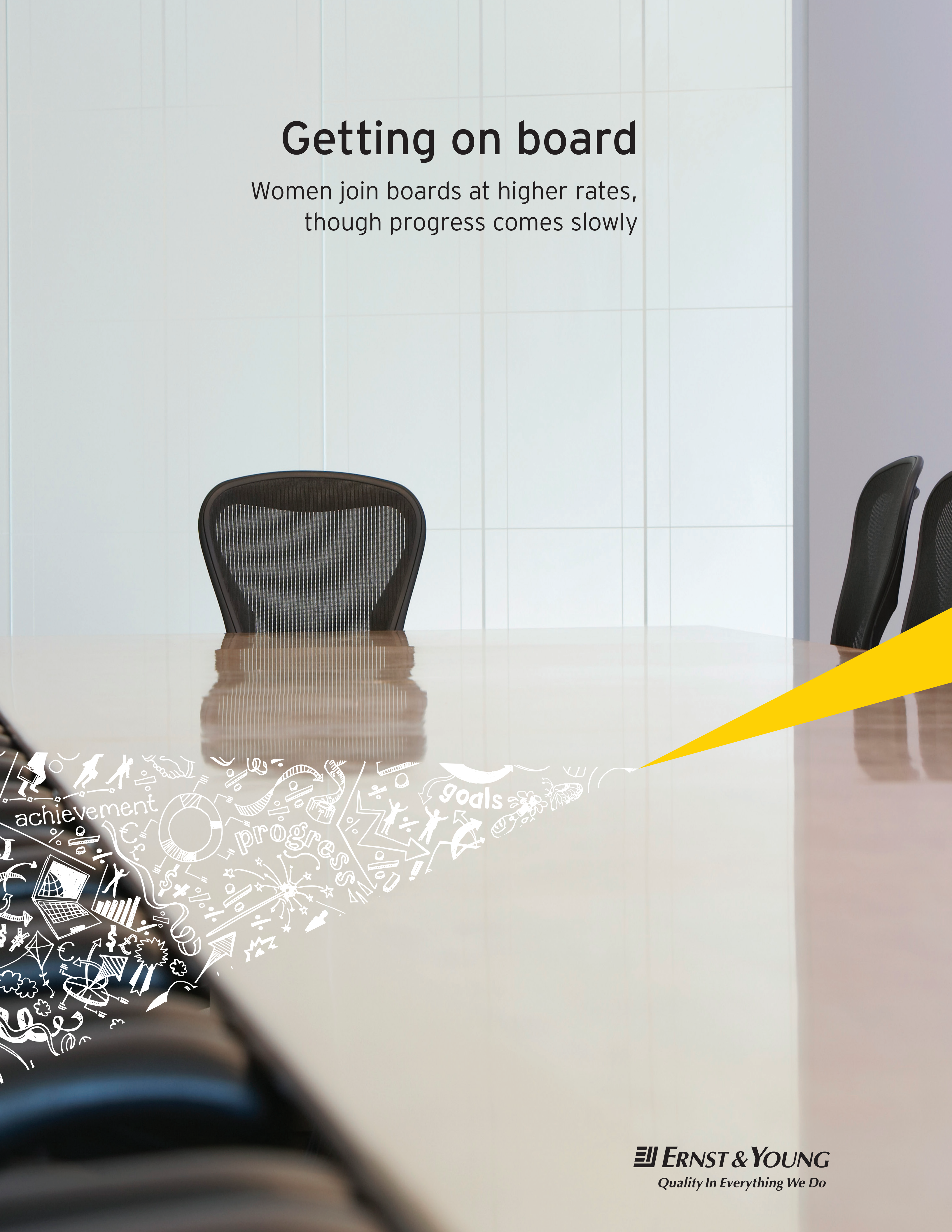
# Getting on board

## Women join boards at higher rates, though progress comes slowly

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Quality In Everything We Do

# Diverse boards are high-performing boards

The stakes are high for today's public company boards. In an increasingly challenging regulatory landscape, they are being called upon to provide forward-looking strategic counsel and rigorous oversight, while facing greater public scrutiny from a variety of stakeholders and grappling with a volatile economic climate. A "check-the-box" compliance approach from directors who think, act and look alike simply will not meet the complex challenges facing today's companies.

There is a distinct need for diversity in skill sets, expertise, experience and viewpoints on boards, driven by evolving strategic goals and market challenges. Board effectiveness demands robust debate in which norms are challenged and a breadth of perspectives inform board strategic discussions and actions. Indeed, a high-performing board is now, by definition, diverse.

In this report, Ernst & Young reviews the progress made to increase gender diversity on US corporate boards by comparing board composition of S&P 1500 companies at the time of the 2012 annual meeting to the 2006 annual meeting.[1] The report focuses on a broad universe of companies to tell a more complete story since the boards of large companies tend to be more diverse. The report is also unique in that it looks at the roles women have once they join boards, and reviews the backgrounds and qualifications of women directors. Overall, Ernst & Young finds that the rate at which women are joining boards as a percentage of new board members is increasing and that boards that already have at least one female director are most likely to add more.

# Addressing board diversity through a market-based solution

Some markets are taking aggressive action to address the problem of gender inequality on boards. The European Commission recently proposed legislation that sets an objective that, by 2020, boards of large publicly listed companies in Europe have 40% of their non-executive board seats held by women.[2] Others have already implemented, or are considering mandatory or voluntary, board diversity goals.

The rate at which women are joining US boards is increasing. It is not, however, at a pace that will result in clear strengthening of board diversity in the short term. The percentage of women on US corporate boards has peaked at just 14% this year. This is despite evidence that companies with more women on their boards outperform companies with fewer or no women directors.[3] It is also despite an influx of affinity groups working to improve board diversity, and increasing efforts by institutional investors to get women on boards (including pushing for greater board diversity through dialogue, letter-writing, shareholder proposals and putting forward board-ready women candidates for consideration). To be globally competitive, we must do better.

# Six years of incremental change

In 2012, 14% of S&P 1500 company board seats are held by women, a three percentage point increase over six years. Companies are adding women to their boards — at a sluggish pace. There are fewer companies with no female directors on their boards today than just a few years ago, and just over 30% of companies have added at least one female director to their board since 2006.

Table 1: Women on US corporate boards

| | 2006 | 2012 |
|---|---|---|
| S&P 1500 companies | | |
| Percentage of board seats filled by women | 11% | 14% |
| S&P 500 companies | | |
| Percentage of board seats filled by women | 14% | 17% |

[1] All data from Ernst & Young Corporate Governance Database.

[2] European Commission, Women on Boards: Commission proposes 40% objective, 14 November 2012. http://ec.europa.eu/justice/newsroom/gender-equality/news/121114_en.htm#Press

[3] "Does Gender Diversity Improve Performance?" Credit Suisse, 31 July 2012. "The Bottom Line: Corporate Performance and Women's Representation on Boards (2004-2008)," Catalyst, March 2011.



The commitment to diversity is stronger among larger companies – 90% of S&P 500 companies have at least one female director on their boards, and more than 60% have two or more. This compares to 75% of companies in the S&P 1500 with at least one female director, and just fewer than 40% with two or more. While these gains in gender diversity are important, these women generally represent less than 20% of the directors on the boards where they serve.

Table 2: Number of women directors on US corporate boards

| | S&P 1500 | | S&P 500 | |
|---|---|---|---|---|
| Percent of companies with: | 2006 | 2012 | 2006 | 2012 |
| No women directors | 35% | 26% | 14% | 10% |
| One woman director | 36% | 36% | 39% | 28% |
| Two women directors | 21% | 27% | 34% | 42% |
| Three women directors | 6% | 9% | 10% | 15% |
| Four women directors | 1% | 2% | 3% | 4% |
| Five or more women directors | <1% | <1% | 1% | 2% |

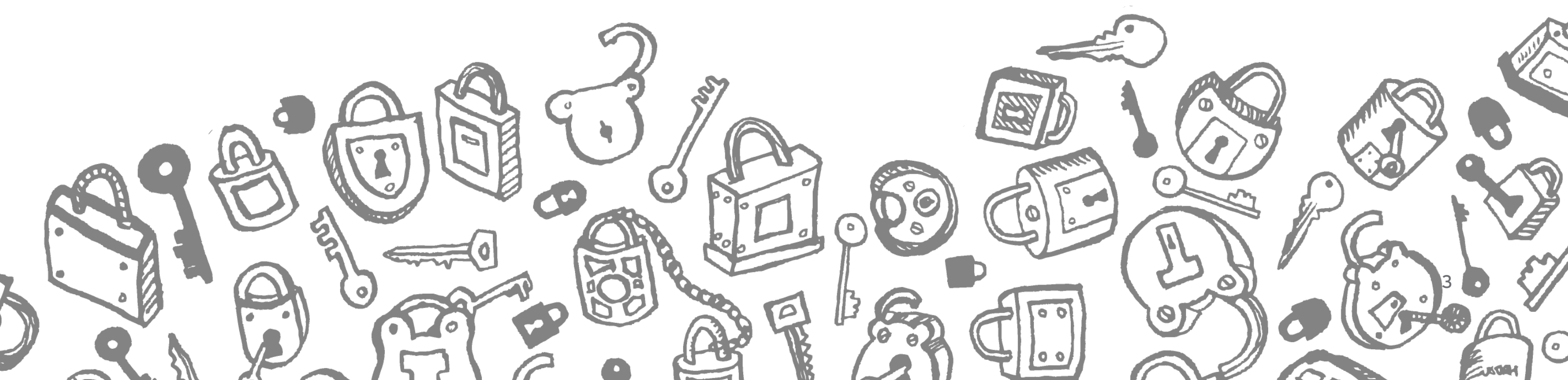
A strong majority of those boards with no female directors in 2006 have not added a woman since. Of the companies with no women on their boards in 2006:

- 31% had one more female director in 2012 than in 2006
- 6% had two more female directors in 2012 than in 2006
- 1% had three more female directors in 2012 than in 2006
- 62% had no change in the number of female directors since 2006

# Reaching the tipping point

A small number of companies (4%) have passed what some consider the tipping point – at least a third of the board is represented by female directors. These companies are not limited to one sector — they represent a variety — including consumer products, media and entertainment, power and utilities, retail and wholesale, and technology. Interestingly, going against the larger trend in board diversity, about 60% of these are smaller companies outside of the S&P 500.

One particularly encouraging trend is that the greatest increases in gender diversity occurred among boards that already had at least one female director serving. This may indicate that those boards that have experienced it now recognize the value and impact that diversity can have on board thinking and function. Of the companies that added at least one female director since 2006, about 60% already had at least one woman serving.



# Women join boards at higher rate

There is another silver lining to be found — women are joining boards at an increasing rate. Of the more than 1,800 directorships currently held by women, nearly 40% joined their respective boards in the last five years. And the rate at which women are joining boards as a percentage of all new members continues to increase. The impact of this is diluted because the overall number of directors joining boards has declined.

Table 3: Women as a percentage of new board members

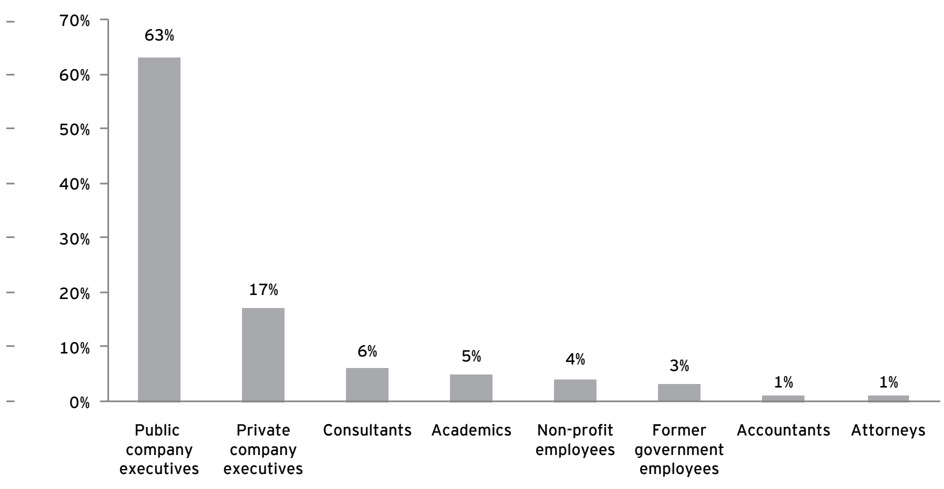
| Year joining board | Women as a percentage of new board members |
|---|---|
| 2012 | 21% |
| 2011 | 18% |
| 2010 | 16% |
| 2000–2009 | 14% |
| 1990–1999 | 11% |
| 1980–1989 | 6% |
| 1970–1979 | 2% |
| 1960–1969 | 3% |

# Professional background of new directors

And just who are these women joining boards? A review of the biographies included in proxy statements for directorships held by approximately 275 women that joined boards in 2012 or 2011 shows that more than 60% are current or former public company executives. Most of these hold or held executive positions other than CEO.

The following is a breakdown of the professional backgrounds of women joining boards over the past two years:[4]

Figure 1: Professional background of women directors

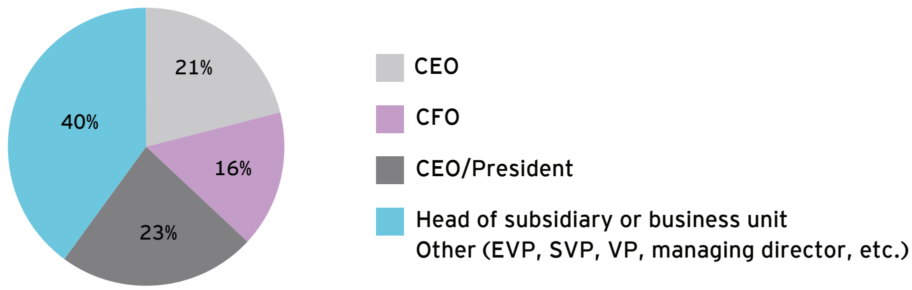



It appears that boards are not limiting themselves to former or sitting CEOs in their recruitment of women executives. Of the new women directorships held by current or former public company executives, only 13% are held by sitting CEOs of public companies, and only 8% are held by retired public company CEOs. This is a welcome trend, as limiting recruitment to the CEO position can overlook strong candidates for board service. For example, CFOs bring a combination of financial expertise, technical and strategic capabilities that make them uniquely qualified for board service, and for membership on audit and risk committees.

[4] The directors were categorized by their current or most recent employment, with the exception of any director whose prior employment included serving as an executive at a public corporation. Public company "executive" includes anyone with a senior executive position at a public company, including a business unit or wholly owned subsidiary. While this report distinguishes between current and former public company executive positions, it does not otherwise differentiate between current and former employment status.

And, appointing non-CEO women executives to corporate boards helps to further develop those executives, thereby building the leadership pipeline, and meeting the career needs of highly talented individuals, while creating better-performing boards.

Figure 2: Breakdown of positions held by current/former public company executives




## Qualifications of new directors: boards seek executive leadership

Companies must now 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.[5] A review of this disclosure for women joining boards in 2012 and 2011 shows that executive leadership is the qualification most commonly cited by companies. However, limiting director qualifications to executive leadership may prevent a board from recruiting some of the diverse backgrounds and expertise uniquely suited to that board given the company's particular circumstances.

Table 4: Qualifications of new women directors most frequently cited by companies[6]

| New women directorship qualifications | Number of times cited by companies |
|---|---|
| Executive leadership | 105 |
| Industry expertise | 99 |
| Financial/accounting | 97 |
| Experience serving on other public company boards | 64 |
| Operational | 61 |
| Global perspective/international experience | 56 |
| Strategic planning | 56 |
| Marketing | 45 |
| Information/technology | 44 |
| Corporate governance | 40 |
| Public policy/government affairs/regulatory | 38 |
| Risk assessment/management | 21 |
| Legal | 15 |
| Human resources | 12 |
| Diversity | 11 |
| Entrepreneurial | 8 |
| Public service/civic activities | 6 |

About half of the women joining boards over the last two years (54%) had previous public company board service. The remaining 46% are first-time public company directors, demonstrating that prior board service is becoming less of a factor in recruiting qualified candidates.[7]

[5] SEC Final Rule: Proxy Disclosure Enhancements, effective 10 Feb 2010

[6] Based on a company's explicit disclosure of a director's qualifications, taking into account that there is no consistent framework for such disclosure.

[7] Based on disclosure in the proxy statement, which must include, at a minimum, public company board service for the prior five years.

# The roles of female directors

Placing women in board and key committee leadership roles can help transform board thinking, and impact key board decisions and processes.

# Leadership positions

It is rare for a woman to lead a board. Less than 6% of independent board leadership roles (independent chair or lead/presiding director) are held by women.

Table 5: Board leadership positions held by women

| Women serving as: | Proportion of all positions |
|---|---|
| CEO | 3.8% |
| Independent board chair | 1.1% |
| Lead/presiding director | 4.2% |

These key positions generally involve calling and presiding over board meetings, setting and approving board agendas, controlling the flow of information to the board and acting as a liaison between management and the board, and sometimes between shareholders, and the board.

## Ongoing board succession planning helps to create diverse boards

Market challenges and strategic goals drive the need for distinct skills and expertise on the board, so board succession planning must be an ongoing and dynamic process. Leading practice for board succession planning uses a skills matrix to shape the composition of the board to reflect strategic direction and opportunities, regulatory and industry developments, challenges and transformation. These companies are strategically determining what areas of expertise and director qualifications they seek to have represented on the board given the company's specific circumstances and business characteristics. This dynamic approach to board succession planning and renewal offers companies the opportunity to consider the most diverse set of candidates for the skill matrix they seek to complete. Prioritizing diversity in this recruitment process may enhance board effectiveness by fostering debate, and invigorating board oversight processes and strategy development.

# Committee positions

Although more than 40% of all female directors serve on each of the three key committees of the board, their representation on these committees remains low overall — women hold less than 16% of all positions on the respective committees.

Table 6: Committee leadership positions held by women

| Women serving as: | Proportion of women directors | Proportion of all positions |
|---|---|---|
| Audit committee member | 45% | 15% |
| Audit committee chair | 9% | 12% |
| Audit committee financial expert | 21% | 13% |
| Compensation committee member | 41% | 14% |
| Compensation committee chair | 9% | 12% |
| Nominating committee member | 46% | 16% |
| Nominating committee chair | 11% | 15% |

# Prioritizing a diverse board

The US is desirous of a voluntary, market-based solution to drive board diversity. This will not work unless there is a commitment to change. Given the evidence of the impact board diversity has on the bottom line and the boardroom changes that are taking place outside of the US, diversity should now be a priority for US companies and their boards.

Boards need to be prepared to discuss their composition with shareholders. Board diversity has become a priority for many investors. These investors intend to engage companies that do not have women on their boards through dialogue, letter writing and shareholder proposals.

Boards that lack a breadth of diversity – across gender, ethnicity, age, geography and experience — and that are not challenging their composition and effectively conducting board assessment and development strategies — may risk becoming under-performing boards. They may lack the diversity and dynamism required to compete in today's global markets. Addressing gender inequality in the boardroom is one part of the solution.

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