

PwC's 2014 Annual Corporate Directors Survey - The gender edition

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Gender-specific responses

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Please note: Charts may not all add to 100 percent due to rounding

Introduction

The global discussion about gender diversity on public company boards continues. In addition to the adoption of quotas in several countries, a number of organizations in the US have undertaken significant efforts to increase the gender diversity of directors. Despite this, the number of women serving as directors has not changed significantly over the last six years (18% of all S&P 500 directors are now female compared to 16% in 2008¹). Additionally, a number of academic studies have recently been published attempting to prove or disprove a causal relationship between gender diversity on boards and company performance.

Within this context, there are two fundamental questions about gender representation and director performance that deserve to be asked: Are there really differences in how male and female directors approach their oversight roles? And, do the practices of boards with female directors vary from those of other boards? This report addresses these questions by looking at what male and female directors told us about their individual perspectives and the boards on which they serve.

During 2014, 863 public company directors responded to PwC's 2014 Annual Corporate Directors Survey. Of those directors, 70% serve on the boards of companies with more than \$1 billion in annual revenue. Participants were 86% male and 14% female—closely aligning with gender distribution averages of Fortune 500 public company directors. The board tenure of participants was relatively even. While participants came from nearly two dozen industries, the leading sectors represented included industrial products, banking and capital markets, and technology. Participants were asked to respond about only the largest board on which they serve.

Our survey findings show that male and female directors clearly do have different perspectives on some important corporate governance issues. And in some areas, practices differ for boards that have female director representation. In particular:

- **Women are far more likely to consider board diversity important.**
- **Women see more obstacles to replacing an underperforming director and are more likely to believe their board evaluation process could be enhanced.**
- **Women say their boards have adopted more of the governance structures or practices viewed as “leading” by certain stakeholders.**
- **Both men and women are concerned about director-shareholder communications, but male director concerns are deeper.**
- **Women want to spend more time on IT despite higher levels of engagement, and are more concerned about the digital skills of today's boards.**
- **Women expect more when it comes to board materials**

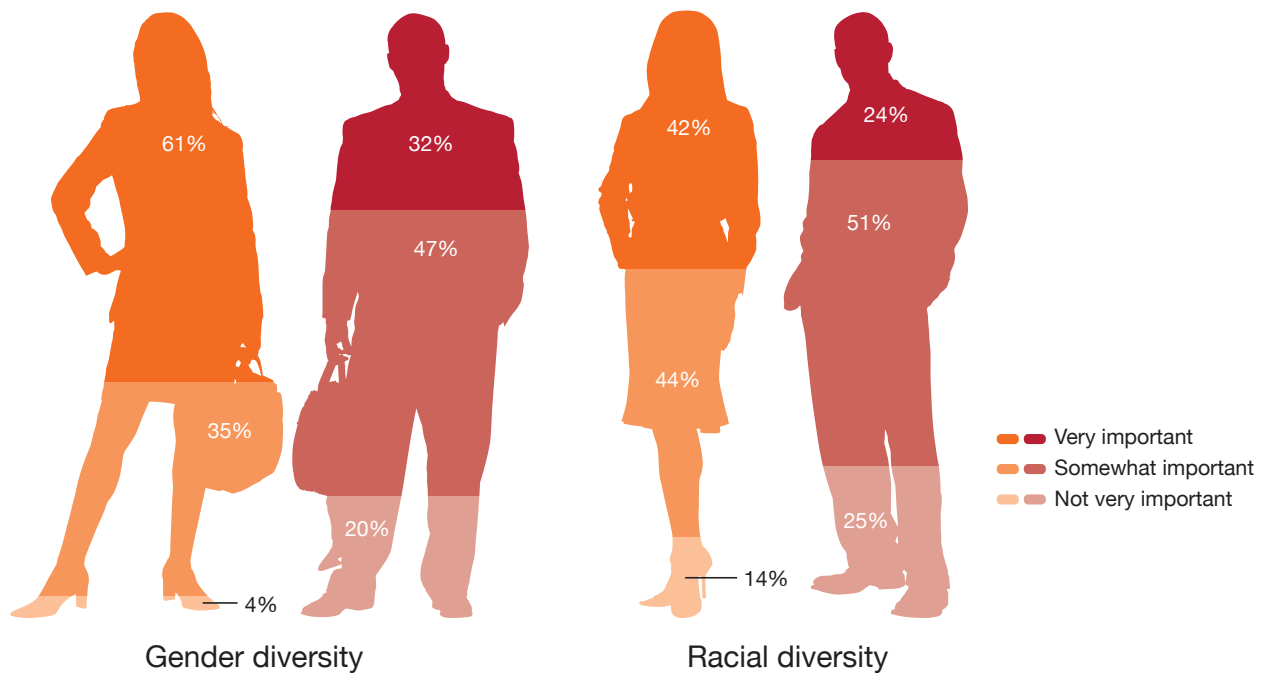
Regardless of the differences in views among male and female directors, current trends point to an evolution that will likely impact gender diversity on future boards. Fortune 500 female directors tend to be younger, with an average age of 60—compared to 63 for males¹. Additionally, 24% of all new S&P 500 directors named in the last two years have been women¹—compared to the current 18% ratio of women to men. And, in general, male directors have been on their boards longer. Considering these factors, it's reasonable to project that the board of the future will include a higher proportion of women than today's boards.

¹ Spencer Stuart U.S. Board Index 2014

Perspectives on the need for diversity

Male and female directors disagree about the importance of having gender and racial diversity on their boards. Female directors are far more likely to consider board diversity to be important. For example, 61% of female directors describe gender diversity as “very important” compared to 32% of male directors. Similarly, 42% of female directors describe racial diversity as “very important,” compared to 24% of their male counterparts. While fewer than one-in-five directors say their board has recruited new directors with diverse backgrounds over the last 12 months, 57% say they are talking about doing so going forward.

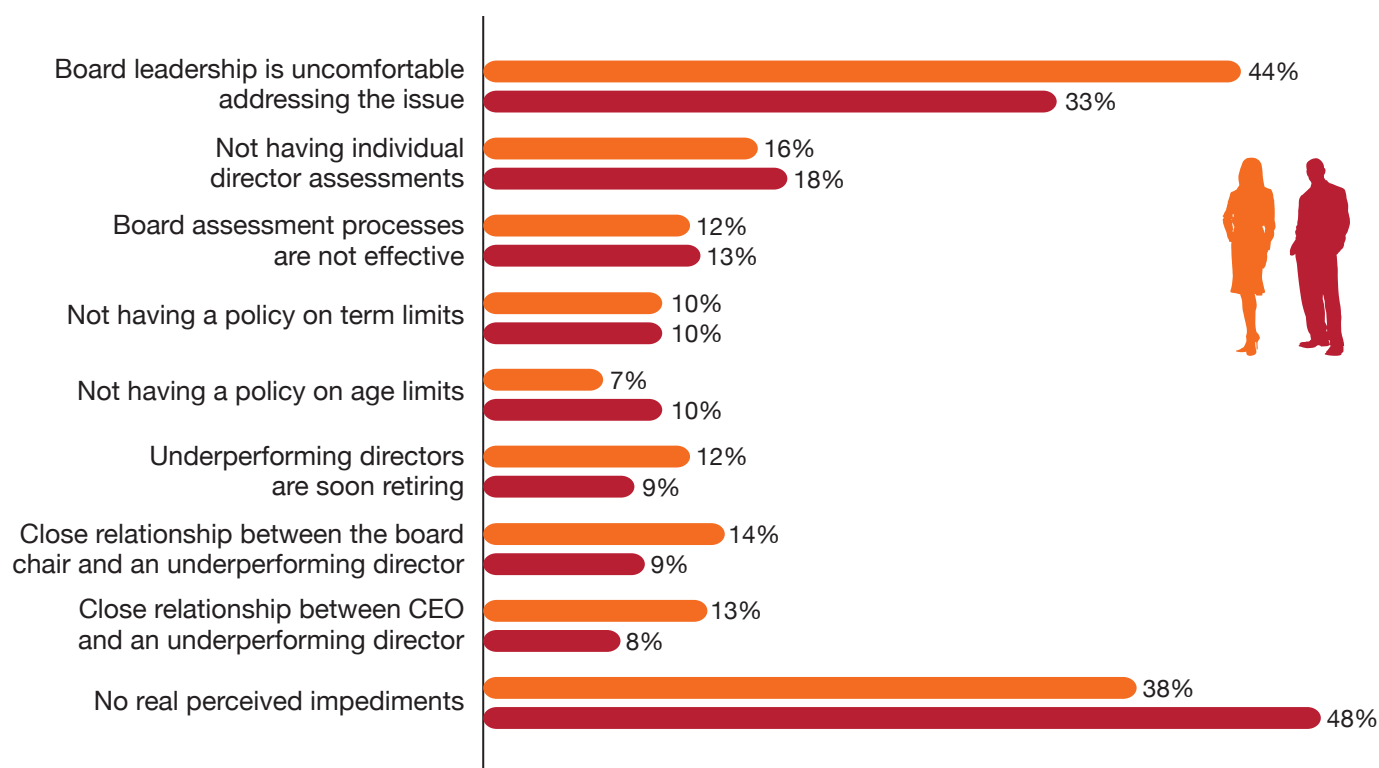
How would you describe the importance of having the following on your board?



Impediments to board renewal

While director dissatisfaction with peer performance grew in 2014, so did the percentage of directors who recognize impediments to replacing underperforming fellow directors (53% compared to 48% in 2013). Female directors are ten percentage points more likely than male directors to believe there are impediments to replacing an underperforming director. When it comes to identifying specific impediments, female directors are eleven percentage points more likely to blame board leadership for their board's inability to replace an underperforming director. Female directors also more frequently cite close relationships between the underperforming director and the board chair and the CEO as impediments to board renewal.

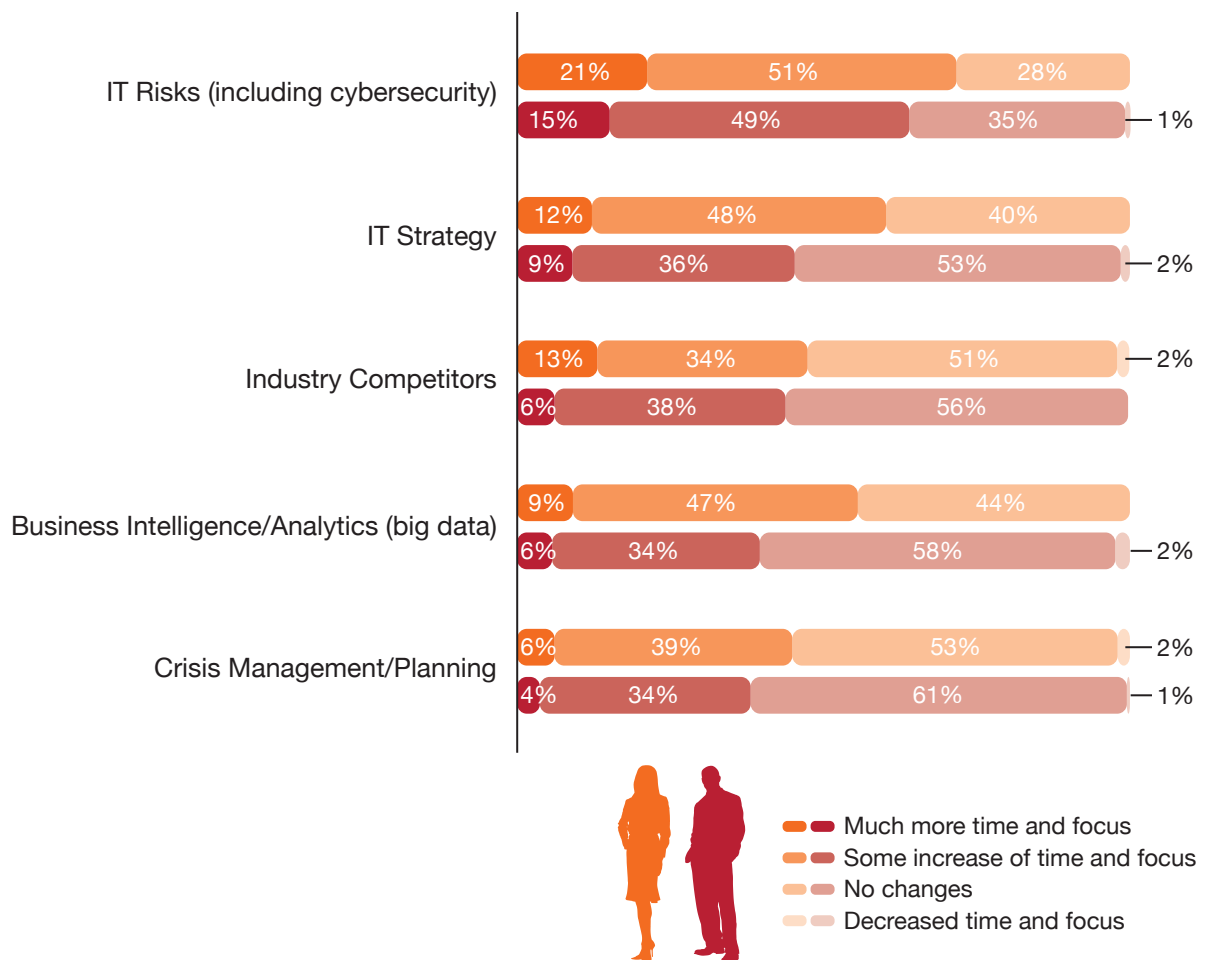
What are the impediments to replacing an underperforming director?



Do men and women want to prioritize the same issues?

The average time commitment of public company directors continues to increase (now 242 hours per year²) due to a variety of factors. Even so, many directors express a desire to dedicate additional time to certain areas. In particular, female directors want more time and focus on IT issues than male directors: 60% want an increase of time and focus on IT strategy (compared to 45% of men). And, 72% of females want at least “some” additional focus on IT risks like cybersecurity (compared to 64% for men); 56% want more attention given to big data (compared to 40% for men). Female directors also want to spend more time than males in other areas including the discussion of industry competitors and crisis management planning.

Please indicate if you believe your board should change the amount of time it spends on:

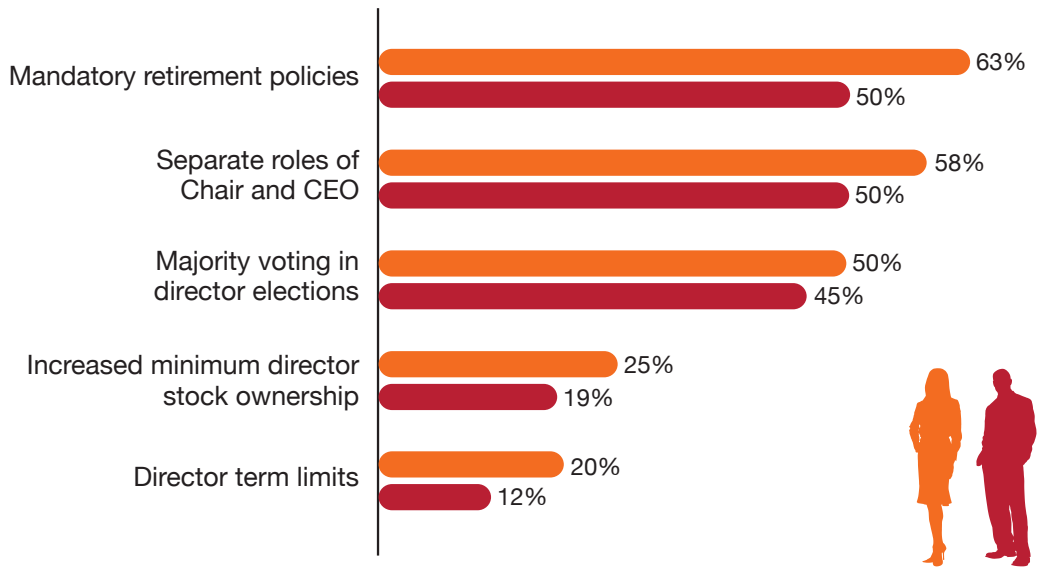


² NACD 2014 Public Company Governance Survey

Thoughts about leading governance initiatives

Female directors indicate that a greater percentage of their boards have adopted some of the governance structures or practices viewed as “leading” by certain stakeholders. For example, 63% of females say their board has adopted mandatory retirement policies, compared to only half of male directors. Similarly, 58% of females say their board has separated the roles of Chair and CEO compared to only half of males. Female directors also indicate that a higher percentage of their boards have adopted term limits and majority voting in director elections.

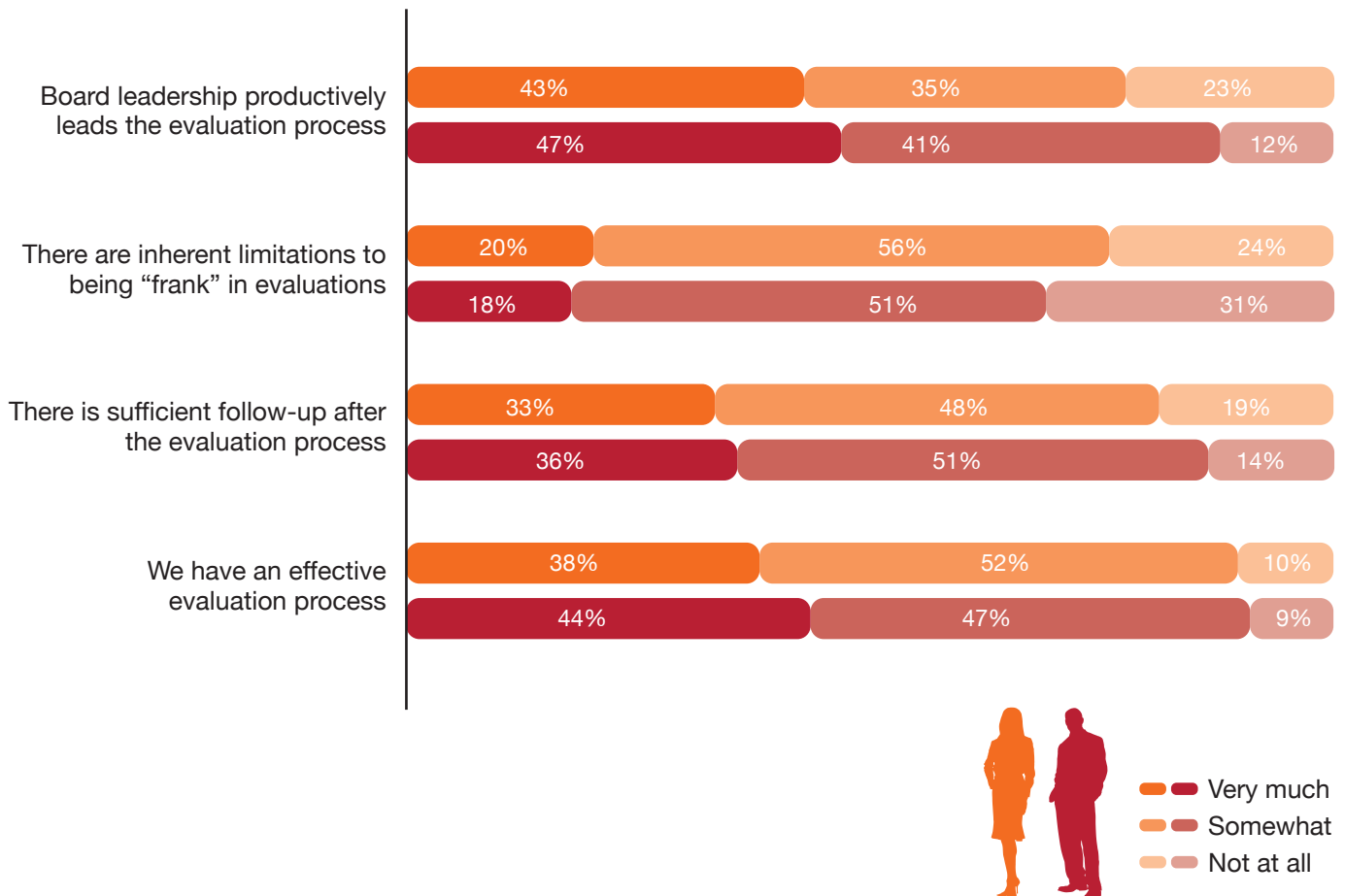
Percentage of directors indicating their board has already adopted the following:



Women directors are more skeptical of their board evaluation process

An effective board and committee self-evaluation process can be a critical tool in achieving board effectiveness. The vast majority of all directors view their self-evaluations favorably—with over 90% believing their self-evaluation processes are at least “somewhat effective.” However, women are more likely to believe their board evaluation process can be enhanced. Nearly a quarter of female directors characterize their board leadership as “not at all effective” in leading the process, compared to only 12% of male directors. Additionally, female directors are less likely to believe there is sufficient follow-up after the self-evaluation process.

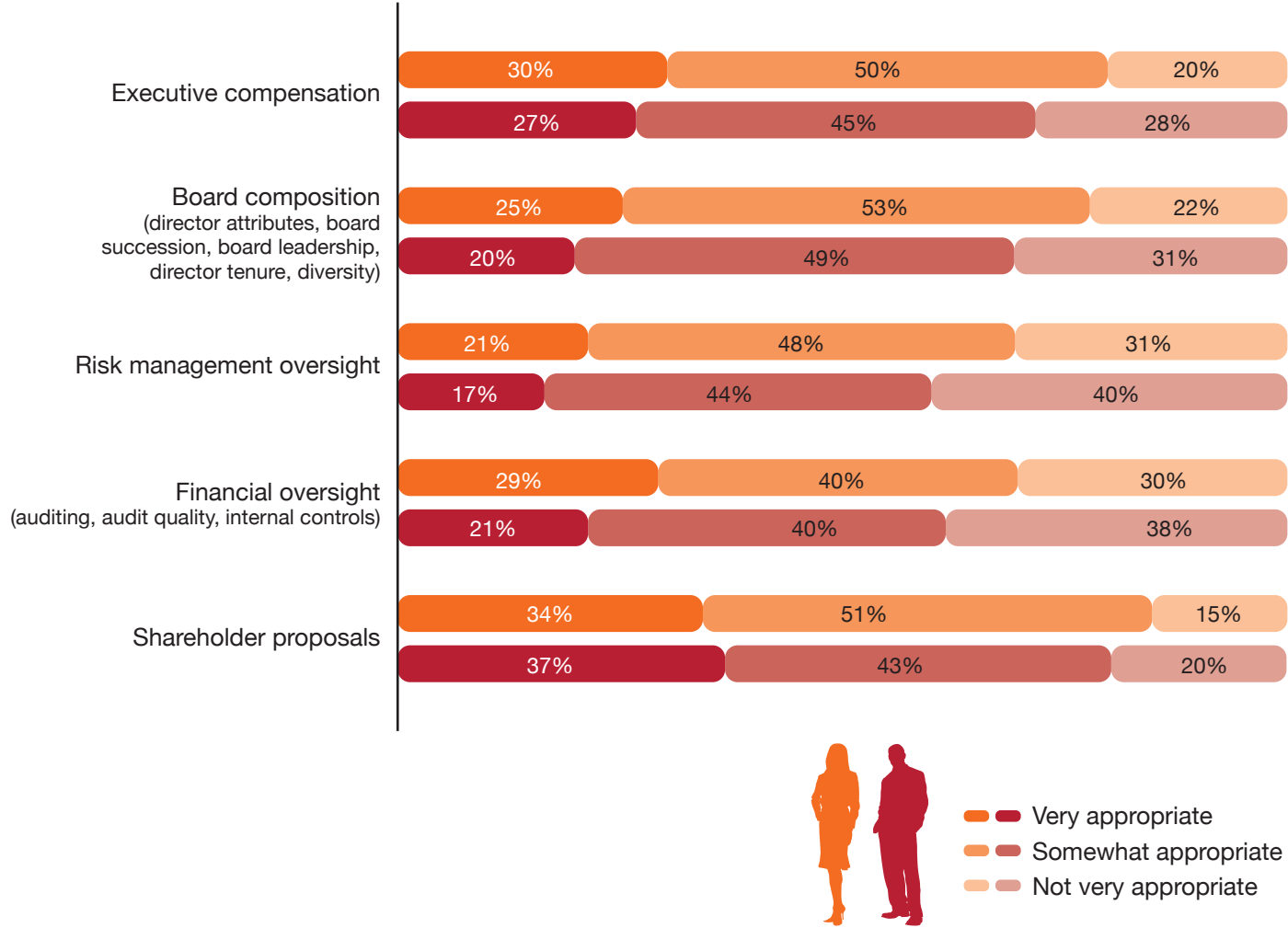
Regarding board/committee self-evaluations, to what extent do you believe:



Which directors want to talk?

Director communications with stakeholders increased across many constituencies in 2014. A greater percentage of directors are communicating with institutional investors—67% now say their board does so compared to 62% in 2013. However, there are different views among male and female directors on the appropriateness of direct dialogue on particular topics. Female directors are more likely than male directors to view discussions with investors about risk management oversight as appropriate (69% versus 60%). Additionally, female directors view executive compensation, board composition, financial oversight, and shareholder proposals as more appropriate topics for direct dialogue than male directors.

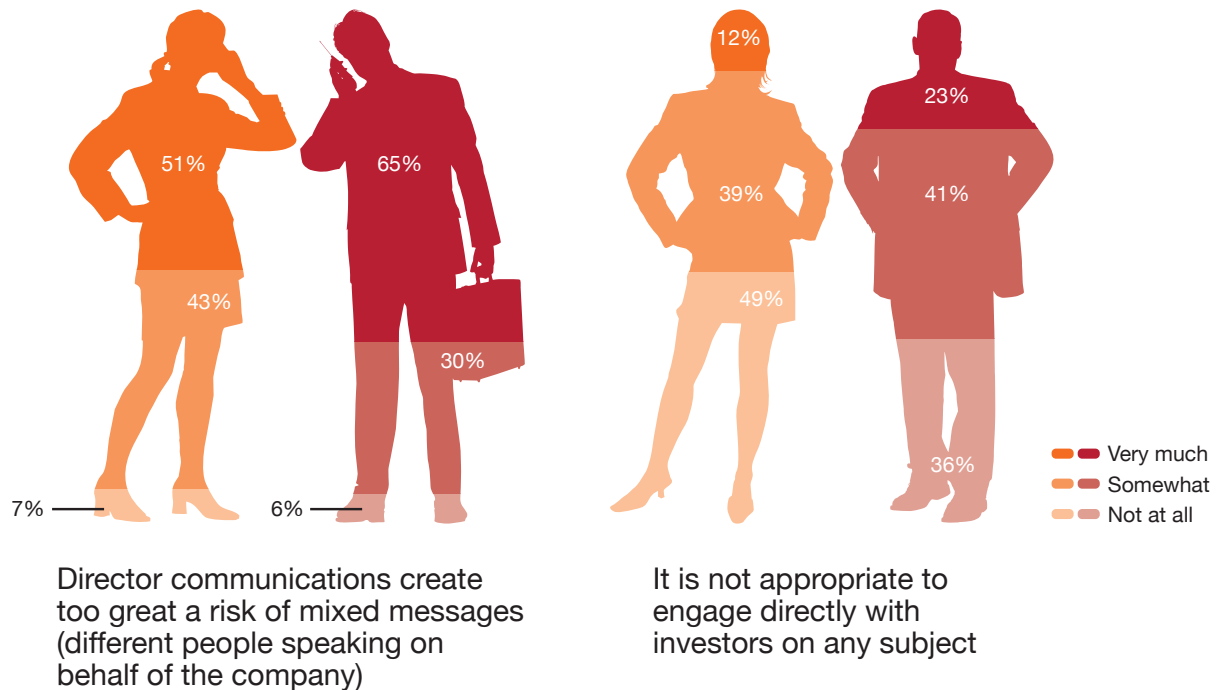
Regarding the following topics, how appropriate is it for boards to engage in direct communications with shareholders?



Communication risks worry men

Many directors have historically been reluctant to participate in direct communications with shareholders for a variety of reasons, including the risk of having too many voices speaking on behalf of the company, concern that investors have special agendas, and worries about violating Regulation Fair Disclosure. Overall, male directors are more likely to express trepidation about such communications; 65% believe “very much” that it creates too great a risk of mixed messages compared to 51% of female directors. And, 23% of male directors don’t believe it’s appropriate to communicate directly with shareholders on any topic—compared to just 12% of female directors.

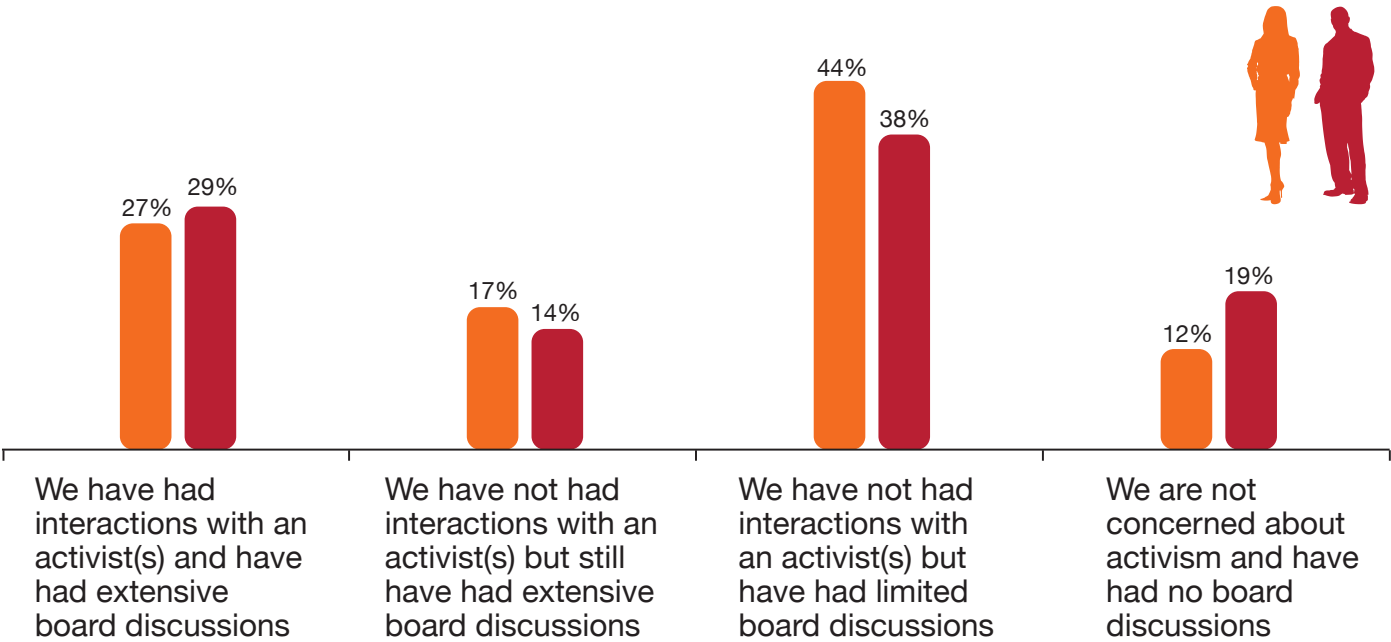
To what extent do you agree with the following regarding director/shareholder communications:



Preparing for shareholder activism

The shareholder activism environment has intensified over the last several years and activist investors now have more than \$100 billion in assets under management. Director experience confirms this, as about one in four directors interacted with activists and held extensive board discussions about activism in the last year. A greater percentage of female directors have had extensive or limited board discussions about activists despite having no interaction. And, only 12% of women are not concerned about activism compared to 19% of males.

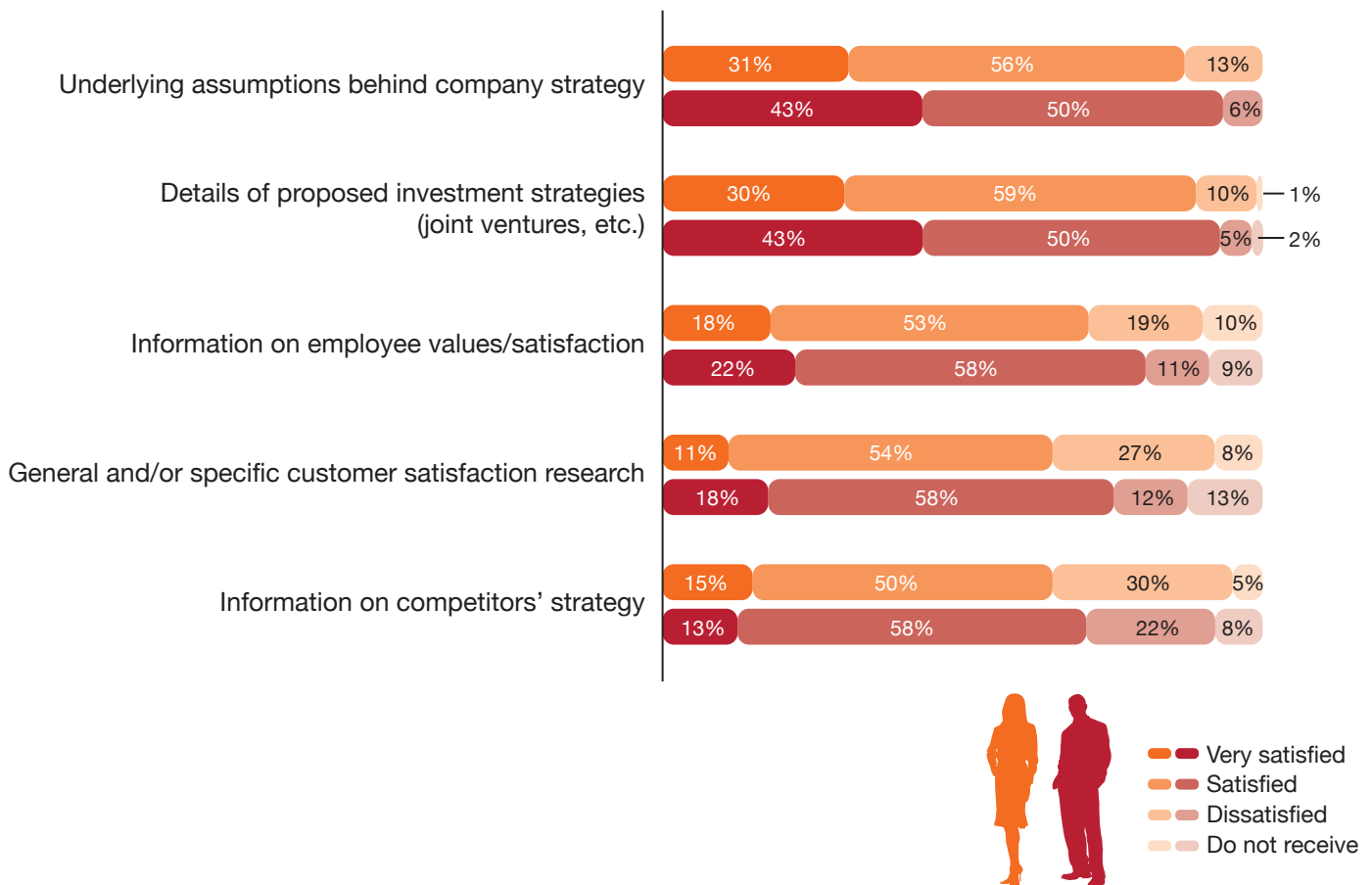
How would you describe your board’s preparation for and actual experience with shareholder activism?



Am I getting what I want?

On the whole, directors are pleased with the strategic information they receive from management. However, female directors expect more when it comes to board materials. For example, 43% of male directors are “very satisfied” with the information they are given regarding the underlying assumptions behind company strategy, compared to only 31% of female directors. And female directors are more than twice as likely to say they are “dissatisfied” with this strategic information. Additionally, female directors are less satisfied with the information they receive on customer satisfaction research, employee satisfaction, competitor strategy, and details of proposed investment strategies.

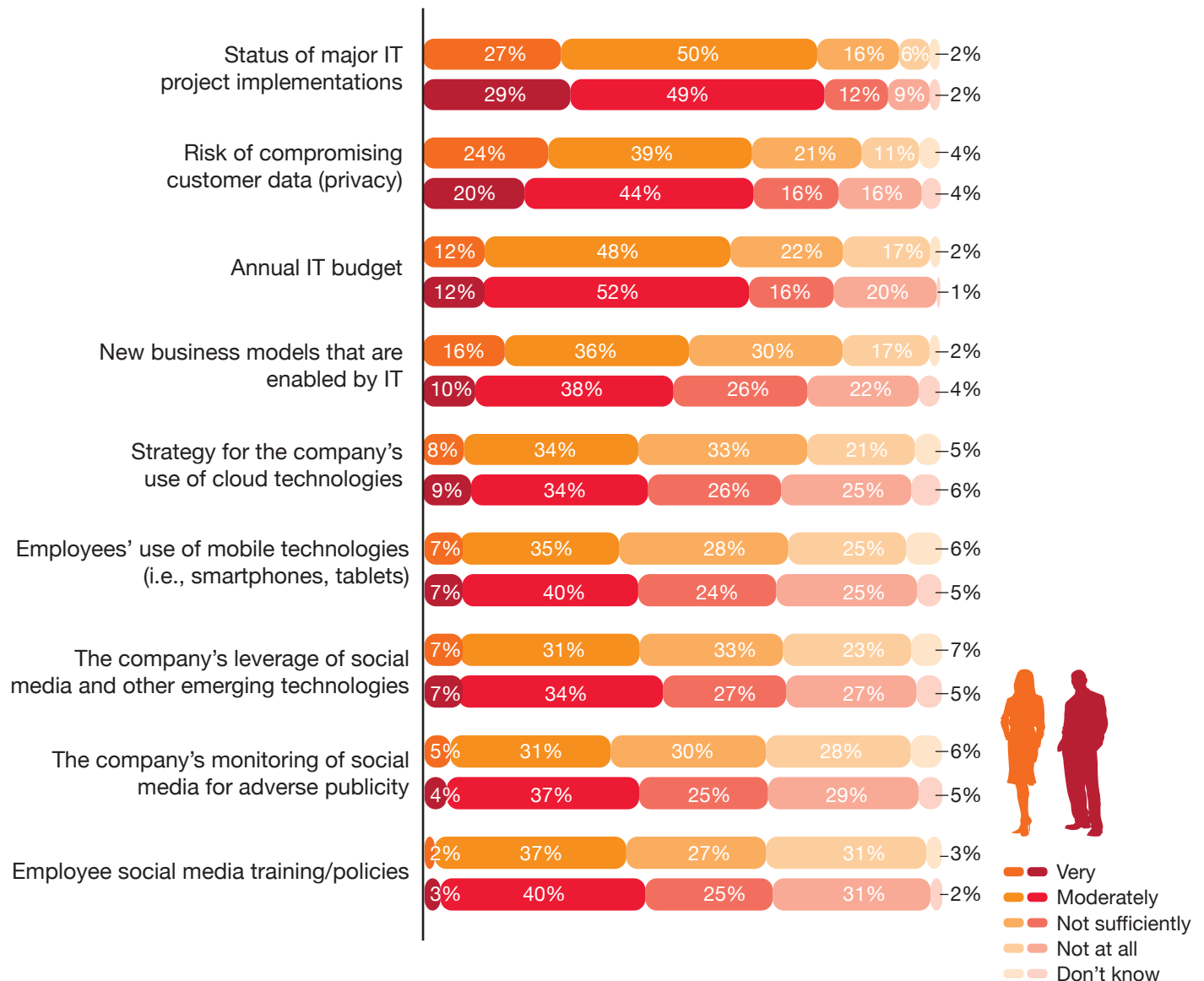
How satisfied are you with the following information provided to your board?



Women focus on IT issues

Director engagement with IT topics increased from 2013, but in nearly every IT area, a greater percentage of female directors describe their board or its committees as “not sufficiently” engaged. This was particularly true about the level of engagement regarding the company’s cloud strategy, leverage of social media, privacy, new business models enabled by IT, and the annual IT budget.

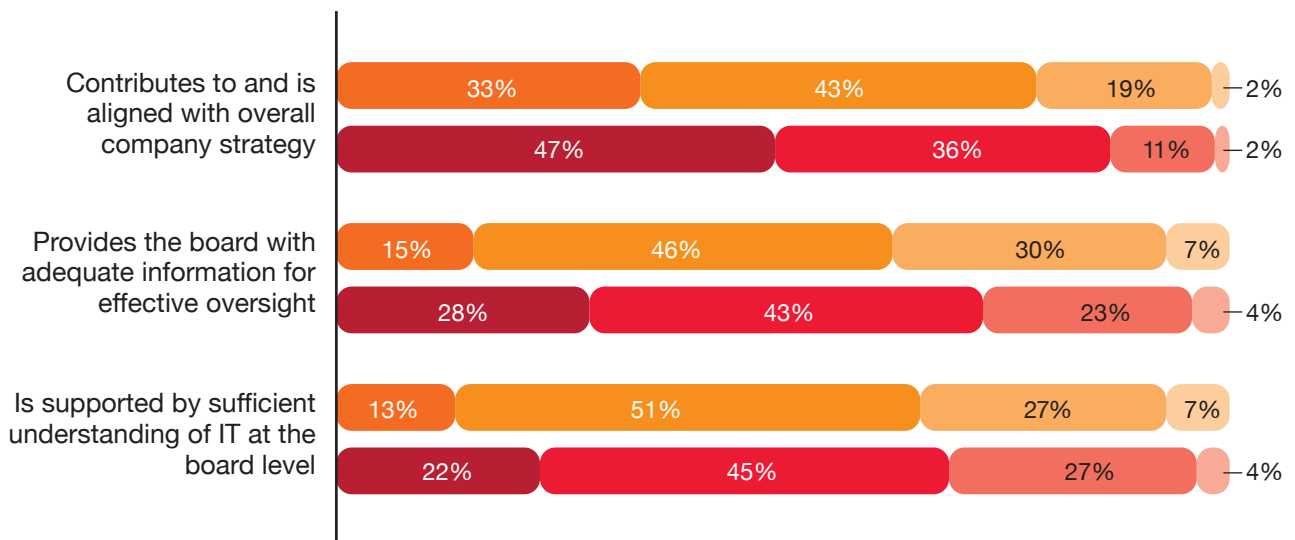
How engaged is your board or its committees with overseeing/understanding the following?



Confidence in IT oversight capabilities

Overall, female directors are less confident than males with their company's approach to IT strategy and IT risk mitigation. Female directors are fourteen percentage points less likely to believe their company's IT strategy and IT risk mitigation approach "very much" contributes to and is aligned with the overall company strategy. Only 15% of female directors "very much" believe the company's IT strategy and IT risk mitigation approach provides the board with adequate information for effective oversight—compared to 28% of male directors. Female directors are also less likely than males to believe the company's approach to IT strategy and IT risk mitigation is "very much" supported by a sufficient understanding of IT at the board level.

Do you believe your company's IT strategy and IT risk mitigation approach:



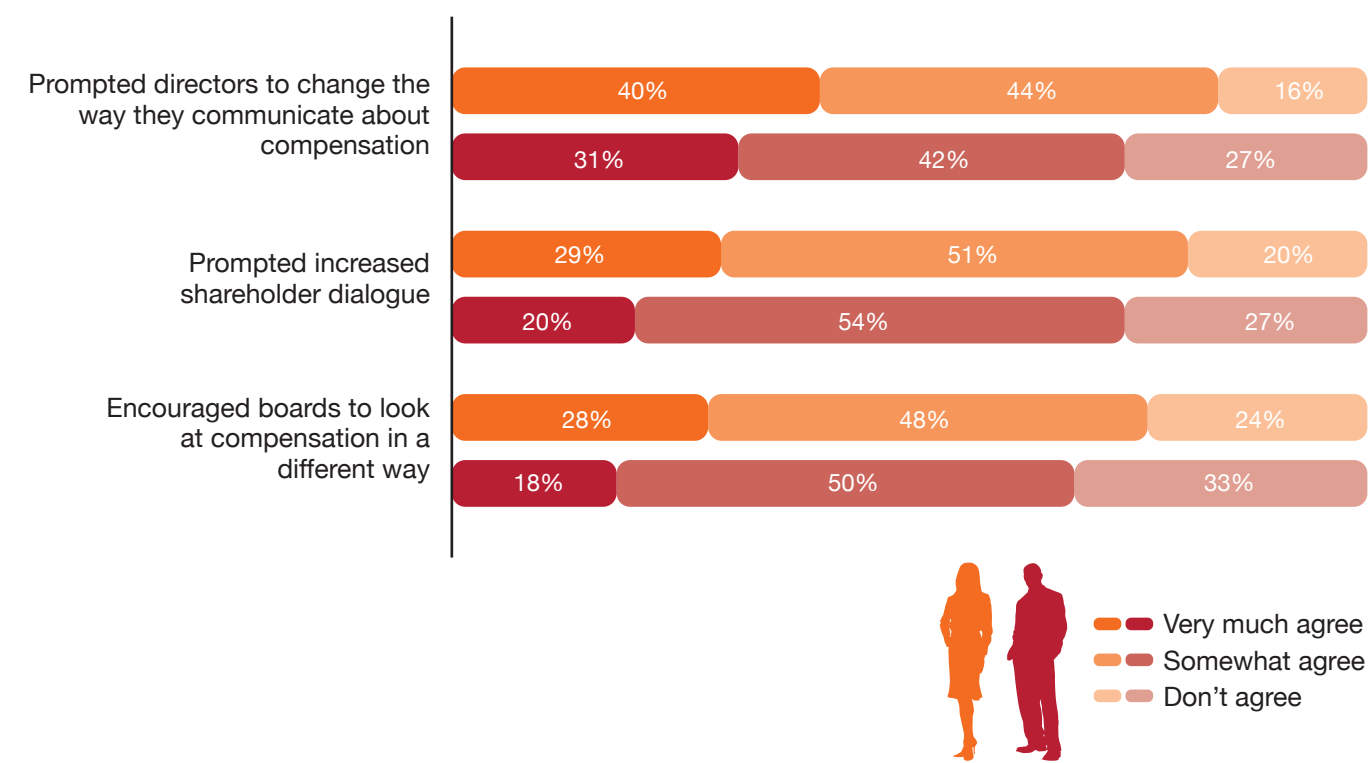
- Very much
- Moderately
- Needs improvement
- Not at all

Note: Excludes those respondents who indicated "don't know"

Men less positive about “say-on-pay”

Female directors are more likely than males to believe that say-on-pay voting had a significant cumulative impact on evaluating compensation and related communications. For example, 28% of female directors believe say-on-pay encouraged their board to look at compensation in a different way—but only 18% of male directors feel the same way. Additionally, a greater percentage of women believe that say-on-pay prompted directors to change the way they communicate about compensation. Both genders generally believe it prompted increased shareholder dialogue.

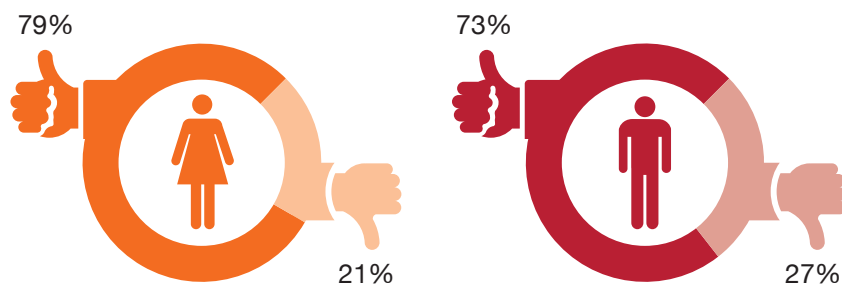
What is your assessment of the cumulative impact of “say-on-pay” voting?



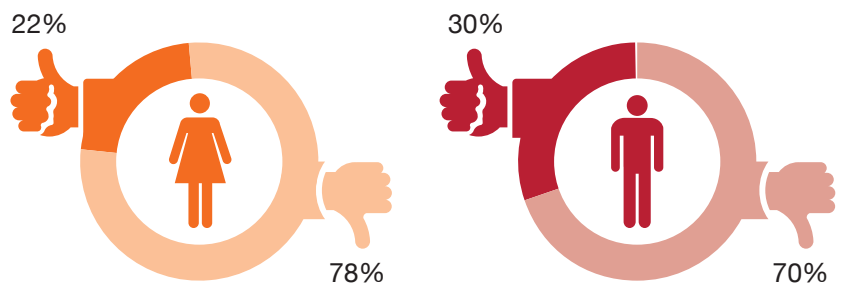
Shared concerns about proxy advisory firms

While both male and female directors express significant concern with the policies and practices of proxy advisory firms, female directors are six percentage points more likely to believe that investors rely on proxy advisors too heavily in their voting decisions.

Which of the following concerns do you have with proxy advisory firms:



Investors rely on proxy advisory firms too heavily in their voting

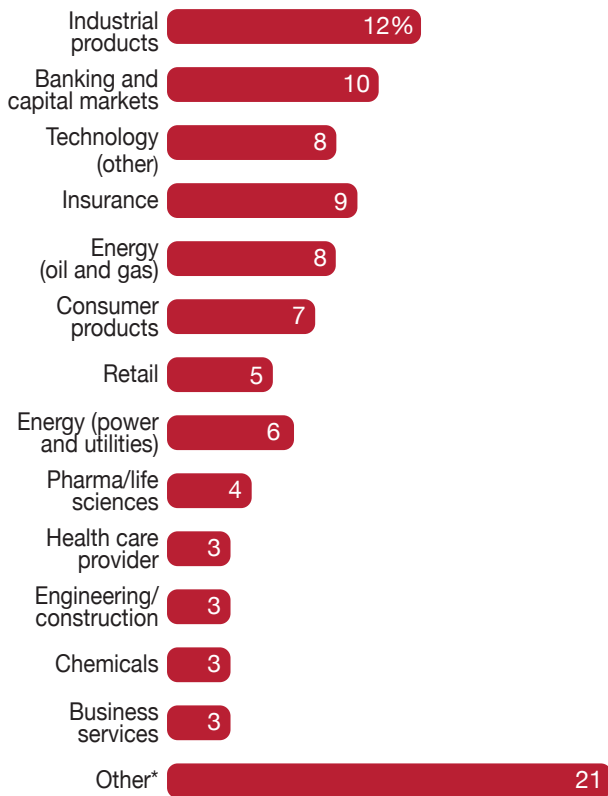


I'm not particularly concerned with proxy advisory firms' policies/practices

● Yes
● No

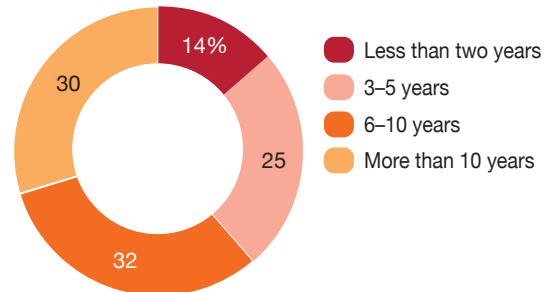
Demographics of survey participants

Which of the following best describes the company?

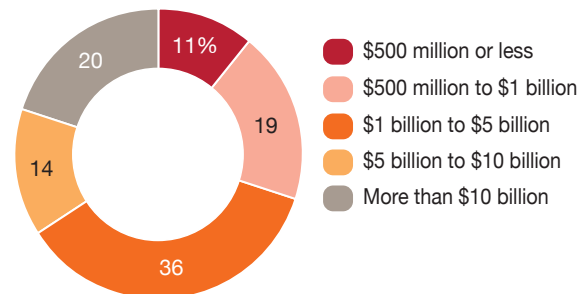


*Other includes the sum of the following industries with no individual response receiving over 2%: transportation/logistics; software/internet solutions; semiconductor; hospitality/leisure; government contracting; communications; automotive; asset management; mining; healthcare payer; forest, paper, and packaging; entertainment/media; and agribusiness.

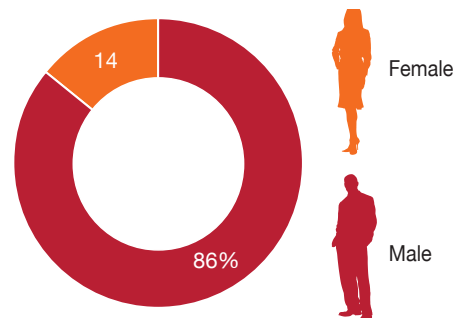
How long have you served on this board?



What are the annual revenues of the company?



You are:



To have a deeper conversation about how this subject may affect your business, please contact:

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