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How to Rotate Committee Jobs

By Julie Daum and Bob Heidrick

Fresh viewpoints add value, but committees also need specialized knowledge.

As governance reforms place more demands on boards, it is increasingly important that committees are staffed with directors who have the appropriate mix of industry expertise and business perspectives. However, little guidance is available to help boards manage committee composition and rotation thoughtfully. To get an idea of how they typically handle such decisions, we reviewed the responses of 95 corporate secretaries of Standard & Poor's 500 companies that participated in the 2006 *Spencer Stuart Board Index* supplemental survey. We also spoke with experienced directors about how changes in committee assignments are made.

We found that as a rule, governance guidelines provide only a general description, if any, of a board's approach to rotating committee membership. Of those that do, some require action of the full board, based on the recommendation of the nominating and governance committees. Other boards place responsibility for committee assignments with the board chair or lead director, who may in turn confer with committee chairs.

Our survey and conversations bear out the observation that many boards lack a formalized policy for assigning and rotating directors. Fifty-eight percent of the corporate secretaries we surveyed said their boards have no explicit policy for rotating directors across committees. Many indicated that committee assignments are reviewed regularly—some said annually—and that changes are made on a case-by-case basis. When corporate secretaries said their boards did have a policy, they generally limited terms to between four and six years.

"Of the dozen boards I have served on, probably all have had a process for reviewing committee assignments, either annually or triennially. Some, but not all, have a formal process of committee rotation," said William K. Hall, who currently serves on five public company boards, including W.W. Grainger, A.M. Castle and Great Plains Energy.

At American Express, changes are made on a case-by-case basis and are driven more by individual director talents and the board's needs than by a formula, according to corporate secretary Steve Norman. "We have addressed it periodically, and we have refrained from having a policy of periodic rotation," he said. "The directors see it as a balancing act. There is a desire to develop and retain committee-specific expertise, especially in the compensation and audit areas, as well as a desire to cross-pollinate the directors and get some fresh assignments and viewpoints."

Prudential Financial also rotates committee members on an ad hoc basis. "The governance committee looks at the committee structure every year, but changes are not made every year," said Kathy Gibson, Prudential's vice president, corporate secretary and governance officer. “It is more typical that changes occur every two years or in connection with a new director joining the board.” Eli Lilly’s directors review committee assignments each year at the February board meeting. Jim Lootens, Eli Lilly’s deputy general counsel and secretary, prepares a list of committee members, the chairs of each committee and the tenure of each director on each committee, as well as three or four potential rotation scenarios. “We seek continuity, but we also recognize the importance of rotating directors,” he said.

But the need for specialized experience on the audit and compensation committees is creating a trend toward less frequent rotation. “About eight or 10 years ago, there was consistent advocacy that board rotation was a good thing,” said Sandy Cutler, chief executive officer of Eaton and a director for Key Corp. Today, as more oversight power has moved to committees, governance experts recommend keeping “specialty knowledge directors,” such as the audit committee financial expert, in place, Cutler said.

Director Hall said he has concerns about the lengthening of committee members’ tenures. “While there is a growing pressure for specialists on the committees and keeping them for longer periods than they might want to stay otherwise, I’m not sure that’s good in a broader sense for two reasons,” he explained. “First, the entire board has to be informed on important issues, and if you push too much to the committee and don’t have enough time to discuss the committee reports, the full board may not have all the information it needs to do a good job. The second point is that nonspecialists can add a lot of value to the work of the specialists.”

In the absence of term limits, what drives boards to change committee assignments? Reasons can include a vacancy or new addition to the board; requests from individual directors for a change, either to do something new or to gain specific expertise; and, less commonly, a request by a committee chair to make a change to improve the committee’s functioning.

Sometimes, practical considerations complicate attempts to rotate directors to new committees. Obstacles include director independence requirements for the audit, compensation and governance committees, overlapping committee schedules and the volume of work on certain committees. “In a relatively small board of about 10 directors, with three statutory committees of independent directors, you have limited freedom to rotate directors,” observed Patrick Gross, chairman of the Lovell Group and a director for several other public companies, including Capital One Financial. “For a board that has a single-digit number of directors, the issue is more about the rotation of committee chairs than it is the complete rotation of committee membership.”

When rotating committee members and chairs, overlapping the terms of experienced and new directors can smooth the process. Nearly three-quarters of our survey respondents said that new directors are given committee assignments immediately upon joining the board. In fact, in 14 percent of the board searches we conduct, companies are expressly looking for an audit committee member. Still, 27 percent said their boards waited two months to a year before assigning a new director to a committee.

“If you’re going to have rotation, you probably want to have some overlap, because the continuity of involvement is extremely helpful,” Gross said. At Eaton, Cutler said, new committee chairs are appointed a year in advance. The long lead time lets them build their knowledge about committee issues before they move into the chairmanship. They may also attend director education programs on relevant topics.

The takeaway from our research was straightforward. With committee work in the spotlight, conscientious boards should look at committee composition regularly. These reviews need not result in rotation, especially at smaller boards. The goal is to ensure that at any point in time, each committee reflects an effective mix of special expertise and fresh thinking. D

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Action Points

- Use the annual board evaluation as a platform to review committee assignments.
- Create a matrix for each committee that lists its members’ tenure and experience.
- Don’t shuffle committee composition just for the sake of change.