Is Your Board Beyond Its Expiration Date?

By Kate Iannelli

A quick Internet search of boardroom composition turns up a commonly used and rather unkind phrase: corporate boards are “male, pale and stale.” In recent years, numerous groups have formed to combat the first two attributes, but much less has been done to attack the “stale” perception.

Admittedly, it is easier to rally around the other two observations. Numerous roundtables and advisory councils devoted to board composition and convened by NACD show scads of directors that not only break the “male and pale” stereotype, but that also possess the necessary skills to be expert directors.

Combating stale directorships is not so easy. An effective director generally is experienced and possesses deep business acumen. According to NACD’s annual governance surveys, knowledge of the board’s industry is consistently the most desired quality in director candidates. These traits generally come with time. This illustrates the balancing act the most effective boards perform: finding directors that not only possess the necessary experience but also the ability to stay fresh and current.

Recent corporate crises have placed a spotlight on the rapidly changing pace of technology and media, and the vulnerable position businesses are in. As a result, some governance experts have advocated adding younger directors to boards to provide a newer thought perspective. However, focusing on younger individuals who still have the necessary characteristics substantially narrows the available pool of director candidates.

Staleness applies to more than just age. Tenure is of equal importance, again bringing the critical balance boards maintain into play. A director needs sufficient time to learn the individual company. However, if a director has served a board for a considerable amount of time, he or she is in danger of becoming staid without obtaining necessary education. In the United Kingdom, a non-executive director is declared no longer independent after he or she has served the same board for nine years.

NACD’s Research Department recently conducted an informal analysis of the “staleness” of current boards. Taking a random sampling of nearly 300 companies on the S&P 500, we collected data from the 2011 proxy statements on more than 2,700 individual directors—both executive and non-executive—on their board service.

Not surprisingly, boardroom tenure does not follow a normal distribution. With a range of over 60 years, the data set is undoubtedly skewed to the right. On average, directors in our data set have served their current board for 8.4 years. However, most frequently directors have been on their current board for 4 years. With a third of the survey population at tenures of 4 years or less and the median at 7 years, the data is heavily skewed by a small population of directors that have served their current boards for well past the average. To illustrate, at the far edge of the scale, one company boasts a director who has served for 62 years. Another director has served for 59 years.

As can be expected, these distribution-busters are executive directors, generally the company founders. Removing these outliers shows that 98 percent of the survey pool has tenures of 30 years or less, and lowers the current average tenure to 8 years. Further analyzing the survey pool, 93 percent has tenures of 20 years or less, with an average tenure of just over 7 years. The current average tenure drops to 6.3 years for 86 percent of the survey pool, which has tenures of 15 years or less.

Closer examination of the directors with longer tenures reveals another metric not often examined: starting age. Again, predictably, those directors with the longest tenures started their directorships at a very young age. The aforementioned director serving 62 years began his directorship at the age of 26. Even younger, Michael Dell—who has served as a director for Dell Inc. for 27 years—started at 19.

Digging deeper into the starting ages of directors, it becomes evident that the executive directors and company founders have generally brought the “fresh” perspective to their boards. On average, today’s director began serving his or her board at the age of 53. The “outliers”—those with tenures of more than 30 years—started their directorships at the average age of 35. Interestingly, companies have recently brought on older directors; directors who joined their current boards since 2008 were, on average, 58 years old.

Age and tenure do not necessarily indicate stale perspectives in the boardroom. However, as these metrics become more advanced, it is increasingly critical for a board to evaluate how each director adds value and perspective to boardroom proceedings.