

Board Composition at the S&P 500 Companies

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The composition of boards continues to be a focus for investors, and companies are responding by paying increased attention both to who sits on their boards and to enhancing their disclosure and engagement with investors. The data reported in the [2016 Spencer Stuart Board Index](#) on S&P 500 boards highlights emerging practices, compiled from proxy disclosure and a related survey. Overall, the trends have stayed steady from last year but represent a meaningful departure from 10 years ago.

Composition of new directors. 345 new directors joined 233 boards, with 87 boards adding more than one new director. Nearly one-third of the independent directors are serving on their first outside corporate boards, compared to 26% last year. 53% are active senior executives and professionals, a decrease from 66% ten years ago; 28% have global professional experience and have worked at an international location; and 16% are technology executives. Due to the increased influence of shareholder activism, 12% of new directors are investors, double the number 10 years ago.

Women account for 32% of new directors, the highest rate of representation since Spencer Stuart started the survey. Fewer minority directors (defined as African-American, Hispanic and Asian) are part of the class of new directors, with 15% instead of 18% in 2015.

Companies that responded to the survey are increasingly focused on refreshment because of upcoming director retirements, and their desire to add new skills and increase board diversity. The wish list for more than half of those boards on the background of new directors includes more women, minorities, active and retired CEO/COOs and directors with financial expertise and a global perspective.

Executive officers are joining boards less frequently. 19% of new directors are active CEOs, chairs, presidents and COOs, compared with 29% in 2006.

15% of new directors have financial backgrounds, such as current CFOs, investors and bankers, while 10% of new directors are retired finance executives.

Independent leadership. 27% of S&P 500 companies have named independent chairs, about the same as in 2015. The most common reason cited for separating the CEO and chair roles are due to a new CEO transition. Similar to last year, 52% of boards have combined CEOs and chairs.

Tenure, term limits and retirement age. Only 19 companies have an explicit term limit, an increase from 13 companies last year. Term limits range from 10 to 20 years. The average board tenure is 8.3 years, which is similar to 8.7 years five years ago. 63% of boards have an average tenure between six and 10 years, but 19% have an average tenure of 11 or more years. 15% of directors have served for more than 16 years on their boards. More companies are disclosing in proxy statements the importance of having a balance of tenures on their boards.

73% report having a mandatory retirement age (some companies have mandatory retirement ages but do not disclose them in their proxy statements so this number is likely higher), while 11% specify that they do not. Retirement age has inched upward, with 39% of companies setting it at age 75 or older, compared to 20% of companies in 2011. The most common continues to be age 72, set by 45% of S&P 500 boards.

As a result of the increase in retirement age, the average age of directors is now 63, two years older than it was 10 years ago.

Number of boards. Directors sit on an average of 2.1 boards. 74% of boards have an overboarding policy to limit the total number of boards on which directors may serve; 76% set it at three or four boards. Only 43% of CEOs serve on one or more outside boards, the same as last year, but more than a 10% decrease from 10 years ago.

Director evaluations. 32% of boards disclose evaluating the full board, committees and individual directors, and 35% of companies reported in a survey that they use director self-assessments while 15% include peer reviews.

Shareholder engagement. 83% of those responding to the survey indicated that they have engaged with their largest shareholders, compared to 70% last year, as a result of increased conversations about proxy access in 2016. According to the survey, investors were most likely to initiate questions about proxy access, followed by director tenure, independent board chair and CEO compensation.

Board size and meetings. Boards average 10.8 members, about the same over the last 10 years. The largest board has 19 members and the smallest board has five. Boards met an average of 8.4 times a year, roughly the same as last year.

Board compensation. Excluding the chairman's compensation, the average is \$280,389, with more stock grants and fewer stock options. Cash accounts for 38% of director compensation. The additional fee for an independent chairman averages \$165,122, received by 95% of such chairs. By contrast, only two-thirds of lead and presiding directors receive additional fees, with a much smaller average of \$33,354. Meeting fees continue to be less common, as only 16% of boards paid them, compared to 57% ten years ago.

Women and minority directors. Only six S&P 500 boards have no women, compared to 52 ten years ago. Women constitute 21% of directors, about the same percentage as last year but representing a 6% increase from 10 years ago. Only two companies have women as half their directors.

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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