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Companies Do Better When Corporate Board Members Aren't Overcommitted

By

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Too much commitment can be a bad thing.

S&P 500 companies whose directors hold just one board position tend to outperform those where board members are juggling multiple corporate governance commitments.

Earnings growth at companies with board members focused solely on one position averaged 14% over the past five years, compared to 11.2% at companies where directors hold more than one board seat, according to a research report from Credit Suisse Group AG.

Board members serve to vet management's business strategy and protect shareholders' interests. But in recent years the board's responsibilities have expanded to include overseeing the audit of a public company's financial reporting and making decisions concerning executive compensation, among other matters.

Directors who sit on multiple boards often struggle to divide their time between commitments and the need to develop new skills in response to new business challenges, the report said. Over-committed board members can also run into conflicts of interest.

"This adds further weight to our view that "overboarding" is a negative for both corporate performance and investor returns," the report said.

Institutional Shareholder Services, a group that advises large institutional shareholders on corporate governance, last year said it will consider a non-CEO director on five public company boards to be "overboarded", down from six previously. Glass Lewis, ISS's top competitor, matched the move last year.

As the Wall Street Journal reported in January, an increasing number of companies have rules limiting how many other seats their directors can hold. Just 5% of directors at S&P 500 companies held four or more spots in 2015, down from about 27% in 2005, according to a WSJ0 analysis of data provided by MSCI ESG Research.

But drawing links between director commitments and a company financial or operational performance is "tenuous at best," said Douglas Chia, executive director of the Conference Board's Governance Center.

Those figures "could be very misleading," he said, as board members have little direct oversight of the day-to-day running of the company, which is done by management.

Companies often benefit from the stewardship of experienced board members who have served on other boards. "You want directors that are on other boards, you don't want someone whose perspective is too narrow," Mr. Chia said.

Still some institutional investors take a more conservative view on overboarding. BlackRock Inc., for example, is unlikely to vote for a director who is serving on more than four company boards or is a CEO of a public company and serves on more than two boards in addition to the board of the company where they are CEO.