

Study Examines Boardroom Refreshment Practices Over Nearly 10 Years

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In 145 pages, IRRC Institute and ISS teamed up on [a study](#) of board refreshment trends at S&P 1500 companies from 2008 to 2016.

Boardroom Demographics. The study examines the composition of boards in terms of tenure, age, diversity and experience as board members.

- *Director Tenure.* Average boardroom tenure rose from 8.4 years in 2008 to nine years in 2013 before leveling at 8.7 years. Surprisingly, the average tenure for women directors of 6.4 years is identical to the level in 2008, while male directors currently have average tenures of 9.2 years.
- *Director Age.* The typical director is 62.5 years, which is the oldest age for the 2008 to 2016 study period. Directors older than 70 claimed 20% of board seats in 2016, compared to 13% in 2008. While there was expected to be a trend in seeking younger directors, directors under 50 make up 6% of boards, a decrease from 11% in 2008.
- *Directors New to Board Service.* The interest in board refreshment has led to one out of 10 “new” directors in 2016, with “new” defined as individuals who have never served on boards before, compared to 6% in 2012. More than half of the companies in the S&P 1500 added one or more such new directors in 2015. About a quarter are women and 45% are between 50 and 59 years of age. This has led to 32% of board seats being occupied by those with three or less years of service and 30% of directors having served between four and nine years.
- *Board Diversity.* Women hold about 18% of board seats, compared to 12% in 2008. Boards with no women make up 14% of the S&P 1500 companies.

Refreshment Tools. The three primary tools that boards use focus on retirement policies, term limits and/or board evaluations. The study recognizes the imperfections of each method, as retirement age and term limits create vacancies, but may force some directors to leave boards while they are still highly effective and allow others to remain even as they become less productive.

- *Retirement Age.* ISS found that 40% of companies in the S&P 1500 had strict mandatory retirement age policies, with the most common age set at 72, but inching up to 75.
- *Term Limits.* Only about 5% of S&P 1500 companies had term limits in place, with the highest usage at mid-cap rather than large-cap companies. The most common term limit is 15 years, followed by 12 years. The study found that term limits led to a meaningful decrease in average board tenure and younger directors, and is the most effective tool if the goal is to ensure board turnover, as companies with term limits had a higher proportion of newer directors.
- *Board Evaluations.* The use of board evaluations is almost universal, but few companies provide meaningful details about the assessments. A total of 43% of S&P 1500 boards disclose both board and individual director evaluations annually.

Structural Issues that Impact Board Refreshment. ISS examined a wide range of governance structures and determined that very little had any impact on refreshment, including director election vote results. The key governance attributes that did affect board refreshment were service on key board committees, boardroom independence and changes in board size.

- *Service on Key Board Committees.* Service on the nominating, audit and compensation committees may lead to longer tenures due to the desire to retain subject-matter expertise. Interestingly, nominating committees tend to attract the longest-tenured and oldest members (and chairs), which ISS speculates may impact refreshment since such directors may have a “self-interested bias” toward longer service. Boards also turn to older directors to serve as committee chairs.
- *Board Independence.* Unlike other jurisdictions, there is no presumed correlation that longer-tenured directors become less independent over time. The study speculates that boards may limit refreshment to maintain high levels of independence.
- *Board Size.* Over 90% of S&P 1500 companies have changed their board size between 2008 and 2016, with slightly more than half increasing their size. The ability to change board size appears to provide boards with more flexibility to add members, including women, without any directors needing to exit.

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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