SpencerStuart

2024 U.S.

Spencer Stuart Board Index Highlights

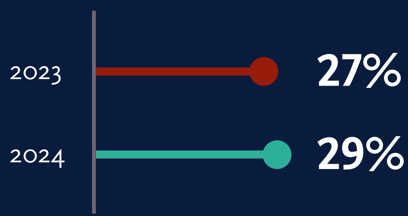
2024 U.S. Spencer Stuart Board Index

Now in its 39th year, the ***U.S. Spencer Stuart Board Index*** analyzes the shifting composition and governance practices of S&P 500 company boards.

This report sets out the trends revealed by our in-depth analysis of this year's proxy statements. We profile the "class of 2024" (directors appointed this year), highlight changing governance practices and discuss trends in directors' compensation. This year, we launch our CEO Spotlight — a deep dive into CEO trends.

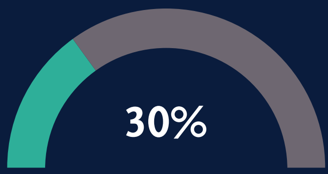
Who are boards recruiting?

A greater proportion of directors have financial expertise...



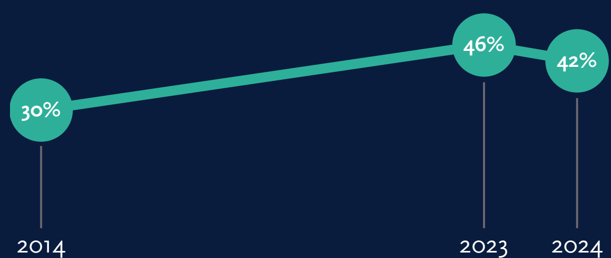
...and are more likely to be actively employed

Just under a third are active or retired CEOs *(same as last year)*

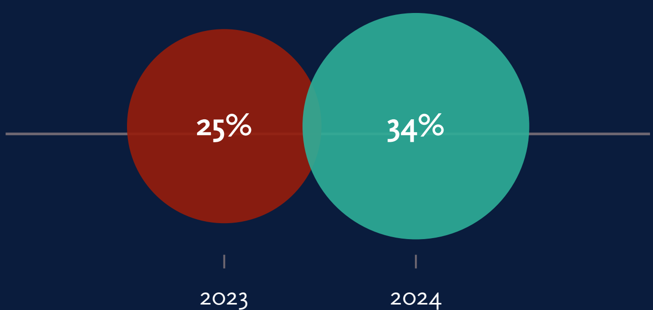


BOARDS ARE APPOINTING MORE NEW FEMALE DIRECTORS WITH FINANCIAL BACKGROUNDS

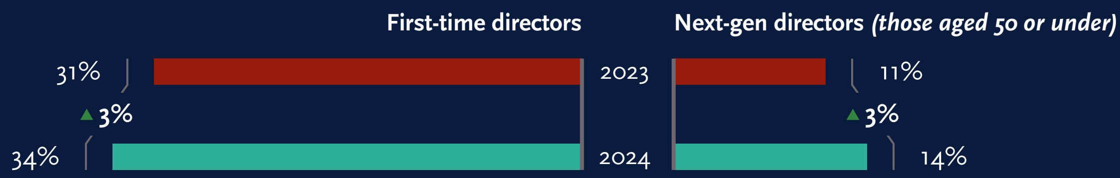
42% of new directors are women, down from 46% in 2023 but up from 30% in 2014



More new female directors have a financial background

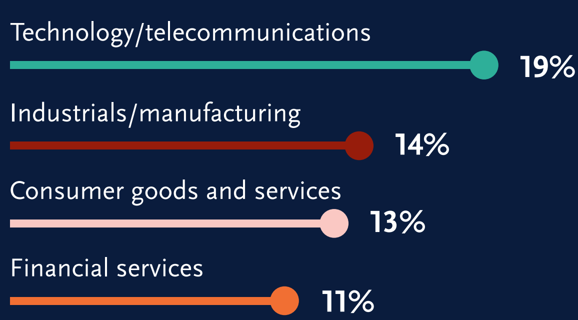


FIRST-TIME AND NEXT-GEN DIRECTORS ARE BRINGING NEW PERSPECTIVES

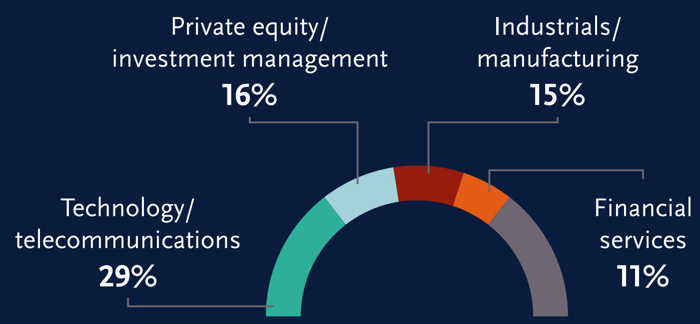


NEW DIRECTORS ARE MOST LIKELY TO HAVE A TECHNOLOGY BACKGROUND

Top industry backgrounds of new directors

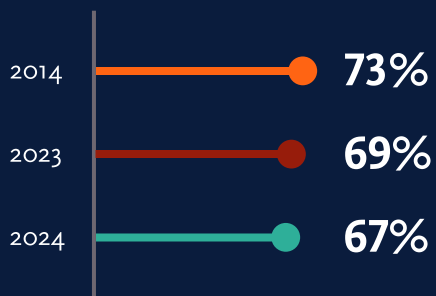


Next-gen director appointments' top industry backgrounds



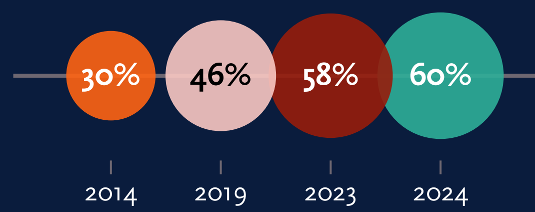
Board turnover and refreshment: What's changed?

Fewer S&P 500 boards have mandatory retirement policies...



...and the retirement ages of boards with these policies continues to rise

Boards with a mandatory retirement age of 75 or older



The average retirement age is

74

This has remained unchanged for the **past four years**

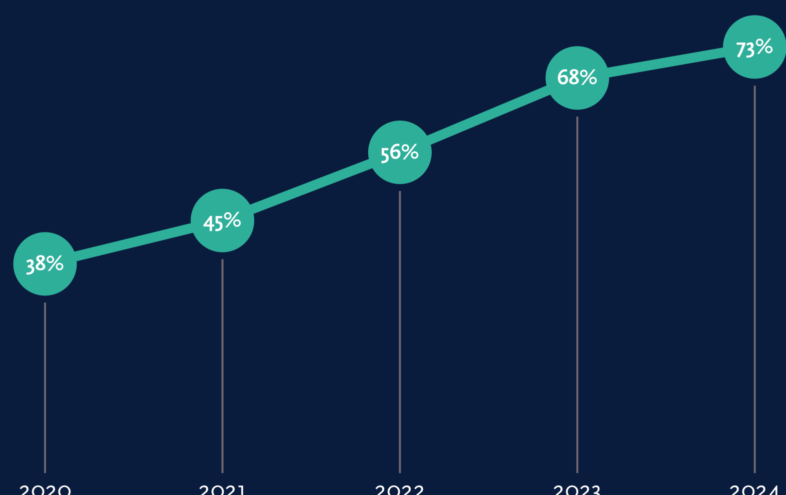
BOARDS CONTINUE TO USE A VARIETY OF TOOLS TO ASSESS THEIR CAPABILITIES

of boards conduct some sort of annual performance evaluation

28%

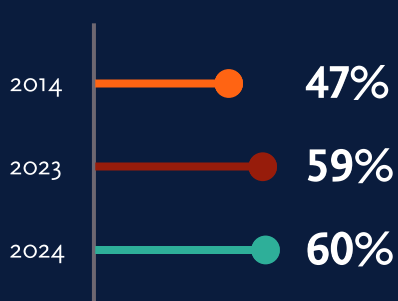
of boards work with an independent third party to facilitate the evaluation process *(up from 25% in 2023)*

In just four years, the percentage of boards that include a director skills matrix in their proxies **has almost doubled**

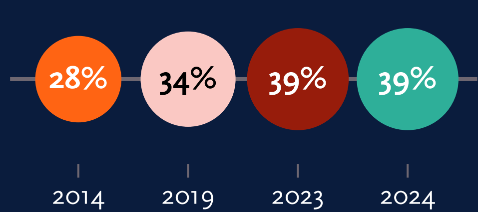


BOARDS ARE CHANGING THEIR LEADERSHIP STRUCTURES

The trend of separating the chair and CEO roles continues...

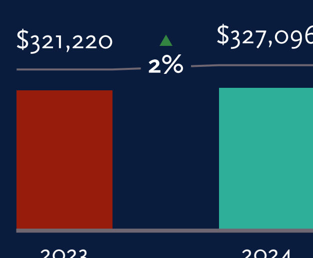


...but the appointment of independent chairs has plateaued



COMPENSATION HAS INCREASED SLIGHTLY

Average total director compensation*



*Excluding the independent chair's fee

Our Perspective

Courageous, decisive and agile: Does your board have the mindset it needs to evolve?

The ability to navigate uncertainty in a responsive and agile manner is one way to separate the most successful boards from the rest. But today's fast-changing and increasingly complex political and economic landscape places a premium on this attribute, making it even more crucial for boards to ask: Are we adapting quickly enough?

Our recent survey of global CEOs and board directors suggests they are not. More than three-quarters of CEOs and board directors tell us they feel a high — and growing — level of business uncertainty. Yet less than a third of CEOs think they have the board they need to address the issues faced by their organizations.

What needs to change?

Boards know that bold leadership and the right skills are vital to steer the company toward long-term success. In our annual poll of nominating/governance committee chairs, board composition and succession planning ranked as the number-one priority for nominating/governance committees, and adding new skills is the top motivation for refreshing the board. About a quarter say they have one or more directors who should no longer be on the board. The most common reason: the director's skills and expertise are out of date.

Despite this clear need for new skills and perspectives, board turnover is consistently low, sticking around 7% or 8% for the past five years. Only 58% of S&P 500 boards appointed a new director in the 2024 proxy year, translating to an overall turnover of less than one (0.83) new director per board.

More boards need to adopt a courageous approach to refreshment. To best help a company to succeed, its board must keep itself fit for purpose and aligned with the evolving needs of the company. It must have the foresight to be able to see which knowledge gaps will need to be filled, the determination to conduct and act on critical evaluations and the courage to make difficult decisions, such as asking directors to step down when necessary.

In turn, directors need to have the confidence and self-awareness to know when it is time to roll off the board. In other words, they need to acknowledge when their skills are no longer prioritized in the boardroom, when their recency of experience has ebbed, or when their tenure is an impediment to board refreshment.

Why do boards need a refresh?

Boards that do not refresh their compositions may be vulnerable to a variety of risks such as:

1. **Missed opportunities**
   Boards lacking fresh perspectives may risk missing significant business opportunities for innovation and growth, due to reduced awareness of what's happening in the wider market.
2. **Inadequate oversight**
   A stagnant board may not effectively monitor whether the company is adapting to new market demands, leveraging technological advancements and identifying emerging risks.

3. **Poor decision-making and resistance to change**
   Long-established directors may be more resistant to change and, therefore, may not challenge ideas robustly. This lack of new perspectives could reduce the effectiveness of the board.

4. **Board skills mismatched to risks and opportunities**
   A board that does not refresh its composition might lag on the portfolio of skills, perspectives, ages, backgrounds, genders, races and ethnicities around the boardroom table. And if a board lacks a range of experience, its oversight of the challenges and opportunities the company faces may be weaker.

5. **Reduced investor confidence**
   Investors often view board composition as a measure of a company's governance quality. A lack of dynamism could damage investor confidence and shareholder value.

Six ways to re-energize a stagnant board

To be effective and dynamic, a board must establish a culture of continuous improvement and a "refreshment mindset." The following steps may help foster an environment conducive to refreshment and board evolution.

1. **Cultivate a dynamic board culture**
   Board leaders should set the tone for an open and courageous approach to board refreshment. The goal is to foster a culture where the board is viewed not as a lifetime appointment but as a dynamic group committed to the best interests of the shareholders and the company.

   BEST PRACTICE

   Leadership should ensure that every director — new or tenured — understands that their board service is dependent on boardroom needs and is not a guaranteed long-held position.

2. **Run frequent and robust board assessments**
   The board's annual evaluation process should shift from a compliance exercise to a deeper, more insightful evaluation of how the board is performing its oversight role.

   BEST PRACTICE

   Boards should conduct meaningful evaluations via an independent third party every two or three years. In addition, the annual evaluation should include getting feedback from the management team to ensure a 360-degree review process for assessing the board's contributions, effectiveness and areas for improvement.

3. **Implement individual director evaluations**
   Peer reviews should become a standard part of the board evaluation mindset and process.

   BEST PRACTICE

   Peer evaluations, carried out by an independent third party, should be conducted every two or three years.

4. **Consider adopting formal policies to promote refreshment but only as a supplement to other tools**
   While most S&P 500 companies have a mandatory retirement age, few U.S. companies have tenure policies stipulating the maximum number of years a director can serve on a board. These policies can help promote regular refreshment of skills and perspectives, but they should not be the sole mechanism for turnover.

Tenure policies relating to director independence could be considered (see the examples in the highlighted section below). Similar policies might include asking directors to submit their resignation to the board once they have been retired from their primary corporate job for a certain period (one major U.S. company, for instance, sets this at five years).

BEST PRACTICE

Formal turnover policies should not be waived and should only be used to supplement other refreshment tools and limit the outer bands of director service.

A selection of tenure policies from around the world

HONG KONG

The Corporate Governance Code and Listing Rules in Hong Kong recently created a new category of "long-serving independent non-executive directors (INEDs)" for those who have served more than nine years. No company can be comprised entirely of long-serving INEDs. As a result, the average tenure has decreased from 7.5 to 6.8 years.

SINGAPORE

The Singapore Code of Corporate Governance encourages companies to limit the tenure of independent directors to nine years. Directors who exceed this tenure are subject to rigorous review. The average tenure of directors on the Straits Times Index (STI) Top 30 Companies is 5.4 years.

UK

The UK Corporate Governance Code states that a director is no longer considered independent after nine years' service on the board. The board chair should not remain in post beyond nine years from the date of their first appointment to the board. The average tenure of UK directors is 4.7 years.

FRANCE

The AFED-MEDEF Code states that directors should not serve more than 12 years to ensure independence and effectiveness. According to our 2024 France Spencer Stuart Board Index, the average tenure of directors on CAC 40 and SBF 120 boards is 5.6 years.

SPAIN

The Spanish Capital Companies Act states that a director is no longer considered independent after 12 years of service on the Board. It also limits the term of office for directors to 4 years (see Article 529). The average tenure of independent directors for the top 100 Spanish companies is 5 years. The average tenure for independent, non-independent and executive directors is 7.4 years.

*Visit our **Boards Around the World** website feature to see graphical versions of our global comparisons.*

5. Undertake a regular, objective review of board skill matrices

Boards should annually review and update the board's skills matrix, including the definitions for each matrix category, to make sure it reflects the strategic needs of the company. Directors should impartially evaluate how strong their expertise is in the areas they deemed relevant on the matrix. And boards should use matrix updates to inform ongoing recruitment and retention strategies and keep the board dynamic and effective.

BEST PRACTICE

When every director checks nearly every box, the strategic value of the board skills matrix is diluted. To avoid the Lake Wobegon effect — the human tendency to overestimate our own abilities — directors should be limited to identifying their top few skills.

6. Think ahead on succession planning

Boards should develop a robust succession plan that looks ahead to the skills, perspectives and backgrounds needed on the board. This should include active monitoring of directors' experiences and contributions.

BEST PRACTICE

Boards should annually evaluate and plan for forward-looking boardroom needs. And to stay relevant, boards should make sure current board members receive ongoing education and training, especially in emerging and critical areas such as cybersecurity and artificial intelligence (AI).

Succeeding or stagnating? Four questions to find out whether your board needs a mindset reset

DO WE HAVE A CLEAR PROCESS FOR ASSESSING OUR CAPABILITIES AND IDENTIFYING GAPS?

This could include using skills matrices or incorporating individual director assessments and one-to-one feedback.

DO WE HAVE A CLEAR VIEW OF THE SKILLS, CAPABILITIES AND BACKGROUNDS WE ARE LIKELY TO NEED OVER THE NEXT FEW YEARS?

This may include regular check-ins to understand whether the board has the right expertise to oversee complex issues such as cybersecurity, AI and economic uncertainty.

DO WE WELCOME A VARIETY OF PERSPECTIVES?

Different perspectives lead to higher-quality decisions. But this is about more than simply recruiting directors who reflect varied backgrounds, capabilities and experiences: It means creating a culture where a wide range of viewpoints are welcomed, heard and discussed.

DO WE HAVE A BOARD CULTURE THAT EMBRACES CHANGE?

If a director is underperforming or lacks the required capabilities, it's important to have a culture of tackling the issue in a professional, timely way. Recognize whether you have the willingness to be radically objective in how the performance and capabilities of the board are assessed, seeking a third-party perspective where useful and relevant, and — crucially — acting, as considered appropriate, on the advisors' feedback.

About Spencer Stuart

At Spencer Stuart, we know that leadership has never mattered more. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises, on their stakeholders and the world around them. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 60 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness, particularly in the context of the changing stakeholder expectations of business today. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

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