

Changes in Board Composition for Large-Cap Companies (December 2015)

December 9, 2015 | Client Update | 3-minute read

Boards and investors continue to be deeply interested in board composition, a central topic in the [2015 Spencer Stuart US Board Index](#) for S&P 500 companies.

At the largest companies, the average director tenure is 8.5 years. 62% of boards have average tenure of between 6 and 10 years, compared to 21% with averages of over 11 years. The average director age has been increasing in the last 10 years. At 45% of companies, that age is 64, compared with 16% of boards 10 years ago. Back then, a third of directors were under age 59, which has now shrunk to about 15% of companies.

Mandatory retirement age continues to be used as one way to ensure director turnover. 73% of companies specify a retirement age, with 34% setting it at 75 or older, a slight increase from 2014. Half of the S&P 500 establish the age at 72. Term limits continue to be disfavored, as only 3% of these companies have them, with ranges of 10 to 20 years.

The rate of turnover is relatively unchanged from 2014, which had seen a significant increase of new directors from prior years. 376 new independent directors joined the boards of major companies this year, the largest group since 2008. Only 20% are active CEOs, chairs, presidents and COOs, a decreasing trend compared to 32% 10 years ago. Other corporate executives are becoming more popular as new directors, representing 25% of the pool. 26% of new directors were first-time directors, and women represented 31% of new directors. About a quarter of new directors have financial backgrounds.

Due to concerns about overboarding, 77% limit directors in terms of outside directorships, and 66% of independent directors sit on two or fewer boards. 43% of CEOs serve on an outside board, compared to 56% 10 years ago.

Combined CEO and chair roles are declining, dropping to 52%, while the number of independent chairs rose to 29%, representing a new high. 14% of chairs are executives other than the CEO, and 4% are former CEOs. In light of investor interest on board assessments, an increasing number of companies, 52%, are disclosing that they conduct board and committee evaluations. An additional third of companies indicate that they also evaluate individual directors.

Spencer Stuart advises that boards should consider director recruitment to be part of ongoing succession planning by periodically reviewing the skills and expertise on the board. Boards should also set expectations for appropriate tenure when directors first join, as well as identify their vulnerabilities in board renewal and performance before becoming an activist's target.

Finally, as would be expected, 92% of the S&P 500 companies have declassified boards and 86% have some form of majority voting.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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