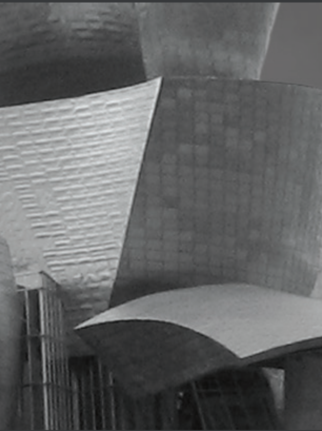
JANUARY 2015



VeLL | REPORT

A PUBLICATION OF VELL EXECUTIVE SEARCH INC.

CHAIRMAN-CEO STRUCTURE

Fortune 100 Leadership Trends and What You Can Learn from Them

Material in this report is for educational purposes only. For legal advice, please consult your lawyer. The views expressed by individuals (or companies) in this report do not necessarily reflect the views shared by the companies they refer to.

For corrections, company/title updates, comments or any other inquiries, please email info@vell.com.

Published by Vell Executive Search Inc.

© Vell Executive Search, Inc., 2015

ISBN-10: 0980249446

ISBN-13: 978-0-9802494-4-6

Printed in the United States of America No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, except as permitted under sections 107 or 108 of the United States Copyright Act, without prior written permission of the publisher.

CHAIRMAN-CEO STRUCTURE

Fortune 100 Leadership Trends and What You Can Learn from Them

VeLL

Contents

Introduction 1

Executive Summary 2

Leadership Structure Trends 6

About the Vell Executive Search Study 10

Always Combined 12

Combined with Transitions 15

Single Combine 23

Always Split 25

Single Split 28

Complex Changes 36

Transitions from Long-Term CEOs 42

Comparing Combined versus Split 45

Advice for Boards 48

Appendix 50

Vell Executive Search 56

Endnotes 58

Figures and Tables

Figure 1: Chairman-CEO Structures and Changes 3

Figure 2: Lead and Presiding Director Distribution 4

Table 1: Always Combined 12

Table 2: Combined with Transitions 17

Table 3: Single Combine 23

Table 4: Always Split 25

Table 5: Single Split 32

Figure 3: Drivers of Splits 33

Table 6: Complex Changes 40

Table 7: Transitions from Long-Term CEOs 43

Figure 4: Combined vs Split by Median Fortune Rank 45

Figure 5: Combined vs Split by Industry 46

Figure 6: Combined vs Split by Number of CEO Transitions 47

Appendix: 2012 Fortune 100 by Rank 50

Appendix: 2012 Fortune 100 Alphabetically 53

Introduction

How to structure the leadership of large corporations – and specifically whether to split or combine the roles of Chairman and CEO – remains an active and often controversial question.

Under recent shareholder pressure, Walt Disney Company preemptively amended its corporate governance guidelines to require the board of directors to provide annual justification whenever the roles are combined, as they currently are. At Disney and an increasing number of major corporations, the board is obligated to revisit the structure question on a regular basis.

One of a board's most fundamental responsibilities is putting in place the best leadership team possible, and there's no easy answer to the structure question. The trend is toward splitting the Chairman and CEO roles, as activist shareholders and corporate governance monitors generally prefer. But there are very successful companies with firm allegiance to keeping the roles combined. And less successful companies have compounded their business problems by changing the structure at each wrong turn.

In order to cast new and up-to-date light on the question of whether and when to change the Chairman-CEO structure, we studied the experience of the Fortune 100 over the last decade and more. In this report we share our observations, conclusions, and recommendations regarding leadership structure, including the increasingly important role of independent Lead Director whenever the Chairman and CEO roles are combined.

I hope you find this report informative and useful, and welcome the opportunity to discuss its findings and implications.

Best regards,

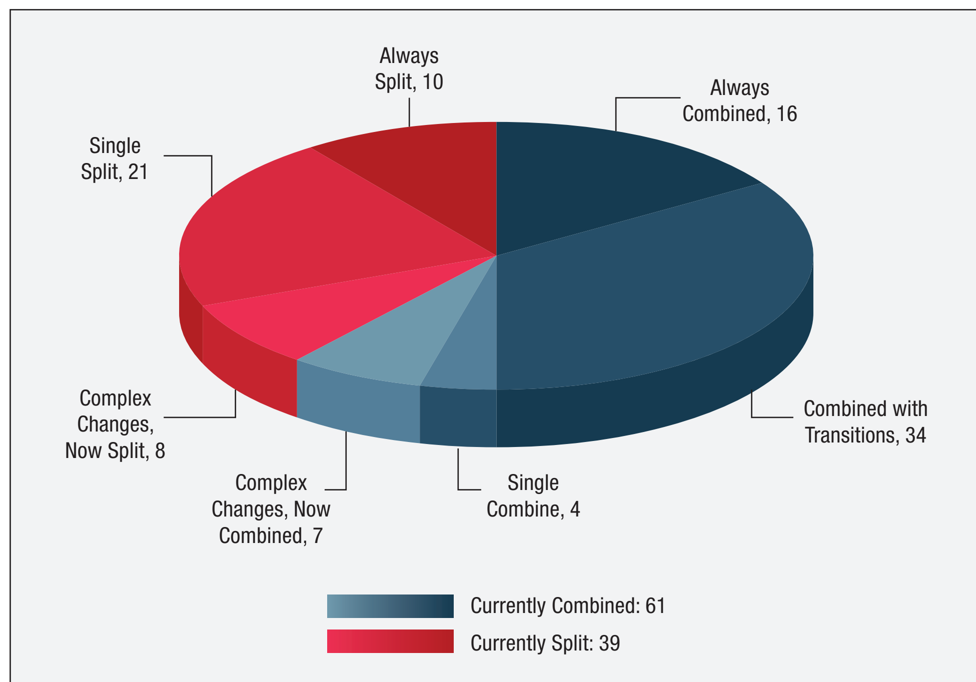
Dora Vell

Executive Summary

- An important responsibility of a board of directors is to maintain the most effective leadership structure for the corporation. Key decisions include whether the roles of Chairman and CEO should be combined in one person or split, and if split whether the Chairman should be an independent director.
- Having one person serve as both Chairman and CEO has been the norm in large U.S. companies; about 58% of large-cap companies have roles combined.
- The trend is toward splitting the roles. Between 2001 and 2012, the proportion of S&P 500 companies with split roles more than doubled to 44%.
- It has become commonplace for boards to have designated Lead Directors with specific responsibilities, both when the roles are combined and when the Chairman is not independent.
- Having the roles combined is a North American, and to a lesser extent a European, phenomenon. Around most of the world, 90% of companies keep the roles split, sometimes by law.
- Proponents of combining the Chairman and CEO roles say that it enables unity of direction and speed of action, especially in times of business crisis or transformation.
- Proponents of splitting the roles point to the potential abuse of consolidated power, the opportunity to improve governance, and the assertion that the two distinct roles are just too big a job for one person in a large and complex corporation.
- The research on the effects of leadership structure on business performance is, taken together, inconclusive. The prevailing advice on splitting or combining roles is to do what's best for the company given its combination of business challenges and candidate leaders.
- The Vell study of the F100 found that these large U.S. companies still tend to have roles combined (61 companies) rather than split (39).
- But the trend is toward splitting: 25 companies that had combined roles in 2000 are now split, versus only four that were split then and are now combined.
- We analyzed the F100 companies in six categories:
    - **Always Combined** (16 companies) have had the roles combined since the beginning of 2000, and sometimes much longer. These companies include five of the ten largest, with some of the longest-serving CEOs (including Warren Buffett at Berkshire Hathaway), and have the lowest rate of CEO turnover.
    - **Combined with Transitions** companies (34) split roles when transitioning to a new CEO (and eventual chairman) but stay combined over the long run. This is a popular approach, though many companies used it selectively. Transition periods vary from a few months to over two years.

- **Single Combine** (4) went from split to combined structures. In all cases, the board had an experienced CEO to assume the Chairman role.
- **Always Split** (10) have kept the roles separate since the beginning of 2000. They have had on average more CEO changes than Always Combined companies do, and they are more willing to bring in outsiders as CEO, given that the Chairman usually remains in place.
- **Single Split** (21) went from combined to split structures. Half of these changes coincided with CEO or Chairman transitions, some involving the founder. Some were purposeful efforts to increase board independence and improve governance. A half dozen happened amid business turmoil.
- **Complex Changes** (15) went back-and-forth between structures. Eight are currently split, seven combined. Eleven of the 15 have returned to the structure they had at the start of 2000; the other four were combined then and split now. Ten of these companies experienced repeated leadership changes (including ousters), declining business performance (including during the financial crisis), and/or investigations of management improprieties.

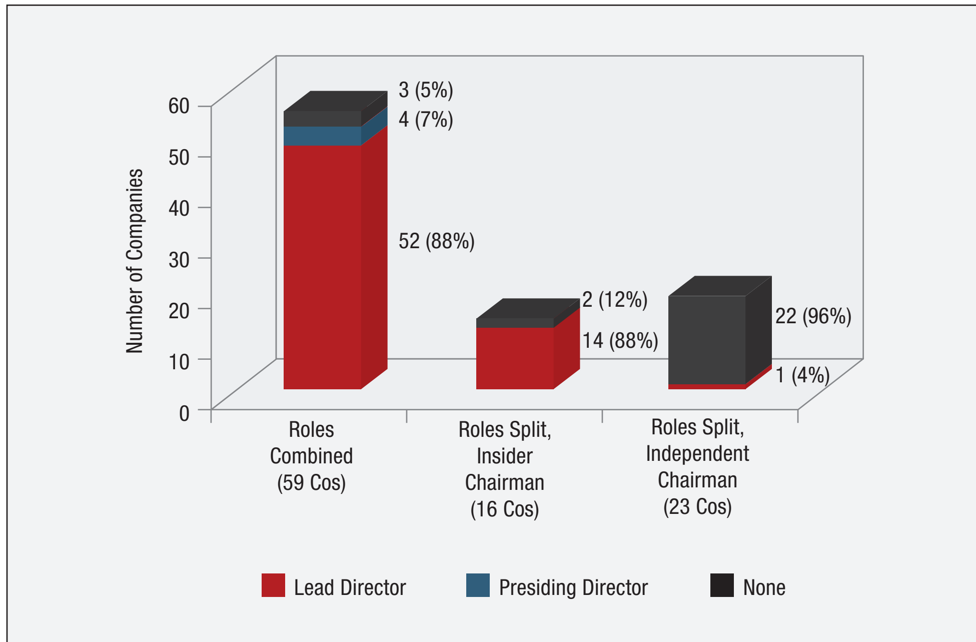
Figure 1: Chairman-CEO Structures and Changes



- These 100 companies averaged 1.7 CEO changes between the beginning of 2000 and the end of 2013. Companies with strong commitment to combining roles (Always Combined plus Combined with Transitions) averaged only 1.4 CEO transitions. The Always Split companies averaged 1.8. And the companies with Complex Changes averaged 2.7.

- Across all CEO changes, these companies promoted an insider to be CEO 80% of the time. Among the Always Combined plus Combined with Transitions companies, it was 94%. Among the Always Split companies, it was 78%. And among the companies with Complex Changes, it was only 65%.
- Most of the governance guidelines of these companies include provision for designating an independent Lead Director whenever the Chairman and CEO roles are combined or the Chairman is not independent. Others provide instead for a Presiding Director, which typically rotates among the committee chairs, to lead meetings of independent members of the board.
- Sixty-seven of the companies have individuals designated as independent Lead Director. That includes 52 where the Chairman and CEO roles are combined, 14 where the roles are split and the Chairman is an insider, and one (Hess) with both an independent Chairman and a named Lead Director. Twenty-two other companies have split roles and independent Chairmen, hence no official need for an independent Lead Director.
- Nine companies with roles combined, or with roles split and an insider Chairman, have no designated Lead Director. Four of them have provisions for a rotating Presiding Director, two are mutual insurance companies with different board structure standards, and three have no policy on the matter.

Figure 2: Lead and Presiding Director Distribution



Note: Combined total is 59 instead of 61 because this is a December 31, 2013 snapshot, and two of the 2012 F100 had been acquired by that date.

- Thirty-four of the companies had leadership transitions involving the departure of long-time (10 to 38 years) CEOs, several of them founders. These companies were not more likely to change leadership structure than the F100 overall. However, when they have changed structure – upon departure of the long-time CEO or later in our analysis period – it has been predominantly to split the roles. Twelve companies split roles; two split then recombined.
- As of the end of our analysis period (December 31, 2013), six of the 61 companies with combined roles had women as Chairman-and-CEO: IBM, Archer Daniels Midland, Pepsico, Kraft Foods (now Mondelez International), DuPont, and General Dynamics.[1] Across the 39 companies with roles split, women serve as CEO at Hewlett-Packard and Lockheed Martin, and as Chairman at Sysco.
- The overall picture is of well-managed leadership transitions regardless of Chairman-CEO structure. However, we count 16 companies (in the Complex Changes and Single Split groups) that had unplanned and sometimes chaotic management-plus-structure changes, including two dozen occasions where an executive was ousted or forced to give up one of the roles. Other companies (beyond those 16) have had sudden executive departures or dismissals, business performance downturns, or scandals of various types – but without their boards' finding it necessary to change leadership structure.
- Any change to leadership structure carries risks as well as potential advantages. Some companies could avoid reactionary structure changes through more robust succession planning, including better contingencies for sudden or unscheduled CEO or Chairman departures. Boards should be clear and transparent about preferred structure (if any), the rationale behind the current structure, the roles of independent Lead Directors, and the handling of CEO and Chairman transitions.

Leadership Structure Trends

Over the last decade, many large corporations in the United States have split the roles of Chairman and CEO. The direct drivers have been Sarbanes-Oxley and other regulations on corporate governance, increased SEC scrutiny, and activist investors, both institutional and individual. The indirect driver has been corporate scandals, centering around too-powerful CEOs, that negatively impact shareholder value.

Heightened attention to corporate governance has worthy goals – better oversight, checks and balances, transparency, and disclosure through adequate independence of boards of directors. Some see splitting the Chairman and CEO roles as a direct path to these goals, even the litmus test of good governance. The Millstein Center for Corporate Governance and Performance calls splitting roles "a logical next step in the development of an independent board."

However, the answer is not that simple. There are sound arguments and examples on both sides. The consensus advice on whether to split or combine the roles is the classic "it depends." Drivers and situations and appropriate actions vary. Companies with roles combined today typically elect independent Lead Directors to maintain checks and balances, facilitate good governance, and satisfy the analysts and regulators.

Before we cover our new research, here's background on the trends in leadership structure, and the pros and cons of combining or splitting the Chairman and CEO roles.

Basic Patterns

Having one person serve as both Chairman and CEO has long been the norm in large U.S. companies, but the trend is toward splitting the roles. According to Russell Reynolds, only 21% of the S&P 500 had split roles in 2001; in 2012 it was up to 44%.[2] Booz & Company estimates that half the incoming CEOs in the U.S. and Europe in 2000 also assumed the Chairman role; in 2009 it was down to 17% in the U.S. and 7% in Europe.[3]

Larger companies, however, tend to keep the roles combined. Equilar reports that only half of the S&P 1500 have the roles combined, but 58% of large-cap companies do.[4] And the pattern varies by industry – utilities and consumer goods companies are most likely to have combined roles, technology and services companies least likely. Among the NASDAQ 100 (with heavy technology representation), 62% have the roles split.[5]

Lead Directors have become the norm. The "2012 Spencer Stuart Board Index" finds that 92% of the S&P 500 have either an individual designated as Lead Director or governance policy provisions for a Presiding Director to chair meetings of the independent directors (typically on a rotating basis). Among those, 58% have Lead Directors (up from 40% in 2007) and 42% Presiding Director arrangements.[6]

The Spencer Stuart study cites other trends toward greater independence of S&P 500 boards:

- The percentage of independent directors has risen from 79% in 2002 to 84% in 2012.
- The CEO is the only non-independent director on 59% of boards today, up from 31% in 2002.
- 23% of the boards have a Non-Executive Chairman who is truly independent (e.g., not the former CEO), up from 13% in 2007.

Note that having the roles combined is a North American, and to a lesser extent a European, phenomenon. Around most of the world, 90% of companies keep the roles split. [7] In Germany, a split is mandated by law.

Split versus Combine

Proponents of combining the Chairman and CEO roles offer basic and sound reasons. Most importantly, it enables unity of direction and speed of action, especially in times of business crisis or transformation. It also lowers the "agency costs" of communication and coordination, which can be especially important in industries where a company's "insider information" is important and yet difficult for board members to gather and interpret. Corporations can maximize the leverage of the skills and experience of established and successful executives by placing them in dual roles.

This side cites examples where disagreement or even rivalry between CEO and Chairman hamstring a corporation. And they point to problems with a common form of split, where the former CEO retains the Chairman role. If the former CEO doesn't really relinquish the reins, the company can end up with two people trying to run it.

CEOs themselves tend to be much in favor of holding both positions, as we've seen in response to recent calls for splitting roles at Goldman Sachs and J.P. Morgan Chase. Some executives will not accept CEO roles unless Chairmanship is included.

Proponents of splitting the roles present a longer list of reasons, but they boil down to three main ones:

- **Concentrated power.** Holding both roles creates an inherent conflict of interest. Some dual-role CEOs have infamously used their power to enrich themselves rather than their shareholders, while others have taken ill-conceived and ego-driven actions including making ill-chosen acquisitions. Key among the board's roles is selecting, overseeing, and evaluating the CEO. How can that happen when the CEO heads the board? How can a CEO serve as his or her own boss?
- **Better governance**. Boards need independence to exercise real oversight, and that starts with the Chairman. Corporations with split roles have more transparency, better disclosure, and more effective checks and balances. Shareholders have a stronger voice.
- **Job's too big**. Day-to-day operational management and organizational leadership is very different from the responsibilities of board-level oversight and governance. Leading the company and leading the board is too big a job for even a seasoned executive. When trying to do both, the jobs are mutually distracting.

There is no activist organization behind combining the roles or keeping them combined (but who organizes in defense of the status quo?). A leading voice for splitting the roles in the name of good governance has been the Millstein Center for Corporate Governance and Performance at the Yale School of Management, together with its affiliated Chairmen's Forum.[8] The National Association of Corporate Directors (NACD) lists the pros and cons of each alternative; it leans toward encouraging splits while acknowledging that combined roles plus an independent Lead Director can be a successful model.[9]

Split-or-combine has not become an issue for the average shareholder. Proxy votes to split the roles fail when opposed by management. And the stock market tends not to react negatively to news of the expansion or contraction of a CEO's role.

Variety of Stances

There has been a variety of academic research on the effects of corporate leadership structures, including the elusive question of what model correlates with higher business performance. A 2008 study (of companies in the 1999-2003 time period) found that having split or combined roles had no appreciable effect on performance.[10] A recent study by GMI Ratings found that companies with split roles have higher 5-year shareholder returns – but lower 1-year and 3-year returns.[11] We have yet to see convincing evidence on the performance question.

On the pro-combine side, a 2009 study of companies of all sizes from 1998 to 2005 (including the period of some of the most egregious corporate scandals) dispels the major concerns with one person's holding both roles.[12] The authors found that CEO-Chairmen overall do not use their positions for personal benefit, claim excessively high compensation, use their discretionary power to manage earnings, or go on acquisition sprees. Nor did they find evidence of lower dividends or market valuations. Interestingly, they did find conditions under which the roles tend to be combined: when the company is in a risk-intensive or highly concentrated industry, when the CEO has a strong track record, and when there is strong governance to maintain balance.

Recent research on the pro-split side paints a different picture. The GMI Ratings study of 180 North American mega-cap (over $20B) companies finds that executives in dual roles are paid significantly more than the combination of separate CEO and Chairman salaries.[13] Corporations with combined roles are twice as likely to receive low ratings on GMI's environmental, social and governance (ESG) scale, and they are twice as likely to have their accounting practices rated "Aggressive" rather than "Average" or "Conservative" (but companies with split roles are just as likely to have "Very Aggressive" practices).

Other GMI research points out that board turnover is low, directors are getting older, and they're holding their seats longer.[14] Entrenched boards exercise less oversight and are more likely to rubber-stamp the actions of a powerful dual-role CEO. Their conclusion is that companies with power combined in one individual are more subject to management and governance failures. (Keep in mind that GMI is in the business of rating corporate governance.)

Among those not wedded to either side, the consensus is that different models can work in different situations. In a February 2013 *McKinsey Quarterly* article, William George argues that "Board governance depends on where you sit."[15] He should know – the former Chairman and CEO of Medtronic, he's also been in positions as CEO only and as Chairman only, and he's served on ten corporate boards.

A 2005 *MIT Sloan Management Review* article compares the American model of combined roles with the British model of split roles and Non-Executive but often very active Chairmen. After weighing the pros (for example, there's more attention to the functioning of the board, and the CEO has a close mentor and advisor) and cons (lines of responsibility can get confused, especially when the Chairman is a strong public face of the firm), the authors conclude: "No compelling argument exists for splitting the chairman and CEO jobs, and any U.S. company that does so should take into account the lessons of the British experience."[16]

In a 2012 article in *The Corporate Board*, "Splitting the CEO And Chairman Roles – Yes or No?" Charles Tribbett of Russell Reynolds weighs the arguments for splitting versus combining and describes the merits of an independent Lead Director position.[17] He also cites examples where splitting was appropriate (at Avon) and where remaining combined was appropriate (at Cardinal Health) despite shareholder pressure to the contrary.

In another 2012 article in *The Corporate Board*, "Dividing The Seat Of Power," three authors from CTPartners focus on the goal of independent leadership in the boardroom and focus on the benefits of a Lead Director when the Chairman and CEO roles are combined.[18]

Given the trend toward splitting roles, people are studying how and when to do so. A 2013 article in the *Academy of Management Journal* looks at three types of splits – apprentice (executive relinquishes CEO role but remains Chairman), demotion (executive relinquishes Chairman role but remains CEO), and departures (new executive in each role).[19] The least common, demotion, has the greatest effect on total shareholder return (TSR), but timing is critical. Demotion when the company is doing well drives TSR down; demotion when the company is underperforming drives TSR up. For some older and basic advice on splitting the roles, see the 2004 *McKinsey Quarterly* article, "How to separate the roles of chairman and CEO."[20]

About the Vell Executive Search Study

Our research set was the 2012 Fortune 100 companies. We looked at all changes to Chairman-CEO structure and all CEO transitions between January 1, 2000, and December 31, 2013.[21] When we refer to the "current" state of companies' leadership structure, it is as of the end of 2013.

Three of the companies have dropped out of the Fortune list but remain in most of our tallies. Medco Health (#36 in 2012) was acquired by Express Scripts (#60) in 2012, Sunoco (#61) was acquired by a private company in 2012, and Dell (#44) was taken private in 2013.

For purposes of analysis, we classified the 100 companies into six groups:

- **Always Combined** – Chairman and CEO roles were combined throughout our analysis period, including through all leadership transitions.
- **Combined with Transitions** – The roles were combined except during transition periods. The outgoing Chairman-and-CEO relinquishes the CEO role and assists the new CEO through a transition period, after which the new CEO becomes Chairman as well.
- **Single Combine** – The only structure change was combining the roles.
- **Always Split** – Chairman and CEO roles were separate throughout our analysis period, including through all leadership transitions.
- **Single Split** – The only structure change was separating the roles.
- **Complex Changes** – There were two or more back-and-forth structure changes.

Note that we did not count very short-lived or interim arrangements as structure changes (e.g., CEO-and-Chairman departs suddenly and roles are split until a new CEO-and-Chairman can be chosen). We focused on instances where the board's intent was to make a durable change to leadership structure.

The Always Combined and Always Split companies provide examples of consistency. The Combined with Transitions companies shed light on the effectiveness of this popular approach. The Single Combine and Single Split companies show many of the most purposeful – and sometimes forced – structure changes. The Complex Change companies show willingness to change leadership structure, typically in the face of business or leadership turmoil. Their current states are less revealing than their changes along the way, so we examine them as a group.

Throughout the examples and analysis, we note the presence of independent Lead Directors as part of the leadership structure. And we distinguish between companies that have individuals designated as Lead Director and those that have provisions for Presiding Directors on a rotating basis.

We also examine corporate governance guidelines and recent proxy statements to understand policy and rationale behind Chairman-CEO structure, structure changes, and roles of Lead Directors. Most of these companies have policies or preferences regarding leadership structure, and most of their annual proxy statements describe and affirm their current structures.

A few notes on terminology and methods:

- We refer to distinctions among Chairman roles only where necessary for clarity. An "Executive Chairman" is an employee of the company. A "Non-Executive Chairman" is an independent member of the board and does not serve as a company executive. However, a Non-Executive Chairman can still be a former company insider. We follow the designations in companies' SEC filings but note when an officially "independent" Chairman has close ties to the company.
- Some companies' guidelines refer to their designated Lead Director as the "Presiding Director." We preserve the distinction and use "Presiding Director" to refer only to the rotating chair of meetings of independent directors.
- For companies spun off or formed by merger, we track leadership structure from that point, and we count that point as a CEO transition for the new entity even if an established CEO fills the role. For companies making major acquisitions, we trace the provenance of the acquiring company, even if it adopts the name of the acquired (as SBC did upon acquiring AT&T in 2005).

This report is designed both to be studied if you want the full detail, and to be scanned if you want to survey the categories and dig in selectively. As an aid to looking up specific corporations, the appendix lists the 2012 Fortune 100 both by rank and alphabetically.

Always Combined

Sixteen corporations had the roles of Chairman and CEO combined since the beginning of 2000, and in some cases much longer. They include some of the largest U.S. companies, notably the three largest in the energy sector.

These companies tend to have long-tenured CEOs. Seven of them have had no top leadership transitions since 2000, seven have had but one transition, and only two have had two transitions. They average less than one CEO change. In several of the companies – Amazon, Berkshire Hathaway, FedEx, State Farm – a founder or long-time leader remains in charge. Next to Warren Buffet at Berkshire (1970), the longest-serving Chairman and CEO is Edward Rust at State Farm (1987). Berkshire's governance guidelines include the note that "The Company does not anticipate that the Chief Executive Officer will retire other than due to disability."

These organizations also tend to have deliberate succession planning and grooming of successors, sometimes with an "heir apparent" and sometimes with a competition among strong candidates. For example, succession at General Electric is followed closely in the press, and the "losers" generally go on to become CEOs at other major companies. In all the leadership changes in these companies since 2000, an insider was promoted to be the new Chairman and CEO.

Table 1: Always Combined

Company	2012 F100 Rank	Industry	CEO Changes Since 2000	Lead Director?
Abbott	71	Health	0	Y
Amazon	56	Retail	0	Y
American Express	95	Financial Services/Insurance	1	Y
AT&T	11	Technology/Telecom	1	Y
Berkshire Hathaway	7	Diversified	0	N
Chevron	3	Energy/Chemical	2	Y
ExxonMobil	1	Energy/Chemical	1	Y
FedEx	70	Transportation	0	Y
General Electric	6	Diversified	1	Y
Goldman Sachs	80	Financial Services/Insurance	1	Y
Lowe's	54	Retail	1	Y
Medco Health*	36	Health	0	Y
Plains All American	87	Energy/Chemical	0	N**
Prudential	55	Financial Services/Insurance	1	Y
State Farm	43	Financial Services/Insurance	0	N
UPS	52	Transportation	2	N**

* Medco Health had a single CEO-and-Chairman from the time it was spun of by Merck in 2003 until it was acquired by Express Scripts in 2012.

** Rotating Presiding Director, no designated Lead Director.

In keeping with prevailing practice and governance recommendations, most of these companies have independent Lead Directors, as specified in corporate governance guidelines. The exceptions are Berkshire Hathaway, Plains All American, State Farm, and UPS. Berkshire has a high proportion of ownership by insiders, Plains is structured as a limited partnership, and State Farm is a mutual insurance company (policyholders are shareholders). Plains and UPS designate Presiding Directors for purposes of presiding at the meetings of independent directors, with the role rotating.

What the Governance Guidelines Say

The corporate governance guidelines of these companies show a variety of stances toward combining the Chairman and CEO roles.

General Electric's guidelines state simply: "The CEO serves as the chairman of the board. The independent directors have appointed the chairman of the management development and compensation committee to serve as the presiding director."

Three of the companies state the preference for combined roles but officially leave the decision to the board:

- **ExxonMobil**'s guideline is concise and representative: "At this time, the Board believes it is appropriate and efficient for ExxonMobil's Chief Executive Officer (CEO) also to serve as Chairman of the Board. However, the Board retains the authority to separate those functions if it deems such action appropriate in the future."
- **FedEx** adds reference to the founder: "The Company's bylaws provide that the Chairman of the Board shall be the Chief Executive Officer, unless the Board of Directors decides otherwise. The Board believes that the Company has been and continues to be well served by having the Company's founder serve as both Chairman of the Board and Chief Executive Officer."
- **American Express** makes specific reference to transition periods and investor concerns: "Ordinarily and in normal circumstances, the Chief Executive Officer shall also serve as Chairman of the Board. During difficult transition periods or in periods of reduced investor confidence, it may be appropriate to have a non-executive Chairman as a symbol of the Board's responsiveness to shareholder concerns."

The most common approach is to specify without preference that the board determines whether to combine the roles, but these guidelines vary in emphasis:

- **Prudential** puts the options concisely: "The Independent Directors will annually elect a Chairman of the Board, who may or may not be the Chief Executive Officer of the Company. If the individual elected as Chairman of the Board is the Chief Executive Officer, the Independent Directors shall also elect a Lead Independent Director."
- **Abbott** emphasizes the need for flexibility: "The board of directors believes that it is important to retain the flexibility to allocate the responsibilities of the offices of chairman of the board and chief executive officer in any manner that it determines to be in the best interests of Abbott. The board of directors specifically reserves the right to vest the responsibilities of chairman of the board and chief executive officer in the same

individual and currently believes that it is in Abbott's best interests for the chief executive officer to serve as the chairman of the board."

- **Goldman Sachs** is explicit about not having a policy on leadership structure: "The Board does not have a policy on whether the role of Chairman and CEO should be separate or combined and, if it is to be separate, whether the Chairman should be selected from the Independent Directors or should be an employee of the Company."

Two companies – Amazon and AT&T – simply affirm their leadership structures in their proxy statements. Here is **Amazon**'s: "The Chair of the Board is selected by the Board and currently is the CEO, Jeff Bezos. The Board believes that this leadership structure is appropriate given Mr. Bezos' role in founding Amazon.com and his significant ownership stake. The Board believes that this leadership structure improves the Board's ability to focus on key policy and operational issues and helps the Company operate in the long-term interests of shareholders."

UPS in its proxy statement details its approach to Presiding Directors: "We do not have a lead director, but our Corporate Governance Guidelines provide that our non-management directors will meet in executive session without management present as frequently as they deem appropriate, typically at the time of each regular board meeting. The chairs of the independent board committees rotate as presiding director, and the presiding director acts as a liaison between the non-management directors and the Chairman and Chief Executive Officer after each executive session."

The **Plains All American** proxy states: "The non-employee directors will meet in executive session without the CEO or any other officer of GP LLC after each regular meeting. Unless otherwise determined at any such executive session, the chairmanship of such sessions will rotate among the non-employee directors in alphabetical order of last name."

Berkshire Hathaway and **State Farm** make no mention of leadership role structure in their posted governance guidelines. Berkshire's proxy statement simply declares that "The Board of Directors has not named a lead independent director."

Combined with Transitions

These 34 companies keep the roles of Chairman and CEO combined except in periods of transition, typically so the new CEO has the benefit of working with the former CEO and still Chairman. Duration of the transition period varies, and the transition is sometimes triggered by a merger or timed to the retirement plans of the outgoing Chairman and CEO.

Most of these transitions were planned and orderly. Here are a few of many examples:

- Samuel Palmisano succeeded Louis Gerstner as CEO of **IBM** in March 2002, and then as Chairman at the end of 2002. Virginia Rometty succeeded Palmisano as CEO at the beginning of 2012, and then as Chairman in October of that year. Rometty and Palmisano were both long-tenured IBM employees. The company had broken with tradition by hiring Gerstner, a company and industry outsider, to replace the ousted John Akers in 1993.
- David Dillon has been CEO of **Kroger** since June of 2003 and the Chairman since June of 2004. He succeeded Joseph Pichler in both roles. Pichler had told the board three years earlier that he wanted to retire by the time he turned 65 in 2004. A 2004 proposal to split the roles, brought by a small shareholder, failed to gain approval.
- William Greehey was Chairman and CEO of **Valero Energy** until he retired from the CEO role at the end of 2005. He was succeeded by William Klesse. When Greehey retired as Chairman in January 2007, Klesse was elected Chairman as well.
- William Stavropoulos was both Chairman and CEO of **Dow Chemical** (his second stint as CEO) until November 2004, when he stepped down as CEO and Andrew Liveris assumed the role. When Stavropoulos retired as Chairman 16 months later, Liveris succeeded him in that role as well.
- George David served as Chairman and CEO of **United Technologies** until he was succeeded as CEO in 2008 by Chief Operating Officer Louis Chenevert, a groomed and designated replacement. When David retired as Chairman 21 months later, Chenevert added the Chairman role.
- **Johnson Controls** combines roles but regularly incorporates transition periods of varying length. Alex Molinaroli succeeded Stephen Roell first as CEO in October 2013 and then as Chairman at the start of 2014. Roell had succeeded John Barth in both positions with a three-month transition in 2007. And Barth had succeeded James Keyes in 2002-2003 with a 15-month transition.

The temporary split of roles may be to accommodate a pair of executives following a merger, though the long-term intent is to keep the roles combined. Note that, for purposes of delineating the transition period, we treat a merger as a CEO transition, even though one of the pre-merger CEOs assumes that role. That's what happened in all four of these cases:

- When Phillips Petroleum and Conoco merged in 2002, Phillips Chairman and CEO James Mulva became CEO of **ConocoPhillips**, and Conoco Chairman and CEO Archie Dunham agreed to delay his retirement to serve as Chairman. When he retired in 2004, Mulva added the Chairman role. He was succeeded in both roles in 2012 by Ryan Lance without a transition period.

- Upon their merger in 2010, Continental Airlines CEO Jeffrey Smisek became CEO of **United Continental Holdings**, and Glenn Tilton, who had been Chairman and CEO of United, became the Non-Executive Chairman. Smisek added the Chairman role at the end of 2012, and Tilton retired as a board member six months later.
- As part of the merger agreement that created **JPMorgan Chase**, the Chairman and CEO roles were temporarily split. William Harrison, the Chairman and CEO of Chase Manhattan, became the CEO, and Douglas Warner, Chairman and CEO of JPMorgan, became Chairman, both as of the beginning of 2001. When Warner retired in November of that year, Harrison added the Chairman role. At the beginning of 2006, Harrison was succeeded in the CEO role by Jamie Dimon, who had been Chairman and CEO of Bank One until it was merged into JPMorgan Chase in 2004. When Harrison retired at the end of 2006, Dimon added the Chairman role. He continues in both roles today, having fought off a 2013 shareholder effort to split the roles.
- When **Verizon Communications** began operations in mid-2000, the leaders of Bell Atlantic and GTE shared management responsibility for the company. Former GTE Chairman and CEO Charles R. "Chuck" Lee became Verizon's founding Chairman of the Board and co-CEO, while former Bell Atlantic CEO Ivan Seidenberg became Verizon's founding President and co-CEO. In accordance with a leadership transition plan announced at the time of the merger, Lee retired from Verizon in 2002 and Seidenberg added the Chairman role. When he retired, he was succeeded by Lowell McAdam, who became CEO in August 2011 and Chairman on Jan. 1, 2012.

Sometimes the transition is complicated by a sudden executive departure. In 2005, **Merck** Chairman and CEO Raymond Gilmartin resigned earlier than anticipated (he would have reached the mandatory CEO retirement of 65 in 2006), after a congressional probe over the safety of a Merck drug. Richard Clark, head of Merck manufacturing, was named CEO, and the company stated publicly that the chairmanship would remain open for at least a year. In the interim, the board restructured the Executive Committee to collectively perform the duties of Chairman. Clark was then appointed Chairman effective April 2007. In November 2009, Merck completed a merger with Schering-Plough. In late 2010, and approaching the mandatory retirement age, Clark stepped down as CEO and was replaced by Merck President Kenneth Frazier. When Clark retired as Chairman a year later, Frazier also succeeded him in that role.

The longest transition period was at the request of the incoming CEO. Richard M. Kovacevich was Chairman and CEO of **Wells Fargo** until he retired as CEO in mid-2007 and was succeeded by John Stumpf. Even though Kovacevich was approaching the mandatory retirement age of 65, Stumpf recommended to the board that he be retained to provide guidance and advice while Wells Fargo completed its merger with Wachovia. Kovacevich remained Chairman until the end of 2009, when Stumpf added the Chairman role.

Table 2: Combined with Transitions

Company	2012 F100 Rank	Industry	CEO Changes since 2000	Transition Duration (months)	Lead Director?
Aetna	89	Health	3	3 / 8 / 4	Y
Allstate	93	Financial Services/Insurance	1	16	Y
Archer Daniels Midland	28	Food Production/Distribution	1	10	Y
Cardinal Health	21	Health	2	18 / 0	Y
Caterpillar	46	Automotive/Machinery	2	0 / 5	Y
Coca-Cola	59	Consumer Goods	3	0 / 0 / 9	Y
ConocoPhillips	4	Energy/Chemical	2	26 / 0	Y
Dow Chemical	47	Energy/Chemical	1	16	Y
DuPont	72	Energy/Chemical	1	11	Y
Express Scripts	60	Health	1	13	Y
HCA	94	Health	2	0 / 11	Y
General Dynamics	92	Aerospace/Defense	2	10 / 0	Y
Honeywell	77	Diversified	2	0 / 4	N*
IBM	19	Technology/Telecom	2	9 / 9	Y
John Deere	97	Automotive/Machinery	2	0 / 9	Y
Johnson & Johnson	42	Health	2	0 / 8	Y
Johnson Controls	67	Automotive/Machinery	3	15 / 3 / 3	Y
JPMorgan Chase	16	Financial Services/Insurance	2	10 / 12	Y
Kroger	23	Retail	1	12	Y
Liberty Mutual	84	Financial Services/Insurance	1	21	N
Lockheed Martin	58	Aerospace/Defense	2	9 / 12	Y
Merck	57	Health	2	24 / 11	Y
MetLife	34	Financial Services/Insurance	2	2 / 8	Y
New York Life	86	Financial Services/Insurance	1	10	Y
PepsiCo	41	Consumer Goods	2	0 / 7	Y
Pfizer	40	Health	3	3 / 5 / 12	Y
Procter & Gamble	27	Consumer Goods	3	24 / 6 / 0	Y
Sunoco	61	Energy/Chemical	4	0 / 5 / 2 / 0	Y
Target	38	Retail	1	7	Y
United Continental	76	Transportation	1	26	Y
United Technologies	48	Aerospace/Defense	1	21	Y
Valero Energy	12	Energy/Chemical	1	12	Y
Verizon	15	Technology/Telecom	1	5	Y
Wells Fargo	26	Financial Services/Insurance	1	30	Y

Note: Duration column entries are in chronological order, so the most recent transition is listed last.
* Rotating Presiding Director, no designated Lead Director.

These companies have averaged 1.8 CEO changes since 2000. As you can see from the table, these companies make regular use of CEO-to-Chairman transitions, but not every leadership change has a transition period, and none of their corporate governance guidelines state a preference or policy for transition periods. Fourteen of the companies have had a single CEO change since 2000 with a transition, and another eight have had more than one CEO change, all with transitions. The remaining twelve have had more than one CEO change, sometimes with transition periods and sometimes without; in seven of the twelve, the most recent change included a transition.

Procter & Gamble presents a special case. The company followed the pattern of promoting an insider to CEO and then adding the Chairman role after a sometimes significant transition period. A. G. Lafley had become CEO in mid-2000 and Chairman in mid-2002. He held both roles until Robert McDonald was appointed CEO in mid-2009 and then chairman at year's end. After several years of mixed business results, McDonald surprisingly retired from both roles in May 2013. Lafley was brought back and now holds both roles again – no transition period needed in this case.

All but two of these companies have clearly designated Lead Directors in place today. Honeywell has a Presiding Director arrangement, and Liberty Mutual is a mutual insurance company (policyholders are shareholders).

The real testament to the purposeful leadership succession planning in these companies is the fact that in 57 of the 61 transitions since 2000 (93%) an insider was promoted to CEO. The exceptions are appointments at Cardinal Health, Sunoco, Archer Daniels Midland, and Honeywell.

The outsider at **Cardinal Health** had a very brief tenure. In April 2006, the company appointed R. Kerry Clark as CEO, replacing long-term CEO and founder Robert Walker. Clark had been vice chairman of Procter & Gamble and recently responsible for its $20 billion Global Family Health business. In September 2007, Clark was also named Chairman. In Aug 2008, George Barrett, who had served as vice chairman and CEO of Healthcare Supply Chain Services since joining Cardinal Health in 2007, replaced Clark in both roles.

After 40 years with the company and a decade as CEO, Robert Campbell retired as Chairman and CEO of **Sunoco** in May 2000 and was succeeded in both roles by John Drosdick, who had been President for the previous four years. He retired in 2008, during an industry downturn. Sunoco then hired an outsider, Lynn Elsenhans, a Shell Oil manufacturing executive, as CEO, and she added the Chairman role in 2009. She was succeeded by CFO Brian MacDonald as CEO in March 2012, and he became Chairman two months later. Elsenhans' departure seemed abrupt, and the company posted losses totaling $1.2B on her watch. However, according to a Bloomberg News article, she had met the board's objectives by "spending almost four years selling or shuttering two-thirds of the 121-year-old refiner's assets to focus its business on oil pipelines and fuel retailing."[22] The company was then acquired by Energy Transfer Partners, and Robert Owens became CEO.

The other two companies have fared well with outsiders. **Archer Daniels Midland** appointed former Chevron Executive Patricia Woertz to succeed G. Allen Andreas as CEO in 2006 and as Chairman the following year. She continues in both positions. After a failed merger with GE, **Honeywell** CEO Michael Bonsignore was forced to retire in 2001. Larry Bossidy stepped in as interim CEO until Dave Cote, former Chairman and CEO of TRW and a former GE exec, was named CEO in February 2002 and Chairman in June. He remains in both positions more than a decade later.

What the Governance Guidelines Say

Governance guidelines in most of these corporations mention the question of combining or splitting Chairman and CEO roles. The majority simply maintain flexibility. Lockheed Martin's statement is representative and very concise: "The Corporation's policy as to whether the role of the Chief Executive Officer and Chairman should be separate is to adopt the practice which best serves the Corporation's needs at any particular time."

Many of the statements emphasize the need for flexibility, as in **HCA**'s: "The Company's bylaws provide maximum flexibility in choosing a Chairman of the Board and a Chief Executive Officer. The bylaws provide that such offices may be held by the same or different people. This flexibility leaves the Board free to make this choice any way that it determines is in the best interest of the Company."

The very first entry in **Target**'s governance guidelines is on leadership roles: "The Chairman of the Board may, but is not required to, also hold the office of the Chief Executive Officer. The offices of CEO and Chairman of the Board are separately evaluated by the independent members of the Board of Directors each year."

Seven of the companies emphasize that they have "no policy" regarding combining roles. At **Valero**, the logic is around succession planning: "The Board does not have a general policy with respect to the separation of the offices of Chairman of the Board and Chief Executive Officer. The Board believes that this issue is best addressed as part of the Company's overall succession planning process, and that it is in the best interests of the Company for the Board to make any determination regarding separation of such offices upon any election of a new Chief Executive Officer or Chairman of the Board."

Wells Fargo references its balanced governance profile: "Given the existence of a lead independent director and the Company's overall governance profile, as well as the Board's belief that it should maintain the flexibility to determine the leadership of the Company, the Board does not have a fixed policy regarding the separation of the offices of the Chairman of the Board and the Chief Executive Officer."

Another seven of these companies state the preference for combined roles or simply assert the appropriateness of the current combined structure. **Kroger**'s guidelines, for example, state: "The Board believes that it is in the best interests of the Company and its shareholders for one person to serve as Chairman and Chief Executive Officer. The Board recognizes that there might be circumstances under which the best interests of the Company and its shareholders require the separation of these offices. Upon selection of a new Chief Executive Officer, or upon a significant change in circumstances, the Board will determine whether a separation of the offices is appropriate."

Caterpillar stresses its board's longstanding independence alongside the preference for combined roles:

> In 1999, the Caterpillar Board developed and published guidelines on corporate governance, which among other provisions includes the establishment of a fully independent Board of Directors, with the sole exception of its Chairman, and a fully independent Compensation Committee.
>
> The Board believes the positions of Chief Executive Officer and Chairman of the Board should be combined to provide unified leadership and direction. The Board reserves the right to adopt a different policy should circumstances change. In addition, the independent directors have elected the Chairman of the Governance Committee, who is an independent director, as the presiding director.

John Deere cites both tradition and lack of necessity:

> While some of the conventional functions of the Chairman (e.g., the setting of agendas for Board and committee meetings) have been and are shared by all directors, the position of Chairman has traditionally been held by Deere's Chief Executive Officer. The Board believes that the decision as to who should serve as Chairman and Chief Executive Officer and whether the offices should be combined or separated is the proper responsibility of the Board.
>
> The Board generally believes that having an independent Chairman is unnecessary in normal circumstances. Currently, the Board has selected an independent director to serve as a Presiding Director. If the Chairman's position is held by an independent outside director, then the duties of the Presiding Director will be assumed by the Chairman.

A recent **Merck** proxy statement asserts the validity of the currently combined roles: "The Board believes that the Company and its shareholders are well-served by the Board's current leadership structure. Having an independent Lead Director vested with key duties and responsibilities and four independent Board committees chaired by independent directors provides a formal structure for strong independent oversight of the Chairman and Chief Executive Officer and the rest of our management team."

The **JPMorgan Chase** guidelines explicitly vest the choice of structure in its independent directors: "The Board shall annually, and in connection with succession planning and the selection of a new Chief Executive Officer, determine whether the role of Chairman shall be a non-executive position or combined with that of the Chief Executive Officer, based on the particular composition of the Board, the person then serving, or selected to serve, as Chief Executive Officer and the facts and circumstances at the time. Such determination shall be made by the non-management directors, with discussion guided by the Lead Independent Director."

Several of these companies – including IBM, Johnson & Johnson, MetLife, Procter & Gamble, and Verizon – do not state their stances on leadership structure in their corporate governance guidelines or principles, but simply affirm the current structure in their proxy statements. **MetLife**'s is representative:

> After careful consideration, in 2006, the Board of Directors determined that the preferred leadership structure for MetLife would be a Chairman of the Board who also is the Company's Chief Executive Officer, and a separate empowered Lead Director who also is an Independent Director. The successful partnership between the executive Chairman of the Board and the independent Lead Director has provided strong, independent oversight of management and reaffirms to the Board that this leadership structure continues to be the most appropriate and effective model for the Company.

Liberty Mutual is a collection of private companies and publishes no governance guidelines or bylaws on its web site, nor does it file annual proxy statements. It's worth noting that the company has come under fire for executive perks, weak governance, and poor transparency.

While almost all of these corporations have designated Lead Directors, the strength of commitment to appointing and relying on Lead Directors varies:

- Most have provisions for Lead Directors to preside over mandatory meetings of independent directors. In three of the companies – Coca-Cola, HCA, and Honeywell – that is the only role stated in the corporate governance guidelines.
- Guidelines in a majority of the companies seem to call for always appointing a Lead Director, even if the Chairman and CEO roles are split. The duties of Lead Director are spelled out in their governance guidelines.
- In ten companies, a Lead Director – with specific charter – must be appointed whenever the roles of Chairman and CEO are combined.
- Two of the companies – New York Life and Target – make the appointment of a Lead Director optional, at the discretion of the independent directors.

Of the five companies that make Lead Directors optional, four currently do have designated Lead Directors. A total of 32 of the 34 of the companies in the Combined with Transitions category have Lead Directors.

Besides Liberty Mutual, the only exception is **Honeywell**, but its 2013 proxy statement explains the preference for Presiding over Lead directors:

> Honeywell utilizes a "Presiding Director" position which rotates on a meeting-by-meeting basis in accordance with years of service on the Board. . . . The Board believes that its Presiding Director system combined with the Board practices and procedures . . . , rather than selection of a single individual to fill the role of "Lead Director," encourages full engagement of all of the independent directors in the executive sessions, avoids unnecessary hierarchy, and appropriately and effectively balances the combined Chairman/CEO role.

The other guidelines of note regarding a Lead Director are at **Archer Daniels Midland**, which are blunt about the occasion when a Lead Director is most needed: "The position of Lead Director is established to facilitate the fulfillment by the Board of its responsibilities by ensuring that the Board operates independently of management and by providing the Board with independent leadership, particularly in instances where the joint roles of Chairman of the Board and Chief Executive could potentially be in conflict."

Finally, it's natural that the CEO be involved in selecting the Lead Director since the two need to work together regularly. However, **ConocoPhillips** is unique in making that explicit: "From time to time the non-employee directors will, in consultation with the Chief Executive Officer, select a Lead Director from among the non-employee directors."

Single Combine

Only four companies made a single structure change to combine Chairman and CEO roles since 2000. In all cases, the board had an experienced CEO in place to add the Chairman role. All four companies have independent Lead Directors.

At **Cisco**, long-time (since 1995) Chairman John Morgridge reached the board age limit in 2006 and became Chairman Emeritus. Per a succession plan, long-time (also 1995) CEO John Chambers added the Chairman role.

At **McKesson**, the roles were split until long-time Chairman (and former CEO) Alan Seelenfreund stepped down in 2002. CEO John Hammergren then added the Chairman role.

When Altria spun off **Kraft Foods** (now Mondelez International) in 2007, Kraft CEO Irene Rosenfeld was elected Chairman. Rosenfeld, formerly Chairman and CEO of Frito-Lay, a PepsiCo division, had joined Kraft as CEO in 2006 after Roger Deromedi was eased out of the role when financial results were sluggish. Prior to Rosenfeld's dual appointment, the roles had been split.

Home Depot went outside for a new CEO and eventual Chairman but with mixed results. The roles had been split between founders Arthur Blank (CEO) and Bernard Marcus (Chairman). In December 2000, Robert Nardelli, formerly of GE, joined as CEO and Blank became co-Chairman. A year later Nardelli added the Chairman role. His tenure, widely regarded as unsuccessful, lasted until 2007, when he was replaced in both roles by Francis Blake.

Table 3: Single Combine

Company	2012 F100 Rank	Industry	CEO Changes Since 2000	Lead Director?
Cisco	64	Technology/Telecom	1	Y
Home Depot	35	Retail	2	Y
McKesson	14	Health	1*	Y
Kraft Foods	50	Consumer Goods	1	Y

* McKesson had co-CEOs from 1999 to 2001, one of whom transitioned to sole CEO.

What the Governance Guidelines Say

Cisco's guidelines on leadership structure state: "Both independent and management directors, including the CEO, are eligible for appointment as the Chair. The Chair, or if the Chair is not an independent director, one of the independent directors, may be designated by the independent directors to be the 'Lead Independent Director.' The Lead Independent Director will be elected by and from the independent directors."

The current **Mondelez** governance guidelines say simply: "From time to time, the Board determines the leadership structure that serves it best. The Board has determined that the Chief Executive Officer should also serve as the Chairman of the Board."

McKesson's guidelines focus on the Chairman role: "The Board does not require the separation of the offices of the Chairman of the Board (the "Chairman") and the Chief Executive Officer. The Board shall be free to choose its Chairman in any way that it deems best for the Company at any given point in time. If the Chairman is not an Independent Director, . . . a Lead Independent Director will be elected by a majority of Independent Directors." The guidelines include a detailed charter for an Independent Lead Director.

Home Depot's guidelines do not cover leadership structure but do specify the role of the Lead Independent Director.

Always Split

Ten companies have had Chairman and CEO roles split since the beginning of 2000 (or since being spun out in the case of Marathon Petroleum). Walmart is the only one among the 20 largest U.S. corporations that has maintained split roles; a Walton family member serves as its long-time Chairman.

On average, these companies have had more CEO transitions (1.8) than those that have kept the roles Always Combined, but it's the same frequency as the Combined with Transitions companies. They are also more willing to bring in outsiders as CEOs: 22% of the time as compared with only 6% across the Always Combined and Combined with Transitions companies. The most recent CEO appointments at CHS and TIAA-CREF were outsiders with deep experience in the industry. CEO transitions in these organizations tend to be planned and orderly.

These companies have designated Lead Directors whenever the Chairman is an insider, not an independent director. Two of the companies have special structures that determine leadership roles. CHS was formed as a food production cooperative. Its board, including the Chairman, is made up of leaders of member producers, with regional representation. TIAA and CREF have their own boards, and the CEO of TIAA-CREF reports to both.

Table 4: Always Split

Company	2012 F100 Rank	Industry	CEO Changes Since 2000	Insider Chair?	Lead Director?
AmerisourceBergen	29	Health	2	N	N
CHS Inc	78	Food Production/Distribution	2	N	N
Costco	24	Retail	1	Y	Y
Enterprise Products	62	Energy/Chemical	2	Y	Y
Intel	51	Technology/Telecom	2	Y	Y
Marathon Petroleum *	31	Energy/Chemical	0	N	N
Murphy Oil	98	Energy/Chemical	3	N**	N
Nationwide	100	Financial Services/Insurance	2	N	N
TIAA-CREF	88	Financial Services/Insurance	2	N	N
Walmart	2	Retail	2	Y	Y

* Since spun off from Marathon Oil in 2011. Marathon Oil had roles split since 2002.
** Former CEO, now designated as independent, serves as Chairman.

What the Governance Guidelines Say

Most of these companies mention Chairman-CEO role structure in their governance guidelines, as well as making provisions for appointing Lead Directors when the Chairman is not independent.

Three of these organizations state strong or absolute preference for splitting the roles:

- **AmerisourceBergen**'s guidelines say simply that "The Board shall select a Chairman of the Board, who shall be an independent member of the Board." A recent proxy statement says, "We believe that having a non-executive Chairman of the Board emphasizes the importance of the Board's objectivity and independence from management and best promotes the effective functioning of the Board's oversight role." But their guidelines also call for the CEO to chair the board's executive committee.
- **Intel**'s guidelines say: "The Board's general policy, based on experience, is that the positions of Chairman of the Board of Directors and Chief Executive Officer should be held by separate persons as an aid in the Board's oversight of management. If the Chairman of the Board is not an independent director, the Board will appoint an independent director to serve as Lead Director."
- **Walmart** states both a preference and the obligation to revisit it: "The Board has a policy of separating the offices of Chairperson of the Board and Chief Executive Officer ("CEO"). The Board believes that this issue is part of the succession planning process and that it is in the best interests of the Company for the Board to make the determination when it elects a new chief executive officer whether to continue this policy."

Three more of the companies – Costco, Marathon Petroleum, and Murphy Oil – leave it to the board to determine the best leadership structure (as do most companies with roles combined). However, **Murphy Oil** affirms its split structure: "The Board believes that separating the roles of Chairman and Chief Executive Officer is currently in the best interest of stockholders because it provides the appropriate balance between strategy development and independent oversight of management. The Board will, however, maintain its flexibility to make this determination at any given point in time to provide appropriate leadership for the Company."

Marathon Petroleum makes the appointment of a Lead Director optional: "In the event that the role of the Chairman of the Board is filled by the CEO, the Board shall consider appointing a non-management Director (a "Lead Director") to preside over meetings of the Board." And the company has a provision for a Presiding Director if the Chairman is unavailable.

At **TIAA-CREF**, the two-board structure dictates a split of roles. However, given the large investments it makes in public corporations around the world, the company takes an active interest in corporate governance generally. It publishes and updates a "Policy Statement on Corporate Governance" detailing the "corporate governance and social responsibility practices we expect of our portfolio companies." It provides these guidelines because "TIAA-CREF believes that it is important to participate in the creation, development and implementation of ideas and practices surrounding corporate governance and social responsibility in order to influence the broadest constituency possible." Among its guidelines is the following on the role of the Chairman, which holds no punches:

In recent years public confidence in board independence has been undermined by an array of scandals, fraud, accounting restatements, options backdating, abuses in CEO compensation, perquisites and special privileges. These issues have highlighted the need for boards to be (and to be perceived as) fully independent, cost conscious, free of conflicts, protective of shareholder interests and capable of objectivity, toughness and independence in their oversight of executive management. In order to ensure independent oversight, TIAA-CREF believes that the separation of CEO and chair or appointment of a lead independent director is appropriate. In addition to disclosing why a specific structure has been selected, when the CEO and chair roles are combined, a company should disclose how the lead independent director's role is structured to ensure they provide an appropriate counter balance to the CEO/chair.

Single Split

Twenty-one companies had Chairman and CEO roles combined (officially or de facto) at the start of our analysis period and, after a single structure change (but perhaps several leadership changes), have the roles split today. Shareholder pressure to split roles played a part in a few of them, notably Hess and Bank of America.

Seven companies, four of them technology leaders, split roles with company founders or founding family members involved in the transition:

- **Microsoft**. In the earliest structure change in our analysis period, the company announced on January 13, 2000, that Steve Ballmer would succeed founder Bill Gates as CEO, while Gates remained as Chairman. That arrangement lasted over 13 years.
- **Oracle**. In 2004, founder Larry Ellison relinquished the Chairman role to then CFO Jeffrey Henley.
- **Google**. Eric Schmidt relinquished the CEO role to co-founder Larry Page in 2011. Schmidt remains Executive Chairman. Schmidt had joined Google from Novell when the Chairman and CEO role was created in 2001. Google founders Larry Page and Sergey Brin had been running the company as co-Presidents.
- **Apple**. The company had no Chairman from Steve Jobs's return as CEO in 1997 until Jobs relinquished his CEO role to Timothy Cook and assumed the Chairman title shortly before his death in 2011. Arthur Levinson, who had been co-Lead Director, succeeded him as Chairman.
- **Best Buy**. When founder Richard Schulze stepped down as CEO in 2002, Bradbury Anderson assumed that role, while Schulze retained the Chairman role until 2012. In May 2012, Schulze stepped down after an investigation found that he knew (but did not alert the audit committee) that then-CEO Brian Dunn was having a relationship with a female employee. Later in 2012, Schulze attempted to buy the company. In March 2013 he reaffiliated with the company with the title Chairman Emeritus but did not join the board; however, two former executives and Schulze allies did.
- **Hess**. Under pressure from investors, including the contesting of board seats by a dissident hedge fund investor, the board split the roles in May 2010. John Hess, son of the company's founder, CEO since 1983 and Chairman since 1995, gave up the Chairman role. Mark Williams now serves as Non-Executive Chairman. At the same time, three new board members were elected, essentially breaking up what had been a very entrenched board.
- International Asset Holdings Corporation (IAHC) acquired FCStone Group in 2009 to form **INTL FCStone**. Though it was billed as a merger of equals, the transaction was structured as an acquisition and the leadership of IAHC – CEO Sean O'Connor and Non-Executive Chairman (but IAHC founder) Diego Veitia – assumed those roles for the combined entity. Our analysis traces the lineage of the acquiring company, and IAHC had split the roles in 2002 when Veitia relinquished the CEO role to O'Connor, who joined the company from Standard Bank.

A half dozen of the splits were driven by leadership crises with the underlying causes the financial crisis, business performance, or executive conduct problems.

A dramatic split occurred at **Fannie Mae** in 2004 when Chairman and CEO Franklin Raines was forced to resign by Federal regulators amid multiple criminal and civil investigations into financial reporting irregularities, plus class-action lawsuits by investors. The primary regulator had been in the process of proposing governance improvements including a split of roles, but the split occurred immediately upon Raines's resignation. Daniel Mudd became CEO, Stephen Ashley Non-Executive Chairman. The split in no way guaranteed effective governance. In the run-up to the subprime mortgage crisis Fannie Mae purchased or guaranteed $270B of risky mortgage loans. In 2008, both Mudd and Ashley were dismissed and Fannie Mae went into government conservatorship. The case against Raines was dismissed in 2012.

The situation at **Freddie Mac** was similar, but the structure change was timed differently. In mid-2003, Chairman and CEO Leland Brendsel and other senior officers resigned in the wake of regulators' investigations of financial reporting irregularities. The roles were temporarily split for the rest of the year until a new Chairman and CEO, Richard Syron, was appointed. In 2008, triggered by the subprime mortgage crisis, Fannie Mae also went into government conservatorship. Syron was immediately removed and the roles split: David Moffett became CEO, John Koskinen Chairman. Moffett's tenure was brief, and there have been subsequent management shake-ups, but the roles remain split.

At **Bank of America**, the roles were split to increase board oversight and rein in an overreaching CEO. Kenneth Lewis was Chairman and CEO until 2004 when Bank of America merged with FleetBoston. The roles were then split briefly to accommodate the respective leaders. Lewis remained CEO of the combined corporation, and Clark Gifford, FleetBoston's Chairman and CEO, became its chairman. Gifford retired eight months later, and Lewis added the Chairman role. During the subprime mortgage crisis Bank of America made two risky acquisitions in Merrill Lynch and Countrywide Financial.

Upset over the purchase of Merrill Lynch, shareholders voted in 2009 to separate the roles of Chairman and CEO. The board immediately met and elected Walter Massey, President of Morehouse College, as Chairman but voted to retain Lewis as CEO. At the end of the year, and under threat of indictment for withholding crucial information from shareholders, Lewis retired. He was replaced by Brian Moynihan, who serves as CEO today. In 2010, the board affirmed its preference for an independent Chairman. Charles Holliday was appointed to replace Massey and continues as Chairman today.

In 2006, William McGuire, longtime (since 1991) Chairman and CEO of **UnitedHealthcare**, was forced to resign amid allegations of backdating stock options. The roles were split. Stephen Hemsley, formerly President and COO and already a board member, became CEO. Richard Burke, a founder and former Chairman and CEO of the company, assumed the duties of Non-Executive Chairman.

Gary Forsee succeeded William Esrey as Chairman and CEO of **Sprint** in 2004. Esrey and COO Ron LeMay had been ousted in the wake of a scheme to avoid income taxes on their stock options. After engineering the 2005 merger with Nextel and seeing the company's performance decline dramatically (including taking a $31B write-off associated with the merger), Forsee was ousted by the board in 2007 (with a generous severance package) and went on to run other telecommunications companies. He was replaced by current CEO Daniel Hesse, who has received awards for corporate responsibility, and James Hance as Chairman. When Softbank acquired Sprint in 2013, its CEO, Masayoshi Son, became Chairman.

News Corp founder, Chairman, and CEO Rupert Murdoch relinquished the CEO role to Robert Thomson, formerly editor-in-chief of Dow Jones & Company and managing editor of *The Wall Street Journal* (News Corp subsidiaries), in January 2013 amid ongoing scandals regarding unethical journalism practices, including phone hacking.

Several of the splits came about with executive transitions, and the board saw the necessity or opportunity to divide the roles:

- **Delta Airlines**. Chairman and CEO Leo Mullin retired in early 2004 after seven years in the roles. Gerald Grinstein, then 71, former airline CEO and long term Delta board member, succeeded him as CEO, and John Smith, the Presiding Director, became Non-Executive Chairman. Unlike major rivals, Delta had been unable to win labor contract concessions from its pilots union, and losses were running higher than expected. Grinstein oversaw major restructuring of Delta and fought a takeover bid. When he retired as CEO in 2007, he was succeeded by Richard Anderson, who also has extensive airline management experience.
- **Sysco**. In 2007, independent directors initiated a system of rotating presiding directors. In 2009, when Richard Schnieders retired from his roles as Chairman and CEO, he was replaced as CEO by William DeLaney, the CFO, and Manuel Fernandez was appointed as the company's first Non-Executive Chairman. In 2012, he was elected Executive Chairman, and Jackie Ward was chosen as Lead Director. When Fernandez retired in 2013, Ward, now 75, became Non-Executive Chairman. Interestingly, both Fernandez and Ward are technology industry executives.
- **Ingram Micro**. Kent Foster stepped down as CEO in 2005 but remained as Chairman until 2007. Several executives had resigned in 2004-2005 in surprise moves. Gregory Spierkel, who had been running European operations, succeeded Foster as CEO. When Spierkel retired in 2012, a former executive, Alain Monie, who had served in several capacities including President, was appointed CEO. Dale Laurence, an independent director and former Occidental Petroleum executive, succeeded Foster as Chairman in 2007 and serves in that role today.
- The pattern at **Walgreens** had been to split roles temporarily while the Chairman-and-former-CEO helps the transition of the new CEO-and-eventual-Chairman. But Jeffrey Rein retired in 2008 after only a year in both roles. Some analysts speculated that Rein may have left involuntarily because of differences with the board. Sales had been soft and there was fallout over how Walgreen attempted to acquire Long's. Following a brief interim arrangement, the roles were split and remain so. The motivators may have included lack of a candidate to fill both roles, compounded by lack of the traditional transition period.

- After ten years holding both roles at **World Fuel Services**, Paul Stebbins relinquished the CEO role to Michael Kasbar, the company's long-time President and COO, at the beginning of 2012 and transitioned to the role of Executive Chairman. The company was doing very well financially. The two men had founded Trans-Tech, a company that had been acquired in 1995 by World Fuel Services.
- At **CVS Caremark**, the roles had been combined in each of the companies prior to their 2007 merger. Except for brief transition periods, the roles remained combined until 2011, when Thomas Ryan retired at age 59. That surprised Wall Street given his relatively young age and the fact that he was architect of the company's new strategy. However, he facilitated the transition to a new leadership team of Larry Merlo (formerly COO) as CEO and David Dorman as Non-Executive Chairman.
- At **Safeway**, longtime CEO (since 1993) and Chairman (since 1998) Steven Burd retired in 2013. He was replaced as CEO by Safeway President Robert Edwards, and as Chairman by Gary Rogers, the independent Lead Director.
- Louis Camilleri had been Chairman and CEO of **Philip Morris** from the time of its spin-off from Altria Group in 2008. He had also held those roles at Altria. In May 2013, he relinquished the CEO role to Andre Calantzopoulos, who had been the COO since the spin-off. Corporate governance guidelines revised at the time of the change state: "The Board currently believes that it is in the best interest of the Company to separate these positions as part of the Company's leadership transition." According to *The Wall Street Journal*, the company's performance had been very good, but it recognized the challenges of continued global expansion, especially in Asia.[23]

In nine of these 21 companies, a Chairman-and-CEO was succeeded by a pair of executives in the respective roles. In nine others, a Chairman-and-CEO relinquished the CEO role. And in three – Oracle, Hess, and Bank of America – a Chairman-and-CEO relinquished the Chairman role. For Oracle and Hess, that means there was a split of roles but no CEO changes since 2000.

At the point of splitting roles, 15 companies promoted insiders to be CEO, and four appointed outsiders (though Delta's was already a board member). Since the point of splitting, there have been eight CEO changes at these companies – four insiders and four outsiders. But the ratio is skewed by Freddie Mac, which has appointed outsiders at all four of its CEO changes since 2000, two of them since splitting the roles in 2008.

These companies have had the same average number of CEO changes (1.8) since 2000 as the Always Split companies. But that of course includes CEO changes prior to their splitting roles.

Six of the eight companies where the Chairman is an insider have independent Lead Directors. The exceptions are Oracle and Sprint. UnitedHealthcare has company founder and former Chairman and CEO Richard Burke now designated as independent and serving as Non-Executive Chairman.

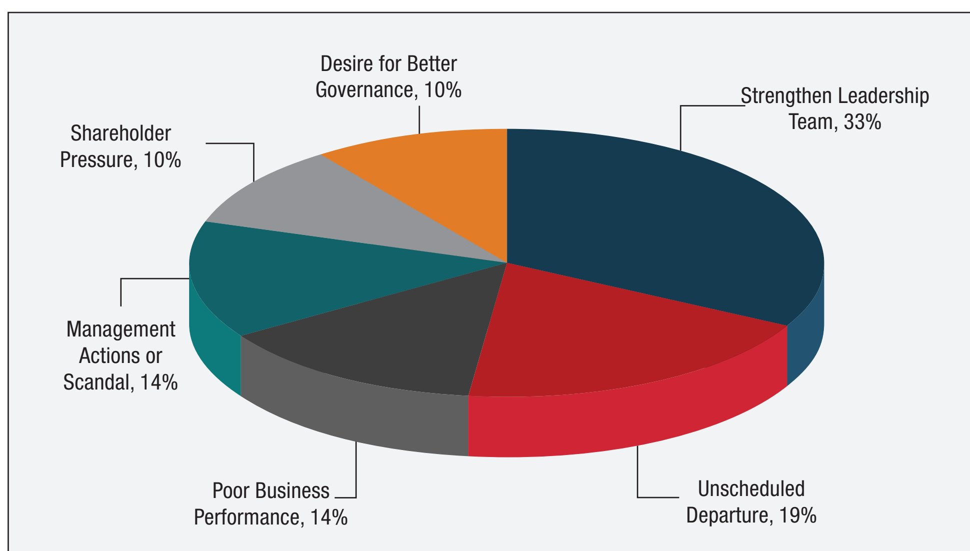
Table 5: Single Split

Company	2012 F100 Rank	Industry	CEO Changes Since 2000	Insider Chair?	Lead Director?
Apple	17	Technology/Telecom	1	N	N
Bank of America	13	Financial Services/Insurance	2	N	N
Best Buy	53	Retail	3	N	N
CVS Caremark	18	Retail	1	N	N
Delta Airlines	83	Transportation	2	N	N
Fannie Mae	8	Financial Services/Insurance	3	N	N
Freddie Mac	25	Financial Services/Insurance	4**	N	N
Google	73	Technology/Telecom	2	Y	Y
Hess	74	Energy/Chemical	0	N	Y
Ingram Micro	81	Technology/Telecom	3	N	N
INTL FCStone	30	Financial Services/Insurance	1	N	N
Microsoft	37	Technology/Telecom	1	Y	Y
News Corp	91	Entertainment/Media	1	Y	Y
Oracle	82	Technology/Telecom	0	Y	N
Philip Morris	99	Consumer Goods	1	Y	Y
Safeway	63	Retail	1	N	N
Sprint	90	Technology/Telecom	2	Y	N
Sysco	69	Food Production/Distribution	3	Y	Y
UnitedHealthcare	22	Health	1	N*	N
Walgreens	32	Retail	3	N	N
World Fuel Services	85	Energy/Chemical	3	Y	Y

* Founder and former Chairman and CEO is designated as independent Chairman.
** Not counting interim CEOs.

The following chart summarizes our assessment of the primary drivers at the time of the actions to split roles in these companies. The most common driver is an effort to improve the leadership team and reward a capable executive with promotion. The other common drivers include sudden executive departure, poor business performance, and scandals involving management. The board's desire to improve governance and increase its independence is perhaps a stronger force than meets the eye, since boards are naturally reluctant to publicize that need or intention.

Figure 3: Drivers of Splits



What the Governance Guidelines Say

Having split the Chairman and CEO roles, half of these companies revised their corporate governance guidelines to affirm the change. Fannie Mae's guidelines state simply, "The positions of Chairman of the Board and CEO are separate and the Chairman is an independent director." Guidelines at Freddie Mac, Hess, Safeway, and UnitedHealthcare read similarly.

Several companies strongly affirm the role split, for example:

- **Delta Airlines**: "The roles of the Chief Executive Officer and the Chairman of the Board are separate at Delta. . . . Since 2003 Delta has elected an independent, non-executive chairman separate from the Chief Executive Officer. Delta believes the non-executive Chairman of the Board plays an important governance leadership role that enhances long-term stockholder value."
- **World Fuel Services**: "The Board believes that no one structure is suitable for all companies and that different Board leadership structures may be appropriate for the Company at different times. At this time, the Board believes that the current leadership structure is the best structure for the Company as it enables the Board to continue to benefit from Mr. Stebbins' [who relinquished the CEO role and remains Executive Chairman] vast experience, skills, expertise and knowledge of the Company and the industry."
- **Ingram Micro**: "The positions of Chairman of the Board and Chief Executive Officer of the Company have been separated since June 2005. We believe this leadership structure is appropriate at this time because it allows the Company to fully benefit from the leadership ability, industry experience and history with the Company that each of these individuals possess."

Like most of the companies with Chairman and CEO roles combined, many of these companies give the board flexibility in determining the structure. As an example, the **Philip Morris** guidelines state:

> The Board does not believe that any particular leadership structure is inherently superior to all others under all circumstances. Rather, it believes that it is important to retain its flexibility to allocate the responsibilities of the positions of the Chairman of the Board (the "Chairman") and Chief Executive Officer in the way that it believes is in the best interest of the Company under the then prevailing circumstances. The Board currently believes that it is in the best interest of the Company to separate these positions as part of the Company's leadership transition.

Microsoft's guidelines are thorough:

> The Board selects the Company's CEO and Chairman in the manner that it determines to be in the best interests of the Company's shareholders. The Board does not have a policy as to whether the Chairman should be an independent director, an affiliated director, or a member of management. When the Chairman is an affiliated director or a member of Company management, or when the independent directors determine that it is in the best interests of the Company, the independent directors will annually appoint from among themselves a Lead Independent Director.

Sysco's guidelines indicate a preference: "The Board shall elect from its members a Chairman of the Board, who need not be an independent director; however, in selecting the Chairman of the Board, the Board shall give due consideration to the potential benefits of having an independent director serve in that role."

Oracle emphasizes that it has no policy: "While the Board recognizes the potential value of splitting the roles of Chairman and Chief Executive Officer (the "CEO") and of requiring a lead director, we currently have no policy mandating this. The Board believes that a number of non-management directors fulfill the lead director role at various times depending upon the particular issues involved."

Google's guidelines call for a super-majority of independent directors in order to elect an insider as Chairman (as it now has): "The Board will select the chairman of the Board and the chief executive officer in compliance with Google's Certificate of Incorporation and Bylaws, which provides that the chairman of the board will not be a current employee of Google, or someone employed by Google any time within the prior three years, unless the appointment is approved by two-thirds of the disinterested directors."

Guidelines at **Bank of America** and **News Corp** make no mention of Chairman-CEO role structure, but they affirm their current structures in their annual proxy statements, Bank of America quite strongly: "Our Board believes that its current leadership structure, in which the positions of Chief Executive Officer and Chairman of the Board are held by two different individuals, is appropriate for our company at this time because our Chief Executive Officer and our Chairman of the Board fulfill separate and distinct roles."

Apple's proxy statement also stresses the difference in role: "The Board also believes the current separation of the Chairman and CEO roles allows the CEO to focus his time and energy on operating and managing the Company and leverages the Chairman's experience and perspectives. The Board periodically reviews the leadership structure and may make changes in the future."

With regard to Lead Directors, the guidelines at most of the companies with independent non-executive chairs simply specify that the Chairman presides at meetings of independent directors or doubles as the Lead Director.

The governance guidelines at Philip Morris and World Fuel call for unconditional appointment of Lead Directors. Seven more companies specify the appointment of a Lead Director whenever the Chairman is not independent: Best Buy, CVS/Caremark, Ingram Micro, News Corp, Safeway, Sysco, UnitedHealthcare.

Walgreens guidelines make the election of an independent board leader optional: "The Board may designate a non-executive Chairman or Lead Director from among its independent directors. The Chairman or Lead Director's role is to strengthen the communications between the Board and the Chief Executive Officer, and to enhance the Board's oversight role."

Apple's guidelines reference the possibility (as had been the case) of not having a Chairman: "If a Chairman of the Board has not been elected, the Board will appoint a Lead Director or Co-Lead Directors to conduct executive sessions and for such other purposes as the Board finds appropriate. If more than one Lead Director is appointed, the Board may prescribe different responsibilities to each Co-Lead Director."

Finally, **Google**'s guidelines make a single passing reference to the "Lead Independent Director" without specifying what the role entails or when it is needed.

Complex Changes

Fifteen companies have gone back and forth in splitting and combining the roles of Chairman and CEO. Eight of them currently have roles split.

In one, **Humana**, this came about through a purposeful decision to combine the roles, then a split as part of an executive transition. The roles had been split since 1997, when the founder, David Jones, retired as CEO but remained Chairman. In 2010, the board determined that, given the current challenges faced by the company, "the appropriate leadership structure for our Board is a combined Chairman and Chief Executive Officer, complemented by a strong independent Lead Director." CEO since 2000, Michael McCallister assumed the Chairman role as well, and long-time board member Kurt Hilzinger was appointed Lead Director. McCallister, then 59, retired as CEO at the end of 2012 and was replaced by a groomed successor, Bruce Broussard. Effective January 2014, McCallister chose to retire as chairman and from the board, and Hilzinger was elected Chairman. It is unclear why McCallister's tenure as Chairman was short lived, after twelve years as CEO.

The other seven companies that are currently split have undergone repeated leadership changes and/or business turmoil.

Tyson Foods. John Tyson has been Chairman since 1998. When CEO Wayne Britt resigned in early 2000 after a brief and unsuccessful tenure, Tyson added the CEO role. He held both roles until 2006, when he relinquished the CEO role to Richard Bond, a Tyson executive since 2001. Bond resigned amid an industry slump in 2009, reportedly in a disagreement over strategy with the dominant shareholder, the Chairman's father, 78-year-old Don Tyson. The elder Mr. Tyson controlled 70% of the voting shares. A former Tyson CEO stepped in on an interim basis, and current CEO Donnie Smith was appointed late that year.

Ford. When Chairman and CEO Alex Trottman retired at the beginning of 1999, the roles were split between Bill Ford as Chairman and Australian Jacques Nasser as CEO. The company experienced quality issues and business losses, and Bill Ford consolidated power by assuming both roles in late 2001. In 2006 and in need of a turnaround, the company brought in Boeing executive Alan Mulally as CEO. Ford remains Executive Chairman. *Wall Street Journal* analysis at the time said that Ford recognized that he was simply trying to fill too many roles.[24] The subsequent turnaround at Ford has been dramatic.

Sanford Weill was Chairman and CEO from the formation of **Citigroup** in 1998. He resigned the CEO position at the end of 2003 amid a stock analyst scandal, and was replaced by his hand-picked successor, Charles Prince. Weill remained Chairman for three years until his term expired, and the roles were recombined in Prince. At the end of 2007, driven by the subprime crisis and a shareholder movement to split the roles, the board ousted Prince and appointed Vikram Pandit as CEO and Sir Winfried Bischoff as Chairman. The company's performance and stock value continued to decline with the financial crisis. Pandit resigned in 2012 and was replaced by Michael Corbat. The roles remain split. Bylaws now call for an independent Lead Director if the Chairman does not qualify as independent. The current Chairman, Michael O'Neill, qualifies, so there is no Lead Director.

WellPoint was formed when WellPoint Health Networks merged with Anthem Insurance in 2004. Larry Glasscock, CEO of Anthem, became CEO of the new company, and Leonard Schaeffer, Chairman of WellPoint, became the Chairman. A year later, Schaeffer resigned amid controversy over his $337 million departure package. Glasscock added the Chairman role. In 2007, Glasscock stepped down as CEO but remained Non-Executive Chairman. CFO Brian Colby was the designated successor; however, he was accused unspecified violations of the company's personal conduct policy, not related to financial misconduct, and was forced to resign. A relatively unknown executive, Angela Braly, was elected CEO. When Glasscock retired in 2010, Braly added the Chairman role, and the board appointed a Lead Director. In 2012, under pressure from institutional investors and public criticism of her leadership, Braly resigned both positions. The roles remain split, with Joseph Swedish as CEO and George Schaefer as Chairman. Because Schaefer is independent, there is currently no Lead Director.

At **Hewlett-Packard**, Carly Fiorina had held both roles for over five years when she was forced out by the board in 2005. Board member Patricia Dunn was named Non-Executive Chairman, and an interim CEO served until the board named Mark Hurd CEO. In 2006 Dunn resigned under board pressure after claims of Federal fraud violations. Although Dunn was exonerated by the courts, on her watch the company hired private investigators to identify the source of board-level leaks to the media using a technique known as pretexting, which is a Federal crime. The Chairman and CEO roles were then recombined in Mark Hurd.

In 2010, Hurd was forced to resign amid sexual harassment claims. Raymond Lane as then named Non-Executive Chairman, and the board made the controversial selection of Leo Apotheker of SAP as CEO. Apotheker's brief tenure was marked by the ill-conceived acquisition of Autonomy, which led to an $8.8B write-down and accusations of accounting fraud. Meg Whitman, formerly CEO of eBay, was appointed CEO of HP in 2011, and seems to have brought some stability. The board, which had been characterized as dysfunctional by departing executives going back to Fiorina, has been reconstituted. After barely being re-elected in the 2013 proxy vote, Raymond Lane and the other two longest-serving members resigned. Ten of the twelve members joined in 2011 or 2013. Ralph Whitworth currently serves as interim Chairman.

AIG had leadership shakeups both before and during the financial crisis. In 2005, long-time CEO (since 1968) and Chairman Hank Greenberg was forced to resign both positions under allegations of fraudulent business practices by the New York Attorney General (all charges were eventually dropped). The roles were then split, with Martin Sullivan becoming CEO and Robert Willumstad, formerly with Citigroup, became Chairman in 2006. When Sullivan was ousted in 2008 amid the sub-prime mortgage crisis, Willumstad became CEO (he had stated his intention to run a large company), briefly combining the roles. But he was replaced three months later by Edward Liddy, appointed to oversee the company's government-financed asset sales. When Liddy stepped down in 2009, Robert Benmosche was appointed CEO and the Robert Miller was elected Chairman.

Jeffrey Noddle retired as CEO of **SuperValu** in 2009 and as Chairman in 2010. Craig Herkert, formerly of Walmart, succeeded him as CEO. The board decided to keep the positions of Chairman and CEO separate, and elected board member Wayne Sales, retired CEO of Canadian Tire, as Non-Executive Chairman. The board planned to reevaluate the structure in two years.

In 2012, however, Herkert was abruptly fired three weeks after the company had put itself (or its properties) up for sale after its stock price had declined to a 30-year low. Sales was then elected CEO and Executive Chairman, only to be ousted as CEO five months later. He then joined Cerberus Capital. Sam Duncan became CEO at the beginning of 2013. Sales returned to the role of Non-Executive Chairman until the sale of five of the company's supermarket chains to Cerberus Capital. Then the investment company's CEO, Robert Miller, became Chairman of SuperValu. The company has also gone back-and-forth regarding the role of Lead Director. The company had one as of the end of our analysis period because Miller was not independent; he has since resigned in favor of an independent Chairman, Gerald Storch.

The other seven companies in this group have had multiple structure changes and currently have roles combined. The most common pattern is split-then-recombine, with the recombination driven by executive departures.

For example, when **Comcast** acquired AT&T's broadband business in 2002 and formed Comcast Holdings, Brian Roberts of Comcast became the CEO and Michael Armstrong of AT&T became Chairman. Armstrong chose not to stand for re-election as a director in 2004, and Roberts added the Chairman role. Both Comcast and AT&T had roles combined prior to the acquisition, so this has some of the flavor of a transitional split-then-recombination of roles.

The rest of these complex changes occurred against a backdrop of poor business results, and in some cases the financial crisis. Three involved power struggles and two of them ethics investigations.

In 2003, Philip Condit resigned as Chairman and CEO of **Boeing** in the wake of a procurement scandal. The roles were then split, with Harry Stonecipher, then 67, who had retired from Boeing in 2002, returning as CEO, and Lewis Platt, former Chairman and CEO of Hewlett Packard, becoming Non-Executive Chairman. Stonecipher was forced out after having an affair with a subordinate in 2005, and James McNerney, former head of 3M, was elected to fill both roles. Kenneth Duberstein currently serves as Lead Director.

The leadership structure story at **Walt Disney** began dramatically but then settled down. In 2004, long-time Chairman and CEO Michael Eisner was stripped of the Chairmanship amid shareholder dissatisfaction and conflict with board members including Roy Disney. Former Senator George Mitchell was named Chairman. When Eisner retired as CEO in 2005, he was succeeded by Robert Iger. At the beginning of 2007, Mitchell was succeeded as Chairman by John Pepper. When Pepper announced his decision to retire as Chairman in 2012, Iger was elected to be Chairman as well. Because governance guidelines call for an independent lead director if the Chairman is not independent, Orin Smith was elected to fill that role.

Michael Dell has been chairman of **Dell** since its founding in 1984. He was CEO from 1984 until Kevin Rollins assumed the role in 2004. The ascension of Rollins to the CEO position was said to have been a public acknowledgement of the role he was already playing in Dell. Following a business downturn and SEC investigation, Rollins resigned January 2007, and Dell returned as CEO. Although the precise date is not mentioned in proxy materials, Sam Nunn was named Presiding Director in 2003, and the company continued to have a Lead Director. The company was taken private in 2013.

From 2000 to 2005, Alan Lacy served as CEO, chairman, and president of **Sears**. After the merger with Kmart that year, the roles were split. Edward Lampbert, founder of the hedge fund that was Kmart's majority owner, became Chairman of Sears Holdings, and Aylwin Lewis became CEO. Amid declining business results, Lewis resigned in 2008 to be succeeded by interim (for three years) CEO Bruce Johnson, and then CEO Louis J. D'Ambrosio. When D'Ambrosio stepped down citing family health issues in early 2013, Lampbert added the CEO title, thus recombining the roles.

Under investor pressure and persistent criticism of his leadership, Philip Purcell abruptly resigned as Chairman and CEO of **Morgan Stanley** in 2005. His tenure had been marked by a series of legal clashes and internal dissent among key executives. He was succeeded in both roles by John Mack, who had been forced out in a power struggle with Purcell four years earlier. The company helped precipitate the financial crisis of 2008, and Mack announced his retirement as CEO effective the start of 2010. The board decided to split the positions and elected Mack to remain as Chairman and James Gorman to be CEO. Two years later, when Mack retired as Chairman, the board reversed itself and elected Gorman to become Chairman as well. In 2005, the board also established a Lead Director position, and C. Robert Kidder is the current one.

At **General Motors**. The roles were split from mid-2000, when Rick Wagoner succeeded John Smith as CEO, until 2003, when he replaced Smith as Chairman as well. The roles remained combined under Wagoner until he stepped down from both positions in late March 2009. The company had lost its position as worldwide automotive sales leader, and later in 2009 it would go through a brief and carefully structured bankruptcy that left the U.S. Treasury its largest shareholder.

Wagoner was replaced as CEO by Fritz Henderson, President of the "Old GM," and as Chairman by Ed Whitacre, retired Chairman and CEO of AT&T. Plagued by disagreements with the board, Henderson's tenure lasted only eight months, and Whitacre added the CEO role in December 2009. He relinquished the role nine months later to Daniel Akerson, a managing director of The Carlyle Group who had been appointed to the board by the Treasury. That transition was meant to reassure investors that "New GM" had a CEO-for-the-long-term in advance of its November 2010 IPO. When Whitacre retired as planned at the end of the year, Akerson became Chairman as well.

When it combined the roles under Whitacre, the GM board announced that business conditions demanded centralized control, but added: "Our Board will reconsider this determination from time to time based on changes in our circumstances and on the individuals available to lead the Company." In his memoir, Whitacre describes the board's indecision regarding Chairman-CEO structure. In a 2013 interview with *Reuters*, he summed up the outcome: "When Dan put his hand up, that took care of the problem. Not very elegant, I will admit. But that's how it played out."[25]

GM announced the appointment of Mary Barra as CEO (and the first woman to lead a major U.S. automobile company) on January 15, 2014. At that point the roles will again be split. The table reflects situations as of 2013 year end.

Table 6: Complex Changes

Company	2012 F100 Rank	Industry	CEO Changes Since 2000	Insider Chair?	Lead Director?	As of 31 Dec 13
AIG	33	Financial Services/Insurance	4	N	N	Split
Boeing	39	Aerospace/Defense	2		Y	Combined
Citigroup	20	Financial Services/Insurance	3	N	N	Split
Comcast	49	Technology/Telecom	1		Y	Combined
Dell	44	Technology/Telecom	2		Y	Combined
Ford	9	Automotive/Machinery	2	Y	Y	Split
General Motors	5	Automotive/Machinery	4		Y	Combined
Hewlett-Packard	10	Technology/Telecom	3	N	N	Split
Humana	79	Health	2	Y	Y	Split
Morgan Stanley	68	Financial Services/Insurance	2		Y	Combined
Sears	65	Retail	5		N*	Combined
SuperValu	75	Retail	4	Y	Y	Split
Tyson Foods	96	Food Production/Distribution	3	Y	Y	Split
Walt Disney	66	Entertainment/Media	1		Y	Combined
WellPoint	45	Health	2	N	N	Split

* Rotating Presiding Director, no designated Lead Director.

Given the frequency of leadership structure changes, these companies have significantly higher CEO turnover: an average of 2.7 CEO changes since 2000 compared with an average of 1.5 among the other 85 companies in the F100. They are also much more likely to appoint outsiders as CEO: 35% of the time compared with only 17% among the other 85 companies. Hewlett-Packard went outside for all three of its CEO appointments.

The four companies currently with split roles and insider Chairmen all have independent Lead Directors, as do six of the seven companies with roles combined.

Looking across the leadership-and-structure changes that accompanied business turmoil, both in this category and among the Single Split companies, we see some predictable patterns.

- If a CEO-and-Chairman overreaches (e.g., in a merger or acquisition), or presides over a severe business downturn, or has chronic conflicts with the board, or is involved in a regulatory investigation or personal scandal that brings into question the quality of corporate governance, the response is to split the roles and sometimes oust the executive from both.
- If the sudden departure of a CEO-and-Chairman leaves a company with inadequate succession arrangements, the response is to split the roles at least for a while and appoint a pair of executives who seem likely to work together well.
- If roles are split and the business situation demands unified and emphatic direction, the response is to combine the roles.

What the Governance Guidelines Say

In their corporate governance guidelines, the seven of the eight companies that are currently split give their boards flexibility to determine leadership structure. However, **Hewlett-Packard** expresses a preference for splitting: "The Board's preferred governance structure is to separate the roles of Chairman and CEO." And **AIG** affirms its split of roles: "At the current time, the policy of the Board, reflected in the by-laws, is that (1) the role of Chairman should be separate from that of the Chief Executive Officer and (2) the Chairman should be selected from the Independent Directors." Guidelines at Ford make no mention of Chairman-CEO role structure, but the company affirms its current structures in its annual proxy statements.

Guidelines at Humana and Tyson Foods call for election of a Lead Director regardless of the Chairman-CEO arrangement. AIG's guidelines assume that an independent Chairman presides over meetings of the independent directors. Ford has a provision for Presiding Director. The other companies make Lead Directors conditional upon the independence of the Chairman.

Of the six companies currently combined that publish governance guidelines (Dell is now a private company), four give the board flexibility in determining leadership structure, without indicating a preference. Interestingly, the **Walt Disney** guidelines favor splitting of roles, even though they are currently combined: "The Chairman of the Board shall be an independent director unless the Board concludes that the best interests of shareholders would be otherwise better served."

Comcast's governance guidelines make no mention of role structure but mandate an independent Lead Director. Morgan Stanley guidelines also call for a Lead Director regardless of the Chairman-CEO arrangement. The guidelines at Boeing, General Motors, and Disney call for a Lead Director whenever the Chairman is not independent. Sears makes provision for a Presiding Director.

Transitions from Long-Term CEOs

Thirty-four of the companies had leadership transitions involving the departure of long-time (10 to 38 years) CEOs, several of them founders.

These companies were not more likely to change leadership structure than the F100 overall. However, when they have changed structure – upon departure of the long-time CEO or later in our analysis period – it has been predominantly to split the roles. Twelve companies split the roles; two split then recombined.

In all but four transitions, the incoming CEO was a company insider. The exceptions were:

- At **Cardinal Health**, when founder Robert Walker stepped down as CEO in 2006, he was replaced by P&G executive Kerry Clark, whose tenure lasted less than three years.
- When **INTL FCStone** co-founder Diego Veitia stepped down as CEO in 2002, he was succeeded by Sean O'Connor, who joined from Standard Bank. He continues as CEO today.
- When Leland Brendsel resigned as CEO of **Freddie Mac** under pressure in 2003, he was replaced by the first of four outsiders since brought in, one of them a government conservator during the financial crisis.
- **CHS Inc** has had two transitions from long-time CEOs. The recently appointed CEO, Carl Casale, is an outsider from Monsanto with deep industry experience.

Among the companies in the Always Combined and Combined with Transitions groups, these transitions were for the most part well planned and executed, and the transitions came about with executive retirements.

An exception was the more recent change at **Johnson & Johnson**, which has had two transitions from long-serving CEOs since 2000. R. S. Larsen retired in 2002 after 13 years as CEO and was replaced by William Weldon, who stepped down ten years later. Weldon was forced to resign amid a combination of over-the-counter drug recalls, government investigation into clandestine product recalls, FDA warnings about false product claims, and an SEC investigation into bribery of doctors overseas. Alex Gorsky succeeded the embattled CEO in April 2012, and replaced him as Chairman eight months later.

Transitions were also orderly among the Always Split and Single Split companies, except at Bank of America and Freddie Mac during the financial crisis, and at UnitedHealthcare, where CEO William McGuire was forced to resign in 2006 amid allegations of backdating stock options. Best Buy is a special case in that the Chairman and CEO roles have been split since founder Richard Schulze relinquished the CEO role in 2002. However, he remained Chairman until 2012.

Table 7: Transitions from Long-Term CEOs

Category	Company	2012 F100 Rank	Industry	Outgoing CEO's Tenure (years)
Always Combined	AT&T	11	Technology/Telecom	17
	General Electric	6	Diversified	20
	Prudential	55	Financial Services/Insurance	14
Combined with Transitions	Cardinal Health	21	Health	35
	ConocoPhillips	4	Energy/Chemical	13
	DuPont	72	Energy/Chemical	10
	Johnson & Johnson	42	Health	13 / 10
	Johnson Controls	67	Automotive/Machinery	14
	Kroger	23	Retail	13
	Liberty Mutual	84	Financial Services/Insurance	13
	Merck	57	Health	11
	New York Life	86	Financial Services/Insurance	11
	Target	38	Retail	14
	United Technologies	48	Aerospace/Defense	14
	Valero Energy	12	Energy/Chemical	26
	Verizon	15	Technology/Telecom	16
Always Split	AmerisourceBergen	29	Health	14
	CHS Inc	78	Food Production/Distribution	13 / 10
	Costco	24	Retail	29
	Murphy Oil	98	Energy/Chemical	14
Single Split	Apple	17	Technology/Telecom	14
	Bank of America	13	Financial Services/Insurance	18
	Best Buy	53	Retail	19
	CVS Caremark	18	Retail	12
	Freddie Mac	25	Financial Services/Insurance	16
	Google	73	Technology/Telecom	10
	INTL FCStone	30	Financial Services/Insurance	15
	Safeway	63	Retail	20
	UnitedHealthcare	22	Health	14
Complex Changes	AIG	33	Financial Services/Insurance	38
	Dell	44	Technology/Telecom	21
	Humana	79	Health	12
	SuperValu	75	Retail	19
	Walt Disney	66	Entertainment	21

The Complex Changes companies naturally have the more unusual stories. Two now have roles combined (Dell and Disney); the other three are currently split.

- Hank Greenberg, CEO of **AIG** since 1968, resigned in 2005 amid allegations (later dropped) of fraudulent business practices.
- Founder Michael **Dell** stepped down from the CEO role after 21 years in 2004, only to resume it in 2007 after his successor, Kevin Rollins, experienced a business downturn and an SEC probe that got him fired.
- **Humana** experienced the least drama among these companies, although the former long-time CEO, Michael McCallister, recently stepped down from the Chairman role sooner than expected.
- **SuperValu** had a smooth transition from long-tenured CEO Michael Wright to Jeffrey Noodle in 2001. But it has had three CEOs since Noodle stepped down in 2009, a period of business downturn, restructuring, and asset sales.
- **Walt Disney** had much-publicized boardroom battles that led to Michael Eisner's stepping down as CEO in 2005, but his successor, Robert Iger, has recombined the Chairman and CEO roles.

Comparing Combined versus Split

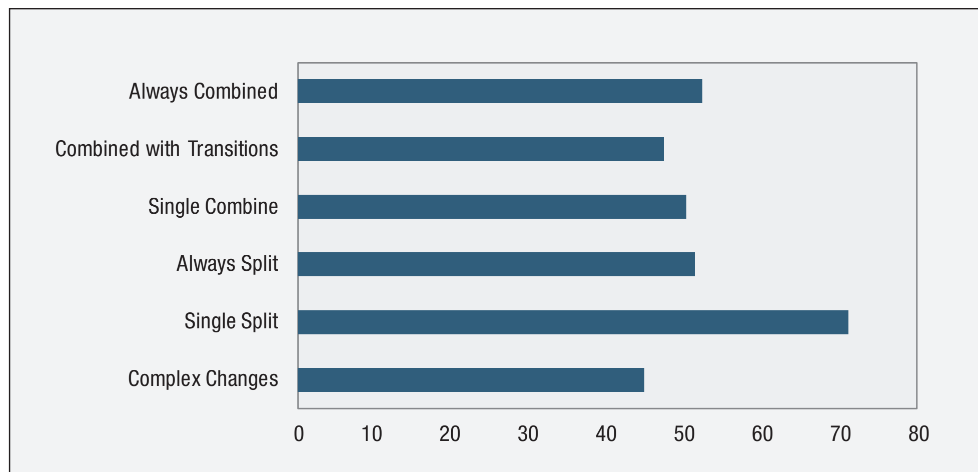
Here is some additional comparison and analysis of the 61 companies with Chairman and CEO roles combined at the end of our analysis period versus the 39 companies with roles split.

The combined companies are on average a little larger in terms of revenue. Their average F100 rank is 47, the split roles companies 53 (with the higher number indicating smaller company size). The medians are 48 and 52. The roughly 60/40 proportion of combined/split holds for the F10 and F20; however, with the exception of Walmart at #2, the seven largest companies have roles combined.

When we look at the other quintiles of the F100, we find that combined companies dominate the middle (#41-60) 85% to 15%, while split companies are the majority of the smallest quintile (#81-100) with 55%.

Also interesting are the variations across our six categories. As the chart shows, the median rank of the Single Split companies (71) is significantly higher than the others. And the lowest median rank belongs to the companies with complex changes. We conclude that smaller companies are more inclined or able to split roles, and that large size has its challenges, including with leadership structure and transition.

Figure 4: Combined vs Split by Median Fortune Rank

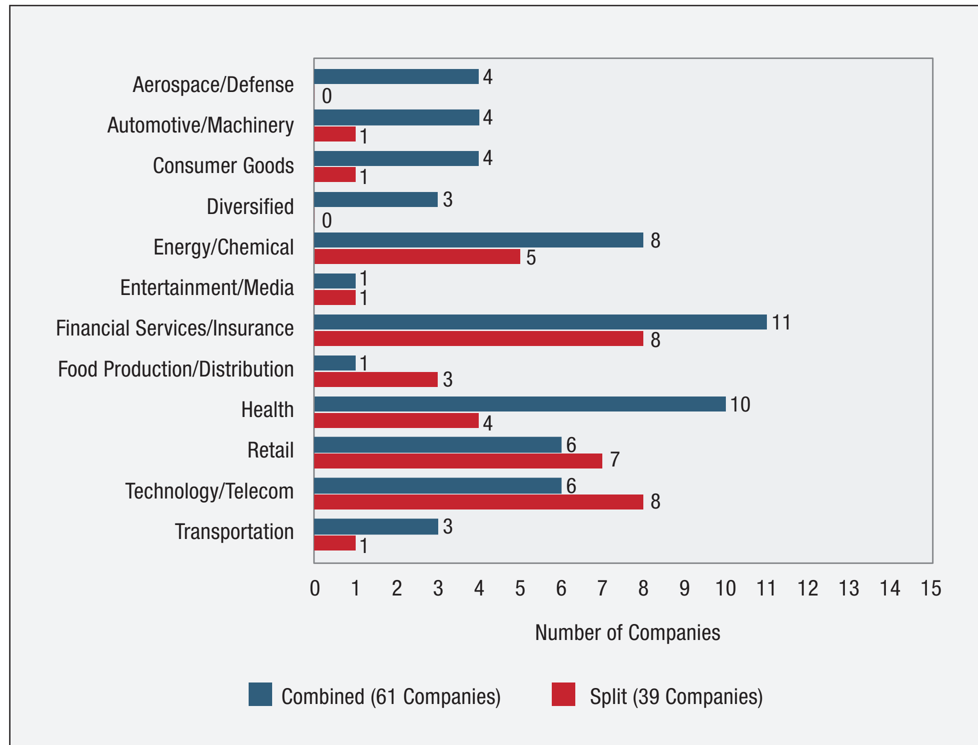


When making size comparisons, keep in mind that, though these are all large corporations, the range across the F100 is also large. The two biggest companies (Exxon Mobil and Walmart) had annual revenues of around $450B, the next two (Chevron and ConocoPhillips) around $250B. Then it's a $100B drop to General Motors at #5, where the distribution starts to even out. The largest company is about 15 times the size of the 100th.

Looking at industry distribution, we find that manufacturing and industrial companies are more likely to have roles combined, as are consumer goods and transportation. Somewhat surprising is that health sector companies tend to be combined, but note that they include large pharmaceutical and distribution companies as well as health providers, insurers, and benefits managers.

In technology, retail, and food production, a majority of the companies have roles split. Energy/Chemical and Financial Services/Insurance are close to the F100-wide 60/40 split. Splits during the financial crisis created the current balance in financial services.

Figure 5: Combined vs Split by Industry

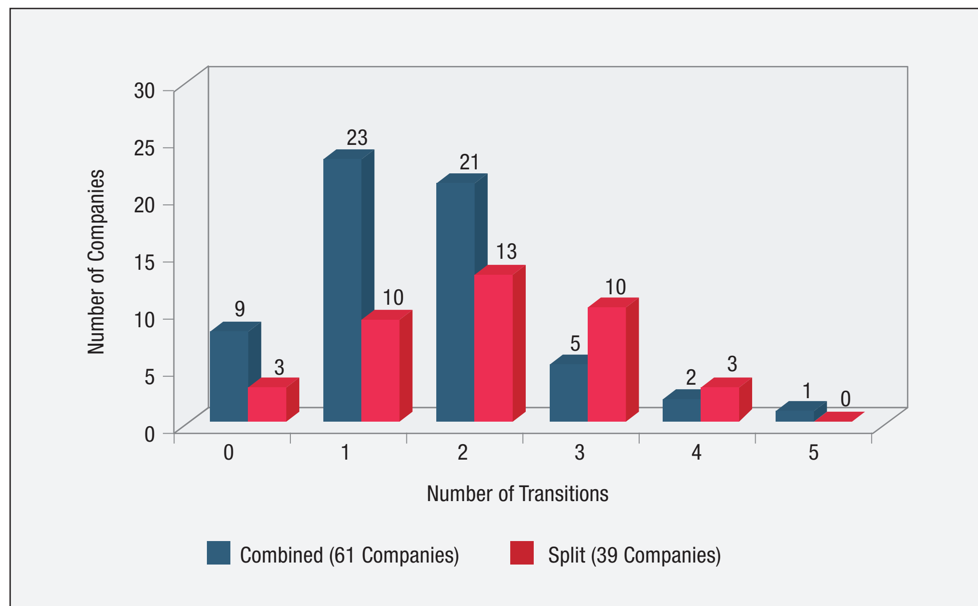


As we noted earlier, companies with combined roles have on average been more stable in terms of both the number of CEO transitions and the ability to promote from within.

Currently combined companies average 1.5 CEO transitions between 2000 and 2013, currently split companies 2.0. The Always Combined companies averaged less then one. Across all currently combined companies, insiders succeeded to the CEO role 90% of the time. Across all currently split companies, it was 68% of the time. Note that we're tracking the overall tendencies of these organizations, and some of the transitions occurred before they adopted their current leadership structures.

The next chart underscores the point by comparing the distributions of the number of times the CEO role turned over. Among the combined companies, there are eight outliers with three or more CEO transitions (two in the Complex Changes group). 87% had two transitions or fewer. The proportion is higher among the split companies, where 33% have had three or four CEO transitions.

Figure 6: Combined vs Split by Number of CEO Transitions



It might be the case that having the Chairman and CEO roles combined would make it easier to attract a very strong CEO from outside. However, combined companies – and especially the Always Combined – have little CEO turnover and rely on strong internal succession planning.

Advice for Boards

We conclude with some basic guidance and recommendations for Boards of Directors drawn from our research and analysis.

- **Be attentive.** Establishing the best leadership structure is an ongoing responsibility of the board. Governance guidelines should state the commitment to reviewing leadership structure regularly, and the board should take that responsibility seriously. Evaluate the pros and cons of the current structure, and don't simply rubber-stamp the status quo annually.
- **Be clear.** Boards and their published governance guidelines should be clear and transparent about preferred leadership structure (if any), the roles of independent Lead Directors, and the handling of Chairman and CEO transitions, including any preference for transition periods with otherwise combined roles.
- **Be flexible.** Any structure change should be driven by both the immediate situation and the longer term governance goals. Most companies avoid unconditional commitment to a particular structure. Stay focused on the goal of adequate independent oversight by the board. Be purposeful in the structure you choose, and don't split merely for the sake of "governance optics."
- **Be prepared.** Transitions are often unforeseen. Scandals, fraud, shareholder pressure, and unscheduled departures drove 40% of the actions to split roles in the F100. When discussing leadership structure and succession plans, anticipate the possibility or necessity of changing the structure under the circumstances of sudden CEO or Chairman departure, shareholder pressure to split roles, business conditions calling for combined roles, or ethical lapses by senior executives.
- When the roles are split and success depends on the working relationship between CEO and Chairman, be explicit about the roles and responsibilities of each. This is especially important if the new CEO is an outsider, or if the Chairman is the former CEO, serves as a public face for the company, or is otherwise active in leading the company as well as the board.
- When roles are combined and success depends on strong independent governance, leverage the role of Lead Director. Make the Lead Director's qualifications and responsibilities explicit, including the responsibility for communicating with and advising the Chairman-and-CEO. Make sure that the Lead Director is strong but collaborative and doesn't have an eye on other roles.
- When transitioning from a company founder or long-time CEO, be especially deliberate about structure and succession. That is typically not the time to change leadership structure, unless of course the long-time CEO assumes or retains the Chairman role. All bets are off, however, if the CEO's departure is sudden and unscheduled.
- Any structure change carries risks as well as potential advantages. Having the former CEO remain as Chairman can be problematic, except for a specific transition period, where it can be very useful. Having roles combined can make it easier to recruit a very strong and accomplished CEO, but that's accompanied by the operational and organizational risks of bringing in an outsider.

- When considering or making a change in leadership structure, anticipate how the board will communicate with shareholders and manage their expectations. Appearing to be reactive, caught unprepared, or forced to change puts the board and the company on the defensive.

To protect yourself from the worst case scenarios, and to maximize your chances of success with leadership structure and CEO transitions, we recommend:

- Mind your books. Make sure you have strong CFOs and other controls, so that you don't, for example, get Dell's $100 million fine under Kevin Rollins during an industry downturn.
- Have realistic expectations. If the company has only had six CEOs in 120 years, don't expect that the next one will last for another 20. Times have changed.
- Give the new CEO a fair shot and room to operate. But maintain controls that help maximize the opportunity to succeed. If you promote from within or the person is a known entity, it is a lot easier to give them room, as you know and trust them.
- Complement the new CEO's skills. Keep in mind that the no. 2 to a long-term CEO or founder is likely to have complimentary skill sets and not be a carbon copy of the former CEO. Surround the new CEO with an appropriate team that complements his or her skills.
- Transition in good times. Try not to transition, especially from a long-term CEO, during a business downturn.
- Look at intentions of Lead Director candidates as you do with executive succession. If you appoint a Lead Director who is really hungry for the CEO or Chairman spot, you're compromising the leadership structure.
- Be realistic about what an "independent" Chairman means. If the former founder/CEO of 30 years steps back in as Chairman after three months off the board, he is not independent, no matter what the rules may say.

Appendix

2012 Fortune 100 by Rank

Rank	Company	Rev $B	Industry	Category
1	ExxonMobil	453	Energy/Chemical	Always Combined
2	Walmart	447	Retail	Always Split
3	Chevron	246	Energy/Chemical	Always Combined
4	ConocoPhillips	237	Energy/Chemical	Combined/Transitions
5	General Motors	150	Automotive/Machinery	Complex Changes
6	General Electric	148	Diversified	Always Combined
7	Berkshire Hathaway	144	Diversified	Always Combined
8	Fannie Mae	137	Financial Services/Insurance	Single Split
9	Ford Motor	136	Automotive/Machinery	Complex Changes
10	Hewlett-Packard	127	Technology/Telecom	Complex Changes
11	AT&T	127	Technology/Telecom	Always Combined
12	Valero Energy	125	Energy/Chemical	Combined/Transitions
13	Bank of America	115	Financial Services/Insurance	Single Split
14	McKesson	112	Health	Single Combine
15	Verizon	111	Technology/Telecom	Combined/Transitions
16	JPMorgan Chase	111	Financial Services/Insurance	Combined/Transitions
17	Apple	108	Technology/Telecom	Single Split
18	CVS Caremark	108	Retail	Single Split
19	IBM	107	Technology/Telecom	Combined/Transitions
20	Citigroup	103	Financial Services/Insurance	Complex Changes
21	Cardinal Health	103	Health	Combined/Transitions
22	UnitedHealthcare	102	Health	Single Split
23	Kroger	90	Retail	Combined/Transitions
24	Costco	90	Retail	Always Split
25	Freddie Mac	88	Financial Services/Insurance	Single Split
26	Wells Fargo	88	Financial Services/Insurance	Combined/Transitions
27	Procter & Gamble	83	Consumer Goods	Combined/Transitions
28	Archer Daniels Midland	81	Food Production/Distribution	Combined/Transitions
29	AmerisourceBergen	80	Health	Always Split
30	INTL FCStone	75	Financial Services/Insurance	Single Split
31	Marathon Petroleum	74	Energy/Chemical	Always Split
32	Walgreens	72	Retail	Single Split

Rank	Company	Rev $B	Industry	Category
33	AIG	72	Financial Services/Insurance	Complex Changes
34	MetLife	71	Financial Services/Insurance	Combined/Transitions
35	Home Depot	70	Retail	Single Combine
36	Medco Health	70	Health	Always Combined
37	Microsoft	70	Technology/Telecom	Single Split
38	Target	70	Retail	Combined/Transitions
39	Boeing	69	Aerospace/Defense	Complex Changes
40	Pfizer	68	Health	Combined/Transitions
41	PepsiCo	67	Consumer Goods	Combined/Transitions
42	Johnson & Johnson	65	Health	Combined/Transitions
43	State Farm	64	Financial Services/Insurance	Always Combined
44	Dell	62	Technology/Telecom	Complex Changes
45	WellPoint	61	Health	Complex Changes
46	Caterpillar	60	Automotive/Machinery	Combined/Transitions
47	Dow Chemical	60	Energy/Chemical	Combined/Transitions
48	United Technologies	58	Aerospace/Defense	Combined/Transitions
49	Comcast	56	Technology/Telecom	Complex Changes
50	Kraft Foods	54	Consumer Goods	Single Combine
51	Intel	54	Technology/Telecom	Always Split
52	UPS	53	Transportation	Always Combined
53	Best Buy	50	Retail	Single Split
54	Lowe's	50	Retail	Always Combined
55	Prudential	49	Financial Services/Insurance	Always Combined
56	Amazon	48	Retail	Always Combined
57	Merck	48	Health	Combined/Transitions
58	Lockheed Martin	47	Aerospace/Defense	Combined/Transitions
59	Coca-Cola	47	Consumer Goods	Combined/Transitions
60	Express Scripts	46	Health	Combined/Transitions
61	Sunoco	46	Energy/Chemical	Combined/Transitions
62	Enterprise Products	44	Energy/Chemical	Always Split
63	Safeway	44	Retail	Single Split
64	Cisco	43	Technology/Telecom	Single Combine
65	Sears	42	Retail	Complex Changes
66	Walt Disney	41	Entertainment/Media	Complex Changes
67	Johnson Controls	41	Automotive/Machinery	Combined/Transitions
68	Morgan Stanley	39	Financial Services/Insurance	Complex Changes
69	Sysco	39	Food Production/Distribution	Single Split

Rank	Company	Rev $B	Industry	Category
70	FedEx	39	Transportation	Always Combined
71	Abbott	39	Health	Always Combined
72	DuPont	39	Energy/Chemical	Combined/Transitions
73	Google	38	Technology/Telecom	Single Split
74	Hess	38	Energy/Chemical	Single Split
75	SuperValu	38	Retail	Complex Changes
76	United Continental	37	Transportation	Combined/Transitions
77	Honeywell	37	Diversified	Combined/Transitions
78	CHS Inc	37	Food Production/Distribution	Always Split
79	Humana	37	Health	Complex Changes
80	Goldman Sachs	37	Financial Services/Insurance	Always Combined
81	Ingram Micro	36	Technology/Telecom	Single Split
82	Oracle	36	Technology/Telecom	Single Split
83	Delta Airlines	35	Transportation	Single Split
84	Liberty Mutual	35	Financial Services/Insurance	Combined/Transitions
85	World Fuel Services	35	Energy/Chemical	Single Split
86	New York Life	34	Financial Services/Insurance	Combined/Transitions
87	Plains All American	34	Energy/Chemical	Always Combined
88	TIAA-CREF	34	Financial Services/Insurance	Always Split
89	Aetna	34	Health	Combined/Transitions
90	Sprint	34	Technology/Telecom	Single Split
91	News Corp	33	Entertainment/Media	Single Split
92	General Dynamics	33	Aerospace/Defense	Combined/Transitions
93	Allstate	33	Financial Services/Insurance	Combined/Transitions
94	HCA	33	Health	Combined/Transitions
95	American Express	32	Financial Services/Insurance	Always Combined
96	Tyson Foods	32	Food Production/Distribution	Complex Changes
97	John Deere	32	Automotive/Machinery	Combined/Transitions
98	Murphy Oil	31	Energy/Chemical	Always Split
99	Philip Morris	31	Consumer Goods	Single Split
100	Nationwide	31	Financial Services/Insurance	Always Split

2012 Fortune 100 Alphabetically

Company	Rank	Rev $B	Industry	Category
Abbott	71	39	Health	Always Combined
Aetna	89	34	Health	Combined/Transitions
AIG	33	72	Financial Services/Insurance	Complex Changes
Allstate	93	33	Financial Services/Insurance	Combined/Transitions
Amazon	56	48	Retail	Always Combined
American Express	95	32	Financial Services/Insurance	Always Combined
AmerisourceBergen	29	80	Health	Always Split
Apple	17	108	Technology/Telecom	Single Split
Archer Daniels Midland	28	81	Food Production/Distribution	Combined/Transitions
AT&T	11	127	Technology/Telecom	Always Combined
Bank of America	13	115	Financial Services/Insurance	Single Split
Berkshire Hathaway	7	144	Diversified	Always Combined
Best Buy	53	50	Retail	Single Split
Boeing	39	69	Aerospace/Defense	Complex Changes
Cardinal Health	21	103	Health	Combined/Transitions
Caterpillar	46	60	Automotive/Machinery	Combined/Transitions
Chevron	3	246	Energy/Chemical	Always Combined
CHS Inc	78	37	Food Production/Distribution	Always Split
Cisco	64	43	Technology/Telecom	Single Combine
Citigroup	20	103	Financial Services/Insurance	Complex Changes
Coca-Cola	59	47	Consumer Goods	Combined/Transitions
Comcast	49	56	Technology/Telecom	Complex Changes
ConocoPhillips	4	237	Energy/Chemical	Combined/Transitions
Costco	24	90	Retail	Always Split
CVS Caremark	18	108	Retail	Single Split
Dell	44	62	Technology/Telecom	Complex Changes
Delta Airlines	83	35	Transportation	Single Split
Dow Chemical	47	60	Energy/Chemical	Combined/Transitions
DuPont	72	39	Energy/Chemical	Combined/Transitions
Enterprise Products	62	44	Energy/Chemical	Always Split
Express Scripts	60	46	Health	Combined/Transitions
ExxonMobil	1	453	Energy/Chemical	Always Combined
Fannie Mae	8	137	Financial Services/Insurance	Single Split
FedEx	70	39	Transportation	Always Combined

Company	Rank	Rev $B	Industry	Category
Ford Motor	9	136	Automotive/Machinery	Complex Changes
Freddie Mac	25	88	Financial Services/Insurance	Single Split
General Dynamics	92	33	Aerospace/Defense	Combined/Transitions
General Electric	6	148	Diversified	Always Combined
General Motors	5	150	Automotive/Machinery	Complex Changes
Goldman Sachs	80	37	Financial Services/Insurance	Always Combined
Google	73	38	Technology/Telecom	Single Split
HCA	94	33	Health	Combined/Transitions
Hess	74	38	Energy/Chemical	Single Split
Hewlett-Packard	10	127	Technology/Telecom	Complex Changes
Home Depot	35	70	Retail	Single Combine
Honeywell	77	37	Diversified	Combined/Transitions
Humana	79	37	Health	Complex Changes
IBM	19	107	Technology/Telecom	Combined/Transitions
Ingram Micro	81	36	Technology/Telecom	Single Split
Intel	51	54	Technology/Telecom	Always Split
INTL FCStone	30	75	Financial Services/Insurance	Single Split
John Deere	97	32	Automotive/Machinery	Combined/Transitions
Johnson & Johnson	42	65	Health	Combined/Transitions
Johnson Controls	67	41	Automotive/Machinery	Combined/Transitions
JPMorgan Chase	16	111	Financial Services/Insurance	Combined/Transitions
Kraft Foods	50	54	Consumer Goods	Single Combine
Kroger	23	90	Retail	Combined/Transitions
Liberty Mutual	84	35	Financial Services/Insurance	Combined/Transitions
Lockheed Martin	58	47	Aerospace/Defense	Combined/Transitions
Lowe's	54	50	Retail	Always Combined
Marathon Petroleum	31	74	Energy/Chemical	Always Split
McKesson	14	112	Health	Single Combine
Medco Health	36	70	Health	Always Combined
Merck	57	48	Health	Combined/Transitions
MetLife	34	71	Financial Services/Insurance	Combined/Transitions
Microsoft	37	70	Technology/Telecom	Single Split
Morgan Stanley	68	39	Financial Services/Insurance	Complex Changes
Murphy Oil	98	31	Energy/Chemical	Always Split
Nationwide	100	31	Financial Services/Insurance	Always Split
New York Life	86	34	Financial Services/Insurance	Combined/Transitions

Company	Rank	Rev $B	Industry	Category
News Corp	91	33	Entertainment/Media	Single Split
Oracle	82	36	Technology/Telecom	Single Split
PepsiCo	41	67	Consumer Goods	Combined/Transitions
Pfizer	40	68	Health	Combined/Transitions
Philip Morris	99	31	Consumer Goods	Single Split
Plains All American	87	34	Energy/Chemical	Always Combined
Procter & Gamble	27	83	Consumer Goods	Combined/Transitions
Prudential	55	49	Financial Services/Insurance	Always Combined
Safeway	63	44	Retail	Single Split
Sears	65	42	Retail	Complex Changes
Sprint	90	34	Technology/Telecom	Single Split
State Farm	43	64	Financial Services/Insurance	Always Combined
Sunoco	61	46	Energy/Chemical	Combined/Transitions
SuperValu	75	38	Retail	Complex Changes
Sysco	69	39	Food Production/Distribution	Single Split
Target	38	70	Retail	Combined/Transitions
TIAA-CREF	88	34	Financial Services/Insurance	Always Split
Tyson Foods	96	32	Food Production/Distribution	Complex Changes
United Continental	76	37	Transportation	Combined/Transitions
UnitedHealthcare	22	102	Health	Single Split
United Technologies	48	58	Aerospace/Defense	Combined/Transitions
UPS	52	53	Transportation	Always Combined
Valero Energy	12	125	Energy/Chemical	Combined/Transitions
Verizon	15	111	Technology/Telecom	Combined/Transitions
Walgreens	32	72	Retail	Single Split
Walmart	2	447	Retail	Always Split
Walt Disney	66	41	Entertainment/Media	Complex Changes
WellPoint	45	61	Health	Complex Changes
Wells Fargo	26	88	Financial Services/Insurance	Combined/Transitions
World Fuel Services	85	35	Energy/Chemical	Single Split

Vell Executive Search

Vell Executive Search, a premier retained executive search firm, specializes in finding high-level, top-flight technology executives at the board, CEO, CIO and "C" levels. Each of the firm's professionals brings a distinctive knowledge of and experience in the technology industry. Vell Executive Search's credentials, experience, and unrelenting focus on satisfaction and execution empower the firm to connect and support exceptional leadership teams, with proven track records, for the best companies.

Vell Executive Search's mission is to build high-performance leadership teams around the world. Whether large or small, public or private, global or local, every company requires an effective leadership team at the top that brings about business results.

www.vell.com

Dora Vell

Dora Vell is the CEO of Vell Executive Search, a boutique executive search firm in Boston focused on recruiting technology executives and board members. Vell has successfully completed numerous board member and C-level executive searches, including CEOs, COOs, CIOs, and Vice Presidents – at both public and private companies.

Prior to founding the firm in 2005, Vell was a Partner at Heidrick & Struggles' Technology Practice for seven years. Before her career in executive search, she worked at IBM for 11 years, managing software engineering organizations of 100 people and software sales organizations with revenues of $150 million. She has also served as an executive assistant to the CEO of IBM Canada for one year.

Vell holds seven worldwide software patents. She has published several Business of Leadership reports on governance and leadership and has been quoted in numerous articles including in *The Wall Street Journal, Forbes, Business Week, Fortune, Agenda Week, MSNBC, Mass High Tech, the OPUS for the World Economic Forum, Boston Business Journal, The Globe & Mail, CIO Magazine,* and IEEE. She also has been a featured speaker on leadership at numerous conferences and at Columbia University's MBA program.

Vell is a member of the National Association of Corporate Directors (NACD) and the Boston CEO Roundtable. She has served on the boards of Framingham State, Entrepreneur's Organization, Goodwill, Mary Centre for developmentally handicapped adults, garage.ca, and RBC Capital Partners.

She has received an MBA from the University of Toronto, a Master in Computer Science from the University of Waterloo, and a Bachelor in Computer Science from Carleton. She has also completed the MIT Entrepreneurial Master's program.

Email: dora@vell.com

Robert Morison

Robert Morison is a highly accomplished business researcher, writer, discussion leader, and management consultant. He has been leading breakthrough research at the intersection of business, technology, and human asset management for 25 years, working with hundreds of major organizations and writing research reports and management guides on topics ranging from workforce management and business innovation to business process reengineering, collaborative business models, and business analytics.

He is co-author of *Analytics At Work: Smarter Decisions, Better Results* (Harvard Business Press, 2010), *Workforce Crisis: How to Beat the Coming Shortage of Skills And Talent* (Harvard Business Press, 2006), and three *Harvard Business Review* articles, one of which received a McKinsey Award as best article of 2004. He has spoken before scores of corporate, industry, and government groups, and has been a commentator on workforce issues on *Nightly Business Report* on PBS.

Morison currently serves as lead faculty for The International Institute for Analytics and lends his experience and expertise to research and intellectual capital development efforts for a variety of progressive organizations. He earlier held management positions with The Concours Group, CSC Index, and General Electric Information Services Company. He holds an A.B. from Dartmouth College and an M.A. from Boston University.

Email: rfmorison@gmail.com
Website: www.robertmorison.com

Ajanta Banerjee

Ajanta Banerjee is a research consultant for Vell Executive Search. She has over eight years' experience in business research. She previously worked as a Senior Research Analyst in Heidrick & Struggles' Knowledge Management Center, leading advanced research assignments for the Consumer Markets and supporting the Leadership Consulting team on research projects in talent management, coaching, succession planning, and organizational culture and design. Banerjee has a MA degree from Jawaharlal Nehru University (New Delhi) and she graduated from Presidency College (Kolkata).

Timothy Bevins

Timothy Bevins is a research consultant for Vell Executive Search. An experienced researcher and research project director, he has worked in organizations including Decision Resources and The Concours Group. His projects span industries from imaging and printing to health care, and have most recently examined the many impacts of demographic changes on the workforce and workplace. Bevins holds a degree in English from The College of William & Mary and a master's degree in Writing and Literature from Rivier College.

Endnotes

[1] For an overview of the demographics of the F100 CEOs, see the infographic "Fortune 100 CEOs // Demographics, Education & Career Paths," N2Growth, 2013.

[2] "Splitting The CEO And Chairman Roles – Yes Or No?" by Charles Tribbett, *The Corporate Board*, November/December 2012. The "2012 Spencer Stuart Board Index" reports almost identical numbers for the S&P 500: 43% separating the roles, up from 25% in 2002.

[3] "CEO Succession 2000-2009: A Decade of Convergence and Compression," by Ken Favaro, Per-Ola Karlsson, and Gary L. Neilson, *Strategy + Business,* Summer 2010.

[4] "Board Leadership among S&P 1500 Companies," by Annalisa Barrett, Equilar, 2012.

[5] "Splitting The CEO And Chairman Roles – Yes Or No?" by Charles Tribbett, *The Corporate Board*, November/December 2012.

[6] "2012 Spencer Stuart Board Index."

[7] "Board leadership: A global perspective," Deloitte, 2011.

[8] "Chairing the Board: The Case for Independent Leadership in Corporate North America," Millstein Center for Corporate Governance and Performance, Yale School of Management, 2009.

[9] "Pros and Cons of Differing Models of Board Leadership," NACD, 2013.

[10] "CEO Duality and Firm Performance – An Endogenous Issue," by Chia-Wei Chen, Barry Lin, and Bingsheng Yi, *Corporate Ownership & Control*, Fall 2008.

[11] "The Costs of a Combined Chair/CEO," by Paul Hodgson and Greg Ruel, GMI Ratings, June 2012.

[12] "When the CEO is also the Chair of the Board," by Aloke Ghosh and Doocheol Moon, Zicklin School of Business, June 2009.

[13] "The Costs of a Combined Chair/CEO," by Paul Hodgson and Greg Ruel, GMI Ratings, June 2012.

[14] "Key Metrics Series: Entrenched Boards," GMI Ratings, March 2013.

[15] "Board governance depends on where you sit, by William George, *McKinsey Quarterly*, February 2013.

[16] "Should the CEO Be the Chairman?" by Jay W. Lorsch and Andy Zelleke, *MIT Sloan Management Review*, Winter 2005.

[17] "Splitting The CEO And Chairman Roles – Yes Or No?" by Charles Tribbett, *The Corporate Board*, November/December 2012.

[18] Dividing The Seat Of Power," by Jean-Michel Beigbeder, Charles H. King, and Keith Meyer, *The Corporate Board*, July/August 2012.

[19] "Apprentice, Departure, and Demotion: An Examination of the Three Types of CEO–Board Chair Separation," by Ryan Krause and Matthew Semadeni, *Academy of Management Journal*, June 2013.

[20] "How to separate the roles of chairman and CEO," by Robert F. Felton and Simon C. Y. Wong, *McKinsey Quarterly*, November 2004.

[21] Given that cutoff date, our tables and analyses do not include recent CEO changes at companies including Kroger, Microsoft, Valero Energy and Walmart and, or the CEO and structure changes at General Motors.

[22] "Elsenhans Leaves Sunoco Shedding Refineries for Pipelines," by Bradley Olson and Edward Klump, *Bloomberg News*, February 3, 2012.

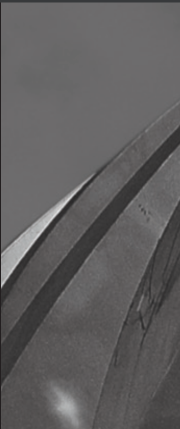
[23] "Philip Morris CEO to Step Down," by John Kell, *The Wall Street Journal*, March 13, 2013.

[24] "Ford Taps Boeing Executive as CEO," by Monica Langley and Jeffrey McCracken, *The Wall Street Journal*, September 6, 2006.

[25] "GM's N. American chief considered for CEO job in 2010 – book," Reuters, January 23, 2013. Whitacre's book is *American Turnaround: Reinventing AT&T and GM and the Way We Do Business in the USA*.

Vell Executive Search
185 Devonshire St., Suite 200
Boston, MA 02110
Phone: 617.530.1260
e-Fax: 781.207.0553

info@vell.com
www.vell.com



© Copyright, 2015 by Vell Executive Search Inc. All rights reserved. Printed in the United States of America. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, except as permitted under sections 107 or 108 of the United States Copyright Act, without prior written permission of the publisher.

$150.00
ISBN 978-0-9802494-4-6
59999>
9 780980 249446