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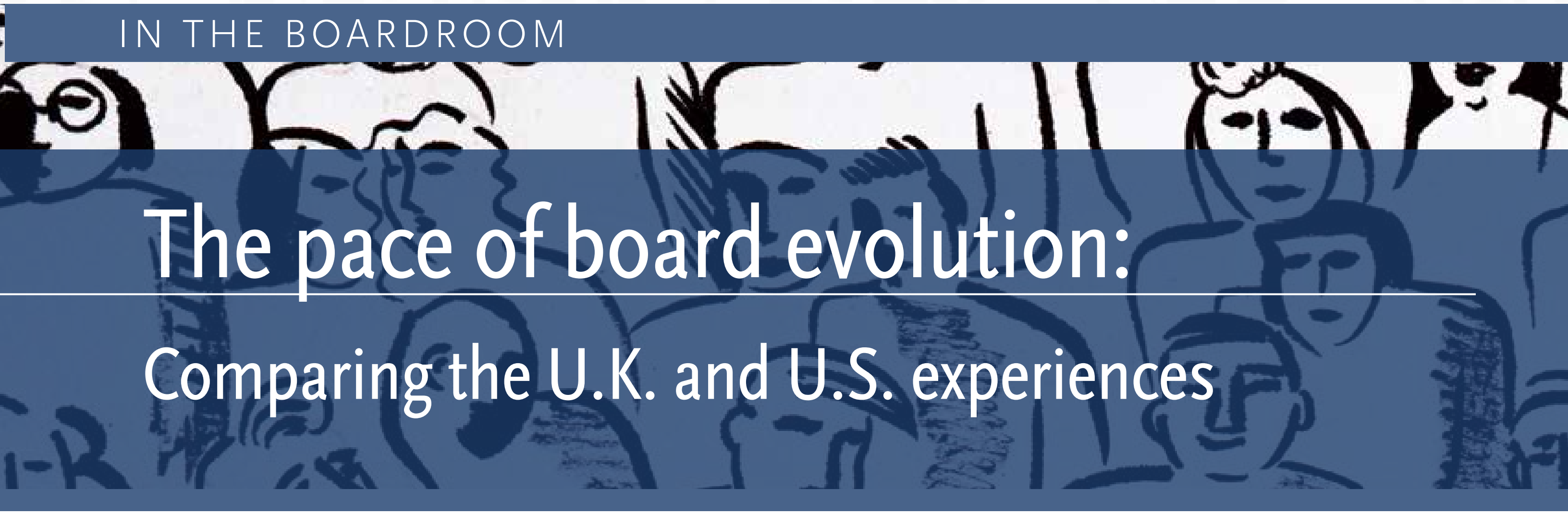
IN THE BOARDROOM



The pace of board evolution:

Comparing the U.K. and U.S. experiences

On the surface, there are many similarities in how boards operating within the Anglo-Saxon corporate governance model go about their business. Broadly speaking, they share a unitary structure that is geared towards a shareholder-centric approach, and the board's role is to advise and monitor the activities of management and find the most appropriate way to reward it. There are, however, some striking differences between U.S. and U.K. boards in terms of how easily they are able to adapt themselves to reflect changing market conditions. These differences are part cultural, part behavioral, and provide interesting points of comparison for boards in other parts of the world, too.

U.K. boards tend to be highly conscious of director succession issues because of tenure limits imposed by the U.K. Combined Code. Most chairmen think in terms of three-year cycles for directors. Although all directors are elected each year at the AGM, after nine years on the board a director ceases to be classified as independent and forfeits the right to chair a committee. In most cases, directors leave the board at this point. However, it is quite common for directors to serve only two three-year terms, and there is no stigma attached to this. Indeed, it is not uncommon for directors to come off boards after serving for less than six years, although serving less than three years can raise questions.

The reason for this is that U.K. executives tend to retire from professional life earlier in order to pursue a non-executive career, treating this phase of their working lives with the same type of discipline and ambition as they did their executive careers. They will seek to manage their portfolio to gain exposure to different boards and, as a result of broadening their experience, they may eventually position themselves to become a senior independent director or board chairman. This career-minded attitude, coupled with tenure limits, creates a high degree of mobility among the non-executive population in the U.K. The resulting level of board turnover forces board chairmen to actively manage director succession and provides regular opportunities to bring fresh talent, strategically relevant skills and diverse perspectives into the boardroom.

The U.K. chairman is almost always non-executive and usually chairs the nomination committee. He or she develops a good feel for the business and whether the board understands and is keeping up with what's going on. At least two executives (the CEO and CFO) sit on the board, and there is plenty of engagement between board directors and the senior management team who are given the opportunity to present to the board. Board directors are encouraged to see the business from the front lines and gain considerable exposure to the organization during the course of the year.

On U.S. boards, the absence of tenure limits, coupled with the trend towards later retirement ages, results in less turnover and longer average director tenure. As U.S. boards think more systematically about director succession, they do so in the context of historical U.S. board norms, reflecting a different mindset from their U.K. counterparts.

Retiring U.S. CEOs or CFOs often wait to be approached about serving on a board. They are not likely to actively manage the "directorship" phase of their careers in the same manner as a U.K. executive. Once appointed to a board, U.S. directors typically serve until reaching the mandatory retirement age. They are less likely to consider voluntarily rotating off a board unless unique circumstances compel it. Further, for some U.S. executives, the notion of becoming a "professional director" — commonplace in the U.K. — is regarded with a measure of skepticism.

When U.S. directors were asked in a recent survey why they think underperforming directors are not removed from the board sooner, the number one reason given was: "Board leadership is uncomfortable addressing the issue." Why is this?

One reason may be that the nomination and governance committee chair, often the lead independent director in the U.S., has a sensitive job to perform in a context distinct from that of a U.K. chairman. We observe a tendency for U.S. nomination and governance committee chairs to view themselves as a peer to the other directors, asked to serve as *primus inter pares* for a period of time. They do not tend to view the role hierarchically. This egalitarian perspective combined with a tendency towards collegiality may lead to a diplomatic approach to issues that can take longer to play out.

Further, many retired executives in the U.S. view board service as a way to "give back," to make an important contribution to a larger system of corporate governance that provides broad social and economic value. They view their professional experience and years of accumulated business judgment as a resource that benefits the companies they serve. The director's knowledge and diligent oversight helps safeguard the interests of the company's long-term shareholders, as well as its employees, customers and suppliers. In the context of these aspirations, it is understandable that executives who accepted a directorship(s) would seek long-term involvement with their boards.

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