



HEIDRICK & STRUGGLES

CEO & BOARD PRACTICE

The Heidrick & Struggles Board Monitor

FOUR BOARDROOM TRENDS TO WATCH

A look at how the most recent cohort of Fortune 500 board appointments is shifting the landscape in board composition, diversity, and talent

Introduction

In the past year, Fortune 500 companies filled 339 new board seats with independent directors. And for the sixth consecutive year we've captured key attributes of the new appointees — their demographics, industry backgrounds, and functional experience, among other factors.

These appointments came amid a growing discussion of “board refreshment,” including issues of age, length of service, diversity, independence, and industry experience. What does this year's data tell us about how these issues might be playing out in new appointments? A look at some key findings, and a novel way of analyzing the industry experience of appointees, provides some interesting answers.

ABOUT BOARD MONITOR

Produced by Heidrick & Struggles' CEO & Board Practice, the Board Monitor tracks and analyzes trends in non-executive director appointments to Fortune 500 boards. Data on appointments are tracked through BoardEx, proxy filings, and corporate websites. Information about executives is gathered from publicly available sources, BoardEx, and a Heidrick & Struggles proprietary database.

New director seats filled¹

339

Average age

58

Current and former CEOs



Current and former CFOs



International experience



Retired vs. active

Retired executives
137



Active executives
202

Diversity breakdown

Female
99



African-American
28



Hispanic
17



Asian
18



¹ Total non-executive director seats in 2014 = 4,998.

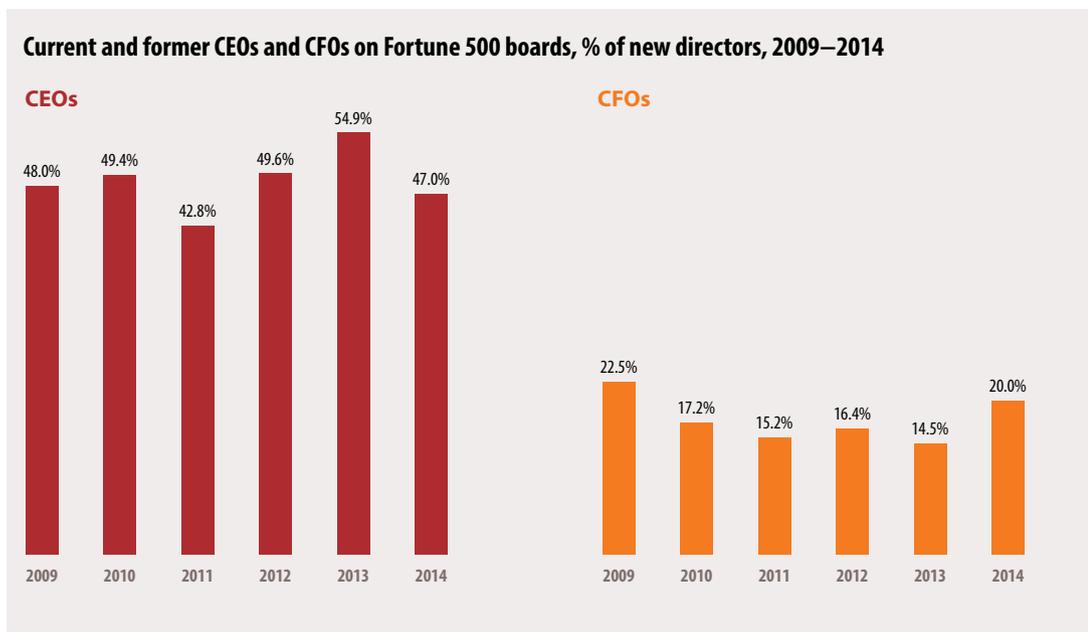
CEOs and CFOs predominate

For the fifth time in the past six years, current and former CEOs and CFOs together claimed two-thirds or more of new appointments to boards of Fortune 500 companies (Figure 1).

- At 47%, the CEO share of new appointments in 2014 represented a drop of eight percentage points from a six-year high of nearly 55% in 2013 but a return to the average over the previous five years of just under half of new appointments.
- At 20%, the CFO share of 2014 appointments rose more than five percentage points over the figure for 2013.

By far, current and former CEOs and CFOs together attained their largest share of new appointments over the past six years — some 70% — in 2009, immediately following the global financial crisis.

FIGURE 1



**Related thinking
on heidrick.com**
How to prepare for
your next CFO job
(even if you're not
looking)

The *real* flow of industry experience onto boards

Whether impelled by a new focus on core businesses or activist pressure, boards have increasingly sought new members with experience in their company's industry. But accomplished candidates often bring substantial experience in several industries. Indeed, our analysis found that the new directors in 2014 had an average of almost 2.5 significant industry experiences each. Financial services represented the largest share of the new appointees' collective experiences, at 25.5%, while life sciences was the smallest, at 7%.

In tracking the movement of new directors to their new boards, we took into account *all* of their substantial career experiences, not just their most recent ones.² Mapping the prevalence of the substantial career experiences that flowed onto boards in different industries (the lines in Figure 2) presents a more telling picture of the actual expertise that Fortune 500 boards acquired from these new appointees in 2014.

Viewed this way, the top three areas of industry experience among new board members are in the financial services, industrial, and consumer sectors.

- Financial services experience was the most widely demanded. Notably, more financial services experience went to consumer and industrial boards than to financial services boards.
- The overwhelming bulk of industrial experience went to industrial boards, which also filled the most number of seats.
- Consumer experience flowed primarily to consumer boards and went to other boards in much smaller proportions.

Meanwhile, business services, technology, and life sciences experience were the least widely selected to boards.

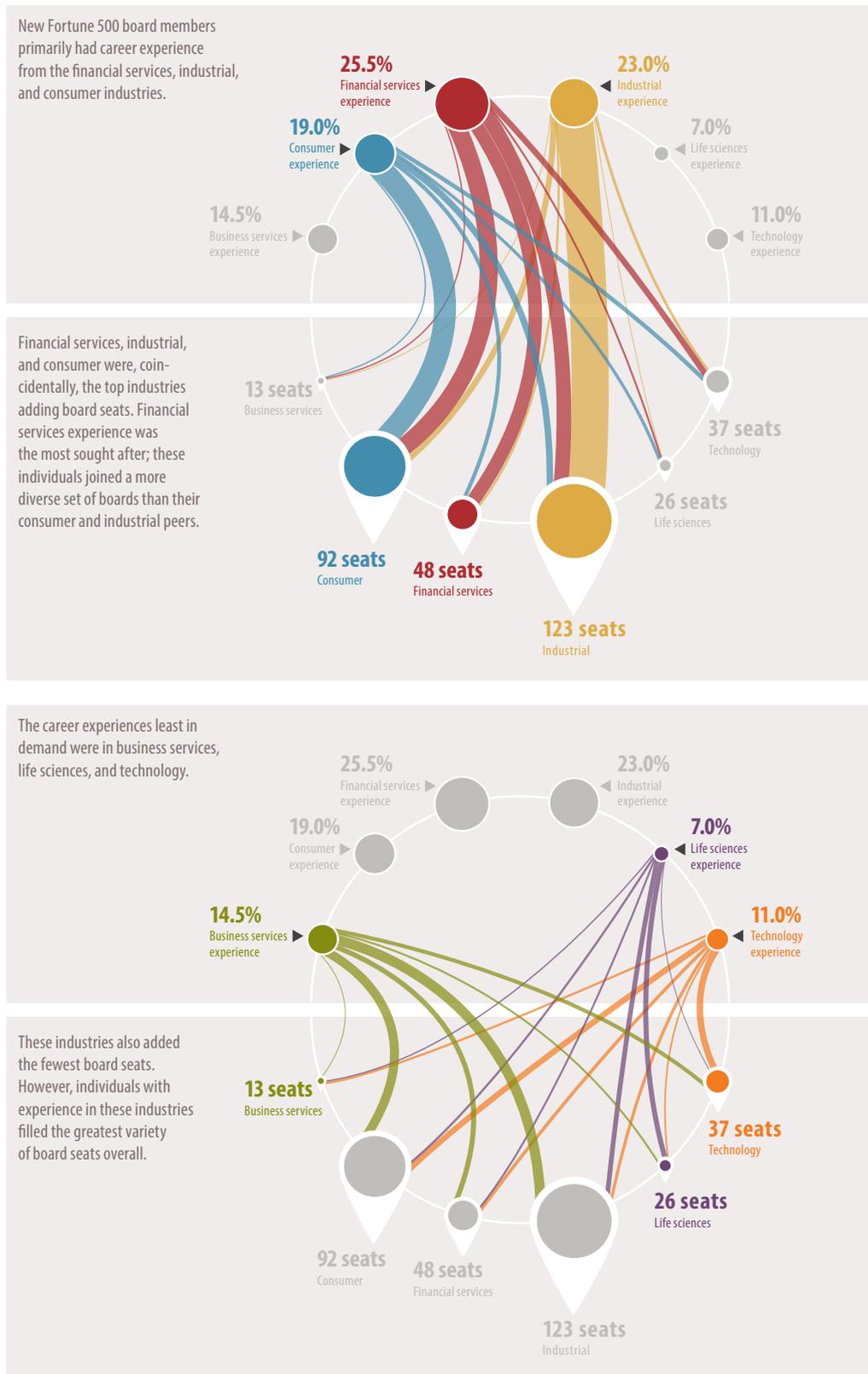
- The greatest concentration of life sciences experience flowed to life sciences and industrial boards.
- Technology experience was most likely to be selected by boards in the technology and consumer industries.
- Very little business services experience went to business services boards but instead went to the industrial and consumer industries.



Related thinking
on heidrick.com
Trends in board
composition over
the past five years

² We defined substantial industry experience as having worked at a company within an industry either for five years or at a vice president level or higher for any amount of time.

FIGURE 2 Career experience mix and board destination for incoming directors, by industry
 (accounts for multiple skills and experiences among directors; n = 339 director seats examined)



Women on boards: A shift in momentum?

Despite the preponderance of new appointments continuing to go to CEOs and CFOs, the overwhelming majority of whom are men, the rate at which boards are bringing on female directors appears to be accelerating. For the second consecutive year, the percentage of new female directors increased by more than three percentage points. Of the 339 new directors recruited in 2014, 99 were female, representing 29.2% of the total. That compares with 25.9% in 2013 and 22.8% in 2012. In the preceding three years, the percentage increased only about one to two points per year (Figure 3).

Considering the rate of change in the percentage of female directors over the past five years, Heidrick & Struggles projects that women will account for 50 percent of new board directors in the United States by 2024.

This is positive news. Research over the past decade has shown a strong link between corporate success and the presence of women on the board and in the ranks of executives.³ The strong legislative push in the European Union

FIGURE 3

Women on Fortune 500 boards, % of new directors, 2009–2014



for more women on boards has also attracted attention to the issue around the globe. And of course the topic of gender diversity remains a matter of intense discussion inside and outside boardrooms.

Will the momentum continue? As a firm, we are increasingly being asked by our clients to assist in the identification of potential female directors. And we are seeing more organizations that have taken the necessary steps to increase board diversity. But a lot of hard work remains.



Related thinking
on heidrick.com
Five steps to better
board diversity

³ For example, see Jena McGregor, "More women at the top, higher returns," *Washington Post*, September 24, 2014.

Diversity: A mixed picture

If the trend for women serving on Fortune 500 boards was a bright spot in this year's findings on board diversity, the picture elsewhere was decidedly mixed. For example, the percentage of Hispanics recruited to boards in 2014 remained unchanged from 2013, when it was also 5%. In fact, in the past six years the percentage has never exceeded 5.4% (Figure 4). Yet the US Census Bureau reports that 54 million Hispanics live in the United States, representing 17% of the population. By 2050, the number will almost double, to 106 million, or 26% of the population. Hispanic purchasing power is also on the rise — it's expected to reach \$1.5 trillion in 2015, up from \$1 trillion in 2010. That's a staggering increase of 50% in the size of the market in just five years.

Do the numbers for Hispanic directors have to remain out of step with the population? Not if boards know where and how to look.

While the numbers for Hispanic directors have remained stagnant, the picture is more mixed for African-Americans and Asians. Though the percentage of African-Americans appointed to Fortune 500 boards dropped from 10.3% in 2013 to 8.3% in 2014, the numbers have risen, if unevenly, since the six-year low of 3.2% in 2010 (Figure 5). Meanwhile, the percentage of newly appointed directors of Asian origin or heritage continued to fluctuate from a high of 8% in 2011 to a low of just over 3% in 2012, and bringing expertise in Asia onto a board continued to present some familiar and not-so-familiar challenges (Figure 6).

»»
 Related thinking on heidrick.com
 Recruiting Hispanic board directors

»»
 Related thinking on heidrick.com
 Bringing Asia onto the board

FIGURE 4

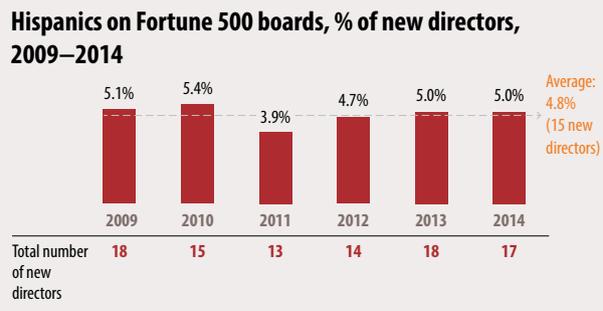


FIGURE 5

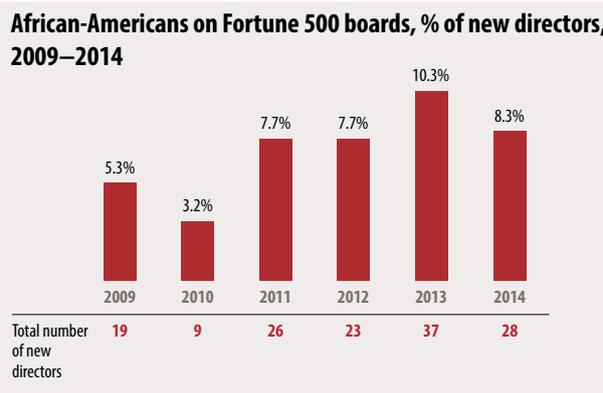
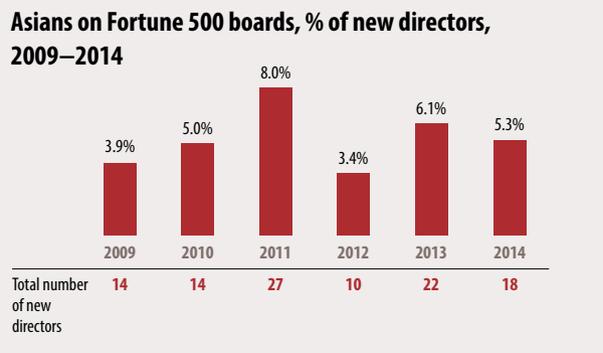


FIGURE 6



Nonetheless, we believe the longer-term outlook for boardroom diversity is bright, and that forward-looking Fortune 500 boards will continue to seek directors who are not only ethnically and gender diverse, but who can bring varied experience and perspective to bear on today's — and tomorrow's — tough strategic challenges. ■

CEO & Board Practice

Heidrick & Struggles' CEO & Board Practice has been built on our ability to execute on top-level assignments and counsel CEOs and board members on the complex issues directly affecting their businesses.

Leaders of Heidrick & Struggles' CEO & Board Practice

Americas

Bonnie Gwin

New York

bgwin@heidrick.com

Jeff Sanders

New York

jsanders@heidrick.com

EMEA

Will Moynahan

London

wmoynahan@heidrick.com

Asia Pacific

Karen Choy-Xavier

Singapore

kchoy@heidrick.com

George Huang

Beijing

ghuang@heidrick.com

Fergus Kiel

Sydney

fkiel@heidrick.com

Harry O'Neill

Hong Kong

honeill@heidrick.com

Graham Poston

Singapore

gposton@heidrick.com

About the author

Bonnie W. Gwin is a vice chairman in Heidrick & Struggles' New York office and managing partner of the Board of Directors Practice in North America.

bgwin@heidrick.com

WE HELP OUR CLIENTS
CHANGE THE WORLD,
ONE LEADERSHIP
TEAM AT A TIME™

Copyright © 2015 Heidrick & Struggles International, Inc.

All rights reserved. Reproduction without permission is prohibited.

Trademarks and logos are copyrights of their respective owners.

Cover photography: © Woolzian/iStock/Thinkstock