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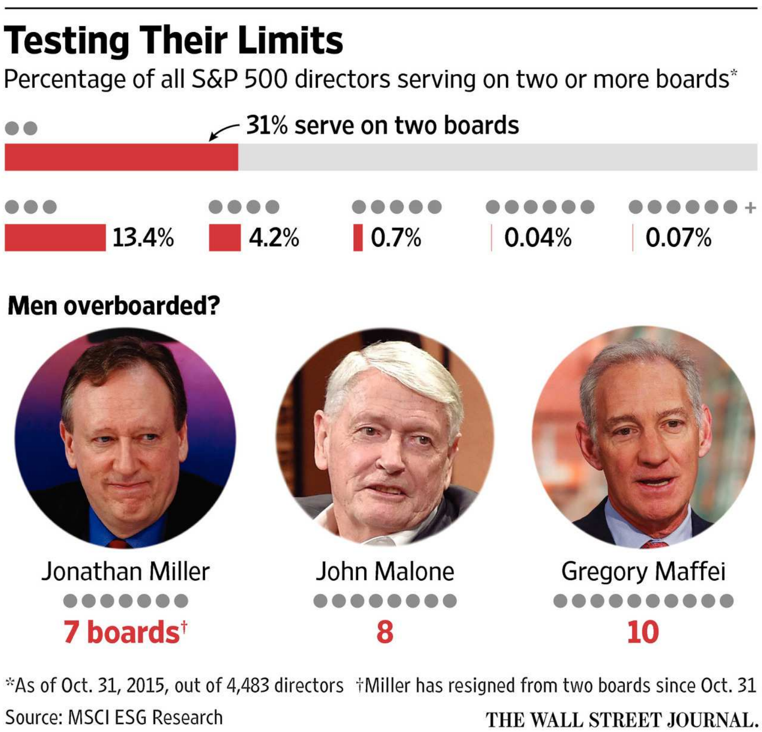
BUSINESS

Three, Four, Five? How Many Board Seats Are Too Many?

With increased investor scrutiny and heavier workloads, four board seats now look like a lot



By JOANN S. LUBLIN
Jan. 20, 2016 9:19 p.m. ET

Frank J. Biondi Jr., a former Hollywood executive, got invited early last year to join the board of a satellite Internet company. While interested, he didn't want to get stretched too thin.

The former CEO already served on the boards of five public companies.

Mr. Biondi decided to join the board of the satellite Internet firm and to give up a directorship at a different tech company. But another company, toy maker Hasbro Inc., still objected to Mr. Biondi's multiple board seats.

The Hasbro board had adopted a rule restricting members to a maximum of four spots, including the Hasbro seat, following requests from stockholders, according to a spokeswoman. Mr. Biondi said he doesn't remember embracing the new policy during a board meeting, and "I had perfect attendance." The former chief executive of Universal Studios and Viacom Inc. left the Hasbro board last spring.

As directors face increased investor scrutiny and heavier workloads, four board seats now look like a lot. More companies are putting in place rules that limit how many other seats their directors can hold. Only 5% of directors at S&P 500 companies held four or more spots in 2015, down from about 27% in 2005, according to a Wall Street Journal analysis of data provided by MSCI ESG Research. And just five people occupied six or more board seats in 2015, down from 308 a decade earlier.

INSIDE AMERICA'S BOARDROOMS

Second in a series on how business is done on corporate boards.

- Boards Get More Independent, but Ties Endure (http://www.wsj.com/articles/boards-get-more-independent-but-ties-endure-1453234607) (1/19/2016
- Data: How U.S. companies stack up in terms of board pay (http://graphics.wsj.com/boards-of-directors-at-SP-500-companies/)

Executives like Mr. Biondi, who works part time for a private-equity firm, say they easily handle five directorships. Some refuse directorships that require frequent foreign travel, for example. But activist investors and governance experts warn of "overboarding"—the notion that individuals on numerous boards lack time to adequately oversee a company's management, especially during difficult periods.

Directors at public companies spend an average of 248 hours a year for each board served, up from nearly 191 hours in 2005, according to surveys by the National Association of Corporate Directors. The tallies cover tasks such as attending meetings, travel and chats with management. "It's more of a job now," observed Peter Gleason, the association's president.

Several major institutional shareholders, including BlackRock Inc., the investment arm of J.P. Morgan Chase & Co. and the California State Teachers' Retirement System, oppose the re-election of directors with more than four spots.

The biggest proxy-advisory firm also is cracking down. Institutional Shareholder Services will urge the defeat of any non-CEO director with more than five boards, starting in 2017. It currently considers more than six boards to be excessive.

Patricia 'Pat' Russo, at right, shown in 2008, juggles the demands of five of America's biggest companies.
PHOTO: PHILIPPE WOJAZER/REUTERS

Highly active directors devise various tactics to juggle their demanding roles. They're often willing to work long hours—as evident from a diary that a director of five big businesses kept this fall at the Journal's request. The diarist chairs one board and three compensation committees.

The director performed board duties on 30 of the 33 days monitored, including most weekends. On Oct. 9, this person left New York at 6:30 a.m. to fly to Boston and confer with two major shareholders. A different day, the director attended a 12-hour board meeting for another company.

Patricia "Pat" Russo juggles the demands of five of America's biggest companies. "I do calls on the weekends. You're available 24/7," said Ms. Russo, board chairman of Hewlett Packard Enterprise Co. She also is a director of General Motors Co., Alcoa Inc., Merck & Co. and KKR & Co.

“I was a very active global CEO who worked day and night,” said Ms. Russo, a former leader of Alcatel-Lucent SA. “When you go from that to no full-time job, you have a lot of time freed up,” she explained. “My board work is what I do.” But she has rejected a possible sixth directorship, due to its time demands.

Richard Gephardt has a full-time job, yet he served on five boards until he retired last year from U.S. Steel Corp. and Ford Motor Co. The 74-year-old former U.S. congressman spurned committee chairmanships, he said, because “I had a lot on my plate.” Mr. Gephardt spends more than 60 hours a week running his own consulting and lobbying firm.

Edward A. Kangas, a former CEO of Deloitte Touche Tohmatsu Ltd., said he manages his commitments to five boards and three audit committees because two of those companies have odd fiscal years. They end Oct. 31 at Hovnanian Enterprises Inc., and July 31 at Intuit Inc.

“If something unexpected comes up, I can get on a phone or I can get on an airplane,” he said. He spent a week dealing with a management crisis in November 2014 at United Technologies Corp. After the CEO abruptly left, directors elected Mr. Kangas chairman during a Sunday special board meeting. Despite the crisis, Mr. Kangas said he didn’t miss other board obligations.

He does exceed service limits for directors of Tenet Healthcare Corp., where Mr. Kangas joined the board in 2003. The hospital operator said it exempted him from its four-seat maximum because Hovnanian and Intuit have unconventional financial calendars and he has a perfect attendance record at Tenet. He is leaving the Intuit board this week.

About 77% of S&P 500 companies curb board members’ outside directorships in some fashion, up from 71% in 2010, reports Spencer Stuart, an executive-search firm. Among those with limits for all directors, 20% set a cap of three seats—up from 16% in 2010.

Over the past year or two, more boards have balked at prospective directors with three seats because “they don’t really want to be somebody’s fourth,” said Julie Hembrock Daum, head of the North American board practice for Spencer Stuart. “Boards want to ensure that the new director will have the time,” she added. “They also are concerned about the optics of a too-busy member.”

Write to Joann S. Lublin at joann.lublin@wsj.com