



How to embrace board turnover and do it the right way

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“Board refreshment” is a genteel term for the rough business of replacing corporate directors when they’re no longer the right fit for a company. Perhaps boards use the euphemism because they’re still reluctant to oust directors when it’s necessary. As a result, the rate of change on board is famously slow.

That longstanding problem is front and center following the recent release of PwC’s latest annual survey of corporate directors, which reports that the turnover rate among board members at S&P 500 companies was 7% this year. That’s in stark contrast to another statistic from the same report—around 45% of directors believe that someone on their board should be replaced.

Oscar Munoz, the former CEO and chair of United Airlines, and a board member at Salesforce, Archer, and other companies, also touched on the issue during a keynote discussion at the annual summit for the National Association of Corporate Directors (NACD) in Washington D.C. last week. Munoz said he believes asking a director to step down should be seen as normal and healthy, nothing overly personal. “Do we really want to talk about removing board members?” he asked. “Hell yeah, of course we do. We all face it.”

There are a few mechanisms that are meant to make board turnover easier to navigate before tricky conversations are required—at least in theory. For example, the majority of boards have a mandatory retirement age policy. However, many adjust the age limit or waive the rule when it suits them, rendering it meaningless, says Peter Gleason, CEO of the NACD. To help with board refreshment, he suggests that public companies consider adopting a 10-year term limit for directors, which has become the norm for non-profit boards. But still, that isn’t ideal.

“Both mandatory age limits and term limits are backstops,” said Gleason. “Meaningful board evaluations are truly the best approach.”

Gleason believes boards should primarily use their annual evaluations, in which directors grade their performance as a group and as individuals, to drive conversations about changes to the team. Is it time for some board members to bid the group adieu?

Joseph Griesedieck, vice chairman and managing director of board & chief executive officer services at consulting firm Korn Ferry, adds that to make board assessments effective, the onus falls to board leaders to act on the results. When it's necessary, they need to be able to say to a board member: "Next year, we're probably not going to nominate you for these reasons." And, he says, they should be "objective reasons that the individual can understand."

Griesedieck adds that board leaders ought to normalize offboarding by setting expectations with new board members, and warning them that evaluations are taken seriously. "That doesn't happen very much," he says. But he expects that will change in the future, as companies face pressure from institutional investors and hedge funds to ensure that board members have the right mix of skills.

Before they're asked to leave, though, directors can also be self-aware enough to know when to quit. The NACD's new board culture report lists questions that directors can ask themselves to reflect on whether it's time to resign. Sample questions include: "Am I as engaged as I should be in the boardroom?" and "If an activist shareholder demanded changes among the board's members, would they target me?"

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