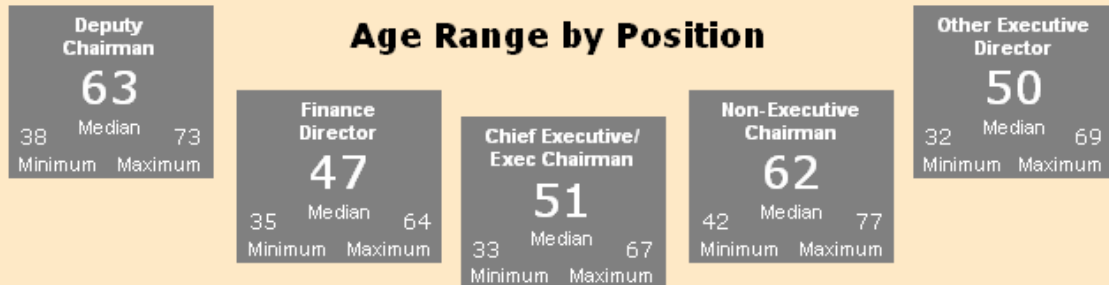
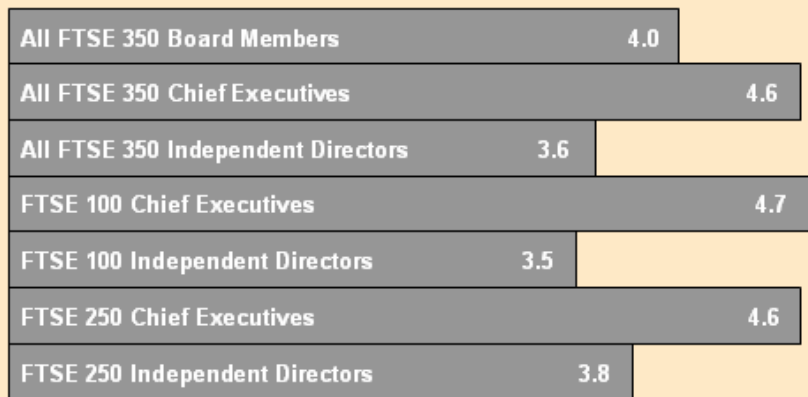


Absence of old hands prompts boardroom concern



Average Tenure (figures in years)



Sources: Deloitte director's fee report; Boardex and Manchester Square Partners

News Analysis

Lack of Experience of an economic downturn, let alone a full blown recession, is worrying, writes **Brooke Masters**

As the economy spirals downward, concern is mounting that many of the nation's largest companies are being led by people who have no experience of steering through hard times.

The average FTSE 350 board member has been in his or her current position for only four years, according to data from BoardEx and Manchester Square Partners, and the average chief executive has been around only slightly longer, about 4.6 years.

The last real recession was more than a decade ago.

That greenness puts more pressure on non-executive board members, particularly independent directors, to make sure that management is up to the challenge. Historically, fraud and mismanagement rise during recessions and compensation plans must be changed to align incentives with the new harsher reality.

"This is when the non-executive directors really need to probe," says Gerald Russell, the Ernst & Young senior partner who chairs the accounting firm's independent director programme. "Management teams are often frightened to own up to the board . . . They are taking a glass is half-full approach, hiding some of the bad news."

But most independent directors are new to the job as well, the statistics show. The average tenure of an independent non-executive of a FTSE 350 company is 3.6 years, the BoardEx statistics show.

Non-executive directors remain significantly older than the full-time management, but both have got younger in the past five years, according to an annual survey of FTSE 350 companies by Deloitte. The

average executive director is aged 50, down from 53 in 2003, and the average nonexecutive is 58, down from 59 five years ago.

The drop in tenure and in age is due partly to changes to the law in the wake of the 2002 Higgs inquiry that limit independent non-executive directors to nine years with the same company.

Board tenure has also been affected by activist investors who have demanded director changes and recent efforts by many companies to diversify their boards to include more women, people of different ethnic backgrounds and a broader range of experience.

Sir John Craven, the longtime chairman of Lonmin, points to a sense of ageism among some in the corporate governance and investor community. "If you're over 65 or 70, you just get pushed off the board," he says. "No matter how well connected and articulate someone is, all that wisdom, knowledge and experience is forgone."

Some chief executives are now paying the price for having a sub-optimum board.

One chief executive in a hard-hit sector says that his board has become gun-shy, asking for outside audits and independent reports on almost everything the company does. "They suddenly turn on you. It's time-consuming and expensive and at the margins it is insulting. They were quite happy to let you run the place for years," he says, declining to be named for fear of upsetting his board further.

By contrast, Paul Adams, chief executive of British American Tobacco, says he is glad that his board includes such people as Sir Nicholas Scheele, the former chief operating officer of Ford, and Anthony Ruys, the retired chairman of Heineken.

"We have some very seasoned guys who know the right questions to ask," Mr Adams says. "We've gone back and looked at previous downturns and how we have been affected and when we are affected. They want to be assured that we are ready."

In spite of the current sense of relative inexperience on many boards, there are signs that the pendulum is set to swing back, says Luke Meynell, the partner in charge of Russell Reynolds' board practice, as companies realise they need to beef up to prosper.

"We will see boards moving more and more to the tried and tested profile of a former chairman or chief executive rather than some of the more diverse profiles available because demanding markets tend to drive a desire to have as much general management breadth as possible on the board," says Mr Meynell.

Peter Waine, director of Hanson Green, which specialises in finding nonexecutive directors, says his clients have been clear in their demands.

"What they are looking for is somebody who has been through previous recessions. Age doesn't come into it. It's more attitude," he says. "It usually starts with the fact that they can put the whole thing in perspective and say it is not that bad."

But convincing good people to take these roles can be hard, in part because companies are demanding more from their non-executives.

"They want more involvement, more time and more engagement with the company. There is pressure to have non-executives more available in person for impromptu board and committee meetings rather than having to be on the phone from the US or Asia," Mr Meynell says.

Now several groups are trying to find ways to help directors broaden their experience. The CEO Circle, which brings together chief executives to discuss common issues, plans to put together sessions specifically focused on the worsening economy, says Duncan Bratt, the organisation's chief executive.

Deloitte has just hosted a new finance directors' workshop and Ernst & Young is planning a gathering of FTSE 100 audit committee chairmen next month, with a report due on what such committees should be thinking about in these times.

As Lonmin's Sir John says: "Board positions are of core importance. Nine out of 10 times, the business in the boardroom may be routine. But when there's a bid or a deal or corruption, it's crucial that you have the right calibre of people in place."