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Overview and top findings

Public company boards play a critical role—one that requires experience and savvy. Yet for a long time, some investors and other critics have argued that boards value collegiality, consensus and the status quo over innovation and fresh thinking. Today, we see increasing evidence that boardrooms are evolving and showing signs of change.

PwC’s 2018 Annual Corporate Directors Survey finds that directors are more engaged in overseeing a wide array of topics, like corporate culture and cybersecurity. They are thinking more broadly about how social issues fit into their company’s strategy. Boardrooms are becoming increasingly diverse, while some directors question what’s driving the change. Directors are critical of their peers, realizing the need for every board member to bring something valuable to the conversation. And they are thinking about how their boards could be more effective.

These changes come in part from external pressures. Shareholder influence continues to grow, as institutional investors now own 70% of US public companies.¹ These investors are increasingly vocal about what they want to see from boards. Activist shareholders continue to target a broad range of companies, keeping directors on their toes. And proxy advisory firms are driving boardroom behavior and governance practices.

With all these pressures, expectations for director performance are increasing. More diverse boardrooms result in directors hearing new points of view. All of this is happening as the scope of board oversight continues to grow in complexity, with companies more global in reach and more interconnected.

In response to all of this, directors are stepping up and embracing change. They are listening more, learning more, contributing more, and are more engaged. What’s happening outside the boardroom is impacting who is sitting in the boardroom, and what’s on their agenda.

Many of these topics are challenging for boards. Throughout this report, we offer practical tips and approaches in the “PwC perspective” sections. Read on for our full report covering these topics and others, and our related insights.
Among our survey’s top findings

Culture problem? Don’t forget middle management
87% of directors say inappropriate tone at the top leads to problems with corporate culture. But almost as many (79%) point to the tone set by middle management.

Social issues and strategy make a stronger connection
The percentage of directors saying that company strategy should very much take social issues like health care, resource scarcity, human rights and income inequality into account jumped between 7 and 10 percentage points from last year.

Directors see value in diversity...but question the motivation
94% of directors agree that board diversity brings unique perspectives to the boardroom, and 84% say it enhances board performance. But more than half (52%) say board diversity efforts are driven by political correctness, and almost as many (48%) believe shareholders are too preoccupied with the topic.

Cybersecurity oversight struggles to find a home in the boardroom
Boards continue to shift responsibility for oversight of cybersecurity. 36% of directors say the job falls to their full board, up from 30% last year. And more than one in five (21%) say their board has moved cybersecurity oversight from one committee to another committee.

Almost half of directors think someone on their board should be replaced
45% of directors believe a fellow director should be replaced. Almost half of those say two or more directors should no longer be on their board.

Evaluating corporate culture: going with your gut may not be enough
64% of directors evaluate company culture using their intuition or “gut feelings”— but only 32% think that’s a particularly useful approach.

The cybersecurity disconnect: awareness is hot, but crisis management drills are not
While 95% of directors say their boards are preparing for cybersecurity incidents, only 34% say their company has staged crisis management drills or simulations.
Corporate culture
Evaluating corporate culture: going with your gut may not be enough

Corporate culture has taken center stage in recent years. Scandals ranging from cheating to meet government standards, to mistreating customers in order to hit unrealistic performance goals, to pervasive sexual harassment, fill headlines. In the aftermath of such crises, shareholders, regulators, employees, customers and others are often left asking “where was the board?”

Directors see the risks a poor culture can bring, and recognize how a strong, healthy culture can make a company more valuable and resilient. But a company’s culture can be hard to judge, even for those who work there every day. It’s even harder for directors, who may only be at the company a handful of times a year for board meetings. At those meetings, directors often interact with the same small group of high-level executives, limiting their view of the broader company. So how do directors go about really understanding and gauging culture? More importantly, are they getting it right?

It’s perhaps not surprising that almost two-thirds (64%) of directors say they rely on their gut feelings from their interactions with management to evaluate the culture, although far fewer directors (32%) say it’s among the most useful approaches.

What do directors think is actually useful? Hearing from employees. Topping the list of the most useful metrics for evaluating culture are employee engagement survey results, exit interview debriefs and 360-degree feedback results for executives.

Gut checking the board’s culture gauge

Q27: Which of the following do you use to evaluate your company’s corporate culture? (select all that apply);
Q28: In your opinion, which of the following three metrics are, or would be, most useful in assessing company culture? (please select only three)
Base: 677; 675
Culture problem? Don’t forget middle management

The wrong corporate culture can pose real risks to a company—whether it’s an issue of risk management, employee engagement or corporate performance. What do directors think drives problems in culture?

By and large, directors think that the most critical components to a healthy culture are tone at the top and the “mood in the middle.” A significant majority (87%) agree that an inappropriate tone set by the executive team contributes to problems with corporate culture. But it’s not just the C-suite that plays a role; 79% say that the tone set by middle management is a contributor. Sixty-six percent (66%) agree that lack of communication and transparency from management plays a part in culture problems as well.

Further, almost three-quarters of directors (74%) say that excessive focus on short-term results contributes to problems with corporate culture. And if we look at the possible sources of short-term pressure, almost 60% of directors say institutional investors devote too much attention to short-term stock performance. This focus on short-term performance and hitting performance targets in compensation plans may drive certain bad behaviors at companies as well. Two-thirds (67%) of directors say ineffective compensation plans lead to problems with culture.

Where do corporate culture problems start?

- Tone set by the executive team: 87%
- Tone set by middle management: 79%
- Excessive focus on short-term results: 74%
- Compensation plans driving bad behavior or undesired outcomes: 67%
- Lack of communication/transparency from management: 66%

Q26: To what extent do you agree or disagree that the following factors contribute to problems with corporate culture?
Responses: Strongly agree or somewhat agree
Base: 665-673
Taking action to fix corporate culture

Most boards are taking culture issues seriously. More than 80% of directors say their companies have done something to address culture concerns. The most common actions include enhancing employee training (60%) and focusing on or improving whistleblower programs (42%).

But beyond employee training and whistleblower policies, are companies digging into the more difficult questions? Only 17% say their company has revised its compensation plans, even though two-thirds of directors agree that compensation plans driving bad behavior contributes to problems with culture.

And although problematic company culture issues can balloon into a major crisis and reputational damage, only 21% of directors say their company has reviewed and/or amended its crisis management plan.

Fixing culture by focusing on employees

The two most common actions taken:

- Enhanced employee development/training programs: 60%
- Focused on or improved whistleblower programs: 42%

Among the least common actions taken:

- Reviewed and/or amended crisis management plan: 21%
- Implemented a culture/engagement component to the strategic plan: 19%
- Revised compensation plans: 17%

Q25: Several high-profile companies’ reputations have been damaged recently by what could be called failures in their corporate culture. Has your company taken any of the following actions to address corporate culture? (select all that apply)
Base: 675
After a company crisis, it can be easy to see how certain factors related to culture contributed to the problem. The harder part is spotting any issues early on, and fixing them before they become a crisis. Our view is that directors should:

- **Insist on qualitative and quantitative metrics that will allow you to get a handle on your company’s culture.** The exact metrics that will be helpful will vary, to some extent, based on the company. And they may not be metrics that management already reports to the board. Take a broader view of what might bring some insight and ensure management is using an effective dashboard to communicate information.

- **Meet with employees other than just senior executives.** Senior executives may give the board a view into the tone at the top, but it’s also crucial to see how other employees view the company and their own roles. They can offer valuable perspectives on the executive team, and on both the “mood in the middle” and the “buzz at the bottom.”

- **Connect the dots between the metrics you get—and what you hear—to see if the stories are consistent.** Sometimes the real problems lie between what executives and employees say and what the data shows. Look for, and explore, any inconsistencies between the two.

- **Ensure culture is a regular topic on the board’s agenda.** Making the topic a recurring conversation ensures that it stays top of mind for directors. And it emphasizes the value that the board puts on company culture.

- **Make culture a full-board discussion.** Many companies allocate parts of culture oversight to different committees. The audit committee might hear about ethics and compliance issues while the compensation committee focuses on compensation plan goals and performance. Even with the split, the broader topic of culture should come back to the full board’s agenda.
In early 2018, BlackRock CEO Larry Fink made waves by telling company CEOs in his annual letter that society now demands that their companies serve a social purpose. Fink, whose company manages more than $6 trillion in assets, said that “to prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.” For some, this shifts what companies should focus on well beyond just generating returns for shareholders.

Messages like this may be getting through to directors, who are showing more support for incorporating social issues into company strategy. The percentage of directors saying that issues like health care availability/cost, human rights, income inequality and resource scarcity should very much be taken into account when forming company strategy jumped notably from 2017. Directors are also more likely to believe that a company should prioritize the interests of a broader stakeholder group, rather than just shareholders, when making company decisions.

But at the same time, a fair number of directors think investor focus is misplaced. Almost one-third of directors (29%) say shareholders are too focused on corporate social responsibility—perhaps indicating a reluctance to embrace the idea of corporations serving a social purpose.

**Investor reaction to the findings**

“We’re encouraged that more directors are incorporating a wide range of risks into their perspective on company strategy. But opportunities remain for more consistently comparable disclosure of these significant risks and their potential impact on long-term value creation. As practically permanent owners of most companies, we focus on issues—including environmental and societal risks—that have lasting, long-term implications for companies today and tomorrow. Our agenda isn’t driven by what’s popular at the moment—it’s about long-term, sustainable value creation.”

– Glenn Booream, Head of Investment Stewardship for the Vanguard funds
Directors support workplace diversity and think their companies could do better

Diversity and inclusion efforts are a priority for many companies, and directors support those initiatives. When asked about the role of public companies in workplace diversity, two-thirds (66%) of directors agree that companies should be doing more to promote gender/racial diversity, versus only 9% who say they should be doing less.

But directors aren’t all giving their own companies high marks. In the area of talent management, the most commonly identified areas for improvement relate to workplace diversity. Almost half of directors (45%) say their company does a fair or poor job of developing diverse executive talent. And 39% say the same about the company’s recruitment of a diverse workforce.

**PwC perspective**

**Driving diversity in the workplace**

Research shows that diverse teams and inclusive workplace environments correlate to stronger business outcomes. Creating these teams and environments requires support from company leadership.

A coalition of over 450 CEOs of leading companies and business organizations, including PwC’s Tim Ryan, have signed on to a commitment to advance diversity and inclusion in the workplace. They pledge to making their workplaces trusting places to have complex and difficult conversations about diversity and inclusion, to implementing and expanding unconscious bias education, and to sharing best—and unsuccessful—practices. Through CEO Action for Diversity and Inclusion, these companies collaborate and exchange ideas and experiences that improve diversity and inclusion results. If your company is not yet involved, consider whether your CEO should join.

**Talent management: room for improvement**

Areas of talent management where directors give their companies high marks:

- Competitive pay and benefits: 93%
- Developing and retaining talent with requisite skill set: 85%
- Providing opportunities for high performers to interact with the board: 85%

Areas of talent management where companies could improve:

- Recruiting a diverse workforce: 61%
- Developing diverse executive talent: 55%

Q33: How would you rate the job your company does on the following aspects of talent management? Responses: Excellent or good
Base: 673-675
Directors downplay investor focus on environmental issues

Investors continue to urge companies to incorporate environmental issues into their long-term strategy. Institutional investors emphasize the role of sustainability in their policy guidelines. They point to major economic risks posed by a company not taking environmental issues into account. As a result, the level of support for shareholder proposals related to sustainability issues continues to grow year after year.

Yet directors don’t seem to be on the same page. Almost 30% think that shareholders focus too much attention on environmental and sustainability issues. Thirty-nine percent (39%) of directors say that climate change should not be taken into account at all when forming company strategy. And when asked what steps their company has taken to respond to environmental or sustainability risks, almost one-third (32%) say their company has taken no action at all.

Directors also don’t see the need for expertise in this area on their boards. More than half of directors (53%) think that environmental/sustainability expertise is not very or not at all important—making it the attribute directors value the least.

**Directors are not prioritizing environmental risk**

- **32%** say their companies have taken no action to respond to environmental/sustainability risks.
- **29%** say shareholders devote too much attention to environmental/sustainability issues.
- **39%** think climate change should not impact company strategy at all.
- **53%** say environmental/sustainability expertise is not very or not at all important to have on their board.

Q31: Has your company taken any of the following steps to respond to environmental/sustainability risks? (select all that apply); Q18: Do you feel that institutional investors devote too much attention, just the right amount of attention, or not enough attention to the following issues?; Q30: To what extent do you think your company should take the following social issues into account when forming company strategy?; Q1: How would you describe the importance of having the following skills, competencies or attributes on your board?

Base: 657; 696; 672; 712

Federal tax reform
Directors reflect on the effects of tax reform

Companies took a variety of actions in the wake of the Tax Cuts and Jobs Act, which passed in late 2017. Some announced one-time employee bonuses or increases in benefits. Many increased share buybacks. In fact, US companies are expected to buy back a record amount of shares in 2018.3 But what do directors say is still to come?

One-third of directors (33%) say their company is expecting to increase their capital investment as a result of federal tax reform, and 31% say they expect their company to increase mergers and acquisitions (M&A) activity.

But for the most part, directors say that the benefits to employees as a result of US tax reform have already arrived. Eighteen percent (18%) of directors say their company increased employee salaries or benefits, and 16% say they granted employee bonuses. But only about 10% say their company expects to take those actions in the future, and 66% or more say their company is not considering them. And while nearly a quarter (24%) say their company has or will increase hiring, 70% say increased hiring is not on the table.

These results identify a potential gap in communication between directors and the plans management has in process. For the outlook from management’s perspective, see PwC’s survey of US CEOs, COOs and CFOs on how they plan to use tax savings.

Most employee benefits from tax reform have already arrived

Q24: Based on the recent US federal tax reform (the Tax Cuts and Jobs Act of 2017), which actions has your company taken, or is expecting to take? Excludes “Don’t know” responses.

Base: 636-653

After watching numerous companies suffer significant economic and reputational damage as a result of cyber breaches, more directors and boards are engaged in overseeing preparation for, and efforts to prevent or mitigate the effects of, a cyberattack.

Ninety-five percent (95%) say that their board or company has taken steps to prepare for potential cybersecurity incidents. Two-thirds (67%) say their board receives increased reporting on cybersecurity metrics. More than half (57%) say that the resources or budget dedicated to cybersecurity has increased, and 56% say that third-party advisors have been engaged.

The percentage of directors saying that cyber risk expertise on their board is “very important” actually fell from 37% in 2016 to 23%. This could be a reflection of the increased reporting they receive and use of third-party advisors.

**Companies and boards prepare for cyberattacks**

- Increased reporting to the board on cybersecurity metrics: 67%
- Provided directors with additional educational opportunities on cybersecurity: 66%
- Increased resources/budget dedicated to cybersecurity: 57%
- Engaged third-party advisors: 56%

Q19: Which of the following steps has your company/board taken to prepare for potential cybersecurity incidents? (select all that apply)
Base: 694
Directors feel their companies are more prepared for cyber incidents

With the increased focus and attention on cybersecurity at the board level, directors report getting more education on the topic, and becoming more comfortable with their company’s efforts at preparedness.

Ninety percent (90%) are comfortable that their company has identified its most valuable and sensitive digital assets, up from 80% two years ago. More than four out of five directors (84%) say they are getting adequate reporting on cybersecurity metrics, versus 75% in 2016. Ninety-one percent (91%) also say they are comfortable that their company has identified the right executive responsible for cybersecurity, versus 81% in 2016.

But are companies really ready for a cyber crisis? While 84% of directors say they have discussed management’s plans to respond to a major crisis and 64% say their company has identified outside advisors, only 47% report their company has created a written escalation policy or agreement.

And board oversight of cybersecurity has become something of a “hot potato,” as many boards struggle with how to allocate that responsibility. In 2017, half of directors said that job fell to their board’s audit committee, but one year later, that figure fell to 43%. Thirty-six percent (36%) of directors now say that their full board has responsibility for oversight of cybersecurity, up from 30% just one year ago. Many boards are also shifting responsibility between committees. More than one-fifth (21%) of directors say their board moved oversight from one committee to another.

**Feeling more comfortable on cyber preparedness**

Directors responding that their company has:

- Adequately identified the executive responsible for cybersecurity: 91% (2018); 81% (2016)
- Identified its most valuable and sensitive digital assets: 90% (2018); 80% (2016)
- A comprehensive program to address data security and privacy: 90% (2018); 81% (2016)
- Adequately tested its resistance to cyberattacks: 85% (2018); 81% (2016)
- Provided the board with adequate reporting on cybersecurity metrics: 84% (2018); 75% (2016)
- Identified those parties who might attack the company’s digital assets: 76% (2018); 71% (2016)

Q21: How comfortable are you that your company has: Responses: Very comfortable or moderately comfortable
Base: 691-697 (2018); 820-821 (2016)
Sources: PwC, 2018 Annual Corporate Directors Survey, October 2018; PwC, 2016 Annual Corporate Directors Survey, October 2016.
IT and digital oversight continue to be a focus

Most boards are closely involved with major aspects of information technology (IT). More than four out of five directors (83%) say their board is very or moderately involved in monitoring the status of major IT projects. Close to 75% say the same about the company’s digital strategy.

With major security breaches involving data privacy, and new governmental regulations going into effect—such as the General Data Protection Regulation (GDPR)—many more directors also say they are engaged with overseeing or understanding big data. The percentage of directors saying their boards are at least moderately involved jumped to 65% from 51% in 2016.

Directors also report being much more involved in overseeing how their company leverages and monitors social media. Both of these areas have shown substantial increases since 2016.

**Getting a handle on IT and digital oversight**

What areas are boards most involved in?

<table>
<thead>
<tr>
<th>Area</th>
<th>2018</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of major IT project implementations</td>
<td>83%</td>
<td>84%</td>
</tr>
<tr>
<td>Annual IT budget</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>Relevant business intelligence/analytics (big data)</td>
<td>65%</td>
<td>51%</td>
</tr>
<tr>
<td>The company’s monitoring of social media for adverse publicity</td>
<td>54%</td>
<td>36%</td>
</tr>
<tr>
<td>The company’s leverage of social media</td>
<td>50%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Q23: How engaged is your board or its committees with overseeing/understanding the following? Responses: Very or moderately
Base: 694-698 (2018); 793-823 (2016)
Sources: PwC, 2018 Annual Corporate Directors Survey, October 2018; PwC, 2016 Annual Corporate Directors Survey, October 2016.
The evolving boardroom: Signs of change

The demands on directors continue to increase. Shareholders are looking for well-rounded and high-functioning boards, and activists target vulnerabilities in board composition. The demand to stay on top of new technologies, an increasingly interconnected world and a constantly changing business landscape means that every seat in the boardroom needs to be filled by someone who is genuinely contributing.

Against this backdrop, 45% of directors think at least one director on their board should be replaced. More than one in five (21%) think two or more directors should go.

**Board composition**

**Director underperformance a big concern**

The demands on directors continue to increase. Shareholders are looking for well-rounded and high-functioning boards, and activists target vulnerabilities in board composition. The demand to stay on top of new technologies, an increasingly interconnected world and a constantly changing business landscape means that every seat in the boardroom needs to be filled by someone who is genuinely contributing.

Against this backdrop, 45% of directors think at least one director on their board should be replaced. More than one in five (21%) think two or more directors should go.

**Directors: Are you measuring up? Your fellow directors may not think so.**

How many directors on your board should be replaced?

- One (24%)
- Two (16%)
- More than two (5%)
- None (55%)

Q6: In your opinion, how many directors on your board should be replaced?  
Base: 700  
Younger directors are more critical of their peers

Directors age 60 or under are more likely to say a fellow director should be replaced, compared to directors aged 61 or older (52% to 43%).

Directors have a number of specific concerns about the performance of their peers. The most common criticisms were that a fellow director was overstepping the boundaries of the oversight role, or was reluctant to challenge management. Almost half of directors had some negative feedback about their peers, and the percentage of directors voicing criticism was up slightly in almost every area we track.

**Director underperformance: behaviors that irk fellow directors**

- **18%** Oversteps the boundaries of his/her oversight role
- **16%** Reluctant to challenge management
- **14%** Interaction style negatively impacts board dynamics
- **12%** Lacks appropriate skills/expertise
- **10%** Advanced age has led to diminished performance

Q5: Do you believe any of the following about any of your fellow board members? (select all that apply)
Base: 688
Many directors realize that their board needs to be refreshed. But that’s often easier said than done. Institutional shareholders are urging boards to be more proactive in refreshing themselves—to replace directors who are long-serving or less relevant to the company’s current needs. Imposing director term limits and mandatory retirement ages can be a straightforward way to make this happen—but they may also mean forcing out directors who are still key contributors to the board.

Director retirement policies are common in the S&P 500, where 73% of boards have adopted mandatory retirement ages. Nearly all of these boards (96%) set that retirement age at 72 or higher—a percentage that has been creeping up over the past decade.4

Almost three-quarters (73%) of directors believe that director retirement ages are effective in promoting board refreshment. And 21% say their board already has a retirement age of 72 or younger. But more than half (56%) doubt their board would be willing to set such a policy.

Director term limits are much less common. They’ve been adopted at only 5% of S&P 500 company boards, and most are set at 15 years or more.5 Almost two-thirds of directors (64%) think that term limits are effective at promoting board refreshment. Yet almost three-quarters (74%) say their board would not be willing to set term limits of 12 years or less.

What changes do directors think their boards would be willing to make to drive board refreshment? Individual director assessments stand out. Thirty-one percent (31%) of directors say their board already conducts them, and another 46% think their board would be willing to adopt them.

“Investors sense that boards haven’t been very effective in moving underperforming directors off the board. There’s too much complacency, too much lengthy tenure.”

— Ken Bertsch, Executive Director of the Council of Institutional Investors6

**Board refreshment drivers—theory vs. practice**

- **64%** of directors say **director term limits** are effective, but **74%** say their board would **not adopt** term limits of 12 years or less
- **73%** of directors say **mandatory retirement age policies** are effective, but **56%** say their board would **not adopt** a retirement age of 72 or younger

Q3: In your opinion, how effective are the following practices at promoting board refreshment? Responses: Very effective or somewhat effective

Q4: Do you think your board would be willing to institute any of the following policies? Director term limits of 12 years or less; Mandatory retirement age of 72 or younger (8% say their board already has such term limits, and 21% already have a mandatory retirement age of 72 or younger).

Base: 700-709; 712-713

Boards are under pressure from investors and others to show a commitment to board refreshment. Here’s where boards can start:

• **Take action on board assessments.** A board’s annual performance assessment should help spark discussions about board composition. If your board isn’t conducting individual assessments of directors, give it some serious consideration. The process can identify directors who may be underperforming or whose skills may no longer match the company’s needs. Look to the board chair or lead director, and the chair of the nominating and governance committee, to have the difficult conversations when changes are needed.

• **Take a strategic approach to board succession planning.** Long-term board succession planning is essential to promoting board refreshment. In this process, it’s important to think about the current state of the board, the tenure of current directors and the company’s future needs. Boards should identify possible director candidates based on anticipated turnover and expected director retirements.

• **Broaden the definition of diversity and the pool of potential director candidates.** Often, boards recruit directors by asking other sitting directors for recommendations. This can create a small and insular candidate pool. Forward-looking boards expand the universe of potential qualified candidates by looking outside of the C-suite, and even considering investor recommendations. They may also look for candidates outside the corporate world—from the military, academia and large non-profits. This will provide a broader pool of individuals with more diverse backgrounds.

For more information, read our paper *Board composition: Key trends and developments.*

**PwC perspective**

Three ways to drive board refreshment

**Directors over the age of 65 are much more likely to say that their board would be against adopting age limits.**

70% say their board would not be willing to adopt age limits of 72 or younger, versus only 44% of directors age 65 or under.
Many institutional shareholders have been discussing the need for, and benefits of, diverse boards for years, and they’re backing up their words with action. They are updating their proxy voting policies, talking with companies about their concerns, and even voting against directors whose boards fail to promote diversity—as described on page 20.

Today, most directors think that diversity in the boardroom brings value. Ninety-four percent (94%) agree that diversity brings unique perspectives to the boardroom, and 84% think that it enhances board performance. More than four out of five (81%) also think that it improves relationships with investors.

**Board diversity brings benefits—and some cynicism**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Brings unique perspectives to the boardroom</td>
<td>94%</td>
</tr>
<tr>
<td>Enhances board performance</td>
<td>84%</td>
</tr>
<tr>
<td>Improves relationships with investors</td>
<td>81%</td>
</tr>
<tr>
<td>Enhances company performance</td>
<td>72%</td>
</tr>
<tr>
<td>Improves strategy/risk oversight</td>
<td>72%</td>
</tr>
<tr>
<td>Board diversity efforts are driven by political correctness</td>
<td>52%</td>
</tr>
<tr>
<td>Shareholders are too preoccupied with board diversity</td>
<td>48%</td>
</tr>
<tr>
<td>Results in boards nominating additional unneeded candidates</td>
<td>30%</td>
</tr>
<tr>
<td>Results in boards nominating unqualified candidates</td>
<td>26%</td>
</tr>
</tbody>
</table>

Q7: To what extent do you agree with the following about board diversity? Responses: Strongly agree or somewhat agree

Base: 706-713

Directors particularly value gender diversity. When we asked what attributes were important to their boards, 46% of directors ranked gender diversity as being very important—the highest figure since we first asked the question in 2012.

**Gender diversity grows in importance**

(\% responding that gender diversity is very important)

Q1: How would you describe the importance of having the following skills, competencies or attributes on your board: Gender diversity

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>25%</td>
<td>27%</td>
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</tr>
<tr>
<td>2013</td>
<td></td>
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<td>37%</td>
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<td>2014</td>
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<td>39%</td>
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<tr>
<td>2015</td>
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<td></td>
<td></td>
<td>41%</td>
<td></td>
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<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>46%</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


And more say their boards are taking steps to increase diversity. Ninety-one percent (91\%) say their boards have taken some steps—up four points over last year.

But do they feel forced into making their board more diverse? More than half (52\%) say that board diversity efforts are driven by political correctness. And nearly half of directors (48\%) say that shareholders are too preoccupied with the topic.

**Younger directors are significantly less likely to think that shareholders are too preoccupied with diversity.**

More than half (52\%) of directors over age 60 think so, compared to only 38\% of those 60 or under.
## Investor developments on board diversity

<table>
<thead>
<tr>
<th>Investor</th>
<th>Actions</th>
</tr>
</thead>
</table>
| **BlackRock**                   | • Sent letters in February 2018 to all Russell 1000 companies that have fewer than two female directors on their board, asking them to explain their board diversity efforts and long term strategy.\(^7\)  
• Voted against directors at five companies in 2017 for failing to address investor concerns related to board diversity.\(^8\) |
| **Vanguard**                    | • Stated in August 2017 that gender diversity on boards would be a focus in the next few years. Cited research indicating boards with “a critical mass” of women perform better than those without.\(^9\) |
| **State Street Global Advisors (SSGA)** | • Voted against directors at 581 companies around the world in 2018 that had no female board members.\(^10\)  
• Stated that they will expect portfolio companies to detail and disclose gender diversity not only at the board level, but also across all levels of management for transparency into the development pipeline.\(^11\) |
| **New York City Pension Funds** | • Sent letters to 151 companies in fall of 2017 asking them to publicly disclose the skills, race and gender of board members in a matrix format, as well as their process for refreshing the board.\(^12\) |
| **California Public Employees’ Retirement System (CalPERS)** | • Sent letters to 504 companies in August 2017 that they believed lacked sufficient gender diversity.  
• Withheld votes from 271 directors at 85 companies in 2018 that had not improved diversity on their boards.\(^13\) |
| **California State Teachers’ Retirement System (CalSTRS)** | • Announced that it will now hold the entire board accountable—not just the nominating and governance committee—if board diversity is found to be lacking.\(^14\) |
Younger directors: not a high priority

The average age of independent directors in the S&P 500 is 63, up from 61 in 2007. And only 6% of directors in the S&P 500 are age 50 or younger. Yet many directors seem okay with the current state of affairs.

When asked what kinds of diversity are very important to have on their boards, age diversity lagged far behind gender diversity and racial diversity. Only 21% of directors say age diversity is very important on boards, compared to 46% for gender and 34% for racial diversity.

**Directors place less value on age diversity**
Fewer directors describe age diversity as “very important” compared to gender or racial/ethnic diversity

And directors are not all in favor of bringing on younger board members. Almost half (45%) say they have some concerns about adding younger directors (50 or under) to their board. Topping the list were concerns about insufficient time and insufficient career experience.

**Directors have doubts about younger directors**

Q9: Do you have any of the following concerns about adding younger directors (age 50 or younger) to your board? (select all that apply)
Base: 703
The oldest directors taking our survey, those aged 76 or above, are actually the least likely to voice concerns about adding younger directors. 

70% say they have no concerns at all, compared to 46% of all other directors.

PwC perspective
Consider age diversity

Boards are always looking for the right balance. Older directors have the benefit of decades of work experience, and possibly 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.

We recommend that you take stock of your board’s age diversity, to see if it might be time to add a younger director to your board.

• 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 a range of diversity of thought?
• Could younger directors bring some needed change to the boardroom?

For more about younger directors, read Board composition: Consider the value of younger directors on your board; PwC’s Census of Directors 50 and Under.
Shareholder engagement continues to be on the rise, and for many boards, having directors involved in those conversations has become commonplace. Almost half (49%) of directors say a member of their board (other than the CEO) engaged directly with investors in the past year—up seven percentage points from 2017.

As the practice has become more common, directors have fewer concerns than just a few years ago. Only 19% very much agree that there is too much of a risk of disclosing non-public information and violating Regulation FD (Fair Disclosure)—down from 42% four years ago. Only 6% very much agree directors don’t have time to meet with investors—down from 19% who said the same in 2014. And only 13% very much agree that it is not appropriate to engage with investors on any topic, down from 22% in 2014.

However, directors still report some concerns. Close to half (49%) very much agree that investors have a special agenda, and 43% very much agree that director involvement in shareholder engagement poses too great a risk of mixed messages.

Q17: To what extent do you agree with the following regarding director/shareholder communications? Response: Very much  
Base: 692-702 (2018); 749-764 (2014)  
*In 2014 the option read “There is adequate time in a director’s schedule;” this represents the percentage of directors responding “not at all.”
Using performance assessments to highlight the board’s needs

The board’s assessment process, whether focused on individuals, committees or the board as a whole, can provide valuable insights about how to make the board more effective.

Sixty-six percent (66%) of directors say they made some type of change as a result of their last assessment process. One-third (33%) say that their last assessment process led to the addition of new expertise to their board. And 19% say that they diversified the board as a result of the assessments. This could be because they are better able to identify the attributes and skills that the board needs.

In some cases, the assessment process is a way to identify underperforming directors on the board. About one in six directors say that a director was not re-nominated (15%) or was provided with counsel (13%) as a result of the process.

Using board assessments to find gaps

- **33%** Added additional expertise to the board
- **27%** Changed composition of board committees
- **19%** Diversified the board
- **15%** Did not re-nominate a director
- **13%** Provided counsel to one or more board members

Q13: In response to the results of your last board/committee assessment process, did your board/committee decide to make any of the following changes? (select all that apply)
Base: 703

PwC perspective

Getting the most out of your board assessment process

Board assessments, whether done individually, by committee or by the full board, can be valuable. But only when they are viewed as more than a compliance exercise. Boards struggling to get actionable results from their assessments may find that redefining the process to focus on continuous improvement provides real value. Here are five key actions to ramp up the board’s next annual assessment:

- **Focus on leadership.** Board leadership is critical to making changes happen. Without a strong leader, it doesn’t matter how meaningful your assessment process is.

- **Change the endgame.** Better results come from making the assessment process an ongoing exercise with the goal of continuous improvement. But early buy-in from all directors on the process is critical.

- **Address the elephant in the room.** Boards that have frank discussions about what is holding back their performance can excel. Sometimes a periodic independent perspective can help.

- **Take action to get real results.** Effective boards are disciplined about identifying and holding themselves accountable for action items coming out of the assessment. They also integrate assessment results into their board succession plan.

- **Give investors greater insights.** Provide stakeholders with a greater understanding of the process by enhancing the board’s disclosures around its assessments. Transparency can pay dividends, especially during shareholder engagement on the topic.

For more, read *Beyond “check the box”: Getting real value from board assessments.*
Getting on board with director education

Shareholders and other stakeholders expect boards to demonstrate knowledge about a broad range of issues. But the world changes quickly and directors need to keep up, so boards commonly look to continuing education opportunities to fill the gaps.

The vast majority of directors (90%) say their board received some form of continuing education over the past year. The most common topics were cybersecurity (72%), the impact of tax reform (57%) and the impact of new accounting standards (57%). Many boards are also hearing about issues like shareholder activism and the corporate governance concerns of major shareholders.

Ongoing director education is so key to board service that in addition to the 17% who report that their boards already mandate continuing education, 43% of directors think their boards would be willing to do so.

Director education covers a range of topics

Q12. In the last 12 months, has your board received continuing education on any of the following topics? (select all that apply)

Base: 702
The number of women directors on public company boards has been growing over the years, particularly as institutional investors have put a spotlight on gender diversity. Women directors hold 22% of the seats in the S&P 500, compared to 16% a decade ago. Today, 99% of S&P 500 boards have at least one woman director, and 80% have two or more women directors.

As women are filling more seats in boardrooms, they may be changing the conversation. In our survey, we found that male and female directors have very different perspectives in a number of areas, including corporate culture, social issues and talent management, as well as on the topic of board diversity itself.

Corporate culture

Percentage “strongly agreeing” that the following factors contribute to problems with culture:

- Tone set by executive team: 82% (Female), 66% (Male)
- Tone set by middle management: 66% (Female), 59% (Male)
- Excessive focus on short-term results: 42% (Female), 30% (Male)
- Compensation plans driving bad behavior or undesired outcomes: 44% (Female), 35% (Male)

Female directors are more likely to strongly agree that culture problems are created by management’s tone, compensation plans and an excessive short-term focus.

Talent management

Percentage rating the job their company does as “fair” or “poor” in the following areas:

- Developing diverse executive talent: 62% (Female), 41% (Male)
- Recruiting a diverse workforce: 51% (Female), 36% (Male)
- C-suite succession planning: 34% (Female), 21% (Male)
- Middle management succession planning: 31% (Female), 24% (Male)

Female directors are more critical than male directors of the job their companies do at developing workforce and executive-level diversity, and at succession planning.
Social issues

Percentage saying shareholders devote too much attention to:

<table>
<thead>
<tr>
<th>Social Issue</th>
<th>Male Directors</th>
<th>Female Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay inequality</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>Corporate social responsibility</td>
<td>16%</td>
<td>33%</td>
</tr>
<tr>
<td>Environment</td>
<td>14%</td>
<td>33%</td>
</tr>
<tr>
<td>Board gender diversity</td>
<td>11%</td>
<td>40%</td>
</tr>
<tr>
<td>Board racial/ethnic diversity</td>
<td>9%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Q18: Do you feel that institutional investors devote too much attention, just the right amount of attention or not enough attention to the following issues? Responses: Strongly agree or somewhat agree
Base: 651-656

Percentage saying the company should “very much” take the following social issue into account when forming company strategy:

<table>
<thead>
<tr>
<th>Social Issue</th>
<th>Male Directors</th>
<th>Female Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource scarcity</td>
<td>28%</td>
<td>38%</td>
</tr>
<tr>
<td>Human rights</td>
<td>25%</td>
<td>38%</td>
</tr>
<tr>
<td>Climate change</td>
<td>13%</td>
<td>27%</td>
</tr>
<tr>
<td>Income inequality</td>
<td>14%</td>
<td>22%</td>
</tr>
<tr>
<td>Social movements</td>
<td>5%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Q30: To what extent do you think your company should take the following social issues into account when forming company strategy?
Base: 648-656
Board diversity

Percentage saying that diversity is “very important” on their board:

- **Gender diversity**: 67% (41% male, 67% female)
- **Racial/ethnic diversity**: 50% (31% male, 50% female)
- **Age diversity**: 30% (19% male, 30% female)

Q1: How would you describe the importance of having the following skills, competencies or attributes on your board?
Base: 673-676

Percentage “somewhat agreeing” or “strongly agreeing” with the following statements about board diversity:

- **Driven by political correctness**: 58% (27% male, 58% female)
- **Shareholders are too preoccupied with board diversity**: 54% (20% male, 54% female)
- **Results in nominating additional unneeded candidates**: 34% (15% male, 34% female)
- **Results in nominating unqualified candidates**: 30% (9% male, 30% female)

Q7: To what extent do you agree with the following about board diversity?
Base: 670-671
**Board diversity (cont.)**

Percentage “strongly agreeing” that diversity:

- Brings unique perspectives: 83%
- Enhances board performance: 73%
- Improves strategy/risk oversight: 57%
- Enhances company performance: 53%

Q7: To what extent do you agree with the following about board diversity?
Base: 671-677

Female directors are much more likely than men to “strongly agree” with a range of benefits board diversity brings to both the board and the company.

Percentage indicating the following concerns with adding younger directors:

- Insufficient time: 34%
- Insufficient career experience: 33%
- Don’t understand the nature of board service: 22%
- Wouldn’t fit into board culture: 21%
- No concerns: 43%

Q9: Do you have any of the following concerns about adding younger directors (age 50 or younger) to your board? (select all that apply)
Base: 667

When it comes to adding younger directors (age 50 or under) to boards, female directors are more likely to have concerns.
Appendix: complete survey findings

Note: Due to rounding, some charts may not add to 100%

Board composition and diversity

1. How would you describe the importance of having the following skills, competencies or attributes on your board?

<table>
<thead>
<tr>
<th>Skill/Attribute</th>
<th>Very important</th>
<th>Somewhat important</th>
<th>Not very/not at all important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial expertise</td>
<td>92%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Operational expertise</td>
<td>59%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Industry expertise</td>
<td>49%</td>
<td>43%</td>
<td>8%</td>
</tr>
<tr>
<td>Risk management expertise</td>
<td>48%</td>
<td>47%</td>
<td>5%</td>
</tr>
<tr>
<td>Gender diversity</td>
<td>46%</td>
<td>38%</td>
<td>16%</td>
</tr>
<tr>
<td>Racial/ethnic diversity</td>
<td>34%</td>
<td>44%</td>
<td>22%</td>
</tr>
<tr>
<td>Cyber risk expertise</td>
<td>23%</td>
<td>62%</td>
<td>14%</td>
</tr>
<tr>
<td>International expertise</td>
<td>22%</td>
<td>41%</td>
<td>37%</td>
</tr>
<tr>
<td>Age diversity</td>
<td>21%</td>
<td>50%</td>
<td>30%</td>
</tr>
<tr>
<td>IT/digital expertise</td>
<td>19%</td>
<td>58%</td>
<td>23%</td>
</tr>
<tr>
<td>Marketing expertise</td>
<td>15%</td>
<td>50%</td>
<td>35%</td>
</tr>
<tr>
<td>Environmental/sustainability</td>
<td>6%</td>
<td>41%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Base: 706-714

2. How does your board use a skills matrix to identify gaps, if any, in board composition and skills? (select all that apply)

- We use a skills matrix in our nominating/governance committee discussions
  - 70%
- Our entire board reviews a skills matrix
  - 48%
- We disclose a skills matrix in our proxy statement
  - 40%
- We do not use any type of skills matrix
  - 16%

Base: 693

3. In your opinion, how effective are the following practices at promoting board refreshment?

<table>
<thead>
<tr>
<th>Practice</th>
<th>Very effective</th>
<th>Somewhat effective</th>
<th>Not very/not at all effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong focus on refreshment from board chair or lead director</td>
<td>42%</td>
<td>43%</td>
<td>15%</td>
</tr>
<tr>
<td>Full board/committee assessments</td>
<td>36%</td>
<td>41%</td>
<td>23%</td>
</tr>
<tr>
<td>Individual director assessments</td>
<td>35%</td>
<td>42%</td>
<td>23%</td>
</tr>
<tr>
<td>Mandatory director retirement age</td>
<td>32%</td>
<td>41%</td>
<td>27%</td>
</tr>
<tr>
<td>Director term limits</td>
<td>25%</td>
<td>39%</td>
<td>35%</td>
</tr>
<tr>
<td>Seeking input from investors about board composition</td>
<td>35%</td>
<td>31%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Base: 700-711

4. Do you think your board would be willing to institute any of the following policies?

- Individual director assessments
  - 31% Yes
  - 46% No
  - 43% Already have

- Mandatory continuing education requirement
  - 17% Yes
  - 43% No
  - 41% Already have

- Mandatory committee chair rotation
  - 13% Yes
  - 39% No
  - 48% Already have

- Director term limits of 12 years or less
  - 3% Yes
  - 74% No
  - 22% Already have

- Mandatory retirement age of 72 or younger
  - 56% Yes
  - 23% No
  - 21% Already have

Base: 705-713
5. Do you believe any of the following about any of your fellow board members? (select all that apply)

- Oversteps the boundaries of his/her oversight role: 18%
- Reluctant to challenge management: 16%
- Interaction style negatively impacts board dynamics (e.g., style/culture/fit): 14%
- Lacks appropriate skills/expertise: 12%
- Advanced age has led to diminished performance: 10%
- Board service largely driven by director fees: 8%
- Consistently unprepared for meetings: 3%
- Serves on too many boards: 7%
- None of the above apply: 53%

Base: 688

6. In your opinion, how many directors on your board should be replaced? (select one)

- One: 24%
- Two: 16%
- More than two: 16%
- None: 5%

Base: 700

7. To what extent do you agree with the following about board diversity?

- Brings unique perspectives to the boardroom: 58% Strongly agree 36% Somewhat agree 4% Somewhat disagree 2% Strongly disagree
- Enhances board performance: 47% Strongly agree 37% Somewhat agree 3% Somewhat disagree 13% Strongly disagree
- Improves relationships with investors: 31% Strongly agree 50% Somewhat agree 16% Somewhat disagree 3% Strongly disagree
- Improves strategy/risk oversight: 29% Strongly agree 44% Somewhat agree 23% Somewhat disagree 5% Strongly disagree
- Enhances company performance: 18% Strongly agree 34% Somewhat agree 20% Somewhat disagree 28% Strongly disagree
- Board diversity efforts are driven by political correctness: 15% Strongly agree 33% Somewhat agree 32% Somewhat disagree 20% Strongly disagree
- Shareholders are too preoccupied with board diversity: 7% Strongly agree 19% Somewhat agree 32% Somewhat disagree 42% Strongly disagree
- Results in boards nominating unqualified candidates: 6% Strongly agree 24% Somewhat agree 30% Somewhat disagree 39% Strongly disagree

Base: 706-713

8. What steps has your board taken to increase its diversity? (select all that apply)

- Prioritized diversity as a critical criterion for search firms: 63%
- Nominated a director with no prior public company board experience: 45%
- Recruited from outside the C-suite: 42%
- Identified and mentored potential director candidates: 16%
- Sought director recommendations from shareholders: 7%
- Other action not listed above: 6%
- We have taken no action to increase our board’s diversity: 9%

Base: 706

9. Do you have any of the following concerns about adding younger directors (age 50 or younger) to your board? (select all that apply)

- Insufficient time to devote to board service: 29%
- Insufficient career experience: 24%
- Don’t understand the nature of board service: 14%
- No concerns: 55%

Note: Less than 5% of directors responded “Wouldn’t fit into board culture,” “Would want to institute too many changes” and “Other concerns.”

Base: 703
10. For which of the following reasons would you consider adding younger directors (age 50 or younger) to your board? (select all that apply)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Agree</th>
<th>Somewhat Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve understanding of emerging technologies</td>
<td>73%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part of board succession planning</td>
<td>57%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve oversight of cyber/IT/digital issues</td>
<td>51%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve understanding of consumer trends</td>
<td>47%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our board needs more age diversity</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhance relationships with shareholders</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other reasons</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 2% of directors responded “Would not consider adding younger directors.”

Base: 703

11. To what extent do you agree that public company board service, in general, is driven by the following?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Strongly Agree</th>
<th>Somewhat Agree</th>
<th>Not Very/Not at All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectual stimulation</td>
<td>71%</td>
<td>26%</td>
<td>3%</td>
</tr>
<tr>
<td>Desire to stay connected to the corporate world</td>
<td>63%</td>
<td>34%</td>
<td>3%</td>
</tr>
<tr>
<td>A sense of being needed to help the company succeed</td>
<td>53%</td>
<td>49%</td>
<td>16%</td>
</tr>
<tr>
<td>Desire to serve investors</td>
<td>49%</td>
<td>42%</td>
<td>16%</td>
</tr>
<tr>
<td>Camaraderie of the boardroom</td>
<td>47%</td>
<td>43%</td>
<td>16%</td>
</tr>
<tr>
<td>Prestige</td>
<td>58%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Compensation</td>
<td>49%</td>
<td>43%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Note: 3% of directors responded “Neither agree nor disagree.”

Base: 707-710

12. In the last 12 months, has your board received continuing education on any of the following topics? (select all that apply)

<table>
<thead>
<tr>
<th>Topic</th>
<th>Agree</th>
<th>Somewhat Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cybersecurity</td>
<td>72%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact of new accounting standards</td>
<td>57%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implications of tax reform on your company</td>
<td>57%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholder activism</td>
<td>48%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance concerns of major investors</td>
<td>42%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trends in digital/IT</td>
<td>33%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental/sustainability issues</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other issues not listed</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have not received any continuing education</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 2% of directors responded “Would not consider adding younger directors.”

Base: 702

13. In response to the results of your last board/committee assessment process, did your board/committee decide to make any of the following changes? (select all that apply)

<table>
<thead>
<tr>
<th>Change</th>
<th>Agree</th>
<th>Somewhat Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add additional expertise to the board</td>
<td>33%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change composition of board committees</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversify the board</td>
<td>16%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not re-nominate a director</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide counsel to one or more board members</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 4% of directors responded “Other.”

Base: 703

14. How effective is your board leadership (chair/lead director) at the following?

<table>
<thead>
<tr>
<th>Task</th>
<th>Very Effective</th>
<th>Somewhat Effective</th>
<th>Not Very/Not at All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conducting meetings effectively and efficiently</td>
<td>72%</td>
<td>24%</td>
<td>4%</td>
</tr>
<tr>
<td>Obtaining board consensus</td>
<td>71%</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>Providing counsel to the CEO</td>
<td>68%</td>
<td>26%</td>
<td>6%</td>
</tr>
<tr>
<td>Considering individual director views</td>
<td>67%</td>
<td>26%</td>
<td>7%</td>
</tr>
<tr>
<td>Challenging the CEO when necessary</td>
<td>66%</td>
<td>28%</td>
<td>7%</td>
</tr>
<tr>
<td>Communicating with shareholders</td>
<td>36%</td>
<td>44%</td>
<td>20%</td>
</tr>
<tr>
<td>Dealing with underperforming directors</td>
<td>30%</td>
<td>46%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Note: 4% of directors responded “Other.”

Base: 666-708
15. Which of the following changes would you like to see management make to their board presentations/materials? (select all that apply)

Reduce volume/use more executive summaries 44%
Send out materials earlier 41%
Be more strategic and forward-looking 30%
Be more willing to talk about challenges and discuss failures 29%
Provide opportunities to hear from more members of management 28%
Provide more insights/commentary beyond what is in the materials 26%
Provide more time for Q&A 26%
Minimize reliance on slides during presentations (less “presentation by PowerPoint”) 22%
More relevant presentations 11%
More polished presentations 5%
No changes are needed 14%

Base: 708

16. Has a member of your board (other than the CEO) had direct engagement with investors within the past 12 months?

Base: 707

17. To what extent do you agree with the following regarding director/shareholder communications?

Investors seeking direct communications with the board often have a special agenda 49% 43% 8%
Too great a risk of mixed messages (different people speaking on behalf of the company) 43% 41% 16%
Poses risk of questions the director can’t answer 24% 48% 28%
Too much of a risk of violating Regulation fair disclosure (FD) 19% 50% 31%
It is not appropriate to engage directly with investors on any subject 13% 33% 54%
There is inadequate time in a director’s schedule 6% 34% 61%

Very much Somewhat Not at all

Base: 692-702

18. Do you feel that institutional investors devote too much attention, just the right amount of attention or not enough attention to the following issues?

<table>
<thead>
<tr>
<th>Issue</th>
<th>Too much (%)</th>
<th>Right amount (%)</th>
<th>Not enough (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term stock performance</td>
<td>35%</td>
<td>57%</td>
<td>8%</td>
</tr>
<tr>
<td>Board gender diversity</td>
<td>35%</td>
<td>57%</td>
<td>8%</td>
</tr>
<tr>
<td>Board racial/ethnic diversity</td>
<td>33%</td>
<td>56%</td>
<td>11%</td>
</tr>
<tr>
<td>Corporate social responsibility</td>
<td>29%</td>
<td>61%</td>
<td>9%</td>
</tr>
<tr>
<td>Environmental/sustainability issues</td>
<td>29%</td>
<td>60%</td>
<td>10%</td>
</tr>
<tr>
<td>Pay inequality</td>
<td>29%</td>
<td>58%</td>
<td>14%</td>
</tr>
<tr>
<td>Executive compensation</td>
<td>27%</td>
<td>58%</td>
<td>14%</td>
</tr>
<tr>
<td>Capital allocation</td>
<td>22%</td>
<td>72%</td>
<td>6%</td>
</tr>
<tr>
<td>Long-term stock performance</td>
<td>56%</td>
<td>41%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Too much Right amount Not enough

Base: 696-701
Cybersecurity, IT and digital

19. Which of the following steps has your company/board taken to prepare for potential cybersecurity incidents? (select all that apply)

- Increased reporting to the board on cybersecurity metrics: 67%
- Provided directors with additional educational opportunities on cybersecurity: 66%
- Increased resources/budget dedicated to cybersecurity: 57%
- Engaged third-party advisors: 56%
- Staged crisis management drills/simulations: 34%
- Added a board member with IT/cyber expertise: 23%
- Moved cybersecurity oversight from one board committee to another: 21%
- Moved cybersecurity oversight from a committee to the full board: 12%
- Moved cybersecurity oversight from the full board to a committee: 11%
- None of the above: 5%

Note: 2% of directors responded “Other.”

Base: 694

20. How often do board members communicate with the company’s chief information officer (CIO) and/or the company’s chief information security officer (CISO)?

- CIO: At least twice annually: 32%
- At every formal meeting: 25%
- At least once annually: 19%
- Both at every formal meeting and between meetings: 10%
- Not at all: 7%
- We do not have this position: 6%

- CISO: At least twice annually: 23%
- At every formal meeting: 15%
- At least once annually: 17%
- Both at every formal meeting and between meetings: 10%
- Not at all: 11%
- We do not have this position: 25%

Note: 1-3% of directors responded “Don’t know.”

Base: 645-725

21. How comfortable are you that your company:

- Has adequately identified the executive responsible for cybersecurity: 9%
- Is staying current on cybersecurity defenses (e.g., installing patches and other fixes): 11%
- Has sufficiently considered recent SEC guidance on cybersecurity disclosure: 15%
- Has identified its most valuable and sensitive digital assets: 10%
- Provides the board with adequate reporting on cybersecurity metrics: 10%
- Has a comprehensive program to address data security and privacy: 17%
- Has adequately tested its resistance to cyberattacks: 11%
- Has adequately tested cyber incident response plans: 15%
- Has identified those parties who might attack the company’s digital assets: 21%
- Has sufficiently considered recent SEC guidance on cybersecurity disclosure: 9%

Very comfortable Moderately comfortable Not sufficiently/not at all comfortable

Base: 691-697

22. Who on the board currently has primary responsibility for the oversight of cybersecurity and IT/digital?

Cybersecurity
- The audit committee: 43%
- The full board: 36%
- A separate risk committee: 12%
- No specific allocation of responsibility: 5%
- A separate IT/digital committee: 4%

IT/Digital
- The audit committee: 38%
- The full board: 37%
- A separate risk committee: 10%
- No specific allocation of responsibility: 10%
- A separate IT/digital committee: 5%

Note: 2% of directors responded “Other.”

Base: 694-743
23. How engaged is your board or its committees with overseeing/understanding the following?

<table>
<thead>
<tr>
<th>Category</th>
<th>Very</th>
<th>Moderately</th>
<th>Not sufficiently/not at all</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of major IT project implementations</td>
<td>1%</td>
<td>32%</td>
<td>51%</td>
<td>16%</td>
</tr>
<tr>
<td>The company’s digital strategy</td>
<td>2%</td>
<td>27%</td>
<td>46%</td>
<td>25%</td>
</tr>
<tr>
<td>Cybersecurity budget</td>
<td>2%</td>
<td>16%</td>
<td>52%</td>
<td>30%</td>
</tr>
<tr>
<td>Annual IT budget</td>
<td>2%</td>
<td>15%</td>
<td>55%</td>
<td>29%</td>
</tr>
<tr>
<td>Relevant business intelligence/analytics (big data)</td>
<td>3%</td>
<td>10%</td>
<td>44%</td>
<td>41% 5%</td>
</tr>
<tr>
<td>The company’s monitoring of social media for adverse publicity</td>
<td>6%</td>
<td>27%</td>
<td>46%</td>
<td>25%</td>
</tr>
<tr>
<td>The company’s leverage of social media</td>
<td>6%</td>
<td>4%</td>
<td>41%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Base: 694-698

### Strategy and risk

24. Based on the recent US federal tax reform (the Tax Cuts and Jobs Act of 2017), which actions has your company taken, or is expecting to take?

<table>
<thead>
<tr>
<th>Action</th>
<th>Has taken</th>
<th>Expect to take</th>
<th>Not considering</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing employee salary and/or benefits</td>
<td>16%</td>
<td>66%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>Granting employee bonuses</td>
<td>10%</td>
<td>70%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Increasing share buybacks</td>
<td>16%</td>
<td>23%</td>
<td>58%</td>
<td>4%</td>
</tr>
<tr>
<td>Increasing quarterly dividends</td>
<td>16%</td>
<td>18%</td>
<td>62%</td>
<td>4%</td>
</tr>
<tr>
<td>Increasing capital investments</td>
<td>15%</td>
<td>33%</td>
<td>47%</td>
<td>5%</td>
</tr>
<tr>
<td>Paying down company debt</td>
<td>15%</td>
<td>24%</td>
<td>57%</td>
<td>5%</td>
</tr>
<tr>
<td>Increasing M&amp;A activity</td>
<td>9%</td>
<td>31%</td>
<td>54%</td>
<td>6%</td>
</tr>
<tr>
<td>Increasing hiring</td>
<td>6%</td>
<td>18%</td>
<td>70%</td>
<td>6%</td>
</tr>
<tr>
<td>Issuing a special dividend</td>
<td>1%</td>
<td>2%</td>
<td>92%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Base: 636-653

25. Several high-profile companies’ reputations have been damaged recently by what could be called failures in their corporate culture. Has your company taken any of the following actions to address corporate culture? (select all that apply)

- Enhanced employee development/training programs 60%
- Focused on or improved whistleblower programs 42%
- Conducted a broad-based employee culture assessment 32%
- Increased board-level reporting of culture metrics 29%
- Reviewed and/or amended crisis management plan 21%
- Implemented a culture/engagement component to the strategic plan 19%
- Revised compensation plans 17%
- Brought in an outside expert to advise on corporate culture 9%
- We have not taken any action 19%

Note: 4% of directors responded “Other.”

Base: 675
26. To what extent do you agree or disagree that the following factors contribute to problems with corporate culture?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tone set by the executive team</td>
<td>69%</td>
<td>18%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Tone set by middle management</td>
<td>45%</td>
<td>34%</td>
<td>14%</td>
<td>6%</td>
</tr>
<tr>
<td>Excessive focus on short-term results</td>
<td>41%</td>
<td>19%</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Lack of communication/transparency from management</td>
<td>39%</td>
<td>22%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Compensation plans driving bad behavior or undesired outcomes</td>
<td>42%</td>
<td>23%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Rapid spread of information on social media</td>
<td>44%</td>
<td>26%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Insufficient board oversight</td>
<td>45%</td>
<td>27%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Decline of professionalism in the corporate environment</td>
<td>40%</td>
<td>40%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Excessive media focus</td>
<td>40%</td>
<td>16%</td>
<td>16%</td>
<td>16%</td>
</tr>
</tbody>
</table>

27. Which of the following do you use to evaluate your company’s corporate culture? (select all that apply)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intuition/gut feeling from interacting with management</td>
<td>64%</td>
</tr>
<tr>
<td>Employee engagement survey results</td>
<td>64%</td>
</tr>
<tr>
<td>Employee turnover statistics</td>
<td>63%</td>
</tr>
<tr>
<td>Exit interview debriefs</td>
<td>63%</td>
</tr>
<tr>
<td>Attrition rate of high performers versus total attrition</td>
<td>47%</td>
</tr>
<tr>
<td>Code of conduct training results</td>
<td>46%</td>
</tr>
<tr>
<td>Customer service/satisfaction survey results</td>
<td>41%</td>
</tr>
<tr>
<td>360° feedback results for executives</td>
<td>35%</td>
</tr>
<tr>
<td>Number of customer complaints/trends</td>
<td>35%</td>
</tr>
<tr>
<td>Summary of external press</td>
<td>30%</td>
</tr>
<tr>
<td>Summary of social media comments</td>
<td>14%</td>
</tr>
<tr>
<td>Summary of social media comments</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

28. In your opinion, which of the following three metrics are, or would be, most useful in assessing company culture? (select three)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee engagement survey results</td>
<td>71%</td>
</tr>
<tr>
<td>Exit interview debriefs</td>
<td>38%</td>
</tr>
<tr>
<td>360° feedback results for executives</td>
<td>35%</td>
</tr>
<tr>
<td>Attrition rate of high performers versus total attrition</td>
<td>34%</td>
</tr>
<tr>
<td>Intuition/gut feeling from interacting with management</td>
<td>32%</td>
</tr>
<tr>
<td>Customer service/satisfaction survey results</td>
<td>30%</td>
</tr>
<tr>
<td>Employee turnover statistics</td>
<td>29%</td>
</tr>
<tr>
<td>Number of customer complaints/trends</td>
<td>19%</td>
</tr>
<tr>
<td>Code of conduct training results</td>
<td>14%</td>
</tr>
<tr>
<td>Summary of social media comments</td>
<td>7%</td>
</tr>
</tbody>
</table>

29. With regard to crisis management oversight (e.g., cyberattack, natural disaster, financial reporting fraud allegations), has your board/company taken any of the following steps?

<table>
<thead>
<tr>
<th>Step</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussed management’s plans to respond to a major crisis</td>
<td>64%</td>
</tr>
<tr>
<td>Identified, or contracted with, outside advisors (e.g., law firm or public relations firm)</td>
<td>64%</td>
</tr>
<tr>
<td>Discussed protocols to determine whether, and when, to contact a regulatory/enforcement agency</td>
<td>47%</td>
</tr>
<tr>
<td>Created a written escalation policy or agreement</td>
<td>34%</td>
</tr>
<tr>
<td>Participated in tabletop exercises/crisis management scenarios</td>
<td>28%</td>
</tr>
</tbody>
</table>

Note: 2% of directors responded “Summary of external press.”

Base: 664-673

Base: 675

Base: 663-676
30. To what extent do you think your company should take the following social issues into account when forming company strategy?

- Climate change:
  - Not at all: 15%
  - Somewhat: 45%
  - Very much: 39%

- Health care availability/cost:
  - Not at all: 47%
  - Somewhat: 28%
  - Very much: 16%

- Employee retirement security:
  - Not at all: 23%
  - Somewhat: 47%
  - Very much: 38%

- Human rights:
  - Not at all: 15%
  - Somewhat: 62%
  - Very much: 23%

- Income inequality:
  - Not at all: 7%
  - Somewhat: 43%
  - Very much: 50%

- Immigration:
  - Not at all: 45%
  - Somewhat: 48%
  - Very much: 7%

- Resource scarcity:
  - Not at all: 27%
  - Somewhat: 31%
  - Very much: 42%

- Social movements (e.g., #MeToo, gun control):
  - Not at all: 7%
  - Somewhat: 50%
  - Very much: 43%

- Water availability/cost:
  - Not at all: 22%
  - Somewhat: 9%
  - Very much: 79%

Note: 3% of directors responded “Other.”

Base: 665-677

31. Has your company taken any of the following steps to respond to environmental/sustainability risks? (select all that apply)

- CEO has embedded sustainability as part of corporate strategy: 39%
- Spent more time discussing environmental/sustainability issues: 35%
- Provided additional public disclosure (e.g., sustainability report): 28%
- Asked management to provide reporting on different metrics: 26%
- CEO has prioritized the topic at board meetings: 22%
- Revised strategy to account for environmental/sustainability risks: 19%
- Engaged with investors about their concerns: 18%
- Brought in outside experts to advise the board: 9%
- Created C-suite position with direct responsibility for environmental/sustainability issues: 7%
- We have taken no action: 32%

Note: 3% of directors responded “Other.”

Base: 657

Executive compensation and talent management

32. Why do you think executive compensation levels continue to rise? (select all that apply)

- Peer group disclosures encourage continual increases: 71%
- Risk of losing executives if pay isn’t competitive enough: 68%
- High stock prices inflate the value of equity awards: 27%
- Compensation consultants have too much influence over plan design: 23%
- Performance targets are too easy to meet: 22%
- Compensation consultants are not truly independent from management: 18%
- Compensation committee members are too willing to sign off on high pay packages: 17%
- Compensation committee members don’t fully understand how the compensation plans work: 6%
- None of the above: 5%

Base: 676
33. How would you rate the job your company does on the following aspects of talent management?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair/Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruiting a diverse workforce</td>
<td>13%</td>
<td>42%</td>
<td>45%</td>
</tr>
<tr>
<td>Developing diverse executive talent</td>
<td>13%</td>
<td>42%</td>
<td>45%</td>
</tr>
<tr>
<td>Middle management succession planning</td>
<td>21%</td>
<td>46%</td>
<td>32%</td>
</tr>
<tr>
<td>Providing the board with necessary metrics to evaluate/oversee talent management</td>
<td>29%</td>
<td>56%</td>
<td>15%</td>
</tr>
<tr>
<td>Developing and retaining talent with requisite skill set</td>
<td>34%</td>
<td>38%</td>
<td>23%</td>
</tr>
<tr>
<td>C-suite succession planning</td>
<td>34%</td>
<td>38%</td>
<td>23%</td>
</tr>
<tr>
<td>Competitive pay and benefits</td>
<td>35%</td>
<td>57%</td>
<td>7%</td>
</tr>
<tr>
<td>Providing opportunities for high performers to interact with the board</td>
<td>43%</td>
<td>43%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Base: 654-675

34. For each of the following pairs of statements (on the left and right sides), which reflects your view of the role that public companies should play in the US?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus more on quarterly results</td>
<td>5%</td>
</tr>
<tr>
<td>Focus more on long-term growth</td>
<td>89%</td>
</tr>
<tr>
<td>Be doing less to promote gender/racial diversity in the workplace</td>
<td>9%</td>
</tr>
<tr>
<td>Be doing more to promote gender/racial diversity in the workplace</td>
<td>66%</td>
</tr>
<tr>
<td>Avoid taking positions on social issues (e.g., gun control, climate change)</td>
<td>38%</td>
</tr>
<tr>
<td>Be willing to take positions on social issues (e.g., gun control, climate change)</td>
<td>35%</td>
</tr>
<tr>
<td>Prioritize shareholder interests over other stakeholders in making company decisions</td>
<td>34%</td>
</tr>
<tr>
<td>Prioritize a broader group of stakeholders in making company decisions</td>
<td>49%</td>
</tr>
<tr>
<td>Give less priority to the needs of communities in which they operate</td>
<td>11%</td>
</tr>
<tr>
<td>Give greater priority to the needs of communities in which they operate</td>
<td>67%</td>
</tr>
</tbody>
</table>

Note: Respondents selected a level of support ranging from “neutral” to “strongly agree” in either direction. The above aggregates these various levels of support for either statement, excluding the responses marked “neutral.”

Base: 676-681
Demographics

How long have you served on this board?

<table>
<thead>
<tr>
<th>Years</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1</td>
<td>4%</td>
</tr>
<tr>
<td>1-2</td>
<td>9%</td>
</tr>
<tr>
<td>3-5</td>
<td>23%</td>
</tr>
<tr>
<td>6-10</td>
<td>25%</td>
</tr>
<tr>
<td>More than 10</td>
<td>39%</td>
</tr>
</tbody>
</table>

Base: 685  

You are:

- Male: 81%
- Female: 19%

Base: 680  

Which of the following describes your board leadership structure?

- CEO chair: 34%
- Non-executive independent chair: 54%
- Other: 12%

Base: 688  

Your age is:

- Under 40: 27%
- 41-50: 23%
- 51-60: 25%
- 61-65: 23%
- 66-70: 16%
- 71-75: 9%
- 76 or older: 3%

Base: 686  

Which of the following best describes the industry of the company on whose board you sit? (select only one option)

- Asset and wealth management: 11%
- Business and professional services: 9%
- Consumer markets: 16%
- Energy (power and utilities): 5%
- Health services: 15%
- Industrial products: 13%
- Media/entertainment/telecommunications: 6%
- Pharma and life sciences: 8%
- Real estate: 9%
- Technology: 5%
- Note: Banking and capital markets, energy (oil and gas), insurance and other comprised less than 5% each.

Base: 587  

About the survey

PwC’s Annual Corporate Directors Survey has gauged the views of public company directors from across the United States on a variety of corporate governance matters for more than a decade. In the summer of 2018, 714 directors participated in our survey. The respondents represent a cross-section of companies from over a dozen industries, and 76% of those companies have annual revenues of more than $1 billion. Eighty-one percent (81%) of the respondents were men, and 19% were women. Board tenure varied, but 64% of respondents have served on their board for five or more years.
Endnotes

2. Larry Fink's Annual Letter to CEOs, January 16, 2018.
5. Ibid.
10. SSGA, State Street Global Advisors Reports Fearless Girl’s Impact: More than 300 Companies Have Added Female Directors, September 27, 2018.
16. PwC, Board composition: Consider the value of younger directors on your board; PwC’s Census of Directors 50 and Under, April 2018.
18. Ibid.
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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The evolving boardroom: Signs of change