Youth vs. experience: is a time bomb ticking in your boardroom?

With age comes wisdom. Right?

Whenever age is mentioned, things can get heated, and an objective discussion of youth versus experience can be tricky.

With average director age, board retirement age ceilings, and the number of retired individuals serving on boards all on the rise, however, such discussions – however uncomfortable – must be undertaken.

Why is this happening? And why are some companies going so far as to waive required age limits in their governance guidelines?

- A shortage of qualified candidates
- The desire to retain individuals that are knowledgeable and familiar with company business

The…question that must be addressed is whether the Board will be prepared to make a change if that need should arise not from my death but rather from my decay, particularly if this decay is accompanied by my delusionally thinking that I am reaching new peaks of managerial brilliance.

Warren Buffett

Over time, these factors have led to boardrooms that, though experienced, may be lacking the fresh ideas and differing perspectives that can benefit the shareholders these boards represent. Regardless of where this matter ranks from the board’s perspective, its potential for increased relevance among shareholders is climbing in correlation with rising director ages and shouldn’t be ignored.
Youth vs. experience: is a time bomb ticking in your boardroom?

Decreased use of retirement ceilings

According to the Spencer Stuart Board Index, use of board retirement ceilings in governance guidelines has increased from 58 percent to 73 percent among S&P 500 companies since 2000. As shown below, age limits of 72+ (and even 75+ in nearly a quarter of S&P 500 companies) are increasingly being implemented in governance guidelines.

Companies sometimes provide specific reasons why age ceilings were originally put into place and under what circumstances these limits could be waived. One aerospace and defense company cited in its proxy disclosures the “experience, skill set, and active engagement” as well as the expected difficulty in replacing a particular director who was re-nominated for election despite having reached the age limit of 72. Even with such reasons for these increases, higher age ceilings can jeopardize the equilibrium between youth and experience and will increasingly warrant regular discussion and board action to preserve the appropriate balance.

Industry variations

In technology and e-commerce company boardrooms, youth and experience coexist on boards where the directors, who must be technologically erudite, tend to skew younger. A quarter of technology and e-commerce companies in the S&P 500 have average director ages below 60. In the financial industry, however, where some companies have existed for a century or more, business acumen and financial market knowledge are paramount. This experience is usually found in older individuals with many years of participation in the market. As shown below, 42 percent of financial companies average 65 years old and above among their directors.

Term limits

Some companies have put term limits in place to periodically introduce new blood and combat stagnation in the boardroom. While this is not popular (present in only 3 percent of S&P 500 companies), term limits are set at a decade or more of service, allowing directors to build tenures that are long enough to be meaningful—while also promoting the circulation of fresh perspectives. One movie and entertainment company cited the importance of maintaining a balance between continuity and fresh viewpoints to justify term limits.

Companies opposed to term limits point to their thorough director evaluation and nomination procedures, which determine whether a director’s term should continue or come to an end. Many claim that term limits can result in the removal of directors who have gained increasing insight into the company’s history, operations and objectives. (In fact, the term “increasing insight” is commonly used in disclosures rejecting term limits.)
Youth vs. experience: is a time bomb ticking in your boardroom?

One consumer services company, which originally had a term limit in place, recently put a repeal of the limit up for shareholder vote. The company believed that the limit, though well-intentioned, did not promote board turnover—and explained that an “active and vibrant” board would be best achieved through annual elections and the board’s self-evaluation process.

It’s clear that companies with and without term limits share the common goal of wanting a board that includes experience and astute, dynamic thinkers—directors who can provide new perspectives in the present and preserve board integrity and leadership in the future, after older directors depart.

Achieving the desired boardroom balance

The biggest challenge facing efforts to supply and revitalize boards is the lack of available qualified candidates. Youthful, capable individuals who can provide valuable insight and shareholder representation are not easily found, but companies can address this by making gradual adjustments to governance guidelines and policies.

- **Set age limits and stick to them.** Nearly 75 percent of S&P 500 companies have director age limits. These age limits have been waived at several companies looking to retain directors with experience that’s too valuable to lose. With proper planning, directors should be permitted to stay on the board beyond age limits only in exceptional cases such as financial restatements, management leadership turmoil, or an unexpected spike in board turnover. The integrity of age limits should be maintained and coupled with regular efforts to review director candidate pools and recruit new candidates.

- **Invest more in director education and development.** The recruitment of dynamic but less-experienced candidates may require increased investment in director education and development. This may include a policy of providing reimbursement for directors attending industry seminars and continuing education courses. Companies should also provide educational opportunities for directors to maximize their knowledge about the company board they serve.

- **Set lower outside board limits.** Three-fourths of S&P 500 companies cap the number of other boards on which directors may serve. The vast majority sets limits of three or four additional boards, which allows current directors to focus on fewer commitments and leaves more openings on other boards for less-experienced individuals to gain expertise.

- **De-classify the board.** Board de-classification has more than doubled among S&P 500 companies since 2003. A de-classified board subjects directors to annual elections and maximizes the opportunity for shareholders to decide whether the board would benefit from rejuvenation.

Balance in the boardroom

The most important goal of the board is to represent shareholders. To achieve this, directors must continually strive for a mix of experience, fresh ideas, and sound leadership in the boardroom. Through good governance, a commitment to director development, and investment in a future director pipeline, the only ticking in your boardroom will be done by its clock.

Christopher Ewing and Brian Tobin are consultants in Hay Group’s US executive compensation practice. You can reach Christopher at +1.312.228.1856 or christopher.ewing@haygroup.com. You can reach Brian at +1.312.228.1847 or at brian.tobin@haygroup.com.
Youth vs. experience: is a time bomb ticking in your boardroom?

This article was originally published in the June 2014 issue of The Executive Edition, Hay Group’s resource on executive compensation matters. To read the newsletter in its entirety or for additional information on this topic, please visit www.haygroup.com

Contacts

Irv Becker – US national practice leader, executive compensation
New York Metro
+1.215.861.2495
irv.becker@haygroup.com

Bill Gerek – Head, US regulatory expertise
Chicago
+1.312.228.1814
bill.gerek@haygroup.com

James Otto
Atlanta
+1.404.575.8740
james.otto@haygroup.com

Brian Tobin
Chicago
+1.312.228.1847
brian.tobin@haygroup.com

Cory Morrow
Dallas
+1.469.232.3826
cory.morrow@haygroup.com

Tim Bartlett
Kansas City
816.329.4956
Tim.Bartlett@haygroup.com

Garry Teesdale
Los Angeles
+1.949.251.5429
garry.teesdale@haygroup.com

David Wise
New England
+1.201.557.8406
david.wise@haygroup.com

Martin Somelofske
New York Metro
+1.201.557.8405
martin.somelofske@haygroup.com

Matthew Kleger
Philadelphia
+1.215.861.2341
matthew.kleger@haygroup.com

Brandon Cherry
San Francisco
+1.415.644.3737
brandon.cherry@haygroup.com

Greg Kopp
Washington DC Metro
703.841.3118
Gregory.Kopp@haygroup.com