April 2018

Board composition: Consider the value of younger directors on your board

PwC's Census of Directors 50 and Under

Corporate boards that want to increase their diversity usually focus on gender and race. But are they paying enough attention to age diversity?

With the corporate environment evolving in significant ways, many S&P 500 companies have added younger directors to their boards to respond to new business needs. We encourage you to take a close look at your board composition to see if more age diversity would bring value to your company.

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Introduction

Major institutional investors have been pushing for more diversity in corporate boardrooms for years. And boards seem to be listening. In 2017, for the first time, more than half of the new directors on S&P 500 boards were women and/or racial minorities.[1] But are boards paying enough attention to age diversity?

Directors tell us that diversity of age is important to achieving diversity of thought. In fact, they rated age diversity as more important than any other element of diversity, including gender and race.[2] Yet the average age of independent directors in S&P 500 companies is rising—from 61 in 2007 to 63 in 2017.[3] In S&P 500 boardrooms, there are more directors 75 or older than there are aged 50 or under.[4]

Experienced directors are certainly valuable. Their long careers give them the benefit of having seen several business cycles. They can use their experience to share perspectives and provide expertise to help management address certain challenges more effectively.

But the environment is also evolving. Directors who are younger may be particularly well positioned to add value as companies address the new challenges that change brings:

- The digital revolution and technologies like robotics and artificial intelligence are reshaping corporate opportunities—and the workforce.
- Millennials are about to become the most powerful consumer group in the United States, with spending habits and priorities that are different from any generation before. And as they mature in the labor market, their expectations are changing workplaces.
- A corporate scandal—real or alleged—can erupt over social media in the course of mere hours.
- The lines separating industries are blurring as traditional companies face pressure to keep up.

What does it take to achieve diversity of thought?

*Directors responding that diversity of age is very important or somewhat important
Source: PwC, *2017 Annual Corporate Directors Survey*, October 2017.

1 Spencer Stuart, *2017 Spencer Stuart U.S. Board Index*, December 2017.
2 PwC, *2017 Annual Corporate Directors Survey*, October 2017.
3 Spencer Stuart, *2017 Spencer Stuart U.S. Board Index*, December 2017.
4 BoardEx (as of February 2, 2018), with PwC analysis.

US boards skew older than their global peers

21% of directors in US public companies are 70 or older

Compared to only **10%** in other countries

Source: Boardroom Resources *Platform Statistics*, March 2018.

Boards can truly benefit from younger directors who have actively addressed these types of changes in the business environment. To be clear, we're not saying that you necessarily need a millennial on your board to understand millennial spending habits. But if your board doesn't have a single director who was born after the Baby Boom ended, it may be time to give age a second thought.

As we look at S&P 500 boards, we see troublingly few "post-Boomer" directors. Directors aged 50 or under (whom we call "Younger Directors") make up only 6% of the seats on S&P 500 boards. That is despite the fact that post-Boomer generations make up 67% of the US population.[5]

In this study, we examine who the Younger Directors are and what their board service looks like.[6] We analyzed the population of directors aged 50 or under serving on boards of S&P 500 companies as of the end of 2017. We gathered information using BoardEx's database and supplemented that information by reviewing company proxy statements, relevant 8-K filings and disclosures on company websites. We also share insights from interviews we conducted with a number of Younger Directors, as well as with some of the other directors who serve alongside them.

We encourage boards to make use of these findings, and to strongly consider including age diversity as a part of their board succession planning.

Few S&P 500 directors are 50 or under

Base: 5,485 total director seats in the S&P 500 overall
Source: ISS Analytics and BoardEx (as of December 29, 2017), with PwC analysis.

5 "US Population by Age and Generation" generated by Knoema, based on U.S. Census Bureau data (available at https://knoema.com/infographics/egyydzc/us-population-by-age-and-generation).

6 All analysis in this paper, unless otherwise noted, is based upon data sourced from BoardEx, with PwC analysis.

Key findings

- **There are 315 Younger Directors in the S&P 500.** Together, they hold 348 board seats of companies in the index. Of these 348 Younger Director seats, 260 are filled by independent Younger Directors.
- **Fewer than half of S&P 500 companies have a Younger Director.** Only 43% of the S&P 500 (217 companies) have at least one Younger Director on the board. At 50 of those companies, one of the Younger Directors is the company's CEO.
- **S&P 500 companies with younger CEOs are much more likely to have independent Younger Directors on the board.** Sixty percent (60%) of the 52[7] companies with a CEO aged 50 or under have at least one independent Younger Director on the board—as compared to just 42% of companies that have a CEO over the age of 50.
- **Almost one-third of Younger Directors are women.** Women comprise a much larger percentage (31%) of Younger Directors than in the S&P 500 overall (22%[8]). This is in spite of the fact that over 90% of Younger Directors nominated under shareholder agreements—such as those with an activist, private equity investor or family shareholder—are men.
- **Information technology and consumer products companies are more likely to have Younger Directors.** The three companies in the telecommunications sector have no Younger Directors.
- **Close to half of the independent Younger Directors have finance/investing backgrounds.** Just under one-third are cited for their technology expertise, executive experience or industry knowledge.
- **Younger Directors fit in board service while pursuing their careers.** According to their companies' SEC filings, 96% of Younger Directors cite active jobs or positions in addition to their board service.
- **Younger Directors serve on fewer boards.** The average independent S&P 500 director sits on 2.1 public company boards.[9] In contrast, independent Younger Directors sit on an average of 1.7 boards. More than half serve on only one public board.
- **More than half of the independent Younger Directors have held their board seat for two years or less.** Only 18% have been on the board for more than five years.

7 At two of those companies, the CEO does not sit on the board.

8 Spencer Stuart, *2017 Spencer Stuart U.S. Board Index*, December 2017.

9 Ibid.

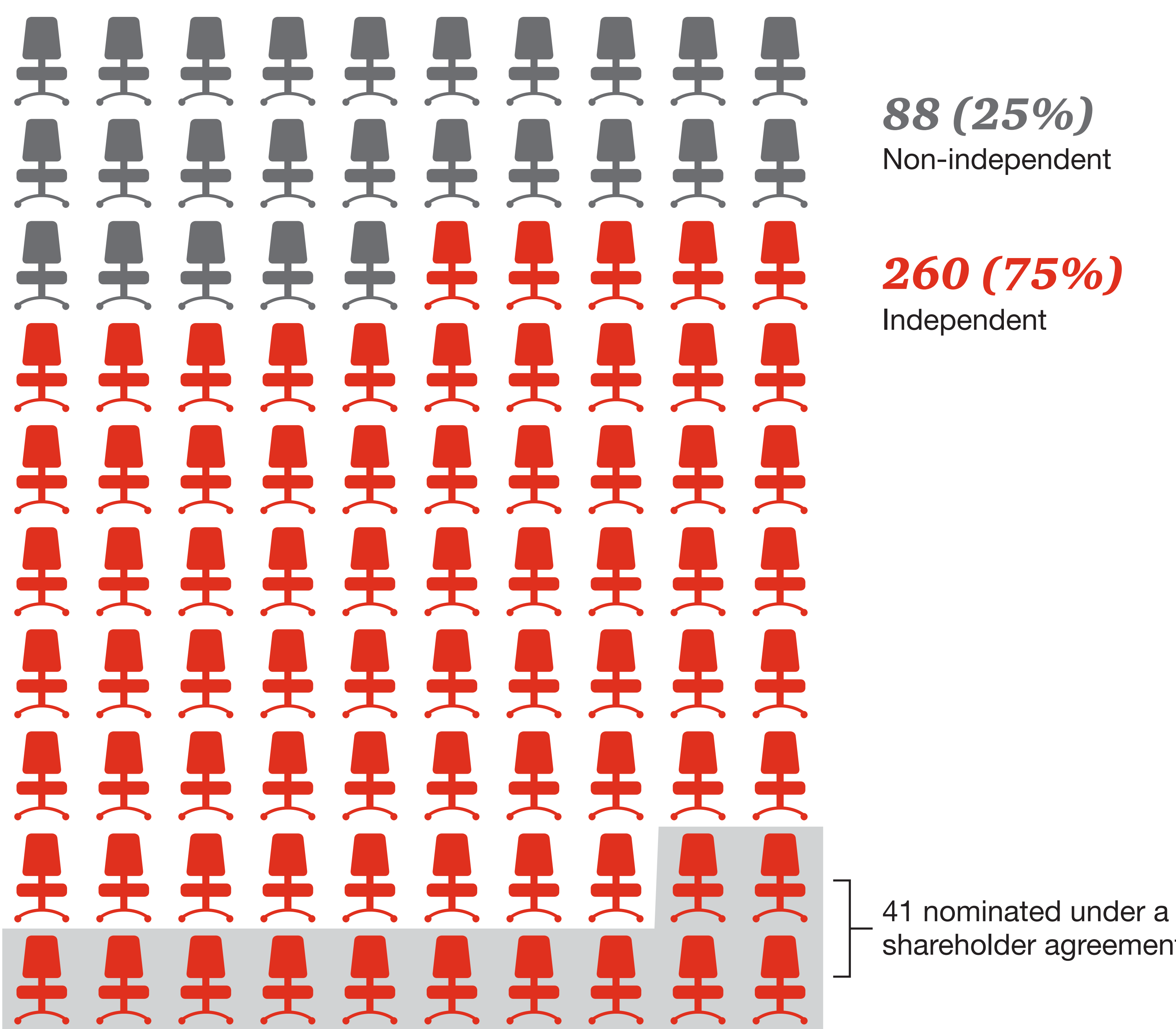
What is the population of Younger Directors?

Relatively few and far between

While companies in the S&P 500 together have nearly 5,500 board seats, only 348 of those seats are held by Younger Directors. There are only 315 Younger Directors, as some sit on more than one S&P 500 company board. Two hundred forty-two (242) of them are independent, and together that group holds 260 independent seats (75%).

Of the 260 seats held by independent Younger Directors, 41 (16%) were nominated under a shareholder agreement. This could be an activist shareholder, another investor, such as a private equity firm, or an arrangement with a significant family shareholder.

3/4 of Younger Directors seats in the S&P 500 are independent



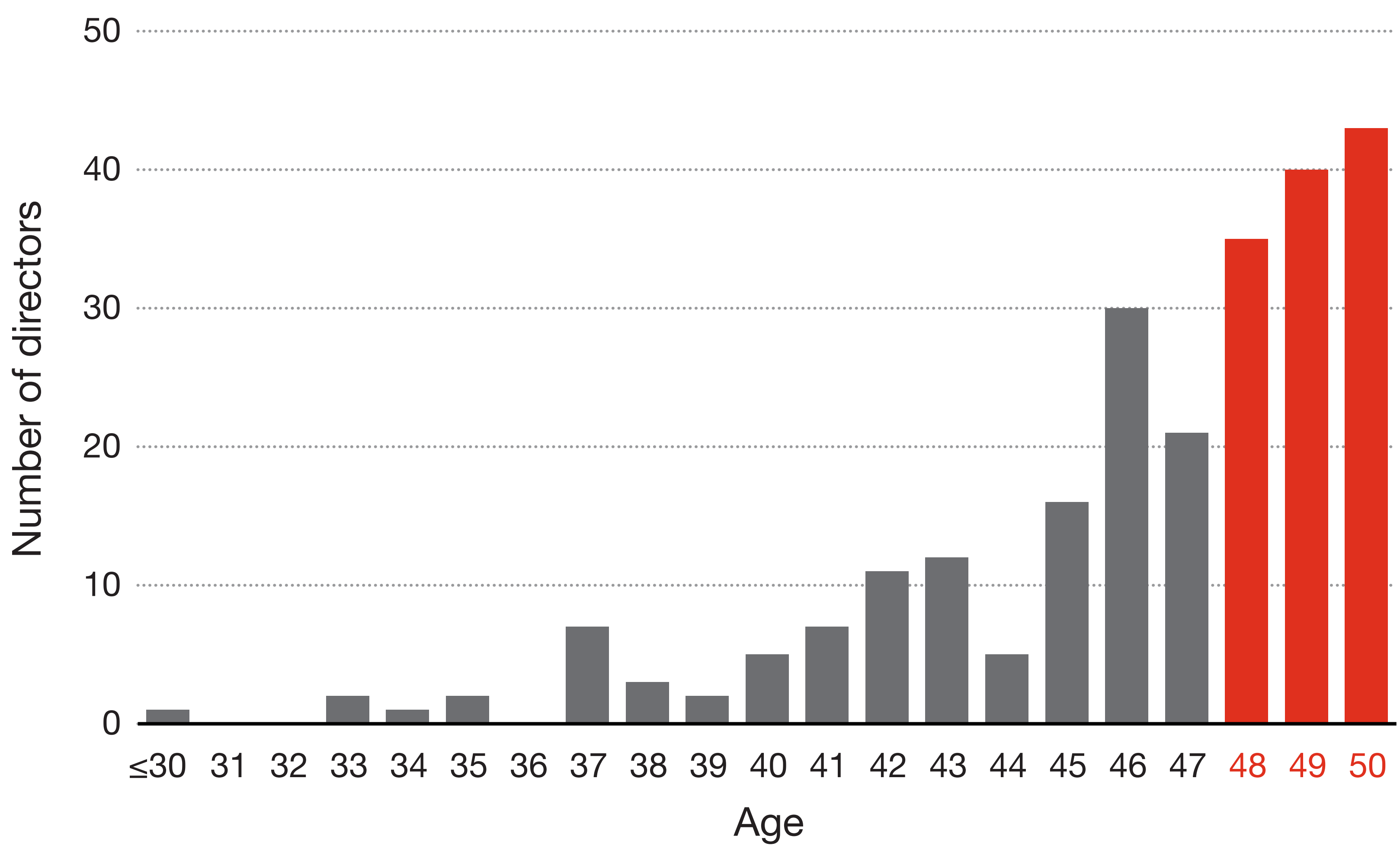
Base: 348 board seats held by Younger Directors
Source: PwC analysis of BoardEx data (as of December 29, 2017) and relevant company SEC filings.

Younger, but not too young

The independent Younger Directors are ages 29 through 50 years old. But in reality, this group is heavily concentrated at the older end of that range. Just under half (49%) are 48, 49 or 50 years old.

While boards may be drawn to younger directors who bring different perspectives to boardroom deliberations, they also want someone seasoned enough to fit into the board's culture. In other words, they don't want anyone who's too young. One Younger Director told us that while her board was open to having a director under the age of 50, she thought they would not have been quite as receptive to a 30-year-old.

Almost half of the independent Younger Directors are ages 48, 49 or 50



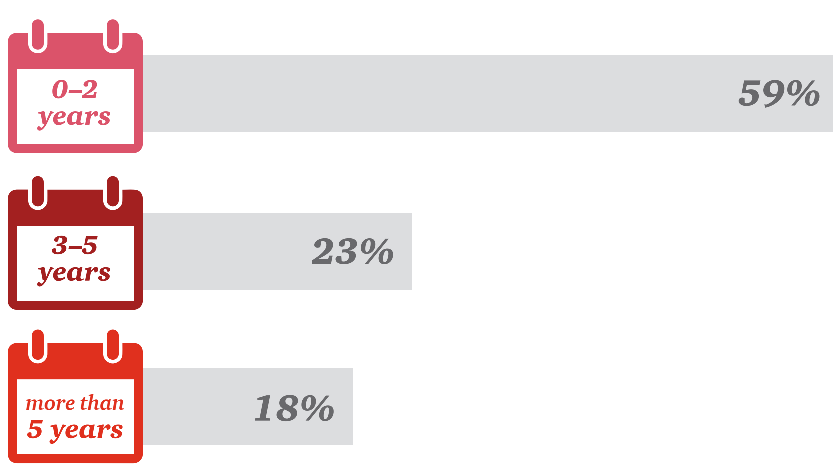
Base: 242 independent Younger Directors
Source: PwC analysis of BoardEx data (as of December 29, 2017).

Most are recently appointed

Most of the independent Younger Directors are relatively new to their S&P 500 company boards. Their average tenure is 2.8 years. By contrast, the average tenure of all independent directors in the S&P 500 is 8.2 years.[10]

More than half (59%) of the independent Younger Directors have been on the board for two years or less.

More than half of the independent Younger Directors are recently appointed



Base: 260 board seats held by independent Younger Directors
Source: PwC analysis of BoardEx data (as of December 29, 2017).

Board refreshment policies and bringing on a younger director

Bringing on directors who are younger adds a new wrinkle to the issue of board refreshment. Nearly three-quarters of S&P 500 boards set mandatory retirement ages as one way to drive board refreshment. A majority of those companies set that retirement age at 73 or higher.[11] So when one of those boards brings on a new director in his or her 40s, that person potentially has a 30+ year runway.

Some boards, especially when recruiting younger directors, have upfront conversations about what the length of tenure might look like. Other companies are thinking more seriously about setting term limits, or targeting an average term limit for their board.

10 Spencer Stuart, *2017 Spencer Stuart U.S. Board Index*, December 2017.

11 Ibid.

Women are making their mark

The percentage of women on S&P 500 boards has grown slowly over the years, and in 2017 it hit 22%.[12] But among Younger Directors, the percentage is significantly higher. Nearly one-third (31% or 97) of all Younger Directors in the S&P 500 are women. These 97 women fill 110 S&P 500 board seats.

Among just the independent Younger Directors, the percentage of women is even higher, at 37%. This is at least partly because the non-independent directors—often the company's CEO or others in the C-suite—are usually men.

A higher proportion of Younger Directors are female

31% of Younger Directors are women

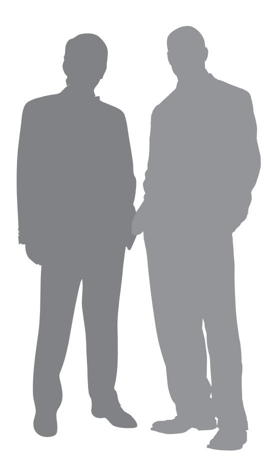
22% of all directors in the S&P 500 are women

Sources: PwC analysis of BoardEx data (as of December 29, 2017); Spencer Stuart, *2017 Spencer Stuart U.S. Board Index*, December 2017.

…but not in every group

However, while women comprise a higher percentage of independent Younger Directors than among Younger Directors overall, they are underrepresented in certain subsets. Shareholder agreements give private equity investors, activists or families the right to nominate directors. The percentage of female Younger Directors nominated under such agreements is just 6%. Said differently, more than nine out of 10 times, when a significant shareholder is nominating a Younger Director, that person is male. If we look at just the portion of independent Younger Directors who are not hand-picked by a significant shareholder, 45% are female.

Younger Directors nominated by significant shareholders are overwhelmingly male



Only ***63%*** of all other Younger Directors are male

Base: 315 Younger Directors
Source: PwC analysis of BoardEx data (as of December 29, 2017) and relevant company SEC filings.

12 Spencer Stuart, *2017 Spencer Stuart U.S. Board Index*, December 2017.

Shareholder agreement nominees: Woefully lacking in gender diversity

Shareholders with the right to pick nominees rarely select younger women to fill board seats.

At the same time, major institutional investors, such as State Street Global Advisors and BlackRock, are intensely focusing on gender diversity on boards.

Investors who have the right to nominate directors should be aware that unconscious bias may play a role in their default to almost exclusively male candidates. They should reconsider their process with the objective of having more nominees who bring the gender diversity that the broader investor community is seeking.

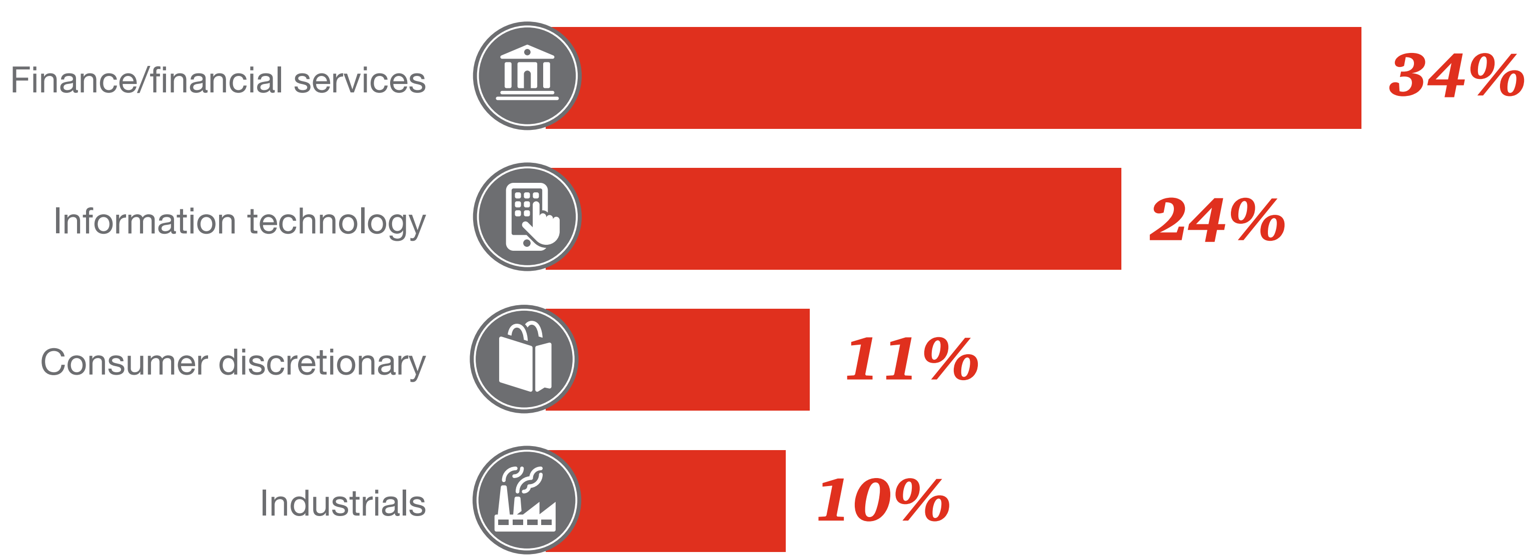
What's notable about Younger Directors?

Where do they come from?

Younger Directors are busy people. Very few are retired, which makes sense, given their age. Ninety-six percent (96%) have active jobs or roles according to their companies' 2017 SEC filings—often as high-level executives. In fact, 31% of independent Younger Directors are CEOs at other companies.

While independent Younger Directors come from a range of different industries, about one-third work in the financial sector. Almost one-quarter (24%) work in the information technology sector.

More than half of the independent Younger Directors come from the financial and information technology sectors



Base: 242 independent Younger Directors
Source: PwC analysis of BoardEx data (as of December 29, 2017).

Fitting in board service

Since most Younger Directors actively work, the average of 231 hours per year that public company directors spend[13] on board service comes on top of an already full schedule. According to one experienced director, CEOs might actually be better positioned, relative to other executives, to take on director roles. They have the leverage within their organization to make the case for outside board service, and they have the standing to make the necessary room in their schedules.

As one Younger Director told us, he mostly finds time for board work in what would otherwise be personal time.

When some boards look for a director who is younger, they consciously look for someone who has either retired or is no longer working full time. One long-tenured director told us that when his board started a search for such a director, they purposely sought out a recent retiree. They assumed an active executive wouldn't have enough time. For boards made up largely of retired executives, it may be difficult to imagine that an active younger executive would have the time. However, the fact that nearly all Younger Directors in the S&P 500 are balancing board service with active careers indicates that it is possible.

Showing up and being available

Some directors who are younger are accustomed to a fast-paced work environment where no one is ever really "unavailable" and nearly every moment is filled with multitasking.

But boardrooms are different.

Directors are expected to attend every board meeting, usually in person, and give the discussions their full attention. Younger board members—especially those with executive positions—should realize their fellow directors are watching their behavior. And so it's important for these younger board members to minimize other distractions and ensure they are "present" and contributing during day-long board meetings.

13 NACD, *2017-2018 Public Company Governance Survey*, December 2017.

What skills do they bring to the table?

One thing that we hear again and again in our conversations with directors is that younger board members are not chosen just to provide a "young" perspective—they are chosen for their specific skills and knowledge. This knowledge may be particularly impactful since it is most commonly based on current experiences during their careers at their own companies.

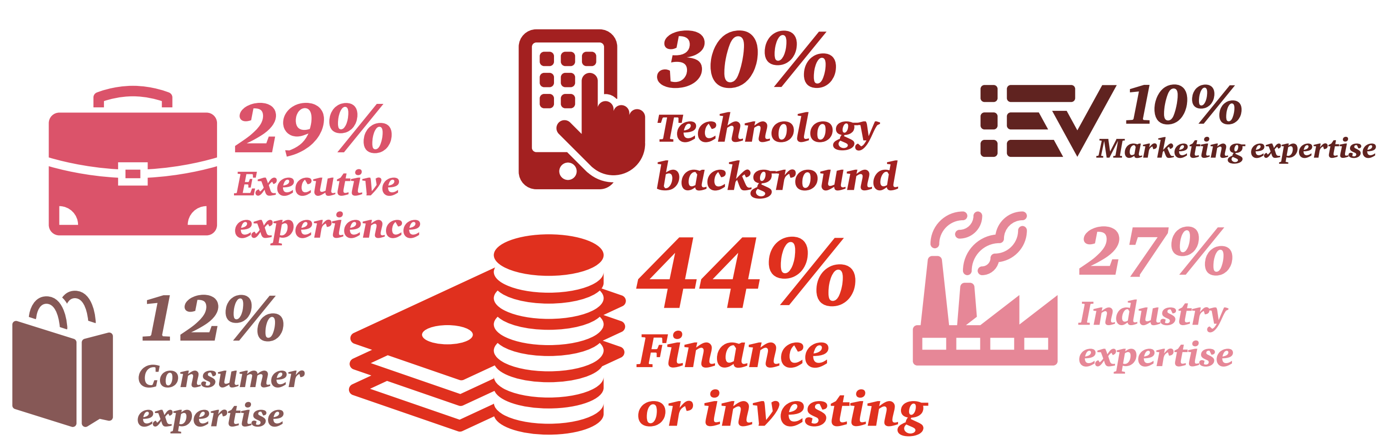
Like most S&P 500 company directors, independent Younger Directors bring diverse skills and experiences. But finance and investing stands out. Close to half of the independent Younger Directors have a background in finance or investing.[14] Among those independent Younger Directors nominated under a shareholder agreement that figure jumps to 67%—and setting aside directors nominated by family shareholders, it is 71%.

The next most commonly cited area of expertise for Younger Directors is in technology.

Some boards may assume their younger directors bring expertise they really don't. For example, one Younger Director told us that the board regularly turns to her when environmental or sustainability issues arise—even though she has absolutely no experience in that area.

One of the Younger Directors we interviewed thought it was helpful in consumer products companies to have a director who is close in age to a company's consumer base. A 45-year-old director may be more familiar with a 30-something consumer's perspectives than many older board members would be. And a 45-year-old CEO likely interacts with even younger colleagues.

Independent Younger Directors most commonly cited for their backgrounds in finance/investing or technology



Base: 242 independent Younger Directors
Source: Company 2017 SEC filings and PwC analysis of BoardEx data (as of December 29, 2017).

Among directors nominated under family shareholder arrangements, several are cited for their knowledge of the "history and culture" of the company.

14 Analysis in this section based on companies' 2017 SEC filings in addition to PwC analysis of BoardEx data (as of December 29, 2017).

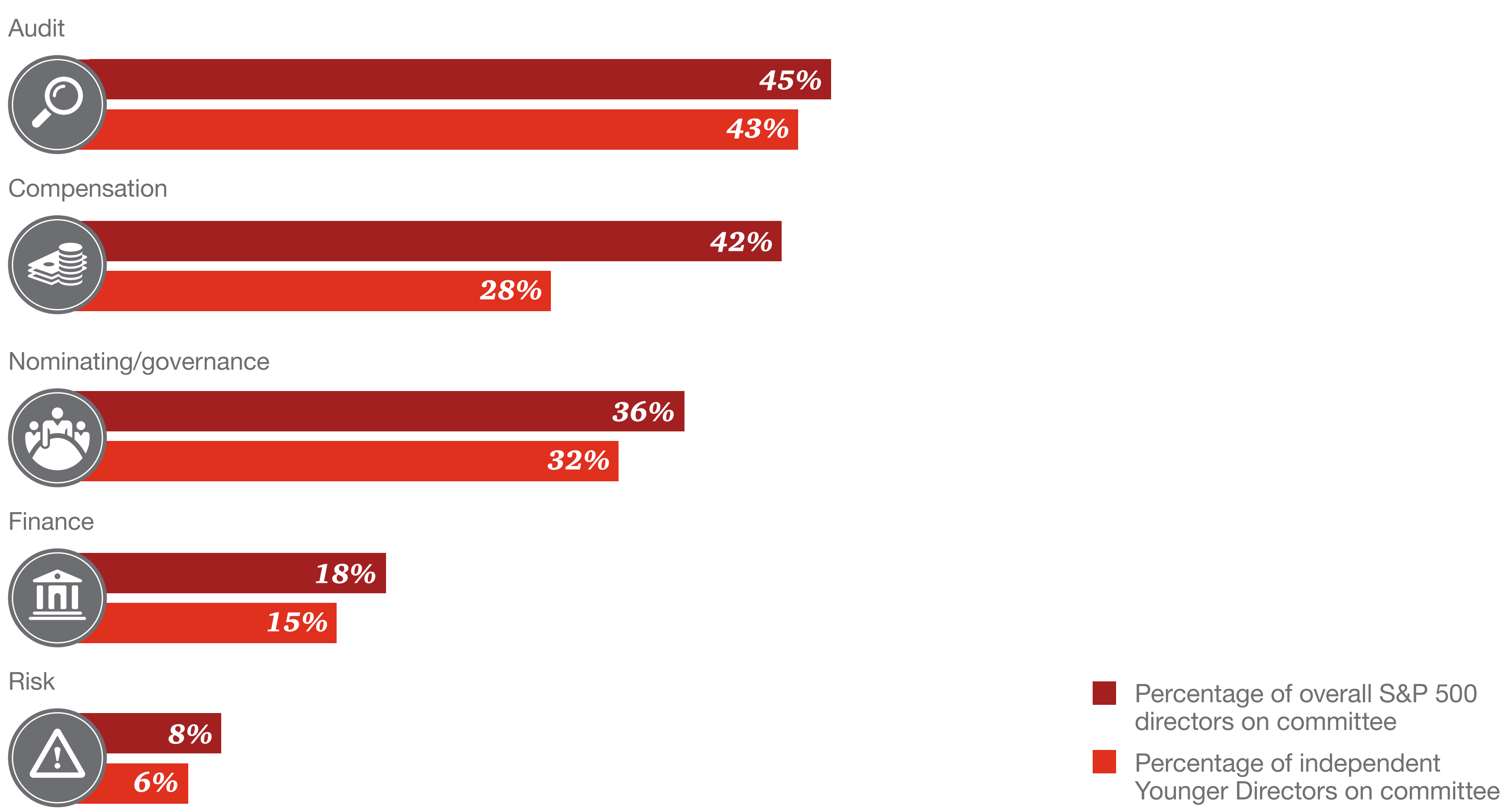
Digging into committee work

Nearly 90% of the independent Younger Directors in the S&P 500 sit on at least one board committee. Half sit on two or more board committees.

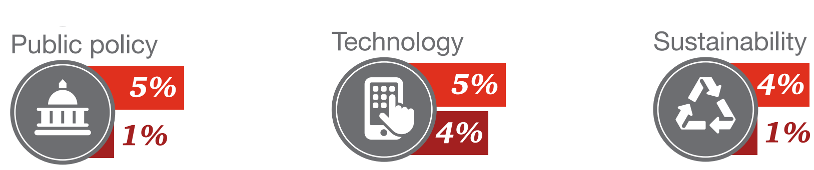
Which committees are they likely to serve on? Compared to independent S&P 500 directors of all ages, independent Younger Directors are nearly as likely to serve on the audit committee. However, they are significantly less likely to serve on the compensation committee. This may be tied to a perception that Younger Directors consider things like CEO compensation from a very different perspective than other directors—and boards may be hesitant to put pay decisions in their hands.

The two types of committees on which Younger Directors are actually overrepresented are two of the rarer committees: public policy and sustainability.

Independent Younger Directors are underrepresented on the most common board committees...



...but are overrepresented on rarer committees



Base: 260 seats held by independent Younger Directors; 4,896 independent seats in the S&P 500 overall
Source: PwC analysis of BoardEx data (as of December 29, 2017 and March 5, 2018).

Some Younger Directors with demanding day jobs tell us that they purposely try to take the less intensive committee assignments. But it doesn't always work out that way. The nominating and governance committee typically has a lighter workload than the audit or compensation committee—until the company finds itself in an emergency CEO search. Then committee meetings may suddenly jump from five meetings in a year, to multiple meetings in a month. And the time demands increase accordingly.

> *"Younger directors aren't there just to fill a seat. There is real work to be done and they need to be ready to do it."*
>
> –An experienced S&P 500 board member

Most avoid serving on multiple boards

Among the entire group of S&P 500 independent board members of all ages, almost two-thirds (64%) serve on two or more public boards.[15] In contrast, independent Younger Directors are much less likely to take on multiple public company boards. Over half (54%) serve on only one public company board. The independent Younger Directors who serve on multiple boards tend to be from two groups. One group consists of the activist and private equity nominees, who often sit on several public company boards as part of their investing careers. The other group is comprised of CEOs who serve on their own boards (where they are not independent), as well as one or more outside boards (where they are considered independent).

Independent Younger Directors sit on fewer public company boards

Base: 242 independent Younger Directors
Sources: PwC analysis of BoardEx data (as of December 29, 2017); Spencer Stuart, *2017 Spencer Stuart U.S. Board Index*, December 2017.

15 Spencer Stuart, *2017 Spencer Stuart U.S. Board Index,* December 2017.

Younger board members can find themselves in a Catch-22. While boards may want directors who are younger and are active executives, they also want directors who have other public company board experience. That experience is just not as common in this age group.

But often the reason that boards want their directors to serve on more than one board is to ensure that they have a broad perspective about how things are done at other companies. Among Younger Directors, most of them bring that additional current experience in the form of their day job.

Which companies are most likely to have Younger Directors?

Younger CEOs mean a greater likelihood of independent Younger Directors

S&P 500 companies that have a CEO aged 50 or under are much more likely to have independent Younger Directors on their boards. More than half of the companies with a young CEO—60%—also have at least one independent Younger Director.[16] Among the S&P 500 companies with CEOs over the age of 50, that figure drops to just 42%.

Have a young CEO?

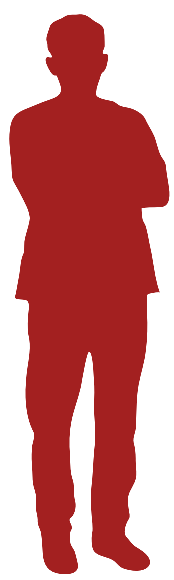
You are much more likely to have Younger Directors

16 Fifty-two (52) companies in the S&P 500 have a CEO aged 50 or under; at two of those companies, the CEO does not serve on the board of directors.

Industries most and least likely to have Younger Directors

Among the S&P 500, 217 companies, or 43%, have at least one Younger Director on their board. At 21 of those companies, however, the only Younger Director on the board is the company's sitting CEO.

More than half of the S&P 500 companies in the information technology, consumer discretionary and consumer staples industries have Younger Directors on their boards. In contrast, about one-fifth of companies in the utilities industry and about one-third of companies in the real estate and finance/financial services sectors have Younger Directors. And none of the three telecommunications companies in the S&P 500 have any Younger Directors.



Industries most likely...

- Information technology
- Consumer discretionary
- Consumer staples

and least likely...

- Telecommunications
- Utilities
- Finance/financial services
- Real estate

...to have at least one Younger Director

Base: 348 board seats held by Younger Directors
Source: PwC analysis of BoardEx data (as of December 29, 2017) and S&P 500 industry data.

Seventy-eight (78) companies in the S&P 500, or about 16%, have more than one Younger Director on their board. At 14 companies, one-third or more of the board is comprised of Younger Directors. The sectors in which companies most commonly have these high concentrations of Younger Directors are information technology and consumer discretionary. Companies in these sectors may place more value on the skills and experience of Younger Directors.

S&P 500 companies where at least 1/3 of the board members are Younger Directors

Information technology	Consumer discretionary	Consumer staples	Finance/financial services	Industrials
• Applied Materials • Ebay • Facebook • Intuit • Red Hat	• Chipotle • Expedia • News Corp • Starbucks • Trip Advisor	• Brown Forman • Wal-Mart	• Nasdaq	• Republic Services

Base: 348 board seats held by Younger Directors
Source: PwC analysis of BoardEx data (as of December 29, 2017).

Companies in these industries may also be more attractive to candidates. Some Younger Directors tell us that once they signaled their interest in board service, they had more opportunities than they could possibly pursue. They had their pick of boards—and of industries—and could afford to be selective.

But if the director only has time for one public company board, it needs to be with the right company. One Younger Director told us, “Sitting on the board of some random company is a waste of time. There needs to be a connection to your day job.” That may be a company with a similar customer base, or global footprint, or it could be a company that would offer the executive a deeper look at a completely separate industry that is nonetheless relevant.

How are companies making room around the board table?

It’s one thing to want to increase board diversity through adding a director who views life through a different lens. It’s another thing altogether to figure out which director your board will have leave to make room. When it comes to younger directors, it appears some boards are avoiding that decision.

For 62% of the board seats held by independent Younger Directors, the companies reported that they increased the board size to accommodate them[17]—instead of cutting a more experienced director.

A mutually beneficial relationship

Many Younger Directors are confident they are bringing value to their boards. One told us she sensed her presence made other board members feel more accountable. Sometimes, Younger Directors are changing the level of engagement for the entire board.

And board service can be incredibly beneficial for the Younger Director as well. It can make them better executives. It elevates their thinking and exposes them to a new set of issues and entirely new ideas about how to address problems. For current CEOs, being on the other side of that relationship and seeing how another CEO interacts with their board can help hone their own style in the boardroom.

17 According to relevant company SEC filings.

In conclusion...rethink the age diversity on your board

Boards are always looking for the right balance. Older directors have the benefit of decades of work experience. They may also have decades of board experience to bring to bear. But boards that are missing younger voices are also likely missing important perspectives in the room that might raise the entire board's game.

Take stock of your board's age diversity

- Have you analyzed the age diversity on your board, or the average age of your directors?
- Does your board have an updated succession plan? Does age diversity play into considerations for new board members?
- Are there key areas where your board lacks current expertise—such as technology or consumer habits? Could a new—and possibly younger—board member bring this knowledge?
- Does your board have post-Boomers represented?
- Does your board have a range of diversity of thought—not just one or two people in the room who you look to continually for the "diversity angle"?
- Could younger directors bring some needed change to the boardroom?

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner or a member of PwC's Governance Insights Center.

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