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At the helm
Board structure and non-executive directors' fees

Incorporating responses from our 2013 survey of board structure and processes

May 2013

Overview from Carol Arrowsmith

This year, in addition to the information collected in our questionnaire, we have broadened the report to include information on board structure and diversity which is publicly available in annual reports. This supplements the findings of the survey and provides a complete picture of current board structures and policies. There are three areas to which I would particularly like to draw your attention.

The first is the issue of women on boards which has been the subject of renewed discussion in the media over recent weeks. Overall the boards of the UK's largest companies have increased in number by one since our last report (a top 30 company typically now has 13 directors and a FTSE 100 company, eleven directors) and this may be in part to do with the fact that companies have been moving towards the goal of 25% representation of women on the board.

As has been reported in the media, the number of women on the boards of FTSE 100 companies has increased significantly since our last report. There are now 17% of all directors in these companies who are and there are now fewer than 10% of companies with no female board members. There has also been an increase in the number of women on the boards of smaller companies so this change is not just limited to the largest companies. Only a quarter of FTSE 250 companies currently have no female board members compared with more than half at the end of 2011 when we last produced a report on this subject.

While this is very encouraging, it is worth remembering that this increase is predominantly among non-executive directors. The overall percentage of female executive board members in FTSE 350 companies has not increased significantly since our last report and has only increased from 2% to 5% of all executives in the last ten years. Of course, the pipeline of future female directors is dependent on there being sufficient women coming through to senior executive positions and this is where companies must focus more attention. Our survey data suggests that almost half of respondents have a formal policy on diversity which will typically include a goal of 25% female representation on the board. More interestingly almost a third of companies have a policy that at least one woman must be on the candidate list for any main board position and four out of five companies are actively trying to increase the diversity of the senior management team below the board. We are also pleased to note that around a quarter of companies now have additional and specific development plans in place for women in female senior management positions and we would encourage more companies to consider this. Of course it will take some time for these initiatives to have an impact and we will continue to monitor how this progresses.

The second issue which continues to receive a great deal of attention is that of executive pay. New disclosure regulations are due to come into force later this year and we have included a summary of the latest draft of these in Chapter 3. We asked our three groups of respondents about the importance of these disclosures. The findings, which are included later in Chapter 3 of this report, suggest that while shareholders consider most of the proposed disclosures to be very important, this view is not always shared by company secretaries and non-executive directors.

It is important to remember that our findings are based on a relatively small, albeit influential, sample of shareholders. Nonetheless, the results do give a general indication of the areas which shareholders consider of greatest importance. These include, as would be expected, information on the link between pay, business strategy and performance and also information on termination arrangements. But a significant number of shareholders also place great importance on information relating to how the company ensures the remuneration principles are applied consistently across all employees, something far fewer company secretaries and non-executive directors consider of importance.

The results also indicate that there are areas where shareholders are ready to accept some flexibility in the policy to ensure that arrangements continue to be effective where circumstances change. So the majority of shareholders consider that it should be possible to flex the policy in areas such as performance metrics and deferral arrangements in annual bonus plans. On the other hand, shareholders would want the opportunity to approve any changes to aspects such as maximum incentive opportunity, levels of vesting for threshold and maximum performance and long term measures of performance.

My final point is of a cautionary nature. Our survey illustrates that shareholders are aware of some of the commercial and practical issues the new disclosure regime may create. But as is the nature of surveys, the analysis only represents a sample of shareholders and responses are by nature very general. A number of shareholders commented that in many cases their views on what disclosures are most critical and the degree of flexibility they may be prepared to accept will vary considerably by company.

Shareholders will have more powers than has previously been the case and companies are going to have to think very carefully about the way in which remuneration policies are disclosed to ensure this meets shareholder expectations and that disclosures are meaningful and do not lapse into boilerplate language while at the same time ensuring that there is sufficient flexibility to be able to deal with the changing shape of the business and unforeseen events.

It is becoming very clear, not only from the results of this survey but also from our conversations with companies and shareholders, that there is going to be an explosion in the level of interaction between companies and their shareholders over the next twelve to eighteen months as companies prepare for the first binding vote on policy. This is likely to mean that shareholders may not always be able to devote sufficient time to each company's arrangements and this in turn suggests that companies will need to plan ahead and start the communication process much earlier than usual. Having a clear action plan in place is likely to be a real advantage.

The next year or so is likely to be a very interesting period in a number of ways and I would like to thank you for your continued support of our survey which allows us all to see how these issues develop.

Carol Arrowsmith
Vice Chairman Deloitte LLP
April 2013

2. Main findings

Board structure

- Excluding the chairman, for every executive position there are currently around 2.5 non-executive positions in a FTSE 100 company, just under two in a FTSE 250 company and 1.5 in a FTSE SmallCap company.

- Companies in the financial services & property sector have more board members than other industries across companies of all sizes.

	Median number of directors including the chairman	Median number of executive directors (including chairman)	Median number of non-executive directors (including chairman)
Top 30 companies	13	3	10
FTSE 100	11	3	7
FTSE 250	8	3	5
FTSE SmallCap	7	3	4

Number of directorships

- Nine individuals chair more than one FTSE 100 company. In total 27 individuals chair more than one FTSE 350 company.

- 14% of all directors hold more than one main board position in a FTSE 350 company.

- 11% of all executive directors in FTSE 350 companies (20% in FTSE 100 and 7% in FTSE 250 companies) hold a non-executive position in another FTSE 350 company.

Length of service

- The median length of service for non-executive directors is four years and for executive directors is nine years with the company.

- The median length of service on the board for executive directors is six years.

- The median length of service in the top full time executive position is five years.

Board committees

- The audit and remuneration committee will typically comprise of three or four members and the nomination will typically consist of four or five members.

	Median number of meetings			
	Top 30 companies	FTSE 100	FTSE 250	FTSE SmallCap
Board meetings	8	9	8	9
Remuneration committee meetings	5	5	4	4
Audit committee meetings	6	5	4	4
Nomination committee meetings	4	4	2	2

Diversity

- 17% of all board members in FTSE 100 companies are women compared with 13% in 2011.
- Only ten FTSE 350 companies are headed by a female chief executive.
- 82% of FTSE 100 companies have at least one board director from outside of the UK. This is the case in almost half of FTSE 250 companies and 41% of FTSE SmallCap companies.
- 46% of our survey participants have a formal diversity policy in place.
- When reviewing the composition of the board all of our three groups of respondents consider the balance of skills and experience to be an important factor. Shareholders consider diversity of nationality, personal style, personal experience and gender to all be important factors for the board to consider.

Succession planning

- The majority of our survey participants review the development and succession plans at least annually and in around a quarter of companies the plans are reviewed more frequently.
- In around three quarters of respondents there are development programmes in place for senior management positions and in around a quarter of companies there are additional and specific plans in place for female senior management positions.

Board effectiveness

- When it comes to improving board effectiveness a significant proportion of all three groups of survey respondents consider the following would be helpful:
  - More time spent discussing strategy.
  - More focus on risk and risk management.
  - Better quality and more focused information.
- Shareholders and non-executive directors also consider that more robust challenging and probing of proposals would be helpful but fewer company secretaries consider this to be a potential issue.

Board evaluation

- Nearly all participating companies have a formal evaluation process in place for the board and its committees and over 80% of company secretaries felt that the evaluation process does improve the effectiveness of the board.
- In around two thirds of respondents the board evaluation process has been conducted by an external evaluator in the last three years.

The remuneration committee

- All three groups of survey respondents strongly agree that the remuneration committee should have scheduled meetings without the executives present, that the committee should receive regular financial updates and that shareholders should be given sufficient information about how and why remuneration decisions are taken.
- A significant number of shareholders believe that the chief executive should not attend the remuneration committee meetings but the majority of company secretaries and non-executive directors strongly disagree with this idea.
- All three groups of respondents agree that employees should not be represented on the remuneration committee.
- A significant proportion of non-executive directors and shareholders agree that the committee should liaise with the risk committee or risk function to make sure risk is adequately factored into the remuneration arrangements.

Fee increases

- The median fee increase given to all non-executive directors and the chairman of FTSE 350 companies in both 2011 and 2012 was 0%.

	Chairman		Other non-executive directors	
	Median increase	Median of those giving an increase	Median increase	Median of those giving an increase
FTSE 100 companies	0.0%	7.0%	0.0%	7.0%
FTSE 250 companies	0.0%	3.0%	0.0%	3.0%
FTSE SmallCap companies	0.0%	4.4%	0.0%	5.0%

Fee levels

	Median total fees – chairman	Median basic fee – non-executive directors
Top 30 companies	£650,000	£77,500
FTSE 100 companies	£360,000	£63,000
FTSE 250 companies	£168,600	£45,000
FTSE SmallCap companies	£120,000	£39,500

Additional fees

	Median SID fees	Median remuneration committee chairman fees	Median audit committee chairman fees
Top 30 companies	£30,000	£25,000	£30,000
FTSE 100 companies	£15,000	£17,500	£20,000
FTSE 250 companies	£6,000	£9,000	£10,000
FTSE SmallCap companies	£5,500	£6,600	£7,500

Time commitment

	Number of days per year	
	FTSE 250	FTSE SmallCap
Company secretaries – amount of time non-executive chairmen are expected to provide	100	50
Shareholders – the appropriate amount of time to fulfil the role of a non-executive chairmen	100	60

	Number of days per year	
	FTSE 100	FTSE 250
Median number of days spent by non-executive directors (including preparation and attendance at all relevant meetings)	33	26
Company secretaries – amount of time non-executive directors are expected to provide	20	20
Shareholders – the appropriate amount of time to fulfil the role of a non-executive director	50	40