

HEIDRICK & STRUGGLES

wcd women**corporate**directors
best practices in corporate governance globally

2012 Board of Directors Survey

facilitated by

Heidrick & Struggles and **WomenCorporateDirectors** (WCD)

conducted by

Dr Boris Groysberg, Professor of Business Administration,
Harvard Business School and **Deborah Bell**, Researcher

Contents

Executive summary and key findings, **1**

Survey questions and results, **7**

1 Respondent profile, **8**

2 Political and economic landscape, **11**

3 Company strategy, **13**

4 Board diversity and quotas, **15**

5 Board dynamics, **18**

Heidrick & Struggles and
WomenCorporateDirectors, **24**

About the research team

Dr Groysberg is Professor of Business Administration at the Harvard Business School. His research focuses on the challenges of managing human capital. In particular, his work examines how a firm can be systematic in achieving a sustainable competitive advantage by leveraging its talent at all levels of the organization from professionals to senior executives and boards. He is the author of the award-winning book, *Chasing Stars: The Myth of Talent and the Portability of Performance* (Princeton University Press, 2010).

bgroysberg@hbs.edu

Deborah Bell is a researcher of organizational behavior whose work focuses on organizational effectiveness and dynamics (especially at the board level), leadership, the drivers of success, and employee motivation. Her work employs multiple research methods to investigate these areas with a special focus on ethnographic methods such as field study, personal subject interviews and case writing.

dbell@post.harvard.edu

Executive summary and key findings

As the US continues to recover from the Great Recession, Europe continues to grapple with the sovereign debt crisis and Asian countries show signs of slowing economic growth, corporate boards across the globe face unprecedented challenges.

In one of the most comprehensive global surveys of corporate directors to date, Heidrick & Struggles, WomenCorporateDirectors (WCD), Professor Boris Groysberg of the Harvard Business School, and Researcher Deborah Bell find that directors globally share broad agreement about the forces shaping and challenging the world of boardrooms today – while still differing on pivotal issues such as board diversity and the use of quotas.

The third annual global Board of Directors survey captures in extensive detail the governance practices, strategic priorities and views on board effectiveness of corporate directors around the world. Drawn from a universe of more than 1,000 directors from 58 countries, this is the deepest and broadest exploration in the series to date into how boards think and operate.

Findings compare and contrast the views between male and female corporate board directors as well as US and non-US directors in six key areas:

- Political and economic landscape
- Company strategy
- Board diversity
- Diverse candidates and quotas
- Board governance and effectiveness
- Succession planning



Rank energy costs as a top concern

Political and economic landscape

Our survey finds that men and women directors are in striking alignment on the economic outlook, political and regulatory concerns and the business challenges facing their companies. "We see a remarkable consensus among men and women directors globally regarding 2012's top political issues and the threat of increased regulation in this turbulent economy," said Susan Stautberg, co-founder and co-chair of WCD.

Both men and women directors named unemployment/ the economy and federal budget deficits as their top political concerns. Beyond these top two concerns, they diverged, with women directors citing healthcare costs while men directors named energy costs.

"Gender differences practically disappeared when we looked at how men and women directors think about issues like the economy," said Bonnie Gwin, vice chairman and managing partner of Heidrick & Struggles' North American Board of Directors Practice. "These bottom-line business issues tend to elicit the greatest consensus in the boardroom."

Men and women directors also agree about the near-term economic and business outlook for the next three years. A majority of both male and female directors expect either "slow growth in most developed countries, but faster growth in emerging economies" or agree that "prospects globally are uncertain due to major concerns about government stability and government policy."

When broken down by geography, however, energy costs and environmental sustainability emerge as a greater concern outside the US. "Diving into the data on these

issues, there was often greater distinction between US and non-US respondents than between men and women," Ms Stautberg added. More than a third of non-US directors (34%) rank energy costs as a top concern, versus less than a fifth of US directors (19%) who do so.

Similarly, concern about environmental sustainability also ranks higher outside the US (#4 issue of concern versus #10 for US directors). It appears that directors outside the US are worried about the sustainability and affordability of their energy and environmental sources. Boards are aware that the reality of fuel shortages or inaccessibility may well limit company growth.



Cite the regulatory environment as the greatest obstacle to achieving their companies' strategic objectives

Company strategy

Male and female directors agree that the greatest obstacle to achieving their companies' strategic objectives is the regulatory environment, citing it in almost equal proportions – 45% and 42%, respectively. As in 2011, few respondents indicated that they believe the Dodd-Frank Act or the Consumer Protection Act will lead to better corporate governance.

In the 2012 survey, only about 1 in 4 female directors (26%) and slightly more than 1 in 5 male directors (22%) say the measures will result in improved corporate governance. "Men and women directors are similarly concerned about the ability of Dodd-Frank and the Consumer Protection Act to create better corporate governance. Despite the good intentions behind regulatory reform, board directors do not see increased regulation as the answer to the economic crisis," said Alison Winter, co-founder and co-chair of WCD.

The challenge of the regulatory environment is followed closely by that of attracting and retaining top talent, with 41% of women directors and 43% of men citing this strategic issue. For non-US directors, securing top talent is the #1 obstacle to strategic success.

Professor Boris Groysberg of the Harvard Business School underscores the importance of talent management to companies' long-term strategic goals: "Given that for many companies human assets are a major source of competitive advantage, and given the very large differences in performance between the top people and everybody else, it is becoming increasingly critical for boards to be involved in talent management to ensure that their companies' most important assets and competitive advantage are not being mismanaged."

The survey finds that women directors place greater importance than their male peers on the adoption of new technologies (social media, mobile apps, mobile payment solutions, use of "the cloud", targeted online advertising and GPS technology in customer communications) for achieving their companies' strategic goals. Female respondents assign greater importance to each technology than male respondents, with the greatest difference existing in the realms of social media and mobile apps. More than half of women (54%) believe that social media is important, but fewer men (43%) agree. A similar difference exists regarding the adoption of mobile apps, with 51% of women agreeing that adoption of mobile apps is important, whereas only 38% of men agree.

Board diversity

Although male and female directors are remarkably aligned in their outlooks on many economic and policy questions, they continue to diverge sharply on the issue of gender diversity at the board level.

For example, women by far say the most effective way to build diverse corporate boards is through "board leadership (chair, lead director, nominating/governance committee chair) serving as champions of board diversity." For male directors, however, "developing a pipeline of diverse board candidates through director advocacy, mentorship and training" ranks as important as board leadership serving as champions of diversity.

"Women place the responsibility squarely on board leadership, while men see it as both a pipeline and a leadership issue. Women view the board chairs, lead directors and nominating committee chairs as the real change agents in building a diverse boardroom," said Henrietta Fore, co-chair of WCD.

"Boards continue to struggle with diversity and our year-to-year findings, unfortunately, have not shown progress in this area," said Researcher Deborah Bell. "In 2012, we found that 46% of US directors and 57% of directors outside the US could not say that seating a diverse representation on the board was a priority for their boards. Less than half (47% of US and 35% of non-US) could say their boards had adopted measures that successfully advanced diversity in their boardrooms. The percentages for 2011 were almost identical."

Men and women also differ on the reason why women are underrepresented on boards. Men (45%) believe that the "lack of women in executive ranks" is the primary reason that the percentage of women on boards is not increasing. Women (35%) say it stems from the fact that "traditional networks tend to be male-oriented."

This suggests that female directors see a real need to gain access to the kinds of networks that men have historically enjoyed, if women are to make gains in the boardroom. Interestingly, 32% of female directors versus only 2% of males believe that their gender played a significant role in their current board appointments.

"On many boards, creating an inclusive culture for the organization has not been a point of focus," said Professor Groysberg. "The increased importance of diversity to organizational success, however, is compelling boards to make it part of their strategic focus. Unfortunately, many boards lack awareness of best practices in this area and are uncertain about how to integrate diversity and inclusiveness initiatives into their organization's long-term strategy."

51% 25%

WOMEN

MEN

Agree that quotas are an effective tool for increasing diversity in the boardroom

39% 18%

WOMEN

MEN

Support the use of quotas

Quotas

Quotas remain a divisive topic among male and female directors. Although quotas do not garner overwhelming support from either gender, the differences between male and female support continues to be substantial:

- More than half of all female respondents (51%) agree that quotas are an effective tool for increasing diversity in the boardroom, while only a quarter of the men (25%) think so.
- Almost 4 in 10 women (39%) personally support the use of quotas, versus less than 1 in 5 men (18%).

Commenting on the tension between female directors' personal support for quotas and their assessment of quotas as effective (39% versus 51%, respectively), Professor Groysberg notes that "although most female directors do not personally support quotas, they might view them as necessary to effect change. In the US, women's representation on boards has remained relatively flat for about 10 years. Not surprisingly, many female board members are very disappointed with this stalled progress, which is why we are seeing more support for quotas today than we did 10 years ago, even though there is significant debate about whether or not they actually work in practice."

Board governance and effectiveness

How well do boards think they are doing? Directors in our survey gave their boards high marks in several areas – with 80% or greater across categories reporting that they perform well as a team, engage in candid and open discussions, and act as good stewards of company assets for shareholders.

However, directors indicated substantial room for improvement in several other areas, including director education, tracking decisions, addressing poorly performing directors, and strategic planning:

- 53% of US directors and 63% of non-US directors say their boards do not provide effective training for new members.
- 50% of US directors and 46% of non-US directors report their boards do not track decisions over time to determine their effectiveness.
- 38% of US directors and 52% of non-US directors say their boards do not have an effective means to address poorly performing directors.
- 30% of both US and non-US directors said that the time allocated to discuss strategy in board meetings is not sufficient.

Directors also reported gaps in critical areas of board expertise. Forty-three percent of US directors and 42% of non-US directors said there were skill sets or areas of expertise missing or insufficiently represented on their boards, but the areas differ when comparing US directors versus their global counterparts. Technology expertise was the most common missing or underrepresented ingredient on boards according to US directors, while those outside the US named HR / talent management as the primary gap in expertise at the board level.

Increasingly, boards are recognizing the necessity of technology expertise in growing a profitable enterprise and this recognition is resulting in higher demand for board directors with technology knowledge.

Additional findings include:

- Only 5% of men and 7% of women believe international/global experience was their strongest skill set which is relatively unchanged from 2011.
- Less than 5% of the respondents rated the following critical skills as strongest: regulatory, legal and compliance; technology; risk management; compensation; M&A; HR-talent management; succession planning; and evaluation-assessment.



Rated succession planning as their strongest area of board expertise



Have not vetted an emergency successor

Succession planning

Because boards exist as fiduciaries for stakeholders, at a minimum, one of their most critical responsibilities should be to oversee the selection, appointment, performance and succession of the CEO. Yet, like those of 2011, the 2012 results indicate that across all categories of gender and geography, directors see room for improvement in both CEO and board succession planning.

Forty-three percent of women and 48% of men say their boards do not have an effective CEO succession planning process. And, 34% of women directors and 45% of men directors state they do not discuss CEO succession on any regular basis (including annually) in the boardroom. Further, 46% of women and 47% of men report that their board has not identified at least one viable CEO successor candidate.

In regard to board succession, 60% of both men and women do not think their boards have an effective succession process. Furthermore, men and women shared another alarming assessment of how they rate their personal strength – or lack thereof – in CEO succession planning. “To our surprise, only 1% of women and zero percent of men rated succession planning as their strongest area of board expertise,” added Ms Gwin.

In light of this survey’s findings around board diversity, it is clear that board leadership needs to take a more active role in establishing a strategic plan for board succession, which includes robust discussions around diversity, not just industry experience and specific functional acumen.

For every measure of effective CEO succession planning, the percentage of non-US directors who say their boards do a good job is less than the percentage of US directors who say so. Fifty-three percent of non-US directors say their boards do not have an effective process for CEO succession versus 35% of US directors. In addition, 53% of non-US directors and 38% of US directors say their boards have not vetted at least one viable successor for CEO. And 50% of non-US directors versus 28% of US directors say that CEO succession is not discussed regularly on their boards.

It is important to note, however, that while the US numbers are greater relative to non-US percentages, it is sobering to reflect that more than a third of the US companies represented in the survey may lack an effective CEO succession planning process, that almost 4 in 10 have not vetted an emergency successor and that more than a quarter do not discuss the issue regularly.

In addition, less than half (46%) of US directors and only a little more than a third (36%) of non-US directors say their boards have an effective process for director succession. “Although finding the next generation of leadership is critical to the health and prosperity of an organization, only 40% of respondents globally said that their boards had an effective succession planning process for directors,” said Ms Gwin.

The figures for committee chair succession are similar, with 48% of US directors and 33% of non-US directors saying that their boards have an effective selection process. Meanwhile, mandatory retirement seems to be the preferred means for delimiting board tenure inside the US, while term limits are preferred elsewhere.

93% 92%

WOMEN

MEN

Enjoy serving on boards

91%

Men and women alike believe that their voices are genuinely heard

Other highlights

- The top three skill-sets both men and women say they bring to the board are industry knowledge, financial / auditing expertise, and strategic ability.
- Across categories of gender and geography, directors believe that the most effective means of restoring trust in corporate boards is increased transparency, followed closely by enhanced risk management systems.
- By a large percentage (91%), men and women alike believe that their voices are genuinely heard in board discussions.
- Board service continues to be highly satisfying, with 93% of women and 92% of men saying that overall they enjoy serving.

Conclusion

Demonstrating sound corporate governance is becoming increasingly important in companies throughout the world. This is accompanied not only by increased attention on and scrutiny of board practices, but in many countries, increased regulation in the governance arena. Our research has identified a diversion of practices among boards and gaps between actual and perceived best practices within boards. In fact, most boards are searching for guidance and education on best practices in multiple areas – from board dynamics to director recruitment and succession planning.

Corporate boards are also being asked to become more diverse and inclusive: to recruit and appoint more women as well as a greater representation of members from diverse ethnic, geographic and experience backgrounds. But as our research has demonstrated, boards are struggling not only to seat, but to prioritize appointing more diverse members.

Future research is needed to systematically and empirically study the impact of measures such as quotas and diversity on board performance. Amid the many challenges corporations and society face today such as navigating an uncertain economic environment, creating environmental sustainability, and educating and developing the next generation of talent, a science of boards that links practices to effective performance is essential. ■

2012 Board of Directors Survey

Survey questions and results





































Methodology

Heidrick & Struggles, WomenCorporateDirectors (WCD), Professor Boris Groysberg of the Harvard Business School and Researcher Deborah Bell surveyed corporate directors from public and private companies globally between April 18 and June 8, 2012 receiving 1067 responses for a response rate of 11%. For comparisons of male and female directors, 60% of sample was men and 40% women.¹ For geographic comparisons, US boards made up 37% of the sample and 62% of boards were outside of the US representing 58 countries across the globe.

¹ We designed our original 2010 survey to better understand the experiences and perspectives of women corporate directors. In subsequent years, the survey has evolved to incorporate new questions and to reach a more globally and gender diverse representation of directors, seeking their perspectives on important issues.

1 Respondent profile

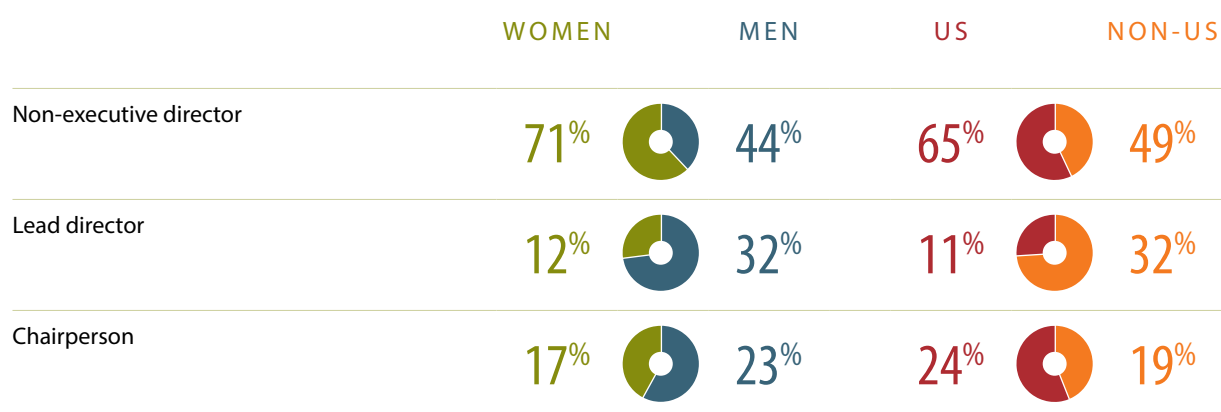
1.1 Board service²

	WOMEN	MEN	US	NON-US
Number of boards <i>average served on in career</i>	5.7 	6.4 	4.8 	6.7 
Public boards <i>average served on in career</i>	2.5 	2.1 	1.9 	2.2 
Private boards <i>average served on in career</i>	3.2 	4.3 	2.9 	4.5 
Current boards <i>average number on which respondents serve</i>	2.8 	3.1 	2.4 	3.4 
Longest board service <i>to date, average in years</i>	7.9 	7.1 	7.9 	7.3 
Has advanced degree	78% 	76% 	75% 	78% 
Sought first directorship <i>respondents who actively sought</i>	24% 	19% 	25% 	19% 
Years to first directorship <i>if sought, length in years it took to achieve</i>	2.1 	2.3 	1.9 	2.9 
Age of first appointment	42.1 	40.4 	44.5 	38.9 

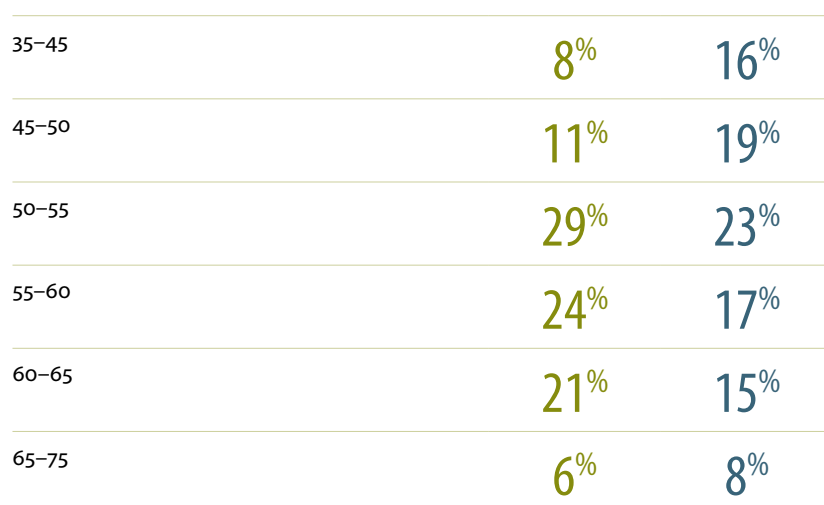
² The average amount of time respondents reported that it took them to achieve their first board service, may or may not have been affected by the involvement of an executive search firm.

1.2 Board profile

% of respondents serving as



1.3 Respondent age range



1.4 Marital status

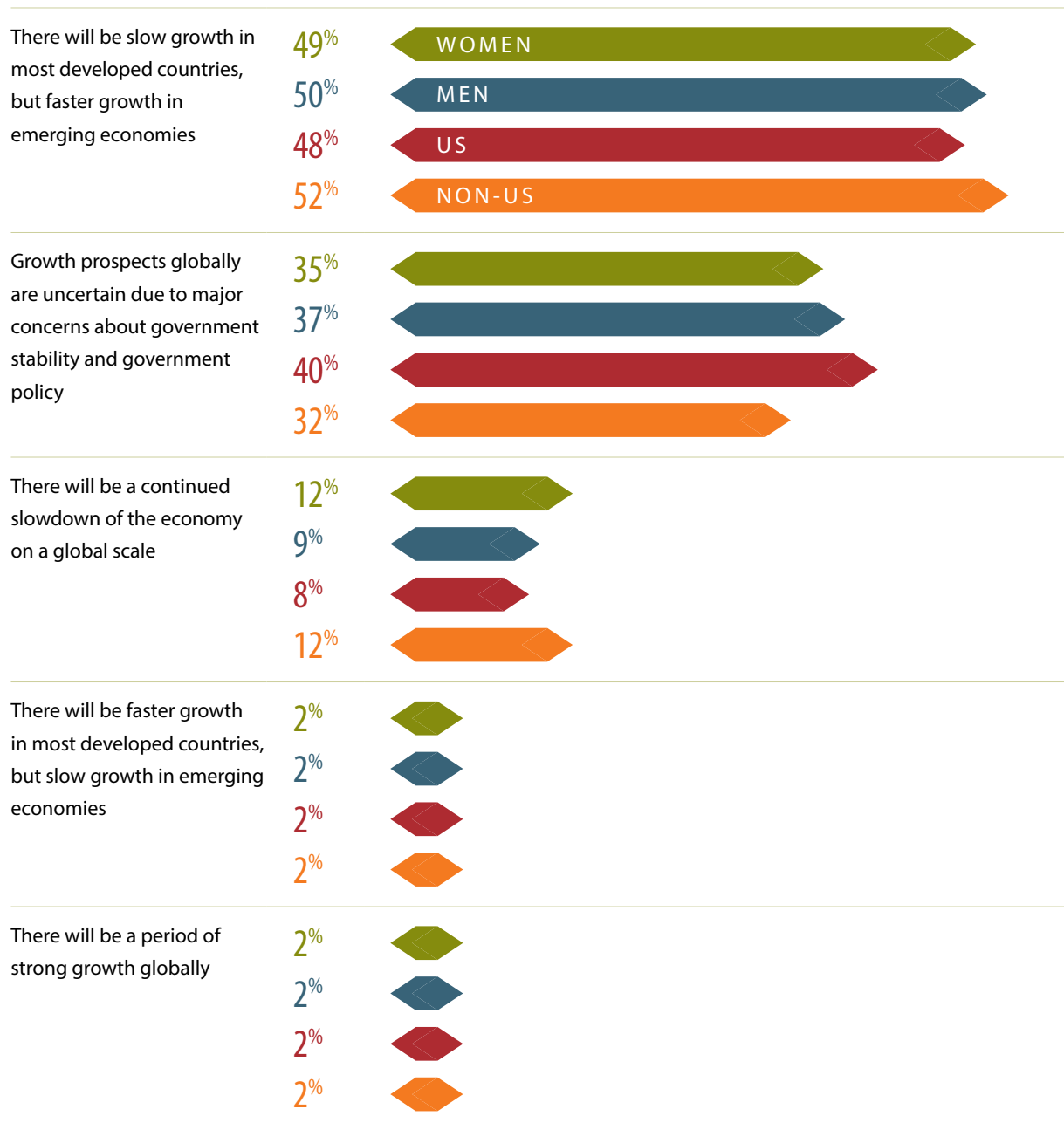
	WOMEN	MEN	US	NON-US
Married	72%	90%	82%	85%
Domestic partnership	6%	3%	3%	5%
Single	9%	1%	4%	4%
Divorced	10%	4%	8%	6%
Widowed	3%	1%	3%	1%

1.5 Children

% Yes	64%	90%	74%	83%
Average number	2.2	2.5	2.4	2.4

2 Political and economic landscape

2.1 View of the economic and business outlook for the next 3 years



2.2 Top 2012 political issues most relevant in role as corporate director

	WOMEN	MEN	US	NON-US
Unemployment / The economy	71%	69%	68%	70%
Federal budget deficit	41%	41%	55%	34%
Healthcare costs	30%	20%	43%	12%
Education	25%	24%	19%	26%
Corporate tax rates	25%	26%	32%	22%
Energy costs	22%	31%	19%	34%
Environmental sustainability	21%	25%	9%	33%
Economic justice	10%	12%	4%	16%
Foreign policy	10%	11%	11%	12%
Personal tax rates	9%	10%	7%	11%
Social Security and Medicare	8%	8%	10%	7%
Immigration policy	7%	7%	6%	5%
Other	6%	4%	4%	5%
Equal rights for women	6%	2%	2%	5%
Housing crisis	6%	6%	9%	4%

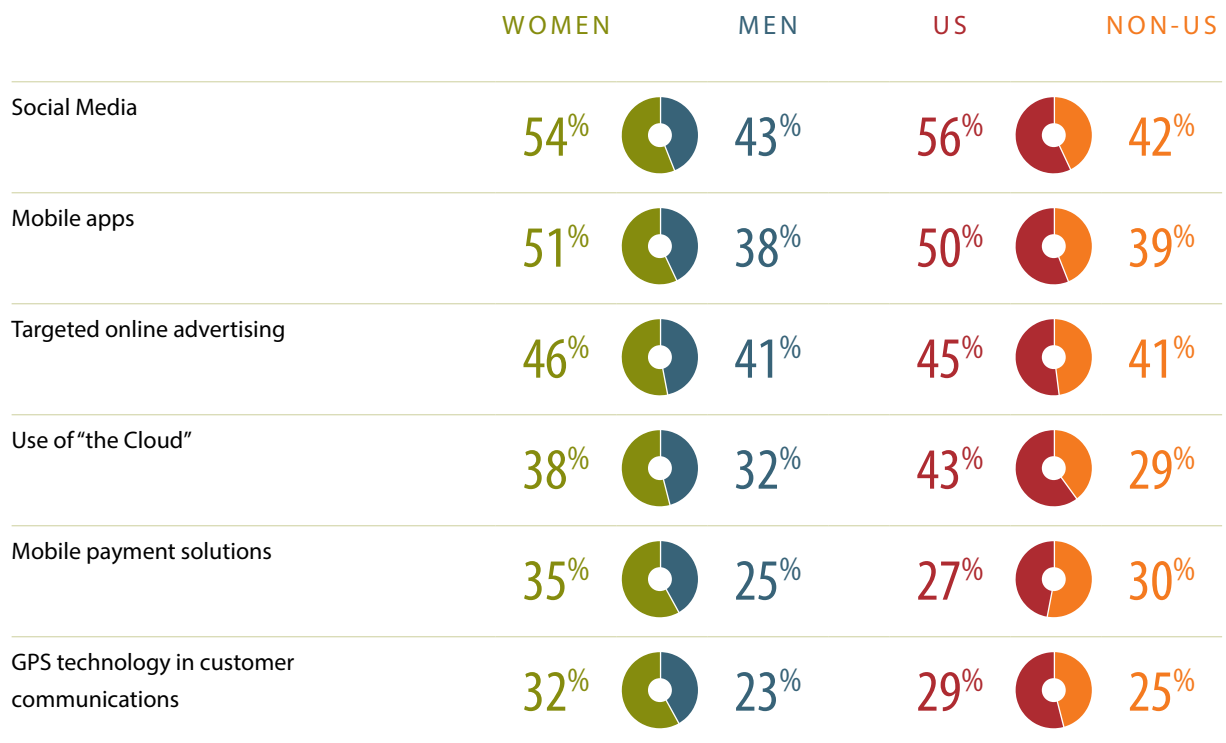
3 Company strategy

3.1 What are the biggest challenges to this company in achieving its strategic objectives?

	WOMEN	MEN	US	NON-US
Regulatory environment	42%	45%	45%	42%
Attracting and retaining top talent	41%	43%	41%	42%
Competitive threats – domestic	31%	28%	31%	27%
Competitive threats – global	30%	33%	29%	34%
Innovation	27%	32%	27%	33%
Risk management	23%	24%	19%	26%
Technology trends	20%	20%	22%	19%
Rising cost of materials and commodities	17%	17%	18%	16%
Low consumer demand	12%	14%	10%	14%
Levels of debt	10%	15%	15%	13%
Supply chain risk	6%	7%	6%	7%
Activist shareholders	4%	2%	4%	3%
Other	2%	8%	13%	8%

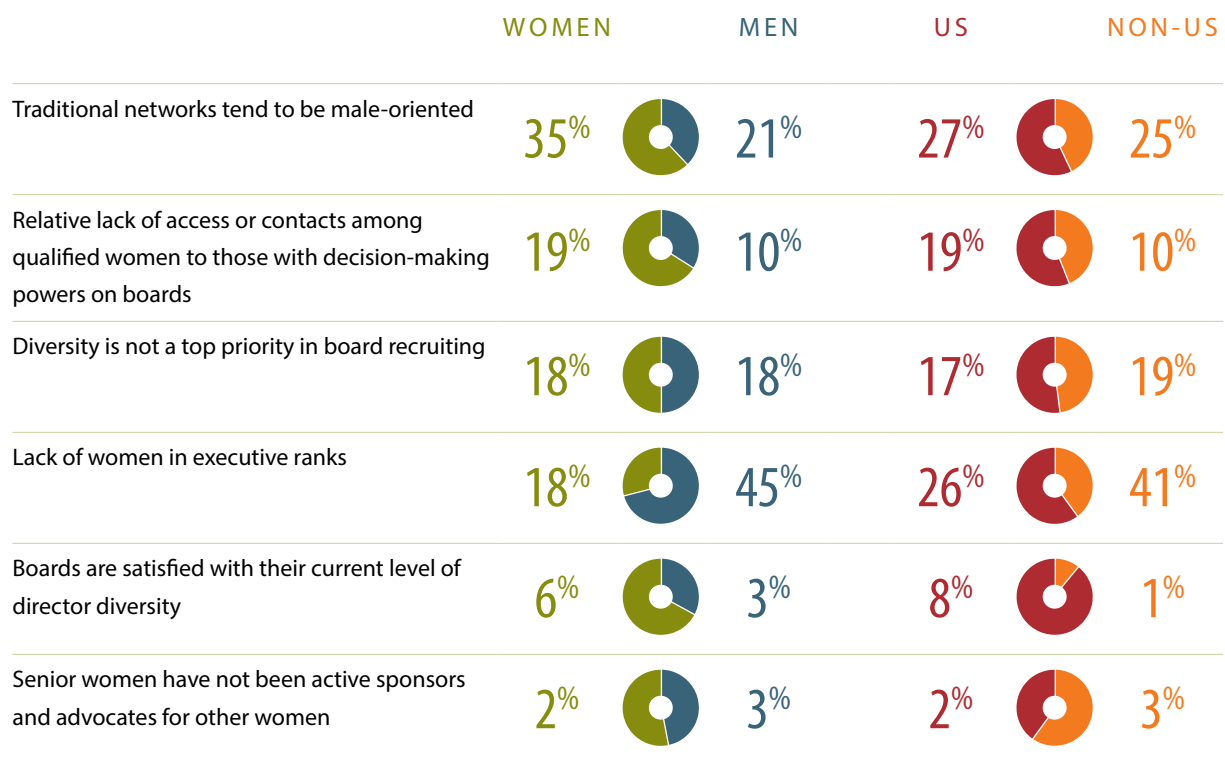
3.2 The adoption of the following technology is important to achieving this company's strategic goals

% Agree / Strongly agree



4 Board diversity and quotas

4.1 What do you think is the *primary* reason that the percentage of women on boards is not increasing?



























4.2 What are the most effective ways to build diverse corporate boards?

Ranked in order of importance from 1 to 6, where 1 is most important and 6 the least

	WOMEN	MEN	US	NON-US
Board leadership (Chair, Lead Director, Nom/ Gov Chair) serving as champions of board diversity	1	1	1	1
CEOs serving as champions of board diversity	2	3	2	3
Developing a pipeline of diverse board candidates through director advocacy, mentorship and training	3	1	3	2
Requiring that every director slate includes diverse director candidates	4	5	4	5
Shareholders actively demanding greater board diversity	5	4	5	3
Board implementing targets for diverse membership	5	6	6	6

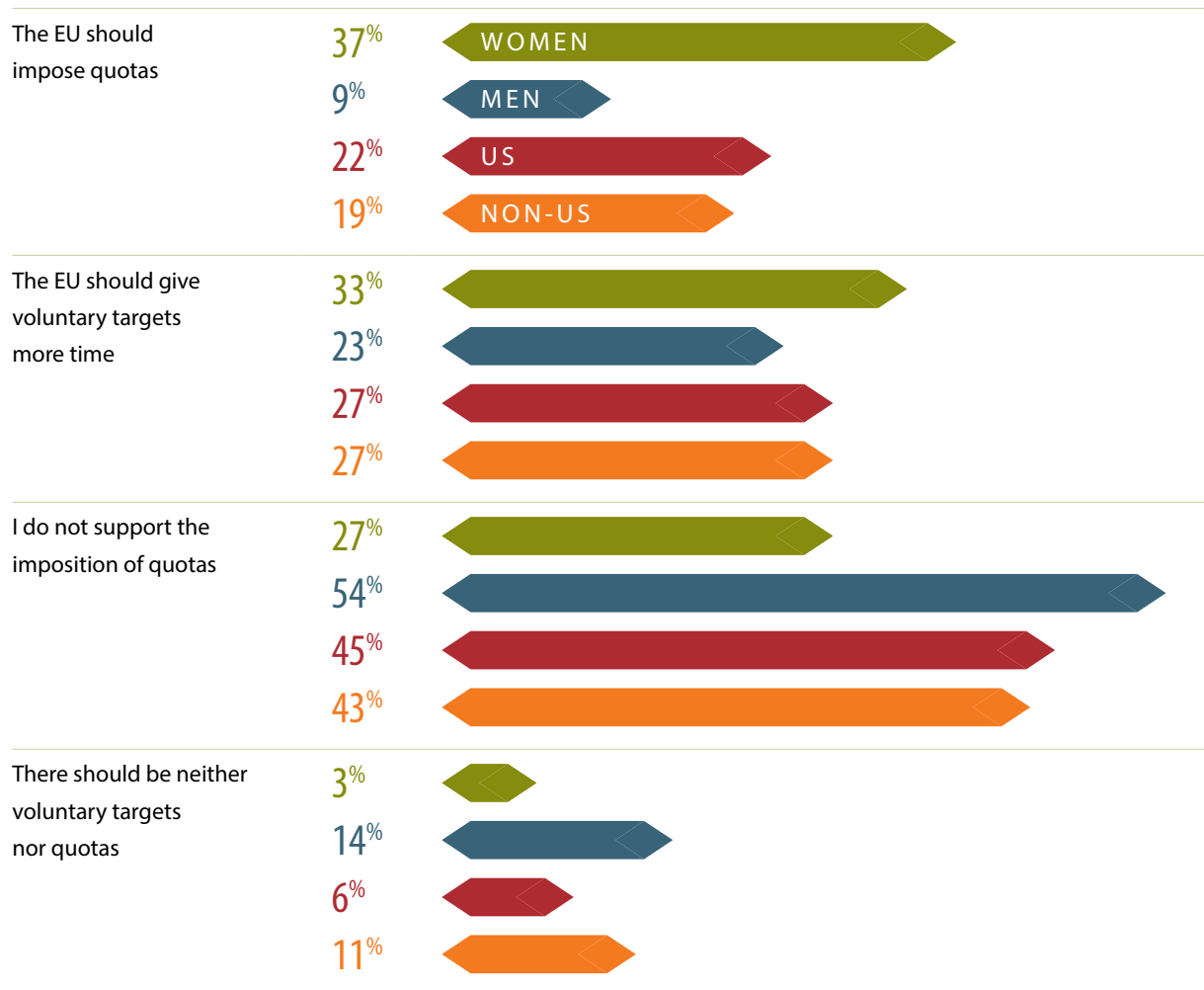
4.3 Diversity on boards

% Yes

Is seating a diverse representation on the board a priority for this board?	51% 	45% 	54% 	43% 
Has this board adopted measures that have successfully advanced diversity on the board?	44% 	37% 	47% 	35% 
Are quotas an effective tool for increasing diversity in the boardroom?	51% 	25% 	30% 	38% 
Do you personally support boardroom quotas?	39% 	18% 	22% 	28% 
My gender was a significant factor in my appointment to this board	32% 	2% 	24% 	8% 
In general, do you think that quotas such as those imposed in Norway, are a positive or a negative for corporate boardrooms?	42% 	16% 	21% 	29% 





















% Positive

4.4 Should the European Union introduce mandatory quotas for the number of women on company boards?



5 Board dynamics

5.1 Board effectiveness

	WOMEN	MEN	US	NON-US
This board provides effective training for new directors <i>% Agree / Strongly agree</i>	46% 	38% 	47% 	37% 
Sufficient time is allocated during board meetings to discuss strategy <i>% Agree / Strongly agree</i>	70% 	70% 	69% 	70% 
Are decisions made by this board tracked over time to determine their effectiveness? <i>% Yes</i>	47% 	57% 	50% 	54% 
Does this board have an effective means to address poorly performing directors? <i>% Yes</i>	57% 	52% 	62% 	48% 
Are there skill sets or areas of expertise missing or insufficiently represented on this board? <i>% Yes</i>	43% 	41% 	43% 	42% 

5.2 If there are missing or insufficiently represented skill sets or areas of expertise missing on this board, what are they?

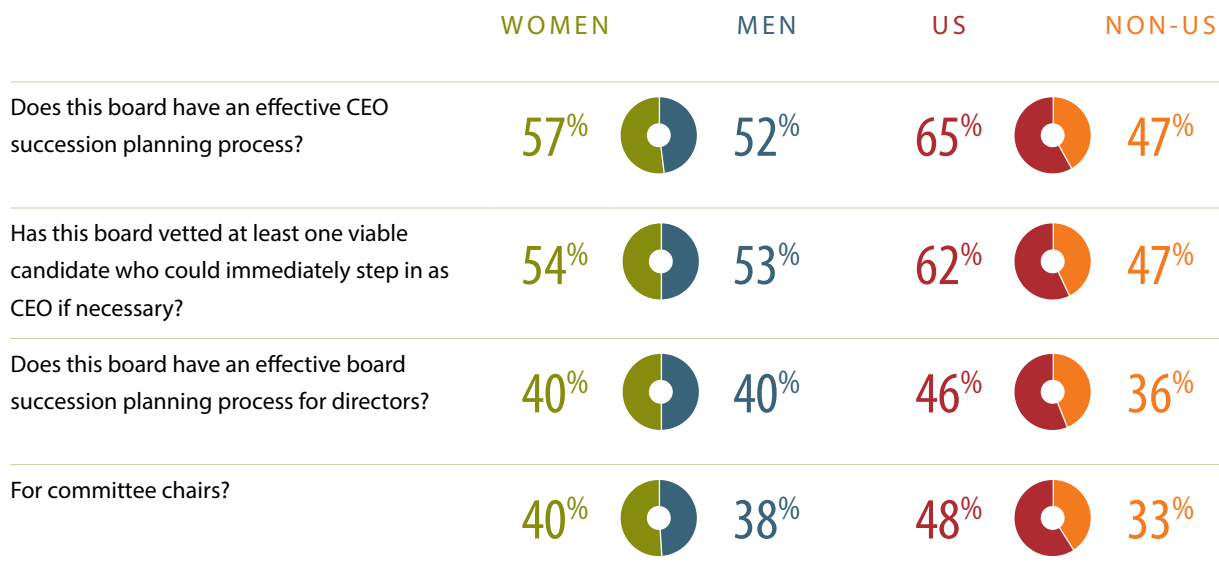


5.3 What is the strongest skill set or area of expertise you bring to this board?

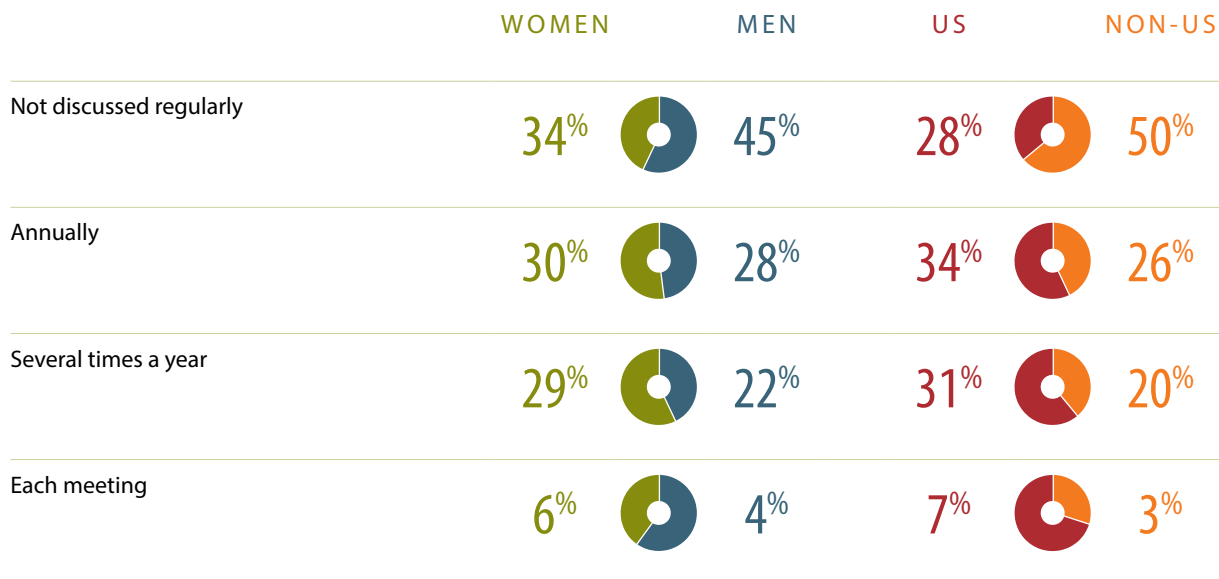


5.4 Succession

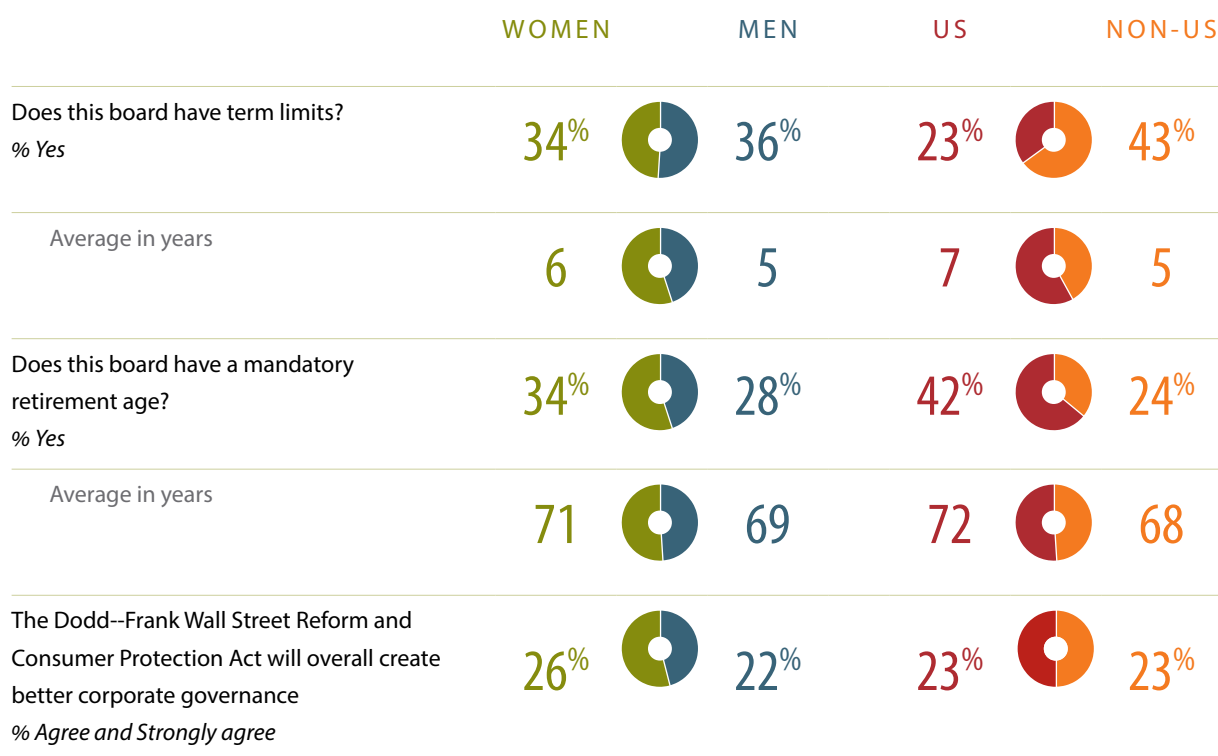
% Yes



5.5 How often is CEO succession discussed at the board level?

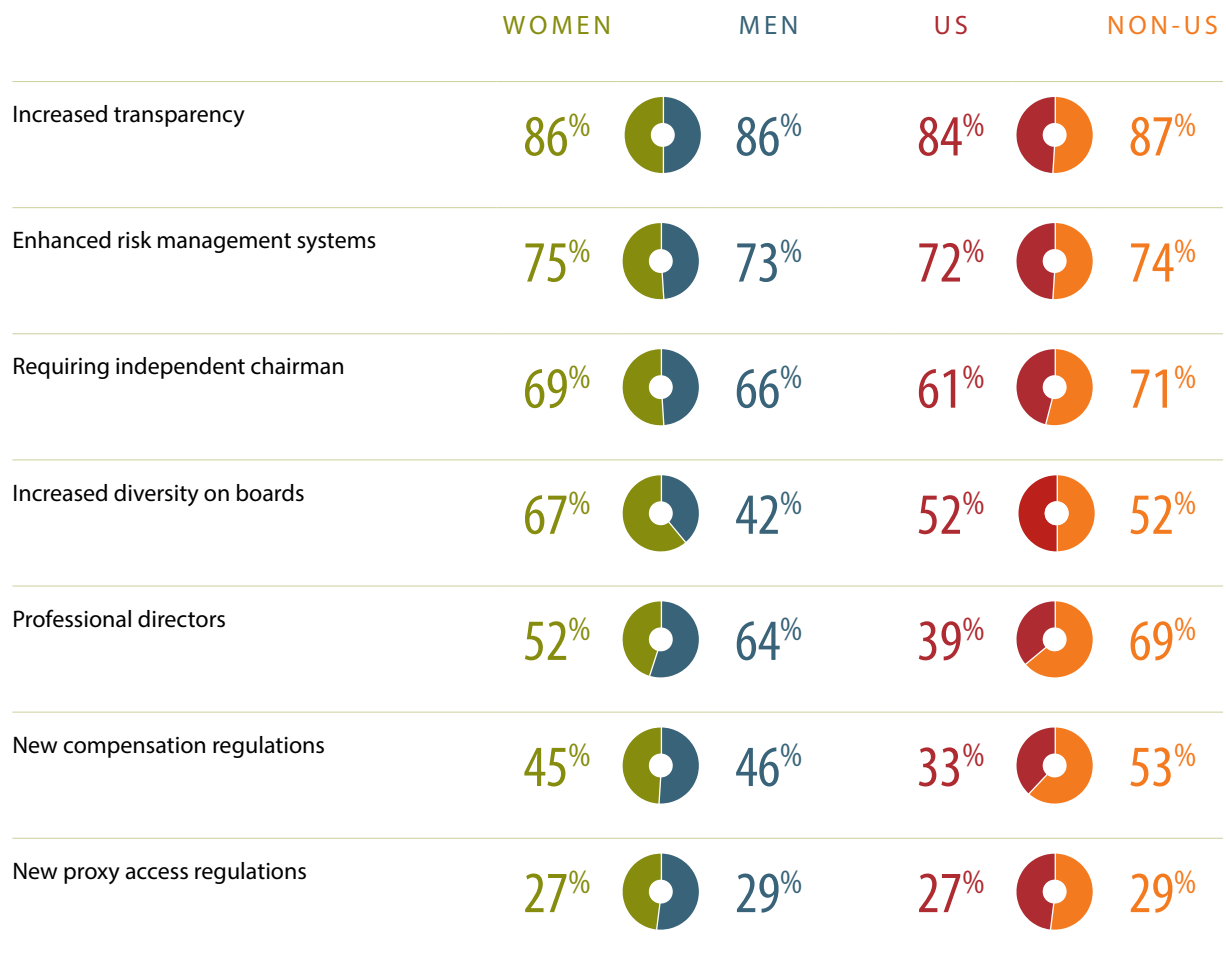


5.6 Governance and restoring trust



5.7 The following would be effective in rebuilding trust in corporate boards and their directors

% Agree and Strongly agree



HEIDRICK & STRUGGLES

Heidrick & Struggles is the leadership advisory firm providing executive search and leadership consulting services, including succession planning, executive assessment and development, talent retention management, transition consulting for newly appointed executives, and M&A human capital integration consulting.

For almost 60 years, we have focused on quality service and built strong leadership teams through our relationships with clients and individuals worldwide. Today, Heidrick & Struggles' leadership experts operate from principal business centers globally. For more information about Heidrick & Struggles, please visit:

www.heidrick.com

For more details, contact:

Bonnie Gwin

+1 (216) 241 7695

bgwin@heidrick.com

Bethany George

+1 (310) 321 3227

bgeorge@heidrick.com

WomenCorporateDirectors (WCD) is the only global membership organization and community of women corporate directors, comprised of over 1,600 members serving on over 1,850 boards in 46 global chapters on six continents. In this new era of responsibility, WCD is committed not just to good governance, but to governance with global vision.

Our mission is to support and expand the WCD community through leadership, diversity, education, and best practices in corporate governance. WCD fosters our global network by providing an intimate and trusted community to learn, brainstorm and problem-solve global issues, while also helping secure board and advisory board positions for numerous women around the world.

WCD offers local, regional, national, and global forums to generate candid, thoughtful and confidential dialogue on issues facing directors and their companies, learning from each other, and in the process, helping all members navigate the challenges of conducting business in a highly competitive and volatile global economy. The WCD network provides a platform of turning ideas into action. WCD members comprise among the world's most powerful and influential business women – the global business elite. For more information, please visit:

www.womencorporatedirectors.com

For more details, contact:

Susan Stautberg

+1 (212) 987 6070

ssautberg@womencorporatedirectors.com

Alison Winter

+1 (917) 991 1599

awinter@womencorporatedirectors.com

Henrietta Fore

+1 (202) 965 1340 ext 5013

hfore@holsmaninternational.com

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