PwC's 2014 Annual
Corporate Directors Survey

Governance trends shaping the board of the future

Board performance and diversity

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Please note: Charts may not all add to 100 percent due to rounding

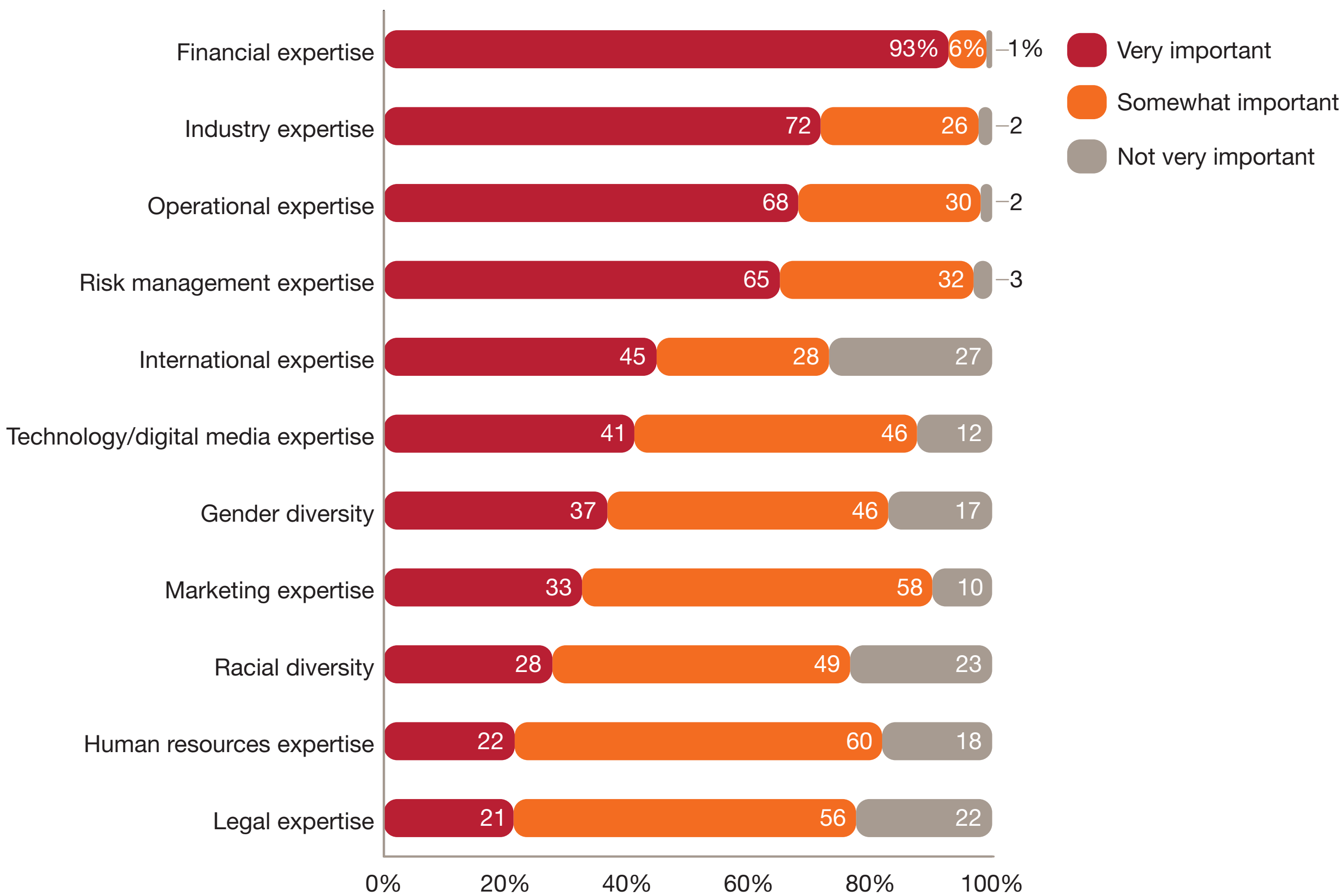
Board performance takes center stage

One of the clearest examples of a governance trend is the focus on board composition and performance. Effective oversight of public companies requires boards to collectively possess the skills to exercise their fiduciary responsibilities. And board composition is under pressure to evolve to meet new business challenges and stakeholder expectations. Today's directors are more focused than ever on ensuring their boards have the right expertise and experience to be effective. At the same time, many boards are giving significant attention to their own performance.

What director attributes are viewed as most important?

Consistent with what directors have said over the last several years, financial, industry, and operational expertise are seen as the most important director attributes. Financial expertise tops the list (described as very important by 93% of directors). This is followed by industry and operational expertise (described as very important by 72% and 68% of directors, respectively). This is not surprising given the primary role of boards in the oversight of the financial statements, strategy, and operational execution. Also consistent with results from the last several years, legal and human resources expertise rate lowest in importance, with only about one-in-five directors describing these attributes as very important.

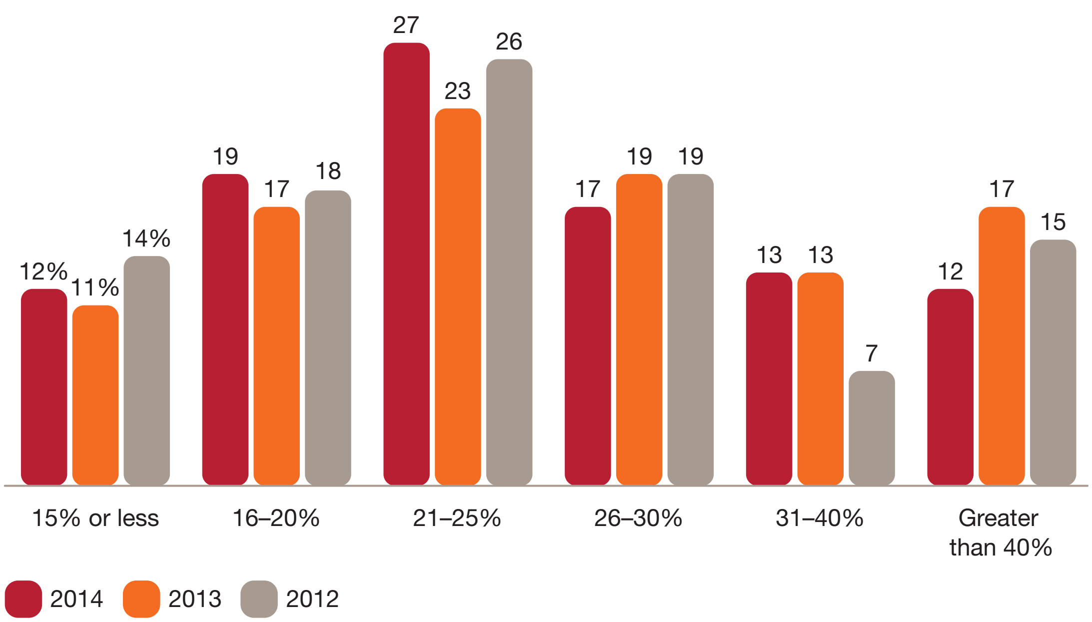
How would you describe the importance of having the following attributes on your board?



Directors more sensitive about low support for board nominees

Shareholders continue to support the vast majority of directors up for election; during the 2014 proxy season, average shareholder support for directors was 96%. However, about ten percent of directors failed to receive at least 70% support in 2014[1]. Directors are more sensitive to the level of negative shareholder voting in comparison to the prior year. In fact, 56% of directors now say that negative voting in the 11-25% range would cause them to be concerned about re-nomination, compared to only 48% last year. The percentage of directors who say that only negative voting in excess of 40% would cause them to rethink re-nomination decreased by five percentage points to 12%. Consistent with 2013, the longer a director serves on the board, the less sensitive he/she is to the level of negative shareholder voting.

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



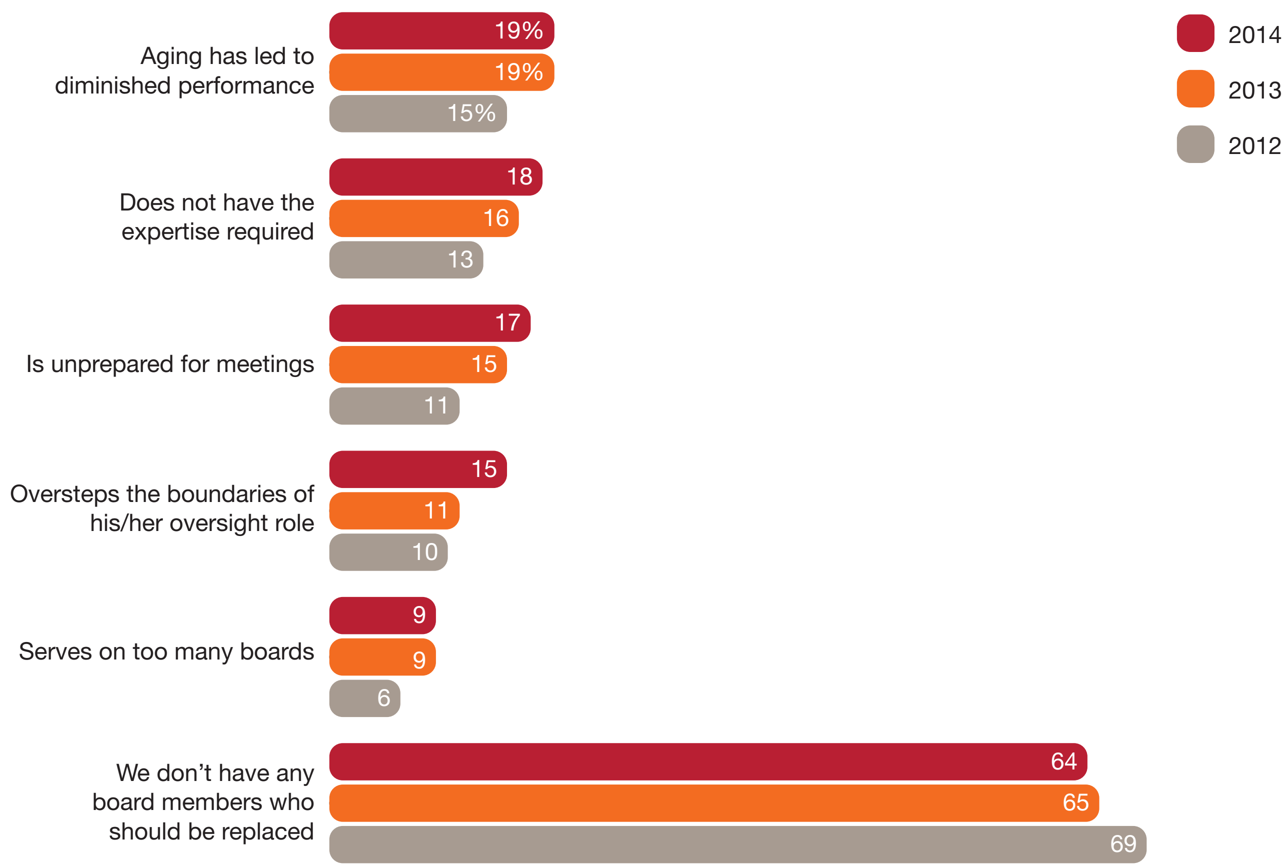
1 *PwC + Broadridge ProxyPulse September 2014*

Greater dissatisfaction with peers

The level of dissatisfaction directors express with their fellow directors continues to increase. Thirty-six percent of directors now say someone on their board should be replaced—a jump from 31% only two years ago. And less-tenured directors are more likely to believe someone on their board should be replaced—nine percentage points more so than those serving ten or more years. This could be because less tenured directors bring more skepticism and different perspectives about existing board performance than veterans of the board.

Directors continue to cite diminished performance due to aging, lack of expertise, and not being prepared for meetings as the top reasons for their dissatisfaction with peers' performance. There was also a four percentage point increase in directors who believe a fellow director should be replaced for overstepping his/her oversight role.

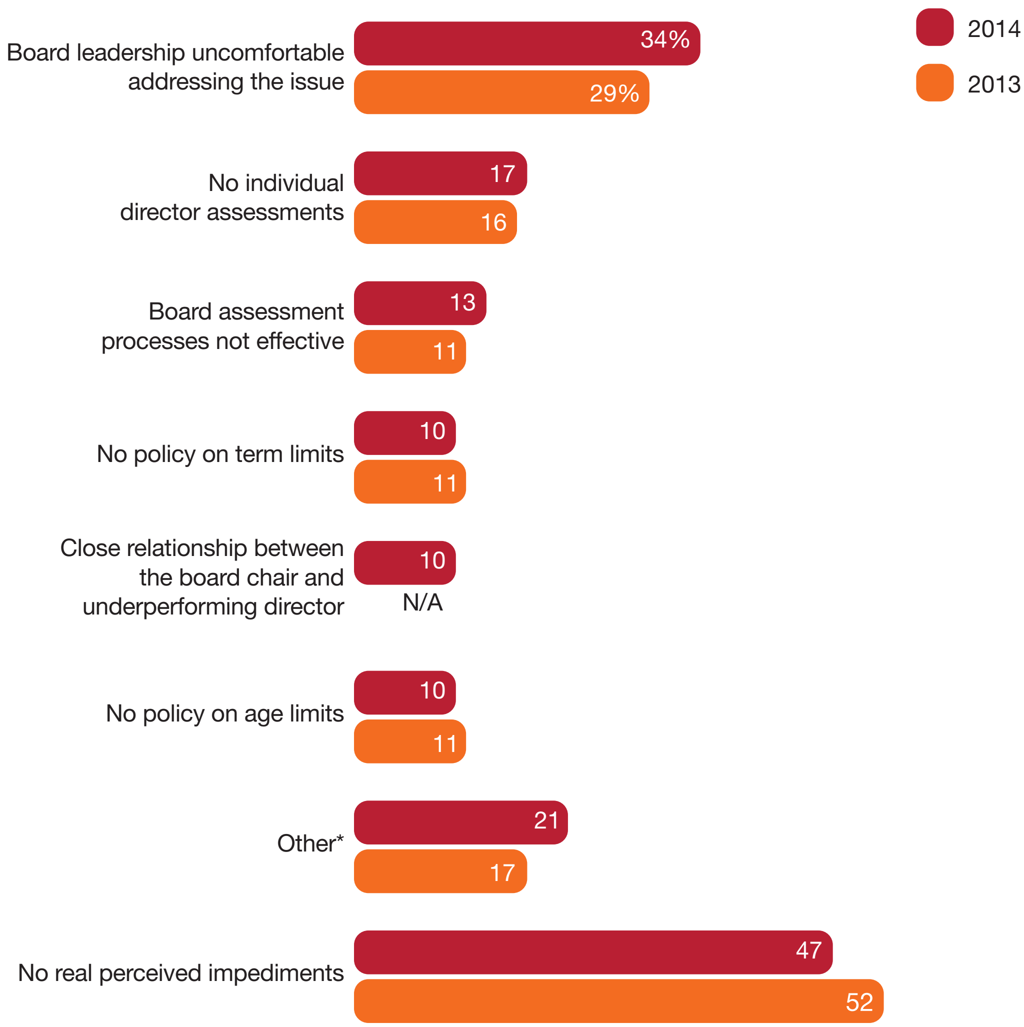
Do you believe that any of your board members should be replaced for the following reasons?



Impediments to board renewal

While director dissatisfaction with peer performance grew this year, so did the percentage of directors who recognize impediments to replacing underperforming fellow directors (53% compared to 48% last year). More than one-third of directors say the biggest impediment to replacing an underperforming director is that board leadership is uncomfortable addressing the issue (an increase of five percentage points from 2013). Lack of director assessments and ineffective board assessment processes are also considered impediments. One-in-ten directors cite a close personal relationship between the underperforming director and the CEO as an impediment. Interestingly, male directors are more likely than female directors to believe there are impediments to replacing an underperforming director.

What are the impediments to replacing an underperforming director?



*Other includes the total of: close relationship between CEO and underperforming director (9%), underperforming directors are soon retiring (9%), and not having annual re-election of directors (3%).

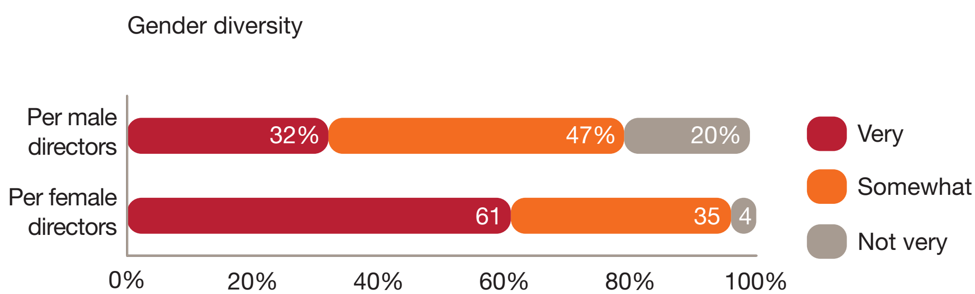
The evolution of board diversity

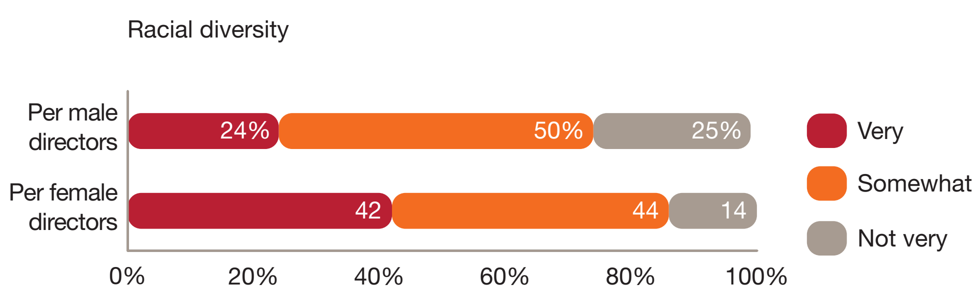
Stakeholders are more interested in board diversity than ever. A number of organizations and shareholder groups in the US have undertaken efforts to increase diverse representation on public company boards. As a result, US boards are increasingly focused on recruiting directors with diversity of background and experience. In addition, the last several years have seen gender diversity quotas instituted in some European countries.

The importance of diversity

Male and female directors have differing views about the importance of having gender and racial diversity on their boards. Female directors are far more likely to consider board diversity important. For example, 61% of female directors describe gender diversity as very important, compared to only 32% of male directors. Similarly, 42% of female directors describe racial diversity as very important compared to only 24% of their male counterparts. These differences may be contributing factors to why diversity on public company boards has not increased substantially in the last five years.

How would you describe the importance of having the following attributes on your board?





Impediments to gender diversity

Despite a growing focus on the importance of board diversity, the number of women serving on public company boards has remained relatively unchanged over the past five years (18% of all S&P 500 directors are now female compared to 16% in 2008[2]). A majority of directors say there are no perceived impediments to increasing gender diversity. Of those directors who do believe there are impediments, a lack of awareness of qualified diverse candidates and little appetite for changing current board composition are the top two factors cited.

In general, what impedes a board's ability to increase diversity?:*

	Gender diversity		Other aspects of diversity
1)	Directors are unaware of many qualified diverse candidates	1)	Board leadership is not invested in recruiting diverse directors
2)	Directors don't want to change the current board composition to create a position for a diverse candidate	2)	Directors don't want to change the current board composition to create a position for a diverse candidate
3)	There are insufficient numbers of qualified diverse candidates	3)	Directors are unaware of many qualified diverse candidates
4)	Directors don't view adding diversity as important	4)	Directors don't view adding diversity as important
5)	Board leadership is not invested in recruiting diverse directors	5)	There are insufficient numbers of qualified diverse candidates

*Results shown from top impediment to least impediment

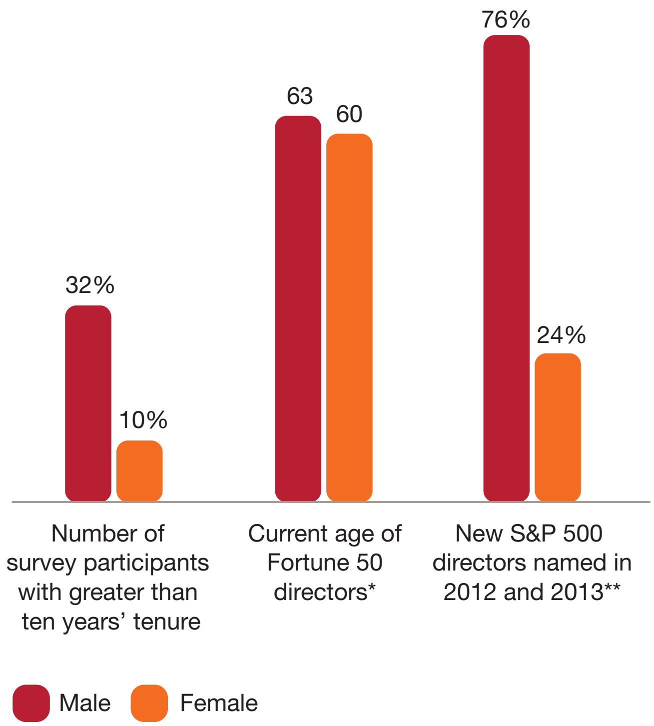
2 *Spencer Stuart Board Index 2013*

The future of gender diversity

Current trends point to an evolution that will likely impact gender diversity on future boards. Almost one-third of the male participants in our survey have been on their board more than ten years compared to only ten percent of females. In the Fortune 50, female directors tend to be younger, with an average age of 60—compared to 63 for males.[3] Additionally, 24% of all new S&P 500 directors named in the last two years have been women—as compared to the current board composition of 18% women.[4] Given the fact that the women currently on boards are younger and less tenured than their male counterparts, and a higher percentage of new directors are women, it's reasonable to project that the boards of the future will include a higher proportion of women than today's boards.

Additionally, 17% of directors say their board has already considered recruiting new directors with diverse backgrounds over the last 12 months, and 57% say they are talking about doing so going forward—another likely contributing factor to more diversity in the board of the future.

Trends on director tenure, age and gender



* Per PwC review of most recent proxy statements as of August 31, 2014
** *Spencer Stuart Board Index 2013*

3 Per PwC review of most recent proxy statements as of August 31, 2014

4 *Spencer Stuart Board Index 2013*

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

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