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Benchmarking Against the Spencer Stuart S&P 500 Board Practices Report

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Spencer Stuart has released its **annual report** on S&P 500 board practices, a useful guide for benchmarking. The overall trends demonstrate few changes from the prior year, leading the report to conclude that there is a "chronic low rate of director turnover," bringing about "gradual shifts in the complexion of U.S. boards," and a "continued incremental evolution." The key data is below, with the statistics largely similar to prior years.

New directors added. On average, S&P 500 boards added .88 directors. Slightly more than a majority (57%) added at least one new director, and 22% appointed two or more. Women account for 40% of new directors, and 19% are minorities, a slight decline from last year.

Board size and independence. The average board has 10.8 directors, ranging from five to 18 with most boards having between 9 to 12 members. 85% of the directors are independent, and the CEO is the only executive on 59% of boards.

Board leadership structure. More than 30% of boards have a "truly" independent chair, a slight increase from last year and almost double the number 10 years ago. Half of the companies have a combined CEO/Chair. At the remaining companies, the positions are separated with an executive chair or former CEO (17%) or outside related director who is not independent (2%).

Women on boards. With a 2% increase from last year, women now represent 24% of directors and 87% of boards include two or more women directors, while 33% have three women on their boards. Women make up 30% or more of the directors at a quarter of the companies, but only 10 boards, or 2% have achieved parity with women comprising half or more of the directors. About a quarter of governance committees, 20% of audit committees and 19% of compensation committees are chaired by women, but only 7% of independent chairs and 10% of lead directors are women.

Board tenure. The average tenure of independent directors is 8.1 years. Almost two-thirds (64%) have an average tenure of between 6 to 10 years, with 20% having 5 years or less and 15% at 11 to 15 years. With respect to individual directors, in two diverging trends, 16% have served for 16 or more years, while 41% have been on their boards for five years or less. Directors who retired had an average tenure of 12.7 years.

Retirement age and term limits. Term limits remain unpopular, as only 25 companies (5%) specify a limit that ranges from nine to 20 years, and more than half established at 15 years. In one of the rare instances of a decreasing trend in adopting policies, the number of boards that report a mandatory retirement age sits at 71%, lower than last year. The age continues to rise, with 43.5% of boards setting it at 75 or older. Ten years ago, more than half had 72 as the retirement trigger.

Board evaluations. More than half (54%) evaluate the full board and committees, and 38% disclose an evaluation of individual directors. Nearly 10% now disclose that they engaged a third-party last year to facilitate evaluations, while a number of boards indicate that they use one periodically.

Resignation policies for changing director status. 87% of boards require directors who experience a change in employment status or job responsibilities to offer to resign, and 36% have a policy that the CEO must submit a resignation upon termination of employment. Boards tend to have discretion on whether to accept these resignations.

Limits on other boards. Only 23% do not have any limits on their directors' ability to accept other public company directorships, although advance notification may be necessary. 64% restrict the total number to three or four additional

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boards (four or five total), or three total boards for those who are public company CEOs or other executives, and 42% restrict directors to three audit committees. As a result, only 10% of S&P 500 directors now serve on four or more boards, and 38% serve on only one board, while 32% serve on two.

Meetings and committees. The majority of boards met 6 to 9 times, with an average of 8 meetings. With the growth in board committees, about 69.5% now have only three (audit, compensation and governance), and 31% have finance committees, 12% have risk committees and 9% have either a public policy or social responsibility committee, science and technology committee or an environmental, health and safety committee.

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