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# *The inexorable professionalisation of Boards*

Paul Silcock  
30 November 2011

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# *Agenda*

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**2** *Challenging Roles*

**3** *Shape of Boards*

**4** *Expectations/education/evaluation*

**5** *Relationship between NEDs and investors*

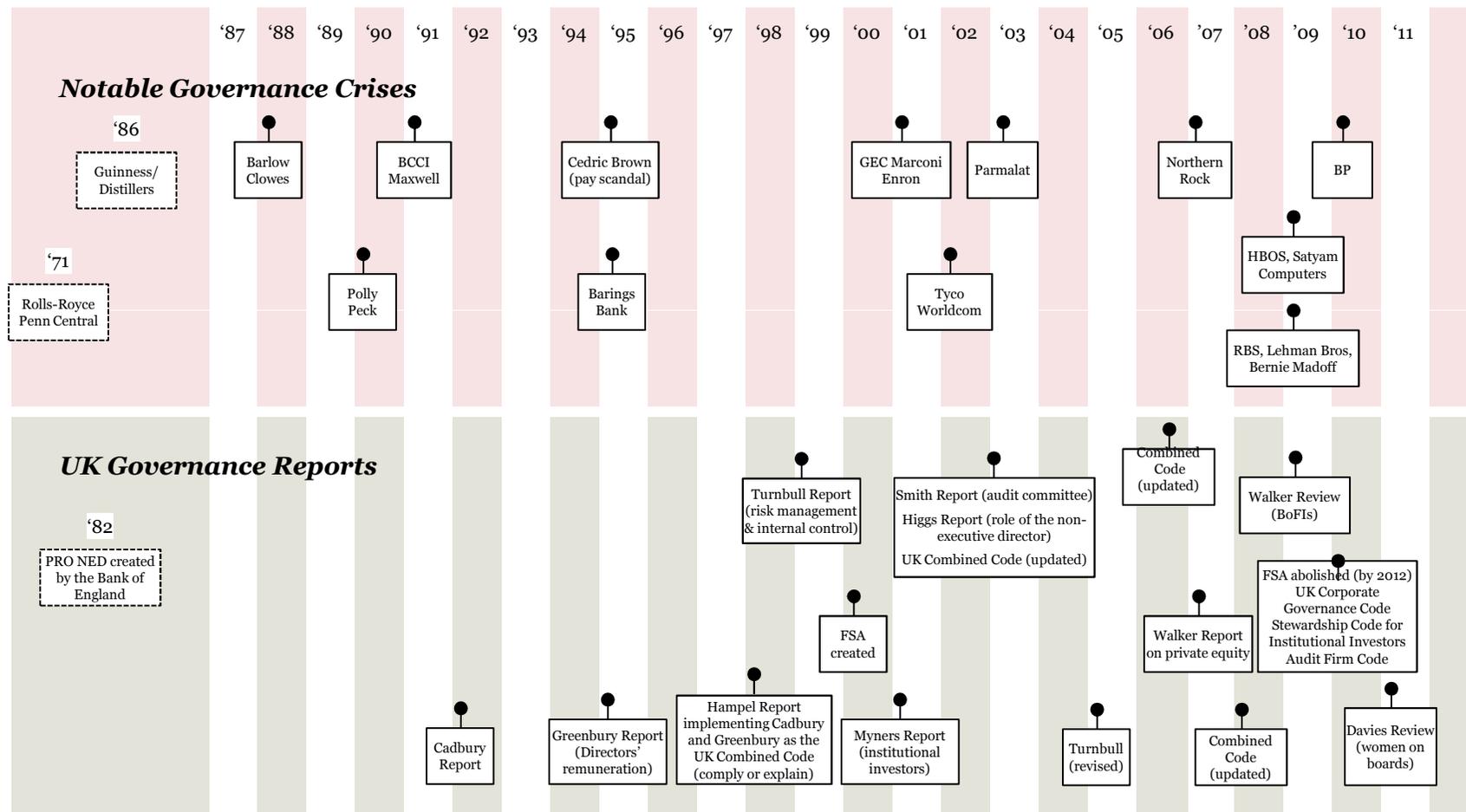
**6** *Common issues with current status quo*

**7** *A look to the future*

**8** *PwC/IoD Channel Island NED Survey 2011*

# Introduction

## Corporate governance timeline



Source: 'evolution or revolution', Spencer Stuart

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# ***Challenging Role***

## Role of the Board

### UK Corporate Governance Code principle

“The boards role is to provide “entrepreneurial” leadership of the company within a framework of prudent and effective controls which enable risks to be assessed and managed. The board should set the companies strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company’s values and standards and ensure that its obligations to its shareholders and others are understood and met.”

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# ***Challenging Role***

## **Role of the Chair**

### **FRC Guidance on Board Effectiveness (March '11) – role of Chair:**

- demonstrating ethical leadership and setting the Board agenda
- ensuring a timely flow of high-quality information
- making certain the board determines the nature and extent of the significant risks the company is prepared to embrace
- considering succession planning and board composition
- ensuring the board has effective decision making processes and applies challenge
- encouraging the engagement of all Board members
- taking the lead on director development and board evaluation
- ensuring effective communication with stakeholders

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## ***Challenging Role***

### Role of SID

- in normal times SID should act as a sounding board for the Chair
- SID should also lead evaluation of the Chair on behalf of other directors
- in times of stress, (eg dispute between the Chair & CEO, shareholder concerns not being addressed by Chair/CEO, etc), SID should work to resolve significant issues

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## ***Challenging Role***

### **Role of Non-executive Director**

#### **FRC Guidance on Board Effectiveness – NEDs should:**

- devote time to a comprehensive and formal induction
- devote time to developing their knowledge and skills
- make sufficient time available to fulfil their role
- uphold standards of integrity & probity
- insist on receiving high quality, timely information
- take into account the views of shareholders and others

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## ***Shape of Boards***

### Shift to lower executive numbers

- old-style Board consisted mainly of current/former executives with an executive chairman
- ‘outsiders’ on Boards usually had links, contacts or relevant skills
- average size of Boards in 1970s was 10 with 3-4 ‘non-executive’
- bank Boards significantly larger due customer representatives
- average size now 8-10 with a 5:3 or 7:3 Non-Exec:Exec ratio
- some Boards are entirely Non-Exec + the CEO and CFO
- As the NED role grows, fewer executive have the time/inclination to manage a NED appointment alongside their executive role

Is this a quasi ‘two tier’ Board structure?

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# *Shape of Boards*

## Diversity

- internationalisation of British business reflected in rise of foreign directors – 10% in 1990's v's more than 30% now
- 36% of FTSE 100 CEOs were non-British in 2009
- only 4% of largest UK groups have no foreign directors
  
- gender diversity less advanced
- 12.5% of female directors in FTSE 100 at end of 2010
- 14.5% of FTSE 100 companies and 52.4% of FTSE 250 companies had no female representation in 2010
- Lord Davies review having an impact (14.3% in FTSE 100 as at August 2011)
- FTSE 100 to aim to have a minimum of 25% female board representation by 2015

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# ***Expectations, education, evaluation***

## Expectations

- greater expectation of skills and knowledge than previously
- generalist v specialist debate
  - trade off of independence and knowledge
  - challenging mindset v expertise
- all with an understanding of the business? (FS sector)
  - beware unintended consequence
- increased focus on risk and risk appetite
- increased governance and regulatory requirements
- expectation of challenge (arguably over used)

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# ***Expectations, education, evaluation***

## Education

- Most companies now have an induction programme
- Chairman should regularly review and agree with each director their training and development needs
- (UK Corporate Governance code recommendation June 2010)
- FSA checks already in place re skills and ongoing development for FS sector
- Tipping point reached 3 years ago in PwC NED programme with numbers attending half day workshops exceeded lunchtime briefings
- Increasing number of approaches for specific Board/Audit Committee training at end of meetings

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## ***Expectations, education, evaluation***

### **Evaluation**

- FTSE 350 Boards should undertake an externally facilitated Board effectiveness review at least every 3 years (internally in between)
- to 2010, 34% of FTSE 100 companies (mostly financial sector) and 17 % of FTSE 250 companies had used an external facilitator
- facilitators – sources/quality/monitoring
- Most frequent areas for improvement according to published action plans are
  - board level strategy development
  - director skills and training
  - executive succession planning
  - Board information (MIS frequently produces data not info)

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## ***Relationship between NEDs and Investors*** Stewardship Code

- Stewardship Code published in July 2010 – operates on basis of “comply or explain”
- Aims to enhance quality of engagement between institutional investors and companies
- Has created impetus – 174 organisations have published a statement of commitment to the code
- Concept of “stewardship” is gaining momentum elsewhere
- IMA 2011 survey shows majority of institutional voters use vote
- FRC now working with IMA to monitor progress
- EC Green Paper on corporate governance – risk of more regulation?

# ***Relationship between NEDs and Investors***

## **Company Ownership**

- Significant shift in ownership profile

### ***Ownership of UK equities - %***

	Individuals	UK Financial Institutions <sup>a</sup>	Foreign	Other <sup>b</sup>
1963	54.0	29.0	7.0	10.0
1975	37.5	47.3	5.6	9.6
1981	28.2	57.6	3.6	10.6
1994	20.3	59.8	16.3	3.6
2000	16.0	47.1	32.4	4.5
2008	10.2	39.9	41.5	8.4

a. principally insurance companies, pension funds, unit trusts and investment trusts

b. Including charities, private non-financial companies, public sector and banks

*Source: Office of National Statistics*

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## ***Common issues with current status quo***

- Chairman/CEO relationship
  - vital but Chairman needs to be able to hold back
- Independent but knowledgeable insider – where is the line?
  - need to step back v almost becoming part of management team
- Process versus behaviours
  - cannot fix behavioural problems with procedural solutions
- Colleagues or policemen – advisor or monitor?
- Insufficient time spent on strategy/risk/talent
- Shareholder fragmentation with diverse requirements
- Group think due to lack of diversity

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## *A look to the future*

- NEDs may start their career earlier
- Chairmen should encourage their senior management to take an NED appointment
- NEDs are unlikely to hold as many Board positions
- Possibility of “twin-track NEDs – professional NEDs and those with a current executive position elsewhere with less time expected?
- Greater diversity on Boards – in its widest sense
  - Lord Davies review already having an impact
  - global Boards more international
  - pool will need to be wider than former executives

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## *A look to the future*

- Less focus on process and more on people and how they behave
- More structural support to enable NEDs to discharge their duties
- Budget for ongoing professional development
- CPD measurement?
- FRC vetting of FSA currently for financial sector?
- NED mentoring – role for existing NEDs?

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# *2011 Channel Islands Non-executive directors Survey*

Nicola Mills:  
30 November 2011

**pwc**

**IO**

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# *Agenda*

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**2** *Roles and time commitment*

**3** *Fee Levels*

**4** *Board Structure*

**5** *Governance*

**6** *Closing*

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## ***Introduction***

- This is the first edition of our Channel Islands non-executive director survey.
- Report considers issues facing non-executive directors as well as trends in fees paid.
- Data focuses on responses received by 103 non-executive directors of which 93% consider themselves to be independent.
- 79% of responses were based on listed/regulated and unregulated fund boards. Other banking and financial services were represented as well as Utility and private companies.

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# ***Roles and time commitment***

## Challenges for non-executives

- The majority of companies and funds have come through the last few years of the financial crisis.

The key challenges over the next year for non-executive directors are:

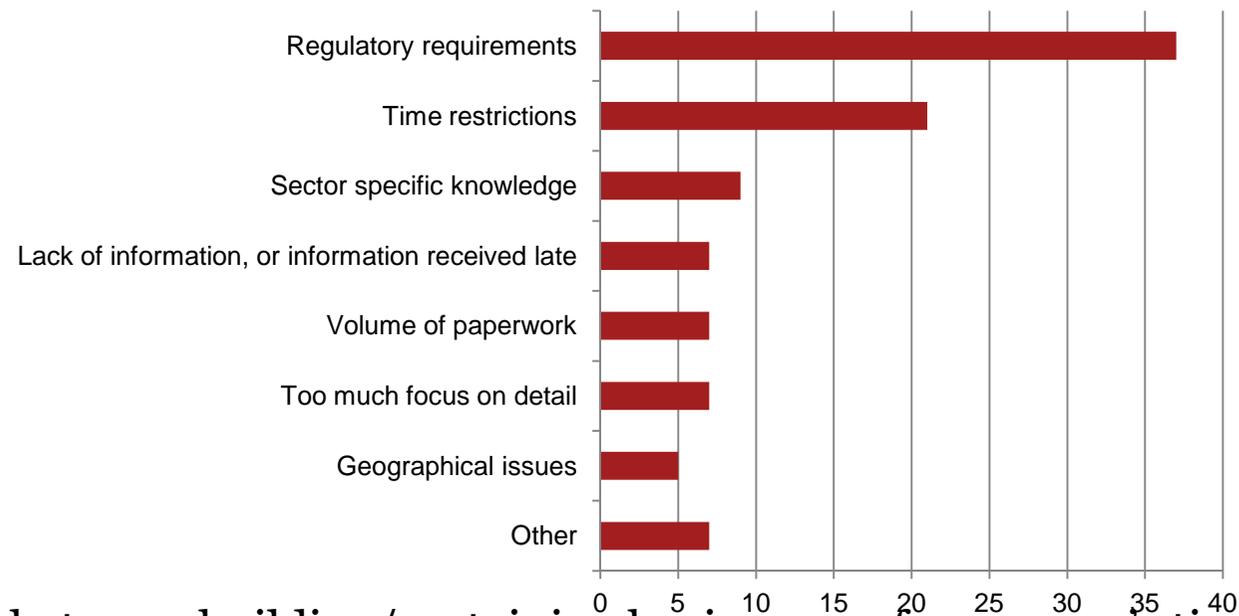
- Investment /business performance & growth.
- Regulatory requirements.
- Fund and business strategy.
- Risk management.

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# *Roles and time commitment*

## Challenges for non-executives

- Key factors impeding your role as a NED.



Tension between building/sustaining business performance v's time taken to deal with regulation.

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## ***Roles and time commitment***

### **Changes to the non-executive role**

- 95% of NED's think their role has changed, key changes include, time commitment, accountability, complexity and reputational risk.

### **Attractiveness of role?**

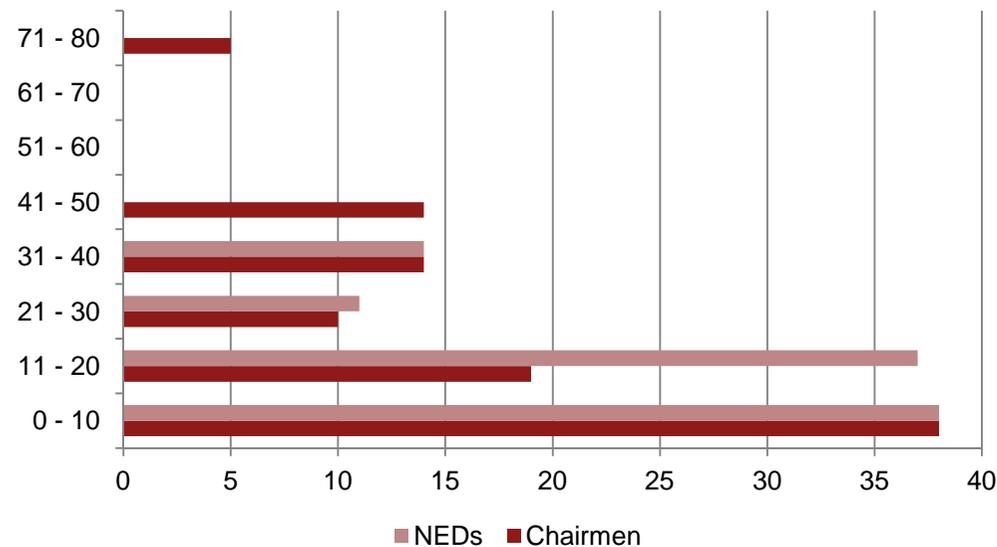
- The majority of NED's feel the role has become more attractive over the past few years due to challenging nature and ability to add value.
- A third of NED's believe the role is less attractive due to increased regulatory burden and associated reputational risk combined with insufficient remuneration.

# Roles and time commitment

## Increased future time commitments

- 45% of non-executives expect future time commitments to increase.

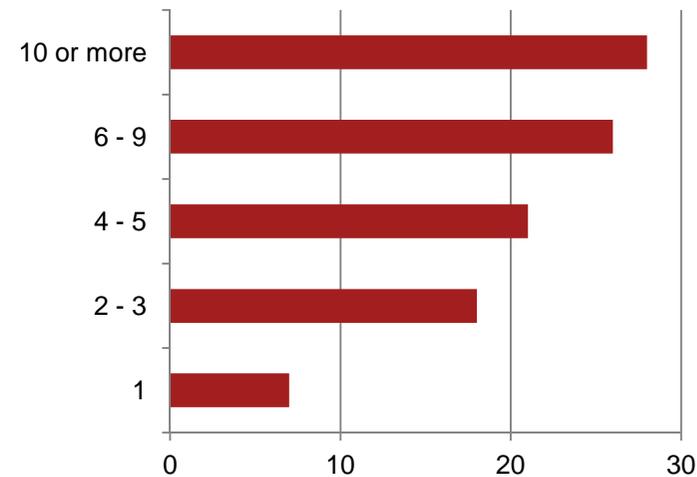
### Time commitment of NED's (days)



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## *Roles and time commitment*

### Number of non-executive directorships



- The majority of NEDs hold more than 1 appointment.
- 71% of NEDs plan to restrict the number of directorships.
- 35% of NEDs would restrict appointments to between 10 and 20 funds/ companies.

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## *Fee levels*

### *Adequacy of fees*

61% of NEDs consider fee levels to be adequate.

65% of NEDS do not envisage a fee increase over the next financial year.

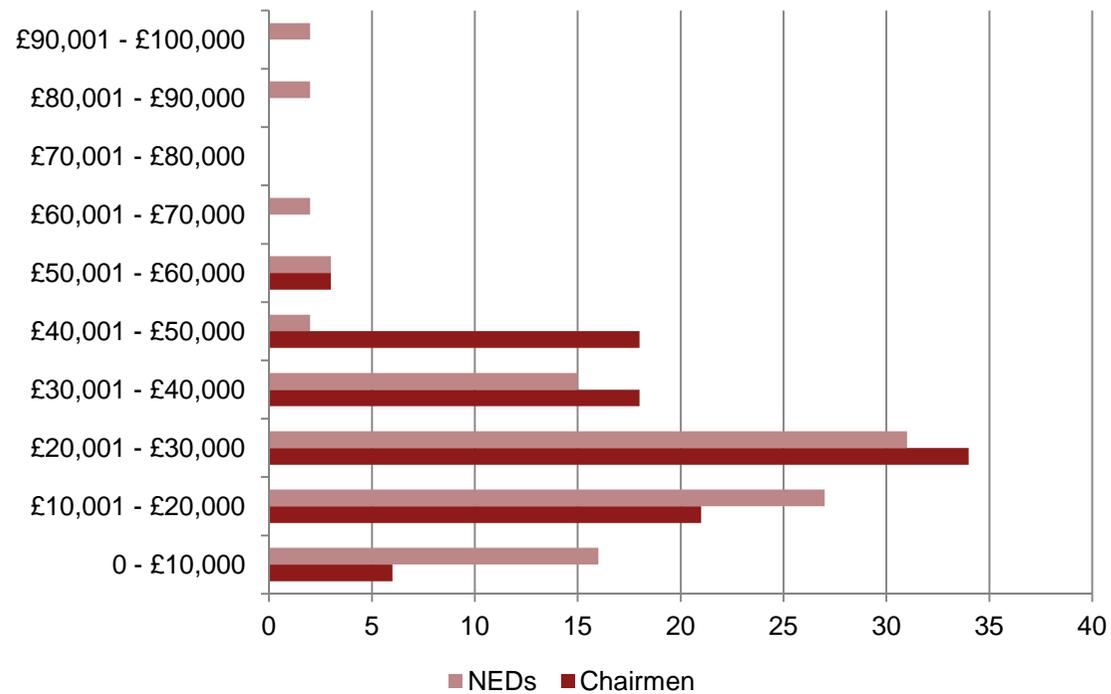
51% of boards do not have a policy for fee reviews for NEDs.

18% of NEDs have not had fees reviewed since 2007 or earlier.

The majority of NEDs contracts did not include scope for additional fees and of those that did less than half received additional fees for additional time spent

## *Fee levels*

74% of NEDs are paid between £10,000 and £40,000 per annum.



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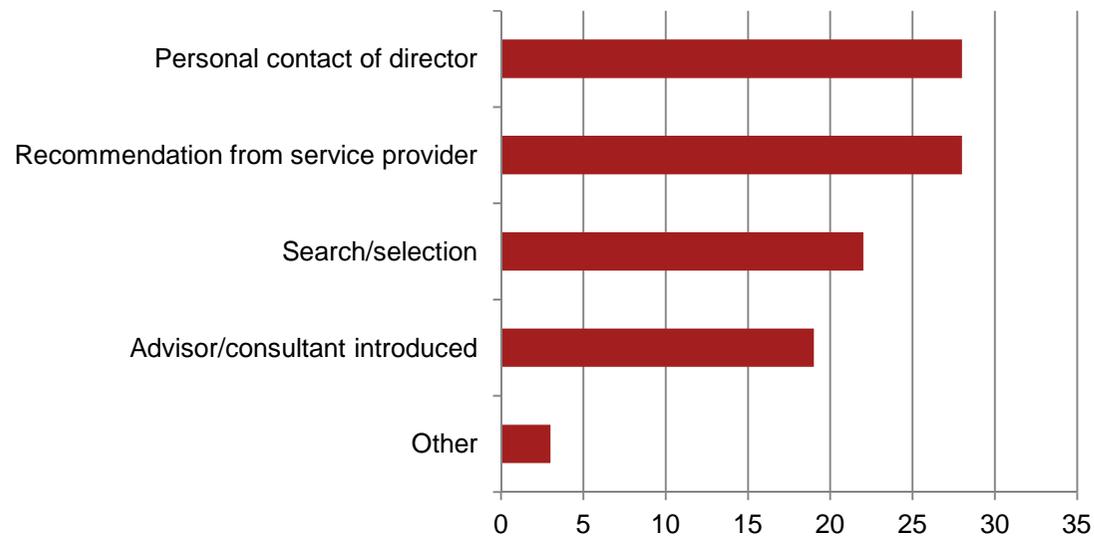
## ***Fee levels***

- Should there be a link between fees paid to non-executive directors and their performance?
- Performance could be measured by reference to:
  - Knowledge and experience
  - Training
  - Meeting attendance and contribution
  - Company specific objectives
- Need for objective measures and robust evaluation
- Impact on fee level and annual increases

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# ***Board structure***

## Selection process



NED's believe that key factors in the final selection process are competencies and sector experience.

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# ***Board structure***

## Diversity

### **Key selection factors when appointing non-executives**

	% respondents
Experience	78
Background	10
Technical skills	5
Gender	2
Ethnicity	2
Other	3

Whilst diversity is a consideration when recruiting NEDs, the majority are recruited on the basis of experience.

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# Governance

## Board evaluations

66% of respondents perform board evaluations annually

## Most recent board evaluation

Types of board evaluation	% respondents
Questionnaire based	49
Self-evaluation	31
Informal discussion	28
Peer assessment	16
Interview based	15
Externally facilitated	9
Other	8

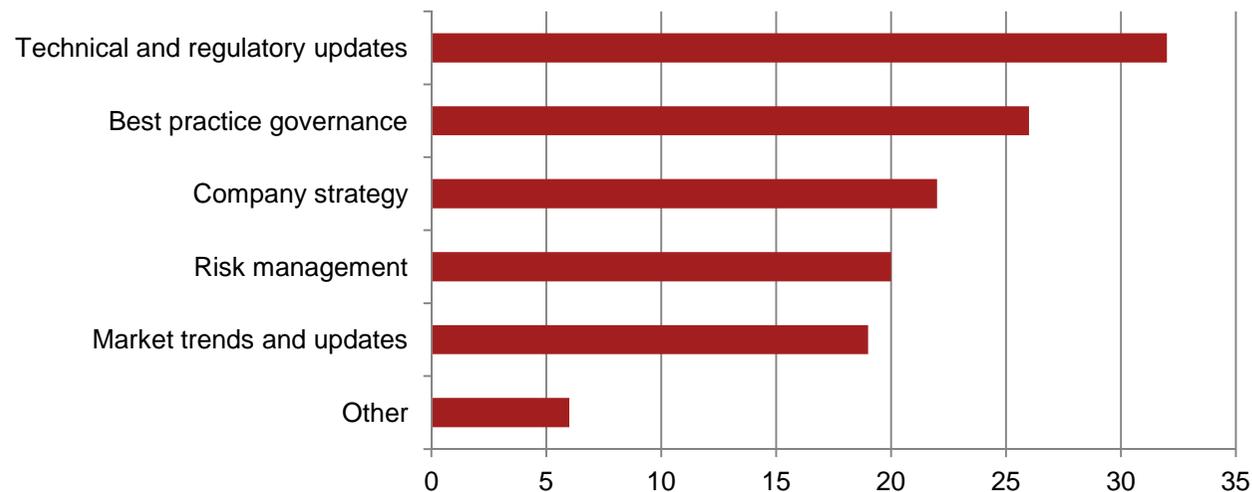
The majority of NEDs believe external facilitation of board evaluation adds objectivity and value to the process

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# Governance

## Professional development programme

- 50% of NED's surveyed received a formal induction process
- 25% of NED's have a formal professional development programme



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## ***In closing.....***

- The role of a non-executive director continues to be challenging.
- Time commitment perceived to have increased and will continue to increase.
- Fees appear not to have risen in line with time commitment.
- Regulatory changes and economic conditions continue to raise challenges.
- Key focus areas over the next 12 months:
  - Regulatory change
  - Training and development

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# Questions?

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