Continuing the conversation

Fall 2011

Board renewal

Boards should change to keep up with an evolving economic, regulatory, and competitive climate.

pwc

A corporate board awakening

Corporate boards have the opportunity to reshape corporate culture, to influence business strategy, and to help foster business model sustainability. Diversity across categories such as gender, ethnicity, industry expertise, and experience can allow for broader perspectives in the boardroom. Diversity can also help keep a board's collective skill sets sharp and connected to today's business environment.

Many boards are seeking women and minority directors. Corporate boards are also seeking individuals who can offer diversified thinking, business experience, and expertise.

While interest in board rejuvenation and change has been growing, the pace of transformation does not reflect the pace at which interest is growing. Business challenges as a result of new regulations, increasing demand for communication from stakeholders, and a weak economy can sidetrack momentum for board renewal.

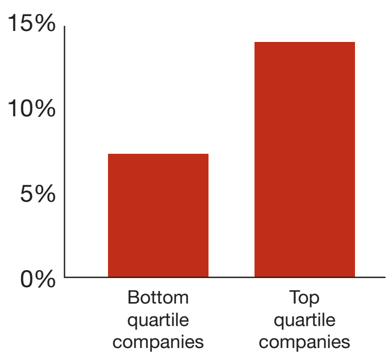
PwC's 2011 Annual Corporate Director Survey (PwC's Survey) highlighted the challenge of diversifying a board—of the 834 responding directors, 55% said it was difficult to increase gender diversity, and 65% said it was difficult to increase racial diversity.

Nine percent of S&P 500 boards have no women, and 12% of the top 200 have no minorities.

9%

"Boards that look to diversify solely for the sake of diversity hurt the overall cause," Olivia Kirtley—Director, US Bancorp, Papa John's, ResCare.

Return on sales



The Bottom Line: Corporate Performance and Women's Representation on Boards, Catalyst, March 2011

Women "just need to keep pushing," The Honorable Barbara Hackman Franklin

Gender and race

In September 2011, more than 100 women directors and C-suite executives attended the inaugural **Board Composition: Opportunities for Women in the Boardroom Summit** (the Summit), co-sponsored by PwC and the National Association of Corporate Directors (NACD). The Summit successfully fostered a dialogue about the challenges women face getting on boards and the business challenges facing directors in today's environment. The women at the Summit shared advice and anecdotes about their experiences and challenges getting and sitting on boards.

The Honorable Barbara Hackman Franklin was the keynote speaker. She offered insight about her journey to and experiences in the boardroom. Having served on fourteen corporate boards over the course of her career, Ms. Franklin noted that progress has been made with women on boards. But she said, there is still some resistance. "It isn't always obvious, so women have to continue with the drive to get on boards," she said. Ms. Franklin is a director at Aetna, Inc., The Dow Chemical Company, and American Funds, a former US Secretary of Commerce, and Chairman of the Board of the NACD.

It is "good business" to have women on boards, according to Ms. Franklin. Women understand collaboration and team thinking, and they bring these elements to the boardroom, she said. "Women bring specific expertise and skill sets, which is part of board diversity. Having more women changes the tone of discussion and provides other perspectives that would otherwise not be there."

Some believe the requirement that companies disclose how diversity considerations factor into director nominations, which took effect in February 2010, might help with the diversity push. Ms. Franklin is not convinced. External pressures, such as the SEC requirement or gender quotas, which are often seen in Europe, will be inconsistent and impractical, she explained. And they could prompt some backlash, which would defeat the movement. Women need to "find ways to bust through the logjam," Ms. Franklin said.

Numbers could help with the push. Research conducted by Catalyst ranked Fortune 500 companies by percentage of women board directors (top quartile had the highest average and bottom quartile the lowest) and evaluated corporate performance from 2004 to 2008. Companies that had three or more women directors in at least four years outperformed companies with no women directors in return on sales, return on invested capital, and return on equity. Catalyst is a non-profit resource for research and information about women and business.

While having women directors may be only one factor involved in achieving better metrics, these outcomes provide food for thought.

In 2010, women made up 46.7% of the US workforce and 51.5% of management, professional, and related positions, the Bureau of Labor Statistics, Current Population Survey shows. There is a pronounced disparity with respect to women sitting on corporate boards, however. Women make up only 16% of S&P 500 boards, according to the *2011 Spencer Stuart Board Index* (the Index).

More than one-third (34%) of directors responding to PwC's Survey said they have served on their boards for six to 10 years, and nearly 26% have served for 10 or more years.

34%

"In seeking a seat on a corporate board… ask yourself 'what would I bring to the board,'"
Catherine Kinney, Director—MetLife, NetSuite, MSCI, Inc.

Nearly 71% of US companies have at least one woman director, according to Governance Metrics International's 2011 Women on Boards Report. This compares to 100% in Sweden (which has a mandate) and 10% in Japan. Only 10% of US companies have three women or more on the board, however. Sweden has 56%, and Japan has none.

Mandatory retirement, term limits, and succession planning

Directors are getting older. They're sitting on boards longer. And boards are getting smaller. In 2011, the average board size was 10.7 members, down from 11.1 in 2001, according to the Index.

While some boards may be comfortable with the same directors who have served for years, they should not ignore the inevitable—at some point, they will need new directors.

Some boards are interested in adding younger board members, while others believe experience, which often comes with age, is more important. The average age of independent directors was 62.4 in 2011, according to the Index, up from 60.2 in 2001. Thirty-seven percent of boards have an average age of 64 or older, more than double the share a decade ago. One possible reason for the age increase is the shift from seeking active CEOs to seeking retired executives to serve in the boardroom. The average age of newly-appointed independent directors was 56.7, however.

There is also debate about how long people should—and do—serve on boards. One side of the argument believes that the longer a person serves, the more experience he or she has and the better he or she knows the company. The flip side is that a board might become stagnant if the same directors sit on the board for years and years.

Nearly three-quarters of boards have mandatory retirement policies for directors, and the mandatory retirement age is rising. In 2011, only 16% of S&P 500 boards set the mandatory retirement age at 70. Ten years ago, 60% set it at 70, the Index showed. Most boards (83%) now set the mandatory retirement age at 72 or older, compared to the 36% that did in 2001. Few boards have term limits, and those boards that do typically set the cap between 10 and 15 years.

Boards can prepare for director retirements by addressing board succession planning at board meetings. Board succession planning, like CEO succession planning, should give board members the opportunity to plan for the addition of a new director and the departure of a sitting director. Some boards temporarily increase their size to allow a new director to become acclimated before a retiring director rotates off, which can often help ease the transition and keep the board's culture intact.

Historically, boards looked for active CEOs to be directors, but this dynamic has changed in recent years. More boards are looking for outside directors who aren't CEOs. In fact, 84% of the directors who responded to PwC's Survey are independent board members. Only 16% are inside directors.

It can also be difficult for fresh faces to break in to the boardroom. Nearly half of directors said their board has reservations about bringing in a new director with no prior board experience, according to PwC's 2009 Annual Corporate Director Survey, up from 37% the previous year.

Directors can think outside the box about adding new board members by approaching executives a level below the CEO, advised Susan Hart, Global Retail Practices Leader at Spencer Stuart. These potential candidates have likely already had exposure to the board in their executive roles.

So how does an aspiring director have a successful interview? Be prepared. Do your homework. Know the company's business, its products, competitors, and company management, said Tom Murnane, Director—Pacific Sunwear, Pantry, Inc., and retired PwC partner. "Walk the halls, stores, and factories."

We are interested in your input. Please provide any comments or suggestions for future events and conversations about women, diversity, and the boardroom: centerforboardgovernance@us.pwc.com

For a deeper discussion please contact:

John Barry
Leader, Center for Board Governance
973 236 5460
john.j.barry@us.pwc.com

Mary Ann Cloyd
Partner, Center for Board Governance
973 236 5332
mary.ann.cloyd@us.pwc.com

Catherine Bromilow
Partner, Center for Board Governance
973 236 4120
catherine.bromilow@us.pwc.com

Don Keller
Partner, Center for Board Governance
512 708 5469
don.keller@us.pwc.com