Splitting chairs: Should CEOs give up the chairman's role?

It takes two, says Jack Creighton, a veteran of many top executive jobs.

Among the more contentious issues surrounding the reform of corporate governance, particularly in the United States, is whether to split the roles of chairman and chief executive officer. To hear the critics tell it, separating them limits the CEO’s power. Jack Creighton—who has served as a corporate president, as president and CEO, as chairman, as vice chairman, and as combined CEO and chairman of various companies—sees things differently. In his experience, maintaining two separate roles frees the CEO from the duties of chairman while providing a valuable adviser who can offer insights the CEO might not have. Combining the roles may be good for the ego, he argues, but doesn’t necessarily make the person who holds them more effective.

Creighton’s opinions have been forged by his experience in the top ranks of executive leadership, first at Weyerhaeuser, where he served as president and chief executive, and later at Unocal, where he was chairman. In the wake of the September 11 terrorist attacks, he resigned from that position to become interim CEO and chairman of UAL’s United Airlines, where, he says, “I would have loved to have somebody else be the chairman.” Creighton never left Unocal’s board and began serving as its vice chairman upon his departure from UAL. He sees himself as the chief executive’s supportive adviser, representing the company in its dealings with external...
organizations, helping to shape the board’s agenda, and alerting the CEO to hazards that might not otherwise be on his radar screen.

In the following interview with Robert Felton, a director in McKinsey’s Pacific Northwest office, Creighton shares his unique and candid perspective on corporate-governance reform (it’s working), CEO pay (it’s too high), and, above all, the benefits of separating the roles of CEO and chairman. While Creighton acknowledges that there is no easy way to split them (see “How to separate the roles of chairman and CEO,” in the current issue), he remains convinced that this is the correct approach to corporate governance.

The Quarterly: How would you compare the costs and benefits of the past few years of corporate-governance reform?

Jack Creighton: Well, you hear many people griping, and it is going to cost a lot of money. When the government does anything with regulations, there is a lot of inefficiency. But I think that reform is going to have a very positive impact.

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**John W. (‘Jack’) Creighton Jr.**

**Vital statistics**
- Born September 1, 1932, in Pittsburgh, Pennsylvania
- Married with 4 children

**Education**
- Graduated in 1954 with BS from Ohio State University
- Received JD from Ohio State University in 1957 and MBA from University of Miami (Florida) in 1968

**Career highlights**
- Weyerhaeuser (1970–97)
  - President of real-estate subsidiary (1970–87)
  - President (1988–91)
  - President and CEO (1991–97)
- UAL
  - Director (1988–2002)
  - Interim chairman and CEO of United Airlines (2001–02)
- Unocal (1995–present)
  - Chairman (2000–01)
  - Director (1995–present)
  - Vice chairman (2003–present)
- Madrona Venture
  - Strategic director (1998–present)
- Saltchuck Resources
  - Director (1999–present)

**Fast facts**
- Serves on board of directors of Intrepid Learning Solutions, the National Council of the Boy Scouts of America (past president), and Oregon Shakespeare Festival
- Cochair of World Trade Center in Seattle
- Trustee of Ohio State University Research Foundation, Washington Education Foundation, and Washington State University Research Foundation
- US Army veteran

**Straight shooter**
Take the Sarbanes-Oxley Act’s Section 404, which forces companies to have adequate documentation of their internal-control structure and procedures for financial reporting. The cost can be horrendous, even in a well-run company that has good processes and procedures but may not have many of them written down. I think documentation is important all the same because it raises people’s level of attention. If something is documented, it’s more likely to happen.

As a result of requirements like Section 404, you’re seeing things tighten up. At Unocal, the audit committee has a conference call at the time of each quarterly filing with the Securities and Exchange Commission. As chairman of Unocal’s corporate-responsibility committee, I’ve started reviewing a log of all the letters coming in to the directors. That’s positive; it will provide me with a little better insight on the company and reduce the possibility that alert signals might drop through the cracks. We’ve probably paid enough attention to wrongdoing and whistle-blowing to make employees and others more willing to come forward in the future. I also feel that the potential for stiff sentences will help keep everyone attentive.

Still, if you have people who want to pull the wool over your eyes, they can. I went through a quarterly filing with the Securities and Exchange Commission this morning. It’s over 100 pages long. There’s no way a director can know everything that’s in there. So when you get right down to it, the backbone for directors has to be the trust they have in management. A CEO signing the annual report also is relying on a lot of other people. If you’re a CEO, the two people you need to have absolute trust in are your chief accounting officer and your chief legal officer.

_The Quarterly: If you were appointed “governance czar,” what else would you do?_

_Jack Creighton:_ I’d require companies to have two different individuals playing the CEO and board chair roles. To put it simply, this is a question of internal control. You don’t have the same person writing the checks and processing accounts payable. We have checks and balances in the accounting department; why don’t we have them at the executive level?

Business is also becoming more complicated and, as a result of Sarbanes-Oxley, more regulated. There is enough “CEO work” for a CEO to give up
the chairman’s role. Or to put it differently, I think those two roles, in a company of significant size, require more time than one person can supply.

The Quarterly: In your experience, what are some benefits of splitting the roles?

Jack Creighton: By separating those two responsibilities, you create a release valve for a lot of different constituencies—for the directors, who today are more independent than they have been in the past, for employees, for large shareholders, even for customers—to voice their displeasure or concerns. It can be less intimidating to approach the chairman rather than the CEO.

I also believe that a nonexecutive chair has a wonderful opportunity to add credibility to positions the company has taken on issues like governance. Here’s an individual who’s not deep in the company, who isn’t part of management, but who has a great deal of knowledge and is prepared to speak to creditors, directors and officers insurers, credit-rating agencies, or NGOs about the governance or ethics of the company.

For the board chairman to play this role, the CEO needs to share some of the duties that he or she normally would perform. For example, at Unocal I became aware that certain NGO shareholders were unhappy with the company’s presence in Myanmar. So I said to the CEO, “You’ve got a lot to do. Do you want me to interface with these NGOs?” And then I thought, “If I’m going to be a spokesman for the company, I want to be on the ground and see what happened.” As a result, I went to Myanmar.

In my experience, the NGOs take great solace from somebody on the board knowing about their concerns. It makes a difference if you can say, “We’ve talked about those issues at the board meeting, and here is our take on them.” The NGOs are less critical if they know the board is aware of what’s going on, is monitoring management on these subjects, and isn’t putting up a wall of isolation.

The Quarterly: One reason companies haven’t split the roles, particularly in the United States, is that CEOs have resisted. Do you see any benefits for the CEO in giving up the chairmanship?

Jack Creighton: Yes. For starters, a separate chairperson can be a big help in running board meetings, because he or she can function above the fray.

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2 Nongovernmental organizations.
3 Formerly Burma.
The CEO is the individual who’s presenting items for approval—who’s driving things. Even if you have an executive vice president presenting, everyone knows that an item wouldn’t be on the agenda unless the CEO already supported it. And I believe it’s difficult for the driver to chair the meeting effectively. The chairman should be trying to bring board members in and, maybe, to turn off some of the more verbose people a bit. A chairman, better than a CEO, can say things like, “We’ve got a director over here who hasn’t said much; what’s your opinion?” or “I think you’re out of line.” If a CEO does this, it smacks of control.

Chairing a meeting is an art. And it’s hard for a CEO to practice that art, because of his or her position—particularly if you’ve got a really give-and-take board. At United, I was CEO and chairman. I would have loved to have somebody else be the chairman. We had a very diverse board, including two union directors, and I found it difficult to run the meeting effectively while we addressed some very, very controversial issues. If a board member pushes back, it’s tough for someone serving as CEO and chairman to respond in kind. When someone in the dual position plays too much of an advocate role, it can create tension. The nonexecutive chair, on the other hand, can develop a sense of openness, of frankness, that makes a board meeting much richer: “Let’s get the moose up on the table, as opposed to having it lurking underneath, undiscovered.”

An independent chair can be particularly valuable for a new CEO. I’ve seen situations where a death, an unexpected retirement, or a CEO termination led to the internal promotion of somebody who hadn’t sat in on many board meetings and lacked experience in how to manage a board.

The Quarterly: Why didn’t you separate the roles at United?

Jack Creighton: The corporate structure established by United’s employee stock ownership plan made it virtually impossible to split the roles. Nonemployee shareholders elected five board members, two of whom had to be officers. Unions elected two, and nonaffiliated employees elected one. Then there were four “independent” directors whose election the two union directors also influenced. All directors were elected annually. It is an understatement to say that this was a very complex governance structure, and the two roles could not be split practically or, to a great extent, legally.

The Quarterly: How else might a CEO benefit from having an independent chairman?

Jack Creighton: Maybe because I’m older now I think a chairman’s age and experience can contribute to the performance of a CEO. I really believe
that some CEOs we’ve seen get the ax would not have been let go if there had been an independent chair to counsel that CEO, to pass on the board’s negative thoughts and discussions in a nonaggressive, noncombative way. The chairperson could say, “You know, the board is concerned. I’m starting to see some groundswell here, and you need to take action.”

If you’ve got a CEO who is also chairman, there is no focal point for the independent directors. With a group of equals, sometimes no director is willing to say, “I think this CEO or this idea is out of line.” The directors wait until things get so bad that firing the CEO is the only way to rectify the problems. A lead director, a vice chairman, or a nonexecutive chairman can diffuse that situation by serving as a communications link between the board and the CEO.

**The Quarterly:** Why do CEOs so strongly resist separating the roles?

**Jack Creighton:** One issue is fear. The CEO reports to each member of the board, but when you have a chairman, you’re reporting to one person in addition to the board. And I believe there is a fear of that person messing around with the CEO’s authority and leadership.

Ego also plays a role. I read proxy statements describing the lead director’s role, and it sounds a lot like an independent chair’s role. I conclude that the CEO’s ego won’t allow him or her to give up the title of chair to somebody else. When CEOs are down at Williamsburg, at the Business Roundtable, the person sitting next to them might be a combined chairman, CEO, and president. They don’t want to be just a CEO—a second-class citizen.

**The Quarterly:** How would you respond to some of the arguments that defenders of the combined role make? They say, for example, that separating the roles robs the CEO of the authority he or she needs to do the job right, makes it very confusing to know who’s got what responsibility, and impedes quick decision making.

**Jack Creighton:** I don’t think separating the roles robs the CEO of any power. In fact, a nonexecutive chairman really can add to the CEO’s power in a very constructive way. Furthermore, any decision of great significance is going to be shared with the board. And operating decisions aren’t in the purview of the chairman, anyway. So I’m not sure what decisions people are talking about when they worry about undermining quick decision making.
Now, you do have to spell out the responsibilities of the nonexecutive chair. The CEO and the chair need to sit down and reach an agreement on this. The agreement won’t be all encompassing; rather, it will provide a framework of duties. The chair and the CEO should communicate that framework to the board and senior management. At Unocal, the CEO and I meet monthly and discuss who should take on any upcoming issues or responsibilities that fall in the gray areas of our respective roles.

Chuck Williamson, our CEO at Unocal, has some things he thinks are important for the company to participate in but are not absolutely critical for him to do. The World Business Council for Sustainable Development is an example. It’s an international organization whose members include BP, Royal Dutch/Shell, Procter & Gamble, and a large number of other companies from around the world. I represent Unocal at those meetings. I represented Weyerhaeuser when I was CEO there, so Chuck said, “Why don’t you be Unocal’s representative?”

**The Quarterly:** What other duties should the nonexecutive chair perform?

**Jack Creighton:** The nonexecutive chairman should review and approve a board meeting’s agenda. The CEO has primary responsibility for developing the agenda, but the chair needs an opportunity to provide input on matters large and small. Last year, after going through the agenda for Unocal’s annual meeting, I asked, “We’re planning to have the annual meeting at the Ritz-Carlton, at Marina del Rey. Is that the kind of image we want to give to our shareholders?” And Chuck said, “I never thought of that.” So we moved it to a hotel at the Los Angeles airport.

Another part of the chairman’s role is just walking around. I am down in El Segundo, probably, three days a month. I’ve had an employee come to me on a confidential basis for counsel on a situation involving alleged sexual discrimination, for example. I felt good that this individual had that much trust in me, but my advice was to discuss the problem with a senior officer.

One thing you don’t want is to have management begin thinking that the chairman is running the company. Officers and employees need to understand clearly that the nonexecutive chair functions primarily as a resource for the CEO, the board, and the company.

**The Quarterly:** What are the characteristics of an effective nonexecutive chairperson?

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*Unocal’s corporate headquarters.*
Jack Creighton: The ideal chairman is an independent director who is not—absolutely not—the previous CEO. It needs to be somebody who’s had a broad exposure to relatively large organizations and exposure to business. A previous CEO from another company can make an excellent nonexecutive chairman. An attorney or a government official also could be effective. I don’t think the chairman needs to be someone who’s intimately familiar with the company’s industry, but it’s got to be somebody with excellent communication skills and an outstanding reputation.

The chairman can’t overwhelm the CEO. I don’t think Jack Welch would be a good nonexecutive chairman. He probably wouldn’t want to be. The chairman stands off to the side, gives the CEO counsel, and works with the board to provide support. You need trust and transparency between the CEO and the chairman. The last thing you want is for the CEO to think the chairman is after his or her job.

Also, the chairman shouldn’t have another full-time job. Maybe the chairmanship involves three or four days a month; maybe it’s a week a month. The chair must have the time for this. One area where I’d probably be critical of the makeup of boards is that most contain a preponderance of members who have full-time jobs and can’t devote as much time as they should to their board duties. I’m a much better board member since I left Weyerhaeuser than when I was there, because in those days I’d fly in, eat dinner, attend the board meeting, and fly out. In this day and age, that’s inadequate.

The Quarterly: Companies seem to have a number of options: nonexecutive chairman, vice chair, lead director. Which of these is most advisable?

Jack Creighton: Well, having a lead director or a vice chairman is certainly better than not having one. But I think corporate America should move to a nonexecutive-chair format. Maybe a rose is a rose is a rose, but I believe having a lead director is just playing with titles. I feel having the title of chairman puts a greater feeling of responsibility on the shoulders of the person in that role. After I finished my term at United, the Unocal board asked me to be vice chair. Since I was previously the board’s chair, what’s foremost in my mind today are the chairman’s responsibilities.

The Quarterly: What advice would you give directors of companies that want to shift to a nonexecutive chair?
**Jack Creighton:** The board needs to make it known that in choosing the next CEO, they plan to split the roles. The word should go out through the internal jungle telegraph or in the job specs if the company is hiring from outside. It seems to me that the criteria for being a CEO should include being able to work with a nonexecutive chairman. We need to develop CEO candidates who are willing to share responsibilities and have less inflated egos.

Companies also should think about the need for a nonexecutive chair when they are recruiting board members. Typically, you want diversity, you want somebody with good financial skills, and so on. Maybe you ought to recruit somebody who could be the next or the first nonexecutive chair. That person would have a lot of other things to contribute to the board even if he or she wasn’t selected as chair. Get a CEO from another company who is going to retire in two or three years, get him or her familiar with the business, and let that person take over as the next or first nonexecutive chair. Having a nonexecutive chair doesn’t denote a lack of confidence in a CEO; it’s just a sound business practice.

**The Quarterly:** Any final thoughts?

**Jack Creighton:** I’ve often wondered whether having a nonexecutive chairman would rein in CEO compensation. The average increases in CEO compensation over the past few years are way out of line with the consumer price index and increases for most of the country’s workforce. I personally think most CEOs are overpaid. Compensation goes up when things are good and it continues to go up when things are bad. Nobody has a CEO who’s average; everybody has a CEO who is above average and therefore belongs in the top compensation quartile. I’ve heard people on boards say, “We can’t have a CEO who’s not in the first quartile.” Maybe a nonexecutive chairperson could change the board’s attitude. Maybe that’s another reason CEOs resist the idea of a nonexecutive chair.

**The Quarterly:** What do you think it would really take to rein in CEO compensation?

**Jack Creighton:** I think it will take government intervention. I don’t like it, but realistically I don’t see any other way. There’s a sense of entitlement out there that is just too strong in the minds of most CEOs and their boards.

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*Bob Felton* is a director in McKinsey’s Pacific Northwest office.  
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