

NACD

Advancing exemplary board leadership

ENGAGED DIRECTORS.
EFFECTIVE BOARDS.



NACD's Mission Statement

The National Association of Corporate Directors (NACD) identifies, interprets, and delivers insights on critical issues that shape board agendas. Through actionable resources, NACD enhances directors' ability to fulfill their roles to enhance the value of the enterprise.

Snapshot of NACD Membership

Among NACD's full-board members...

Members by company type:

- **Publicly-traded: 73%**
- **Privately-owned: 16%**
- **Not-for-profit: 10%**



Top-represented industries among members:

- **Banking and financial services**
- **Insurance (property & casualty, and life & health)**
- **Retail and consumer goods**
- **Energy and utilities**
- **Healthcare and pharmaceuticals**

NACD's Top-Requested Publications

NACD has been a premier source of corporate governance thought leadership. The most popular publications—aside from Blue Ribbon Commission Reports—include the following:

- **Cyber-Risk Oversight Handbook, featured on the Department of Homeland Security's website**
- **Annual Director Compensation Report, co-produced by NACD's partner Pearl Meyer**
- **Annual Public Company Governance Surveys**
- **Annual Governance Challenges Report**
- **Dodd-Frank: Where Do We Stand?, a series of regulatory updates**

NACD Blue Ribbon Commission (BRC) Reports

Drawing experience from directors and governance stakeholders, commissions propose recommendations on the thorniest boardroom issues of the day. BRC reports include:

- **Talent Development: A Boardroom Imperative (2013)**
- **Compensation Committee (2003, updated in 2007 and 2015)**
- **The Board and Long-Term Value Creation (2015)**
- **Performance Metrics: Understanding the Board's Role (2010)**
- **Strategy Development (2014)**
- **The Diverse Board: Moving from Interest to Action (2012)**

NACD Advisory Councils

These four councils convene Fortune 500 committee chairs with key shareholder representatives, regulators, and other stakeholders to discuss ways to strengthen corporate governance:

- **Audit Committee Chair Advisory Council**
- **Nominating & Governance Committee Chair Advisory Council**
- **Compensation Committee Chair Advisory Council**
- **Risk Oversight Advisory Council**

Other NACD Multi-Stakeholder Forums

NACD facilitates other forums to help targeted audiences understand corporate governance.

- **Institutional Investors**

- BlackRock, CalPERS, CalSTRS, Capital Group, Fidelity, State Street, TIAA-CREF, T. Rowe Price, and Vanguard

- **Media Outlets**

- Bloomberg BNA, CNBC, CNN Money, The Economist, Fox News, Huffington Post, MarketWatch, McClatchy, New York Times, Reuters, The Hill, Time Magazine, Wall Street Journal

- **Government Officials**

- Members of Congress, Federal Agencies, Regulators, Associations

BOARDROOM DIVERSITY



Why Diversity Matters

A board's performance relies on its understanding of the company and its operating environment. In today's business landscape, the board cannot properly fulfill this responsibility without having directors who reflect the composition of its stakeholders, particularly its employees and customers.

*From the 2012 Report of the NACD Blue Ribbon Commission on Diversity:
Moving From Interest to Action*

Current State of Board Diversity in the U.S.

Findings from 2015 Spencer Stuart U.S. Board Index

Results are representative of S&P 500 companies

African-American

- 8.6% of directors were African-American in 2015, down slightly from 9.6% in 2010
- 75% of boards had at least one African-American director in 2015, compared with 82% of boards in 2010

Hispanic/Latino

- 4.8% of directors were Hispanic/Latino in 2015, up slightly from 4.2% in 2010
- 47% of boards had at least one Hispanic/Latino director in 2015, compared with 44% of boards in 2010

Asian Descent

- 1.8% of directors were of Asian descent in 2015, up slightly from 1.3% in 2010
- 18% of boards had at least one director of Asian descent in 2015, compared with 15% of boards in 2010

Current State of Diversity in the U.S.

From the S&P 500 in 2015

- **Women make up about 20% of all directors.**
- **Nearly 75% of boards have at least two women directors.**
- **Among the S&P 500, 9% of all new independent directors were from outside the U.S., a decrease from 12% in 2014.**
- **Median age of directors is 63, up from 61 a decade ago**

Source: [Spencer Stuart U.S. Board Index 2015](#)

State of Board Diversity in the U.S.

- **U.S. lags behind many countries in % of women on boards:**

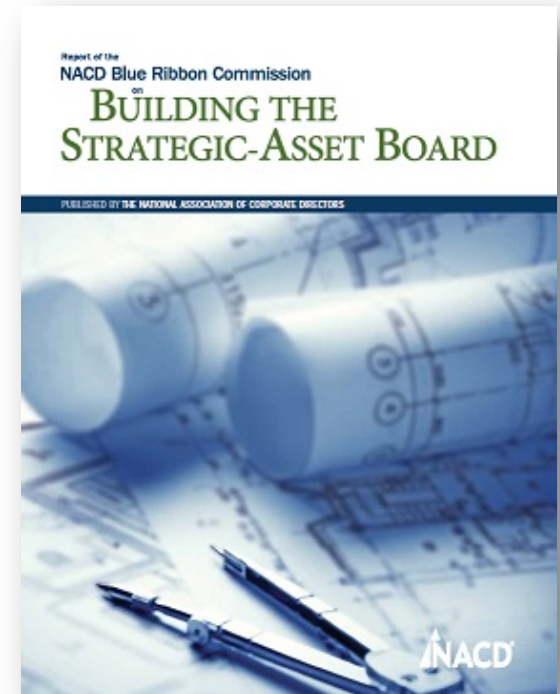
- Norway: 40.1%
- Sweden: 33.7%
- France: 33.5%
- U.K: 26.0%
- Italy: 25.8%
- AUS: 20.4%
- U.S: 19.8%

– Companies lacking in board diversity tend to suffer more governance-related controversies than average. (MSCI Women on Boards Report 2015)

Current Practice in the U.S.

Findings from NACD Blue Ribbon Commissions (BRCs)

- While directors and stakeholders agree on the importance of increasing boardroom diversity, progress—particularly in the United States—has been relatively slow (2016 BRC).
- The sluggish transition to more diverse boards has been antithetical to the pace of business, technology, and human progress in general (2012 BRC).

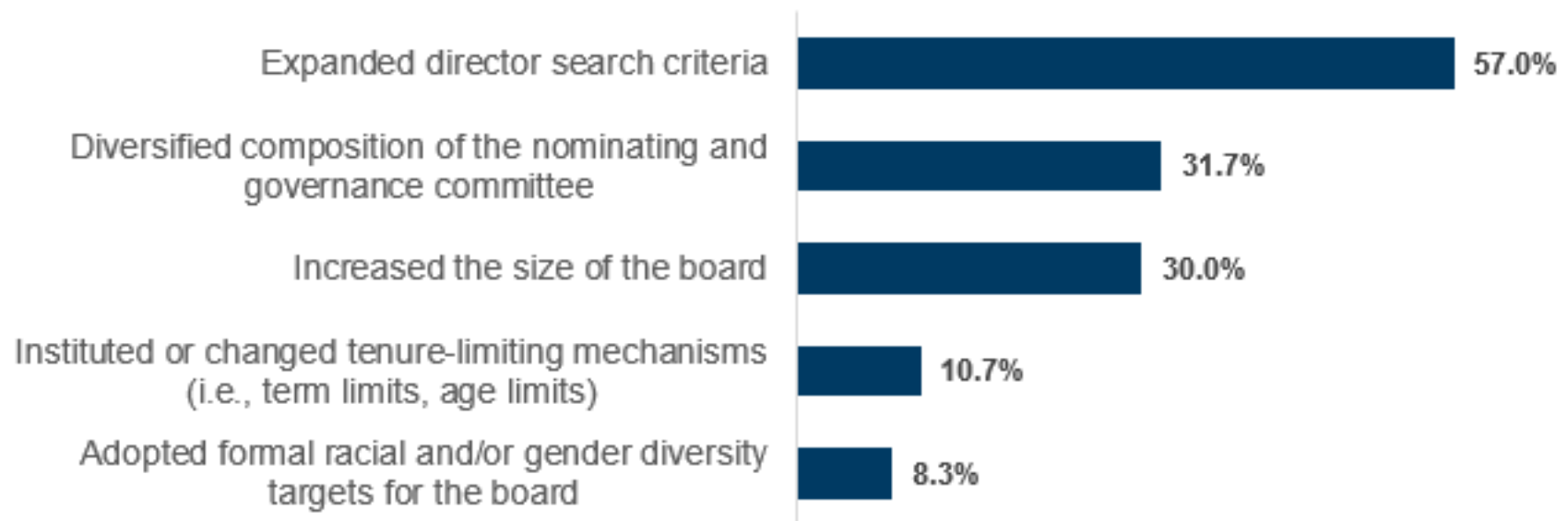


Current Practice in the U.S.

New Findings from NACD 2016-2017 Public Company Survey

- Boards largely rely on expanding their search criteria for new candidates in diversifying their composition
- Very few boards are adjusting tenure-limiting mechanisms or adopting formal quota to promote diversity.

In the past year, has your board taken the following actions to increase the diversity of its composition?

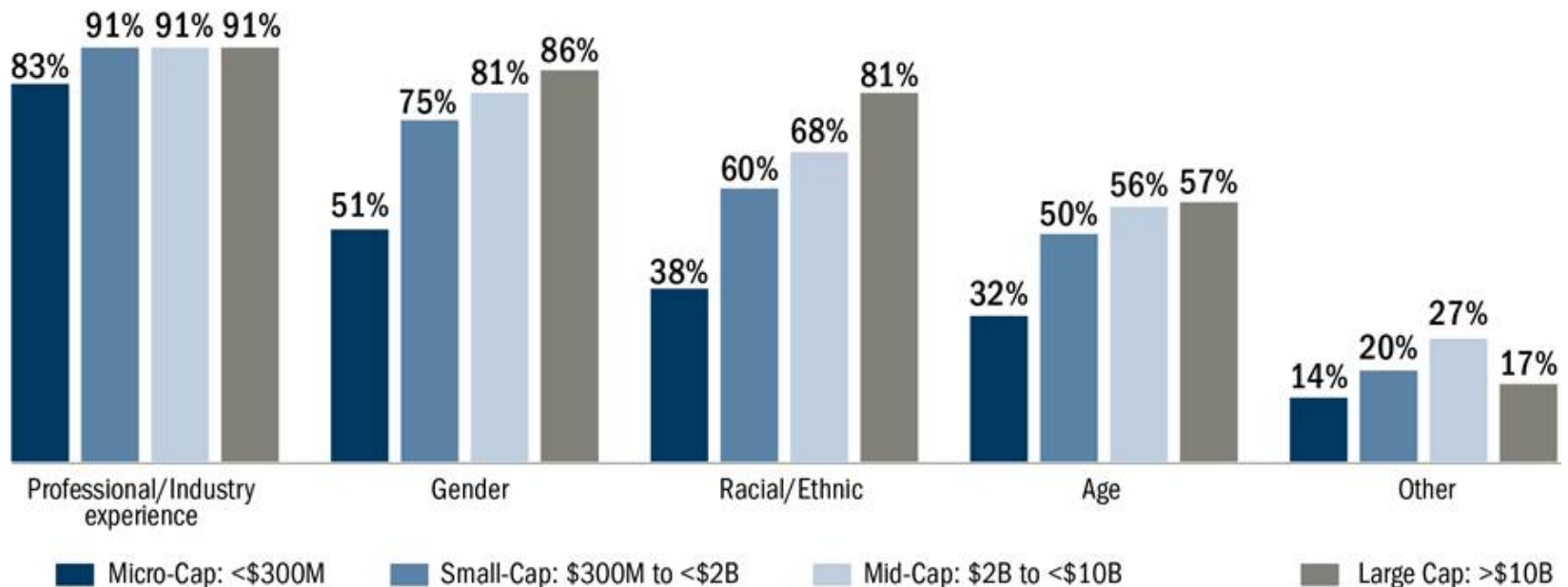


Current Practice in the U.S.

Findings from NACD 2015-2016 Public Company Survey

- Boards of larger companies are far more likely than those of smaller companies to discuss the diversity of their members.
- Half of the small-cap respondents say their boards did not discuss gender diversity in the past year, and most did not discuss racial/ethnic or age diversity.

Percentage of Boards That Discussed the Following Types of Board Diversity Over the Past Year



Global Snapshot: Australia

Diversity on Boards Campaign, 2010-2015

- Change brought about in a non-quota market
- Australian Securities Exchange (ASX)
 - Called on boards to establish, measure, and annually report their diversity policies
 - Enlisted KPMG to produce annual gender diversity compliance report
- Male Champions of Change—coalition of high-profile business men committed to increasing gender diversity and sharing leading practices



Global Snapshot: United Kingdom

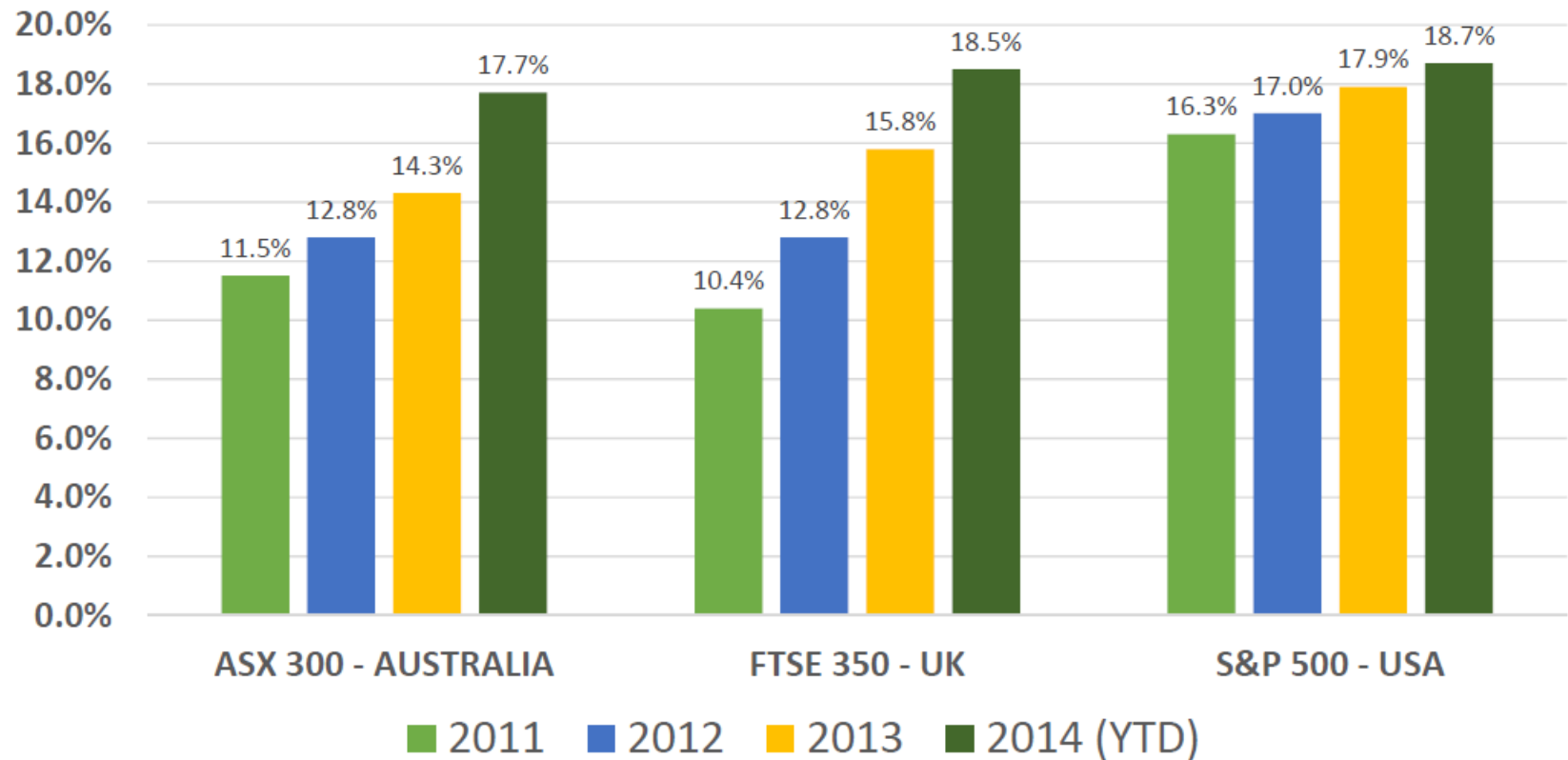


Diversity Campaign, 2011-2015

- **Change brought about without a quota**
- **The Lord Davies Review—a government-backed commission examining underrepresentation of women on boards—set targets:**
 - FTSE-100 target of 25% by 2015; now 25% target for FTSE 350
 - Peer pressure – name and shame
 - Executive Search Firms - Enhanced Voluntary Code of Conduct
 - Disclosure Rule – comply or explain
- **Voluntary framework, led by business**
 - CBI—a not-for-profit, non-political membership association—pushed for change
 - Group of UK board chairs and CEOs launched in 2010 set measurable goal for companies in the FTSE-100
 - Institutional investors pressured big businesses
 - Board turnover (UK directors work under the assumption directors are no longer independent of management after 9 years)

Global Snapshot: The Results

NON-QUOTA MARKETS: PERCENTAGE OF WOMEN ON BOARDS



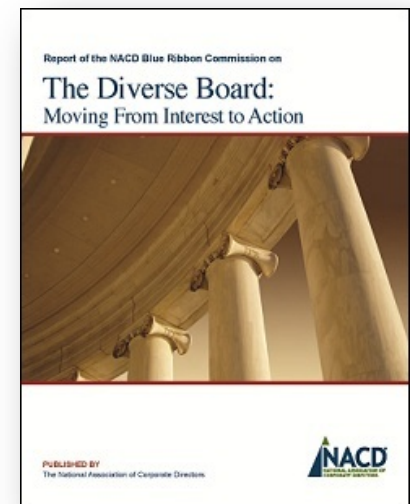
SOURCE: ISS QuickScore

Barriers to Boardroom Diversity

Findings from NACD Blue Ribbon Commissions (2012 BRC)

Structural Factors

- **Absence of tenure-limiting mechanisms, such as term limits.**
 - **Solution: Preserve, enhance, or consider adding mechanisms to increase director turnover.**
- **Small board sizes.**
 - **Solution: Consider expanding the board's size.**
- **Inadequate use of evaluations as a tool for board turnover.**
 - **Solution: Give evaluations traction.**
- **Inadequate use of executive talent management to develop directors from within.**
 - **Solution: Enhance executive talent management programs in order to expand the pool of diverse directors.**

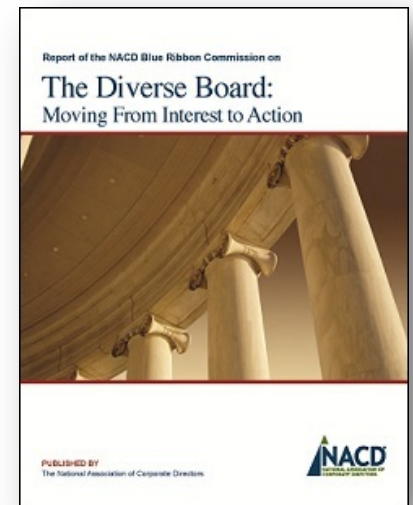


Barriers to Boardroom Diversity

Findings from NACD Blue Ribbon Commissions (2012 BRC)

Social Factors

- **Little knowledge of where to find candidates.**
 - **Solution: Expand horizons when seeking candidates.**
- **Overboarding of certain “star” board members.**
 - **Solution: Move beyond the “star” diverse board members.**
- **Reluctance of sitting directors to leave a board.**
 - **Solution: Adhere to term-limiting mechanisms to build turnover acceptance.**
- **Consolidating diversity into one category and related stereotyping.**
 - **Solution: Do not “check the box.”**

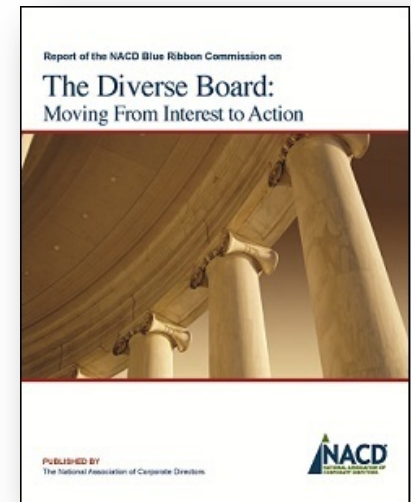


Barriers to Boardroom Diversity

Findings from NACD Blue Ribbon Commissions (2012 BRC)

Habitual Factors

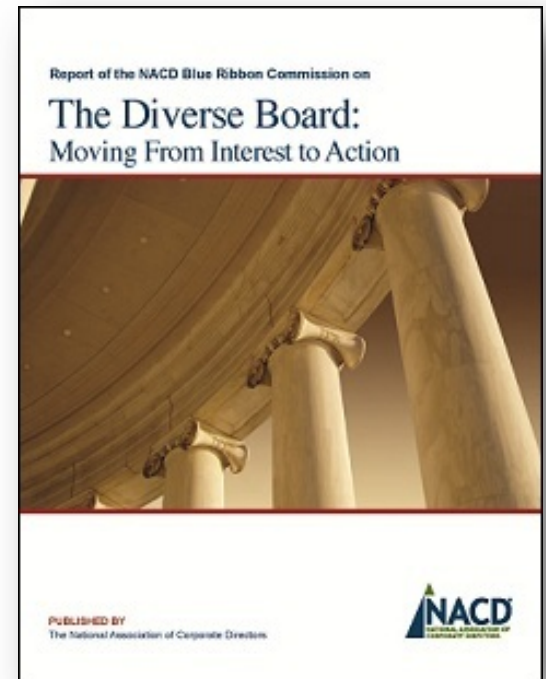
- Failure to put diversity on the board's agenda as a discussion topic.
 - Solution: Place diversity on the board's agenda as a topic for discussion and education.
- Tendency to seek only CEOs and experienced public company directors for board seats.
 - Solution: Move beyond CEOs in seeking to fill board seats.
- Existing lack of diversity on the nominating/governance committee.
 - Solution: Diversify nominating and governance committee composition.



Goals and Leading Practices: Define Diversity

Findings from NACD Blue Ribbon Commissions (BRCs)

- **A comprehensive definition must include both identity—gender, race, ethnicity—and skills, such as professional experience. Given the nature of today’s business world, neither aspect can be excluded (2012 BRC).**
- **Consideration of a candidate’s identity diversity has to coincide with a determination that the individual possesses skills and experiences desirable by the board (2012 BRC).**



NACD's Recommendations for Boards

From the Report of the NACD Blue Ribbon Commission on Diversity: Moving From Interest to Action

1. DISCUSS

- Candid, in-depth board discussions about critical topics like diversity are at the core of board contribution to any enterprise.

2. SELECT AND IMPLEMENT SOLUTIONS

- At minimum, review and evaluate board composition, expand horizons for recruiting candidates, and improve director evaluations.

3. DISCLOSE

- Consider going beyond required disclosures and provide shareholders with a thorough explanation of their director search process and the potential value it brings to the company.

Government Initiatives for Board Gender Parity

- *May 2014:* Rep. Carolyn Maloney (D-NY) requested a [GAO report](#) on the boardroom gender gap. The report was released in December 2015 and indicated it could take 40 years to reach gender parity in the boardroom.
- *March 31, 2015:* Nine public pension funds (including OPERS, CalPERS, NYS-CRF) [petitioned](#) the SEC to require disclosure of each director nominee's gender, race, and ethnicity in a matrix or chart.
- *March 2, 2016:* Sen. Sherrod Brown (D-OH), Maxine Waters (D-CA), and other Democrats sent a [letter](#) to SEC Chair Mary Jo White urging a speedier review of the diversity disclosure proposal by the public pension funds.
- *State Initiatives:* [Illinois](#), [Massachusetts](#), and [California](#) have passed resolutions urging for more women on boards.

Investor Initiatives for Board Gender Parity

- **The *Thirty Percent Coalition* is an organization of executives, institutional investors, corporate governance experts, and board members that has the goal of 30 percent female representation on public company boards.**
 - Work with companies on their recruitment strategies for women
 - Push for increased SEC diversity disclosure
 - Advocate for diversity through their members both publicly and privately
- ***Impact-investment funds* are being created to generate social change as well as financial returns. State Street Global Advisors created an index (SHE) to invest in companies with high levels of diversity.**
 - Received a \$250 million investment from CalSTRS
 - Aims to accumulate \$1.5 to \$2 billion in one year

CONCLUSION

- ***It will take a concerted effort from all vested parties to influence change. Most importantly, it will take strong leadership and the creation of a new organizational culture that will level the playing field for access and inclusion.***

- ***“The law can push open doors and tear down walls, but it will not build bridges. That job belongs to you and me.”***
 - » *Supreme Court Justice Thurgood Marshall*

THANK YOU