Serving on corporate boards plays a vital role in the career success of executives

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When Warren Buffett retired from Coca-Cola's board in 2006, he said he no longer had the time for all of the retreats, travel, reading, meeting prep time, and committee meetings that were necessary for the role. In addition to the time requirements, board service also comes with reputational risks. For example, the current board members of Wells Fargo will most likely feel lasting repercussions from the questionable business practices at the firm that have led to a $185 million settlement, a public hearing, and the ultimate resignation of their CEO. More than 25 years ago, William Sahlman, likened board service to driving without a seatbelt in a Harvard Business Review article titled "Why Sane People Shouldn't Serve on Public Boards." That article feels even truer today. So given the costs and the risks, it is a wonder anyone serves at all.

But given that boards do not seem to have major problems getting people to sit on them, it appears that board service must have some benefits. Otherwise why would busy executives continue to agree to sit on boards? Consider the example of Jeffery W. Yabuki, who was the COO of H&R Block Services Inc in 2003. In 2004, he joined the board of Petsmart Inc., and later MBIA Inc. Just two years later Yabuki was appointed the CEO of Fiserv, a Fortune 1000 firm. Or for example, executive Glenda Jane Flanagan joined the board of Credit Acceptance Corp. in 2004, and in 2005, her total compensation from her home firm, Whole Foods Market Inc., increased by over $300,000. For both, it appears that board service may have played a vital role in their career success.

Unpacking how board service may benefit corporate executives was the motivation of our recent research. In an effort to explore executives' motivations for serving on boards, we looked at how board service is evaluated and rewarded in the executive labor market. Specifically, we studied whether board service increased an executive's likelihood of becoming a CEO and/or receiving a pay increase or other promotion.

We believe that board service can accelerate an executive's career for two main reasons. First, sitting on a board serves as an important certification or "stamp of approval," for an executive. Being chosen to serve on a board may indicate that an executive has particular skill or expertise. Second, board experience provides an opportunity for an executive to gain skills, connections, and familiarity with the responsibilities of serving as a CEO. As Mary Cranston, former CEO and Chairman of Pillsbury, LLP explains, “being on that board really helped me develop as a CEO because I had another CEO to watch. It was an incredible leadership school for me. On a board you’re together a lot, and you’re working on problems together and you have a shared fiduciary duty, so it creates very tight bonds of friendship. It’s a very interesting dynamic that I really didn’t see at all until I got on boards.”

We examined roughly 2,140 top executives in S&P 1500 firms from 1996-2012 to test our ideas that board service would help advance the executives’ careers. We found that serving on a board increases an executive’s likelihood of being promoted as a first-time CEO to an S&P 1500 firm by 44 per cent and boosted an executive’s subsequent annual pay by 13 per cent even if they weren’t promoted. Our findings provide direct evidence that board appointments increase an executive’s visibility and equip him/her with access to unique contacts and learning opportunities. Further, we show that these opportunities translate into tangible benefits, specifically promotions and raises.

Given the fact that managing CEO succession is likely the board’s most important responsibility, what do our findings mean for today’s boards of directors and aspiring CEOs? Our findings suggest that if firms are looking for external talent, looking at which executives have received board appointments is a strong signal that these executives have potential. This finding is important as hiring an external CEO candidate is becoming much more common, as CEO turnover is on the rise, and the majority of newly appointed CEOs have not previously served as CEOs.

Ultimately, board service is a key professional development tool in grooming potential CEOs that executives and boards are beginning to recognize and value. These sentiments have been echoed recently in the popular press as a recent Wall Street Journal article suggests that firms actively use external board appointments as a way to groom and develop executives and that executives also recognize the benefits of board service as Debra L. Reed, Sempra CEO, claims that sitting on the board of another company “is better than an M.B.A.” These benefits help make it much easier to understand why a busy executive would choose to sit on a board.

Finally, our findings have implications for firms seeking new board members. While current CEOs of other for-profit firms are seen as highly valued outside board members, the number of current CEOs willing to serve on other outside boards has dwindled following Sarbanes-Oxley. To fill this void, firms should look to the executive ranks below the CEO level. Our research suggests that these individuals may be motivated to join outside boards in order to enjoy improved career outcomes.

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Notes:

- *This article is based on the authors’ paper Come Aboard! Exploring the Effects of Directorships in the Executive Labor Market, in Academy of Management Journal, October 1, 2016 vol. 59 no. 5 1681-1706.*
- *The post gives the views of its author, not the position of LSE Business Review or the London School of Economics.*
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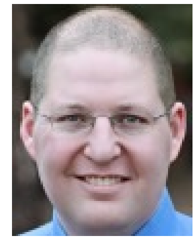

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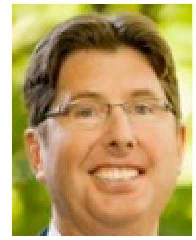

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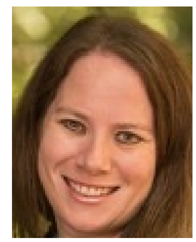

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