach is still widely utilized despite no longer being an obligatory requirement.

In Latin America, companies mainly utilize a one-tier board. In this context, it is standard practice for the CEO to also be a board member. However, in Brazil there is a growing trend – encouraged by the Brazilian Corporate Governance Code and the B3 Novo Mercado standards - for major companies to exclude the CEO from the board. This establishes a clear demarcation between governance and management functions. According to one recent survey, only 26% of Brazilian listed companies include the CEO as a board member.[8]

In many Asian economies, the CEO is usually a board member. In the case of India, this is influenced by the preferences of family owners who dominate the shareholder registers of major companies. In such circumstances, the CEO may be directly chosen by the major shareholder. In China and Hong Kong, the roles of Chair and CEO are often combined, with the consequence that the CEO will automatically be a board member.[9] In Japanese companies, the CEO (President) of the company is almost invariably a board member, and it is also common practice for a former CEO to hold the role of board chair.

Despite the fact that many regulations and corporate governance codes around the globe limit the number of executives on a one-tier board - and require the separation of the Chair and CEO positions - the role of a CEO as a board member does not seem to be explicitly addressed in most of them, providing companies with some autonomy in the matter.

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[4] Spencer Stuart (2024). 2024 France Spencer Stuart Board Index. Available at: https://www.spencerstuart.com/-/media/2024/12/frbi2024/frbi-2024-8w.pdf
[5] Spencer Stuart (2024). 2024 Nordics Spencer Stuart Board Index. Available at: https://www.spencerstuart.com/research-and-insight/nordic-board-index/board-composition
[6] *Norwegian Public Limited Liability Companies Act.*§ 6-1. (3).
[7] Shivam Bhardwaj & Shreyangshi Gupta, *Anatomy of the Great Divide – Separating the Roles of Chairman and CEO*, 8 NUJS L. Rev. 129 (2015). Available at: https://nujslawreview.org/2016/11/06/anatomy-of-the-great-divide-separating-the-roles-of-chairman-and-ceo/
[8] Spencer Stuart (2024). 2024 Brasil Spencer Stuart Board Index. Available at: https://www.spencerstuart.com/research-and-insight/brasil-board-index/composicao.
[9]Spencer Stuart (2023). 2023 Hong Kong Spencer Stuart Board Index https://www.spencerstuart.com/research-and-insight/hong-kong-board-index

The decision as to whether to include a CEO on the board appears to be largely a matter of prevailing business norms and historically defined practices - rather than an explicitly made choice based on systemic evaluation of the pros and cons.

A more widely observed debate in countries with one tier boards concerns combining the roles of CEO and board chair. In jurisdictions such as the US, France and Spain, this is still common practice (although it is less prevalent than it used to be). In contrast, such a dual role is frowned upon in the UK and the Nordic countries and is rarely adopted at listed companies.

However, while there may be disagreement around whether the CEO should also be the chair, there is very little debate concerning the status of the CEO as a board member. Except for companies in Nordic countries, including the CEO on the board is viewed as an uncontroversial business practice on one tier boards.

Another related debate in one tier countries is whether the CEO should be the only member of the executive team that is appointed to the board. In recent decades, the boards of larger companies in the US and the UK have moved in the direction of mainly non-executive boards. In the US, it is common for the CEO to be the only board member with executive responsibilities. UK boards have followed a similar approach, although to a less extreme extent: the CFO is often still a board member. This contrasts with the UK situation prior to the 1990s when most board members were executive directors.

The debate revolves around whether it is sufficient to have only one member of the executive team, i.e. the CEO, on the board. This is seen by some commentators as giving the CEO too much power to control the flow of information to the board. It may also inhibit non-executive directors from gaining sufficient exposure to the operational realities of the business and the professional capabilities of other members of senior management.

However, little consideration is paid to the idea that the CEO should not be a board member. Indeed, according to this perspective, this would further exacerbate the distance between the board and the running of the business.

Local Practices: Saudi Arabia

In Saudi Arabia, article 23 of the Corporate Governance Regulations issued by the Capital Market Authority (CMA) requires the separation of the roles of Chair and CEO. However, beyond this requirement, there is no specific provision addressing whether CEOs should serve on boards.

According to recent data, CEO presence on Saudi boards is relatively common but far from universal. Out of 345 Saudi-listed companies, 42% have the CEO also serving as a board member. The practice is even more prevalent on the Nomu (parallel) market, where 55% of companies include the CEO on the board, compared to 36% in the Main Market.

The data also shows that the sector of activity appears to influence the likelihood of Saudi CEOs serving on the board. Sectors such as consumer staples, distribution & retail, energy, and household & personal products show a higher incidence of CEO board membership.

One explanation relates to the complexity and scale of business operations in these sectors. CEO presence on the board may help ensure more agile strategic alignment and bring deep technical and operational knowledge to the boardroom.

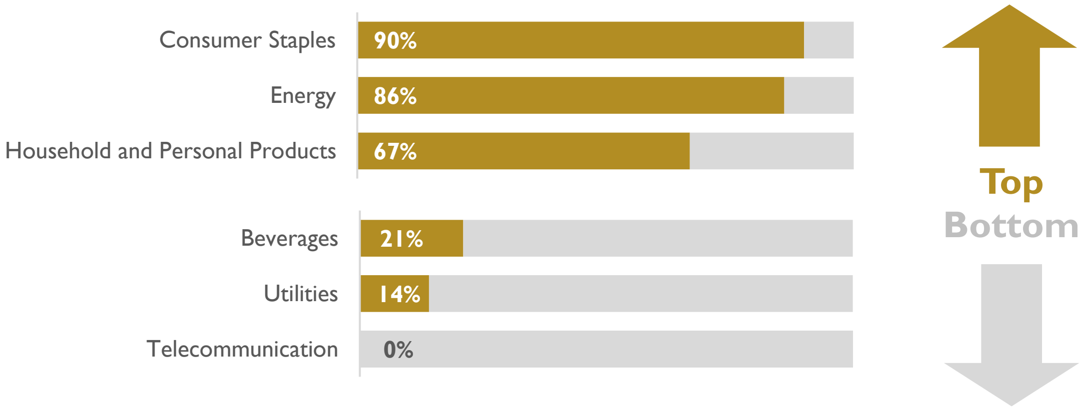

Figure 1. Percentage of companies with a CEO on the board by sector of activity

Other sectors, such as telecommunication services, utilities, insurance, and food & beverages companies exhibit a lower presence of board CEOs. In sectors such as transportation, pharma, biotech & life science, and real estate management & development, the representation of CEOs is less than 35%.

An interesting correlation exists between levels of board independence and the likelihood of the CEO serving on Saudi boards. More independent boards are associated with a reduced likelihood of the CEO being a board member. This correlation may not necessarily reflect causation. The inclusion of the CEO on the board automatically decreases the measured independence of the board – as by definition, a CEO board member cannot be considered as 'independent'.

However, an alternative interpretation is that companies with a majority of independent directors may place greater emphasis on a clear separation between management and governance. They may also be more sensitive to external investor expectations, with the consequence that CEO board members are less likely to be appointed.

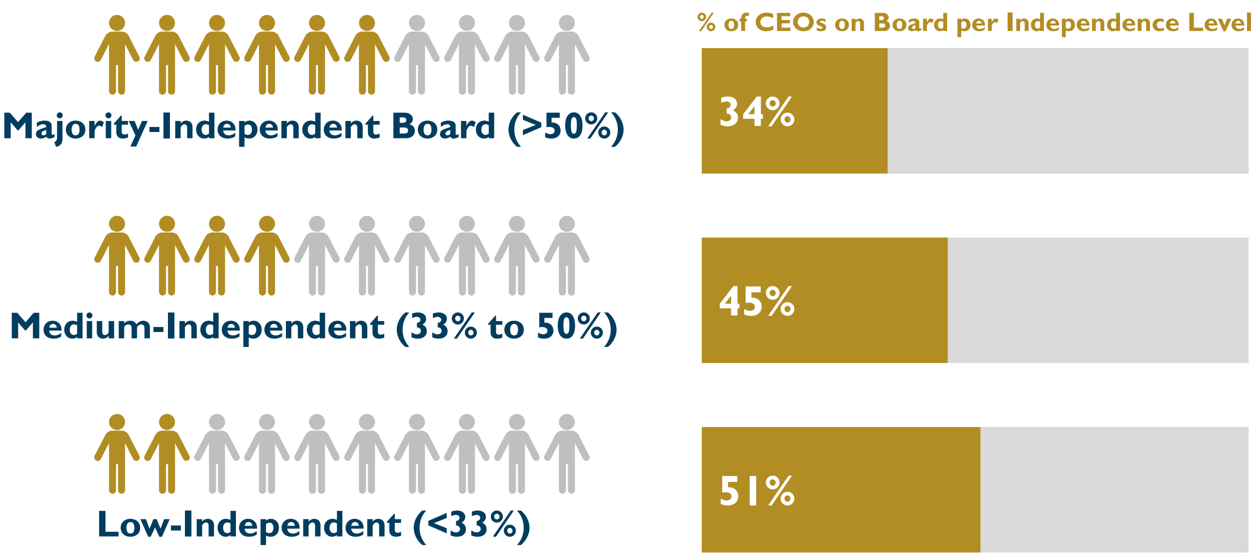

Figure 2. Percentage of companies with a CEO on the board by level of board independence

Smaller Saudi boards are more likely to include the CEO on the board. 55% of companies with fewer than six board members have the CEO as a board member. In contrast, only 37% of medium sized (six to nine members) and 38% of large (more than nine members) boards have a CEO on the board.

Such findings may arise from the fact that smaller, founder-managed companies are more likely to appoint the founder as both CEO and board member (as a means of maximizing their control of the company). The data also shows that CEO board membership is relatively evenly spread across all Saudi market segments (Small, Mid or Large Cap).

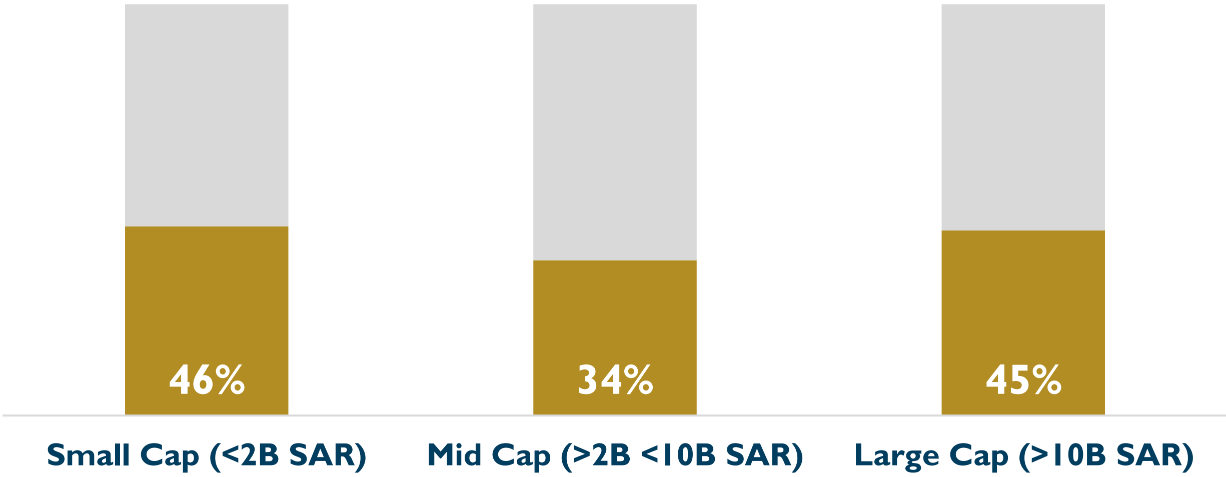

Figure 3. Percentage of companies with a CEO on the board by company size

In summary, although it is relatively common for CEOs to serve on boards in Saudi Arabia, company-level characteristics such as size, board structure and independence, industry sector, ownership structure and organizational complexity may also influence the prevalence of CEO board membership. Unlike in some countries, appointing a CEO to a board is far from automatic, and may be subject to a variety of company-specific considerations.

Weighing the pros and cons

What the CEO brings to the boardroom

Supporters of CEOs on boards argue that it helps the board to be better informed about operational issues, fostering better board-management collaboration, especially in periods of crisis.[10]

Given that the CEO works in the company on a daily basis, and will have expert insight into its current challenges, CEO involvement may be seen as essential for meaningful board deliberations[11]. Non-executive directors are heavily dependent on the CEO and management team for company-specific information. Having the CEO on the board of directors allows non-executives to gain immediate access to key operational developments and real-time clarification of complex matters.

One board member with international experience explained that *"As a board director, I prefer having the CEO in the room — it's about access, communication, and understanding… Communication can be a weak spot in organizations, so anything that increases clarity and alignment — especially around strategy — is essential."*

CEOs who are allowed to participate in board decisions as equal partners may feel a greater sense of personal ownership when it comes to the delivery of strategy. Many commentators argue that this strengthens the CEO's commitment to realizing the board's vision.

While the board is not a team in the conventional sense, a shared understanding between executive and non-executive members is essential for effective decision-making and strategic alignment. If the CEO serves as a board member, it may well be easier to create a sense of shared purpose. There may be less risk of an "us and them" mentality arising between the executive and the non-executive board members – a major potential obstacle to effective board governance.

> If you're creating a distinction between the CEO and other board members, the danger is that it creates a kind of us-and-them situation.
>
> *Corporate Governance Expert (United Kingdom)*

[10] MacLellan, L. (2023). *Here's when having a CEO serve as board chair really pays off*. The Corporate Governance Institute. Available at: https://www.thecorporategovernanceinstitute.com/insights/news/heres-when-having-a-ceo-serve-as-board-chair-really-pays-off/?srsltid=AfmBOorGjXIjVeu2-2yvCONOWIT4u-TdjDLCWd2y6O9O8_gK01gSdxli.
[11] Montgomery, C.A. and Kaufman, R. (2003). *The Board's Missing Link*. Harvard Business Review. Available at: https://hbr.org/2003/03/the-boards-missing-link.

Another argument for including the CEO on the board is to enable them to share the board's legal responsibilities. Some experts highlight that the CEO, as the person primarily responsible for delivering a successful business outcome, should also carry the legal and fiduciary duties of a board member. This ensures that the CEO is not only operationally accountable to the board but also legally accountable to the company and its stakeholders for business outcomes and behavior. Sharing the same legal accountability reinforces a culture of collective responsibility and ownership across the board and the entire organization.

In the absence of the CEO (and other executives) on the board, some commentators argue that the board effectively takes the form of a quasi-supervisory board, similar to that observed in a two-tier governance framework. The key player on the pitch is excluded from the ultimate decision-making process. In the view of unitary board advocates, this is detrimental to the ability of the board to make the best possible decisions for the company.

> You need a substantial minority of the board to be executives because otherwise you end up with something like a supervisory board. People who are not running the business supervising those that are running the business.
>
> *Corporate Governance Expert (United Kingdom)*

Challenges and tensions in CEO board involvement

The board is widely seen as the last layer of internal company controls. It is responsible for oversight, approving the company's strategy and providing overall direction for the organization. In the opinion of some experts, these duties cannot be fully exercised if the person being overseen - the CEO - is also a voting member of the board. In such circumstances, it may be argued that the CEO is being asked to monitor and evaluate themselves – an insurmountable conflict of interest.

The conflict of interest grows when we consider some specific board responsibilities, such as overseeing the CEO's performance or deciding on his/her remuneration. Can the board maintain the same level of objectivity when discussing these matters if the CEO is a fellow board member?

There was a consensus amongst most of the individuals interviewed that the CEO should not be part of deliberations on these topics. Even if the CEO is a board member, the chair should require the CEO to remove himself or herself from the discussion. However, even if these checks and balances are observed, the inclusion of the CEO on the board may engender strong personal relationships with fellow board members. This may affect board objectivity.

Another issue where CEO board membership may lead to conflict-of-interest situations relates to CEO succession planning. CEOs may have a hidden interest in influencing the choice of their successor. They may even feel uncomfortable about the issue even being considered by the board – as talk of a potential replacement may be seen as a threat to their authority.

There is hence a risk that non-executive directors feel uneasy about expressing their honest views on these topics when the CEO is present.[12] An experienced CEO emphasized that there is no room for conflicts of interests on the board - *“anything that creates a conflict of interest should be eliminated.”*

In jurisdictions like Finland and Norway, legal frameworks explicitly favor CEOs not serving on the board of directors. According to this approach, separating the CEO and board roles helps the board to preserve its objectivity and independence. For Nordic corporate governance experts, having the CEO on the board would introduce a governance contradiction that would be difficult to reconcile.

An experienced board chair also noted that, in countries where the CEO sits on the board, there is a tendency for board discussions to drift toward operational matters and not to focus enough on strategic issues.

Most importantly, combining the role of CEO and board member may increase the concentration of power in a single individual. This may compromise the board’s ability to provide independent oversight.

A powerful CEO has the potential to dominate board meetings and exert excessive influence on other directors’ contributions. “Groupthink” tendencies amongst board members may also inhibit directors from disagreeing with the CEO.[13]

However, an equally undesirable risk is that the board becomes an echo chamber for the CEO’s views rather than a forum for critical, independent debate and decision-making.

> The boardroom is not about structure only — it’s about the human element. Sometimes the power is in the informal conversations before and after the meeting.
>
> *Board Member and CEO (Saudi Arabia)*

The power of a CEO may be further magnified if he/she is the founder of the company or owns a significant equity stake. Alternatively, he or she may represent or be closely connected to a significant shareholder. If such CEOs are also board members, then the risk exists that they will dominate the board and monopolize decision-making.

Most of the board members and experts that we interviewed acknowledged that a CEO with a major equity stake would be a cause for governance concern. Major shareholders have significant power in terms of appointing directors or directing the company through

[12] Stevo Pavićević and Keil, T. (2025). *Research: How Boards Can Increase CEO Accountability*. Harvard Business Review. Available at: https://hbr.org/2025/02/research-how-boards-can-increase-ceo-accountability.
[13] Barclift, Z. Jill and Barclift, Z. Jill, Corporate Governance and CEO Dominance (November 5, 2011). Washburn Law Journal, Vol. 50, p. 611, 2011, Available at SSRN: https://ssrn.com/abstract=1955190

shareholder resolutions. Board members will be acutely aware of this latent power, with the result that they may feel inhibited in expressing their honest opinions to the CEO.

The power of a CEO may not just arise from being a significant shareholder. It could also derive from their social status in wider society or the sheer force of their personality. CEOs who have been highly successful in their recent business career are likely to be particularly difficult to challenge. In such circumstances, board members may be reluctant to raise objections or alternative perspectives – and feel a strong social pressure to defer to the views of a proven CEO.

Some of the governance problems that have recently emerged at major global companies, such as Boeing and WeWork, have demonstrated how the concentration of power in single individuals can increase the company's vulnerability to poor decision-making.[14]

A high-profile example is provided by Elon Musk. Musk is the co-founder and significant shareholder of Tesla, and also serves as both CEO and board member.

As an individual, Musk enjoys an unparalleled level of esteem within the global business community, arising from his visionary leadership and ability to generate shareholder value. However, from a governance perspective, this also gives rise to a high level of key person risk, i.e. the risk to business performance of being too dependent on one or a few key individuals. Such a key person is also in a position to dominate board decision-making.

This issue manifested itself in the public arena in 2018, when the Delaware Court of Chancery voided Tesla's US$ 56bn compensation package for Musk because it felt that the board had failed to exercise appropriate independent oversight (a view that it reiterated in a similar judgement in December 2024). According to the court, board members had been overawed by Musk's 'superstar appeal' and failed to apply a fair process when assessing the appropriateness of the compensation package.[15]

> If there is a very successful CEO... on the board, the person can be too controlling for the board work. Is it the opinion of the board or the CEO?
>
> *Chair, Board Member and Corporate Governance Expert (Nordic Region)*

Excessive individual dominance may shift the board's collective decision-making towards one individual's vision, making it more difficult to engage in critical discussions about the CEO's performance and strategic influence. Even in the presence of possible mitigating measures, including formal mechanisms to manage conflicts of interest, robust debate in the boardroom may become problematic.

[14] Mandato, J. and Devine, W. (2020). *Why the CEO Shouldn't Also Be the Board Chair*. Harvard Business Review. Available at: https://hbr.org/2020/03/why-the-ceo-shouldnt-also-be-the-board-chair.

[15] https://www.mccarter.com/insights/delaware-court-of-chancery-rejects-elon-musks55-8b-tesla-compensation-package-again/

According to several specialists, having the CEO as board member increases the burden on other directors to maintain checks and balances as it's *"their role to make sure that the control happens"*. If directors lack independence, training, or assertiveness it will create additional problems. A Norwegian corporate governance expert noted that *"If the presence of the CEO in the boardroom affects the way board directors are speaking up, then those board members should not be on the board"*.

An accountability dilemma: when the CEO disagrees with strategy

What happens when the CEO disagrees with a board decision but is still tasked with its execution? Can a CEO claim exemption from accountability if the decision fails?

From a legal perspective, the situation will depend on whether the CEO is a board member. As board member, the CEO is held legally accountable along with the rest of the board for the fulfillment of fiduciary responsibilities to the company. A dissenting vote will not release any director (including the CEO) from being held accountable for these duties and for the collective decisions of the board.

In contrast, a CEO that is not a board member will not be subject to these legal duties. They can be held directly accountable by the board for their performance – with potential consequences for remuneration and continued employment. However, they will not face litigation risk for failing in their duties to the company in the same way as board members.

> "If ultimately the board decides on strategy… and the only person who is really objecting to this is the CEO. I think you have to ask yourself: should this person remain a CEO? Because what is the role of a CEO? The role of a CEO is to implement the strategy of the board. Asking someone who basically doesn't agree with the strategy to implement it is not a smart move for any board."
>
> *Corporate Governance Expert (United Kingdom)*

In a practical sense, directing a CEO to implement a strategy that he or she is not committed to is probably a bad idea. The board would be advised to either take account of the CEO's objections or find someone else for the role. Equally, the CEO should probably question their own position if the board is not taking proper account of their views.

However, the decision about whether or not to proceed with a business strategy is ultimately a judgement for the board to make – and one for which it, rather than the CEO, is collectively held accountable.

Mitigating the risks

Some experts interviewed believed that while governance risks (e.g. reduced independence, conflicts of interest) may arise when the CEO serves as board member, most or all of them can be managed or mitigated with proper systems in place.

CEOs should be recused from discussions involving their own remuneration, performance, or succession. These topics should be handled by the appropriate committees consisting of non-executive directors (e.g. nomination or remuneration committees), or in sessions involving only non-executive directors. This enables the latter to independently debate the issues - critically, objectively and without unjustified pressure.

One of the governance specialists highlighted this point: *"when there's major ownership by the CEO, then you need a strong independent audit committee, capable members, and an internal control function that reports directly to the board".*

The board should also define clear conflict of interest policies, requiring all board members (including the CEO) to declare any personal or financial interests and to abstain from decision-making in those areas.

Additionally, interviewed board members stressed that effective governance also depends on the skills, mindset and qualifications of individual board members. The board's ability to manage complex power dynamics (such as having a powerful CEO seated at the table) relies on whether directors have the confidence and know-how to assert the right judgments and maintain independence when needed.

> No amount of policy can replace people being prepared and knowing how to deal with strong characters at the table. You can't regulate personality, but you can ensure people are qualified and trained.
>
> *Board Member, Former Chair and CEO (Australia)*

Ongoing board training and the establishment of minimum qualification standards for board members could help ensure that all directors are clear about how to navigate this kind of situation. It would make it more likely that they fulfil their responsibilities effectively. A recent paper in the US advocates for mandatory continuing education for directors of public companies.[16] The UK's Institute of Directors argues that directors should be subject to a minimum competency framework and an explicit code of professional ethics.[17]

Many interviewees argued that proper professional training was essential to increase each board member's confidence in their governance role. With this background, they are more

[16] O'Hare, J. (2024). Continuing Education for Directors of Public Companies. doi:https://doi.org/10.2139/ssrn.4848797.
[17] Available at: https://www.iod.com/professional-development/director-competency-framework/

likely to assert the need for a strong and effective board. This would reduce the likelihood of the board being overwhelmed by a dominant CEO.

> No lawyer can practice without certification. No accountant either. But board members? They can sit without any training at all.
>
> *Board Member and CEO (Saudi Arabia)*

The role of the board chair

Amongst those interviewed, there was widespread agreement that the role of the board Chair becomes even more important when the CEO also serves as a board member. The Chair must guarantee that discussions remain open, inclusive and balanced, and that all directors feel comfortable expressing their views, even when they disagree with the CEO.

It is also the Chair's responsibility to identify and manage any conflicts of interest that arise in the boardroom, for example, by ensuring that the CEO leaves the room during discussions about their own remuneration or performance.

In cases where the CEO is also the founder or a significant shareholder, the Chair must find ways to counterbalance his or her potential excessive influence and ensure that no single individual dominates the decision-making process.

In some contexts, both the Chair and the CEO may be powerful actors due to their strong personalities, long-standing tenure or backing from major shareholders. If both form an aligned axis of influence, other directors may feel disempowered or hesitant to question or challenge, making the board dynamic even more fragile.

> It's always a game of egos... the chair-CEO relationship is a major one. If the chair is also a major shareholder, it becomes even more sensitive.
>
> *Board Member and CEO (Saudi Arabia)*

According to our interviewees, the Chair of the board plays an important role in preparing board meetings with the CEO and ensuring that everything is moving in the right direction. However, one corporate governance expert warned that if the CEO-Chair relationship becomes too close, it may undermine the principle of independent board oversight. There is an increased risk of decisions being made between the Chair and the CEO in advance and the board meeting becomes a pro forma discussion.

The Chair must always protect the integrity and objectivity of the boardroom and ensure that all directors contribute meaningfully. Other directors should be alert to the dangers of an excessively close Chair-CEO relationship, and could seek to address the issue through a robust board evaluation process.

Information flow from the CEO does not require board membership

One of the most cited arguments for having the CEO as board member is ease of access to information. However, the CEO does not necessarily need to be a formal board member for the board to obtain management information and insight. As highlighted by an expert interviewed, *"the CEO will almost always be present in board meetings… and there will be a dialogue and communication with the chair that is ongoing*."

Regardless of whether or not he or she is a board member, the CEO will in practice be invited to attend most board meetings and actively participate in discussions, especially when presenting updates on strategy, operations, or performance. According to some interviewees, involving the CEO in board meetings as a regular guest rather than a board member is the right way to maintain strategic alignment and information flows without compromising the board's ability to exercise objective oversight.

Cultural influences

Across global markets, culture plays a key role in defining whether the practice of CEOs serving as board members is seen as positive or negative. Explicit and implicit attitudes about hierarchy, accountability, and interpersonal dynamics are often key drivers of outcomes.

In Nordic countries, there is strong emphasis on flat hierarchies, transparency, and egalitarianism.[18] This partly explains the resistance to CEO board membership, which can be seen as creating an unequal power dynamic amongst board members.

In contrast, Anglo-Saxon markets like the US, UK or Australia have a performance-oriented and pragmatic culture[19], where efficiency, access to information, and strategic alignment is often prioritized, making it more culturally acceptable for the CEO to serve on the board.

> We are all formed — our thinking is always formed — by the culture we grow up in and the culture that we are living and working in... So then you have to look into what are the pros and cons, and what kind of implications do these systems have.
>
> *Chair, Board Member and Corporate Governance Expert (Nordic Region)*

In countries with more hierarchical cultures, such as Saudi Arabia or Japan, dissenting with powerful CEOs could be perceived as socially uncomfortable, especially in formal group settings like boardrooms. Challenging authority may be seen as disrespectful, making it more difficult for board members to raise concerns or question management decisions.[20]

> Often recruitment to boards is based on trust relationships. I know you, I know how you act, I know you'll support me — so I bring you on.
>
> *Board Member and CEO (Saudi Arabia)*

Furthermore, even if formal checks and balances in relation to a dominant CEO may exist on paper, they may be less likely to be activated if the governance model in use is not fully aligned with the prevailing cultural setting.

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18 Andreasson, U. and Lundqvist, M., 2018. *Nordic leadership*. Nordic Council of Ministers.
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The key point is that directors should explicitly assess if board membership for the CEO is consistent with local business norms. In most cases, it makes sense to work with the grain of accepted behaviour in a specific business community. There are often multiple ways of achieving the same governance objective, and the CEO as board member may not be the optimal governance mechanism in every jurisdictional context.

The role of ownership structure

Ownership concentration often plays a key role in determining if the CEO is appointed as a board member. Shareholders are more powerful actors if they control major ownership stakes. In contrast, company management is in a stronger position if shareholdings are dispersed across thousands of institutional or retail investors – as is common in the US and UK markets. The power dynamics that arise from these differing ownership structures affect the likelihood of the CEO being included on the board.

As a generalization, CEOs are less likely to be board members in organizations with a controlling or dominant shareholder. In contrast, they are more likely to be on the board when ownership is dispersed.[21]

In the former case, the company's power structure is dominated by the major shareholder. This actor may not see the CEO as an equal partner, but rather as a manager whose role is to deliver their vision. Placing the CEO on the board may appear to be an unnecessary elevation of status which potentially blurs expectations of their underlying role. In some cases, a CEO board member may even be seen as a challenge to the authority of the controlling shareholder over the organization.

In companies with dispersed ownership, shareholders have a more fragmented influence over the company's affairs. Although investors may engage with the company through their stewardship function or via proxy voting activities, they face collective action problems when seeking to direct company strategy or governance practices. This places company management – and especially the CEO – in a stronger position to influence company decision-making.

Although independent non-executive directors should in principle provide a check and balance to the power of the CEO, most commentators agree that their influence in practice is much less than that which would be provided by a major shareholder. Part-time directors lacking skin in the game are more likely to defer to the CEO. The CEO is seen as the key player in the company's affairs – a status they would not enjoy at a company with a dominant shareholder. The relative power of the CEO in jurisdictions with dispersed ownership also tends to be reflected in higher levels of CEO remuneration, particularly at US-listed companies.

In contrast, Nordic countries like Norway, Finland, and Denmark are characterized by companies with high levels of ownership concentration – which weakens the ability of the

[21] Dahya, J. et al (2023). *Does Board Independence Matter in Companies with a Controlling Shareholder?* Journal of Applied Corporate Finance, April 2023.

CEO to dominate the enterprise. It is therefore not surprising that these countries show significant resistance to the idea of the CEO serving on the board of directors. Nordic CEOs are also paid significantly less than their counterparts in the US and, to a lesser extent, the UK.

Conclusion: no one-size-fits-all

There is no universal answer as to whether CEOs should serve on the board of directors. Practices vary significantly from country to country. Differing approaches can work well when properly adapted to structural and cultural realities. The fact that one approach works well in one jurisdiction does not mean it should be cut and pasted into another. This consideration is as relevant to the issue of CEO board membership as to any other aspect of governance.

> Different systems have developed in different countries for different historical and political reasons… There has been no one type of structure of governance which has shown itself to be superior to others in the sense that it reliably leads to better performance or better outcomes. You see successful companies with one system, you see successful companies with other systems, and vice versa
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> *Corporate Governance Expert (United Kingdom)*

When thinking about whether to appoint the CEO to the board, directors should carefully consider the specific needs of their organization. There is no global consensus regarding the desirability of CEO board membership, and the issue is relatively neglected in academic studies and governance literature. Any final decision should consider not only international practices, but also local business norms, company size, ownership structure, and the personal characteristics of the relevant governance actors.

Many of the governance risks which arise from the role of the CEO are not caused by the CEO's status as a board member *per se*. Rather, they are inherent in the CEO role itself. The dominance of the CEO typically derives from their close proximity to operations, their deep knowledge of the business, their personal characteristics and, in some cases, their additional role as founder or major shareholder. The CEO's relative power will also be crucially affected by the presence or otherwise of a major shareholder. These structural realities will exist regardless of whether a CEO is formally appointed to the board and should inform the governance relationship between the board and the CEO.

The most effective counterbalance to an excessively dominant CEO, either on or off the board, is an effective and well-functioning board of directors. The Chair has a crucial role to play in making this a reality. Appropriate policies and procedures should be adopted by the board to manage conflicts of interest, and the board should rigorously apply a code of ethical conduct. Both the CEO and other board members should be educated in the latest governance thinking - so that they have an informed and up-to-date understanding of their relative roles.

Relevant governance training, director certification and board evaluation processes can be invaluable in accelerating the transition to a high-performance board. Successful organizations are learning organizations, and the board should embrace this philosophy in all aspects of its own activities.

ABOUT THE CENTER FOR GOVERNANCE

The Center for Governance was established by the Public Investment Fund (PIF) in 2020, and is dedicated to enhancing corporate governance capabilities and know-how in Saudi Arabia and beyond. We are a catalyst for governance excellence in the Kingdom, delivering practical solutions that elevate standards, build trust and foster societal progress.
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- We design and deliver development programs aimed at board members, the C-Suite and governance professionals.
- Through rigorous research and thought leadership, we uncover new insights that raise awareness and understanding of governance, directorship andorganizational performance.

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