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SOCIETY for Corporate Governance

2016 Board Practices Report

A transparent look at the work of the board

Executive summary

Highlights

64% **added a new director** in the past year
This compares to 50% in a similar question asked in 2014.

9 years — **Average tenure** of non-management directors
9 years was most common but reflects only 15% of respondents. Six years was a close second.

Over 25% **added women to their boards** in the past year.
38% have 3 or more female directors
56% of large caps have 3 or more female directors

The **top three risks boards are focused on:** cyber, finance/legal, and product

Top 3 areas of **experience sought in new directors: industry, active CEO, and financial expertise.**
Technology/IT ranks #1 for small caps and is tied for first place for financial services companies.

Almost 60% of large cap audit committees disclose more than what is required in their proxy statements.

46% said their board equity plans **have compensation limits.**

27% of companies have been **approached by an activist** in the past year — down from 31% in 2014 and 35% in 2012.

74% of companies are **discussing how to prepare for activism** — a 19 percentage point increase since 2014.

55% of boards are being **updated on shareholder sentiment and concerns** more than once a year.

Corporate secretaries are engaging more with shareholder groups — with 41% reporting that the level has increased either significantly or slightly.

14% added a board member with cyber experience in the past two years.

Nearly 60% of companies **provide sustainability disclosure** — primarily via formal sustainability reports and dedicated webpages.

Key findings

This 10th edition of the Report identifies key findings on board-relevant topics that have risen to prominence over the last two years. These topics include cyber risk, shareholder activism and diversity, among others. Here, we present a few of the key findings.

Board refreshment and diversity

Boards, investors, regulators, public policy makers and others are increasingly focused on the mix of directors in the boardroom, with a particular focus on diversity, including gender, race, ethnicity, generation/age and thought. They are also focused on processes related to refreshment. The survey revealed that:

- **Nearly two-thirds of respondents reported their boards added a new director in the past year**, up from half in 2014. The changes resulted mainly from resignations and planned retirements, though 22 percent attributed the change to keeping the board fresh, and 15 percent reported it was to achieve greater diversity.
- **Seventy-eight percent of respondents have adopted some form of a refreshment policy**; of these respondents, 75 percent have age limits, and 5 percent have term limits.
- **Large cap companies have the greatest amount of gender diversity**, with 40 percent of respondent companies having three female directors and 16 percent with four or more. Approximately 70 percent of respondents, overall, reported having at least two women on the board.
- **Fifty-two percent of respondents have one or two board members of a racial and/or ethnic minority.**

Shareholder rights

- **Majority voting in uncontested director elections, a continual proxy season hot topic, is the standard at 72 percent of companies**, up from 63 percent since 2014. Fifty-four percent of companies allow shareholders to call special meetings; 41 percent of those companies require an ownership threshold of 25 percent, while about a quarter of the companies have a 10 percent or less threshold.

Risk and strategic oversight

Respondents ranked cyber as the number one risk their boards are focused on, followed by finance/legal risks and product risk. Slightly more than half (54 percent) of respondents reported that the audit committee has primary responsibility for cybersecurity oversight.

Over two-thirds of the respondents reported their boards participate in an annual strategy retreat with management, and 42 percent of boards monitor progress against the company's strategic plan at each board meeting.

Boards are considering a number of capital allocation strategies, with 81 percent discussing capital expenditures, acquisitions, and dividends, and 73 percent discussing stock buybacks.

Audit committee practices

The survey findings on audit committees include:

- **Two-thirds of committees meet via conference call to discuss earnings releases**, while 22 percent review earnings releases at in-person meetings.
- **About 80 percent of committees regularly hold an executive session with the external and internal auditors**, 61 percent have regular executive sessions with the CFO, and 44 percent hold regular executive sessions with their general or other in-house counsel.
- **Common education topics for the committee include cybersecurity**, industry-specific items, and regulatory matters.
- **Forty-one percent of respondents reported that they provide more disclosure about the audit committee than is required**; another 12 percent are considering doing so.

Shareholder engagement and activism

Activism is a key risk management issue for many boards. **Forty-two percent of the boards receive education on shareholder engagement/activism and investor relations**, and 55 percent are updated on shareholder concerns and other sentiment more than once a year. **Shareholder requests to speak directly to board members have increased slightly over past years**; 17 percent report having received such a request and 47 percent report the board chair has interacted with a shareholder/shareholder group in the last year. **Twenty-seven percent of companies have been approached by an activist in the past year**, down from 31 percent in 2014 and 35 percent in 2012.

Sustainability

Investors are increasingly focused on sustainability practices, evidenced by the rising number of shareholder proposals related to climate change and human rights, including proposals calling for greater disclosure regarding the management of sustainability-related risks and opportunities. The survey found:

- **Nearly 60 percent of companies provide some form of sustainability disclosure**, with 42 percent providing a formal report.
- **Twenty-eight percent of companies incorporate specific sustainability-related goals in company strategy**; nine percent more are considering it.

Cybersecurity

Almost two-thirds reported their boards have a high level of awareness of cybersecurity specific to their companies. With cyber ranked as the number one risk the board is focused on, it is no surprise cyber security/cyber risk was the number one topic of education for audit committees and among the more common topics of full board education.

Fourteen percent of the respondent companies added a director with cyber experience in the past two years. Nearly half of the respondents reported the chief information security officer most often reports to the board on cyber matters.

Top areas of board focus

When asked where they expect boards will spend the majority of time in 2017, strategy was a clear front runner, receiving 80 percent of responses. This was followed by risk oversight, board composition, cybersecurity and M&A. There was very little variation among market cap or industry.

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Founded in 1946, the Society for Corporate Governance is a professional association of over 3,300 governance professionals who serve 1,800 public, private and not for profit companies of most every size and industry. Its members support the work of corporate boards and executive management regarding corporate governance and disclosure, compliance with corporate and securities laws and regulations, and stock exchange listing requirements.

About the Center for Board Effectiveness
The Center for Board Effectiveness helps directors deliver value to the organizations they serve through a portfolio of high quality, innovative experiences throughout their tenure as board members. Whether an individual is aspiring to board participation or a veteran of many board experiences, the Center's programs enable them to contribute effectively and provide focus in the areas of governance and audit, strategy, risk, innovation, compensation and succession.

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