Should CEOs Let Their C-Suite Serve On Outside Boards?

By **Douglas Chia and Gary Larkin**

With proxy season just around the corner, the issue of director "overboarding" looks certain to re-emerge. BlackRock recently updated its U.S. proxy voting policy, lowering the number of outside boards that CEOs should sit on, from two to one. When BlackRock speaks, people listen.

But, the debate goes beyond sizing up whether the usual suspects – CEOs – hold too many board seats. Over the last decade S&P 500 CEO participation on outside boards has dropped from 52 percent to 37 percent, which corporate governance experts deem a healthy trend.

For this proxy season and those down the road, expect growing deliberation about the cohort partly responsible for filling the void: others in the C-Suite, including CFOs, CIOs, and CHROs.

The CEO usually has sign-off on their C-Suite colleagues and other direct reports participating in outside board engagements. For that reason, some activity and research about this subject can help those at the helm make the right decision.

“SERVING ON OUTSIDE BOARDS CERTAINLY CAN HAVE BENEFITS SPECIFIC TO THE PRIMARY EMPLOYER’S COMPANY.”

If CEOs look to institutional investors and proxy advisors, they can expect a mixed picture. Proxy advisor Glass Lewis has said it doesn’t want any executive officer sitting on more than one outside board. Institutional Shareholder Services (ISS) allows for two outside boards for CEOs. But, when it comes to directors who are non-employees or, in the case of ISS, non-CEOs, it’s a different story: They recommend having them sit on no more than five outside boards. The lack of a consistent standard appears more remarkable considering that both cohorts – CEOs and other C-Suite executives – face similar possible conflicts of interest and bandwidth concerns.

The research also merits a look. In 2017 the firm Equilar examined the impact on company performance when CFOs sit on outside boards. While not dramatic, the analysis showed negative correlation of the number of boards on which a CFO sat and their company’s financial performance (not just total shareholder return, but also net income and revenue). It warrants noting that of the nearly 300 companies that Equilar analyzed, nearly a third of CFOs served on outside boards.

Beyond the research, CEOs should consider the time commitment. Even if C-Suite executives budget time for these board opportunities, they can underestimate the amount needed. Before CEOs approve, they should raise with prospective directors the overlooked instances that will require substantial time. For example, time devoted to emergency board meetings when the director’s outside company experiences the potential for a real crisis. And don’t forget about committee appointments. CFOs often serve on the audit committee, and CHROs often serve on the compensation committee. Both committees have recently seen increased time demands.

But make no mistake: Serving on outside boards certainly can have benefits specific to the primary employer’s company. For instance, knowledge gained from a non-CEO sitting on a board can help the primary company and its board see how other companies work internally. Having an executive see an organization from the perspective of the director can help that executive think more strategically and with an enterprise-wide view.

Another benefit pertains to CEO succession planning. If the primary company’s succession plan prefers elevating an internal candidate, then having outside board experience will help groom that individual to one day take the helm. Boards feel more confident choosing a new CEO who already can think like a director, as the CEO almost always serves on the board, often as its chair. More companies are grooming internal talent for the CEO position, based on research showing CEOs promoted from within usually have more success. In 2016, over 80 percent of incoming S&P 500 CEOs were “insiders” whom the board promoted after they served at least one year with the company.

While overboarding will be a hot topic this proxy season, CEOs should think about this issue from the perspective of what is best for their company. At the same time, they should be aware that major investors are also keeping an eye on the number of C-Suite directorships.

Douglas Chia and Gary Larkin

Doug Chia is the executive director of The Conference Board Governance Center. Previously, he had served as board chair of the Society for Corporate Governance and corporate secretary of Johnson & Johnson. Gary Larkin is a research associate for The Conference Board focusing on corporate governance. He has been a governance thought leader for more than 13 years, having worked in the governance practices for KPMG and PwC.