



IN-DEPTH:

INDEPENDENT BOARD CHAIR

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GLASS LEWIS

INDEPENDENT BOARD CHAIR

Glass Lewis believes that shareholders are better served when the board is led by an independent chair who we believe is better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that exists when a CEO or other executive also serves as chair. This, in turn, leads to a more proactive and effective board of directors.

Research suggests that combining the positions of chair and CEO may hinder a board's ability to dismiss an ineffective CEO. One study found that "the sensitivity of CEO turnover to firm performance is significantly lower when the CEO and chair responsibilities are vested in the same individual."¹ It is the board's responsibility to select a chief executive who can best serve the Company and its shareholders and to replace this person when his or her duties have not been appropriately fulfilled. We believe replacing a CEO becomes more difficult and happens less frequently than it should when the chief executive is also in the position of overseeing the board. Further, a 2009 study regarding corporate governance practices at U.S. corporations found that companies with combined chairs and CEOs tend to follow fewer positive corporate governance practices such as having declassified boards and calling frequent board meetings.² Board independence has been accepted as a best practice worldwide. In a study conducted by Farent Advisors, 97% of countries surveyed accepted a separate chair/CEO as a best practice, 53% of which have statutory requirements that mandate this separation.³

Some empirical evidence suggests that the firms with separated CEO and chair roles outperform companies in which a single individual serves in both capacities.⁴ In addition, a more recent study by the Millstein Center for Corporate Governance and Performance at the Yale School of Management stated that "[t]he independent chair curbs conflicts of interest, promotes oversight of risk, manages the relationship between the board and CEO, serves as a conduit for regular communication with shareowners, and is a logical next step in the

development of an independent board."⁵ Beyond the potential performance related improvements of an independent chair, the cost of compensation is significantly lower. A 2012 study shows that CEOs who are not chairmen earn 44% less than those that serve combined roles. Additionally, it is 25% less expensive to compensate a CEO and independent chair than a combined position. The same study also found that companies with separate roles have higher shareholder returns over extended periods of time.⁶

On the other hand, some studies indicate that separating the roles of chair and CEO may have negligible or negative impacts on corporate performance. For example, some critics claim that separating the two roles leads to confusion and power struggles between management and the board.⁷ Other studies suggest that the value of having non-executive chair is largely dependent on the unique circumstances of a given company.⁸ While situational reasons for the separation of the chair and CEO roles may be beneficial, evidence shows that companies that have separated the roles because of investor pressure and not internal or structural reasons perform worse.⁹ A further study of 152 Swiss companies found no evidence of a "systematic and significant difference in valuation between firms with combined and firms with separated" CEO and chair functions.¹⁰ Ultimately, most academics acknowledge that much of the literature on the separation of CEO and chair has produced inconsistent and conflicting results.¹¹

5 Millstein Center for Corporate Governance and Performance, Yale School of Management. "[Chairing the Board: The Case for Independent Leadership in Corporate North America.](#)" *Policy Briefing No. 4*. 2009.

6 Paul Hodgins. "[The Costs of a Combined Chair/CEO.](#)" Harvard Law School.

7 Jay Lorsch and Andy Zelleke, "[Should the CEO Be the Chairman?](#)" *MIT Sloan Management Review*. 2005.

8 Ryan Krause, Matthew Semadeni. "[Apprentice, Departure, and Demotion: An Examination of the Three Types of CEO-Board Chair Separation.](#)" *Academy of Management Journal* 55(6). 2012.

9 David Larcker and Brian Tayan. "[Chairman and CEO: The controversy over board leadership structure.](#)" Rock Center for Corporate Governance. June 24, 2016.

10 Markus M. Schmid, Heinz Zimmerman. "[Should Chairman and CEO be Separated? Leadership Structure and Firm Performance in Switzerland.](#)" *Schmalenbach Business Review: ZFBF*. April 2008.

11 Raghavan Jlyengar and Ernest M. Zampelli, "[Self Selection, Endogeneity, and the Relationship Between CEO Duality and Firm Performance.](#)" *Strategic Management Journal*. 2009.

1 Vidhan K. Goyal, Chul W. Park. "[Board Leadership Structure and CEO Turnover.](#)" *Journal of Corporate Finance* 8. 2002.

2 Joann S. Lublin. "[Chairman-CEO Split Gains Allies.](#)" *Wall Street Journal*. March 30, 2009.

3 "[2017 Global Trends in Corporate Governance.](#)" Farent Advisors. 2016.

4 Paula Rechner, Dan Dalton. "[CEO Duality and Organizational Performance: A Longitudinal Analysis.](#)" *Journal of Strategic Management* 12. 1991.

A 2014 Forbes article analyzing voting results for shareholder proposals seeking to split the roles highlights a similar difference of opinion among shareholders on this issue. The findings showed that of approximately 200 shareholder proposals placed on ballots in the last two years, only four proposals received shareholder approval and none resulted in an actual separation of roles. Absent key indicators such as poor performance, poor governance factors, an “imperial” CEO or long-tenured directors, shareholders are reluctant to favor separating the roles. The article further states that the reluctance is not without merit because the decision to separate these roles can significantly impact the future performance of a company; research has suggested that poor performing firms that separate the roles may experience enhanced performance, but for high performing companies, separation of the roles could have a negative impact on shareholder returns. Ultimately, however, the article concludes that any changes to a company’s leadership structure will more likely be a result of indirect pressure rather than direct pressure from shareholder proposals and voting.¹²

While much of the empirical evidence regarding the separation of the roles of chair and CEO remains contradictory and inconclusive, Glass Lewis nevertheless generally favors the installation of an independent chair in order to ensure independent board leadership on behalf of shareholders. We believe that the presence of an independent chair fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. Further, we believe that the separation of these two key roles eliminates the conflict of interest that inevitably occurs when a CEO is responsible for self-oversight. Moreover, there appears to be a growing trend toward separation of the roles of chair and CEO. According to the [2016 Spencer Stuart Board Index](#), 27% of boards have a truly independent chair, up from 21% in 2011. Further, 12% of respondents to the Spencer Stuart survey said that their board has recently separated the roles of chairman and CO, while 33% said their boards had discussed whether to split the roles within the next five years. Among boards that expect to or have recently separated the chair and CEO roles, 72% cite a CEO transition as the reason behind the split, while 20% said that splitting the roles of chairman and CEO represents a best governance practice.

¹² Robin Ferracone. “Combined Chairman/CEO Roles: Easier Than You Think.” *Forbes*. March 5, 2014.

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