



Board Practices Quarterly

Back to basics: Board composition and refreshment

There are many critical facets to board composition. Among them are identifying necessary or desirable backgrounds and experiences and background/experience gaps at any given point in time; responding to evolving regulatory requirements and investor and other stakeholder composition and refreshment expectations; continually evaluating the board's skill sets against emerging strategic, geopolitical, and other risks and opportunities; and board knowledge, functionality,

and collegiality as a whole. How boards are executing on this fundamental responsibility is the focus of this report.

This Board Practices Quarterly looks at director recruitment practices and priorities—including the most and least often recruited professional backgrounds and diverse attributes—and refreshment triggers, policies, practices, and tools. It is based on the findings of a November 2022 survey of Society for Corporate Governance members representing 135 public companies.

Findings

Respondents, primarily corporate secretaries, in-house counsel, and other in-house governance professionals, represent 135 public companies of varying sizes and industries.¹ The findings pertain to these companies, and where applicable, commentary has been included to highlight differences among respondent demographics. The actual number of responses for each question is provided.

[Access](#) results by company size and type.

Describe the background and/or professional experience of directors appointed/nominated to your board in the past 1–2 years, and likely board recruitment priorities for the next 1–2 years. [Select all that apply] (110 responses)

The findings reveal a departure from the backgrounds and experiences traditionally sought for new directors, such as business leadership and finance:

- The top five backgrounds and/or professional experiences of directors appointed/nominated in the past 1–2 years were public relations and communications; culture and ethics; academia and education; first-time board directors (excluding nonprofit board service); and operations. In contrast, significantly fewer respondents reported new director appointees/nominees having backgrounds or professional experience in sustainability; climate and environmental; cyber; or corporate social responsibility.
- The top five likely backgrounds or experiences sought for directors to be recruited in the next 1–2 years are strategy; sustainability; international; a specific diversity attribute; and IT (e.g., infrastructure, operations). Directors with backgrounds and/or experiences in public relations and communications; first-time board members (excluding nonprofit experience); sales and marketing; accounting; and legal are less likely to be a recruitment priority over the next 1–2 years.

	New directors appointed/ nominated in the past 1–2 years	Top recruitment priorities in the next 1–2 years
Academia and Education	100%	43%
Accounting	87%	32%
Business leadership	91%	65%
Climate and environmental	48%	66%
Corporate social responsibility and social impact	55%	64%
Culture and ethics	100%	58%
Cyber	53%	66%
Digital or Technology strategy (e.g., artificial intelligence, cryptocurrency, social media)	74%	63%
Diversity, equity, and inclusion	85%	53%
Finance and banking	81%	46%
First-time board director (excluding non-profit board service)	100%	0%
Governance	80%	40%
Government and public policy	64%	57%
Human capital, talent, workforce	79%	41%
Industry specific	77%	58%
International	64%	72%
IT (e.g., infrastructure, operations)	67%	67%
Legal	69%	38%
Marketing	71%	29%
Mergers and acquisitions	72%	44%
Operations	93%	40%
Public or private board experience	82%	56%
Public relations and communications	100%	0%
Risk management	71%	63%
Sales and marketing	82%	36%
Specific diversity attribute, e.g., related to gender, race and ethnicity, sexual orientation, disability	85%	71%
Strategy	76%	74%
Sustainability	56%	72%

Across market caps, there were several notable differences, as follows:

In recently appointed/nominated director backgrounds in the past 1–2 years:

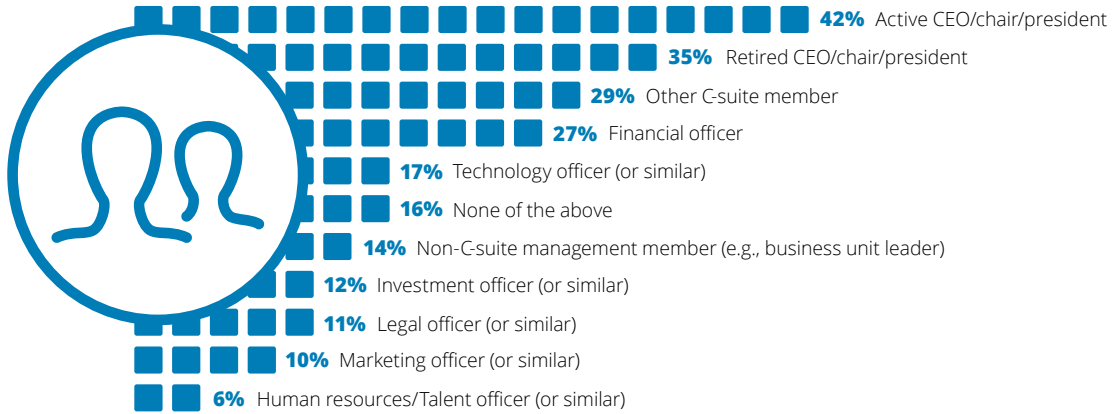
- Cyber: 77% large-cap, 33% mid-cap
- Marketing: 60% large-cap, 100% mid-cap
- International: 72% large-cap, 33% mid-cap
- IT (e.g., infrastructure, operations): 96% large-cap, 56% mid-cap
- Sales and Marketing: 100% large-cap, 67% mid-cap
- Sustainability: 71% large-cap, 40% mid-cap

In director backgrounds for recruitment priorities in the next 1–2 years:

- Culture and ethics: 44% large-cap, 63% mid-cap
- Marketing: 40% large-cap, 0% mid-cap
- Legal: 25% large-cap, 57% mid-cap
- Risk management: 52% large-cap, 73% mid-cap

Please specify the positions and roles of new directors who have been appointed/nominated to your board in the past 1-2 years. [Select all that apply] (108 responses)

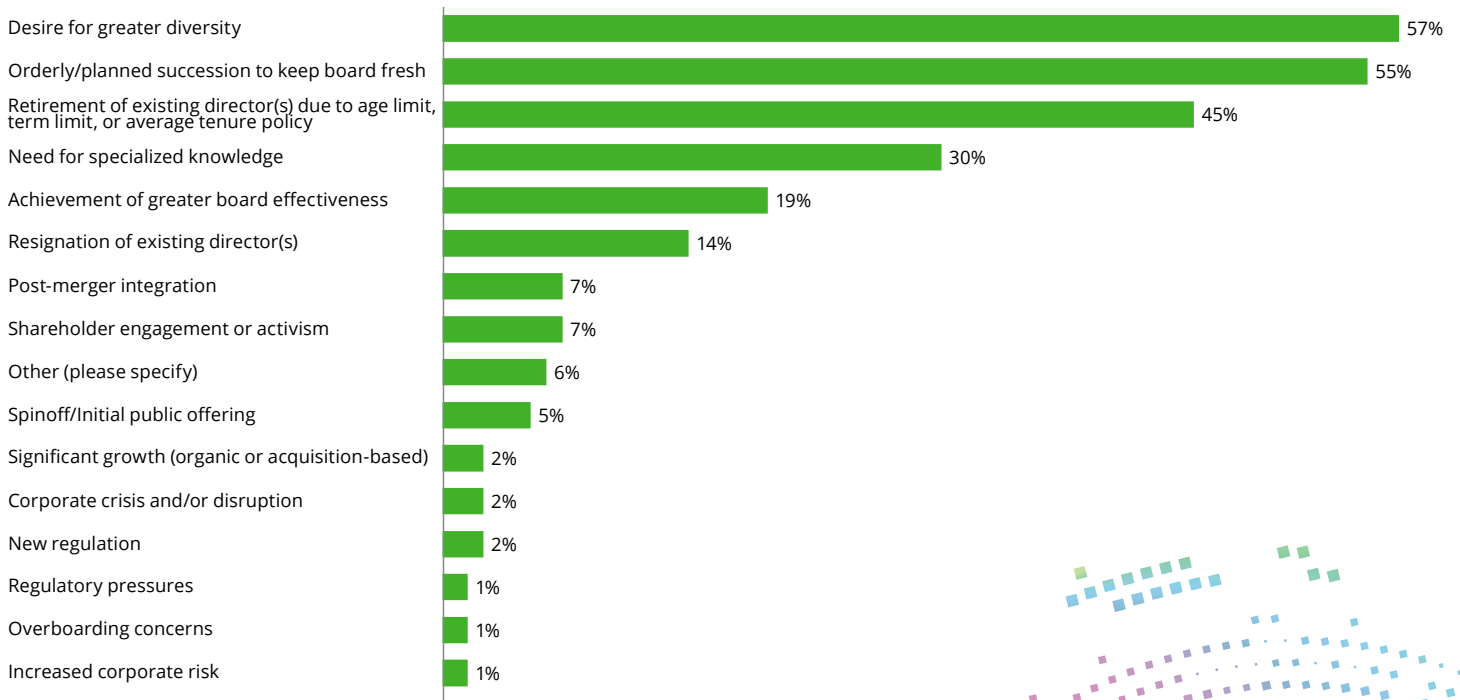
Findings were fairly consistent across market caps. One of the greatest variations was the 49% of large-caps bringing on active CEO/chair/president positions, compared to 37% of mid-caps. Another variation was with the appointment/nomination an investment officer (or similar) reported by 19% of large-caps compared to 8% of mid-caps.



What triggers drove any recent changes in your board composition in the past 1-2 years? [Select all that apply] (105 responses)

A desire for greater diversity was the most commonly cited reason for changes in board composition, followed closely by an orderly/planned succession to keep the board fresh, at 57% and 55%, respectively. These results differ significantly from a similar question asked in our [2016 board practices survey](#) where the resignation of existing director(s) and retirement of existing director(s) due to age limit policy were the most commonly cited triggers for composition changes (29% and 27%, respectively), followed by orderly/planned succession (22%) and greater diversity (15%).

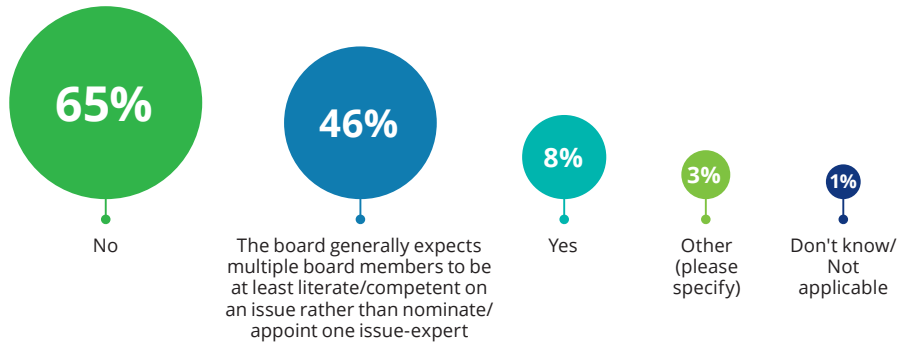
More large-cap respondents than mid-caps identified achievement of greater board effectiveness as a trigger, at 28% and 8%, respectively. Similarly, more large-caps than mid-caps also reported orderly/planned succession as a trigger, reported by 67% and 46%, respectively.



Note: No respondent selected "Enforcement actions."

To your knowledge, has your board considered nominating or has your board nominated/appointed an issue-expert director (e.g., cyber expertise, climate expertise) either in response to investor or regulatory pressures or otherwise in the past 1-2 years? [Select all that apply] (107 responses)

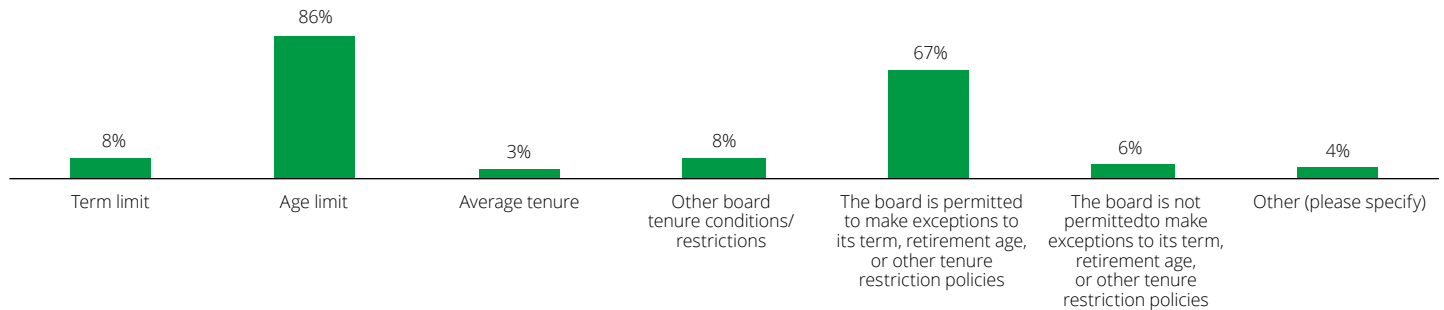
Most boards have not considered or nominated an issue-expert director and nearly half indicate that their board generally expects multiple directors to be literate/competent on an issue in lieu of nominating/appointing an issue-expert director. However, large-caps were more likely than mid-caps to expect multiple board members to be at least literate/competent on an issue rather than nominate/appoint one issue-expert, reported by 51% of large-caps; compared to 37% of mid-caps.



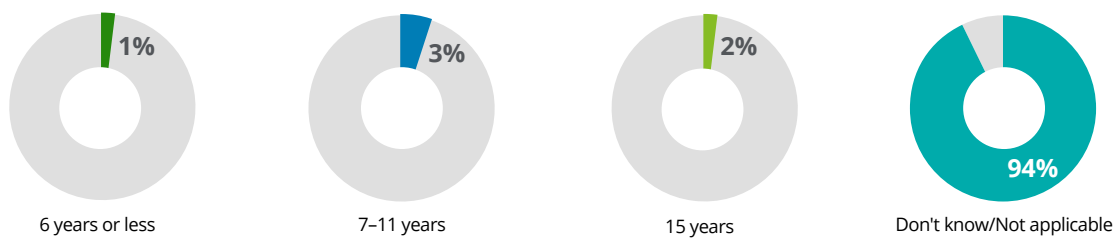
Does your board have any of the following refreshment policies? [Select all that apply] (79 responses)

Responses are directionally consistent when compared to a similar question asked in our [2016 board practices survey](#) in which the majority of respondents (75%) reported their boards having age limits compared to just 5% that reported term limits. By comparison, in this year's survey, 86% report having age limits and 8% report having term limits. However, there are marked differences in retirement ages for those companies with retirement age policies. In 2016, a plurality of boards with mandatory retirement ages set them at age 72 (41%), whereas one-third set them at age 75 (33%).

This year's survey also presents some differences across market caps. Ages 72 and 75 were most common among large- and mid-caps, but inversely applied: 58% of large-caps set the retirement age at 72 compared to 24% of mid-caps that do so. In contrast, 36% of large-caps set the retirement age at 75 compared to 62% of mid-caps that do so. Further, 80% of large-caps reported the board is permitted to make exceptions to its term, retirement age, or other tenure restriction policies compared to 61% of mid-caps.

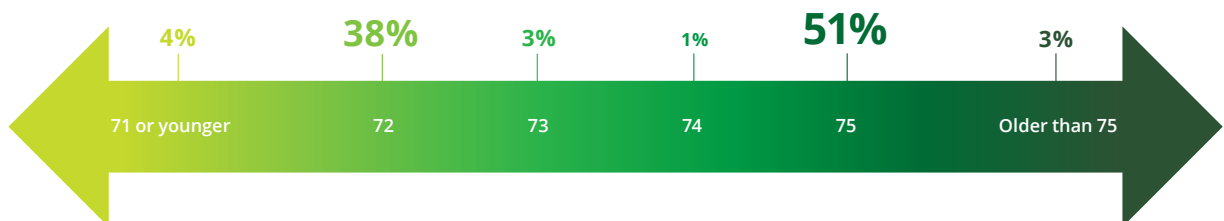


If term limit policy, please specify the term: [Select all that apply] (99 responses)



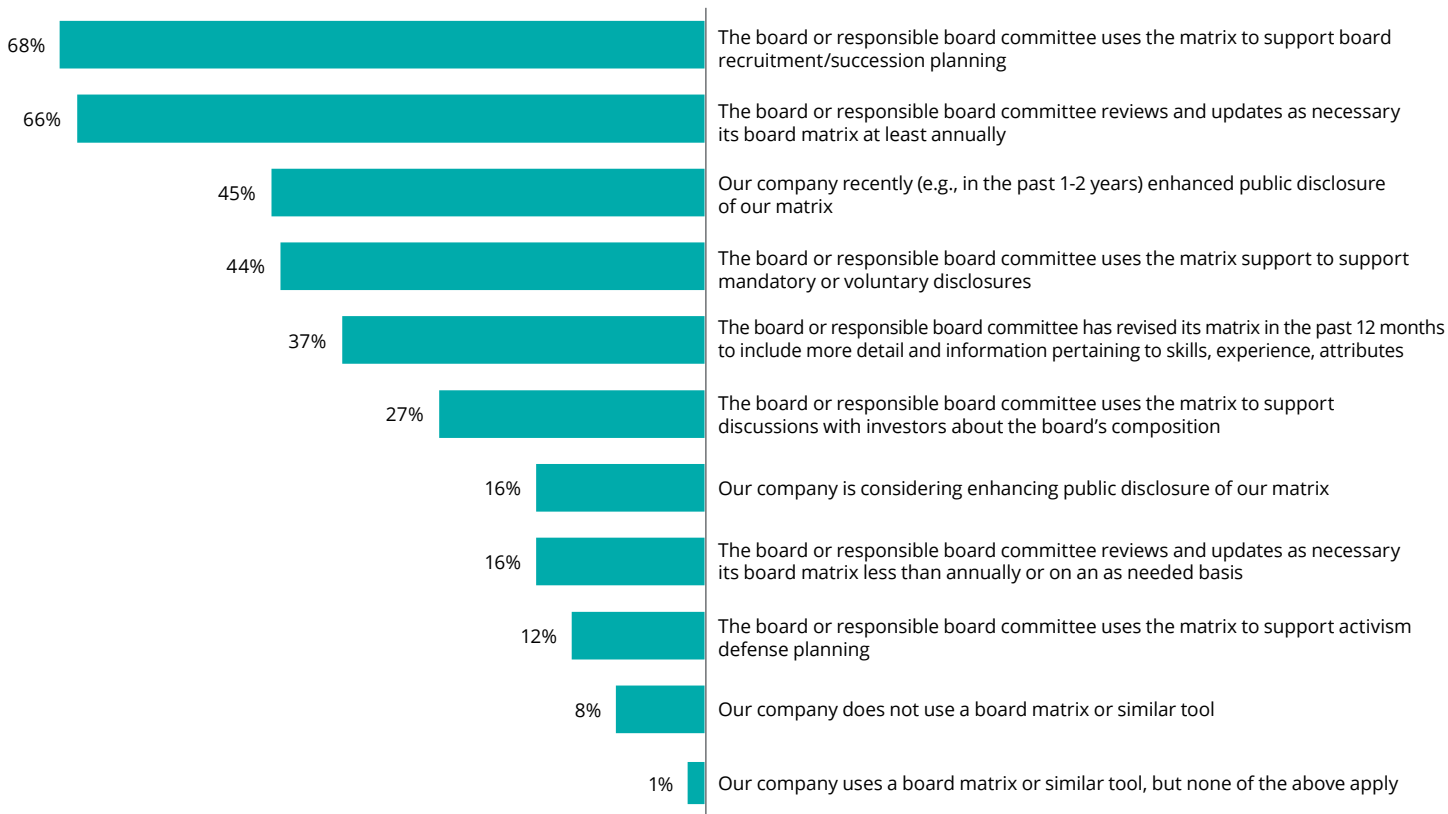
Note: No respondent selected "12-14 years".

If retirement age policy, please specify the required retirement age. [Select all that apply] (72 responses)



To the best of your knowledge, which, if any, of the following practices describe how your board matrix (or similar tool) is utilized? [Select all that apply] (105 responses)

Survey results reveal that board matrices have become widely used, with just 8% of respondents reporting that their board does not use a matrix. Notably, more than two-thirds of boards or responsible board committees use a matrix to support director recruitment/succession planning. Most boards are in the practice of updating their matrix at least annually, reported by 66%, compared to 16% that do so less frequently or on an as-needed basis. Further, 45% reported their company has recently enhanced public disclosure of their matrix.



Endnote:

1. Public company respondent market capitalization as of December 2021: 44% large-cap (which includes mega- and large-cap) (> \$10 billion); 47% mid-cap (\$2 billion to \$10 billion); and 9% small-cap (which includes small-, micro-, and nano-cap) (< \$2 billion). Respondent industry breakdown: 36% financial services; 23% energy, resources, and industrials; 23% consumer; 10% life sciences and health care; and 8% technology, media, and telecommunications.

Small-cap and private company findings have been omitted from this report and the accompanying demographics report due to limited respondent population.

Throughout this report, percentages may not total 100 due to rounding and/or a question that allowed respondents to select multiple choices.



Authors

Natalie Cooper

Senior Manager

Center for Board Effectiveness
Deloitte LLP
natcooper@deloitte.com

Bob Lamm

Independent Senior Advisor

Center for Board Effectiveness
Deloitte LLP
rlamm@deloitte.com

Randi Val Morrison

Senior Vice President Communications, Member Engagement and General Counsel

Society for Corporate Governance
rmorrison@societycorp.gov.org

Contacts

Carey Owen

National Managing Partner

Center for Board Effectiveness
Deloitte & Touche LLP
coven@deloitte.com

Maureen Bujno

Managing Director and Audit & Assurance Governance Leader

Center for Board Effectiveness
Deloitte & Touche LLP
mbujno@deloitte.com

Audrey Hitchings

Managing Director

Executive Networking
Deloitte Services LP
ahitchings@deloitte.com

Krista Parsons

Managing Director

Center for Board Effectiveness
Deloitte & Touche LLP
kparsons@deloitte.com

Caroline Schoenecker

Experience Director

Center for Board Effectiveness
Deloitte LLP
cschoenecker@deloitte.com

Darla C. Stuckey

President and CEO

Society for Corporate Governance
dstuckey@societycorp.gov.org

Deloitte.

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