

2018-2019

NACD Public Company Governance Survey

SELECTED MATERIALS



About Our Survey

The 2018–2019 NACD Public Company Governance Survey presents findings from our annual questionnaire. This report details responses from more than 500 public-company directors. Findings from our private company governance survey are published separately. The first section of this publication presents key findings from our analysis of the data. The second section is a chart-based data appendix containing descriptive statistics and frequencies for all questions in the survey with aggregate responses to questions covering the most critical board leadership and governance topics. Results come from the more than 80 survey questions. Analysis derived from the Russell 3000 was provided by Main Data Group.

About Pearl Meyer and Main Data Group

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage.

Main Data Group provides compensation professionals with executive compensation benchmarking and corporate-governance data and analytics through an affordable, easy-to-use, online service.

For more information, please visit pearlmeyer.com and maindatagroup.com or email info@pearlmeyer.com and info@maindatagroup.com.

Pearl Meyer



© Copyright 2018 by the National Association of Corporate Directors All rights reserved.

Except as permitted under the U.S. Copyright Act of 1976, no part of this publication may be reproduced, modified, or distributed in any form or by any means, including, but not limited to, scanning and digitization, without prior written permission from NACD.

This publication is designed to provide authoritative commentary in regard to the subject matter covered. It is provided with the understanding that neither the authors nor the publisher, the National Association of Corporate Directors, is engaged in rendering legal, accounting, or other professional services through this publication. If legal advice or expert assistance is required, the services of a qualified and competent professional should be sought.

Key Findings

1

Directors report that changes in the regulatory climate, the prospect of an economic slowdown, growing cybersecurity threats, business-model disruptions, and worsening geopolitical volatility will most significantly impact their organizations in 2019. These often interconnected risks have increased business uncertainty as management finds their likelihood difficult to anticipate and their impacts difficult to mitigate.

2

Directors rate artificial intelligence (AI) as the biggest technology disruptor but also regard it as the biggest business enabler likely to benefit their organizations in the next 12 months.

3

Strengthening oversight of strategy execution and risk management, in light of these disruptive forces, are top improvement priorities for boards in 2019.

4

Although environmental, social, and governance (ESG) issues are currently a relatively low priority for many boards, most directors would like their boards to take more action and enhance ESG oversight.

5

Most boards demonstrate mixed performance as strategic assets to their organizations (against the framework defined in NACD's 2016 Blue Ribbon Commission report). Specifically, only a minority of them effectively use tenure-limiting mechanisms and invest in individual director development to ensure their boards remain fit for purpose.

6

Board oversight of corporate culture is more robust than last year. Not only do directors report a solid understanding of management's tone at the top, but they also are developing a better grasp of culture at the middle and lower levels of the organization.

7

The vast majority of directors, 81 percent, believe that their boards' understanding of cyber risks has improved over the last two years. One reason may be that **50 percent** of directors indicate that cyber-risk reporting from management is of much higher quality than it was two years ago.

8

Quarterly board agendas typically cover six to seven major governance issues, reflecting the growing mandate of public-company boards and underlining the difficulty for directors in balancing the breadth and depth necessary for effective oversight.

9

Over the last 12 months, directors spent nearly twice as much time reviewing materials from management as they allocated to reviewing relevant information from external sources, revealing a heavy dependence on management views and analysis in fulfilling their oversight duties. However, **53 percent** of directors indicate that the quality of management reporting to the board must improve, suggesting that boards need better—not more—information from management.

10

A large majority of directors (88%) agree that their board's primary role is to guide the organization's long-term strategic direction. To reinforce this board mandate, their use of nonfinancial metrics in designing CEO pay is growing. Further, **more than half** of boards now communicate directly with investors, with board oversight of long-term strategy the most frequent topic of investor dialogue.

11

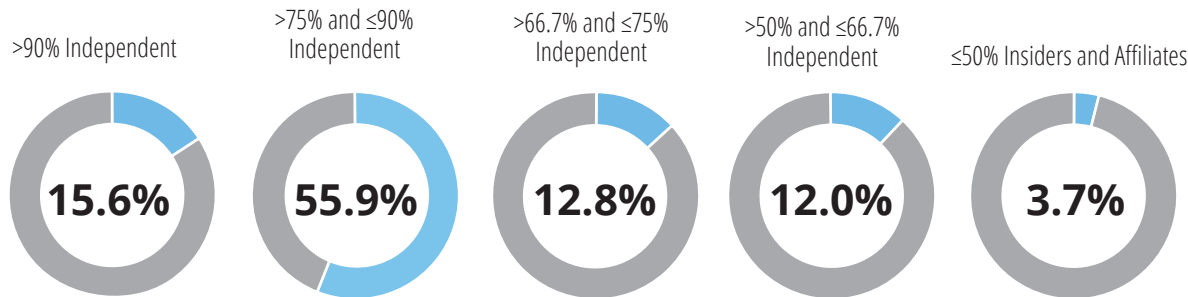
Despite calls for increasing gender diversity on public company boards, progress has been scant. On average, only **16.5 percent**¹ of board seats of companies in the Russell 3000 index are held by women. But **53 percent** of boards now have a formal goal to diversify their composition. Of those boards, **70 percent** report that their diversity mandate is driven by the need to enhance cognitive diversity of boards, while **49 percent** indicate that increased diversity is a moral imperative.

¹ Main Data Group

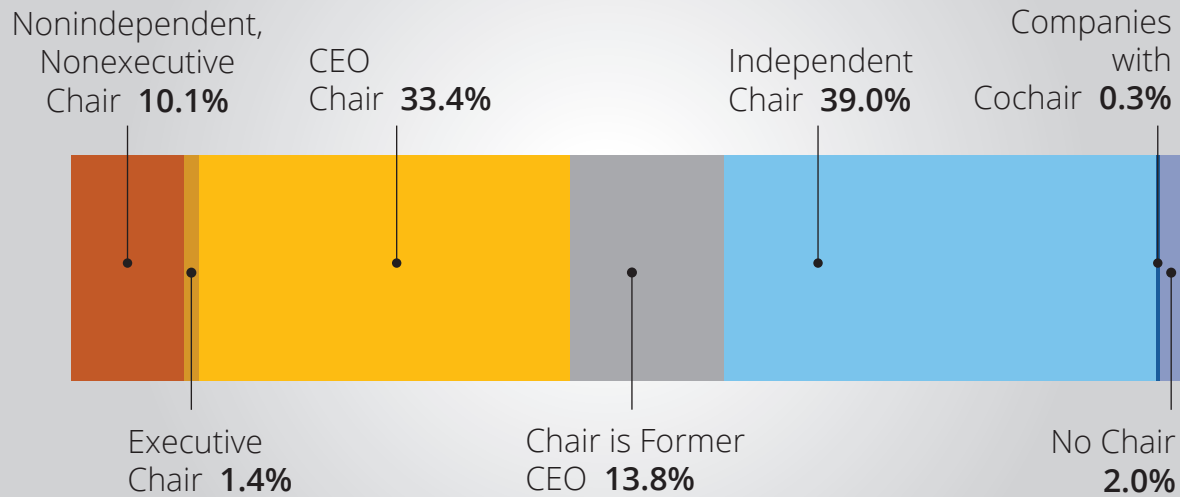
Board Structure Snap Shot

Independence, Composition, and Size of Russell 3000 firms

BOARD INDEPENDENCE



BOARD LEADERSHIP STRUCTURE



GENDER BALANCE



Female Directors
16.5%



Male Directors
83.5%

BOARD SIZE

Average of Board Size

10.0



Average Committee Size

Audit
3.8



Compensation
3.7



Nominating/Governance
3.6



Boards Are More Gender Diverse at Larger Organizations

Key Finding: On average, only **16.5 percent** of board seats in the Russell 3000 index are held by women. However, nearly half, **49.5 percent**, of boards now have two or more female directors. Gender diversity on boards of these companies is strongly correlated with company size. Larger public companies tend to have larger boards and more seats occupied by women. Notwithstanding their size, these organizations also give a larger percentage of board seats to women. An organization with \$10 billion or more in revenue is likely to have **12** or more board seats, **2** or **3** of which will be occupied by women. Contrast this with organizations under \$2 billion in market capitalization, which on average have a board size of **nine** individuals with **one** seat occupied by a woman.

Why It Matters: Gender diversity is a critical step in building boards that can draw on a wide variety of experiences, skills, and perspectives to ensure board governance effectively adapts to shifting business realities. Many investors are setting higher standards for board gender diversity and threaten to withdraw support for director nominations in their proxy voting. *Investor Perspectives on Board Diversity* provides guidance on what investors have stated about the importance of board diversity.

Guidance for Boards: While many boards express that they plan to diversify their composition, progress is slow. Boards may consider expanding their size to create positions for women and other diverse candidates. They may also make diversity a more explicit mandate in the work of their nominating and governance committees. The [NACD NXT](#) initiative provides resources on leveraging diversity and inclusion to create long-term value.

Russell 3000 Board Size, by Market Capitalization (Fiscal Year-End) and Female Participation on Boards, by Percent

	Average of Board Size	Median of Board Size	Mode of Board Size	Female Board Seats
Overall	10.0	10.0	9.0	16.5%
Nano (Less than \$50 Million)	9.3	8.5	7.0	11.8%
Micro (between \$50 Million and \$300 Million)	8.7	8.0	8.0	10.9%
Small (Between \$300 Million and \$2 Billion)	9.3	9.0	9.0	14.1%
Mid (Between \$2 Billion and \$10 Billion)	10.2	10.0	9.0	17.6%
Large (Between \$10 Billion and \$200 Billion)	12.2	12.0	12.0	22.2%
Mega (More than \$200 Billion)	13.4	14.0	14.0	27.3%

In the past year, the number of board seats held by women in the Russell 3000 has increased from **15 percent** to **16.5 percent**. The largest portion of this increase is within larger organizations.

Main Data Group's Data Methodology



Board Structure and Gender Diversity Data Methodology

Introduction

Main Data Group provided statistics for this report based upon data collected from the 2018 proxy filings of Russell 3000 companies.

Unless noted otherwise, the following definitions were used for market capitalization (fiscal year-end):

Nano – Companies whose market capitalization is less than \$50 million

Micro – Companies whose market capitalization is more than or equal to \$50 million and less than \$300 million

Small – Companies whose market capitalization is more than or equal to \$300 million and less than \$2 billion

Mid – Companies whose market capitalization is more than or equal to \$2 billion and less than \$10 billion

Large – Companies whose market capitalization is more than or equal to \$10 billion and less than \$200 billion

Mega – Companies whose market cap is more than or equal to \$200 billion

Below, you will find the methodologies for each data set provided.

Board of Directors Independence Statistics

Independence Statistical Ranges

Directors not listed as independent in the proxy statement and who were no longer an employee of the company were considered affiliates. If a director is listed as independent in the proxy statement he or she was considered an “outside” director.

90% Independent – Number of companies where the percentage of independent directors reported for that company is more than 90%

>75% and ≤90% Independent – Number of companies where the percentage of independent directors reported for that company is less than or equal to 90% and more than 75%

>66.7% and ≤75% Independent – Number of companies where the percentage of independent directors reported for that company is less than or equal to 75% and more than 66.7%

>50% and ≤66.7% Independent – Number of companies where the percentage of independent directors reported for that company is less than or equal to 66.7% and more than 50%

≥50% Insiders and Affiliates – Number of companies where the percentage of independent directors listed for that company is less than or equal to 50%

Board of Directors Gender Statistics

The number of female and male directors is calculated by counting the total number of directors of each gender listed in the Director Compensation Table as well as the Director election/nominee section in the proxy (employee and nonemployee directors). The total includes those who have served a partial year (e.g. retiring directors) as well as directors that have been nominated for election in the coming year.

Female Directors – The number of female directors listed for a company

Male Directors – The number of male directors listed for a company

Main Data Group's Data Methodology (Cont'd.)



Board of Directors Leadership Structure Statistics

Definition of Board Leadership Roles

Nonindependent, Nonexecutive Chair – The number of companies where the current chair of the board is not independent and currently not employed with the company

Executive Chair – The number of companies where the current chair of the board is employed by the company, but not as CEO

CEO Chair – The number of companies where the current chair of the board is employed as CEO of the company

Chair is former CEO – The number of companies where the current chair of the board is the former CEO of the company

Independent Chair – The number of companies where the current chair is independent

Companies With Cochair – The number of companies where the board has more than one chair

No Chair – The number of companies where there is no chair of the board

Board Size

Board size is calculated by counting the total number of directors listed in the Director Compensation Table as well as the Director election/nominee section in the proxy (employee and nonemployee directors). The total includes those that have served a partial year (e.g., retiring directors) as well as directors that have been nominated for election in the coming year.

Average, Median, Mode

Average of Board Size – This represents the average number of directors present in a company in each market-capitalization segment.

Median of Board Size – This represents the median number of directors present in a company in each market-capitalization segment.

Mode of Board Size – This represents the most commonly occurring number of directors present in a company in each market-capitalization segment.

Board Committee Statistics

Committee Members

This table provides the sum (total), average, median, and most commonly occurring (mode) number of directors who are members of the audit, compensation, and nominating and governance committees as reported in each company's proxy statement.

Complete Main Data Findings

BOARD AND COMMITTEE SIZE AND BOARD GENDER RATIO



Russell 3000 Board Size

	Average of Board Size	Median of Board Size	Mode of Board Size
Overall	10.0	10.0	9.0
By Market Capitalization (Fiscal year-end)			
Nano (Less than \$50M)	9.3	8.5	7.0
Micro (Between \$50M and \$300M)	8.7	8.0	8.0
Small (Between \$300M and \$2B)	9.3	9.0	9.0
Mid (Between \$2B and \$10B)	10.2	10.0	9.0
Large (Between \$10B and \$200B)	12.2	12.0	12.0
Mega (More than \$200B)	13.4	14.0	14.0

Gender

	Female Directors	Male Directors
Overall	16.5%	83.5%
By Market Capitalization (Fiscal year-end)		
Nano (Less than \$50M)	11.8%	88.2%
Micro (Between \$50M and \$300M)	10.9%	89.1%
Small (Between \$300M and \$2B)	14.1%	85.9%
Mid (Between \$2B and \$10B)	17.6%	82.4%
Large (Between \$10B and \$200B)	22.2%	77.8%
Mega (More than \$200B)	27.3%	72.7%

Russell 3000 Board Committee Size

	Audit			Compensation			Nominating/Governance		
	Average	Median	Mode	Average	Median	Mode	Average	Median	Mode
Nano (Less than \$50M)	3.4	3.0	3.0	3.2	3.0	3.0	3.3	3.0	3.0
Micro (Between \$50M and \$300M)	3.6	3.0	3.0	3.5	3.0	3.0	3.5	3.0	3.0
Small (Between \$300M and \$2B)	3.7	3.0	3.0	3.7	3.0	3.0	3.6	3.0	3.0
Mid (Between \$2B and \$10B)	3.9	4.0	3.0	3.8	4.0	3.0	3.9	4.0	3.0
Large (Between \$10B and \$200B)	4.3	4.0	4.0	4.2	4.0	4.0	4.4	4.0	4.0
Mega (More than \$200B)	4.2	4.0	4.0	4.1	4.0	3.0	4.2	4.0	3.0

Complete Main Data Findings (Cont'd.)

BOARD LEADERSHIP AND STRUCTURE



Russell 3000 Board Leadership Structure

	Nonindependent, Nonexecutive Chair	Executive Chair	CEO Chair	Chair is Former CEO	Independent Chair	Companies With Cochair	No Chair
Overall	10.1%	1.4%	33.4%	13.8%	39.0%	0.3%	2.0%
By Market Capitalization (Fiscal year-end)							
Nano (Less than \$50M)	21.2%	0.0%	23.1%	5.8%	36.5%	1.9%	11.5%
Micro (Between \$50M and \$300M)	13.6%	1.7%	24.6%	9.3%	47.3%	0.0%	3.4%
Small (Between \$300M and \$2B)	10.3%	1.2%	29.0%	14.2%	42.5%	0.4%	2.4%
Mid (Between \$2B and \$10B)	8.8%	1.1%	35.6%	15.2%	38.0%	0.1%	1.3%
Large (Between \$10B and \$200B)	7.8%	2.8%	47.0%	15.3%	26.3%	0.2%	0.6%
Mega (More than \$200B)	15.0%	0.0%	55.0%	0.0%	30.0%	0.0%	0.0%

Russell 3000 Board Independence

	>90% Independent	>75% and ≤90% Independent	>66.7% and ≤75% Independent	>50% and ≤66.7% Independent	≤50% Insiders and Affiliates
Overall	15.6%	55.9%	12.8%	12.0%	3.7%
By Market Capitalization (Fiscal year-end)					
Nano (Less than \$50M)	1.9%	53.8%	11.5%	13.5%	19.2%
Micro (Between \$50M and \$300M)	6.8%	53.5%	17.6%	18.4%	3.7%
Small (Between \$300M and \$2B)	8.2%	58.7%	14.7%	14.4%	4.0%
Mid (Between \$2B and \$10B)	17.9%	58.0%	11.6%	9.0%	3.6%
Large (Between \$10B and \$200B)	36.7%	48.1%	7.2%	6.4%	1.7%
Mega (More than \$200B)	55.0%	30.0%	5.0%	10.0%	0.0%

Percentages may not add up to 100 due to rounding.

Complete Main Data Findings (Cont'd.)

PROXY ACCESS AND ELECTIONS



Russell 3000 Proxy Access

	Information Disclosed			Ownership Threshold			Ownership Duration		
	Yes	No	Not Disclosed	1% to 2%	3% to 5%	Not Disclosed	1 Year	2 Years and Above	Not Disclosed
Overall	89.5%	3.1%	7.4%	1.3%	15.3%	83.4%	2.4%	14.0%	83.6%
Nano (Less than \$50M)	50.0%	3.8%	46.2%	0.0%	0.0%	100.0%	0.0%	0.0%	100.0%
Micro (Between \$50M and \$300M)	89.5%	3.1%	7.4%	1.7%	0.8%	97.5%	2.3%	0.8%	96.9%
Small (Between \$300M and \$2B)	89.3%	3.2%	7.5%	0.9%	4.1%	95.0%	2.6%	2.1%	95.3%
Mid (Between \$2B and \$10B)	89.5%	3.7%	6.8%	1.5%	15.5%	83.0%	2.3%	14.1%	83.5%
Large (Between \$10B and \$200B)	94.1%	1.7%	4.2%	1.9%	53.2%	44.9%	2.3%	52.8%	44.9%
Mega (More than \$200B)	95.0%	5.0%	0.0%	0.0%	65.0%	35.0%	0.0%	65.0%	35.0%

Russell 3000 Staggered Election

	Information Disclosed	
	Yes	No
Overall	42.7%	57.3%
Nano (Less than \$50M)	57.7%	42.3%
Micro (Between \$50M and \$300M)	54.7%	45.3%
Small (Between \$300M and \$2B)	50.7%	49.3%
Mid (Between \$2B and \$10B)	40.3%	59.7%
Large (Between \$10B and \$200B)	18.0%	82.0%
Mega (More than \$200B)	0.0%	100.0%

Percentages may not add up to 100 due to rounding.