IN-DEPTH:
INDEPENDENT BOARD CHAIRMAN

UPDATED MARCH 2016

GLASS LEWIS

INDEPENDENT BOARD CHAIRMAN

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

Research suggests that combining the positions of chairman and CEO may hinder a board's ability to dismiss an ineffective CEO. One study found that "the sensitivity of CEO turnover to firm performance is significantly lower when the CEO and chairman responsibilities are vested in the same individual."[1] It is the board's responsibility to select a chief executive who can best serve the Company and its shareholders and to replace this person when his or her duties have not been appropriately fulfilled. We believe replacing a CEO becomes more difficult and happens less frequently than it should when the chief executive is also in the position of overseeing the board. Further, a 2009 study regarding corporate governance practices at U.S. corporations found that companies with combined chairman and CEOs tend to follow fewer positive corporate governance practices such as having declassified boards and calling frequent board meetings.[2]

Some empirical evidence suggests that the firms with separated CEO and chairman roles outperform companies in which a single individual serves in both capacities.[3] In addition, a more recent study by the Millstein Center for Corporate Governance and Performance at the Yale School of Management stated that "[t]he independent chair curbs conflicts of interest, promotes oversight of risk, manages the relationship between the board and CEO, serves as a conduit for regular communication with shareowners, and is a logical next step in the development of an independent board."[4]

On the other hand, some studies indicate that separating the roles of chairman and CEO may have negligible or negative impacts on corporate performance. For example, some critics claim that separating the two roles leads to confusion and power struggles between management and the board.[5] Other studies suggest that the value of having non-executive chairman is largely dependent on the unique circumstances of a given company.[6] A further study of 152 Swiss companies found no evidence of a "systematic and significant difference in valuation between firms with combined and firms with separated" CEO and chairman functions.[7] Ultimately, most academics acknowledge that much of the literature on the separation of CEO and chairman has produced inconsistent and conflicting results.[8]

A 2014 *Forbes* article analyzing voting results for shareholder proposals seeking to split the roles highlights a similar difference of opinion among shareholders on this issue. The findings showed that of approximately 200 shareholder proposals placed on ballots in the last two years, only four proposals received shareholder approval and none resulted in an actual separation of roles. Absent key indicators such as poor performance, poor governance factors, an "imperial" CEO or long-tenured directors, shareholders are reluctant to favor separating the roles. The article further states that the reluctance is not without merit because

1 Vidhan K. Goyal, Chul W. Park. "Board Leadership Structure and CEO Turnover." Journal of Corporate Finance 8. 2002.

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

3 Paula Rechner, Dan Dalton. "CEO Duality and Organizational Performance: A Longitudinal Analysis." Journal of Strategic Management 12. 1991.

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

5 Jay Lorsch and Andy Zelleke, "Should the CEO Be the Chairman?" *MIT Sloan Management Review*. 2005.

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

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

8 Raghavan J.Iyengar and Ernest M. Zampelli, "Self Selection, Endogeneity, and the Relationship Between CEO Duality and Firm Performance." *Strategic Management Journal*. 2009.

the decision to separate these roles can significantly impact the future performance of a company; research has suggested that poor performing firms that separate the roles may experience enhanced performance, but for high performing companies, separation of the roles could have a negative impact on shareholder returns. Ultimately, however, the article concludes that any changes to a company's leadership structure will more likely be a result of indirect pressure rather than direct pressure from shareholder proposals and voting.[9]

While much of the empirical evidence regarding the separation of the roles of chairman and CEO remains contradictory and inconclusive, Glass Lewis nevertheless generally favors the installation of an independent chairman in order to ensure independent board leadership on behalf of shareholders. We believe that the presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. Further, we believe that the separation of these two key roles eliminates the conflict of interest that inevitably occurs when a CEO is responsible for self-oversight. Moreover, there appears to be a growing trend toward separation of the roles of chairman and CEO. According to the 2015 Spencer Stuart Board Index, 48% of S&P 500 companies have split the chair and CEO roles, up from 29% in 2015. Further, 29% of boards have a truly indpendent chair, up from 9% in 2005. This broad shift over the last decade indicates an increasing trend toward independent board leadership in U.S. companies.

9 Robin Ferracone. "Combined Chairman/CEO Roles: Easier Than You Think." *Forbes*. March 5, 2014

DISCLAIMER

This report is intended to provide research, data and analysis of proxy voting issues and, therefore, should not be relied upon as investment advice. Glass Lewis analyzes the issues presented for shareholder vote and makes recommendations as to how Glass Lewis believes institutional shareholders should vote their proxies, without commenting on the investment merits of the securities issued by the subject companies. Therefore, none of Glass Lewis' proxy vote recommendations should be construed as a recommendation to invest in, purchase, or sell any securities or other property. Moreover, Glass Lewis' proxy vote recommendations must be construed solely as statements of opinion, and not as statements of fact, and may be revised based on additional information or any other reason at any time.

The information contained in this report is based on publicly available information. While Glass Lewis exercises reasonable care to ensure that all information included in this report is accurate and is obtained from sources believed to be reliable, no representations or warranties express or implied, are made as to the accuracy or completeness of any information included herein. In addition, Glass Lewis shall not be liable for any losses or damages arising from or in connection with the information contained herein or the use or inability to use any such information.

Glass Lewis expects its subscribers possess sufficient experience and knowledge to make their own decisions entirely independent of any information contained in this report. Subscribers are ultimately and solely responsible for making their own voting decisions. This Glass Lewis report is intended to serve as a complementary source of information and analysis for subscribers in making their own voting decisions and therefore should not be relied on by subscribers as the sole determinant in making voting decisions.

Glass Lewis recommends all clients carefully and periodically evaluate, among other things, Glass Lewis' research philosophy, approach, methodologies and conflict management, avoidance and disclosure policies and procedures. For information on Glass Lewis' policies and procedures including treatment of conflicts of interests, please visit: http://www.glasslewis.com/about-glass-lewis/disclosure-of-conflict/.

SAN FRANCISCO

Headquarters
Glass, Lewis & Co., LLC
One Sansome Street
Suite 3300
San Francisco, CA 94104
Tel: +1 415-678-4110
Tel: +1 888-800-7001
Fax: +1 415-357-0200

NEW YORK

Glass, Lewis & Co., LLC
44 Wall Street
Suite 2001
New York, NY 10005
Tel: +1 212-797-3777
Fax: +1 212-980-4716

AUSTRALIA

CGI Glass Lewis Pty Limited
Suite 5.03, Level 5
255 George St
Sydney NSW 2000
Australia
Tel: +61 2 9299 9266
Fax: +61 2 9299 1866

IRELAND

Glass Lewis Europe, Ltd.
15 Henry Street
Limerick, Ireland
Phone: +353 61 292 800
Fax: +353 61 292 899

GERMANY

IVOX Glass Lewis GmbH
Maximilianstr. 6
76133 Karlsruhe
Germany
Phone: +49 721-35 49 622
Fax: +49 721-35 49 621

GLASS LEWIS