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# 2019 U.S. Spencer Stuart Board Index Highlights

Now in its 34th year, the *U.S. Spencer Stuart Board Index* analyzes the board governance practices of the S&P 500. Some of the most notable findings are highlighted below.

## WOMEN, MINORITY MEN CONSTITUTE A MAJORITY OF THE NEW DIRECTOR CLASS

S&P 500 boards are heeding the growing calls from shareholders and other stakeholders for enhanced boardroom diversity of gender, age, race/ethnicity and professional backgrounds. The 2019 incoming class of 432 independent directors, the most since 2004, shows that change is happening on many fronts, driven by the addition of women (minority and non-minority) and minority men directors.

» A record breaking 59% of the new independent directors are diverse (defined as women and minority men), up from half last year.

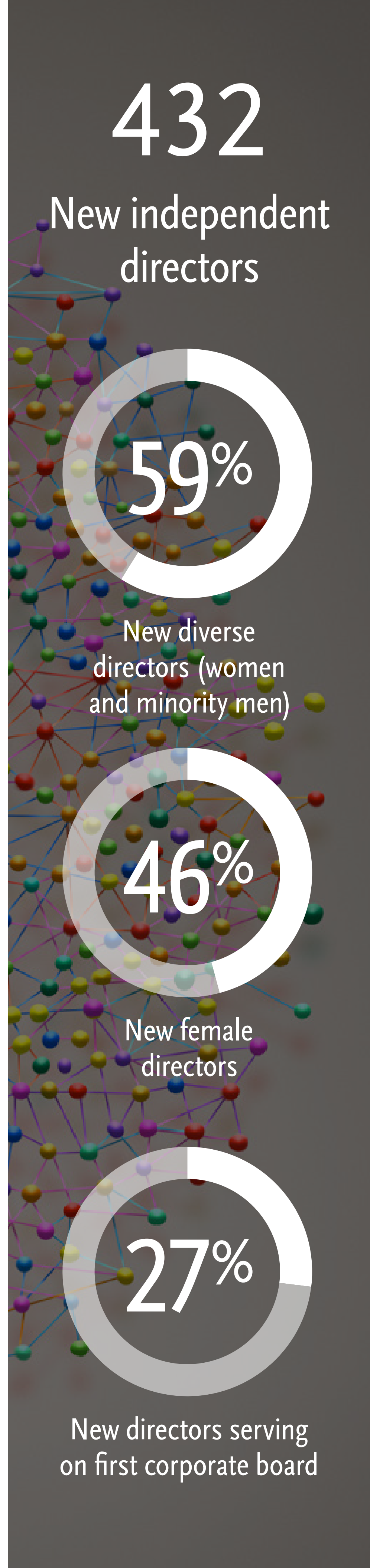
Gender diversity is a clear boardroom priority, with women constituting 46% of the incoming class, compared to 40% last year.

Boards are also focused on racial/ethnic diversity. Just under one of four new S&P 500 directors (23%) are minorities (defined as African American/Black, Asian and Hispanic/Latino).

» Minority women represent 10% of the incoming class, up slightly from 9% last year.

» Minority men represent 13% of the new directors, an increase from 10% last year but still down from 14% two years ago.

While women and minority men make up more than half of the new independent directors, continued low boardroom turnover remains a persistent impediment to meaningful year-over-year change in the overall composition of S&P 500 boards. As a result, despite the record number of female directors, representation of women on S&P 500 boards increased incrementally to 26% of all directors, up from 24% in 2018 and 16% in 2009.



# The profile of new S&P 500 directors is changing

## BOARDS ARE LOOKING BEYOND CEOs AND EXPERIENCED DIRECTORS FOR BOARDROOM TALENT

In addition to gender and racial/ethnic diversity, the 2019 *U.S. Spencer Stuart Board Index* finds continued changes in the professional profile of directors joining S&P 500 boards.

- **CEO experience isn't required:** 65% of the 2019 incoming class come from outside the top executive ranks of CEO, chair/vice chair, president and COO.
- **Other corporate leadership skills are valued:** 23% have experience as division/subsidiary heads or as EVPs, SVPs or functional unit leaders.
- **Board experience isn't a requirement:** 27% are serving on their first public company board.
- **Financial talent remains a priority:** 27% have financial backgrounds, with boards less interested in accounting and banking backgrounds and more focused on candidates with experience as CFOs/finance executives or investment professionals.

## DIVERSE DIRECTORS ARE THE DRIVING FORCE BEHIND THE CHANGING PROFILE OF NEW S&P 500 DIRECTORS

The data shows marked differences between the profiles of women and minority men joining S&P 500 boards over the past year and those of non-diverse men. **Diverse directors ...**

- **Are far less likely to be CEOs or experienced directors:** Only 19% of the diverse directors are current or former CEOs, compared to 44% of non-diverse men. Meanwhile 34% of the diverse directors are first-time corporate directors, nearly double the 18% of the non-diverse directors.
- **Bring other types of corporate leadership experience to the boardroom:** 31% of the women and minority men are current or former line or functional leaders, compared to just 11% of the non-diverse men.
- **Tend to be younger:** 18% of diverse directors are "next-gen" (defined as 50 or younger), compared to 12% of non-diverse men.
- **Come with a wider array of professional experiences:** 18% of the diverse director professional experiences fall into the categories of academics/not-for-profit, consultants, government/military or other, compared to just 7% of the non-diverse directors.

## BOARDS CONTINUE TO ADD YOUNGER DIRECTORS, BUT THE AVERAGE AGE OF S&P 500 DIRECTORS IS UNCHANGED

- One out of six (16%) directors added to S&P 500 boards are "next-gen," 50 or younger.
- Over half (59%) of this year's "next-gen" directors bring experiences from the consumer, IT and private equity/investment management sectors.
- Younger directors are more diverse than the rest of the incoming class, with 69% either women (57%) or minority men (12%). They are also more likely to be serving on their first corporate board; 54% are first-time directors.
- More than 40% of the incoming class is 60 or older; the average age of new S&P 500 independent directors is 57.5 years. The average age of all S&P 500 independent directors is 62.7, largely unchanged since 2009.

## ABSENT CHANGES IN REFRESHMENT PRACTICES, LOW BOARDROOM TURNOVER RATES ARE LIKELY TO CONTINUE

Over the past year, 392 independent directors left S&P 500 boards, departing at an average age of 68.7 and average tenure of 12.3 years. The lion's share — 60% — retired at 70 or older.

- 29% of boards made no changes to their roster of independent directors while 15% reduced the number without adding any new independent directors.

Because boardroom turnover remains low, with the new directors representing only 8% of all S&P 500 directors, changes to overall composition continues at a slow pace.

- Today, 71% of S&P 500 boards disclose a mandatory retirement age for directors, unchanged over the past six years.
- 46% of S&P 500 boards with a retirement age set it at 75 or older compared to just 15% ten years ago.
- More than three-quarters of the independent directors who left S&P 500 boards in the past year served on boards with mandatory retirement ages. The age limits influenced the majority of these departures, with 41% either exceeding or reaching the age cap and another 14% leaving within three years of the retirement age.
- Only 15% of the independent directors on boards with age caps are within three years of mandatory retirement. With these directors averaging 63 years of age, most S&P 500 directors have years of potential service before reaching mandatory retirement.

## BOARD ASSESSMENTS COMMON, WITH INDIVIDUAL ASSESSMENTS BECOMING MORE PREVALENT

- Once again 98% of S&P 500 companies in our index reported conducting a board assessment over the past year.
- Individual director evaluations are gaining traction, with 44% of S&P 500 companies — up from 38% last year and 22% 10 years ago — reporting some form of individual director evaluations.

## INVESTOR ATTENTION TO DIRECTOR "OVERBOARDING" IS INCREASING

Director board service emerged as a hot issue in 2019, with at least one large institutional investor announcing tougher voting guidelines for outside board service.

- On average, independent directors of S&P 500 companies serve on 2.1 boards, unchanged over the past five years.
- 59% of S&P 500 CEOs serve on no outside boards, up from 55% last year and 51% 10 years ago.

**59%**

of S&P 500 CEOs serve on **no** outside boards

**46%**

of boards with a retirement age set it at 75 or older

**53%**

of boards have a separate chair and CEO

## AS THE NUMBER OF INDEPENDENT CHAIRS HAS INCREASED, THE NUMBER OF LEAD AND PRESIDING DIRECTORS HAS DECLINED

More than half (53%) of boards split the chair and CEO roles, up from 37% a decade ago.

- 34% of S&P 500 boards have an independent chair, more than double the 16% in 2009.
- 75% report having an independent lead or presiding director, compared with 80% last year and 95% a decade ago.

## BOARD COMPENSATION IS ON THE RISE

For the first time, the average total compensation for S&P 500 non-employee directors, excluding independent chairs, is around $303,000, a 2% year-over-year increase.

- Director pay varies widely by sector, with a $100,000 difference between the average total director pay of the highest and lowest paying sectors.
- The highest-paying sectors for directors are: healthcare ($362,450); information technology ($331,840), telecommunications services ($331,076) and energy ($325,234).

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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 60 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

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