The board's 'seven year itch'

It would benefit all to have directors take a one-year sabbatical.

By Allan Grafman and Idalene Kesner

The famous Marilyn Monroe comedy "The Seven Year Itch" examines the natural tendency of people to get bored and complacent after seven years of a relationship. Is it possible that companies and directors need to act after seven years to remove complacency and stay fresh and engaged? Let's consider why companies and boards need to address the issue in a way that benefits all concerned.

In the beginning: The Bible requires a seventh year sabbatical to give people and the land a respite and to refresh. This concept is considered so important that it is mentioned many times, including in Exodus, Leviticus, Deuteronomy and elsewhere. From the beginning of time a sabbatical is advocated as a good practice, leading to greater long-term vitality and sustainability.

In the academic world sabbaticals are very much a standard feature and benefit. Most universities grant faculty members a semester sabbatical every seven years for purposes of exploring new areas and building new skills to promote ongoing productivity and encourage new initiatives that help the individual. Institutions and practitioners know that time away refreshes one's perspective and makes an individual more productive and engaged.

Sabbaticals are now growing in the work place, as corporations strive to reduce employee "burn out" leading to poor performance. Intel, Goldman Sachs, Genentech, Boston Consulting Group, Charles Schwab, Patagonia, McDonald's, Hallmark, and American Express are just a few examples of the many well-known companies with sabbatical policies. As this list proves, sabbaticals can be found across many different industries. Even the U.S. Navy has a type of sabbatical program.

The current situation: It is an often-observed phenomenon that the longer directors stay on boards the more they think and become "insiders." In some countries directors are likely to be viewed as insiders after a period of time, such as nine years in the U.K. European protocol looks at three terms to be the limit and still be considered "independent."

The average S&P 500 new CEO tenure is estimated by recruiters at about four years. In contrast, the average tenure of S&P 500 directors is over eight years, while in the U.K. the average tenure is less than five years. For the S&P 1500, average director tenure was over 10 years. Only 16 of the S&P 500 boards have any sort of term limits. What is driving these relatively long director tenures when everything else in business is changing more rapidly than ever?

One possible explanation is the absence of an effective mechanism that enables companies to revitalize their boards with fresh talent and thinking while encouraging long-serving directors to step down. It is difficult, and thus rare, to remove a sitting director who is meeting minimum standards of decorum and attendance but contributing little.

A sabbatical for all directors after lengthy service: Is there an approach that is good for companies and boards, while respecting the faithful service provided

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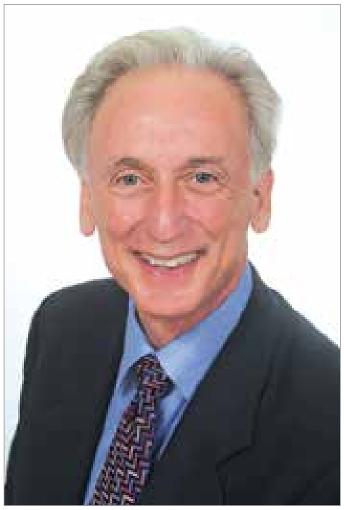

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by directors? We propose that after seven years of service a director be required to step off the board for a one-year sabbatical. After a year off, directors may be renominated and return from sabbatical if that is the best judgment of the shareholders, board and company management. The company's *current* needs must guide that decision, not legacy practices, relationships or friendships.

A BOARD MAY COME TO SEE THAT KEEPING A HIGHLY REGARDED DIRECTOR WAS NOT AS CRITICAL AS PREVIOUSLY THOUGHT.

Here is how every party benefits:

• A sabbatical process will allow the company to refresh its board for its new circumstances. Certainly a company's business needs will have changed over the seven-year term that began with the directors initial election to the board.

• This revitalization process makes possible new talents to be recruited — new by way of experience, background, nationality, gender and even investment perspective.

• Because this principle is applied across the entire board there is no stigma attached to a director taking the sabbatical. The impediment of inertia has been removed for all affected.

• It will be possible for exceptional directors to continue to serve a company, but in a different manner.

• An advisory board of former directors can keep the deep knowledge base close for the company's benefit, but in a different capacity.

• Serving as a consultant is also a possibility for exceptional contributors.

• During the sabbatical year a board may come to see that a highly regarded director was not as critical as previously thought, or, conversely, that a less esteemed colleague is now missed for some of the "softer" skills that are not so obvious but can make a board more successful.

How do we get there? While it is possible that an exceptional company, board or director may institute such a sabbatical process on its own, this will be a rarity. A board that is satisfied with its performance is unlikely to push strictures that limit continued director service. Management is not likely to push an initiative that could increase friction among directors who are most immediately impacted. Who will expend personal and professional capital leading the charge on an issue that is likely to be against the personal interests of some directors? Change will most likely be led by outside forces, such as stock exchanges, investor organizations, funds and "best practice" organizations and thought leaders. Surely this is a better alternative to government rules and regulations.

The 'pause that refreshes': A sabbatical after seven years of board service will assure that a board is always current and rejuvenated, maintains the best director talent in its orbit, allows new talent to emerge, and forestalls staleness and insider groupthink. Not a term limit on or critique of any specific director, a sabbatical can be the "pause that refreshes."

Why not lead the effort before term limits and board diversity become topics of government sanction, with all the excesses that accompany a bureaucratic response to a market and even societal need? ■

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