[Time for GE to Split Up the CEO-Chairman Job?]

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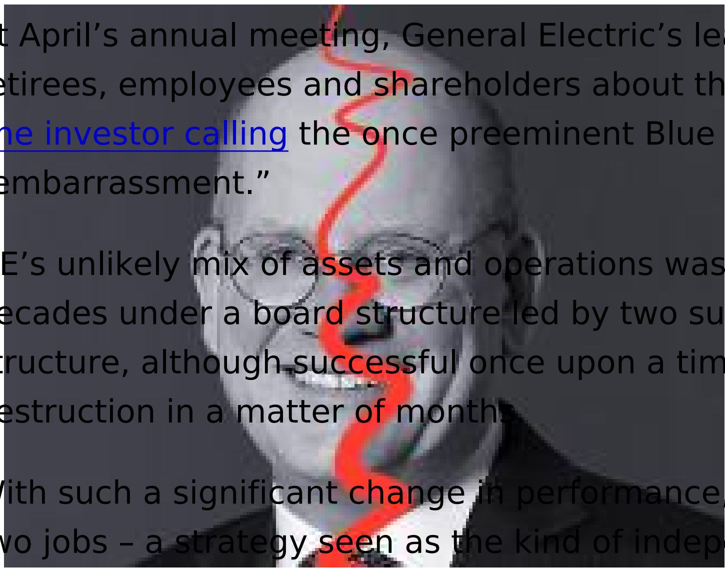
The structure may be derailing true independent oversight & a turnaround.



At April's annual meeting, General Electric's leadership got an earful from retirees, employees and shareholders about the company's financial woes, with one investor calling the once preeminent Blue Chip company an "embarrassment."

GE's unlikely mix of assets and operations was assembled and managed for decades under a board structure led by two successive chairmen/CEOs. But that structure, although successful once upon a time, has now led to massive wealth destruction in a matter of months.

With such a significant change in performance, has the time come to split up the two jobs – a strategy seen as the kind of independent oversight necessary to signal to employees, investors, customers and suppliers that every possible option is being evaluated?

This question is worthy of director reflection and consideration and cannot be postponed any longer.

How could the GE directors meet their obligation for independent oversight while it was led and informed by board chairmen who simultaneously were CEOs?

This question hasn't just been proposed for struggling companies like GE.

Even before Facebook faced a privacy backlash, some shareholders called for Mark Zuckerberg to take off one of his leadership hats. Zuckerberg is both CEO and chairman of the social media giant's board of directors, but some see that dual role as hampering board independence.

One proxy proposal to split the roles, presented at Facebook's 2017 annual meeting, came from SumOfUs, a corporate accountability investor group.

"There is a clear conflict of interest when a corporation's board of directors, which is responsible for overseeing the CEO and representing shareholders, is chaired by that same CEO," explained Lisa Lindsley, capital markets adviser for SumOfUs.

“An independent board chair is a necessary first step to put Facebook’s board on the path to effective representation of the interests of all shareholders.”

The Facebook measure failed to get a majority vote, but that may be bucking a trend.

Indeed, the splitting of the two top leadership positions is something that’s been on the rise for the past decade. More than 50% of the largest companies in the United States now separate the jobs, making it the first time the majority of Fortune 500 companies have done so, according to a study by Wills Towers Watson.

The separation is even more necessary for GE if it’s going to up its governance game.

As is often the case, the GE board looks great on paper. It has “curb appeal” that gets gold stars. Great processes can help a board meet its overarching task of assuring the best possible results for shareholders.

Many of the structures and processes of the GE board are reflective of its legendary role as a corporate leader. In recent years these positive board processes are many and include:

- Recruiting directors that are world renowned business leaders
- Refreshing the board, recruiting four new directors as three retired
- Adopting director term limits of 15 years
- Implementing proxy access
- Conducting executive sessions without the CEO
- Overseeing significant portfolio shifts among its business units
- Redesigned cash & equity incentive compensation programs
- Eliminating dividend equivalents on unvested RSUs
- Conducting strategic dives with executives of varying seniority
- Meeting 13 times a year
- Inviting major shareholders to meet with outside directors
- Holding annual director elections with majority voting standard

One might think that these great processes helped assure company success – or at least make corporate failure less likely.

The reality that followed the GE chairman/CEO succession brought to light the following enormous and unwelcome shocks in a matter of months.

- A stock decline of 50% in a market that rose 20%.
- A dividend reduction of 50%, only the second dividend reduction since the Great Depression.
- Discovery that GE may have to pay $15 billion to cover long-term care insurance liabilities it retained after spinning off its Genworth Financial unit more than a decade earlier. This followed a $6 billion charge related to its insurance operations.
- An underfunded pension estimated at $30 billion.
- GE consideration of a 'dismemberment,' with one recently published 'sum of the parts' analysis suggesting that the break-up of GE would be worth only $11-$15 a share.
- An announced SEC investigation into the company's accounting practices.

So, as one GE chairman/CEO followed another after the June 11, 2017 succession announcement, approximately $100 billion of shareholder wealth has evaporated in a matter of months.

For years, governance advocates have called for the separation of the chair and CEO roles. This impaired effective board oversight.

This basic step can help a board maintain its independence in evaluating company strategic direction and CEO performance, the two preeminent responsibilities of the board.

This step is deeply needed, though neither new nor radical. The roles are fundamentally different. A genuine division of the responsibilities – with the CEO responsible for the operation of the company and the chair responsible for the operations of the board – is considered a positive indicator by impartial business leadership and investor groups.

An independent chair has varied, important and challenging responsibilities that are time consuming. Time spent managing the board is time away from operating the company.

The chair leads the board in setting the agenda, committee chair assignments, board, director and CEO evaluation, and overseeing the quantity, quality and timing of the information provided to the board. Recent evaluations of GE's financial information label them as "fantastically muddled".

An independent chair facilitates the relationships of the company's executives to its board members. Most people know the chair and CEO jobs are different.

When we recommend a separate person for the position of chair we mean a genuine outsider put in the position by the board, not someone appointed by the CEO.

Finally, we note that GE continues its practice of having a lead director who is not chair.

For this separation of roles to take place at GE and other companies' large shareholders (pensions, mutual funds), activists and other business and governance leaders will need to step forward and be heard. Where applicable, directors need to bring this matter to their board for open, candid and perhaps difficult conversation. It is not complicated, but it may be difficult.

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