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Executive chairs in the S&P 500

An analysis of the role and takeaways for boards

KPMG Board Leadership Center

A number of high-profile CEOs have left their positions, but not their companies, to step into the role of executive chair (EC) of the board.

While the independent chair structure is far more prevalent—and some investors take the view that the board should only be led by an *independent* chair—approximately 10 percent of S&P 500 boards have an EC.[1] This article looks at how companies are using the role, discusses investor concerns, and offers questions and considerations for boards. For the purposes of this article, *executive chair* is defined as a person who serves as board chair and is also member of management—but isn't the CEO and doesn't occupy any other executive roles at the company.[2]

Among those S&P 500 boards that have an EC, the EC is generally the former CEO. Most boards use the role either to support the transition to the incoming CEO or enable the founder to help continue to drive the strategy. While some companies retain their former CEOs as nonexecutive chairs (including about 5 percent of S&P 500 companies)[3] and the considerations when doing so are similar, the analysis in this article is based on companies where the former CEO is the EC.

ECs in the S&P 500

10.2% companies that have an EC

1.9 years median time in the EC role

92.2% companies with an EC that also have independent board leadership as a counterweight (most commonly through a lead independent director)

$5,877,434 EC median pay

1.9:1 the ratio of median CEO pay to median EC pay among companies with the role

Source: BoardEx data analyzed by KPMG BLC in January 2020 supplemented with information from company proxy statements.

EC prevalence and related governance practices

Who occupies the EC role, the scope of the EC's responsibilities, and the EC's relationship with the CEO and board are often company-specific. However, an EC generally has a long history with the company as the founder, former CEO, and/or other executive leader—and may even be seen as an iconic figure responsible for a period of the company's success. The EC role typically fits into one of three categories:

- The **outgoing CEO** serves as an advisor to the incoming CEO during a transition period, typically around one year (or less);
- The **founder** (or a member of the founding family) retains control over the company's strategic vision for an extended period after retiring as CEO due to his or her substantial stock ownership in the company[4]; or
- The **founder and/or outgoing CEO** is reluctant to retire and effectively continues to function as the CEO, with the incoming CEO acting either as a co-CEO or chief operating officer (COO), despite actually holding the CEO title.

Considering an EC role in the CEO succession process is not standard practice. And, of these three categories, the third is the most controversial and may signal poor CEO succession planning practices on the part of the board. "[In this situation], executive chair means you're the CEO, and the CEO becomes your COO," said corporate board member Charles Elson, the Edgar S. Woolard, Jr., Chair in Corporate Governance and the director of the John L. Weinberg Center for Corporate Governance at the University of Delaware. "It's a change in name, rather than a change in governance, and from a governance standpoint, this isn't the right way to approach [succession planning]."

Elson further cautions boards that the role itself may impact the board's independence and ability to conduct oversight. Directors should keep in mind the board's primary purpose is to serve as oversight of the management team, he said. "The chairman chairs the board, and the board is the monitor of management. If the person being overseen is chairing it, you diminish oversight." Combining the roles of CEO and chair creates the same issue.

How being a founder factors in

Those ECs who are founders (or members of the founding family) tend to occupy the role for a longer period of time, with less pay for the role (in part due to the value of their equity stakes), than their nonfounder counterparts.

	Former company CEOs (excluding founders or members of the founding family)	Former company CEOs and founders (or members of the founding family)
Percentage of S&P 500 ECs	45.1%	43.1%
Median EC tenure	1.1 years	5.2 years
Median EC compensation	$9,398,842	$4,938,361
Ratio of median CEO pay to median EC pay	1.4:1	2.4:1

Source: BoardEx data analyzed by KPMG BLC in January 2020 supplemented with information from company proxy statements. Compensation data collected from the total compensation listed in the summary compensation table of the company's most recently available proxy statement. Outliers, such as those ECs receiving little-to-no compensation for their roles on account of their significant stock ownership, were not included. Companies were not included in compensation calculations when the EC and/or CEO had not served in the role for the full period of the last fiscal year for which compensation data was available.

Questions for boards to consider

- Is the CEO's extensive knowledge of the business or the company's key product or intellectual property difficult to replace (recognizing that this could also signal weakness in the board's succession planning)?
- Does the CEO have an iconic status and/or personality that is intertwined with the company's image and past success?
- Is the CEO successor an internal or external hire? Does the incoming CEO require a transition period due to the complexity of company operations?
- If the company has recently recovered from a downturn in growth, would the outgoing CEO's continued presence help provide stability during the leadership transition?
- Is there potential for the EC to undermine the new CEO's leadership and authority?
- How might the EC position create the opportunity for overlap and/or ambiguity among leadership roles?
- Will the former CEO serving as chair add complexity to boardroom dynamics?
- What negative signals might the EC role send to investors and others about the company's confidence in its new CEO/leadership?
- What will the EC's compensation package look like and how might it be perceived by investors?

For boards considering the EC role, the following considerations and actions may be helpful to position the role—and the company—for success.

Begin the CEO succession planning process early.

Boards may be reticent to discuss succession planning when the CEO is the founder or an exceptionally high performer. However, the EC role should not be used as a fallback for poor succession planning, lack of confidence in the new CEO, or as mechanism for the CEO to retain control of the company when he or she is reluctant to retire. Beginning the succession planning process early in the sitting CEO's tenure provides the board and CEO time to assess and develop the internal talent pipeline and to address both long-term and emergency CEO succession, which may improve the chosen successor's likelihood of success.

It also is crucial for the board to maintain ultimate control over the CEO succession planning process, seeking input from the CEO but not defaulting to the CEO's choice of successor, even if he or she holds significant equity. Decisions around the new CEO should primarily be based on the future strategic direction of the company and what skills and characteristics the future leader must possess to carry out these objectives.[5]

Define the scope of each leadership role to minimize the potential for conflict.

While the EC role may help facilitate a smooth leadership transition when the new CEO is brought on, the role also opens up an opportunity for friction between the incoming and outgoing CEO. The board should first consider the personalities and working styles of each individual to assess whether they will work well together: Is the outgoing CEO supportive of the incoming CEO's new vision for the company? Is the incoming CEO respectful of the outgoing CEO's historical contributions *and* continued value to the organization? Is each individual comfortable with this board leadership structure and clear on the scope of their respective responsibilities?

These questions are especially relevant during a founder transition. "The reality is that these are people with big personalities and big ideas—and very often, to their credit, they have built amazing companies," said Ric Marshall, executive director, MSCI ESG Research. "But when founders who are CEOs/chairs finally decide to step down, they don't necessarily step down in the traditional sense. As they shift into the EC position, their focus might be on high-level strategic issues, for example, or on product and reputation, while the CEO assumes operational control." The greater the clarity around the scope of each role, however they choose to define them, the lower the risk of conflict, said Marshall.

Consider investor perspectives and provide robust disclosure.

Many of the largest institutional investors—including BlackRock, Vanguard, and State Street—do not provide a specific perspective on the EC role in their proxy voting guidelines, aside from generally calling for independent board leadership in some form (i.e., with a lead independent director with robust responsibilities serving as a counterweight to a combined CEO/chair, or an independent chair). However, some other institutional investors, such as CalSTRS and the NYC Retirement Systems, explicitly state in their proxy voting guidelines that the chair of the board should be an independent director. Proxy voting guidelines for CalPERS state that the board "should be chaired by an independent director and that CEO and chair roles should only be combined in very limited circumstances."[6]

While the Corporate Governance Policies for the Council of Institutional Investors (CII) similarly support independent board chairs, CII Executive Director Amy Borrus suggests that some institutional investors may be inclined to tolerate the role if the board limits the tenure at the outset to a period of one year or less. "Keeping the former CEO on as [executive] chair for much longer or without an end date can raise questions about the board's confidence in the new CEO," said Borrus. "It can also be a red flag indicating that the departing CEO may continue to try to call the shots for the company for some time."

Borrus further recommends providing investors with an explanation for why it's in the best interests of the company to keep the CEO on as chair. "Some investors accept that having a departing CEO become EC for a relatively short period can be good governance if it ensures a smooth transition, provided there is a plan in place for the EC to exit completely and there is a lead independent director in place."

For examples of disclosure related to the EC role, see the Board Leadership Structure sections of the following proxy statements: Intuit (pp. 11–12), Twitter (p. 18), and Walgreens (pp. 21–23).

Set compensation in line with the EC's responsibilities—and prepare to explain it to investors.

The compensation package for the EC varies depending on the scope and responsibilities of the role. Paul Hodgson, ESG analyst and senior advisor at ESGAUGE, outlines three common scenarios for how EC pay may be structured:

- **The EC receives a base salary, consultancy fee, and/or annual bonus** when the role is transitional and the EC is moving from the CEO position to retirement.
- **The EC has no base salary and/or incentives** when the EC is a founder or member of the founding family with significant stock ownership—either directly or through a family trust.
- **The EC and CEO pay packages are comparable** when the EC is functioning as a second CEO or co-CEO.

The median compensation for ECs of S&P 500 boards is $5,877,434, with the ratio for median CEO pay to median EC pay standing at 1.9:1. However, for former CEOs who have been in the EC role less than two years (and who are not founders or related to the founding family), this ratio changes to 0.7:1—which may be a signal to shareholders and other stakeholders that the company is essentially paying for two CEOs.

Hodgson cautions that investors may expect to see some reduction in pay when the CEO becomes EC, not only because the EC role is likely less involved than that of CEO but also because the EC is continuing to receive compensation in the form of vested stock options from his or her time as CEO. Over time, shareholders may become more comfortable with the role—such as when there is a founder/member of the founding family who has served as EC for a number of years—and company performance remains strong.

In communicating EC pay to investors through the Compensation Discussion and Analysis section of the proxy statement, Hodgson recommends disclosing as much as possible, without sharing proprietary information, from the board-level and compensation committee–level discussions. The more that is disclosed, the more shareholders will understand the intentions and choices behind how the EC's pay package is structured.

[1] According to the *2019 U.S. Spencer Stuart Board Index*, 34 percent of boards in the S&P 500 have an independent chair. The percentage of ECs in the S&P 500 (10.2 percent) is based on analysis of BoardEx data conducted by the KPMG Board Leadership Center in January 2020.

[2] Only those individuals who were identified as the *executive chair* in the company's proxy materials were included in this study.

[3] Spencer Stuart, *2019 U.S. Spencer Stuart Board Index* (p. 22).

[4] The founders or members of the founding family serving as ECs in the S&P 500 are listed as beneficial owners of more than 5 percent of the outstanding stock in the company proxy statement or as one of the largest shareholders (if ownership is less than 5 percent).

[5] For more on founder CEO transitions, see the Korn Ferry Institute's report *When the founder steps down: Leadership transition in a founder-led organization* (Fall 2017).

[6] CalPERS Proxy Voting Guidelines (September 2019), p. 8.

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including the KPMG Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/us/blc.

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