News Release
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Report: Women on Russell 3000 Boards Increased by Just 4 Percent Over 3 Years; Only 10 Percent of S&P 500 Companies Explicitly Identify Directors' Race and Ethnicity

Analysis Reveals How Companies Can Improve Diversity and Strategic Capabilities in the Boardroom

NEW YORK, September 30, 2020... As boards and investors alike focus on gender and ethnic diversity in the boardroom, and seek additional skills to address a new era of strategic challenges, companies will need to adjust their practices if they want to accelerate the pace of change in the boardroom. The percentage of female directors in the Russell 3000 increased by just 4.2 percentage points, and over 13 percent of the companies in the index still had no female directors. Moreover, only about 10 percent of S&P 500 companies explicitly report the ethnicity of their individual directors, and 8 out of 10 of the directors at those companies are white.

These findings and insights come from a new report published by The Conference Board and ESG data analytics firm ESGAUGE, in collaboration with Debevoise & Plimpton, the KPMG Board Leadership Center, Russell Reynolds Associates, and the John L. Weinberg Center for Corporate Governance. The report examines corporate board trends across the S&P 500 and the wider Russell 3000 based on a comprehensive review of 2019 corporate disclosure and organizational documents, and covers topics including board composition and diversity, the profile and skill sets of directors, as well as policies on their election, removal, and retirement.

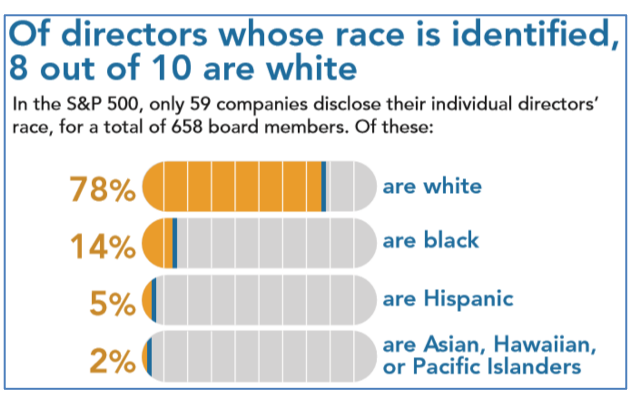
"There are several practical steps companies can take to increase boardroom diversity and strengthen their boards as a strategic asset," said Matteo Tonello, Managing Director of the ESG Center and the author of the report. "They include making diversity a consideration in every board search, enhancing the diversity of nominating committees and in board leadership positions, adopting limits on the number of boards on which directors can serve, and implementing more robust processes for recruiting, onboarding, and engaging first-time directors."

"As part of its mission, The Conference Board is proud to make its report and unique database on corporate board practices available to the public, and we are grateful to the extraordinary coalition of leading firms that made this possible," added Tonello. "Reviewing the entire Russell 3000 index is critical to shed light on the progress that can still be made in corporate governance, especially among smaller corporations outside of the S&P 500. For example, by covering the Russell 3000 we highlight that about 400 public companies do not yet have a single woman on their board, and that more than 40 percent of the Russell 3000 companies continue to organize their board in classes of directors so as to avoid annual elections for all."

Key findings from the new analysis include:

1. Relatively few companies explicitly disclose the ethnicity of their directors.

- In 2019, just 59 companies in the S&P 500 explicitly disclosed their directors' ethnicity.
- Of the 658 board members at those companies, 78 percent are white, 14 percent are black, 5 percent are Hispanic, and 2 percent are Asian, Hawaiian, or Pacific Islanders.

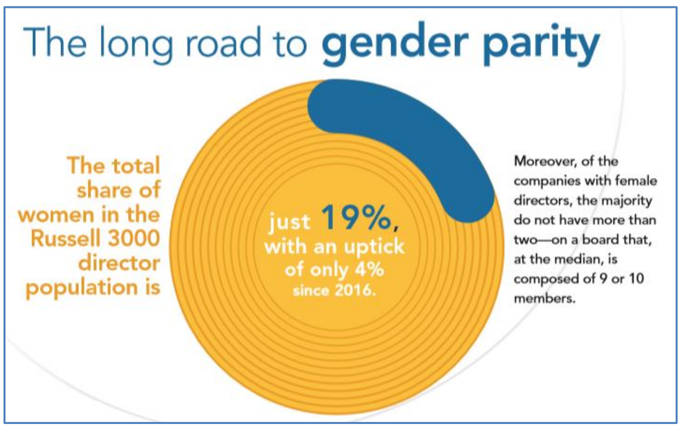


“While a focus in recent years has been on director gender diversity, current events in the United States and abroad will focus attention on racial and ethnic diversity in the boardroom,” said Paul Rodel, corporate partner at Debevoise & Plimpton. “Companies should work to understand what information about board diversity is important to investors before they sit down to draft their next round of proxy statements.”

“The scrutiny of board diversity practices will continue to intensify, driven by multiple factors. As just one example, more and more institutional investors are following the lead of prominent asset managers that are moving diversity to the front and center of their corporate stewardship initiatives,” said Ann Mulé, Associate Director of the Weinberg Center. “Corporate boards are now at an inflection point and have a window of opportunity to embrace changes in their composition and practices that align with companies’ strategies and meet new investor demands.”

2. As much as 13.4 percent of the Russell 3000 do not yet have a single woman on their board.

- In the S&P 500 index, the percentage of female directors increased to 24.4 percent in 2019 from 19.5 percent in 2016.
- Remarkably, despite the scrutiny of institutional investors and the public debate on gender diversity, 13.4 percent of Russell 3000 companies do not yet have a single woman on their board. That contrasts with the practice in the S&P 500 index, where by now all companies have at least 1 woman on their board.



3. Less than 5 percent of board chairs are women.

- In both the Russell 3000 and S&P 500, 4.7 percent of companies have a woman as board chair.
- Moreover, less than 1 in 5 – 17.7 percent – of board committees in the Russell 3000 are led by women. In the S&P 500, it is 23.5 percent.

“Companies and their boards should review and benchmark not only their progress toward all forms of diversity but also their disclosures about that progress,” said Mary Jo White, senior chair and litigation partner at Debevoise & Plimpton. “In undertaking this review, it’s worth bearing in mind that we are likely to see an enhancement of the trend for regulators, legislators, and investors to call for more meaningful actions and disclosures.”

4. Companies are looking beyond the C-suite for new directors.

- The 2016-2019 period saw a near-doubling of S&P 500 corporate directors who currently serve at other companies as executives from *below* the C-suite. This cohort of directors rose from 4.7 percent to 8.9 percent. In the Russell 3000, during that same timeframe, this cohort rose from 8 percent to 11.6 percent.
- Prior board experience remains prevalent among newly elected directors. In 2019, in both indexes, about three-quarters of companies did not elect any new director lacking prior experience on a public board.

"One is tempted to ask how a director is supposed to obtain prior board experience without being elected to a public company board,” said Paul Hodgson, Senior Adviser at ESGAUGE. “Surely, nominating committees – especially those reaching for diversity, as most are – will have to broaden their expectations and expand the categories of nominees whom they are willing to consider."

5. **The most popular specialized skill sets are finance and information technology.**

- Information technology: 20.9 percent of board members in the S&P 500 of larger companies report having some type of technology background. In the Russell 3000, it is 13.8 percent.
- Finance: 21.7 percent of directors in the Russell 3000 and 23.8 percent of those in the S&P 500 are identified as an "audit committee financial expert." U.S. securities regulations only require one such expert on each board.

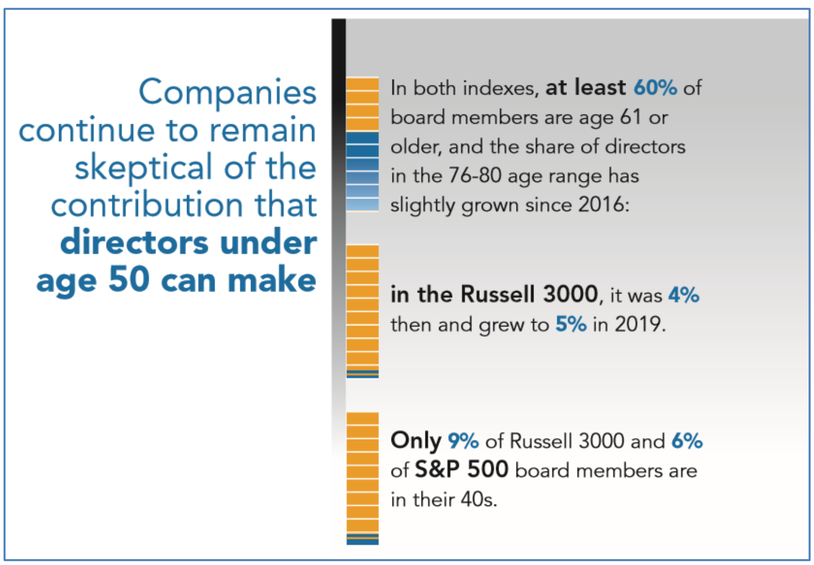
"As companies seek individuals with specific skill sets, they may look to professionals who have not served on corporate boards before or who do not have C-suite experience," said Rusty O'Kelley, co-leader of Russell Reynolds Associates' Board and CEO Advisory Partners. "As a result, they will benefit from more robust processes for identifying, recruiting, onboarding, and engaging corporate directors – including tailored onboarding programs to help ensure that these new directors are prepared to participate in board deliberations along with their more seasoned peers."

6. **U.S. board members serve longer than some of their foreign counterparts.**

- U.S. directors serve an average of 9.7 years on the boards of larger S&P 500 companies, and 9.5 years on the boards of Russell 3000 companies. In comparison, the average tenure of directors at the largest companies in the United Kingdom's FTSE index is 4.1 years.
- According to the Russell 3000 index analysis by business sector, financial and utility companies had the longest median tenures of departing board members (10.7 years and 10.5 years, respectively). The health care and energy sectors had the shortest (6.2 years and 7.4 years, respectively).

7. **Boards are not getting any younger (or older, for that matter).**

- In 2019, the average age of directors remained largely unchanged: 63.4 in the S&P 500 and 62.6 in the Russell 3000. In both indexes, at least 60 percent of board members were 61 or older.
- Only 8.5 percent of Russell 3000 directors and 5.6 percent of S&P 500 directors are in their 40s.



8. **More than half of the companies in the Russell 3000 index do not restrict the number of additional directorships their board members can accept.**

- 66.7 percent of S&P 500 companies have overboarding policies applicable to all of their board members (up from 64.4 percent in 2016). But only 43.9 percent in the Russell 3000 do so (with no significant change from 2016).
- Larger companies are much more likely to institute such rules: 80.4 percent of companies with annual revenues of $50 billion or higher have them, compared to 15 percent of those with annual revenues under $100 million.

"Serving on a public company board requires expertise, dedication, and – importantly – a significant time commitment. Before accepting a new board role, directors need to be sure they have the time to fulfill their obligations," says Annalisa Barrett, senior advisor, KPMG Board Leadership Center. "The current public health crisis and social unrest have placed additional demands on directors' time, pushing overboarding up on the list of concerns for many institutional investors and proxy advisors."

"Boards should evaluate their overboarding policy or, if they do not have one, consider implementing one," Barrett added. "While ensuring a diversity of skill sets should underpin nominating committees' criteria, the bandwidth of individual directors should also be considered as part of their nomination, evaluation, and committee assignment processes."

9. A plurality of companies made no changes to the composition of their board of directors.

- 46.2 percent of Russell 3000 companies and 40.1 percent of S&P 500 companies disclosed no changes to the composition of their boards in 2019.
- About one-third of companies in both indexes added a new director or replaced one board seat in the previous 12 months, whereas 19 percent of S&P 500 companies and 15.1 percent of Russell 3000 companies added two new directors.

10. Almost half of Russell 3000 companies have not yet transitioned to majority voting in director elections.

- In 2019, 40.9 percent of Russell 3000 companies still used simple plurality voting to elect board members. Under this election standard, uncontested nominees who receive the most "for" votes are elected to a company's board until all seats are filled, even if they are not supported by a majority of votes.
- "Plurality plus," a variation where directors must submit their resignation if more voters withheld their votes than voted for them, has been adopted by 8.5 percent of Russell 3000 companies.
- By comparison, plurality voting is retained by only 9.6 percent of companies in the S&P 500, while all others have transitioned to majority voting by now.

The report is complemented by an online dashboard, where users can manipulate and visualize data across indexes, business sectors, and company size groups. Media can contact The Conference Board for a copy of the full report.

Other publications from The Conference Board on enhancing diversity (both cognitive and demographic) include *Maximizing the Benefits of Board Diversity*, a report as part of the ESG Center's Director Note series; and *Every Other One*, a report from the Committee for Economic Development, the organization's Public Policy Center.

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