

Changes in Board Composition for Large-Cap Companies (December 2014)

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The [2014 Spencer Stuart US Board Index](#) for S&P 500 companies focuses on board composition, turnover and director succession planning. The report concluded that companies that added three or four new directors in a three-year period outperformed their peers, and although the worst performers included those companies with no change in board composition at all during that time, boards that added five or more new directors also fared poorly.

Attention continues to intensify around the length of board service. At the largest companies, the average director tenure is 8.4 years, while 16% have tenure of 11 or more years. It appears that directors are older, with the average age being 63. 45% of companies have an average age of 64, compared with 16% of boards 10 years ago.

One way to ensure turnover is the use of mandatory retirement ages. 361 boards (73%) now specify a retirement age, but the age seems to be inching higher with 30% setting it at 75 or older, an increase from 24% a year ago. Only 16 boards (3%) specify term limits. The minimum is 10-year terms and the longest is 30 years. As for board and committee evaluations to assess and plan for board succession, a growing number of companies (34%) are disclosing that their boards also conduct individual director assessments. 86% require directors to notify the board upon a job change and offer to resign. 38% of companies mandate that the CEO submit his or her resignation when employment ends. In both cases, boards retain discretion as to whether to accept those resignations.

Turnover was evident this year, as 371 new independent directors joined the boards of major companies, a 9% increase over 2013 and a 26% increase from the past two years. Boards are looking beyond the usual candidates. 39% of new directors were first-time directors. Although slightly more than half of all directors at large-cap companies are retired, 61% of new directors are active executives. New directors may have expertise in digital or social media, finance, emerging markets and some have worked abroad in their careers.

Diversity on boards is another significant area of focus, as represented by the fact that 30% of new directors were women. Women and minority directors top company "wish lists" in a related survey for what companies are seeking in new directors.

The report is also useful for benchmarking against best practices. It is no surprise that 93% of the S&P 500 companies have annual elections for directors, and 86% have adopted majority voting of some kind. But only 28% have truly independent chairs while 53% retain combined CEO/chair positions.

84% of the boards at these companies are independent, and 58% of boards have only one non-independent director, the CEO. 71% of boards have more than three committees, with 14% maintaining six or more. The most common additional committees are executive and finance committees. 9% have risk committees, the same percentage as the number of boards with public policy or environmental, health and safety committees.

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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