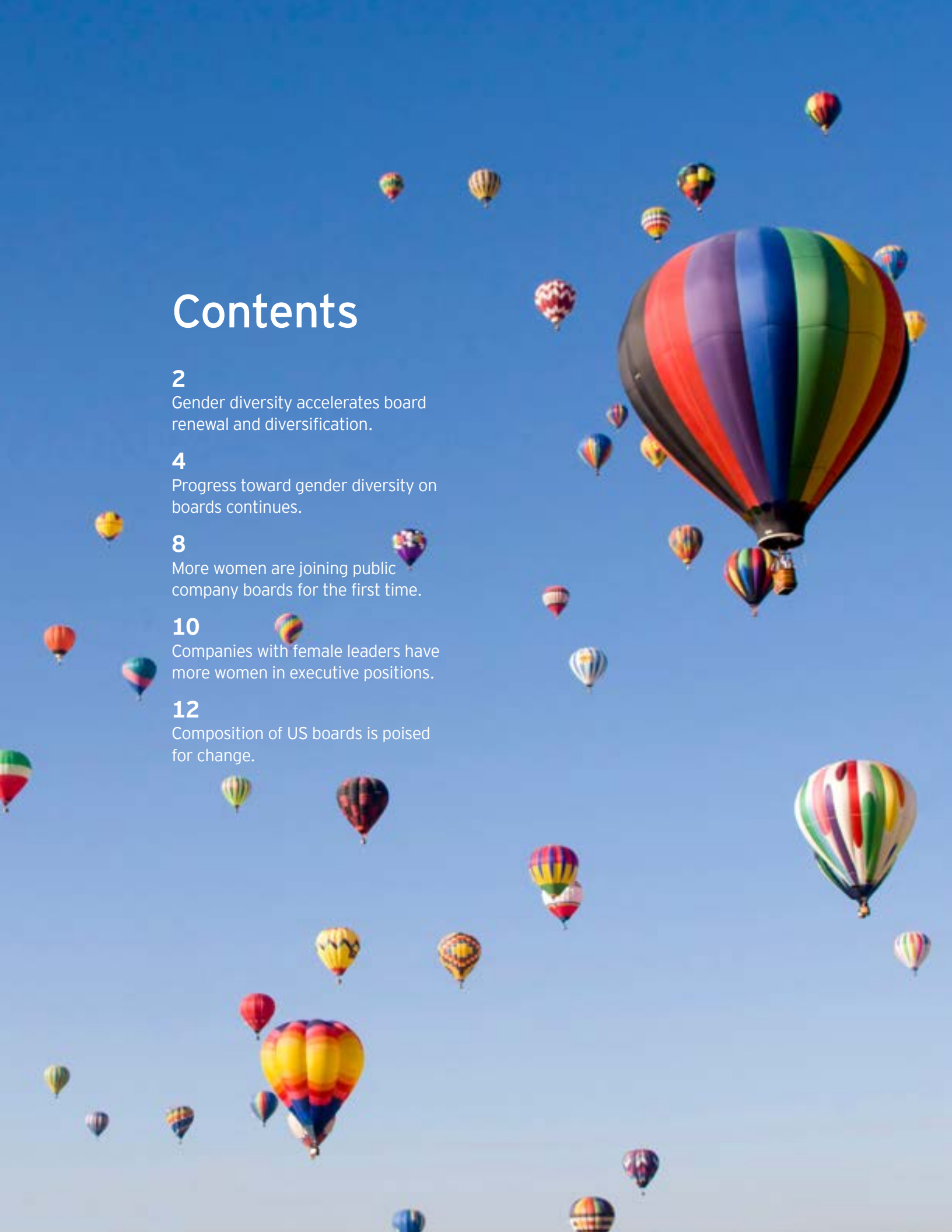
Diversity drives diversity

From the boardroom to the C-suite

EY

Building a better working world



Contents

2
Gender diversity accelerates board renewal and diversification.

4
Progress toward gender diversity on boards continues.

8
More women are joining public company boards for the first time.

10
Companies with female leaders have more women in executive positions.

12
Composition of US boards is poised for change.

Incremental changes in gender diversity continued across boardrooms and C-suites at US companies in 2013. The data reveals that these incremental changes may be transformative over time: putting women on the board and in leadership roles drives further diversification — across gender, tenure and age — in the boardroom and across the executive pipeline.[1]

The slow pace of board turnover — pegged as one of the greatest obstacles to increased board diversity — may be poised to accelerate. Twenty percent of the board seats at S&P 1500 companies are held by directors nearing or exceeding the common board retirement age of 72. The expected turnover as these directors exit the board over the next several years represents an opportunity to fill vacated seats with diverse candidates.

Some investors are prioritizing board diversity and are more closely assessing whether board composition reflects a company's strategic direction, regulatory developments, challenges and transformation. Lack of turnover and lengthy board tenure are raising investor concern that board independence may be compromised, group-think may be stifling boardroom debate, and fresh perspectives and insights may be lacking from strategic discussions. US companies are also feeling pressure as foreign markets outpace the US in this area, aggressively seeking the strategic advantages offered by diverse boards.

This report looks at diversity in US boardrooms and C-suites of S&P 1500 companies at the time of their 2013 annual meetings, with some comparisons of diversity across industry sectors, and explores the impact female directors and leaders are having on diversity.[2] The report follows EY's 2012 report *Getting on board: women join boards at higher rates, though progress comes slowly* and highlights the backgrounds and qualifications of women recently joining boards.

Key findings

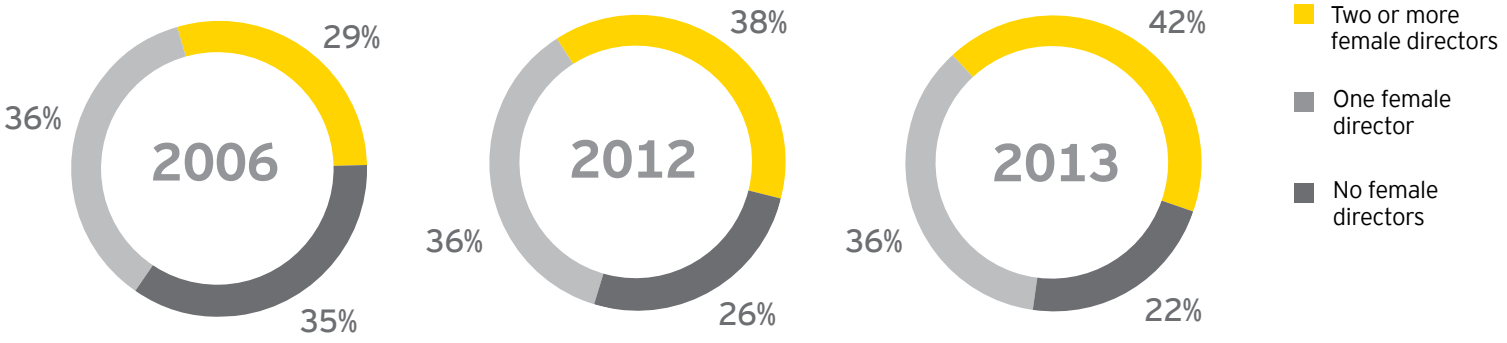
- Gender diversity accelerates board renewal and diversification. Companies with women on the board are more likely to have added new directors, including more women, to the board.
- Progress toward gender diversity on boards continues, while gender diversity by industry varies greatly.
- More women are joining public company boards for the first time. Industry experience is the top qualification cited by companies for newly appointed female board members.
- Companies with female leaders have more women in executive positions, helping to build the pool of female board candidates.
- Composition of US boards is poised for change, as a substantial portion of directors are long-tenured or approaching retirement.

1. All data from EY Corporate Governance Database.
2. The report includes a review of 1,371 S&P 1500 companies that held their 2013 annual meetings through 30 September 2013.

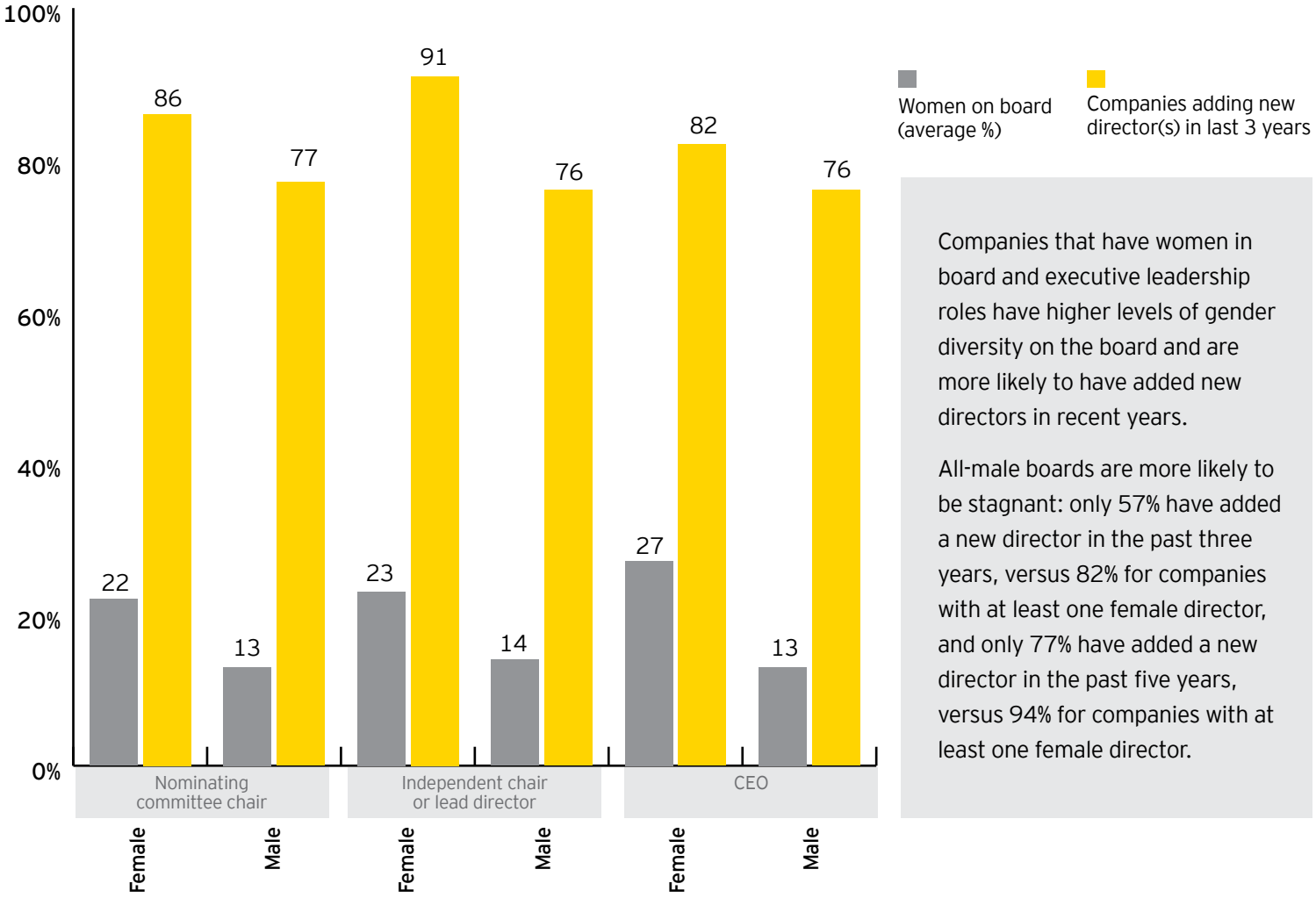
Gender diversity accelerates board renewal and diversification

Boards that have at least one female director show a commitment to diversity that goes beyond just checking the box: they continue to add more women to the board. The portion of companies with just one female director has stayed constant over the past seven years, while the portion of companies with two or more female directors has increased and the number of all-male boards has dropped. This suggests that boards that have experienced diversity recognize the value it brings to board decision-making and performance.

Boards with two or more female directors increasing

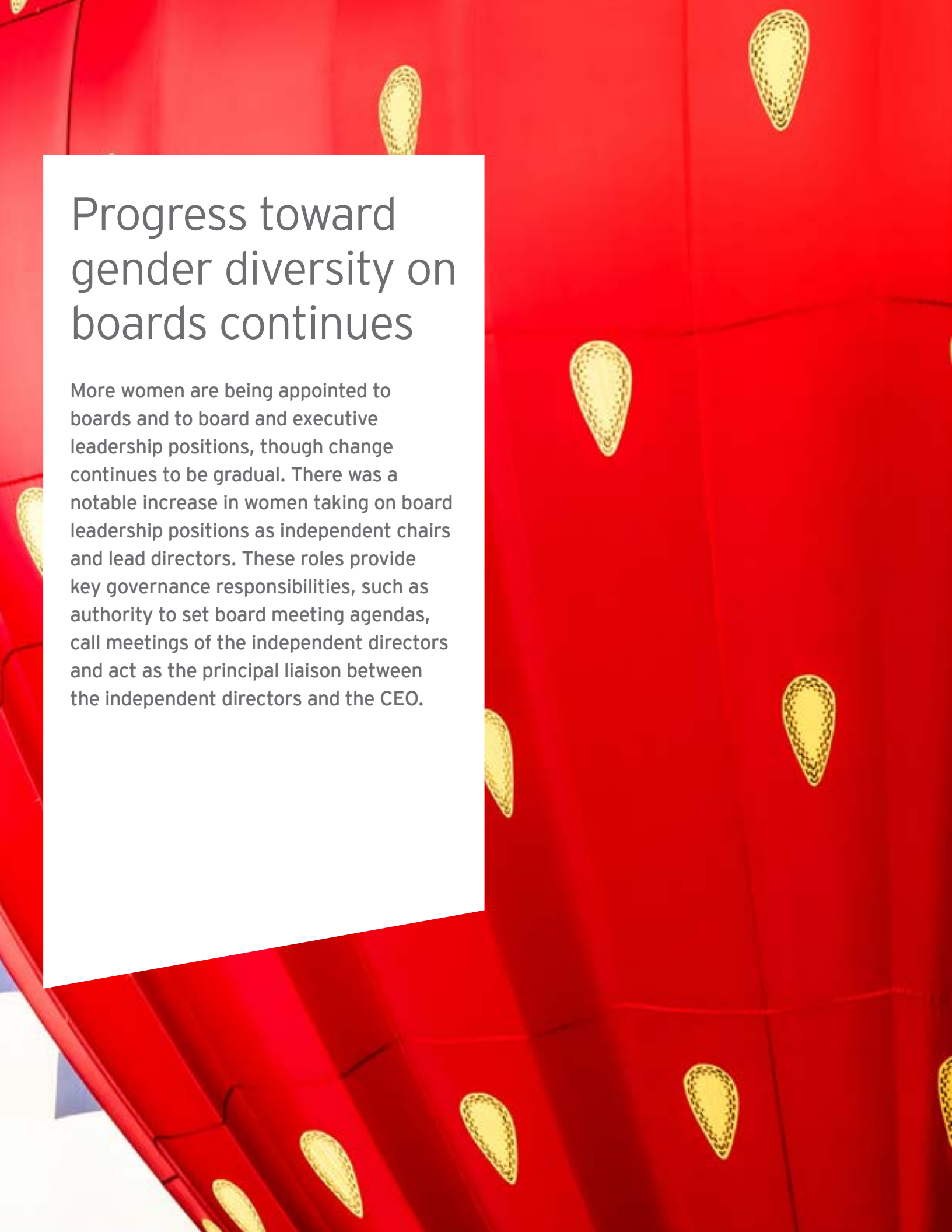


Female leaders impact gender diversity and turnover



Companies that have women in board and executive leadership roles have higher levels of gender diversity on the board and are more likely to have added new directors in recent years.

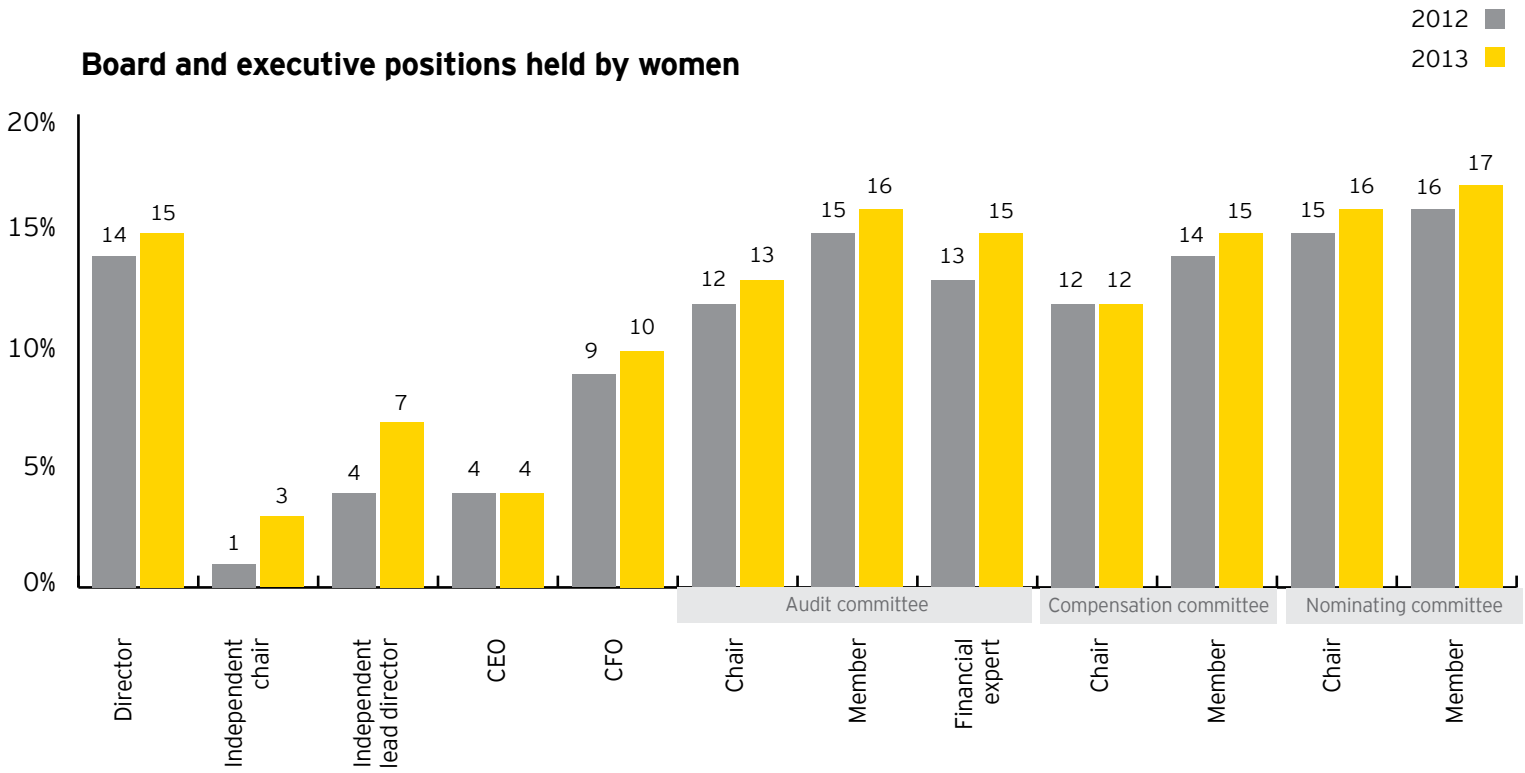
All-male boards are more likely to be stagnant: only 57% have added a new director in the past three years, versus 82% for companies with at least one female director, and only 77% have added a new director in the past five years, versus 94% for companies with at least one female director.



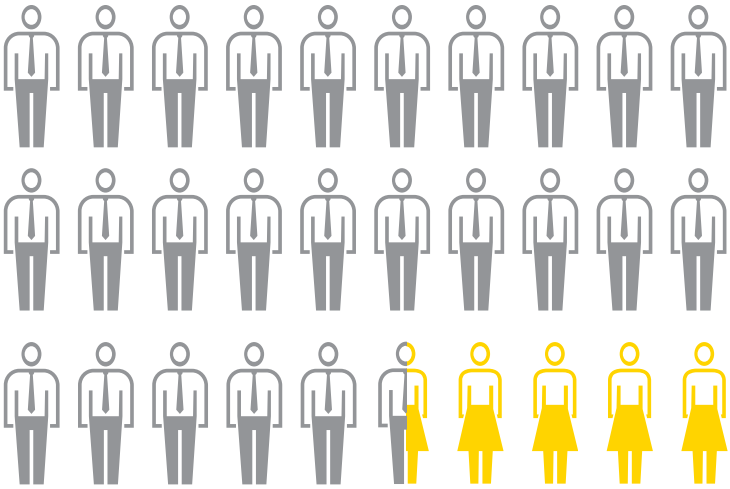
Progress toward gender diversity on boards continues

More women are being appointed to boards and to board and executive leadership positions, though change continues to be gradual. There was a notable increase in women taking on board leadership positions as independent chairs and lead directors. These roles provide key governance responsibilities, such as authority to set board meeting agendas, call meetings of the independent directors and act as the principal liaison between the independent directors and the CEO.

Board and executive positions held by women



85% of board seats are held by men



15% of board seats are held by women

Less than the proportion of seats held by directors named John, Robert, William and James.

Investor campaign helps drive change

Long-standing investor campaigns have played a significant role in driving increased gender diversity on boards from 11% in 2006 to 15% in 2013. In 2012 and 2013, these efforts included letter-writing campaigns targeting large companies with no women on their boards. More than 160 companies received the letters – an effort that stimulated dialogue with nearly 40 companies.[3]

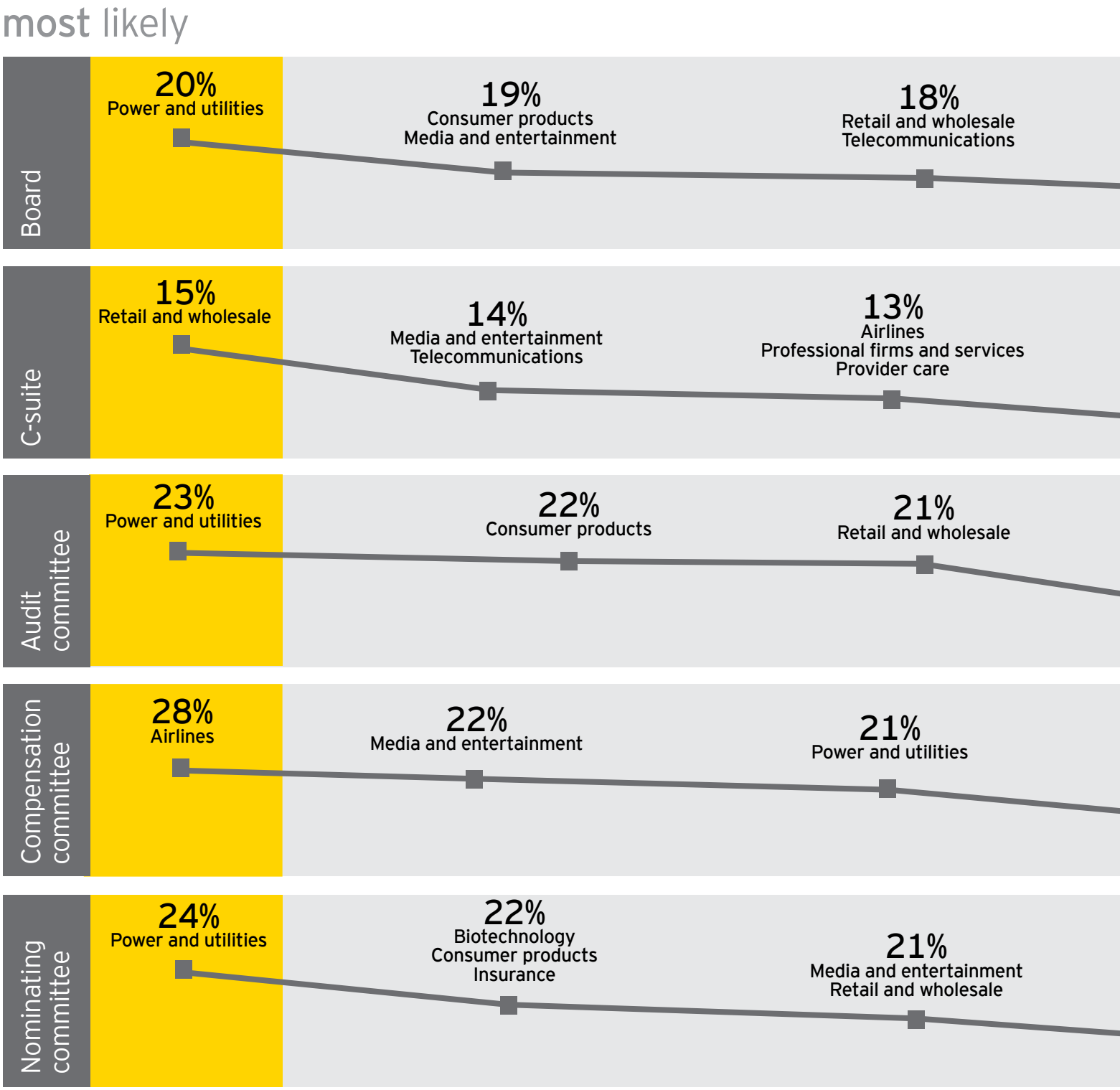
Investors have also used shareholder proposals seeking greater gender and/or ethnic diversity on boards to prompt change in board policies and composition. Companies have been responsive. Of the 26 proposals tracked by EY in 2013, most (73%) were withdrawn as companies agreed to incorporate diversity into director search criteria. Similar efforts are expected in 2014.

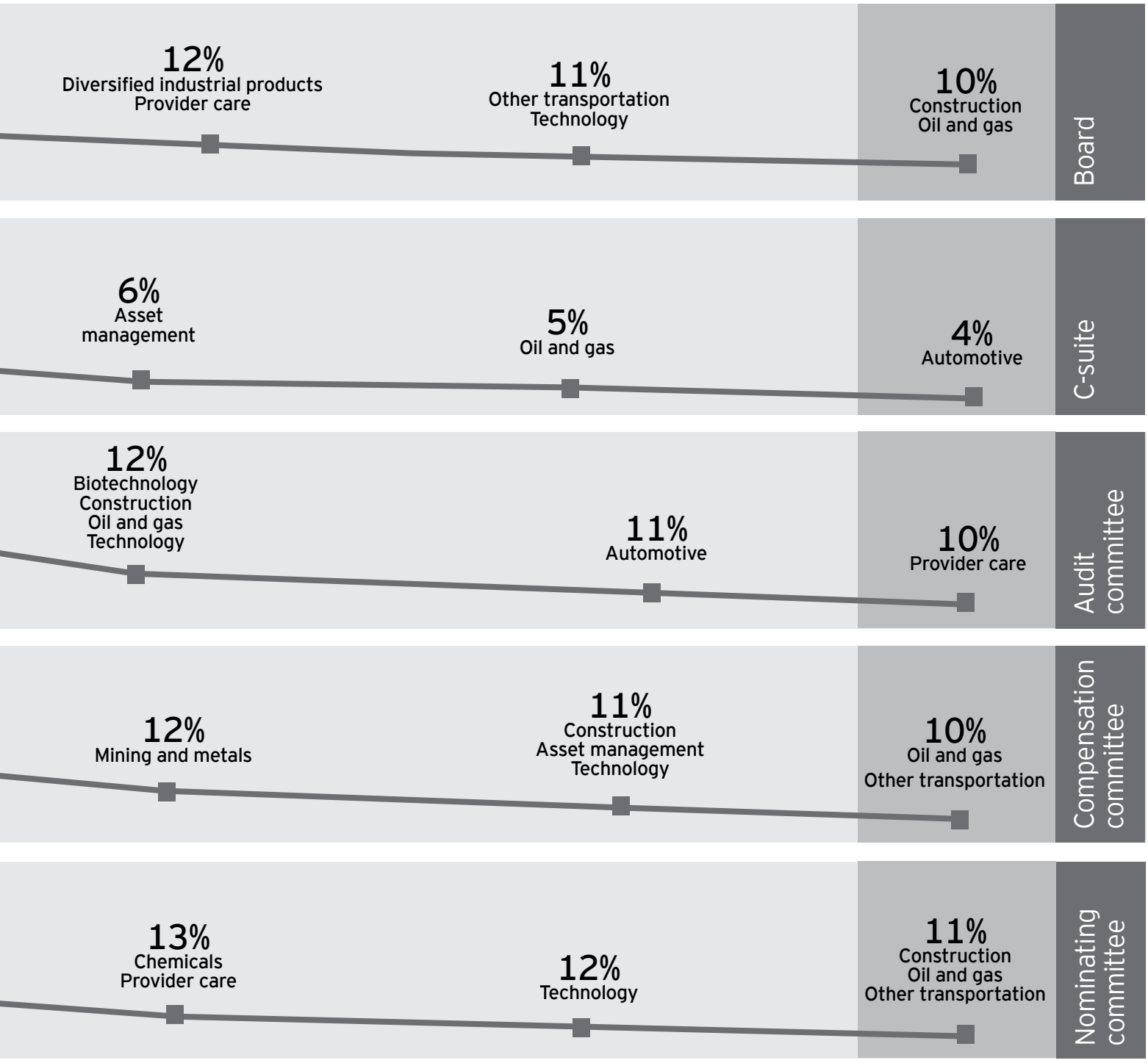
3. "Institutional Investors note Progress as Eight Companies appoint Women to their Boards," Thirty Percent Coalition, accessed October 2013.

Gender diversity by industry

Gender diversity among industries varies greatly. Companies in the media and entertainment, retail and wholesale, and telecommunications industries have the highest levels of gender diversity in the boardroom and C-suite. Nearly 40% of oil and gas companies do not have any women on their boards. Other industries most likely to have all-male boards include diversified industrial products, real estate, and technology industries.

Female representation by industry*



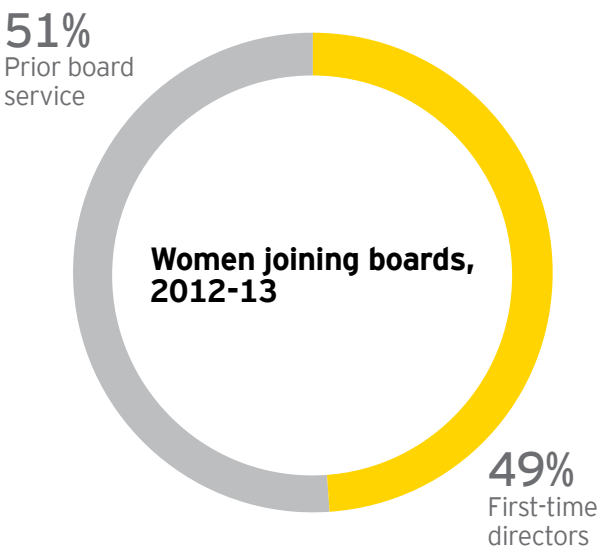


* Industries that are not in the top three or bottom three percentages per category are not included.

More women joining public company boards for the first time

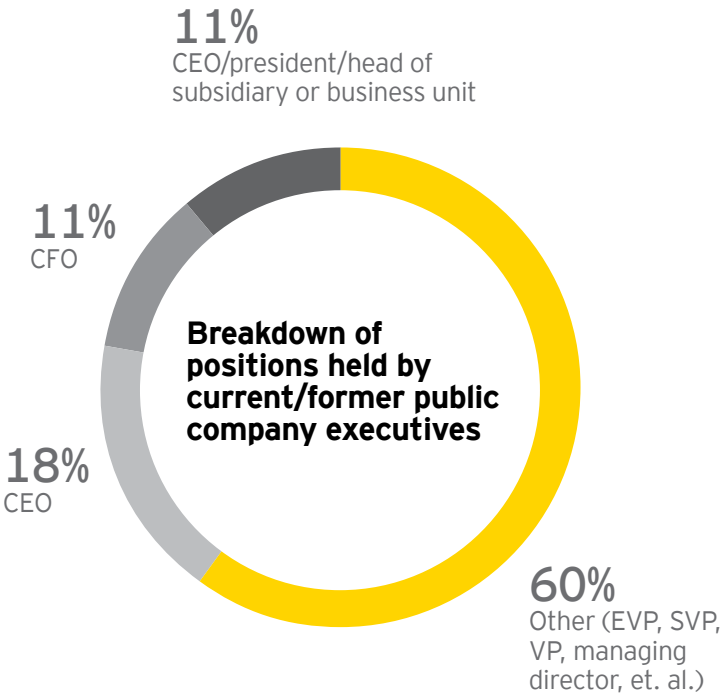
Prior public company board service is not a prerequisite to landing a board seat. Almost half of female directors appointed to boards in the past two years are first-time public company directors, up from previous years. Although not a requirement, public board service still remains a top qualification cited by companies. Companies must disclose the particular experience, qualifications, attributes or skills that led the board to conclude that the person chosen should serve as a director of the company.[4] The top qualification sought in recent years is expertise in the company's industry or an industry of strategic importance.

4. SEC Final Rules: Proxy Disclosure Enhancements, effective 10 Feb 2010.

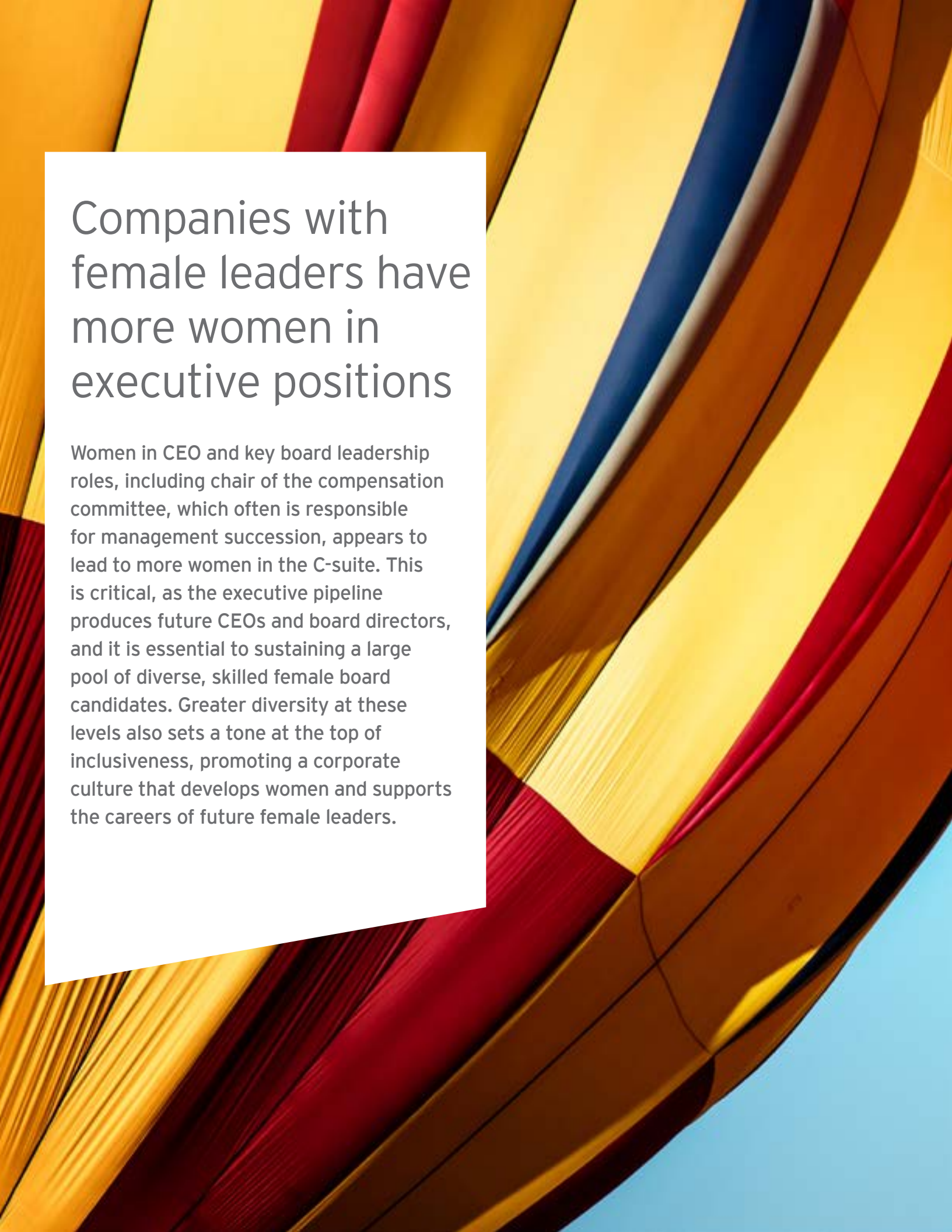


Six most common qualifications cited by companies for women joining boards, 2012-13

1) Industry expertise
2) Financial/accounting
3) Executive leadership
4) Experience serving on other public company boards
5) Operational leadership
6) Strategic planning



Companies are also appointing more female directors with public company executive experience. More than two-thirds of women joining boards in the past two years are current or former executives – though less than 20% of these are current or former CEOs and an increasing portion are at the vice president and managing director ranks.

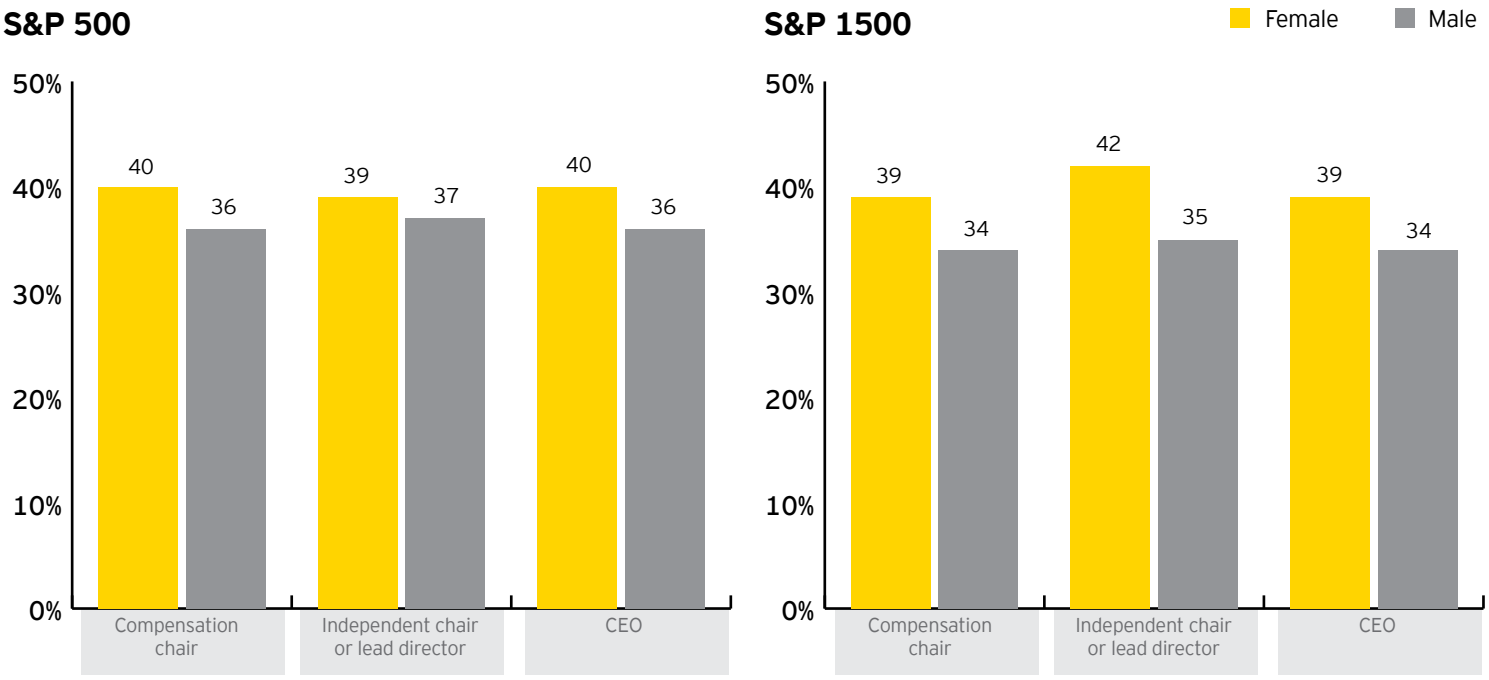


Companies with female leaders have more women in executive positions

Women in CEO and key board leadership roles, including chair of the compensation committee, which often is responsible for management succession, appears to lead to more women in the C-suite. This is critical, as the executive pipeline produces future CEOs and board directors, and it is essential to sustaining a large pool of diverse, skilled female board candidates. Greater diversity at these levels also sets a tone at the top of inclusiveness, promoting a corporate culture that develops women and supports the careers of future female leaders.

Women in executive positions

Companies with a least one female non-CEO named executive officer

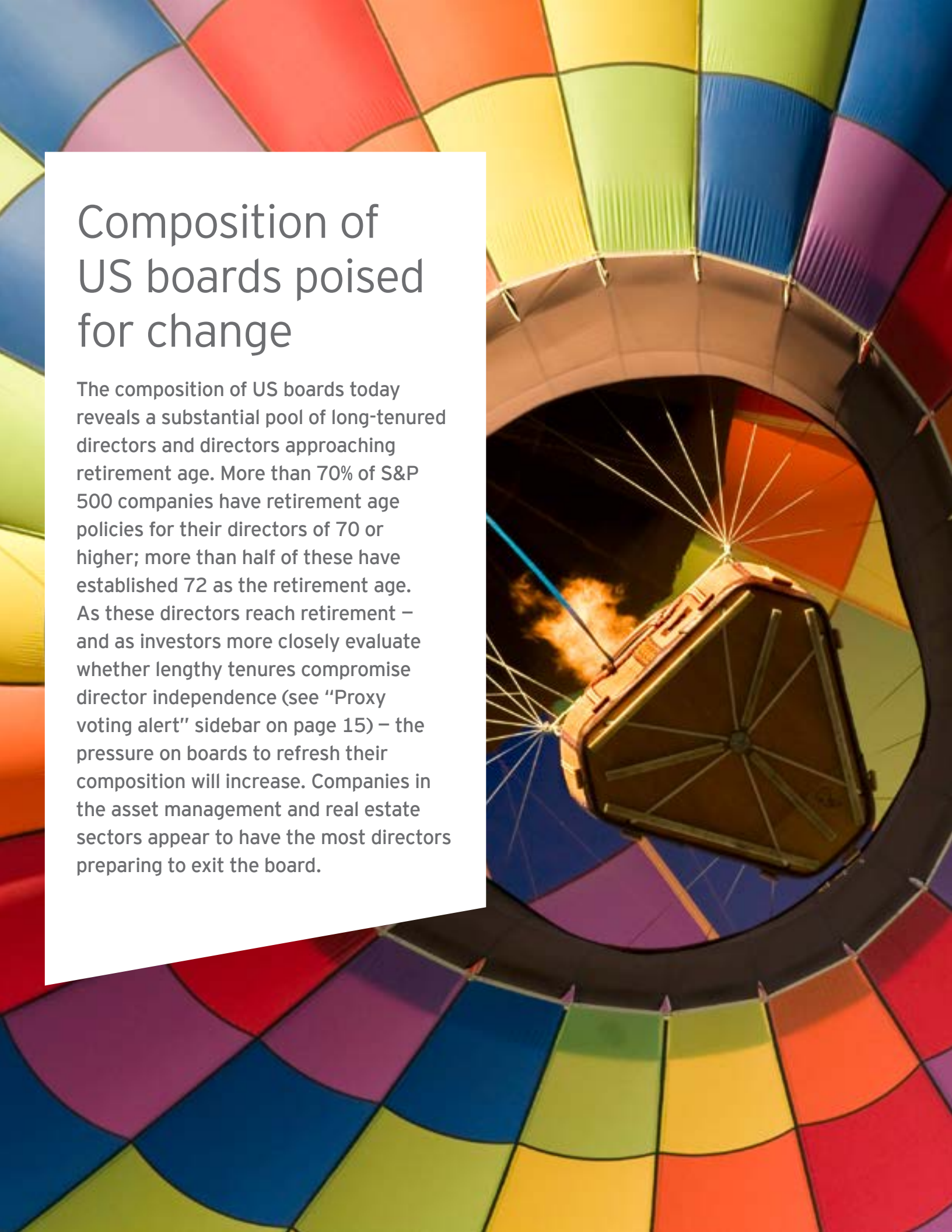


Board succession planning: stimulating strategic board renewal

Effective corporate governance starts with having the right directors in the boardroom. Some boards are wrestling with how best to refresh their composition and stimulate turnover while maintaining the collegial synergy that boards need to be effective. While term limits or retirement age policies ensure board renewal and provide a mechanism by which directors must exit the board, they can also result in the loss of high-performing, quality directors whose service may still be vital.

Leading practice for board succession planning includes using a matrix to shape the composition of the board – to identify the skills, expertise, attributes and experience necessary to support a company's strategic plan over the short and long term. Some identified attributes may apply to all directors, while others will represent a balanced mix among the board as a whole given a company's current and future strategy and business. The development of a matrix provides an opportunity for thoughtful discussion and observation and allows the board to identify any gaps that need to be filled.

Ongoing, robust director and board performance evaluations can create a mechanism for generating strategic board renewal aligned with a company's goals and board-level needs. Having an independent third party help facilitate the assessments can depersonalize the process. The evaluation process helps to ensure that individual competencies are fully understood, recognized, utilized and valued.



Composition of US boards poised for change

The composition of US boards today reveals a substantial pool of long-tenured directors and directors approaching retirement age. More than 70% of S&P 500 companies have retirement age policies for their directors of 70 or higher; more than half of these have established 72 as the retirement age. As these directors reach retirement — and as investors more closely evaluate whether lengthy tenures compromise director independence (see "Proxy voting alert" sidebar on page 15) — the pressure on boards to refresh their composition will increase. Companies in the asset management and real estate sectors appear to have the most directors preparing to exit the board.

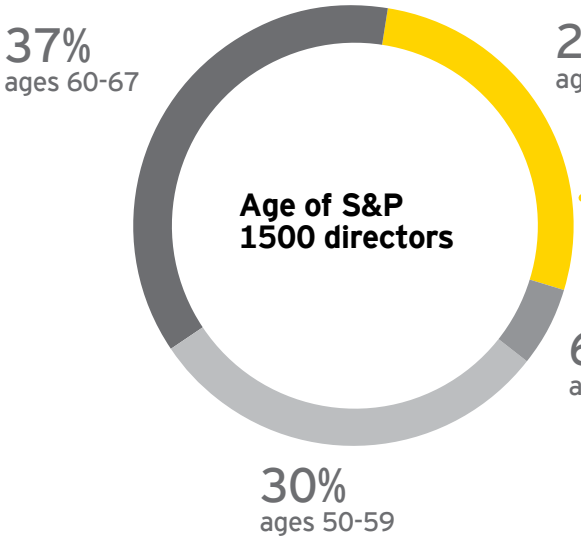
10 years

Almost half (45%)

of board seats are held by individuals with a tenure of 10 years or longer, and 88% of these are men.

Tenure of S&P 1500 directors

Years of service	% of directors
< 3	10%
3-9	45%
10-14	22%
15+	23%



Around 27% of current board seats could turn over in the next five years.

Men account for 94% of these board seats held by directors age 68+.

The data indicates a growing opportunity for boards to engage in proactive director succession planning, ensuring that board composition is strategically tailored to a company's market goals, challenges and innovation opportunities. The data also indicates opportunity for strategic succession planning at the committee level, where chair positions tend to be assigned to committee members with the longest tenure on the board. Nominating committee chairs, which generally lead board succession planning and recruitment, tend to be the oldest and most tenured directors.

Tenure of directors

Tenure of 10+ years
(% of all positions)

Board

45%
Member

Audit committee

54%
Chair

44%
Financial expert

43%
Member

Compensation committee

57%
Chair

48%
Member

Nominating committee

63%
Chair

51%
Member

Age of directors

Age 70+
(% of all positions)

Board

19%
Member

Audit committee

24%
Chair

20%
Financial expert

20%
Member

Compensation committee

24%
Chair

22%
Member

Nominating committee

28%
Chair

23%
Member

Proxy voting alert: CII and ISS consider the impact of tenure on independence

The Council of Institutional Investors (CII), a nonprofit association of pension funds, other employee benefit funds, endowments and foundations with combined assets that exceed $3 trillion, has adopted a new "best-practice" corporate governance policy related to director tenure. The policy states that corporate boards should weigh an individual director's years of service when determining whether he or she should be considered independent. CII does not endorse a specific tenure limit. However, it notes that in the United Kingdom, directors with more than nine years of service are not deemed independent unless the company can explain otherwise, and that the European Commission advises that non-executive directors serve no more than 12 years.[5]

CII's new policy is intended to speak both to the value of board turnover and the risk that extended tenure can lead an outside director to "think more like an insider." While the new policy may not directly affect how CII members evaluate directors up for election in the near term, it is possible that the new policy — and CII's increased focus on board refreshment — may herald future changes to CII members' proxy voting and engagement efforts related to director tenure and board renewal.

Leading proxy advisory firm Institutional Shareholder Services (ISS) turned its attention to director tenure in its 2013-14 policy survey. Nearly 75% of investor respondents indicated that long director tenure is problematic, with service of more than 10 years being the most common response regarding the length of board service that would call into question the independence or continuing service of individual board members.[6]

5. "More on CII's New Policies on Universal Proxy and Board Tenure," CII, accessed October 2013.

6. 2013-2014 Policy Survey Summary of Results, ISS, accessed October 2013.

Director gender, tenure and age by industry

Name of industry	Female named executive officers*	Companies with female CEOs	Female directors*	Companies with one-third female directors	Companies with no female directors	Companies with female independent board chair or lead director
Aerospace and defense	9%	9%	15%	5%	23%	6%
Airlines	13%	0%	17%	0%	11%	38%
Asset management	6%	0%	15%	8%	15%	11%
Automotive	4%	0%	13%	3%	20%	12%
Banking and capital markets	8%	2%	14%	5%	13%	9%
Biotechnology	7%	3%	16%	0%	6%	4%
Chemicals	7%	3%	16%	0%	19%	4%
Construction	9%	0%	10%	0%	27%	0%
Consumer products	8%	8%	19%	11%	13%	5%
Diversified industrial products	8%	2%	12%	1%	31%	2%
Hospitality and leisure	12%	14%	16%	3%	14%	4%
Insurance	8%	0%	16%	8%	10%	6%
Media and entertainment	14%	7%	19%	18%	15%	14%
Mining and metals	8%	3%	13%	3%	28%	4%
Oil and gas	5%	1%	10%	1%	37%	2%
Other transportation	7%	4%	11%	0%	23%	15%
Pharmaceuticals	9%	4%	15%	5%	19%	7%
Power and utilities	11%	8%	20%	11%	6%	6%
Prof firms and services	13%	10%	16%	3%	18%	8%
Provider care	13%	0%	12%	0%	22%	5%
Real estate	7%	4%	13%	6%	31%	1%
Retail and wholesale	15%	6%	18%	12%	17%	7%
Technology	7%	3%	11%	3%	39%	2%
Telecommunications	14%	18%	18%	11%	17%	8%

Female audit committee members*	Female audit committee chairs*	Female compensation committee members*	Female compensation committee chairs*	Female nominating committee members*	Female nominating committee chairs*	Directors with 10+ years of tenure	Directors age 70+
16%	16%	13%	14%	18%	14%	42%	25%
15%	11%	28%	11%	15%	11%	47%	11%
19%	15%	11%	8%	17%	10%	47%	30%
11%	14%	15%	13%	18%	18%	44%	21%
19%	18%	14%	9%	14%	15%	46%	20%
12%	9%	18%	13%	22%	22%	49%	20%
19%	17%	13%	3%	13%	14%	41%	15%
12%	7%	11%	21%	11%	13%	42%	21%
22%	17%	20%	18%	22%	20%	40%	17%
14%	11%	13%	10%	14%	15%	48%	19%
19%	9%	16%	6%	16%	16%	51%	22%
17%	13%	17%	11%	22%	22%	46%	22%
16%	19%	22%	18%	21%	3%	37%	23%
16%	13%	12%	10%	16%	17%	48%	18%
12%	11%	10%	10%	11%	7%	40%	19%
16%	15%	10%	4%	11%	0%	47%	19%
14%	21%	16%	5%	20%	16%	43%	19%
23%	16%	21%	20%	24%	27%	43%	15%
16%	10%	15%	15%	19%	16%	44%	15%
10%	4%	15%	8%	13%	20%	57%	19%
15%	9%	14%	8%	14%	17%	57%	26%
21%	16%	17%	12%	21%	20%	45%	16%
12%	9%	11%	13%	12%	10%	43%	16%
16%	11%	19%	17%	20%	41%	35%	14 %

***% of all positions**

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

About the EY Corporate Governance Center (EYCGC)
The EYCGC offers balanced insights and data-rich content and analysis that foster alignment and bridges gaps among management, boards of directors and investors — raising awareness, creating understanding and serving as a conduit of information. The Center's insights and content are supported through its proprietary corporate governance database, relationships with outside governance organizations and ongoing conversations with members of the investor and governance community.

© 2013 Ernst & Young LLP.
All Rights Reserved.

SCORE No.CF0064
1310-1144595
ED 0114

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

www.ey.com/governance

Contact

Allie Rutherford
Corporate Governance Center
+1 202 327 7026
allie.rutherford@ey.com