In Defense of Older Directors

Contrary to popular belief, long-serving directors can be more outspoken

by Barbara Hackman Franklin

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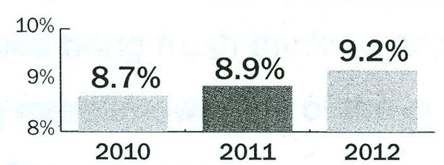
There is much discussion about the tenure of directors — whether longer service diminishes independence or inhibits the board's ability to refresh itself. These questions are valid, but rigid one-size-fits-all answers are not. Based on my more than 30 years of experience serving on company boards, the best boards are a mix of "continuity," or longer-serving, directors and "newbie" directors. Newbies bring fresh thinking and more diversity, while continuity directors bring more knowledge of the company's businesses as well as history.

One popular misconception about continuity directors is that they are less independent than new directors; however, I have found that continuity directors are more, not less, independent because of their longer experience. Often, when a difficult decision must be made in the boardroom, it is the continuity directors who lead the charge.

When there is the need to remove an underperforming CEO, it is not the newbies who see the problem first, talk about it and seek a consensus for action. Continuity directors have more freedom to speak up, take a strong stand and work to persuade others to take action. Because they have been around longer, they spot trouble more quickly and have credibility with the other board members whom they must persuade.

One of the difficulties of making this assertion is that it is nearly impossible for those who are not in the boardroom to understand what is really going on, what the relationship dynamics are, and who is doing and saying what. It's all done in confidence, and case studies are hard to come by.

Turnover Among the S&P 1500:



Source: Equilar

However, here is a "case study" that I lived through 15 years ago. The company was underperforming and the CEO seemed unable to do anything about it. One Friday afternoon, following a rather contentious phone conversation between the CEO and the board, I believe there was an unspoken consensus that something had to change. A couple of continuity directors stepped forward and called all the other directors with the message that the CEO must go. They suggested that another board member be made interim CEO while the board searched for a new one. At the regular board meeting two weeks later that is precisely what happened. This action was timely and set a new course for the company. Today this company is performing handsomely, in part because of the leadership of the continuity directors.

Had there been a term limit of nine years, such as is in vogue in the U.K., those continuity directors might not have been there at the time when their wisdom and leadership were most needed. A term limit — whether a mandate or a policy statement — is arbitrary, and that is the problem.

At the same time, I do recognize that there are times when directors have stayed too long, such as when they are no longer current, when they no longer have the experience and skill sets that the company's strategic direction needs. But the answer lies in the board's governance practices rather than in arbitrary term limits. If a board is in a position where they feel a director is underperforming, here are three actions that the nominating and governance committee should take:

- Analyze the experience and skill sets of the board to ensure alignment with the company's strategic direction. Then fill open seats with those who can fill the gaps. This will also enhance diversity.
- Do a real — not perfunctory — performance review prior to affirming that each director will stand for reelection. This is when the underperforming director, whether long-serving or not, should be identified and remedied.
- Adopt a policy to rotate committee chairs, members and lead directors to bring fresh thinking to those roles.

Finally, a board retirement age also can be a useful mechanism for the board to refresh itself. But each board should make these governance decisions for itself. Arbitrary rules and cookie-cutter approaches do not guarantee more effective governance. ■