Board PORTFOLIO

BOARDALERT

EXCLUSIVE MEMBER NEWSLETTER

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Welcome to the September issue of our exclusive Members only Board Alert. This month we interviewed the Executive Chairman - Tony Forest from Gotchanetwork about his experience in working with an early stage company and some of the challenges they've faced.

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In addition to Gotchanetwork we have hundreds of other exciting directorship opportunities for you to consider across a very wide range of industries and market sectors.

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Kylie Hammond
CEO | Founder

What's inside this issue

Smaller Boards Get Bigger Returns

Smaller boards are a better deal for investors, according to an analysis for The Wall Street Journal by governance researchers GMI Ratings. WSJ's management reporter Joann Lublin discusses on the News Hub with Sara Murray.

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Size counts, especially for boards of the biggest U.S. businesses.

Companies with fewer board members reap considerably greater rewards for their investors, according to a new study by governance researchers GMI Ratings prepared for The Wall Street Journal. Small boards at major corporations foster deeper debates and more nimble decision-making, directors, recruiters and researchers said.

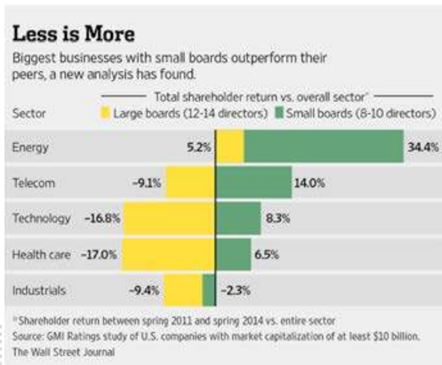
Take Apple Inc. AAPL +0.87%. In the spring when BlackRock founding partner Sue Wagner was up for a seat on the board of the technology giant, she met nearly every director within just a few weeks. Such screening processes typically take months.

But Apple directors move fast because there only are eight of them. After her speedy vetting, Ms. Wagner joined Apple's board in July. She couldn't be reached for comment.

Among companies with a market capitalization of at least $10 billion, typically those with the smallest boards produced substantially better shareholder returns over a three-year period between the spring of 2011 and 2014 when compared with companies with the biggest boards, the GMI analysis of nearly 400 companies showed.

Companies with small boards outperformed their peers by 8.5 percentage points, while those with large boards underperformed peers by 10.85 percentage points. The smallest board averaged 9.5 members, compared with 14 for the biggest. The average size was 11.2 directors for all companies studied, GMI said. "There's more effective oversight of management with a smaller board," said Jay Millen, head of the board and CEO practice for recruiters DHR International. "There's no room for dead wood."

GMI's results, replicated across 10 industry sectors such as energy, retail, financial services and health care, could have significant implications for corporate governance.



Small boards are more likely to dismiss CEOs for poor performance—a threat that declines significantly as boards grow in numbers, said David Yermack, a finance professor at New York University's business school who has studied the issue.

It's tough to pinpoint precisely why board size affects corporate performance, but smaller boards at large-cap companies like Apple and Netflix Inc. NFLX +0.64% appear to be decisive, cohesive and hands-on. Such boards typically have informal meetings and few committees.

Apple directors, known for their loyalty to founder Steve Jobs, have forged close ties with CEO Tim Cook, according to a person familiar with the company. Mr. Cook frequently confers with individual directors between board meetings "to weigh the pros and cons of an issue," an outreach effort that occurs quickly thanks to the board's slim size, this person said.

Mr. Cook took this approach while mulling whether to recruit Angela Ahrendts, then CEO of luxury-goods company Burberry Group BRBY.LN +0.74% PLC, for Apple's long vacant position of retail chief. Private chats with board members helped him "test the thought" of recruiting her, the person said. She started in April.

Ms. Wagner, Apple's newest director, replaced a retiring one. The board wants no more than 10 members to keep its flexibility intact, according to the person familiar with the company, adding that even "eye contact and candor change" with more than 10 directors.

Apple returns outperformed technology sector peers by about 37 cumulative percentage points during the three years tracked by GMI. An Apple spokeswoman declined to comment.

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Netflix, with seven directors, demonstrated equally strong returns, outperforming sector peers by about 32 percentage points. Board members of the big video-streaming service debate extensively before approving important management moves, said Jay Hoag, its lead independent director.

"We get in-depth," he said. "That's easier with a small group."

Netflix directors spent about nine months discussing a proposed price increase, with some pushing back hard on executives about the need for an increase, Mr. Hoag said. Netflix increased prices this spring for new U.S. customers of the company's streaming video plan, its first price bump since 2011.

A board twice as big wouldn't have time for "diving deeper into the business on things that matter," Mr. Hoag said.

Theodore "Tim" Solso, chairman of General Motors Co. GM -0.14% , agrees. In 2012, he became the fourteenth board member at the

Can you put the we have moved info at the top auto manufacturer. Having 14 directors makes it tough to manage board meetings.

“Often, you have people saying the same thing,” he said. “It’s just not as efficient as a smaller board.”

At Eli Lilly LLY +0.78% & Co., a major pharmaceuticals maker with 14 directors, the board “is too big to encourage the kinds of discussions you want” because drilling down on different issues simply takes too long, someone familiar with Eli Lilly said. “A number of people feel constrained asking a second or third question.”

Lilly underperformed health-care sector peers by nearly 16 percentage points, GMI’s analysis showed. The company has “serious questions” about the study, company spokesman Edward Sagebiel said, citing Eli Lilly’s strong share price performance in recent years.

“Peer companies have boards of similar sizes,” he said.

A big board of a large-cap company can offer certain benefits. In heavily regulated industries, such as financial services, larger boards make more sense, according to a person familiar with Bank of America Corp. BAC -0.56% “They allow you to engineer more diverse thinking.”

Bank of America, which has 15 directors, trailed financial sector peers by about 45 percentage points, GMI said. Spokesman Jerome Dubrowski said the bank disagreed with the study.

Bank of America directors have devised ways to minimize potential drawbacks of their sizable board, according to informed individuals. The five board committees - each with five directors - ”do a ton of work” and the full board rarely challenges committee reports, one such person said.

Downsizing a big board can take years. GM’s Mr. Solso said the automaker’s current 12-member board would benefit from further shrinkage.

“If you get the right 10 people, really great things can happen,” he said. Five GM directors are at least 67 years old, the company’s latest financial filings show. But only one member reaches the mandatory retirement age of 72 during 2015.

“Through natural attrition, we may not replace all the directors,” Mr. Solso said.

Source: Wall Street Journal – 26th August, 2014. Written by Joann S. Lublin

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We’d like to invite you to join us at one of our upcoming Director Institute events.

Whether you are an experienced Director looking for a new Directorship opportunity, or a senior executive looking to begin your board career, why don’t you come along to one of our upcoming events.

Remove this - it is meant to belong with the other DI event info - but it really isn’t needed.