Building a better working world

EY Center for Board Matters

Governance trends at Russell 2000 companies

Corporate governance is a topic of increasing interest to policymakers, investors and other stakeholders seeking greater transparency of board practices and oversight functions, enhanced director accountability and improved board effectiveness. However, governance practices vary widely. And while the governance practices of companies with the highest market capitalization — such as those in the S&P 500 — can serve as important indicators of emerging practices, less is known about governance trends at Russell 2000 companies.

To share insights about an area of limited study, the EY Center for Board Matters analyzed the corporate governance practices at Russell 2000 firms during the four-year period from 2012 to 2015. To add perspective and context, corresponding data from the S&P 500 was included in the analysis.

The study found continued differences between Russell 2000 and S&P 500 governance practices. For example, Russell 2000 boards tend to have more independent board chairs, are smaller and have fewer women directors.

These and other insights about the governance practices of Russell 2000 and S&P 500 companies can help directors and management of entities of all sizes benchmark their governance practices, identify areas for potential review and spotlight opportunities to enhance boardroom effectiveness.

> One size doesn't fit all when it comes to governance practices. While boards and management should be aware of emerging governance practices, at the same time, they need to consider a company's particular circumstances.

Key findings

Boards smaller, younger and less diverse: Board size has remained steady with Russell 2000 boards averaging 8 directors, compared with 11 for S&P 500 boards. The average age and tenure of directors remained similar for the S&P 500, but Russell 2000 figures showed a slight decline, suggesting perhaps more refreshment. Although gender diversity grew slightly in Russell 2000 boards, 36% of these boards continue to be all male, compared with 3% of S&P 500 boards.

Boards reshaping their independent board leadership structures: Boards increasingly appointed independent board chairs or lead directors, and diminished use of presiding directors. Currently, 82% of Russell 2000 firms have some form of independent board leadership, compared with 95% of the S&P 500 firms. Russell 2000 companies are more likely to have an independent board chair, while S&P 500 boards likely have an independent lead director.

Board elections continuing to gradually transform: Companies have continued to move from staggered to annual elections and replaced plurality voting with majority voting requirements for director elections (versus plurality voting). A narrow majority of Russell 2000 companies (55%) hold annual elections, up from 51% in 2012. In comparison, 91% of S&P 500 companies have moved to this standard. Majority voting requirements are currently required for 26% of director elections at Russell 2000 companies, up from 19% in 2012. In comparison, 88% of S&P 500 boards have majority voting.

Board and executive compensation generally has increased: Total compensation for Russell 2000 CEOs increased more rapidly than at the S&P 500 companies. The average CEO-to-named-executive-officer (NEO) pay ratio is now similar across Russell 2000 and S&P 500 companies at around 2.6 times.

Investor support of Russell 2000 boards grows, but when there is opposition, it may be higher: Support levels for director nominees has grown, but investor opposition votes continue to be higher for Russell 2000 nominees, at 4.6%, compared with 2.7% for the S&P 500. Average support for say-on-pay (SOP) proposals has remained high at 91% for Russell 2000 companies — about the same as the 92% average support for the S&P 500. Average support for shareholder proposals has declined but shareholder proposals submitted to Russell 2000 companies continue to average higher levels of voting support at 42%, compared with 31% for S&P 500 companies.

Comparison of Russell 2000 and S&P 500 boards

Key differences in governance	Russell 2000	S&P 500
Board composition		
Age	60.9	62.5
Women directors (% of board)	12%	20%
Independent directors (% of board)	78%	85%
Board tenure years	8.4	8.8
Director board service (number of public boards served)	1.6	2.1
Board and key committee meetings and size		
Frequency of board meetings (average meetings per year)	8.4	8.2
Board size	8.2	10.8
Frequency of key committee meetings (average meetings per year)	Audit: 6.9 Compensation: 5.3 Nominating: 3.3	Audit: 8.8 Compensation: 6.2 Nominating: 4.6
Committee size	Audit: 3.5 Compensation: 3.5 Nominating: 3.5	Audit: 4.2 Compensation: 4.1 Nominating: 4.2
Independent board leadership (% of companies)		
Percent of companies with independent leadership	82%	95%
Most prevalent independent leadership structure	Board chair	Lead director
Director elections (% of companies)		
Annual elections for all directors	55%	91%
Majority voting requirements in director elections	26%	88%
Proxy access bylaws	0.6%	20.0%
Investor views		
Average opposition votes against director nominees	4.6%	2.7%
Percent of all director nominees receiving >20% opposition	5.0%	1.9%
Proportion of companies with shareholder proposals voted on	3%	47%
Proportion of total number of shareholder proposals voted on	10%	76%
Average voting support for all shareholder proposals	42%	31%

Looking for more details?

Explore our analysis in detail by visiting **ey.com/boardmatters**, where you can find statistics about board and key committee composition, leadership structures, compensation and more.

Questions for the board to consider

- Is the frequency of key committee meetings sufficient for addressing both immediate company needs and broader, long-term strategic interests?
- How does the age, tenure, diversity and skill sets of board members compare with peers and the changing governance expectations of investors? Are any of these characteristics likely to generate closer investor scrutiny?
- How does the company's board pay level and the internal pay ratio between the CEO and other named executive officers compare with peers?
- How do the company's governance practices align with evolving investor expectations about annual elections, majority voting requirements and proxy access?
- Is the board familiar with – and does the board have a view about – the top shareholder proposal topics of interest to the broad base of investors?

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Effective corporate governance is an important element in building a better working world. The EY Center for Board Matters is committed to bringing together and engaging with boards, audit committee members and investors to exchange ideas and insights. Using our professional competencies, relationships and proprietary corporate governance database, we are able to identify trends and emerging governance issues. This allows us to deliver timely and balanced insights, data-rich content, and practical tools and analysis to boards, audit committees, institutional investors and others interested in governance topics.

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