Boards confront an evolving landscape
Board composition and behavior

PwC's Annual Corporate Directors Survey

2013

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Board composition, structure, and performance

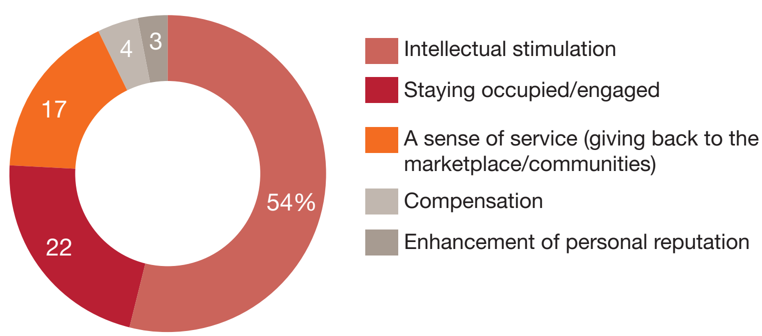
Highly effective boards include a mix of directors with the expertise and experience to fulfill their essential oversight roles. Accordingly, boards take great care in evaluating the skill sets of prospective directors. Stakeholders also continue to have an interest in board composition and look closely at director profiles including gender, race, age, and board tenure.

What is so great about being on a board?

The roles and responsibilities of directors continue to expand—and consequently, so does the time commitment required to do the job effectively. Considering today's litigious and activist shareholder environment, some would question why anybody would want to serve on a public company board. Yet becoming a corporate director remains attractive to many.

In our current survey, directors reflected on why they choose to serve in this capacity. One thing is for sure: It's not about money or ego (only 4% and 3% cite these reasons, respectively). For the vast majority, board service provides an interesting and dynamic environment that enables them to give back to companies, communities, and the capital markets. More than half of directors (54%) say their primary motivation for sitting on a corporate board is intellectual stimulation, while 22% see board service as a way to keep engaged, and 17% indicate they want to give something back.

What is your primary motivation for sitting on a public company board(s)?



Note that some charts may not total 100% or net to zero due to rounding.

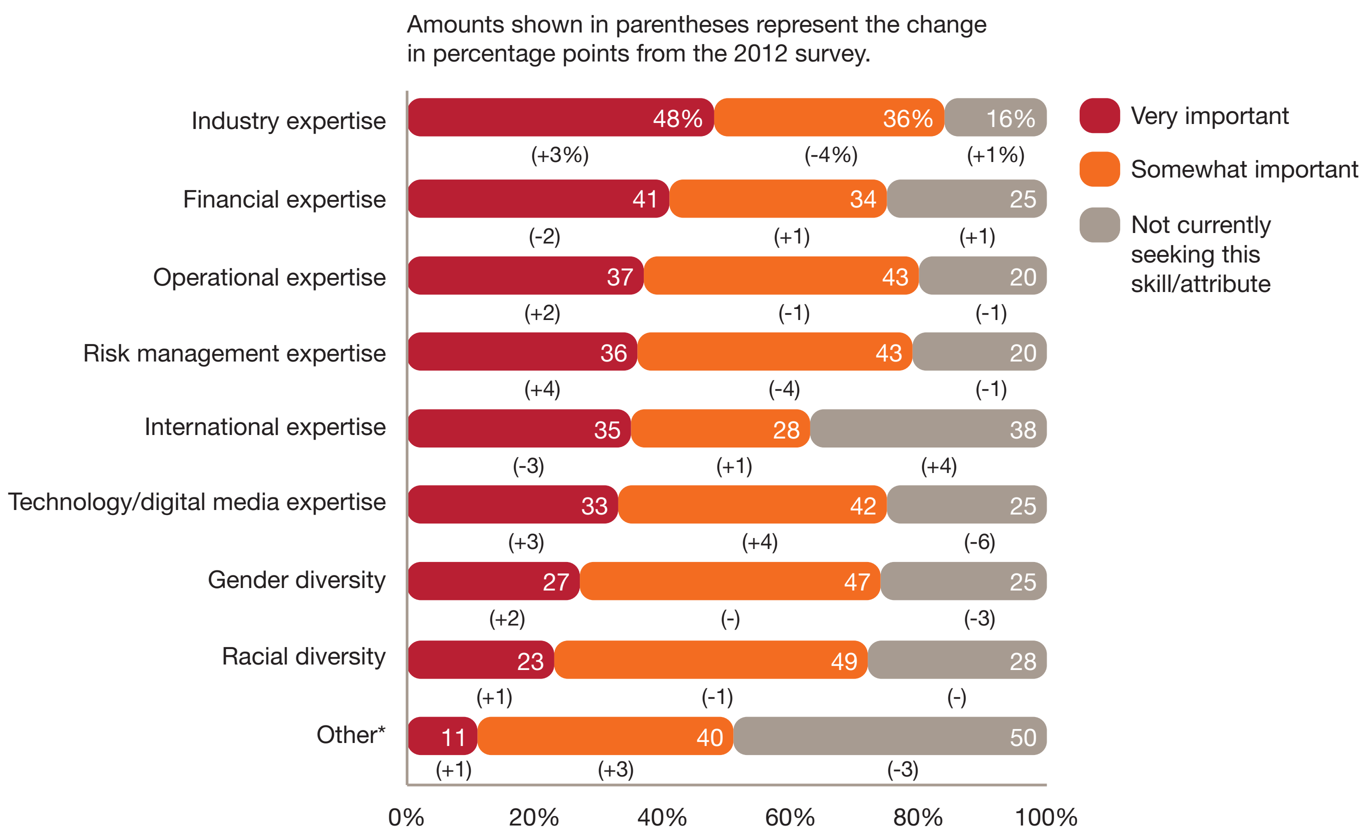
Additional insights

Eighty-six percent of directors of the largest companies consider racial diversity in director candidates at least "somewhat important," compared to only 64% of directors of the smallest companies. The same is true when it comes to gender diversity in director candidates (83% and 70%, respectively).

The evolving "wish list" of director attributes

Continuing a trend we saw in 2012, the most desirable attributes for board candidates are industry expertise, with 48% seeing it as "very important," followed by financial expertise (41%), and operational expertise (37%). Human resources and legal expertise are less sought after, with only 7% and 5% of directors calling them "very important," respectively. The most significant increases this year in "very important" skills were risk management and industry experience. There was a slight uptick in the number of directors who think gender diversity is "very important," but the importance of racial diversity remained unchanged year-over-year. Given the increasing attention to IT, it's not surprising to see the number of directors who say technology expertise is at least "somewhat important" increase by 7 percentage points.

How would you currently describe the importance of adding directors with the following to your board?



*Other includes the average of responses for: human resources expertise, legal expertise, and marketing expertise, all individually less significant.

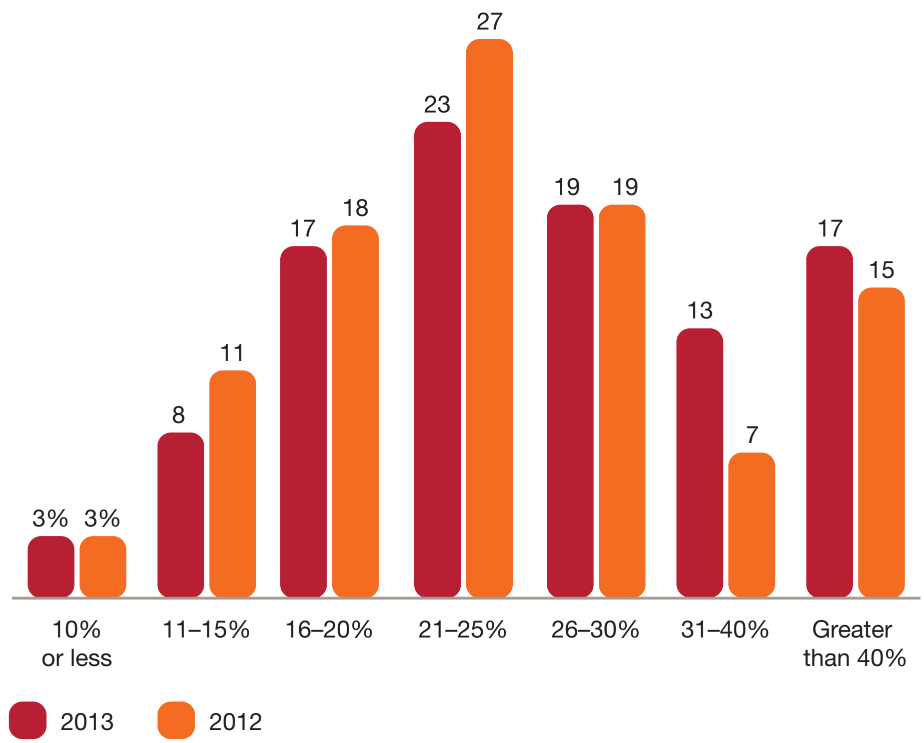
Additional insights

The shorter the tenure of a director, the more sensitive he or she is to negative director voting. Eighty percent of those who have served less than one year are concerned about re-nomination at negative voting of 25% or less, compared to 48% of those serving 10 years or more.

Re-nominating directors—and the impediments to replacing them

Directors are less sensitive to negative shareholder voting in director elections than they were last year. In 2012, 59% said they would be concerned about re-nomination of a fellow director if he or she received less than 75% favorable shareholder support. This year, the number declined to 51%. One potential reason is that directors may be more acclimated to an environment where dissatisfied shareholders may choose to make their voices heard by voting against a director or withholding their vote.

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

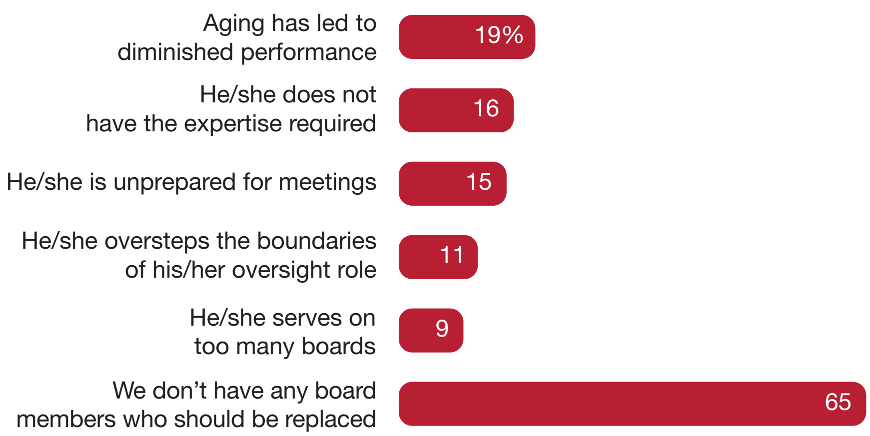


Additional insights

Over half of directors who have served on the board for less than one year believe a fellow board member should be replaced—but less than 25% who have served more than 10 years feel the same way.

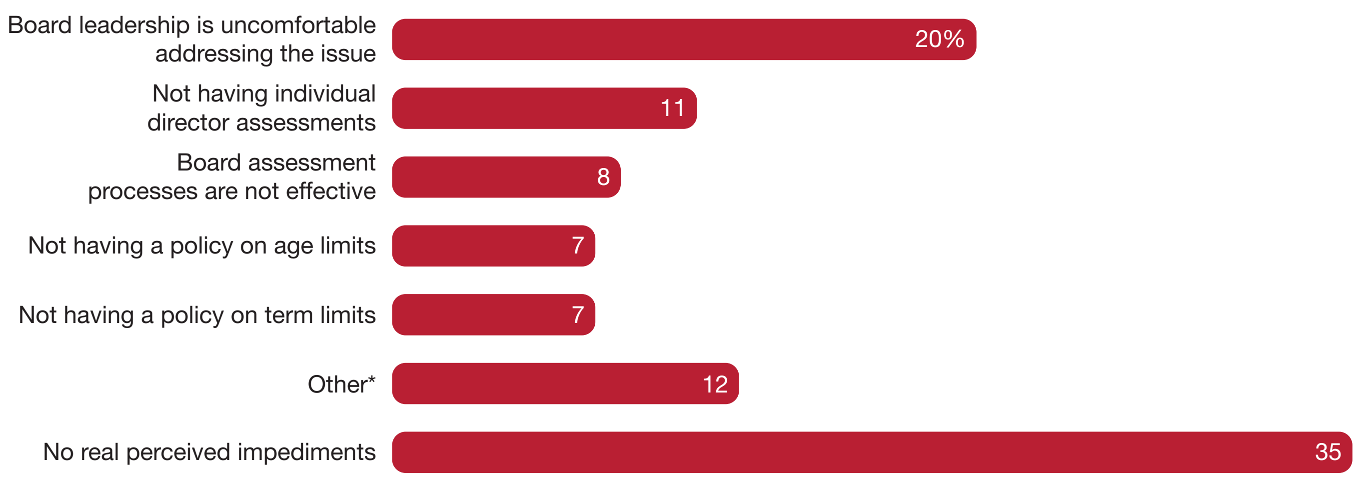
At the same time, today's directors are even more critical of their fellow directors. This year, 35% say someone on their board should be replaced, an increase from 31% in 2012. The top three reasons cited are diminished performance because of aging, a lack of the required expertise, and poor preparation for meetings.

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



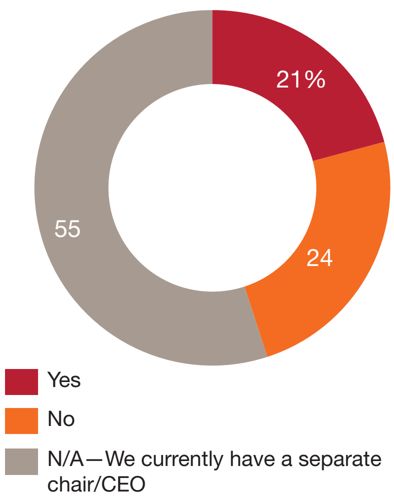
Replacing a fellow board member can be difficult, as nearly half of directors (48%) cite impediments to doing so. Directors point to the importance of strong board leadership in dealing with this challenge. They say the top constraint is that board leadership is uncomfortable addressing the issue. This inhibitor was cited nearly twice as often as the second and third most frequent explanations, a lack of individual director assessments and ineffective assessment processes. While it can be an unpleasant conversation, directors believe the chair or lead director should confront director underperformance.

What are the impediments to replacing an underperforming director? (Based on the frequency of responses)



*Other includes the total of: close relationship between CEO and underperforming director (5%), underperforming directors are soon rotating off (5%), and not having annual re-election of directors (2%), all individually less significant.

If you currently have a combined chair/CEO, has your board discussed splitting the role during your next CEO succession?



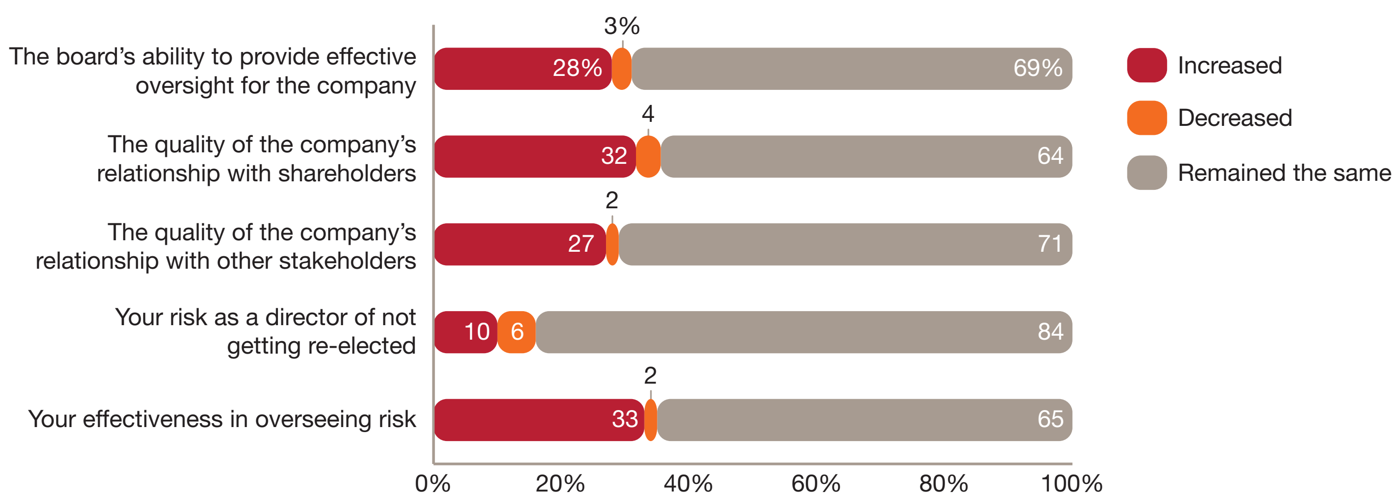
Splitting the CEO and chair roles

Fifty-five percent of directors say their company has a separate chair and CEO—an uptick of one percentage point from last year and consistent with the evolution of overall governance trends. Of those companies that combine the roles, about half (47%) are considering splitting it at their next CEO succession, consistent with 2012 responses.

Feeling better about last year's overall board performance

On a positive note, directors have grown more confident in their ability to provide effective oversight over the course of the last twelve months. About 28% believe their ability to do so increased, while only 3% say it declined. They also feel the quality of their companies' relationships with both shareholders and other stakeholders improved significantly (32% and 27%, respectively). However, nearly 10% saw increased risk that they would not get re-elected.

In the last 12 months, have the following increased, decreased or remained the same?



Board practices

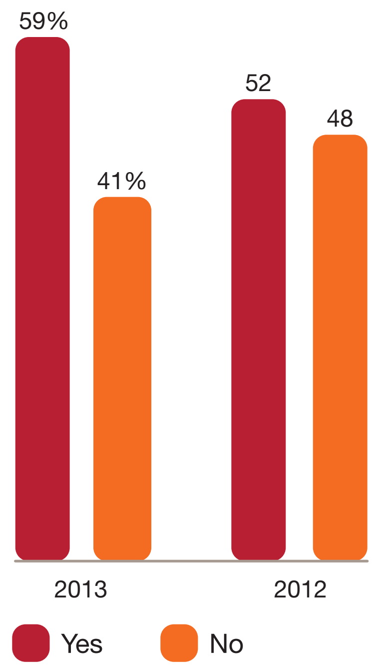
Additional insights

Directors of the smallest companies more strongly support mandatory board education: 76% of those directors believe board members should be required to attend annual training, compared to only 46% of directors of the largest companies.

More education is good

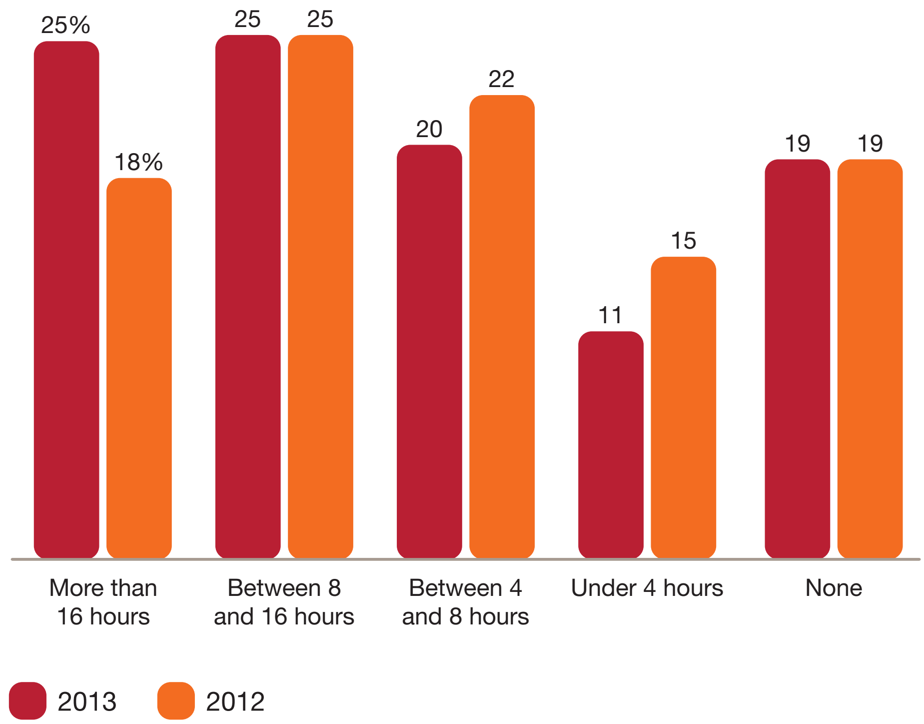
The percentage of directors who believe annual training should be required rose significantly to 59% from 52% last year. More than four in five directors are using educational programs to stay abreast of emerging trends in corporate governance to effectively discharge their oversight responsibilities.

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



In 2013, directors spent even more time on education. In fact, one in four spent more than 16 hours in board education programs, an increase from 18% in 2012. About one in five (19%) did not participate in continuing education in the last 12 months, the same as last year.

Did you participate in separate board education/training last year totaling:



Self-evaluations prompt changes

Boards continue to act on issues identified in their self-evaluation process, with over half (57%) taking some action—an indicator that these processes are taken seriously. The most common changes are seeking additional expertise to join the board (35%) and changing board committee composition (30%). Where there was comparable data year over year, diversifying the board increased the most.

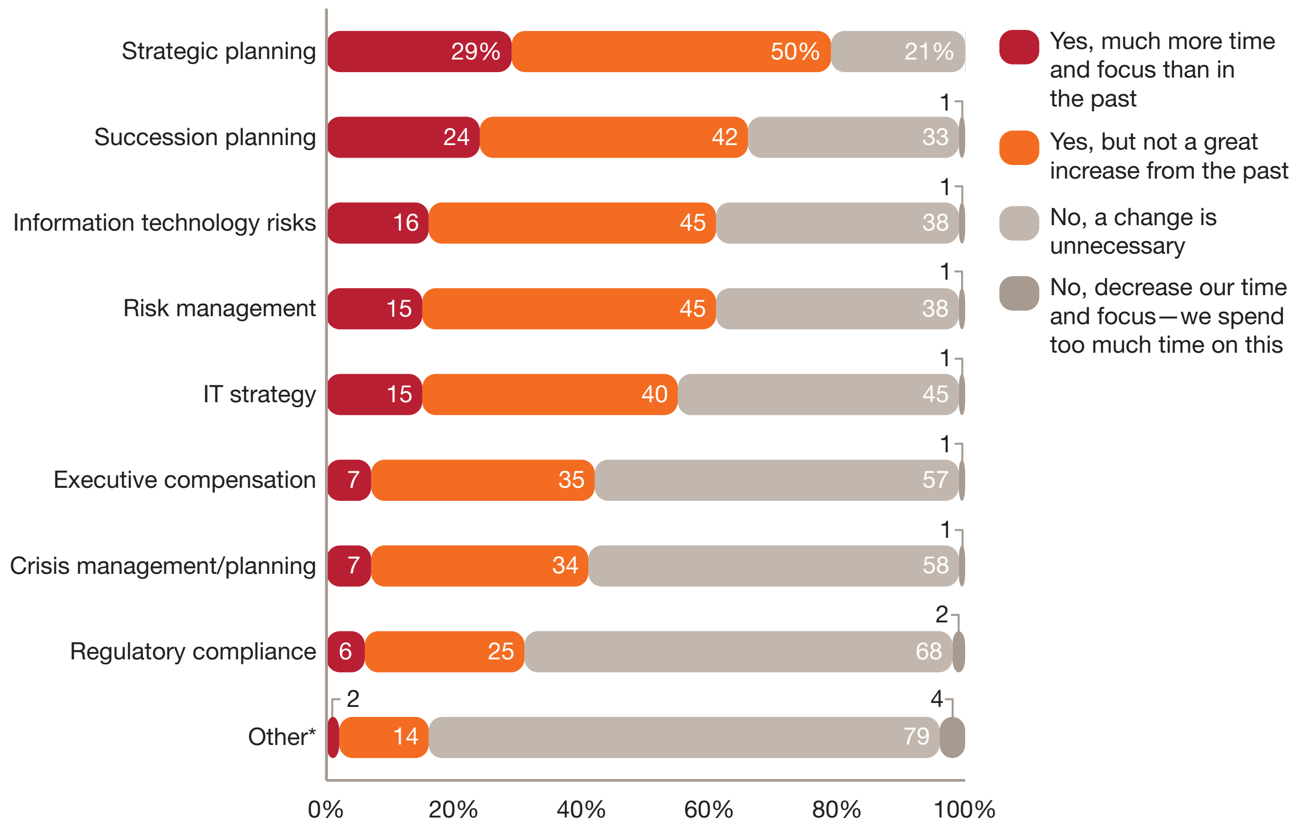
In response to issues identified during your last board/committee self-evaluation process, did your board/committee decide to do any of the following?

What's up for next year?

Directors continue to recognize the importance of effective strategic planning and are allocating their time accordingly. Strategic planning was the number one priority for more attention going forward—79% of directors want to spend more time on this area.

In 2012, 68% of directors wanted to spend more time on succession planning. This trend remained consistent in 2013, as 66% want more board hours dedicated to succession planning—and 24% of directors say they want "much more time" than in the past. This comes despite the fact that 50% of directors say they actually spent more time on succession planning in the last 12 months.

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



*Other includes the average of responses for: bribery and corruption concerns, director communication protocols, and insider trading concerns, all individually less significant.

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To have a deeper conversation about how this subject may affect your business, please contact:

Mary Ann Cloyd
Leader, Center for Board Governance
PwC
(973) 236 5332
mary.ann.cloyd@us.pwc.com

Don Keller
Partner, Center for Board Governance
PwC
(512) 695 4468
don.keller@us.pwc.com

Paul DeNicola
Director, Center for Board Governance
PwC
(973) 236 4835
paul.denicola@us.pwc.com