

Governance Survey Questions Current Thinking on Board Composition

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[The 2011 Corporate Board of Directors Survey](#) from Stanford's Rock Center and Heidrick & Struggles suggests that active CEOs may not make the best board members. We asked Professor David Larcker, corporate governance expert at Stanford, to discuss those and other findings.

Davis Polk: Active CEOs are generally considered prized board candidates due to their leadership experiences. Do your survey results dispute that view?

Prof. Larcker: I don't think our survey disputes it so much as qualifies it. What we see in the survey results is that there are advantages and disadvantages to different types of directors, including active CEOs. When identifying new candidates for the board, the nominating and governance committee needs to balance the leadership and knowledge aspects with concerns about whether an individual really has the time to devote to being an engaged board member. The survey responses suggest that, when all of these factors are taken together, active CEOs might be roughly equivalent to the quality of other board members.

Davis Polk: The survey also focuses on concerns with board turnover. Is board turnover at appropriate levels? What can boards do to better manage turnover?

Prof. Larcker: About half of respondents to the survey think that turnover is too low. It is certainly possible that there is a "sweet spot" regarding board service, or when it is time to bring in new people and new ideas. There is not going to be a uniform answer to this question. It will vary based on the specific company and the individuals involved. That said, if an underperforming director is identified, the lead independent director or the chairman needs to think carefully about how to manage that person off the board. We find that it is very difficult to get rid of an underperforming director who has stayed on the board too long. An operational succession plan for board members would go a long way to matching the composition of the board to the strategic needs of the company.

Davis Polk: What do you think accounts for the findings that nearly 20% of lead independent directors are being chosen by the CEO or Chairman, and only 47% are elected by the independent directors?

Prof. Larcker: The lead director is somewhat of a new position on the board. This person provides balance for a company when the CEO and chairman positions are held by a single person. Since the lead director is the spokesperson for the outside directors, it seems appropriate that these directors select who represents them. We find it odd that the lead director would be appointed by the CEO. However, some input from the CEO is certainly useful when picking the lead director.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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