



GLASS LEWIS

Independent Chair

In-Depth Report

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About Glass Lewis

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info@glasslewis.com | www.glasslewis.com

Background & Research

Glass Lewis' view is that shareholders are better served when the board is led by an independent chair, a role which we believe is better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that exist 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." 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.¹ Board independence has been accepted as a best practice worldwide. In a [study](#) conducted by Farient Advisors, 94% of countries studied separate the chair and CEO, almost half of countries studied have statutory requirements mandating this separation, and in most other countries it is considered best practice since it helps to diffuse power (pp.24-25).

Some [empirical evidence](#) suggests that firms with separated CEO and chair roles outperform companies in which a single individual serves in both capacities. In addition, a [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." 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 chairs 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.

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.² Other [studies](#) suggest that the value of having a non-executive chair is largely dependent on the unique circumstances of a given company. While there might be various reasons for a company to separate the positions of chair and CEO, evidence shows companies that do so because of investor pressure and not for internal or structural reasons experience a decrease in market valuation and lower future operating performance.³ A [study](#) of 152 Swiss companies found no evidence of a "systematic and significant difference in valuation" between companies with combined CEO and chair

¹ Joann S. Lublin. "[Chairman-CEO Split Gains Allies.](#)" *Wall Street Journal*. March 30, 2009.

² Jay W. Lorsch, Andy Zelleke. "[Should the CEO Be the Chairman?](#)" *MIT Sloan Management Review*. January 15, 2005.

³ David Larcker, Brian Tayan. "[Chairman and CEO: The Controversy over Board Leadership Structure.](#)" Corporate Governance Research Initiative. June 24, 2016.

functions and those which have separated the two roles. Ultimately, most academics [acknowledge](#) that much of the literature on the separation of CEO and chair has produced inconsistent and conflicting results.

In one [study](#), researchers set out to determine whether the CEO/chair structure impacts company valuation. For companies that consistently had either a combined CEO/chair or separated roles, there was no statistically significant difference in financial performance over 15 years, 3 years, or 17 months. Researchers concluded that separating the CEO and chair roles is not correlated with better financial performance. Further, they state that “there does not appear to be any compelling economic reason for public companies to adopt any particular CEO/chairman structure.” Researchers recommend that companies focus on tailoring their leadership structure in a manner that best suits the company and its circumstances.

A 2014 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 2013 and 2014, only four proposals received majority shareholder approval, and none resulted in the actual separation of the roles of chair and CEO. Thus, it is argued that, absent key indicators such as poor performance, poor governance factors, and 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.⁴

Further, there appears to be a growing trend toward separation of the roles of chair and CEO. The 2023 [Spencer Stuart Board Index](#) shows that 59% of S&P 500 boards split their chair and CEO roles, which is a slight increase from 57% last year but the same percentage as that in 2021. Spencer Stuart also presents data that 39% of boards named an independent chair (meeting the NYSE or Nasdaq rules for independence), slightly up from 36% in 2022 (p.6). Only six boards do not have any form of independent leadership (p.33). As more boards are choosing to name independent chairs, fewer boards report having independent leads or presiding directors, at just 65% for 2023, down from 68% in 2022 and 90% a decade ago. Of those boards, 90% of them choose to have a lead director, while just 10% opt for presiding directors (p.34). In the 2016 [Spencer Stuart Board Index](#), among boards that expected to or had recently separated the chair and CEO roles, 72% of respondents cited a CEO transition as the reason behind the split, while 20% said that splitting roles of chair and CEO represents a best governance practice.

Another reason for the rise in board chair independence, according to The Conference Board, is the increased workload of boards and management. According to a 2022 [study](#), boards and management are now “contending with multiple crises, fundamental transitions in business models, and growing demands for companies to address ESG issues and the needs of stakeholders.” Further, the study suggests that CEO succession events “are

⁴ Robin Ferracone. “[Combined Chairman/CEO Roles: Easier Than You Think.](#)” *Forbes*. March 5, 2014.

often an opportune juncture for the board to reconsider its leadership structure and separate the two positions.”⁵

The growing push for board chair independence was also evidenced in shareholder proposals this past proxy season, though not in vote outcomes. According to data from our most recent season review, independent chair proposals were the most frequently submitted type of shareholder proposal during the 2023 proxy season (80 total). Average shareholder support for these proposals has remained around 30% for the past several years, and none of the proposals going to a vote received majority support in 2023; the highest support for this resolution was at **Lincoln National Corporation**, where the proposal was supported by 46.4% of shareholders.

Controversies Prompting Change

In several cases, controversies have led to calls for companies to separate the CEO and chair positions. For example, in 2016, **Wells Fargo** amended its bylaws to require that the bank separate the chair and chief executive roles after a scandal over unauthorized customer accounts. The amendment also called for the chair and vice chair of the board to be independent directors.⁶

Further, in November 2018, **Tesla** appointed Robyn Denholm as board chair in response to the SEC demand that chair/CEO Elon Musk step down from the position. The appointment was required as part of a deal that Tesla and SEC regulators reached to settle fraud charges against the company.⁷ In addition, in the wake of the 737 MAX scandal, **Boeing’s** former CEO stepped down as chair of the company’s board in October 2019 and was replaced by an independent director as a result of the fatal crashes. Boeing formalized the independent chair role in June 2020 following majority shareholder support for a related shareholder proposal.⁸ Further, amidst pressure from activist hedge fund Elliott Management, **AT&T** announced that it would separate the roles of chair and CEO when its chair and CEO retired in 2020.⁹ In November 2020, AT&T [announced](#) that it would follow through on its plan of selecting an independent chair with the role going into effect in January 2021.

Meta Platforms’ (formerly Facebook) CEO and chair Mark Zuckerberg has also faced increased pressure to step down as the company’s chair. In October 2018, the New York City Comptroller; state treasurers of Illinois, Rhode Island, and Pennsylvania; and Trillium Asset Management announced their support for a shareholder proposal to name an independent board chair. The groups argued that the separation was necessary to help move the company past its recent controversies and reestablish trust after Facebook was involved in several data and privacy controversies in 2018, including its role in allowing users’ data to be used by political analysis firm

⁵ The Conference Board. [“To Accommodate Growing Workloads, Boards Are Electing Independent Board Chairs, Experimenting with Committee Structures, and Holding More Meetings.”](#) *PR Newswire*. July 18, 2022.

⁶ Ross Kerber, Dan Freed. [“Wells Fargo Amends Bylaws to Separate Chairman and CEO Roles.”](#) *Reuters*. December 1, 2016.

⁷ Pushkala Aripaka, Michelle Price. [“Tesla Names Director Denholm To Replace Musk As Board Chair.”](#) *Reuters*. November 8, 2018.

⁸ Julie Johnsson. [“Boeing Quietly Split CEO, Chairman Roles After Investor Vote.”](#) *Bloomberg*. November 30, 2020.

⁹ Edmund Lee. [“AT&T C.E.O. to Stay Another Year After Challenge from Activist Fund.”](#) *New York Times*. October 29, 2019.

Cambridge Analytica.¹⁰ Shareholders, again, proposed resolutions seeking the appointment of an independent director during the 2019, 2020, 2021, and 2022 proxy seasons, which each failed to receive requisite support. Given Zuckerberg's control over the majority of votes at the company, it remains unlikely that such a resolution will pass in the foreseeable future.¹¹ In 2021, Facebook whistleblower Frances Haugen, who leaked internal information regarding the company's problems with misinformation and user safety, emphasized that the company would be stronger with a leader willing to address its many ongoing issues. Her testimony before a U.S. Senate subcommittee left senators wanting more answers from Zuckerberg,¹² and also led to calls for greater oversight at the company.¹³

¹⁰ Salvador Rodriguez. "[Facebook Investors Sound off About Zuckerberg After Stock Plunges 40 Percent in Four Months.](#)" *CNBC*. November 26, 2018.

¹¹ Danielle Abril. "[Angry Facebook Shareholders Fail to Dislodge Mark Zuckerberg as Chairman.](#)" *Fortune*. May 30, 2019.

¹² Salvador Rodriguez. "[Senators Demand Facebook CEO Mark Zuckerberg Answer Questions After Whistleblower's Revelations at Hearing.](#)" *CNBC*. October 5, 2021.

¹³ David DiMolfetta. "[Facebook Faces Renewed Push to Split CEO, Chairman Roles Amid Controversies.](#)" S&P Global Market Intelligence. October 14, 2021.

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Corporate Website | www.glasslewis.com

Email | info@glasslewis.com

Social |  [@glasslewis](https://twitter.com/glasslewis)  [Glass, Lewis & Co.](https://www.linkedin.com/company/glass-lewis-&-co)

Global Locations

North America

United States

Headquarters
100 Pine Street, Suite 1925
San Francisco, CA 94111
+1 415 678 4110

New York, NY
+1 646 606 2345

2323 Grand Boulevard
Suite 1125
Kansas City, MO 64108
+1 816 945 4525

Asia Pacific

Australia

CGI Glass Lewis
Suite 5.03, Level 5
255 George Street
Sydney NSW 2000
+61 2 9299 9266

Japan

Shinjuku Mitsui Building
11th floor
2-1-1, Nishi-Shinjuku, Shinjuku-ku,
Tokyo 163-0411, Japan

Europe

Ireland

15 Henry Street
Limerick V94 V9T4
+353 61 534 343

United Kingdom

80 Coleman Street
Suite 4.02
London EC2R 5BJ
+44 20 7653 8800

France

Proxinvest
6 Rue d'Uzès
75002 Paris
+33 (0)1 45 51 50 43

Germany

IVOX Glass Lewis
Kaiserallee 23a
76133 Karlsruhe
+49 721 35 49622

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