Insights from the Boardroom 2012
Board evolution: Progress made, yet challenges persist
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Corporate directors have adjusted to significant changes in the governance environment during the last year. On the regulatory front, the Securities and Exchange Commission (SEC) continues to implement new rules stemming from the Dodd-Frank Act, causing companies to rethink and react. The voice of shareholders has never been louder, pressuring companies to adopt structural governance changes by submitting proposals on board declassification, splitting CEO and board chair roles, and majority voting. Shareholder “say on pay” votes moved into a second year with some companies uncertain about how to respond based on their voting results. Plus, more companies had their shareholders withhold approval on their “say on pay” votes, maintaining the pressure on compensation committees.

In the summer of 2012, 860 public company directors responded to PwC’s 2012 Annual Corporate Directors Survey. Of those directors, 70% serve on the boards of companies with more than $1 billion in annual revenue. As a result, the survey’s findings reflect the practices and boardroom perspectives of many of today’s world-class companies. We structured the survey to provide pragmatic feedback directors can use to assess and improve performance in areas that are “top of mind” to today’s boards. The survey shows directors are clearly making progress and enhancing their practices. At the same time, directors acknowledge the numerous challenges they still face. The following are the highlights:
Boards are making progress

• There has been a marked increase in the hours directors dedicate to board work. More than half of directors say the amount of time they spent rose last year. Two-thirds of those increased their hours over 10%, and one-fifth more than 20%. Compensation committee hours rose for half of companies, and more than one-third of audit committees increased their hours. This is not surprising, given the pressure on compensation issues and fraud prevention, among others, these committees respectively need to address. However, directors still acknowledge challenges, as three-quarters want to dedicate more time to overseeing strategy and meeting with company executives.

• There are significant differences in how concerned directors are with the level of shareholder support for director nominees. Specifically, the longer a director has been on a board, the less concerned he or she is with negative shareholder votes when considering the renomination of a fellow board member.

• Of the companies that have a combined Chair and CEO, about half of these boards are already discussing splitting the role at their next CEO succession. The prevalence of these conversations suggests many directors are re-evaluating their board leadership structure—perhaps in response to continued shareholder activism against combining the role.

• With the SEC’s whistleblower rules in effect and a sharp increase in bribery enforcement, directors are taking specific actions overseeing compliance programs designed to reduce fraud. They have progressed by adopting a number of leading practices like spending more time discussing “tone at the top” and focusing on the risks embedded in compensation plans.

• Sixty-four percent of directors responded that their companies’ compensation practices changed in response to their “say on pay” vote. These changes included enhancing proxy statement compensation disclosures, making compensation more performance-based, and increasing communications with proxy advisory firms. The companies most likely to make changes were those that received less than 70% shareholder support for their pay plans. Our survey revealed that about 2% of companies decreased overall compensation levels.

• Directors spent less time on crisis management planning during the last year. Perhaps it’s not surprising, then, that more than one-third want to spend more time on it in the future. This may signal that boards feel that although this issue requires considerable oversight attention, it may not be a high-priority topic every year.
Yet challenges persist

• Dissatisfaction with the performance of an individual fellow board member is fairly common and presents an ongoing challenge—with aging and lack of expertise cited as the key reasons. Nearly one-third of directors believe someone on their board should be replaced. Other studies show both the average age of directors and average board tenure continues to grow. In our survey, 35% of respondents have served on their boards for over 10 years.

• 37% of boards have no clear allocation of specific responsibilities for overseeing major risks among the board and its committees. Many directors understand the risks the company faces but are not entirely sure how the board allocates responsibility for them. This structural disconnect is challenging and could prove troublesome in the long run.

• Over half of directors (52%) believe that some form of annual education should be required. However, nearly one in five (19%) had no board education during the last year; more than one-third (37%) did eight hours or less. Of those who believe annual director education should be required, 44% participated in less than four hours of education in the last year, and 21% did none at all. When thinking about this data, it should be noted that there are no specific external education requirements for directors. And director education is no longer considered part of the corporate governance evaluation of major proxy advisory firms.

• When asked about sources used to recruit new directors, nine out of 10 directors said they look to the recommendations of other directors; 11% consider investor-recommended board candidates.

• Many voices influence boards’ decisions about executive compensation: 86% of directors cited compensation consultants as “very influential,” followed closely by the CEO (79%), and institutional investors (54%). While the media has extensively reported on executive compensation issues—in some cases quite critically—only 12% of directors said this group had much of an influence on their decisions.
• Directors believe proxy advisory firms have a lot of influence, but nearly half of directors describe the thoroughness of those firms’ work and the quality of their recommendations, as “fair” or “poor.” Directors are reaching out to proxy advisory firms more frequently, with 53% communicating with them during the last year.

• While directors see the opportunities in emerging technologies like social media, some are uncomfortable with the challenge of effectively overseeing IT strategy and risk. More than two-thirds of directors we surveyed said they are not sufficiently aware of how their company monitors social media for adverse publicity. And more than half say they are not adequately engaged with new business models that are enabled by IT.

• Considering topics of particular regulatory and shareholder interest, directors are most concerned with (and spending the most time on) two: mandatory audit firm rotation and proxy access. 75% of directors have “not much” or no concern with conflict minerals, and 85% don’t expect to spend much time on the issue.

Selected insights are included in the immediately following section. The appendix includes the remainder of the survey results.
Board composition and structure

Composition is critical to the board’s ability to perform its key roles, including overseeing risk, contributing to strategy, setting executive compensation, and planning for CEO succession. Highly effective boards include a mix of individuals with the appropriate expertise and experience to bring the right dynamics. Collegiality is an important part of these dynamics, as is the willingness to ask difficult questions of management and fellow directors. Accordingly, boards take great care when inviting a new director to join—as the board needs to consider the skill sets required, along with intangibles like the individual’s personality and work style. Similarly, the decisions about renominating existing directors are important ones.

Investors have an increased interest in board composition and are looking closely at the expertise individual directors bring. They are also focusing on board member demographics, including gender and racial diversity, director age, and tenure.

Finding new directors

When asked about sources used to recruit new directors, nine out of 10 board members say they look to the recommendations of other directors; 11% consider investor-recommended board candidates. This suggests that directors are most comfortable with individuals recommended by someone they know and trust. Companies with over $10 billion in annual revenue were the least inclined to use investor input on board candidates—at 6%. About 67% of directors use search firms to identify board candidates.
While only about two-dozen companies received shareholder proposals for proxy access to allow investor nominees, some suggest the number of these proposals will increase going forward—specifically at companies that are perceived to be underperforming or unresponsive to requests from their shareholders. If proxy access gains more traction, shareholder nominees may get more of the board’s attention.

**What sources do you use to recruit new board members?**

- Other board members’ recommendations: 90.7%
- Search firms: 67.2%
- Management recommendations: 54.8%
- Investor recommendations: 10.7%
- Public databases: 4.1%
- Other: 1.7%
Replacing directors

Dissatisfaction with the performance of an individual fellow board member is fairly common, and nearly one-third of directors (31%) believe a fellow board member should be replaced. When specifying the reasons for their dissatisfaction, about half say aging has diminished that person's performance. About 40% believe the director does not have the necessary expertise, and others cite a lack of preparation for meetings. Directors who have been at the company one to two years are most likely to believe a fellow board member should be replaced because of aging. At the same time, other studies show that both the average age of S&P 500 directors and average board tenure keeps growing. In our survey, 35% of respondents have been on their current board for over 10 years.

Do you believe that any of your board members should be replaced for the following reasons?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aging has led to diminished performance</td>
<td>14.9%</td>
</tr>
<tr>
<td>He/she does not have the expertise required</td>
<td>12.9%</td>
</tr>
<tr>
<td>He/she is unprepared for meetings</td>
<td>11.4%</td>
</tr>
<tr>
<td>He/she oversteps the boundaries of his/her oversight</td>
<td>10.1%</td>
</tr>
<tr>
<td>He/she serves on too many boards</td>
<td>5.8%</td>
</tr>
<tr>
<td>We don't have any board members who should be replaced</td>
<td>68.7%</td>
</tr>
</tbody>
</table>

Director nominee wish list

As boards recruit new members, certain areas of expertise are highly sought-after—while others are not. The most desirable attributes are industry expertise, with 45% of directors believing it to be “very important,” followed closely by financial expertise (43%). Conversely, human resources and legal expertise are seen as “very important” by only 6% and 5% of directors, respectively. This may indicate that boards prefer to use outside experts and are not willing to dedicate a board seat to gain that perspective. Racial and gender diversity continue to receive some attention, with 22% and 25% of directors indicating they are “very important” characteristics of new director candidates. Directors at larger companies (more than $5 billion in annual revenue) assign higher importance to adding racial and gender diversity than do those at smaller companies. Perhaps this is a result of shareholder pressure that tends to focus on larger companies first, which then trickles down to smaller companies.
**Less worry about CEO succession**

Planning for CEO succession is one of the board’s core responsibilities. The company’s long-term viability depends upon successfully identifying and grooming potential candidates for the CEO role. In 2011, we reported that CEO succession was “top of mind” for directors, with 59% expressing a desire to spend more time discussing it. This increased in 2012, with 68% of directors wanting more board hours focused on the task.

What also changed from last year is the level of satisfaction directors have with their company’s CEO succession plan. This year, nearly 80% of directors expressed “extreme” or “moderate” satisfaction—a substantial increase from 64% the previous year. Directors may have spent more time on CEO succession during the prior year as a result of media attention given to several high-profile CEO turnovers during that period. As a result, directors seem more comfortable with their company’s plan in the current year. Directors at the largest companies (more than $10 billion in annual revenue) are three times as likely to be “extremely satisfied” with their company’s CEO succession plan as those at smaller companies.

**Are you satisfied with your company’s CEO succession plan?**

- Yes, extremely: 28.9%
- Yes, moderately: 49.1%
- No, not particularly: 19.3%
- No, not at all: 2.4%
Evaluating leading practices for boardroom behavior requires insight into what processes are most accepted by boards today. We asked directors about communications, continuing education, time commitment, and board evaluations.

**Directors increase external communication**

The level of director communication with stakeholders continues to evolve. Investors increasingly want to discuss governance issues with board members—most frequently with non-executive chairs, lead directors, and committee chairs. The growing influence of proxy advisory firms has also caused directors to entertain the idea of more communication.

A majority of boards are communicating more with their largest investors on governance matters. Sixty-two percent of boards speak with their institutional investors, while one-third say the board does not—and should not—have such dialogue. These divergent views suggest boards each behave very differently when it comes to direct communication.

There are many other groups with whom directors communicate more extensively than in the past. About 22% have increased their communications with both employees and analysts; 18% report increasing communications with regulators, while 15% have done so with proxy advisory firms. Fewer directors show interest in talking more to the media, which saw one of the smallest increases (8%).

**Board practices and behaviors**

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**PwC’s Annual Corporate Directors Survey**

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During the last 12 months, has your board participated in communicating substantive issues to:

<table>
<thead>
<tr>
<th></th>
<th>Yes, and it has increased</th>
<th>Yes, and it has stayed the same</th>
<th>Yes, and it has decreased</th>
<th>No, but we should</th>
<th>No, and we should not</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional shareholders</td>
<td>26.9%</td>
<td>32.2%</td>
<td>2.1%</td>
<td>1.3%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Analysts</td>
<td>21.9%</td>
<td>36.0%</td>
<td>1.6%</td>
<td>4.2%</td>
<td>39.1%</td>
</tr>
<tr>
<td>Employees</td>
<td>21.8%</td>
<td>44.8%</td>
<td>2.8%</td>
<td>3.4%</td>
<td>27.5%</td>
</tr>
<tr>
<td>Regulators</td>
<td>18.4%</td>
<td>35.6%</td>
<td>4.3%</td>
<td>5.4%</td>
<td>39.6%</td>
</tr>
<tr>
<td>Proxy advisory firms</td>
<td>15.0%</td>
<td>33.3%</td>
<td>3.3%</td>
<td>3.6%</td>
<td>41.8%</td>
</tr>
<tr>
<td>Media</td>
<td>8.0%</td>
<td>37.0%</td>
<td>3.3%</td>
<td>5.4%</td>
<td>48.2%</td>
</tr>
<tr>
<td>Retail shareholders</td>
<td>7.8%</td>
<td>33.7%</td>
<td>3.4%</td>
<td>4.4%</td>
<td>50.6%</td>
</tr>
</tbody>
</table>

Education is a mixed bag

Many directors stay abreast of emerging trends in corporate governance to effectively discharge their oversight responsibilities. When asked about the value and importance of continuing education, directors were divided in their responses. Just over half (52%) believe that all directors should be required to attend annual board training. Nearly one in five (19%) had no board education during the last year; more than one-third (37%) had eight hours or less.

New board members find ongoing education particularly important: 69% of directors who have served a year or less support an annual education requirement, compared to 47% of directors who have been on the board more than 10 years. Of those who believe annual director education should be required, 44% participated in less than four hours of education or training in the last year, and 21% did none at all.

It should be noted that there are no specific external education requirements for directors. And director education is no longer considered part of the corporate governance evaluation of major proxy advisory firms.
**Time commitments are going up**

Directors’ workloads have substantially increased during the last year. From dealing with executive compensation issues to the new whistleblower rules and proxy access, this year’s survey shows a marked increase in hours committed to board work. The majority of directors (56%) have increased the time they spend on board work during the last year. More than two-thirds of those (67%) cite an increase of over 10%, and one out of five say their hours increased by more than 20%. Compensation committee hours rose for half of the directors responding, and more than one-third of audit committee members increased their hours—not surprising, given the pressure on compensation issues and fraud prevention these committees respectively need to address.

**How has your time commitment for each of the following changed in the last 12 months?**
Self-evaluations prompt changes

Boards traditionally use annual assessments to evaluate their effectiveness. This process provides the opportunity to assess issues and, where appropriate, take action. Assessments can also be used to identify directors who may not be adding value.

We asked directors the question—does anything really change in response to concerns identified in the assessment findings? The answer is a resounding yes: Two-thirds of directors (66%) reported that their boards made changes during the last 12 months as a result of their full-board or committee self-evaluations. The most common changes include seeking additional expertise to join the board (35%) and changing the board committee composition (30%). Board members at larger companies (annual revenue greater than $5 billion) said their boards were more likely to seek additional expertise to join the board in response to issues identified during the self-evaluation. One possible reason for this is that these boards have a higher profile and face more media scrutiny.

In response to issues identified during your last board/committee self-evaluation process, did your board/committee decide to do any of the following?

- Seek additional expertise to join the board: 34.7%
- Change composition of the board committees: 29.7%
- Change the format/frequency of committee meetings: 16.3%
- Provide counsel to one or more board members: 12.9%
- Change board composition (re-nomination of a director): 12.7%
- Diversify the board with more women/ethnic minorities: 11.5%
- Make changes to the board’s/committee’s relationship: 9.6%
- No, we did not decide to make any changes: 34.3%
- N/A - we did not conduct board or individual evaluations: 2.2%
Executive compensation

Executive compensation is a contentious issue for boards and stakeholders. Since the financial crisis, many directors have gone to great lengths to re-examine the compensation plans of top executives to ensure the alignment of pay and performance—typically through use of incentive targets. Regulators are also concerned about risks created by such quantitative compensation incentives and even require disclosure if such risks are likely to have a materially adverse effect. So some companies proactively dedicated more resources to communicating with investors and proxy advisory firms around their compensation rationale.

Responding to “say on pay”

Investors and proxy advisory firms particularly scrutinized companies that received less than 70% support during the first year of “say on pay.” Companies are now required to disclose how they considered the prior year’s say on pay vote in their current year compensation plans. But did those considerations actually change anything? The answer is yes: 64% of companies took action.

How? 41% of companies modified proxy statement compensation disclosures, 29% made compensation more performance-based, and 23% increased communications with proxy advisory firms. The companies most likely to have made changes were those that received less than 70% support for their pay plans, nearly all of which changed their approach in some way.
Director-shareholder engagement has clearly increased during the last year, and disclosures have been enhanced. About 2% of directors responded that their companies decreased compensation levels in response to their say on pay voting results.

**Has your company done anything differently in response to its 2011 shareholder “say on pay” voting results?**

<table>
<thead>
<tr>
<th>Action</th>
<th>Response Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced proxy statement compensation disclosures</td>
<td>41.0%</td>
</tr>
<tr>
<td>Made compensation more performance-based</td>
<td>29.0%</td>
</tr>
<tr>
<td>Increased the company's communication with proxy advisory firms</td>
<td>23.4%</td>
</tr>
<tr>
<td>Revised compensation plans to reduce certain controversial benefits</td>
<td>20.8%</td>
</tr>
<tr>
<td>Increased the company's communication with shareholders</td>
<td>19.5%</td>
</tr>
<tr>
<td>The compensation committee increased its use of consultants or hired new consultants</td>
<td>19.1%</td>
</tr>
<tr>
<td>Altered the peer benchmark groups</td>
<td>13.7%</td>
</tr>
<tr>
<td>Increased stock ownership guidelines for executives</td>
<td>13.2%</td>
</tr>
<tr>
<td>Changed the membership of the compensation committee</td>
<td>5.1%</td>
</tr>
<tr>
<td>Reduced overall compensation levels</td>
<td>2.5%</td>
</tr>
<tr>
<td>N/A, or no action taken</td>
<td>36.4%</td>
</tr>
</tbody>
</table>
Voices that influence compensation

Many parties influence boards’ decisions about executive compensation: 86% of directors cite compensation consultants as “very influential,” followed closely by the CEO (79%), and institutional investors (54%). While the media has extensively reported on executive compensation issues—in some cases quite critically—only 12% of directors said that particular group had much of a voice influencing their decisions.

Rate the level of influence that the following groups have over your board’s decisions on executive compensation:

<table>
<thead>
<tr>
<th>Group</th>
<th>Very influential</th>
<th>2</th>
<th>3</th>
<th>Not influential at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation consultants</td>
<td>46.9%</td>
<td></td>
<td></td>
<td>39.1% 8.4%</td>
</tr>
<tr>
<td>CEO</td>
<td>33.8%</td>
<td></td>
<td></td>
<td>45.0 16.3%</td>
</tr>
<tr>
<td>Institutional shareholders</td>
<td>17.2%</td>
<td></td>
<td></td>
<td>36.5 26.2% 19.9%</td>
</tr>
<tr>
<td>Proxy advisory firms</td>
<td>11.9%</td>
<td></td>
<td></td>
<td>32.9 33.7% 21.4%</td>
</tr>
<tr>
<td>Employees</td>
<td>8.0%</td>
<td></td>
<td></td>
<td>30.9 34.3% 26.9%</td>
</tr>
<tr>
<td>General public (perception)</td>
<td>3.7%</td>
<td></td>
<td></td>
<td>18.2 34.8% 43.2%</td>
</tr>
<tr>
<td>Retail shareholders</td>
<td>15.0%</td>
<td></td>
<td></td>
<td>30.4 52.6%</td>
</tr>
<tr>
<td>Media</td>
<td>11.2%</td>
<td></td>
<td></td>
<td>27.6 59.9%</td>
</tr>
</tbody>
</table>

Percent

0 20 40 60 80 100

Very influential
2
3
Not influential at all
Measuring the influence of proxy advisory firms

The extent to which proxy advisory firms influence proxy voting results is widely discussed. So we asked directors for their perspective. Almost two-thirds of directors (61%) estimate proxy advisory firms have more than a 20% influence on proxy voting at their company, and nearly a fifth (18%) believe this influence exceeds 40%. While the direct influence of proxy advisory firms will vary depending on the company’s shareholder base, there is also a “ripple effect” to consider. For example, some companies may choose to adopt compensation structures that align with proxy advisory firm voting policies to avoid a negative recommendation on their compensation levels or compensation committee membership.

What level of influence do you believe proxy advisory firms’ recommendations have on proxy voting results?

But even though directors acknowledge the influence of proxy advisory firms, many are not satisfied with their processes. Almost half of directors consider the thoroughness of those firms’ work and the quality of their recommendations to be “fair” or “poor.” The bigger the company, the lower directors rate the efforts of proxy advisory firms. Directors at the smallest companies ($500 million or less in annual revenue) rate the independence and work of proxy advisory firms “very highly” or “good”—nearly twice as often as directors of the largest companies.

How do you rate proxy advisory firms on the following?
Directors recognize that risk oversight is a critical responsibility of the board. This involves ensuring that management has a process in place for identifying key risks and an approach to mitigate these risks to an acceptable level. If these risks are not properly identified and managed, there can be significant ramifications, affecting the company’s brand, bottom line, and ultimately, shareholder value. Crisis management oversight, a component of overall risk management oversight, has become an increasingly important issue for boards as well. This is particularly true today—in light of instantaneous communications and the power of social media.

**Boards satisfy their risk appetite**

The amount of risk a company is willing to accept is its “risk appetite,” and our survey reveals directors are very comfortable with their understanding of it. Nearly all directors (97%) say they are at least “moderately comfortable” with their board’s understanding of the company’s risk appetite. This significant level of comfort is noteworthy in light of the many criticisms (particularly after the financial crisis) suggesting companies and boards did not fully understand the risks their companies were taking or that they were taking on too much risk. Additionally, directors are at least “moderately comfortable” with their understanding of emerging risks, such as the European debt crisis and the impact of natural disasters (91%).
How comfortable are you with your board’s understanding of:

Your company’s risk appetite

Emerging risks that can impact your company such as the European debt crisis, impact of natural disasters, etc.

Your company’s key performance indicators regarding risk management objectives

The company’s social media communications response plan in the event of a crisis

Room to improve risk oversight assignments

Proxy disclosures indicate a majority of companies view risk oversight as a full-board function and that few companies outside of the financial services industry have dedicated risk committees. For efficiency, boards often allocate oversight of specific risks to their board committees. However, our survey shows a significant number of directors (37%) believe there is no clear allocation of specific responsibilities for overseeing major risks among the board and its committees (or are not sure whether there is any such allocation). Many directors may understand the risks the company faces, but they are not sure who on the board is supposed to oversee them. This structural disconnect could prove troublesome for companies in the long run. If directors are unsure whose responsibility it is to oversee risk, the board could have a risk oversight gap.
More effort toward preventing fraud

Allegations of fraud at high-profile companies, the introduction of the UK Bribery Act, and new SEC whistleblower rules contribute to increased director concern about fraud. In the last few years, there has been a significant increase in Foreign Corrupt Practices Act enforcement actions, along with record fines.

Many leading boards focus on how management is mitigating fraud risks. Nearly half of directors (46%) say their boards have held additional discussions about the “tone at the top” of the company; 38% increased the amount of time spent on discussing risks embedded in compensation plans, and 31% have interacted more frequently with members of management below the executive level.

Which of the following has your board done in the last 12 months to reduce fraud risk?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had board discussions regarding tone at the top</td>
<td>45.5%</td>
</tr>
<tr>
<td>Increased the time spent on board discussions of risks embedded</td>
<td>38.1%</td>
</tr>
<tr>
<td>in compensation plans</td>
<td></td>
</tr>
<tr>
<td>Had board members interact more with members of management below the</td>
<td>31.2%</td>
</tr>
<tr>
<td>executive level</td>
<td></td>
</tr>
<tr>
<td>Had board discussions of controls in place to prevent insider trading</td>
<td>27.4%</td>
</tr>
<tr>
<td>violations</td>
<td></td>
</tr>
<tr>
<td>Had board evaluation of upward/peer feedback of executives</td>
<td>15.8%</td>
</tr>
<tr>
<td>Had board discussions of information obtained from exit interviews</td>
<td>10.6%</td>
</tr>
<tr>
<td>No real change to our approach</td>
<td>34.0%</td>
</tr>
</tbody>
</table>
Responding to the new whistleblower rules

The SEC’s enhanced whistleblower rules, mandated by the Dodd-Frank Act, became effective in 2011.

While we still don’t know the full impact of the enhanced whistleblower rules, directors certainly took actions to address them during the last year. Two-thirds of directors say their companies placed greater emphasis on employee awareness of ethics and compliance policies, and 42% enhanced the company’s follow-up policy on compliance-related complaints. Another 42% increased reporting of compliance-related issues to the board. The bottom line: Ethics and compliance and corporate culture were significant concerns for boards this past year.

Which of the following has your company done in response to the 2011 SEC whistleblower rules?

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Placed greater emphasis on employee awareness of ethics and compliance policies</td>
<td>66.2%</td>
</tr>
<tr>
<td>Increased reporting of compliance-related issues to the board</td>
<td>42.1%</td>
</tr>
<tr>
<td>Enhanced the company’s follow-up process on compliance-related complaints</td>
<td>42.0%</td>
</tr>
<tr>
<td>Expanded the role of internal audit for bribery and corruption compliance</td>
<td>36.3%</td>
</tr>
<tr>
<td>Increased employee training on anti-retaliation against whistleblowers</td>
<td>30.9%</td>
</tr>
<tr>
<td>Scheduled more board discussions regarding bribery and corruption</td>
<td>10.9%</td>
</tr>
<tr>
<td>Other</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Crisis management concerns come and go

An effective crisis management plan is an essential part of a company’s overall approach to risk management and business continuity. Things can—and do—go wrong: natural disasters, geopolitical upheavals, data breaches, product recalls, and supply chain meltdowns. A crisis can impede a company’s ability to do business, severely damage its reputation, and give directors a “black eye.” Combined with a 24-7 news cycle and the power of social media, information sharing has drastically accelerated. Videos, tweets, blogs, and commentary can “go viral” in mere minutes, allowing customers, shareholders, regulators, and the public to immediately learn and form an opinion of the company’s response to a crisis.
Directors have a significant level of discomfort overseeing their company's approach to crisis communications. More than half (57%) are not comfortable with their understanding of the company’s social media response plan in the event of a crisis.

**In the last 12 months, has your board discussed management’s plans to respond to a major crisis?**

![Pie chart showing responses]

Our survey also finds directors are discussing the company's crisis management plan less frequently than last year. Only two-thirds of directors (67%) discussed the company’s crisis management plan during the last 12 months, whereas 82% had such discussions in the prior year survey. This notable decrease may be attributed to directors spending more board hours during the last year focusing on other pressures created by the economic downturn and new regulatory environment. Or perhaps crisis management may not be a high priority topic every year. About 37% of directors would like to increase their time spent on this subject in the future.

Directors at larger companies are discussing crisis management more often than those at smaller companies: 79% of directors at the largest companies (over $10 billion in annual revenue) have discussed the crisis response plan in the last 12 months, compared to 66% at smaller companies ($500 million or less in annual revenue).
Overseeing strategy is another core board function. Company strategy lays the foundation for how the company allocates resources, structures operations, and measures success. When well executed, the right strategy creates significant shareholder value. In order for a director to add value to strategy discussions, he or she must dedicate sufficient effort, have the right information, ask the right questions, and be willing to challenge the assumptions underlying management’s thinking.

**Devoting more time to strategy**

Directors realize the importance of strategy discussions, and virtually all (99%) discuss the continued viability of the company’s strategy at least once a year. More than one-third (36%) discuss strategy twice a year and 42% do so at every formal board meeting. Still, directors would like to increase the amount of time they dedicate to strategy oversight going forward. In our survey, strategic planning topped the board’s “wish list,” with over 75% of directors wanting to devote more time to it during the next year. This is a striking increase from the 60% who wanted to do so last year. Possible reasons could include how the competitive landscape and customer buying patterns are evolving, increased globalization, and the impact of new technologies on business models. Consequently, directors are probably feeling the pressure to be more agile and re-evaluate the strategy more frequently.
Nearly one-third of directors at smaller companies, who may have a less-mature business model, say they would like to spend “much more” time and focus on strategic planning in the coming year, twice the number of directors who felt that way at the largest companies.

Please indicate if you would like your board to devote more time in the upcoming year to considering the following matters?

<table>
<thead>
<tr>
<th>Matter</th>
<th>Yes, much more time and focus than in the past</th>
<th>Yes, but not a great increase from the past</th>
<th>No, a change is unnecessary</th>
<th>No, decrease our time and focus—we spend too much time on this</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic planning</td>
<td>25.2%</td>
<td>50.0%</td>
<td>0.0%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Succession planning</td>
<td>23.0%</td>
<td>45.4%</td>
<td>0.0%</td>
<td>31.3%</td>
</tr>
<tr>
<td>Meeting managers from key parts of the company</td>
<td>15.8%</td>
<td>49.4%</td>
<td>0.0%</td>
<td>34.8%</td>
</tr>
<tr>
<td>Information technology opportunities and issues</td>
<td>13.2%</td>
<td>44.2%</td>
<td>0.0%</td>
<td>40.9%</td>
</tr>
<tr>
<td>Risk management</td>
<td>12.8%</td>
<td>46.0%</td>
<td>0.0%</td>
<td>40.7%</td>
</tr>
<tr>
<td>Developing human capital</td>
<td>11.7%</td>
<td>42.1%</td>
<td>0.0%</td>
<td>45.5%</td>
</tr>
<tr>
<td>Executive compensation</td>
<td>5.2%</td>
<td>29.5%</td>
<td>0.0%</td>
<td>64.2%</td>
</tr>
<tr>
<td>Crisis management/planning</td>
<td>4.9%</td>
<td>32.0%</td>
<td>0.0%</td>
<td>62.1%</td>
</tr>
<tr>
<td>Regulatory compliance</td>
<td>4.3%</td>
<td>25.9%</td>
<td>0.0%</td>
<td>67.1%</td>
</tr>
<tr>
<td>Sustainability/climate change</td>
<td>2.4%</td>
<td>25.9%</td>
<td>0.0%</td>
<td>75.4%</td>
</tr>
<tr>
<td>Bribery and corruption concerns</td>
<td>1.6%</td>
<td>20.2%</td>
<td>0.0%</td>
<td>75.2%</td>
</tr>
</tbody>
</table>

Percent
Getting the right information

It’s imperative for directors to have sufficient information to evaluate the strategy. And it is important that the data the board receives from management is objective, insightful, and measurable. Leading boards have high expectations when it comes to getting the right information so they can contribute their wisdom and experience in today’s challenging environment.

Two-thirds of directors (66%) are happy with the customer satisfaction research management provides, while nearly 72% are comfortable with information about employee values and satisfaction. A number of boards do not receive any information about either customer or employee satisfaction (20% and 16%, respectively). Competitive intelligence is also lacking, with one in five directors (21%) dissatisfied with the information management provides on competitors’ initiatives and strategy.

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

**General and/or specific customer satisfaction research**
- Very satisfied: 20.3%
- Satisfied: 15.2%
- Dissatisfied: 13.9%
- Do not receive: 50.4%

**Information on employee values/satisfaction**
- Very satisfied: 16.4%
- Satisfied: 16.2%
- Dissatisfied: 11.8%
- Do not receive: 55.6%

**Information on competitor initiatives and strategy**
- Very satisfied: 7.5%
- Satisfied: 15.0%
- Dissatisfied: 21.0%
- Do not receive: 56.4%
Benchmarks for effective strategy oversight

In our survey, we identified several leading practices that boards use to oversee their company’s strategy. Then we asked directors which ones have been adopted by their boards. The results should help directors evaluate the effectiveness of their own approach:

• 88% integrate discussions of risk with strategy;
• 78% establish minimum guidelines for return on investment from strategic transactions—suggesting that boards are very sensitive to the potential downfalls of a bad merger or acquisition;
• 74% believe their company’s approach to IT contributes to and is aligned with setting strategy;
• 70% use annual special meetings/retreats to discuss strategy—this suggests directors think strategy is important enough to change the venue. Dedicated time, often at a separate location, may facilitate how effectively the board interacts and focuses on this important task;
• 70% evaluate the “buy in” of the company’s leadership team beyond the CEO;
• 66% evaluate external benchmarks and data to independently corroborate management’s assumptions/assertions;
• 53% consider alternative strategies to those presented by management; and
• 26% integrate the input of a strategic consulting firm into strategy considerations.
Technology continues to evolve rapidly. From concerns about cyber-hacking and customer privacy to the use of emerging technologies to leapfrog competitors, IT has become a key area for director attention. Studies indicate that the average age of directors is around 62. Accordingly, it’s not surprising that some directors may find it challenging to understand the latest technological advances. Of course, many directors are quite technologically savvy, but those who are not may have less confidence in the effectiveness of their IT oversight.

**Technology matters a lot**

Understanding the importance of IT to the company’s business model is important for effective oversight of technology initiatives. Our survey finds that over half of directors (56%) believe IT is “very important” or “critical” to their companies, while only a small minority (7%) still think of IT as “primarily infrastructure.” This suggests that IT has definitively moved from a “back-office” support function to a strategic imperative in the mind of many directors. The larger the company, the more likely directors believe IT is critical to creating long-term shareholder value. Clearly, IT is an important issue for boards—57% of directors indicate they would like to spend more time on it in the coming year.

**How critical is the effective use of information technology (IT) in creating long-term shareholder value at your company?**

![Responses to IT importance survey](image-url)

- **IT is more of a commodity**—primarily infrastructure, mostly focused on back office support
- **IT is somewhat important**—essential to certain aspects of our business and involves moderate risk concern
- **IT is very important**—provides our company with competitive advantage and involves higher risk concern
- **IT is critical**—we are effectively an IT company providing digital solutions to customers
- **I really don’t have the knowledge to make this assessment**
**IT becomes part of overall strategy**

Technology is rapidly becoming an integral part of many companies’ strategic plans. Most directors (77%) believe their company’s approach to managing IT risk and strategy at least “moderately” aligns with the company’s overall strategy. However, a substantial number of board members don’t believe that their companies are exploiting the opportunities inherent in emerging technologies. In fact, more than one-third (36%) believe their company’s approach to anticipating competitive advantages from emerging technologies needs improvement.

**Responsibility for IT oversight**

Understanding who on the board oversees IT is important. At present, over half of boards (56%) delegate this responsibility to the audit committee, while one-quarter (25%) view IT oversight as a full-board function. Even for companies that consider IT critical to creating shareholder value, the audit committee is still the main group responsible for overseeing IT; only 5% delegate oversight to a separate IT committee. About 8% of directors reported no board-level oversight of their company’s IT, even though 83% of these same directors thought IT was essential to certain aspects of their business.

**Who on the board currently has primary responsibility for the oversight of IT risks?**

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit committee</td>
<td>55.7%</td>
</tr>
<tr>
<td>The full board</td>
<td>25.1%</td>
</tr>
<tr>
<td>A separate risk committee</td>
<td>6.8%</td>
</tr>
<tr>
<td>A separate IT committee</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other</td>
<td>2.2%</td>
</tr>
<tr>
<td>No board oversight, to the best of my knowledge</td>
<td>8.0%</td>
</tr>
</tbody>
</table>
**IT expertise—desirable, but not considered essential**

While directors are aware of the need for robust oversight of IT, many struggle with how to effectively do so. For instance, one way to increase a board’s comfort level could be to have IT expertise on the board—but a separate study reveals that fewer than 1% of today’s Fortune 500 directors have an IT background. Our survey shows that boards aren’t aggressively seeking directors with IT expertise, despite their elevated concerns. In fact, only 30% of directors find IT expertise a “very important” attribute in new directors, and 31% are not seeking this skill set at all.

While IT oversight may be challenging, it’s still an area directors are overseeing through a combination of their own experience and periodic use of outside expertise. In our prior year survey, only 15% of directors used outside consultants to advise them on IT matters. This year, about one-quarter of boards engaged external consultants to advise them on IT issues, mostly on specific projects. An additional 8% of boards are giving serious consideration to using consultants for future projects.

**Talking to the CIO**

Boards’ IT oversight may include meeting with the company’s Chief Information Officer (CIO). Nearly 30% of directors meet with the CIO once a year, and about one in five (18%) meet with the CIO at each formal meeting. Some boards (14%) have no formal interaction with the CIO. Not surprisingly, directors at companies where IT is considered “very important” or “critical” meet with the CIO more frequently than those where IT is considered to be more of a commodity.

**How often do board members communicate with the company’s Chief Information Officer?**

![Communication Frequency Chart]

- 30.2% at least once annually
- 28.7% at every formal meeting
- 18.1% at least twice annually
- 13.9% at least once annually
- 5.2% at least once annually
- 3.6% in-between meetings
- 13.9% not at all
- 28.7% don’t know
Allocating time for IT

Our survey finds the amount of time boards spend on IT oversight varies considerably:

• Nearly half of directors (47%) spend between 6% and 20% of their annual board hours on it. However, a similar proportion (44%) spends less than 5% of their time on IT.

• As the level of importance of IT goes up, so does the amount of time boards spend discussing it: More than one-third (38%) of directors who consider IT to be “critical” to the company’s business spent 11% to 20% of their time on it. Only 5% of directors who consider IT to primarily be a “back-office” support function do the same.

• 11% of directors of IT “critical” companies spent more than 20% of their time on it, while no directors of “back-office” companies spent over 20%.

Because IT oversight may be uncomfortable for some directors, many of them want to spend additional time discussing related risks and opportunities. Almost 60% of directors want to spend more time on IT in the coming year, a significant increase from 36% in 2011. Directors from the largest companies (over $10 billion in annual revenue) were the least likely to want to spend much more time on IT. Why? Perhaps it’s because those companies have deeper IT resources that directors trust to address the issues appropriately.

On average, what percentage of last year’s total annual board/committee hours were spent discussing oversight of IT risks and opportunities?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>None</th>
<th>5% or less</th>
<th>6 to 10%</th>
<th>11 to 20%</th>
<th>21 to 30%</th>
<th>More than 30%</th>
<th>N/A - I do not serve on the relevant committee(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td>4.1%</td>
<td>39.5%</td>
<td>31.1%</td>
<td>15.9%</td>
<td>2.7%</td>
<td>1.1%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

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PwC’s Annual Corporate Directors Survey
**IT fundamentals get more attention**

Directors are particularly involved in overseeing and understanding more traditional IT issues, such as the status of major IT project implementations (76%), and their companies’ annual IT budgets (57%). Given the increase in cyber attacks, it’s no surprise that nearly three-quarters (72%) of directors are engaged with overseeing and understanding data security issues and risks related to compromising customer data. These three areas appear to be the primary focal points for board IT oversight today.

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

But directors are also struggling with their level of involvement related to certain IT issues. For instance, over half (59%) indicate they are not adequately engaged with new business models that are enabled by IT. In particular, social media is a topic that’s particularly challenging. Less than 2% describe themselves as “very engaged” in overseeing or understanding employee social media training and policies. And more than two-thirds (69%) are “not sufficiently” engaged with understanding how their company monitors social media for adverse publicity. In addition, 77% responded they had an insufficient understanding of how competitors are using social media and other emerging technologies for competitive advantage.
Auditor rotation and proxy access top worry list

Among the many potential future issues and rules that are going to confront directors, two areas currently stand out: Directors are particularly concerned with the concept of mandatory audit firm rotation and potential shareholder proposals for proxy access.

How significant is your level of concern with the following?

- Proposed rules on mandatory auditor rotation
- Proposed rules on CEO/median worker pay ratio disclosure
- Shareholder proposals for proxy access
- Proposed rules on conflict minerals
- Shareholder proposals for political spending reports
- Proposed rules on clawbacks

[Bar chart showing the level of concern for each issue]

- Excessive
- Substantial
- Some
- Not much
- None

Looking forward
The idea of mandatory audit firm rotation has received a lot of attention during the last year. In the spring of 2012, the Public Company Accounting Oversight Board held hearings on mandatory rotation, continuing the debate about the issue. Many directors (46%) say they are “substantially” or “excessively” concerned about this subject, and 49% plan to devote at least some time to the topic.

While a part of the SEC’s proxy access rule was struck down by the courts last year, shareholders may still propose amendments to company bylaws to include their own director nominees in the proxy. About two dozen companies received such proposals in 2012, but only two received majority support. However, governance observers anticipate an increase in these proposals in the coming year. So it’s not surprising that nearly 40% of directors plan to spend at least some time addressing this issue going forward.

According to the SEC, approximately 6,000 companies will be affected by the conflict minerals provision of the Dodd-Frank Act. But 85% of directors say they’re not going to spend much time discussing the issue, and 75% are not very concerned about it. Similarly, 74% of directors say they are “not much” or “not at all” concerned about other current issues like political spending disclosure—despite the fact that political spending was the second most popular shareholder proxy ballot item in the 2012 proxy season.
How would you currently describe the importance of adding directors with the following to your board?

- **Industry expertise**: 44.8% Very important, 39.7% Somewhat important, 15.4% Not currently seeking this skill or attribute
- **Financial expertise**: 42.7% Very important, 32.8% Somewhat important, 24.5% Not currently seeking this skill or attribute
- **International expertise**: 38.3% Very important, 27.3% Somewhat important, 34.4% Not currently seeking this skill or attribute
- **Operational expertise**: 35.4% Very important, 44.0% Somewhat important, 20.6% Not currently seeking this skill or attribute
- **Risk management expertise**: 31.7% Very important, 46.9% Somewhat important, 21.4% Not currently seeking this skill or attribute
- **Technology/digital media expertise**: 30.4% Very important, 38.3% Somewhat important, 31.3% Not currently seeking this skill or attribute
- **Gender diversity**: 25.0% Very important, 47.4% Somewhat important, 27.7% Not currently seeking this skill or attribute
- **Racial diversity**: 22.1% Very important, 50.3% Somewhat important, 27.6% Not currently seeking this skill or attribute
- **Marketing expertise**: 18.2% Very important, 47.2% Somewhat important, 34.6% Not currently seeking this skill or attribute
- **Human resources expertise**: 6.3% Very important, 35.5% Somewhat important, 58.2% Not currently seeking this skill or attribute
- **Legal expertise**: 5.2% Very important, 29.0% Somewhat important, 65.8% Not currently seeking this skill or attribute
If you currently have a combined chairman/CEO, has your board discussed splitting the role during your next CEO succession?

- Yes: 21.9%
- No: 53.8%
- N/A - We have a separate Chairman/CEO: 24.3%

At what level of negative shareholder voting for individual director nominations should the board be concerned about re-nomination?

- Greater than 40%: 3.0%
- 31-40%: 11.4%
- 26-30%: 18.1%
- 21-25%: 26.5%
- 16-20%: 19.0%
- 11-15%: 6.7%
- 10% or less: 15.2%
Does your board use any of the following for the delivery of board-related information?

- Tablets
  - Yes, and I love it: 28.6%
  - Yes, and it works fine: 27.5
  - Yes, though I’m not a fan: 12.8
  - No, but I wish we would: 27.2
  - No, and I hope we don’t: 3.8

- Smartphones
  - Yes, and I love it: 72.9
  - Yes, and it works fine: 17.4
  - Yes, though I’m not a fan: 6.9
  - No, but I wish we would: 14.4
  - No, and I hope we don’t: 2.8

- Web Portals
  - Yes, and I love it: 36.6
  - Yes, and it works fine: 20.2
  - Yes, though I’m not a fan: 18.8
  - No, but I wish we would: 20.2
  - No, and I hope we don’t: 6.6

Do you believe that all directors should be required to attend board education/training on an annual basis?

- Yes: 51.6%
- No: 48.1%
Did you participate in separate board education/training last year totaling:

- More than 16 hours: 18.4%
- Between 8 and 16 hours: 25.3%
- Between 4 and 8 hours: 22.4%
- Under 4 hours: 14.6%
- None: 19.3%

How frequently do you use the following venues/formats for continuing education and staying abreast of governance issues?

- Publications aimed at directors
  - Always: 38.0%
  - Sometimes: 49.9%
  - Seldom: 7.5%
  - Never: 4.4%

- Internal information provided by management
  - Always: 32.9%
  - Sometimes: 42.7%
  - Seldom: 15.6%
  - Never: 8.7%

- CPA firms
  - Always: 21.5%
  - Sometimes: 56.3%
  - Seldom: 12.3%
  - Never: 9.8%

- Law firms
  - Always: 12.2%
  - Sometimes: 54.9%
  - Seldom: 20.2%
  - Never: 12.7%

- Education forums and conferences held by director-oriented organizations
  - Always: 12.2%
  - Sometimes: 48.3%
  - Seldom: 22.4%
  - Never: 17.0%

- Other
  - Always: 8.9%
  - Sometimes: 20.8%
  - Seldom: 13.0%
  - Never: 57.3%

- Various webcasts
  - Always: 7.8%
  - Sometimes: 37.7%
  - Seldom: 29.1%
  - Never: 25.1%

- University-sponsored programs
  - Always: 4.4%
  - Sometimes: 32.5%
  - Seldom: 34.6%
  - Never: 28.3%
When your board is reviewing the company’s proposed strategy, does it:

- Use annual special meetings/retreats to discuss strategy: 38.0% Always, 32.1% Usually, 17.2% Seldom, 12.6% Never
- Consider alternative strategies to those presented by management: 33.8% Always, 43.9% Usually, 14.5% Seldom, 7.8% Never
- Integrate discussions of risk with strategy: 27.1% Always, 60.4% Usually, 11.1% Seldom, 1.4% Never
- Evaluate external benchmarks and data to independently corroborate management’s assumptions/assertions: 18.4% Always, 51.9% Usually, 22.3% Seldom, 7.1% Never
- Integrate the input of a strategic consulting firm into your strategy considerations: 16.2% Always, 49.9% Usually, 28.7% Seldom, 5.2% Never
- Evaluate the “buy-in” of the company’s leadership beyond the CEO: 9.5% Always, 43.2% Usually, 41.9% Seldom, 5.0% Never
- Establish minimum guidelines for return on investment from strategic transactions (e.g. M&A): 4.7% Always, 20.9% Usually, 43.8% Seldom, 30.5% Never

How often does your board have discussions about the continued viability of the company’s strategy?

- At every board meeting: 41.9%
- At least every six months: 36.0%
- Once per year: 20.5%
- Every two years: 1.5%
### Do you believe your company’s approach to managing IT risk and strategy:

<table>
<thead>
<tr>
<th>Description</th>
<th>Very much</th>
<th>Moderately</th>
<th>Needs improvement</th>
<th>Not at all</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aligns with its overall strategy (but is not a key part of strategy formulation)</td>
<td>31.5%</td>
<td>45.7%</td>
<td>15.7%</td>
<td>4.3%</td>
<td></td>
</tr>
<tr>
<td>Contributes and is aligned with setting overall strategy</td>
<td>30.2%</td>
<td>43.5%</td>
<td>16.4%</td>
<td>4.5%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Provides the board with adequate information for effective oversight</td>
<td>26.0%</td>
<td>43.8%</td>
<td>22.7%</td>
<td>3.4%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Anticipates the potential competitive advantages from emerging information technologies</td>
<td>17.3%</td>
<td>38.7%</td>
<td>26.7%</td>
<td>8.8%</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

### During the last 12 months, has your board or its committees engaged an outside consultant to advise on IT strategy, opportunities and risks?

- Yes, on a project-specific basis: 7.1%
- Yes, on a continuous basis: 22.5%
- Yes, on a continuous basis: 3.7%
- No, but we are giving it serious consideration for future projects: 7.9%
- No, we have not, and are not currently considering engaging an IT consultant: 58.6%
- Don’t know: 7.1%
What was the percentage of your company’s actual level of negative votes received from the 2011 shareholder “say on pay” advisory vote?
### About you

#### How long have you served on this board?

- **Less than one year:** 3.1%
- **1-2 years:** 34.4%
- **3-5 years:** 19.0%
- **6-10 years:** 34.7%
- **More than 10 years:** 8.7%

#### Are you:

- **Female, non-minority:** 6.1%
- **Female, minority:** 9.9%
- **Male, non-minority:** 0.5%
- **Male, minority:** 83.4%

#### What are the annual revenues for the company?

- **$500 million or less:** 14.6%
- **$500 million to $1 billion:** 18.6%
- **$1 billion to $5 billion:** 9.5%
- **$5 billion to $10 billion:** 20.4%
- **More than $10 billion:** 37.0%

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy/utilities</td>
<td>15.6%</td>
</tr>
<tr>
<td>Industrial products</td>
<td>15.5%</td>
</tr>
<tr>
<td>Consumer products/retail</td>
<td>12.8%</td>
</tr>
<tr>
<td>Other</td>
<td>12.8%</td>
</tr>
<tr>
<td>Technology (computers, software, digital media, systems integration)</td>
<td>9.8%</td>
</tr>
<tr>
<td>Other financial institutions (including insurance)</td>
<td>9.3%</td>
</tr>
<tr>
<td>Banking and savings institutions</td>
<td>6.3%</td>
</tr>
<tr>
<td>Pharmaceuticals/medical devices/biotech</td>
<td>5.2%</td>
</tr>
<tr>
<td>Transportation/distribution</td>
<td>4.4%</td>
</tr>
<tr>
<td>For-profit health care provider/managed care</td>
<td>4.3%</td>
</tr>
<tr>
<td>Aerospace/defense</td>
<td>2.6%</td>
</tr>
<tr>
<td>Communications and telecom</td>
<td>1.4%</td>
</tr>
</tbody>
</table>
To have a deeper conversation about how this subject may affect your business, please contact:

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mary.ann.cloyd@us.pwc.com

Don Keller  
Partner, Center for Board Governance  
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