Director Tenure and Gender Diversity in the United States: A Scenario Analysis

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Executive Summary

Many observers have noted that long director tenures complicate efforts to quickly increase board diversity at public companies, since relatively few board seats turn over each year. A number of investors have also expressed concern about long tenure in its own right, believing that it may impair independence. The current report finds that over one-quarter of board seats in the US are held by men with at least ten years' tenure, and analyzes the potential effect of replacing various percentages of these long-tenured men with women. For example, if less than half (46%) of the male directors in the S&P 500 with 10-plus years of seniority were replaced by female directors, 30% of that index's board seats would be held by women. In the Russell 1000 and 3000 indices, 54% and 62%, respectively, of the men with over ten years' tenure would need to be replaced by women to reach the threshold of 30% female representation. These findings may be of interest to investors advocating for board diversity as well as improved independence standards.

Introduction

As GMI Ratings' 2013 Women on Boards report documents, the United States has seen little progress on boardroom gender diversity for more than a decade. Since 2001, the proportion of S&P 1500 directorships held by women has risen by fewer than five percentage points. In light of research linking board diversity to improved oversight, decision-making, and corporate performance, many investors have been seeking ways to accelerate the pace of change on this issue.

Recently, a number of advocates have cited long director tenures as one obstacle to increased diversity: it is difficult to add more women (or members of other under-represented groups) to boards if there are few open seats to begin with. Many investors are also concerned about long tenure in itself, fearing that the relationships directors form with management over time may weaken their objectivity. (Under the UK's Corporate Governance Code, for example, service of over nine years is presumed to compromise independence, and companies deeming such long-tenured directors independent must justify that determination.) It has been suggested that term limits for directors might benefit companies both by enhancing board independence and by facilitating increased diversity.

To understand more precisely how the adoption of such limits might affect female representation on US boards, we calculated the percentage of US directorships currently held by men with over ten years' tenure. Then we explored what percentages of these directors would need to be replaced by women in order to reach various thresholds of female participation.

The table below shows the results, analyzed separately for the S&P 500, Russell 1000, and Russell 3000.

To fill this percentage of board seats with women:	**40.00%**	**30.00%**	**25.00%**	**20.00%**
In the **S&P 500**, this percentage of men with 10+ years tenure would need to be replaced with female directors:	83.60%	46.49%	27.94%	9.38%
In the **Russell 1000,** this percentage of men with 10+ years tenure would need to be replaced with female directors:	90.74%	54.33%	36.13%	17.92%
In the **Russell 3000**, this percentage of men with 10+ years tenure would need to be replaced with female directors:	97.21%	62.39%	44.98%	27.57%

These findings are based on the following tenure and gender distributions (as of May 2013), presented below.

Index	% of board seats held by women
S&P 500	17.5%
Russell 1000	15.1%
Russell 3000	12.1%

	% of index of this gender and over 10 yrs	% of index of this gender and over 15 yrs
S&P 500		
Female	4.8%	2.1%
Male	26.9%	13.3%
Russell 1000		
Female	3.9%	1.7%
Male	27.5%	14.1%
Russell 3000		
Female	2.9%	1.3%
Male	28.7%	15.3%

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