Despite Demand for More Diversity and Refreshment,
Half of Russell 3000 Companies Report No Change in Board Composition

NEW YORK, April 24, 2019...According to a comprehensive review of SEC filings made in 2018, 50 percent of Russell 3000 companies and 43 percent of S&P 500 companies disclosed no change in the composition of their board of directors, The Conference Board reports. More specifically, they neither added a new member to the board nor did they replace an existing member. In those cases where a replacement or addition did happen, it rarely affected more than one board seat. Only one-quarter of boards elected a first-time director who had never served on a public company board before.

These findings provide some important context to the current debate on gender diversity and board refreshment, underscoring the main reasons why progress remains slow: average director tenure continues to be quite extensive (at 10 years or longer), board seats rarely become vacant and, when a spot is available, it is often taken by a seasoned director rather than a newcomer with no prior board experience.

The study, Corporate Board Practices in the Russell 3000 and S&P 500: 2019 Edition, documents corporate governance trends and developments at 2,854 companies registered with the US Securities and Exchange Commission (SEC) that filed their proxy statement in the January 1 to November 1, 2018 period and, as of January 2018, were included in the Russell 3000 Index. Data are based on disclosure included by companies in proxy statements and other periodic SEC reports as well as on other organizational and policy documents (charters, bylaws, board committee charters, and corporate governance principles) accessible through the EDGAR database and the investor relations section of corporate websites. For comparative purposes, data are compared with the S&P 500 index and segmented by 11 business sectors under the Global Industry Classification Standard (GICS), five annual revenue groups, and three asset value groups.

The project is a partnership between The Conference Board and ESG data-mining firm ESGAUGE, and it was developed with the support of the John L. Weinberg Center for Corporate Governance (successor of the Investor...
Responsibility Research Center Institute (IRRCi), Debevoise & Plimpton and Russell Reynolds Associates. Part of The Conference Board Corporate Intelligence suite of benchmarking products, the study continues the long-standing tradition of The Conference Board as a provider of comparative information on organizational policies and practices. The suite is available at www.conference-board.org/ESGintelligence.

“Corporate governance has undergone a profound transformation in the last two decades, as a result of the legislative and regulatory changes that have expanded director responsibilities as well as the rise of more vocal shareholders,” said Matteo Tonello, Managing Director of Environmental, Social and Governance (ESG) Research at The Conference Board and author of the report. “Yet the composition of the board of directors has not changed as rapidly as other governance practices. To this day, many public company boards do not see any turnover that is not the result of retirement at the end of a fairly long tenure.” As Justus O’Brien, Co-lead of the Russell Reynolds Board and CEO Advisory Partners also noted, “we see a tale of two cities. Larger companies in the Fortune 500 and Fortune 1000 have focused on board refreshment and aligning the skills of the board to the company’s forward-looking strategy over the past five years. We see that many smaller companies lag behind in refreshment. Institutional investors will continue to pressure public boards to refresh their board compositions.”

“We are proud to partner with The Conference Board and such a group of reputable advisory firms to introduce an observatory that encompasses the entire Russell 3000 and S&P 500 indexes and will enable us to track future developments on board practices. The scope of the database and the wide array of practices it monitors position us as a leading provider of benchmarking information in the field,” commented Manu Negi, Lead Researcher at ESG data analytics company ESGAUGE.

“Amid continued scrutiny of board practices, this report represents a valuable tool not only for directors and shareholders but also stakeholders in general to gauge those practices against the market,” said Mary Jo White, Senior Chair and litigation partner in the New York Office of Debevoise & Plimpton LLP and previously Chair of the United States Securities and Exchange Commission and United States Attorney for the Southern District of New York.

“The Weinberg Center, and on behalf of former IRRCi, is delighted to support this important, comprehensive and objective corporate governance research project,” said Charles Elson, the Edgar S. Woolard, Jr. Chair in Corporate Governance and the Director of the John L. Weinberg Center for Corporate Governance. He added, “This study clearly underscores the need in corporate America to seriously consider differing methods of board refreshment.”

Other findings from the report illustrate the state of board practices, which may vary markedly depending on the size of the organization or its business industry:

- **Directors in for a long ride: their average tenure exceeds 10 years.** About one-fourth of Russell 3000 directors who step down do so after more than 15 years of service. The longest average board member tenures are seen in the financial (13.2 years), consumer staples (11.1 years), and real estate (11 years) industries.
• Despite demand for more inclusiveness and a diverse array of skills, in their director selection companies continue to value prior board experience. Only a quarter of organizations elect a director who has never served on a public company board before. Companies with annual revenue of $20 billion or higher are twice as likely to elect two first-time directors as those with an annual turnover of $1 billion or less (7.3 percent versus 3.2 percent).

• Corporate boards remain quite inaccessible to younger generations of business leaders, with the highest number of directors under age 60 seen in new-economy sectors such as information technology and communications. Only 10 percent of Russell 3000 directors and 6.3 percent of S&P 500 directors are aged 50 or younger, and in both indexes about one-fifth of board members are more than 70 years of age. These numbers show no change from those registered two years ago. Regarding data on the adoption of retirement policies based on age, only about one-fourth of Russell 3000 companies choose to use such policies to foster director turnover.

• While progress on gender diversity of corporate directors is being reported, a staggering 20 percent of firms in the Russell 3000 index still have no female representatives on their board. Albeit still slow, progress has been steady in the last few years—a reflection of the increasing demand for diversity made by multiple stakeholders and policy groups: For example, the Every Other One initiative by the Committee for Economic Development (CED) of The Conference Board advocates for a system where every other corporate board seat vacated by a retiring board member should be filled by a woman, while retaining existing female directors. However, even though women are elected as corporate directors in larger numbers than before, almost all board chair positions remain held by men (only 4.1 percent of Russell 3000 companies have a female board chair).

• Periodically evaluating director performance is critical to a more meritocratic and dynamic boardroom. However, even though many board members consider the performance of at least one fellow director as suboptimal, in the Russell 3000 index, only 14.2 percent of companies disclose that the contribution of individual directors is reviewed annually.

• Among smaller companies, staggered board structures also stand in the way of change. Almost 60 percent of firms with revenue under $1 billion continue to retain a classified board and hold annual elections only for one class of their directors, not all. And while just 9.5 percent of financial institutions with asset value of $100 billion or higher have director classes, the percentage rises to 44.1 for those with asset value under $10 billion.

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• Though declining in popularity, a simple plurality voting standard remains prevalent. This voting standard allows incumbents in uncontested elections to be re-elected to the board even if a majority of the shares were voted against them. In the Russell 3000, 51.5 percent of directors retain plurality voting.

• Only 15.5 percent of the Russell 3000 companies have adopted some type of proxy access bylaws. Such bylaws allow qualified shareholders to include their own director nominees on the proxy ballot, alongside candidates proposed by management. In all other companies, shareholders that want to bring forward a different slate of nominees need to incur the expense of circulating their own proxy materials.

As Rusty O’Kelley, Co-lead of the Russell Reynolds Board and CEO Advisory Partners observed: “The accelerating challenges faced by businesses are going to require a significant change in board composition over the next five years. Many industries and sectors lack directors with current skills in key areas such as digital transformation. Additionally, many other boards lack enough directors who are working senior executives and professionals with current, relevant knowledge as to the pace of change in business and the impact of overall business transformation.”


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