ridgeway partners
leadership advisors

Future of Boards

Report 2018

Welcome to our second Future of Boards Report. This updates and expands on the work we did last year and looks at issues including board composition, diversity, stakeholder engagement, effectiveness and director career motivations. We would like to thank all 270 board directors who took part.

This year's results once again shed fascinating light on the continued evolution of UK boards and the tensions that increasingly exist between the multiple priorities facing them. Clearly boards have considerable work to do in improving community engagement, ethnic diversity, technology capabilities, succession planning and performance management processes. But in recent years they have consistently adapted and evolved to absorb new reponisibilities, as demonstrated by the improvement to date in gender diversity. UK corporate governance remains a dynamic area and it will be interesting to see how boards approach and resolve the challenges ahead.

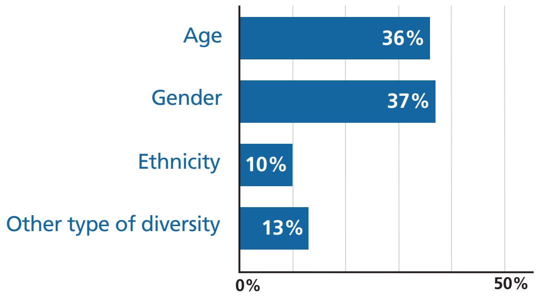
Louise Angel
Head of Board Practice

Board Composition and Diversity

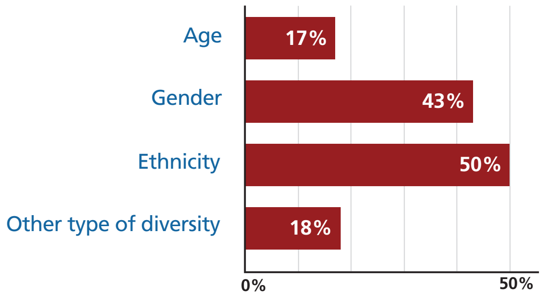
While the vast majority (90%) sit on a board which currently has at least one female board member, only 34% sit on a board with at least one non-white board member (as classified in the Parker Review). 39% reported at least three female board directors. Only 5% have at least three non-white board directors.

The majority are very or fairly satisfied that their board is sufficiently diverse in terms of age and gender; just over half are not satisfied in terms of ethnicity. As we found last year, ethnic diversity is the area in which most would like to see an improvement, followed by gender, both at an executive and non-executive level.

How satisfied are you that your board is sufficiently diverse in:
(% shown is very satisfied)



In which of these areas would you like to see more diversity?



The majority of FTSE 100 board members (74%) feel their company is on track to meet the Hampton-Alexander Review target of 33% female board and leadership team representation by 2020. This is lower (58%) for FTSE 250 board members.

The majority of FTSE 350 directors in our sample are on boards with no non-white board members. Most of this group (79%) say their company is not on target to recruit a non-white board member by the Parker Review target date for their company's size.

Respondents also highlighted the importance of international experience and technology expertise, as well as the difficulties in meeting gender targets at a leadership team level.

However, board diversity is not seen as a major influencer of board effectiveness (see page 4).

> *"If you are trying to keep your board size down it is a real challenge to recruit all the skills you need, as well as populate the committees and address diversity considerations."*
>
> **Non-executive director, FTSE 100**

> *"Gender diversity is now a given and has been a positive development. It has freed us up to look at other types of diversity that could be additive."*
>
> **Non-executive director, FTSE 100**

Board Topics and Regulation

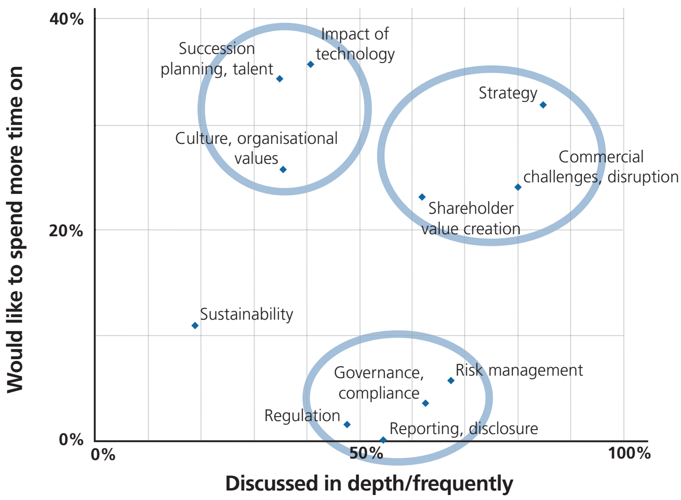
Topics discussed at board meetings fall into three groups:

Strategy, shareholder value creation and commercial challenges, disruption: discussed frequently or in depth. Around a quarter of board members want to discuss them more.

Impact of technology, succession planning and culture: discussed less often; around a third want to discuss them more.

Risk management, governance, reporting and regulation: Already discussed frequently or in depth. Very few directors want to discuss these topics more (with some wanting to discuss them less).

Topics discussed at board meetings



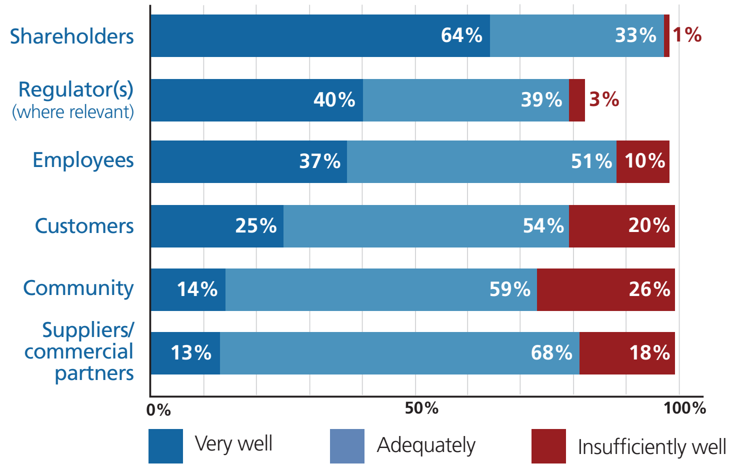
Women are more likely to want to discuss the impact of technology more (44% of women vs 33% of men), while men are more likely to nominate strategy (35% of men vs 22% of women). Men are also more likely to want to spend less time discussing governance and compliance than women (41% of men vs 25% of women).

52% of respondents are directors of companies regulated by the PRA or FCA, 16% by another body, 31% being directors of unregulated companies. 78% of those who are directors of regulated companies feel that the administrative and regulatory burden placed on boards is excessive.

Stakeholder Engagement

The majority (64%) feel their board engages very well with their shareholders, but less so in the case of regulators. For all other stakeholders the majority feel their board's level of engagement is only adequate, with the lowest level of engagement being with community and suppliers/commercial partners.

How effectively do you think your board engages with each of these stakeholder groups?



The proportion who feel their board engages very well with employees has increased from 27% last year to 37% this year. Customer engagement remains at exactly the same low level (community and suppliers were asked about for the first time this year).

When asked how well their board discharges its responsibilities to each of the groups, shareholders come top here also (73% 'very well') followed by employees and regulators (49% and 46% 'very well').

38% feel their boards discharge their responsibilities to customers 'very well', only 21% and 20% feeling this was the case for community and suppliers/commercial partners.

Board Skill Sets and Effectiveness

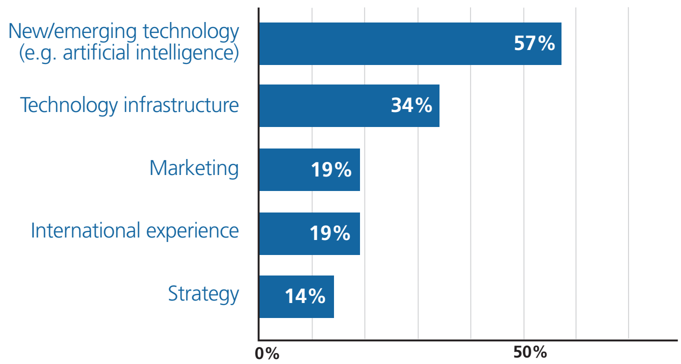
Just over half (54%) feel their board's skill set is aligned very well with the company's strategy. This is higher for male board members (57%) than for female board members (47%).

When asked which skills or knowledge they believe their board needs more of, technology (both new/emerging technology and technology infrastructure) are rated as the most important. International experience and marketing rank equal third in importance.

Other areas ranking lower in importance are human resources (11%), experience dealing with government and commercial/P&L experience (both 9%), prior board experience and risk (both 5%) and financial management (3%).

Those in financial services place the highest emphasis on new/emerging technology skills (70%) and knowledge of technology infrastructure (45%); these fall to 43% and 20% for those in the energy, construction and manufacturing sector group and to 44% and 17% for those in the consulting, media and healthcare group.

Which skills or knowledge do you believe your board needs more of?

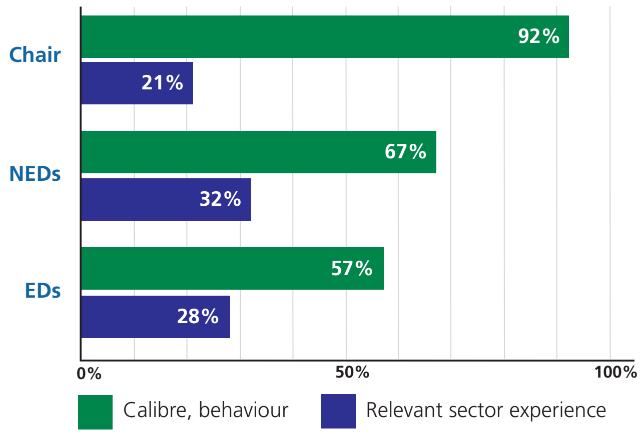


> *"Quality people will always find a way of producing results, even when everything else is not right. Quality of board members must always come first."*
>
> **Chair, FTSE 250**

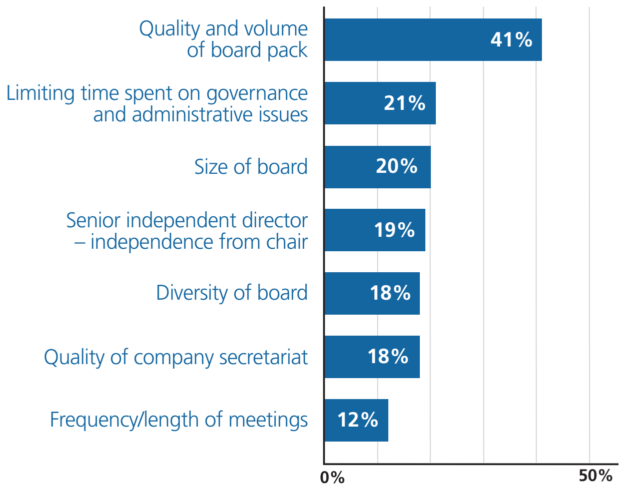
When asked which factors have the greatest influence on board effectiveness, the calibre and behaviour of board members is much more important than relevant sector experience. This is particularly the case for the chair.

Of the other areas asked about, the quality and volume of the board pack is cited by 41%, with no other area being important to more than one in five directors.

Most important factors affecting board effectiveness: calibre and behaviour vs relevant sector experience



Most important factors affecting board effectiveness: other areas

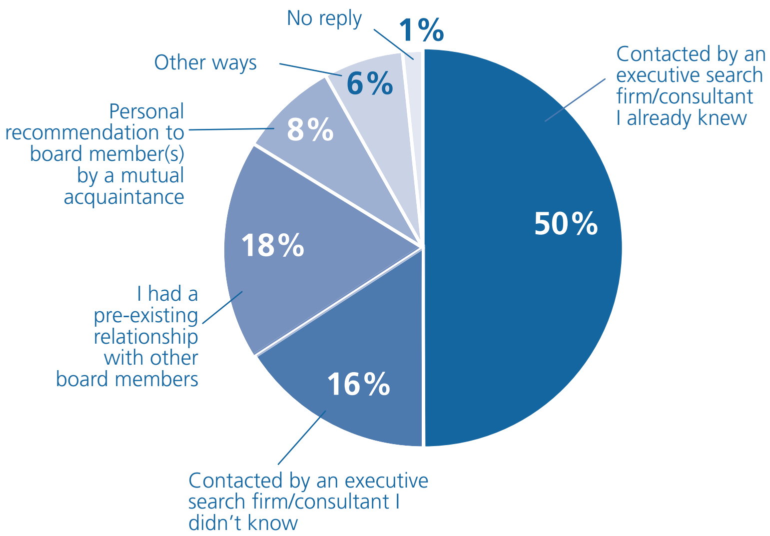


Recruitment, Succession Planning and Performance

The majority (62%) discuss CEO succession planning at main board or nomination committee level once or twice a year. 77% are satisfied with this (19% would like to discuss it more frequently, 3% less often).

Half of those who took part in the survey were recruited into their current role by an executive search firm or consultant they already knew, a quarter by personal recommendation or through a pre-existing relationship with other board members.

How were you recruited into your current non-executive role?



Half (50%) have witnessed under performance by a non-executive director. The most common means of tackling this is through active feedback/performance management (cited by 39% of those witnessing poor performance). 26% of those witnessing poor performance have experienced a case in which the director does not stand for re-election.

A narrow majority (57%) feel their board has a very accurate knowledge of internal successors to the CEO; only 10% feel they have a very accurate knowledge of potential external successors. Knowledge of internal successors is lowest amongst those in business services and consumer goods/services.

> *"Underperformance can be situational – what is right in one board culture is not right for another. But in my experience NEDs are left to sink or swim – boards make up their minds quickly and there is little notion of training and development."*
>
> **Non-executive director, FTSE 100**

> *"I perform annual one on one appraisals with all my NEDs and that works well, but I have seen in other boards how the desire to be collegiate – a standard requirement for all NED roles – means that directors can be reluctant to criticise each other. There is also the knowledge that NEDs are not well paid for what the modern job entails, which also inhibits a more critical view. However, I find that the new generation of NEDs actively seeks feedback – they want to learn."*
>
> **Chair, FTSE 250**

Personal Motivations

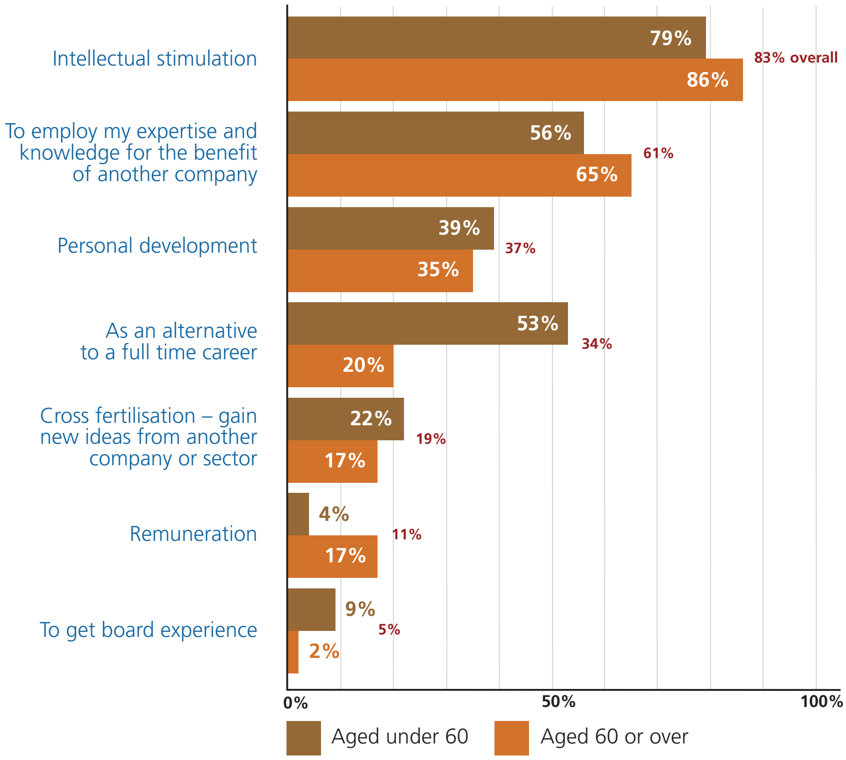
In five years' time most (81%) see themselves working as a portfolio non-executive director and/or chair. Only 13% see themselves as retired, with 5% still working full time in a quoted company.

The main reasons for respondents electing to be a non-executive director are intellectual stimulation and to employ their knowledge and expertise for the benefit of another company. 11% cited remuneration, 5% wanting to gain board experience. 53% of those under 60 report choosing non executive roles as an alternative to a full time career.

Around two thirds (68%) feel they have the capacity to take on further directorships and discharge them effectively. Only 5% of those with two or more board directorships (209) have experienced a shareholder voting against their appointment on the basis of overboarding concerns.

66% of executive directors feel that executive directors are fairly rewarded for their role on the board. 44% of non-executive directors feel that non-executive directors are fairly rewarded.

Which of the following best describes why you elected to be a non-executive director?



Survey Methodology

Fieldwork for 'Future of Boards' was conducted in January and February 2018. Requests were sent out to directors by Ridgeway Partners, with the online survey hosted by an independent fieldwork company, Think Media Consultancy. A total of 270 directors completed the survey on a confidential basis, in accordance with the Market Research Society Code of Conduct.

The sample comprised 44 (16%) executive directors and 226 (84%) only holding non-executive directorships. 4% of the sample held both executive and non-executive directorships; this group were asked to complete the survey in relation to the organisation for which they were an executive director.

The majority (75%) were non-executive directors of two or more companies. This group were asked to answer the survey in respect of the largest company of which they were a non-executive director (if they were not an executive director).

For the purposes of this summary, the term 'executive director' includes those who also have an additional non-executive role. 'Non-executive director' refers to those holding no executive roles.

55% were directors of FTSE 350 companies. The full company ownership spread is shown to the right. The gender balance was 73% male, 27% female. 50% were aged under 60, 50% aged 60 or more.

Type of Organisation	Number	Percentage
FTSE 100	66	24%
FTSE 250	85	32%
Main market other	36	13%
AIM	15	6%
UK private equity owned	9	3%
UK private other	29	11%
Other	30	11%