Trends in Board Structure and Membership

By Dennis C. Carey

Our firm conducts over 100 director searches annually, from start-up to Fortune 10 companies. This number is up considerably from just a few years ago when it was less common to recruit directors with the help of a retained search firm. Due to business volume, we established a dedicated specialty practice to Board Services in 1993. This group is comprised of consultants across the U.S. who specialize in CEO and director recruitment and board counseling.

Several initiatives have been undertaken by this practice, including the development of a strategic partnership with *Directors & Boards* magazine. This has led to the creation of the SpencerStuart/*Directors & Boards* roster of directors, which is a compilation of newly appointed directors of significant U.S. public companies and or significant executives who have agreed to serve on lesser-known companies.

This initiative will produce annual statistics on who joins boards — by company, industry, function, and by other measures which will yield informative trends in governance.

This Directors Yearbook is the inaugural edition in which this data will be published.

The data show 806 companies adding new directors last year. The total number of new directors identified is 1,083. Of those, 36 were elected to a second board, so the total number of new directorships that have been tracked for 1994 is 1,119.

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A close reading of the Yearbook will yield many interesting facts about the new directors and their backgrounds, what companies and industries were active in recruiting new directors, and other specific details that provide a unique profile of last year's boardroom activity. For example, with the growing emphasis on women directors, which is discussed below, the Yearbook shows 140 women who were elected to a total of 147 board positions last year.

These data now compliment our firm's annual documentation on board structures and practices at 100 selected multi-billion-dollar U.S. corporations. These 100 companies are recognized leaders in their respective industries and trendsetters in corporate governance, and make up the SpencerStuart Board Index (SSBI).

This annual report has revealed rather substantial shifts in board size, structure, compensation, outside director participation, etc., over the past decade. However, these trends are now moving at a more glacial pace. Here are several of the trends that we have witnessed over the past 10 years, and report on in the SSBI survey for 1994.

Board Downsizing. Our 1994 report recorded a net reduction of 41 directorships. The average size of an SSBI board today is 13. Five years ago, the average size was 14; ten years ago, 15. We anticipate that further reductions over the next three to four years will bring the average size down to 12. Today, 41 of the 100 SSBI boards already have 12 or fewer directors.

Fewer Inside Directorships. There has been a net reduction of 140 inside directorships at the 100 SSBI boards during the last five years. The average number of inside directors on these boards is three. But already 44 boards have reduced inside representation to one or two. Today, 17 of the SSBI boards have only one inside director — the company's CEO. That was the case of just five boards five years ago, and 14 boards last year.

Outside Director Predominance. The ratio of outsiders to insiders is four to one at over half of the SSBI boards. In the previous year, the median ratio was three to one. Five years ago, the ratio at over half the boards was only two to one. Currently, at a third of the SSBI boards, the ratio is five to one or higher.

Fewer Board Meetings. The SSBI boards met anywhere from four to 18 times. Over half held nine or fewer meetings. Five years ago, over half met 10 or more times. Ten years ago, the median number of meetings was 11. We anticipate the average number of meetings for these boards will hold at nine through the '90s.

Significant Committee Involvement. The major growth in number of committees and outside director participation occurred in the late '80s. As a result, outside directors today at SSBI boards on average serve on two or more committees. At two out of five boards, they average three or more committee assignments. Most SSBI outside directors attend at least nine committee meetings a year. Last year, at a fourth of the SSBI boards, some outside directors attended 16 to 25 committee meetings.

Board Meetings

The average was 9 meetings in 1994

Number of Meetings	Number of Boards
4 to 7	26
8 to 10	44
11 to 13	25
14 and up	5

Source: SpencerStuart Board Index 1994 Survey

Committee Involvement

The '90s show a shift toward more committees

Number of Standing Committees	Number of Boards 1989	1994
6 to 8	39	44
4 to 5	43	46
2 to 3	18	10

Source: SpencerStuart Board Index 1994 Survey

Formal Retirement Plans. Our 1994 study showed 79 of the 100 SSBI boards with a retirement plan for outside directors. In 1983, when we began tracking this trend, only 18 of that year's SSBI boards had retirement plans. By 1990, that number had soared to 67. Currently, there is a formal retirement age for outside directors at 84 of the SSBI boards. Most often, the retirement age is 70 or 72.

Stock Plans For Outside Directors. The most dramatic board trend of the '90s is the growing number of companies with stock plans for outside directors. Last year, 51 of the SSBI companies provide stock grants and/or options for outside directors in addition to their annual retainers. That is more than double the number of boards with such plans four years ago. Five years ago, when we began tracking this trend, only 15 of that year's SSBI boards provided stock grants/options for outside directors. Another important related development: paying part of an outside director's annual retainer in stock or providing that option. In 1994, 22 of SSBI boards were doing so. That's double the number of five years ago. We expect to see this practice continue to catch on through the second half of the '90s.

Formal Rules of Governance. At least two of the 100 SSBI boards — General Motors and Texaco — developed statements that formalize corporate governance practice at their respective boards. Both statements go well beyond the traditional definition of the role of boards prior to the '90s. We expect other boards will be preparing similar rules of the road. Already a number of SSBI boards provide some form of indoctrination on corporate governance for their new directors and/or are sending directors to recently established directors institutes or colleges in some of the nation's leading business schools.

Separation of Chairman and CEO. Another topic of current interest in some quarters is the separation of the offices of chairman and CEO. Currently, 10 of the 100 SSBI boards have done this, but chiefly as a transition vehicle for management succession or restructuring. At seven of the boards, the chairman is the previous CEO who has retained the chairmanship role and title to assure continuity — Bristol-Myers Squibb, Dayton Hudson, Dun & Bradstreet, Motorola, Northeast Utilities, Transamerica, and Weyerhaeuser. The other three boards — Compaq, General Motors, and Wal-Mart — currently have non-executive chairmen.

Here are several other key issues now being tracked by our firm. These issues have emerged as important based on our discussions with CEOs and director clients with whom we work.

Women Directors. One of the most gratifying and long-overdue boardroom developments in recent years has been the growing emergence of women directors on U.S. boards. In our follow-up survey of 60 SSBI companies, we found that 56 of these boards currently have a combined total of 86 women directorships. Indicative of the trend to more women directors, a third of these boards have introduced and/or added women directorships in just the last five years. Half of the boards have two or more women directors; Dayton Hudson and Kroger have three. Fifteen of the women directors serve on two or more of the surveyed boards.

Our firm's search consulting experience with boards reinforces this growing emphasis on women directorships. Last year, one out of every four of our director placements was a woman. And our firm's proprietary database of senior-level women executives with director candidate potential includes over 450 women CEOs, COOs, and presidents.

Minority Representation. We also asked the 60 survey companies how many minorities — African American, Hispanic, Asian — serve on their boards. Currently, 49 of these boards have a combined total of 74 minority directorships. That is a 50% increase in minority representation since five years ago. Half of the boards have introduced and/or added minority directorships during those five years.

Eighteen of the 49 have two or more minority directorships. Anheuser-Busch has four, and BankAmerica, Citicorp, Dow Chemical, and Kmart each have three.

The largest minority representation in this survey is among African Americans, who account for 60 of the 74 minority directorships. That is nearly a 50% increase over five years ago. Hispanics have 12 directorships, up from six board positions five years ago. And there are two Asian directorships.

As with the women directors in our survey sample, there is representational overlap. Eleven African American directors serve on two or more of the survey boards.

International Directorships. The globalization of businesses has yet to have had a significant impact on boardroom representation. An international directorship poses an added logistical burden for busy top executives; and there are some who argue that a multinational perspective is really a more appropriate requirement for corporate management than for corporate governance.

In 1994, there were 37 international (non-U.S.) directorships on 30 of the 100 SSBI boards. Of these, five are inside directors and 32 are outside directors — roughly 3.2% of the SSBI outside directorship total. Fourteen nationalities are represented, as follows: Canada and the U.K. (6 directorships each); France, the Netherlands, and Sweden (4 each); Mexico (3); Australia and Germany (2); and one each for Austria, Belgium, Brazil, Italy, Japan, and Venezuela.

To what extent is there a reverse flow of international directorship — i.e., how many U.S. directors are serving on the boards of non-U.S. companies? Our follow-up survey with 60 SSBI boards found that 17 of those boards have 26 U.S. directors who are also currently serving on non-U.S. company boards. Six of these directors have two or more non-U.S. board directorships.

Most of this international U.S. representation is with British and Canadian companies. Half of the 26 U.S. directors, for example, serve on the boards of 10 British companies (four are on the SmithKline Beecham board, and three on the British Petroleum Co. board). Five U.S. directors serve on five different Canadian company boards. The other international U.S. directorships are with companies in Germany (3), France (2), and Spain, Japan, the Netherlands, the Czech Republic, New Zealand, and Saudi Arabia.

Board Self-Evaluation. As large institutional investors and the press have begun turning a critical eye on board practices and performance, particularly at troubled companies, it has become increasingly important for corporate boards and directors themselves to start taking a hard look at how well they are doing their job.

For the most part, however, boards are not formally evaluating their performance on a regular basis. Of the 60 SSBI boards that responded to our query on this issue, only 10 say they currently do self-evaluations.

Eight of the boards report doing annual performance evaluations: three evaluate the overall board's performance; three evaluate the performance of directors individually; and two do both. Another board has its outside directors evaluate the whole board's performance; that evaluation is done every two years. The final respondent is much less specific, noting only that its evaluations are "ongoing" but "informal."

Who does the evaluations? In most instances, it is the nominating committee, or compensation committee, or committee on directors. When the evaluation is of the board's overall performance, the full board is generally involved in a discussion of that review.

One encouraging sign: last year there were 10 positive responses to our query on evaluations. The year before, when we asked 55 boards if they were doing self-evaluation, only five said yes.

Meetings With Institutional Investors. Of the SSBI companies surveyed separately, 47 reported that they have met with large institutional investors apart from regular analysts meetings and regularly make themselves accessible for such meetings.

New Director Indoctrination. We asked 60 SSBI boards if they have a formal indoctrination about the company for new directors. Twenty-five responded yes. One board noted that it provides each new director with a briefing book that includes basic information about the company, by-laws, ethics policy, etc. Thirteen of the boards said they also provide new directors with some form of indoctrination on corporate governance.

Our firm has also been committed to counseling our board clients on "best practices" — as well as "prevailing practices" often emphasized in survey results.

To address this, our firm established a joint venture with the Wharton School and created a fictitious but "very real" company called MegaMicro Inc. Top executives from across the country have committed considerable time on its development and execution. These executives include Ray Gilmartin, new chairman and CEO of Merck & Co.; Irv Shapiro, former chairman and CEO of DuPont; Frank Cahouet, chairman and CEO of Mellon Bank; Chuck Lee, chairman and CEO of GTE; Bob Kidder, new chairman and CEO of Borden; and others.

This is a "living case" which plays out over two days dealing with management succession, committee structures, the role of the board in strategy, relationships with institutional investors, director selection and evaluation, CEO pay and evaluation, the role of the board in evaluating joint ventures, mergers, acquisitions, divestitures, and a series of other "real world" governance issues.

At the conclusion of each of our two meetings per year, a discussion about best practices helps to sharpen the focus on the group. The Wharton/SpencerStuart Director's Institute has emerged as the leading program in the country for directors and CEOs who desire to gain perspective on emerging trends as well as newer issues, including derivatives and investment strategy, especially overseas.

Our firm will continue to provide leadership on CEO and board matters and welcome input furthering our understanding of client-related issues.

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