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ACCELERATING GLOBAL BOARDS AND TEAMS

A View at the Top

Boardroom Trends in Britain's Top 100 Companies

A View at the Top: Boardroom Trends in Britain's Top 100 Companies

Authors of the report are:

- Dr Elisabeth Marx, Elisabeth Marx Associates
- Dr Randall S Peterson, Academic Director, London Business School Leadership Institute, Professor of Organisational Behaviour, London Business School
- With Vyla Rollins, Executive Director, and Brent Hamerla, Engagement and Programme Manager, London Business School Leadership Institute
- In conjunction with Sara Drake, CEO and Peter Swabey, Policy and Research Director, ICSA: The Governance Institute

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A View at the Top: Boardroom Trends in Britain's Top 100 Companies

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Foreword

The post-financial crisis years have seen an explosion of interest in governance, with companies under more regulatory and media scrutiny than ever before. High-profile governance failures have further undermined the public's trust in business and, indeed, in organisations in other sectors. Governments and regulators are striving to overturn public scepticism through the use of regulation. Good governance is of critical importance as it is the principal way in which the corporate world can help to achieve this and, as the UK seeks to raise corporate governance standards to an even higher level, some of these standards are developing into legislative requirements. All this makes it an extremely busy time for all those involved in governance.

Compliance with the law is an integral part of good governance, but it is not the only consideration. Companies are now being judged in the context of big societal issues such as technological change, environmental sustainability and financial inequality. The boards which are leading Britain's top companies must be clear on their organisational purpose, open and accountable, and operate with integrity if they are to rebuild public confidence. At a time when trust in business has declined substantially, but companies are facing increasingly high expectations in terms of how they should behave, being able to demonstrate a higher purpose than simply making money is becoming a business critical issue. Ethics and competitiveness are increasingly linked.

Strong, ethical leadership is also required as companies navigate the 4th industrial revolution. While technology has brought with it a whole host of improvements, as companies turn to artificial intelligence and machine learning to give them a competitive advantage, boards need to be mindful of genuine areas of concern about system bias, invasion of privacy and loss of security. New technologies bring more questions than just those related to risk management, control and stewardship of people's data. Consideration of the ethical application of new technologies is one area that boards need to lead on and get to grips with fast.

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Given the rapidly changing expectations of organisations and their boards, diversity of thoughts and experience are an even more crucial component of board effectiveness than ever before and getting the right people around the boardroom table is a priority in all organisations in all sectors.

That is why the theme of the ICSA Conference 2019 is 'The Future Board' and I am delighted that this report, launched at the conference, sets in context some of the developments in boards over the last 20 years and demonstrates the ground that we still need to cover, showing how some of the most widely respected companies in the UK are leading change.

Sara Drake, CEO
ICSA: The Governance Institute

Transformative change in board conduct and composition: 1991 to 2019

Vyla Rollins, Executive Director, London Business School Leadership Institute

Over the past 28 years, we've experienced unprecedented changes in our global community. The reality we now find ourselves navigating has been created by a cacophony of factors, including geopolitical developments, social movements, challenges to the financial services business model, nation state dynamics, and technological advances. As well as having an impact on our lives as individuals, these factors have also placed a greater pressure on businesses in regard to how they are required to drive and manage performance in the 21st century. They have also contributed to increased public visibility of how these pressures influence strategy execution, culture, employee/customer engagement, shareholder value, CSR and ultimately corporate governance. Or perhaps it should be said these pressures have provided dramatic insights on what can manifest in the **absence** of strong governance.

Few would disagree that the publication of the Cadbury Report in 1992 drove the creation of a critical set of government-endorsed guidelines, aimed at increasing organisational responsibility and accountability for financial governance. These recommendations went on to be enshrined in a Code of Best Practice on Corporate Governance, which was built upon to form the UK Corporate Governance Code (the Code). The Code's current manifestation (which went into effect from 1st January this year) is more succinct in the principles it sets out, but retains its focus on charging businesses proactively to provide clear and meaningful explanations when provisions in the code are not met.

What many fail to realise is that the iterations of the Code have also been welcomed by social science scholars and practitioners who study board efficacy and governance, both in the UK and around the globe. This is because the Code has created a constructive impetus – for those who sit on boards, for those who advise them, for those who advocate for board regulation, and for academics – to think more deeply about the skills and competencies that ultimately drive board effectiveness. The Code has also encouraged organisations to be more proactive in securing and nurturing the skills of those who sit in, and will enter into, the boardroom; skills and competencies which research has shown drive effective board interactions. By explicitly mentioning factors such as 'leadership behaviours', 'culture', 'ethics', 'diversity' in its many forms and 'interpersonal and group effectiveness', we see boards increasingly acknowledge these constructs as critical to effective governance – as opposed to seeing them as things that are 'nice to have'.

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The London Business School Leadership Institute takes pride in the dialogue we are driving, facilitating and shaping on the topic of 'board effectiveness'. More fundamentally, we take even greater pride in the **evidence based** insights we are contributing to this dialogue – both in the UK and around the world. We also recognise the role and responsibility we have as leadership educators; to translate our research into thought leadership and provide practical guidance on its application in a manner that will ideally lead to the acceleration of the performance and effectiveness of boards. Not only within the wider business community, but also as part of the learning and development experiences we create in our Degree & Executive Education Programmes on this topic.

We hope you find this report not only interesting, but also as reference document you can use to create constructive dialogue and decisive action in boards that you might sit on, currently interact with, and/or engage with both now and in the future.

A View at the Top: Boardroom Trends in Britain's Top 100 Companies

Executive summary

Randall S. Peterson, Academic Director, London Business School Leadership Institute

Boards have never been under as much scrutiny as they are today. Boards are being examined in ways not foreseeable 20 years ago due to a variety of converging pressures including economic and political instability, globalisation, rising inequality, and a rash of high profile board failures. In light of this, we asked how boards have evolved over this time in the hope that they are better prepared to respond to these changes. We started by looking back at the 1996 report 'A View at the Top' which was a pioneering look at the demography and composition of the UK's FTSE 100 boards. We then replicated that same research 21 years later and found that in many of the headline-grabbing areas there has been change, sometimes radical change – such as the move of female directors from 4 to 28% and international experience in the boardroom climbing from 24 to 57%. However, in other areas little has changed – such as those educated at Oxbridge or Harvard holding strong starting at 33% and dropping to 25% and the percentage of women executive directors climbing from 1% to only 3%. Alarmingly, there are some ways in which the boardroom is becoming significantly less diverse – such as the percentage of directors with a background in finance increasing from 38% to 49%. These data make for interesting reading and reflection about how much has changed in 20 years, but also how much has stayed the same. We invite you to engage with the data we share and the questions we pose in this report.

Methodology

We analysed the board composition of Britain's Top 100 companies (FTSE 100, July 2017) as a follow up review and comparison to 'A View at the Top' (Marx, 1998).

Data was collected for all of the current Top 100 companies as per July 2017 from a number of sources: companies' websites and annual reports, LinkedIn, news media, and *Management Today* BMAC 2012–2016.

We collected information on all board directors of these companies (10.6 per company on average) as per the research. For some of the variables assessed, information was not available for a small number of individuals and as a result they were excluded from the analyses.

We collected and analysed the following characteristics of board members: gender, age, nationality, ethnicity, career profile, career background, international experience (defined as working or studying abroad for at least one year), and educational background.

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Main objectives of the research project

Dr Elisabeth Marx, Elisabeth Marx Associates

The boards of public companies have always been a great focus of interest for a variety of audiences, ranging from investors to corporate governance experts, consultants, and academics. Particularly since the financial crisis, boards have been in the limelight like never before, resulting in an increase in corporate governance guidelines, including a greater monitoring of trends in diversity.

When I started researching boards in 1996, there was a paucity of data on what the boards of Britain's top companies actually look like. Therefore, the main objective of the original research in 1996 was to understand boardroom trends in terms of demographics and background and to answer questions such as:

- What does the typical Top 100 British plc board look like?
- What characteristics differentiate non-executive directors from their executive counterparts?
- What will future British boards look like?
- But importantly, is there a relationship between board composition and company reputation?

One of the most interesting findings of the 1996 research was that the boards of the **Most Admired Companies** had much more diverse boards, as defined in the broadest sense. The **Most Admired Companies** had more women and more executive directors on their boards; their directors also had more international experience and were better educated.

While the last 20 years has seen a huge increase in board studies, our team was particularly interested in exploring what changes have occurred in the board composition of the FTSE 100 companies and whether these board trends reflect the changing business landscape in relation to the greater internationalisation, pace, technology impact and turbulence of today. In other words, how well prepared are today's boards to manage the change in business environment?

The present study is an exact replication of the 1996 approach (as published in 1998), with the aim of understanding the changes in boardroom trends and their implications for board effectiveness.

Board changes between 1996 and 2017

Dr Elisabeth Marx, Elisabeth Marx Associates

THE PROFILE OF A TYPICAL FTSE 100 BOARD

Board size

The average board size is 11 directors (65% of boards have between 10 to 14 directors) – 26% of directors are executives and 74% are non-executives.

	1996	2017
Board size	12 Directors on average	11 Directors on average
Executive	49%	26%
Non-executive	51%	74%

Gender

Of the 1060 board directors, 28% are women, reflecting the impact of successful diversity initiatives in the FTSE 100 companies over the last couple of years.

	1996	2017
% Female ♀	4.1%	28%

Age

The average age of a FTSE 100 board director is 58.5 years; non-executive directors are on average 60 years old, and executive directors seven years younger, as one would expect.

Average age	1996	2017
	56	58.5
Executive	53	53
Non-executives	60	60

Early career/functional background

Directors starting out in accountancy/ finance have a predominant presence on British boards (49%), compared to directors from other functional backgrounds.

	1996	2017
Accountancy/finance background	38%	49%

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THE PROFILE OF A TYPICAL FTSE 100 BOARD

International experience

As most FTSE 100 companies are highly international, this is reflected in the high prevalence of international experience in its directors, with 57% of directors having had international experience.

% with International experience	1996	2017
	24% (maximum estimate)	**57%**

Academic qualifications

The majority of board directors are University-educated and a considerable number hold degrees from top international universities and business schools (including Oxbridge, Edinburgh, Harvard and other top US Universities, and international business schools such as INSEAD and LBS).

% Educated Oxford, Cambridge or Harvard	1996	2017
	33%	**25%**

Most admired

Most admired companies in 1996 as well as in the present tend to have more females, more executive directors and the boards are less heavy on finance backgrounds.

Most admired companies	1996	2017
	6% female	**31% female**
	53% executive directors	**30% executive directors**
	24% accounting/ finance background	**45.5% accounting/ finance**

Composition of the board – number of executive and non-executive directors

Compared to 20 years ago, there are now fewer executive directors on the board in preference of non-executive directors. In 1996, 49% of the board were executive directors, compared to 26% in 2017. This is a direct consequence of the Corporate Governance recommendations (Higgs report) which focused on reducing the ratio of executives to non-executives around the table; it also reflects the increased monitoring role of the board.

However, these changes raise the question as to whether there could be a 'cost' to the overall **effectiveness of boards**. As boards become smaller, primarily by reducing the number of executives, it is logical to assume that the non-executive directors see fewer key executives of the company 'in action' during board meetings. This raises the question about the non-executive directors' knowledge of the executive team and its capabilities.

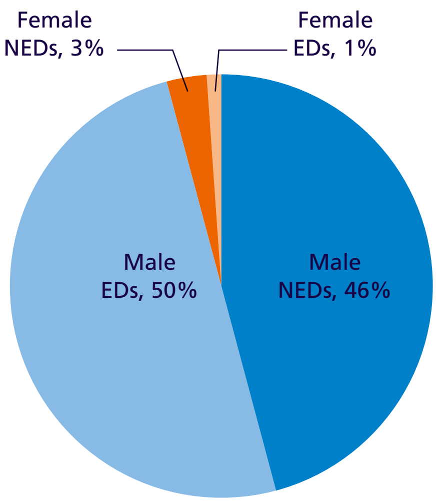
Specific questions to explore include:

1. Does having fewer executives on the board have an impact on the board's in-depth knowledge of operational details of the business?
2. How well do the non-executive directors understand the 'bench strength' of the executive team? Do they have a good understanding and can they evaluate the executive team's capability to implement the strategy when they see fewer executive directors regularly at board meetings?
3. How well do the non-executives know those executives with the highest potential to progress to the CEO role? How well do the non-executives know the main contenders in the CEO succession planning? Restricting the number of executives on the board typically only gives the non-executives a strong exposure to and knowledge of the current CEO and CFO, but not necessarily of other senior executives that drive the business and could be potential CEO successors in the future?
4. From the executives' perspectives, not having significant exposure to board level thinking and discussions may also restrict their opportunity to have high-level, strategic discussions or to have their ideas tested by independent directors: in other words, does this restrict a major leadership development opportunity for top executives in a company?

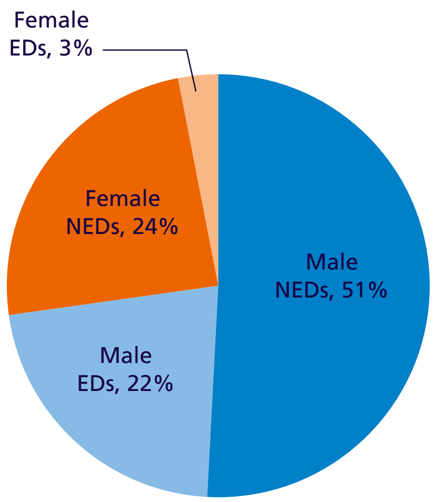
A View at the Top: Boardroom Trends in Britain's Top 100 Companies

Gender

Our data show a significant increase in the number of women board directors, from 4.1% in 1996 to 28% in 2017.



Overall gender distribution 1996



Overall gender distribution 2017

However, there is hardly any progress in the percentage of female executive directors on FTSE 100 boards. In 1996, 1% of female board directors were executive directors; within a 20-year timespan and despite all the current diversity initiatives, this figure has increased very little to only 3% in 2017.

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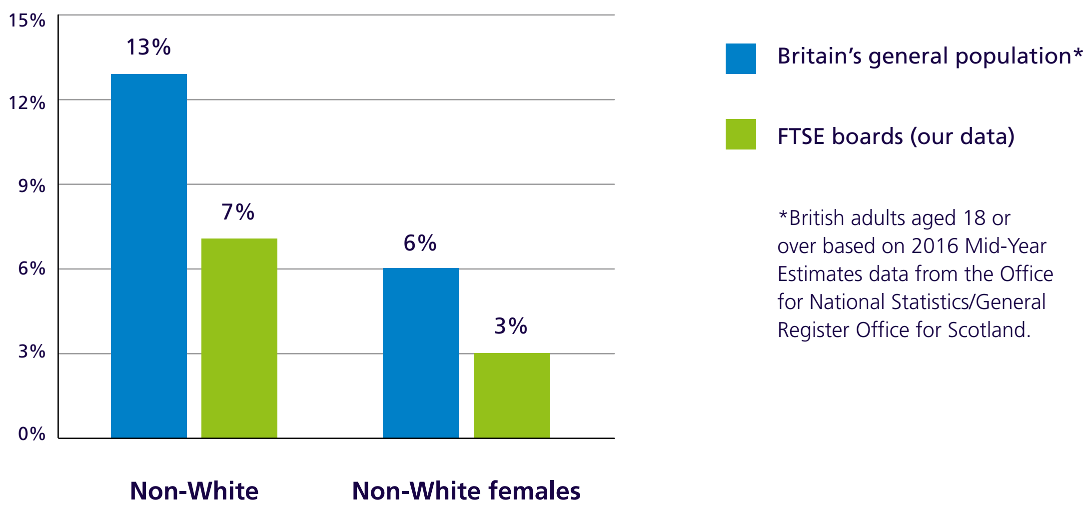
One way that boards are judged is whether they represent the population they serve. Our analysis shows that boards are significantly more white than the British population, as well as more obviously male.

Diversity Gap



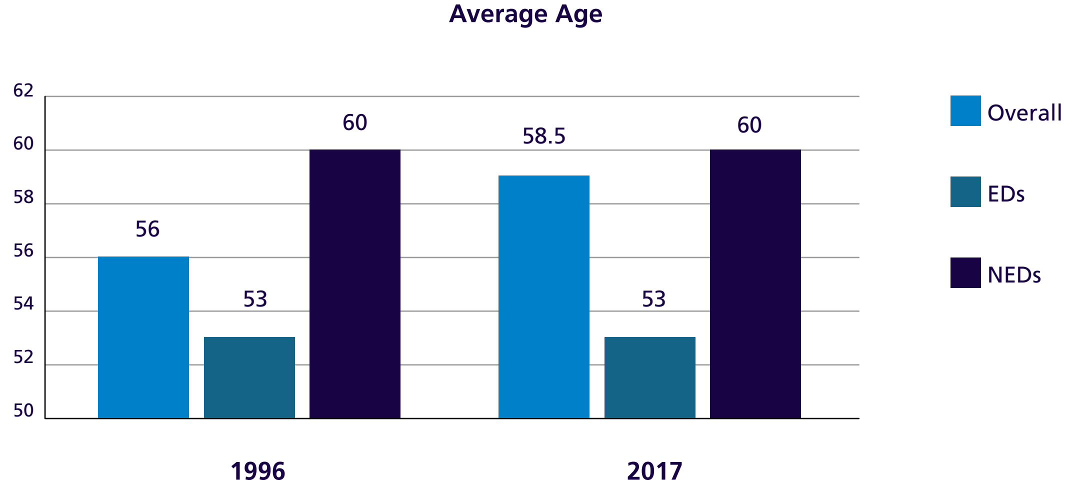
*British adults aged 18 or over based on 2016 Mid-Year Estimates data from the Office for National Statistics/General Register Office for Scotland.

Looking at these data, there are several aspects which are important for the future of UK boards and UK corporations:

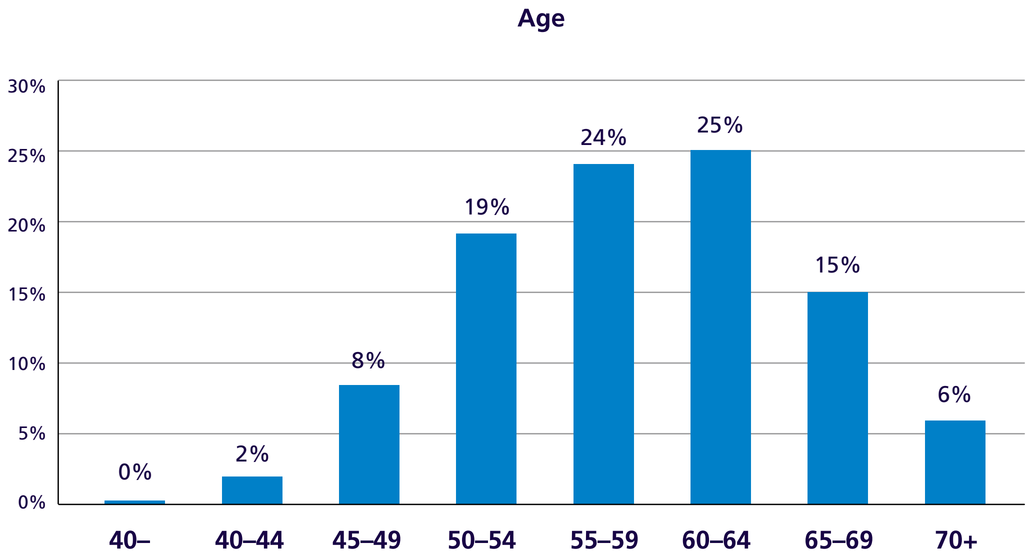
1. The many worthy board diversity initiatives may have had an unintended negative consequence at the executive level. A narrow focus on female non-executive directors may have inhibited the progression of women into executive roles.
2. This suggests that any future diversity initiatives, whether focusing on gender, ethnicity or age, need to be reviewed in terms of potential short- and long-term consequences – in other words, they ideally need to consider the potential downsides of well-intended initiatives right from the onset.
3. The lack of women at the executive level is likely to have an effect on organisational culture – ironically, one of the reasons some female executives give for opting out of their corporate career (often in favour of starting their own business) is an 'unconducive' organisational culture.

Age

There is a trend in 2017 for slightly older board directors (58.5 years versus 56 years in 1996) – this is probably best explained by the reduction in executive directors as they tend to be younger than the non-executive directors.



In 2017, 20% of board directors were 65 years old and above, whereas only 10% were under 50 years old. The advantage of the current pattern is that the ageism that raged before the financial crisis seems to have disappeared; the disadvantage may be the lack of younger board directors, particularly in consumer businesses or in relation to the technology challenge of today's companies. It can also mean that some directors have lengthy tenure – an issue that the new UK Corporate Governance Code has rightly grasped.



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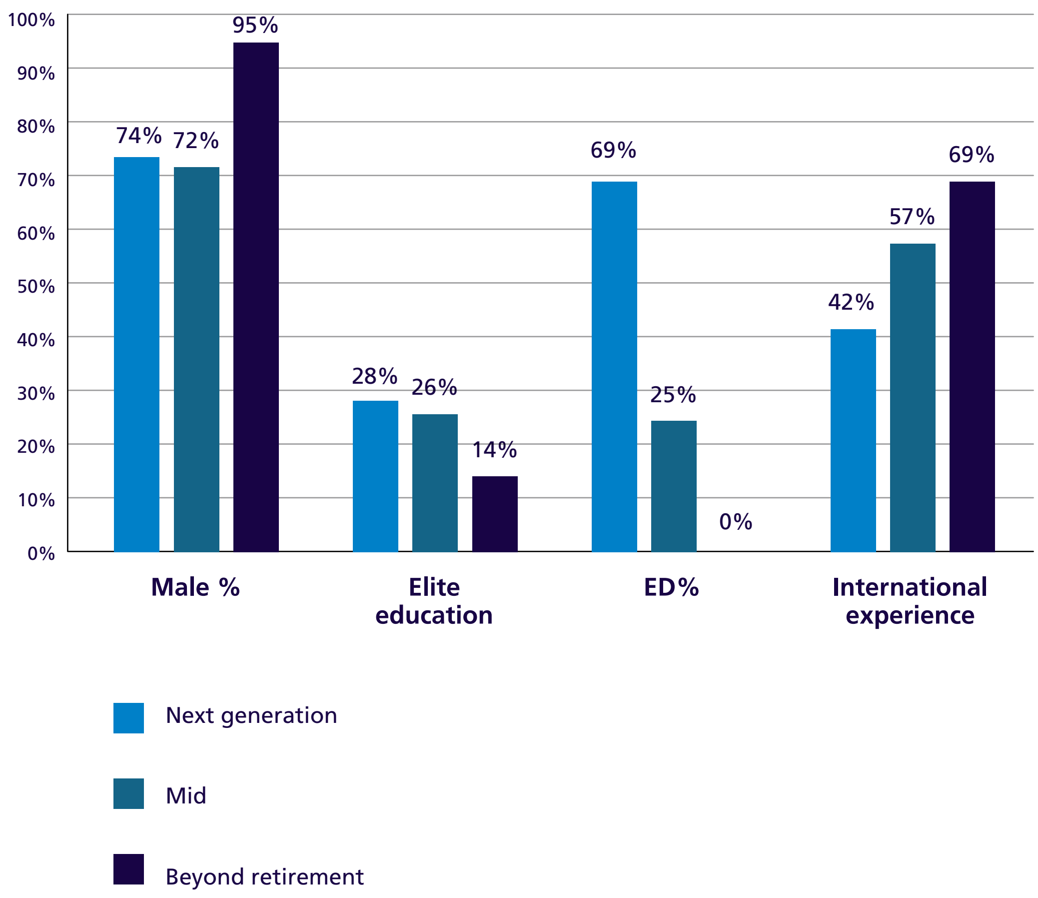
There are notable differences between the younger (next generation under 46 years old) and the older generation (above 70): most notably that the next generation of directors are young executives, equally as elite educated and male as the current executives, but with less international experience. This does not suggest much change in the C-Suite in coming years.

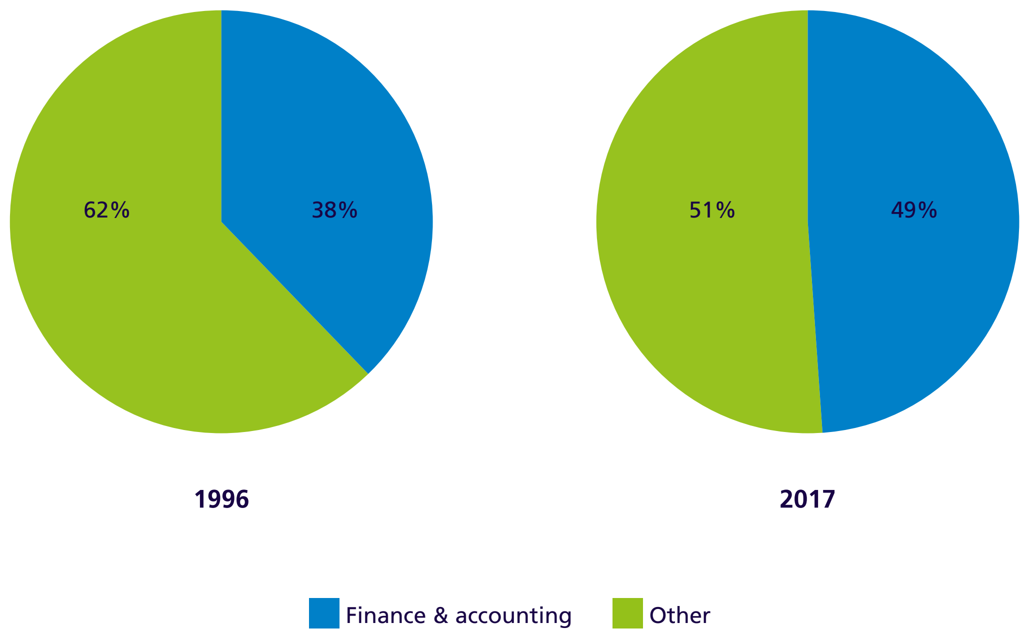
Next (under 46), Middle, Beyond (over 70)



Functional background

Compared to the progress in gender diversity, diversity in terms of functional background has travelled 'backwards'. Compared to the 1996 data, there is a strong increase in accountancy/finance background amongst board directors in 2017, rising from 38% in 1996 to 49% in 2017.

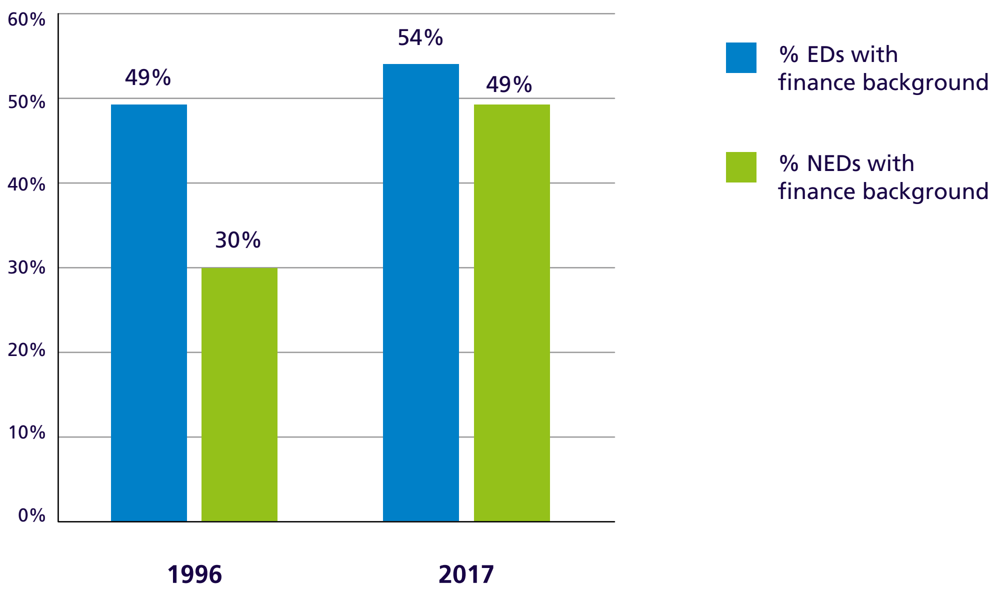
Finance vs non-finance



In 1996, 49% of executive directors had an accountancy/finance background, compared to 54% in 2017. Most marked is the shift, however, in the non-executive group which moved from 30% in 1996 to 49% in 2017.

This could potentially reduce the diversity of perspectives and narrow the focus in British boardrooms – a paradox when compared to the increased complexity of today's business environment.

% with finance background

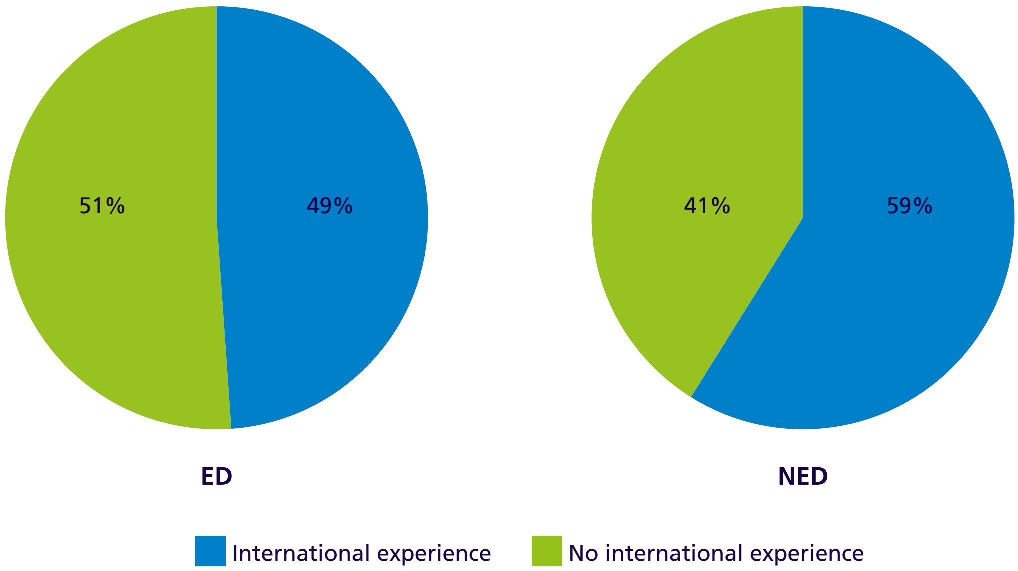


One of the key issues identified by the ICSA in their research on conflict and tension in the boardroom was the rise of the CFO who judges everything on the financial impact of a decision. The financial viewpoint is an important one, but is, perhaps, over-emphasised in board selection.

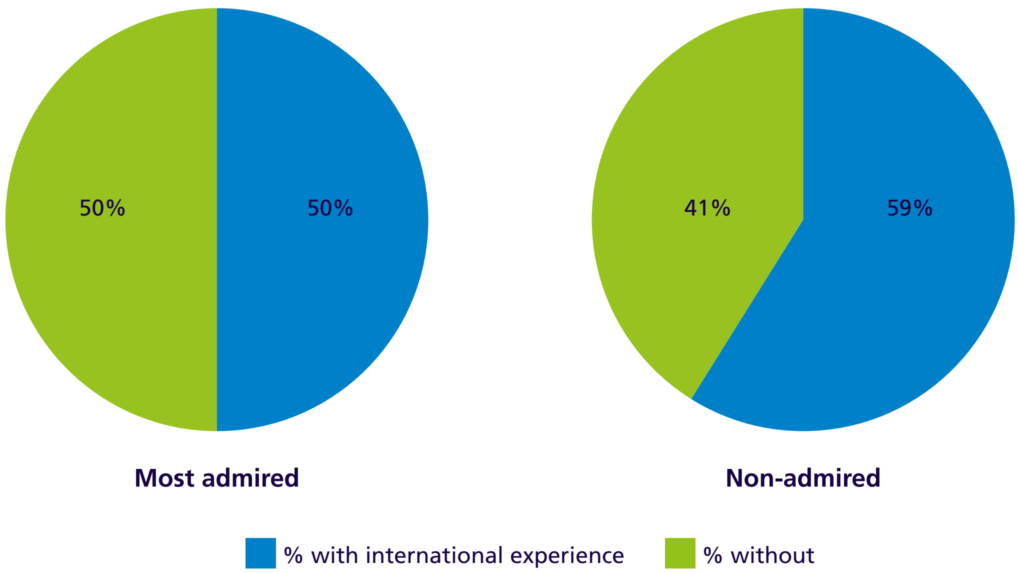
International experience

International experience is well represented in FTSE 100 boards and in 20 years has gone up to 57%, compared to 24% in 1996. Also, 41% of all board directors are non-British, mirroring the global talent pool in the UK.

EDs vs NEDs: international experience



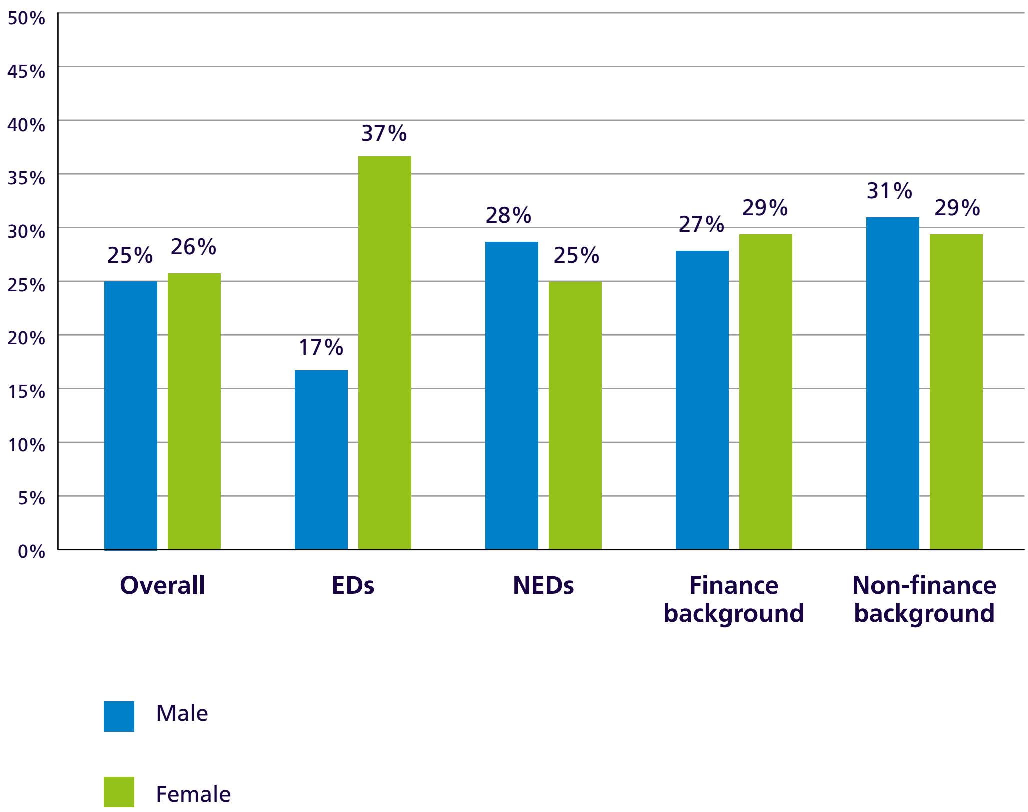
Most admired vs non-admired companies with international experience



Elite education

Elite institutions are strongly represented in today's British boardroom. While the Oxbridge effect has gone down from 28% in 1996 to 19% in 2017, this probably reflects the nationality mix in current boardrooms. At least 43% of today's FTSE 100 board directors have degrees either from elite universities or the top five business schools. An elite university/business school degree can still be seen as a 'passport to the top'. This is especially so for female executive directors as they are twice as likely to have an Oxford, Cambridge, or Harvard degree.

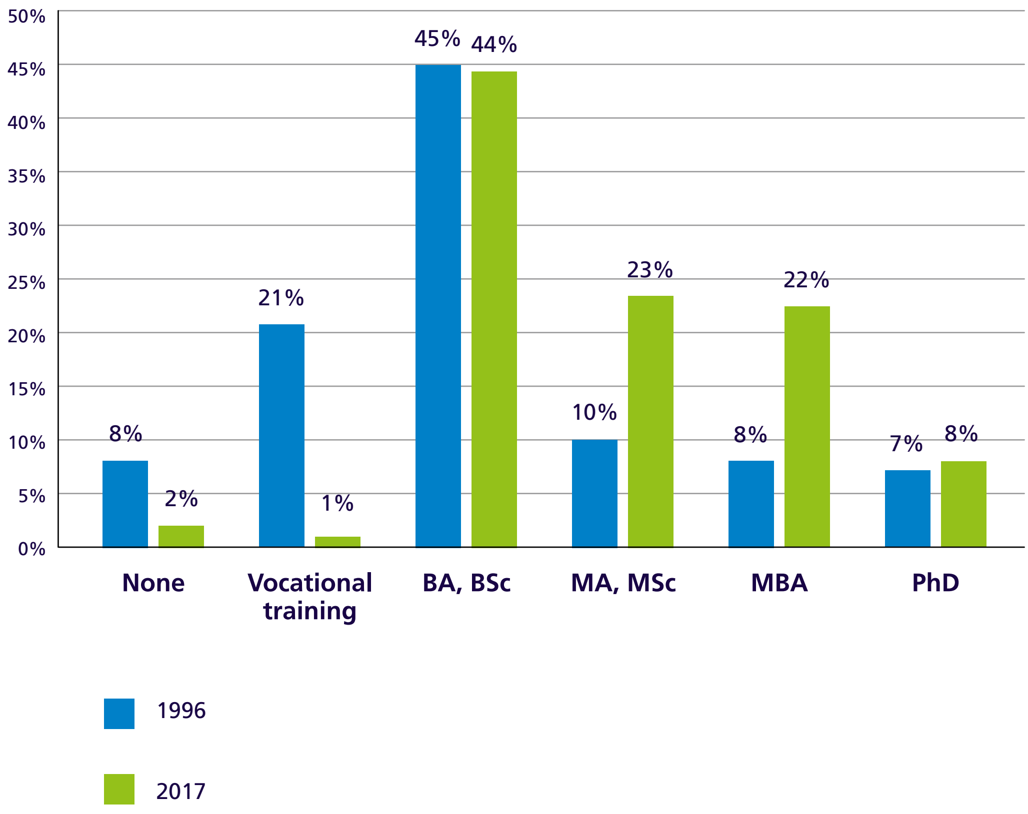
% with Oxford/Cambridge/Harvard degree



Advanced degrees

The education comparison of board directors between 1996 and 2017 shows the significant increase of advanced degrees in boardrooms. In 2017, 53% of board directors have an advanced degree, primarily MAs and MBAs (equal split), with a smaller group having PhDs. In 1996, only 25% of board directors had advanced degrees. As one may expect, business education has increased over time – whereas in 1996, only 8% of board directors had an MBA, this figure has climbed to 22% in 2017.

Highest Academic Qualification



Unique profile of 'Britain's Most Admired Companies'

Brent Hamerla, Engagement and Programme Manager, London Business School Leadership Institute

The previous research highlighted that there were key differences of boards of companies considered 'Most Admired Companies in Britain' and other companies identified in the research. One of the most interesting findings of the 1996 research was that the boards of the 'Most Admired Companies' had much more diverse boards, as defined in the broadest sense. Companies that were identified as 'Most admired' had more women and more executive directors on their boards; their directors also had more international experience and were better educated.

In 1996 our criteria for 'Britain's Most Admired Companies' was taken from the publication *Management Today* which compiles a peer ranking system based on the following criteria:

- Quality of management
- Financial soundness
- Ability to attract, develop and retain top talent
- Quality of product/services
- Value as long-term investment
- Capacity to innovate
- Quality of marketing
- Community and environmental responsibility
- Use of corporate assets

A View at the Top: Boardroom Trends in Britain's Top 100 Companies

Once more we have used the *Management Today* rankings to establish the UK's Top 20 companies to form the basis of our analysis. There is one main difference in that we have aggregated the last five years' worth of reports (2012–2016). This enables a richer and more consistent source of information and data and hence the slight change to 'UK's Most Admired Companies'.

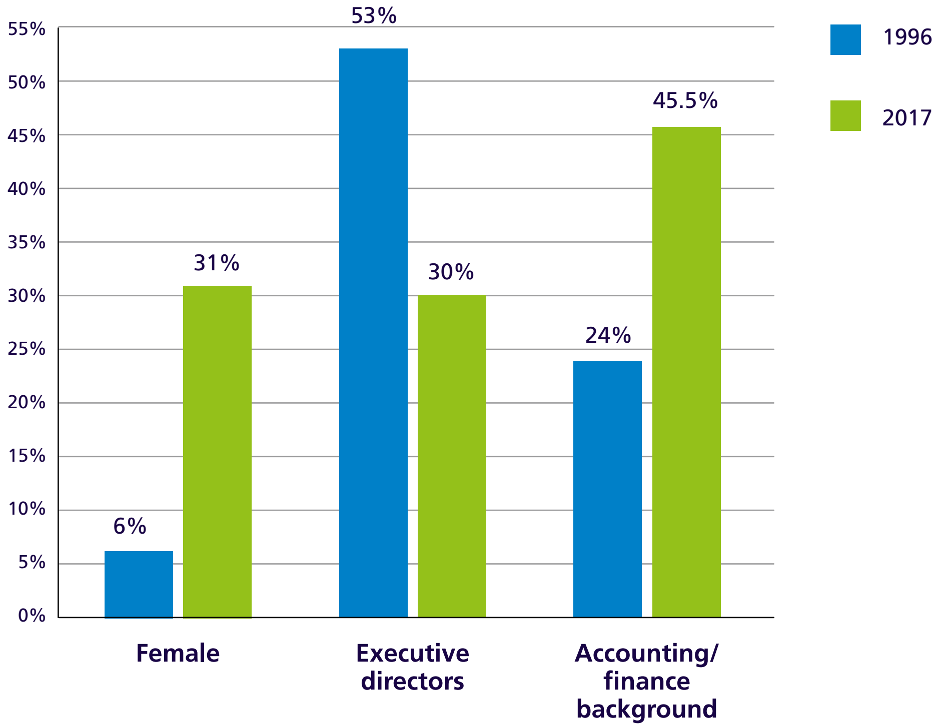
UK's Top 20 Most Admired Companies appearing in FTSE100 (2012–2016)

- Unilever
- Johnson Matthey
- Diageo
- Paddy Power Bet
- easyJet
- Royal Dutch Shell
- Croda International
- Rolls-Royce
- Next
- Experian
- Sky
- RELX Group
- Admiral Group
- GSK
- Bunzl
- AstraZeneca
- Merlin Entertainments
- Centrica
- Whitbread
- Hargreaves Lansdown

A View at the Top: Boardroom Trends in Britain's Top 100 Companies

The most admired companies in 1996 as well as in the present tend to have more females, more executive directors and the boards are less heavy on finance backgrounds. In 1996 admired companies boards were 6% female (2% more than the non-admired), 53% EDs (5% more than the non-admired) and 24% accounting/finance background (17% less than the non-admired).

Most admired companies



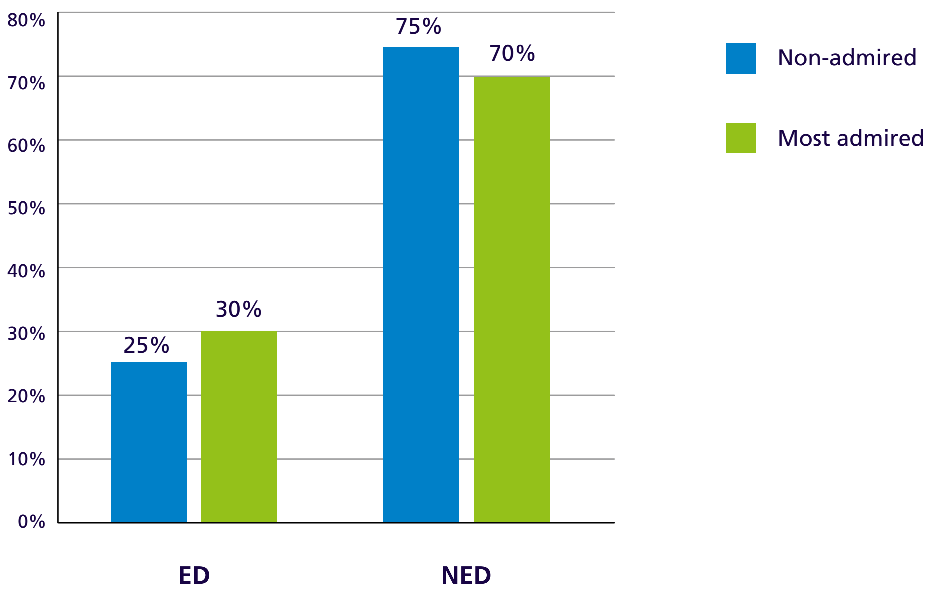
The most admired companies in the present have on average 31% female boards (5% more than non-admired), 30% executive directors (5% more) and 45.5% accounting/ finance background (5% less).

They also have, on average, 11 board members, 30% executives, 50% have international experience, 30.6% are female and 45.5% have a background in finance or accounting. Non-admired, have an average of 10.5 board members, 25% executives, 59% have international experience, 26.7% are female and 50.4% have a background in finance or accounting.

Number of executive and non-executive directors

Compared to 21 years ago, there has been a visible drop in the number of executive directors serving on the board of companies. Admired companies now have an average of 30% executive directors, whereas in 1996, they used to have 53% executive directors. This trend is also reflected in non-admired companies who have even fewer executive directors (25%) compared to 48% in 1996.

ED vs NED % – admired vs non-admired



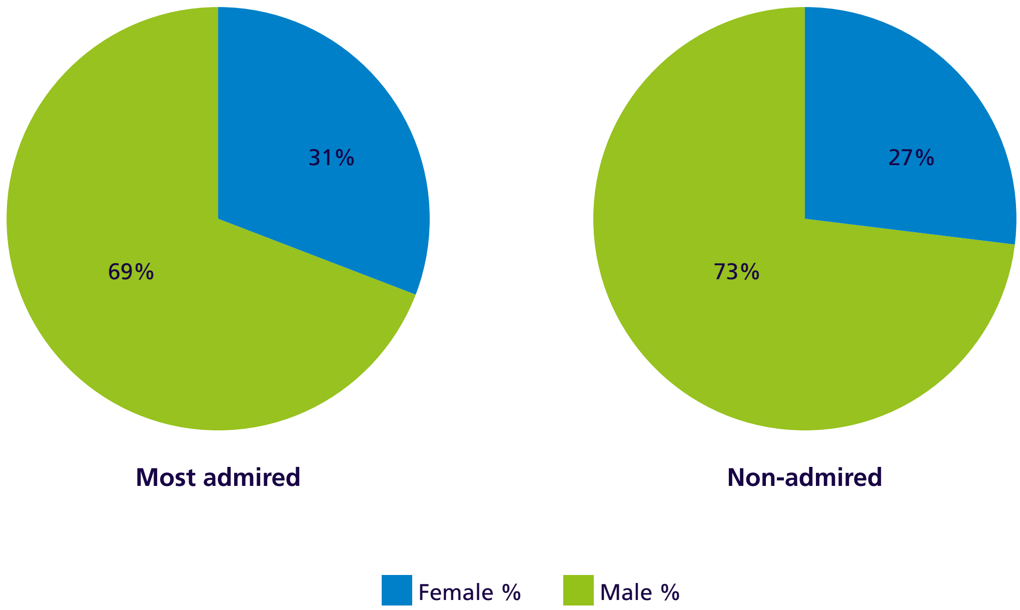
The trend for fewer directors has already been highlighted with the Higgs Report recommendations for fewer directors in the boardroom.

Interestingly the data reveals that similarly to 1996 the admired firms continue to have more executive directors serving on their boards than non-admired companies.

A View at the Top: Boardroom Trends in Britain's Top 100 Companies

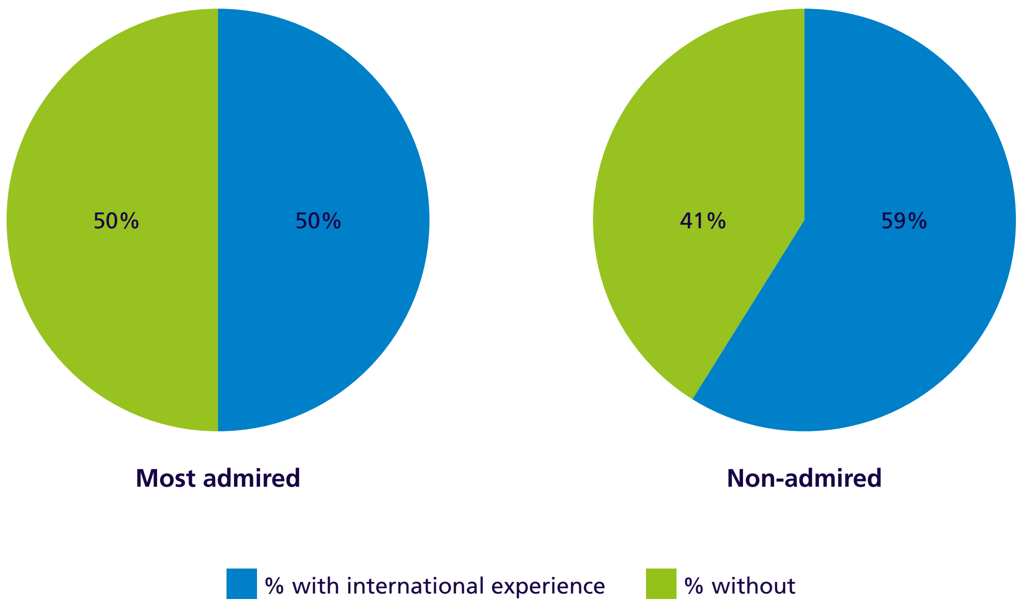
Gender

The previous report highlighted that there were slightly more female directors on the boards of Britain's most admired firms than other 'Top 100' firms. This trend has remained consistent in the ensuing timeframe as with the significant growth of females operating in the boardroom (4.1% in 1996 to 28% in 2017), there still remain more females (31%) operating on the boards of Most Admired Companies as opposed to 27% of other Top 100 boards.



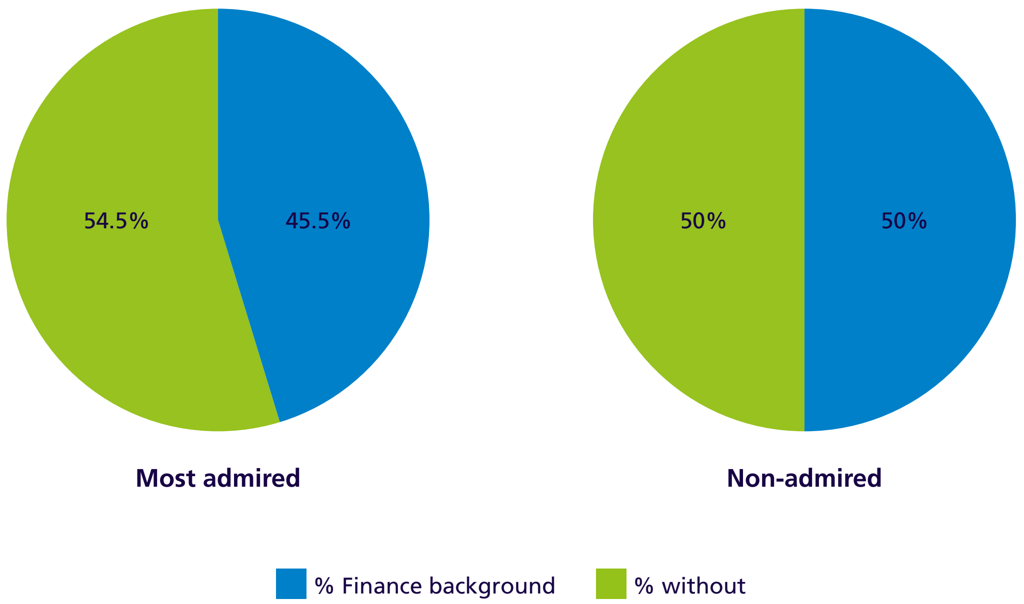
International experience

In terms of international experience (defined as board members with experience of studying or working abroad), the directors of Britain's most admired companies had more international experience than boards of other 'Top 100' companies, however, the recent data suggests that there has been a shift and now the boards of other Top 100 companies seem to have a larger pool of executives with international experience (59%) as opposed to 50% of most admired firms.



Accounting/finance background

As with the previous study from 1996 there is a significant difference in the number of executive directors from an accountancy or finance background serving on the boards of most admired firms (45.5%) as opposed to 'Other Top 100 firms' (50.4%). However, the data shows that the gap is less significant than in 1996 when there was a larger difference between those with accounting and finance backgrounds in other Top 100 firms (41.3%) compared to 24.3% for most admired companies.



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Summary

The Most Admired Companies remain more diverse than other FTSE 100 boards. Most Admired Companies continue to have:

- more women serving on their boards, beyond the significant increase of women serving on boards generally;
- more executive directors on their board; and
- fewer executives with an accountancy/finance background – but in line with overall trends the percentage of members on the board with such experience has increased substantially.

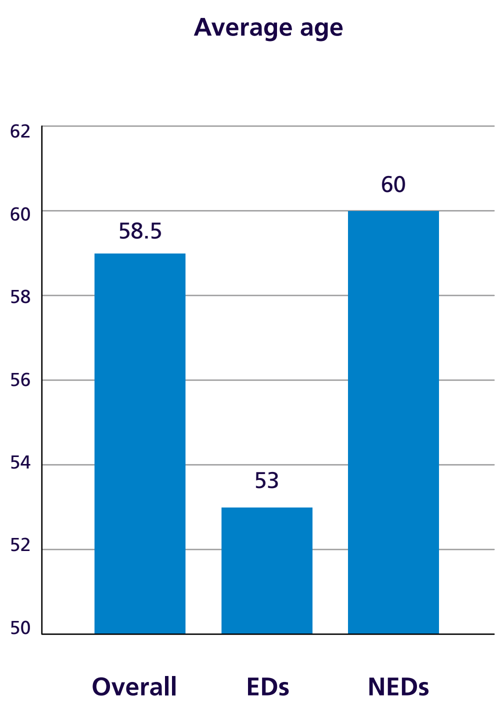
Overall, the differences in board composition between the 'Most Admired Companies' and rest of the FTSE 100 continue to reflect a difference in board size and diversity. Interestingly, however, although the directors of Most Admired firms have more international experience than they did in 1996, they have now been overtaken by the non-admired FTSE 100 boards.

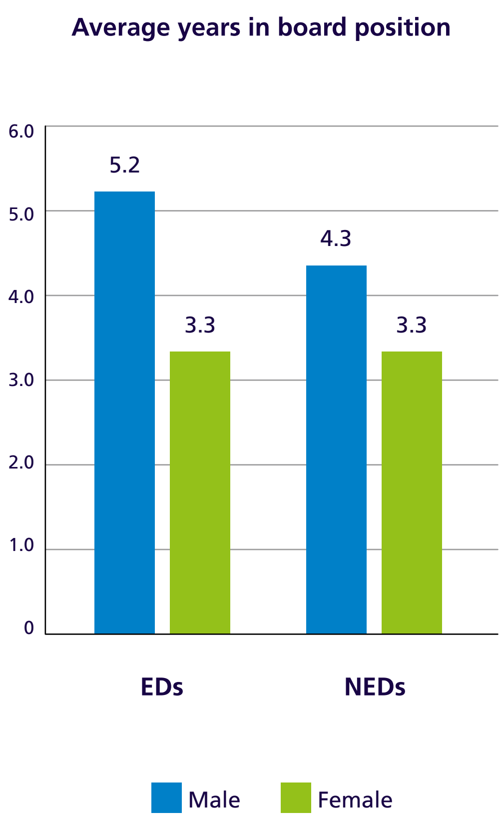
What do non-executive directors bring to the board?

Dr Elisabeth Marx, Elisabeth Marx Associates

Age

On average, non-executive directors are seven years older than executive directors, thereby bringing longer corporate experience.

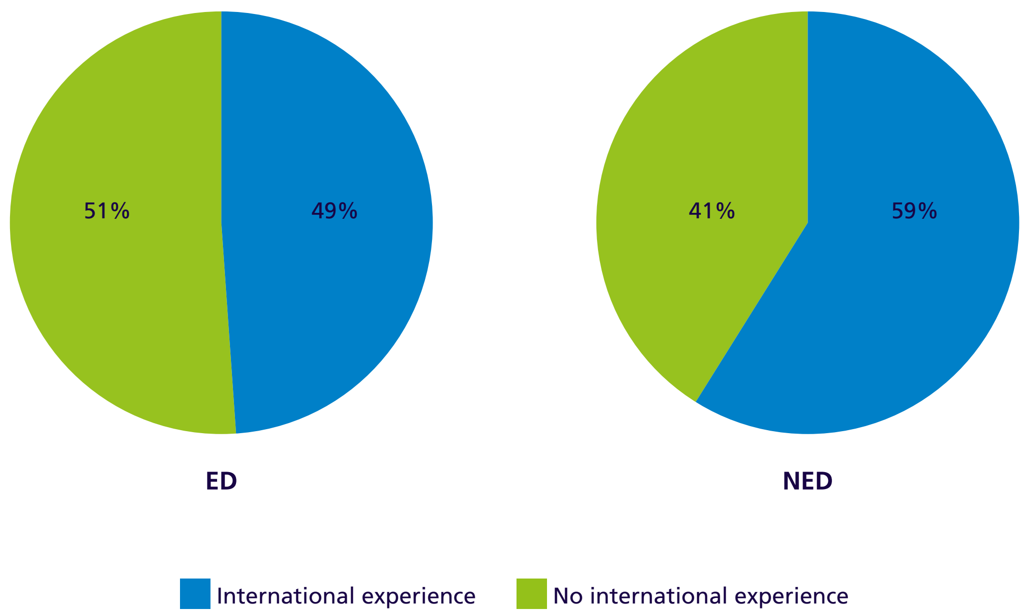




International experience

NEDs have also more international experience (59%) compared to executive directors (49%), adding significantly to the international understanding at the top of FTSE 100 organisations.

EDs vs NEDs: international experience

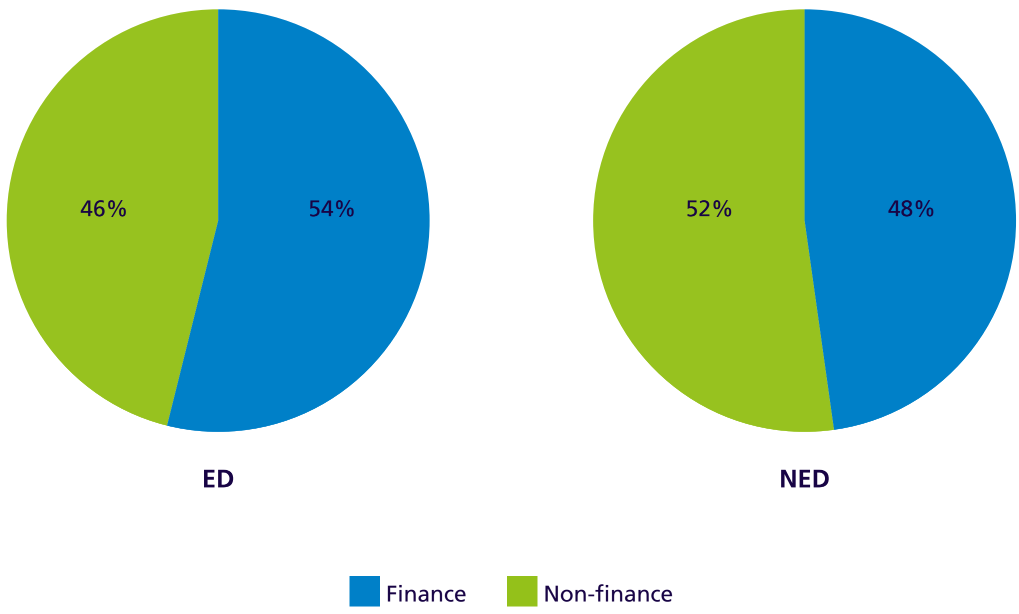


Functional background

The accountancy/finance background has also significantly increased in non-executive directors – it has gone up from 29.6% in 1996 to 48% in 2017. There could be several reasons for this increase:

1. Is this the effect of the financial crisis or the increased focus on short-term financial results over the last 20 years?
2. Does the prevalence of accountancy/finance simply reflect the background of Chairmen and Nomination Committees? In other words, are the Nomination Committees simply recruiting in their own image? Are Nomination Committees diverse enough to look at the broadest range of non-executive candidates?

Accountancy/finance background



What are the similarities and differences between CEOs and Chair?

Given that the collaboration and the relationship between the Chair and the CEO is crucial for effective boards and successful companies, we explored the similarities and differences in their background.

The similarities, as the graphs show, are fairly predictable:

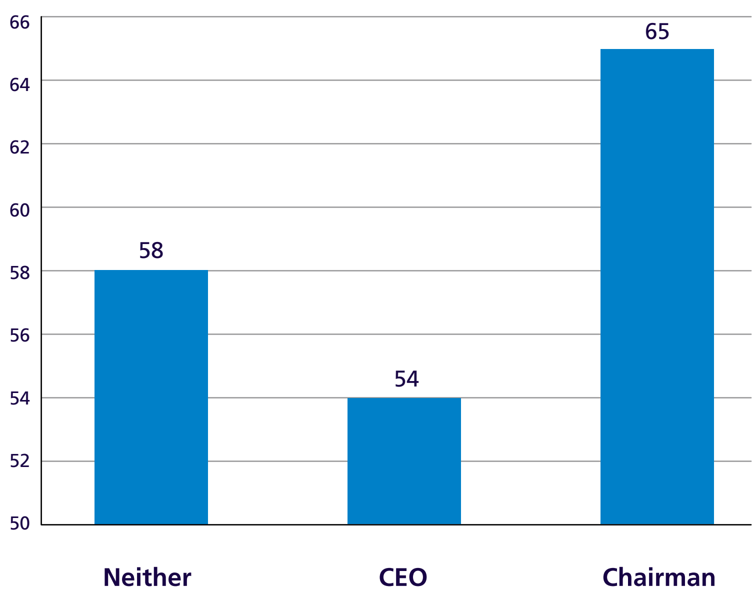
Similar to CEOs, the Chairs of today's FTSE 100 boards are predominantly male and white. The lack of progress on diversity at the executive level is mirrored in the Chairs category.

The key differences between CEOs and Chairs, showing the complementary experience or background that many Chairs bring are as follows:

Age

Chairs are on average 65 years old and 11 years older than CEOs, bringing significant additional corporate experience to the collaboration.

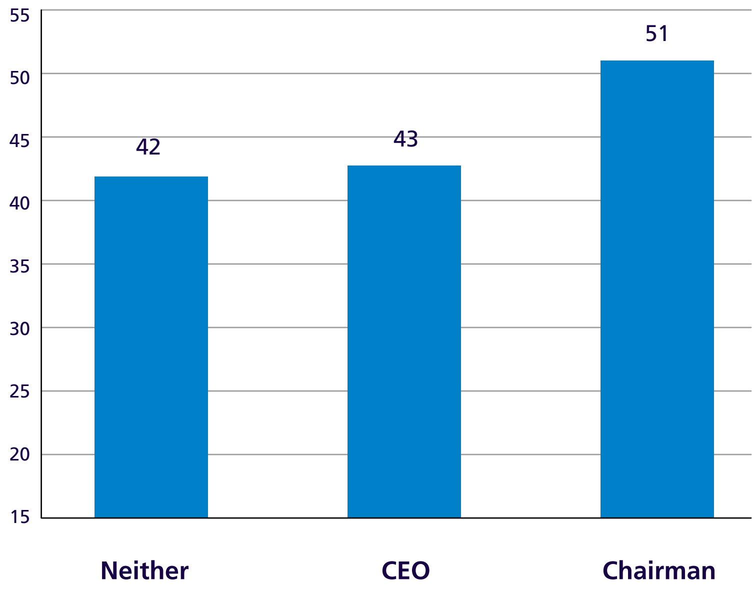
Average age by position



International experience

Chairs have more international experience than CEOs (51% of all Chairs have had longer-term international experience, compared with 43% of CEOs).

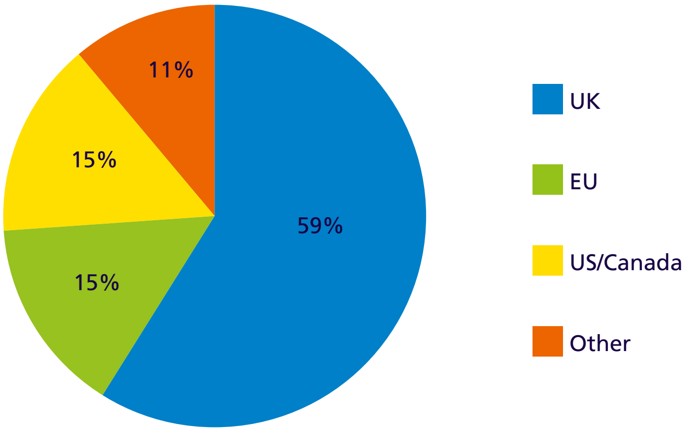
% international experience by position



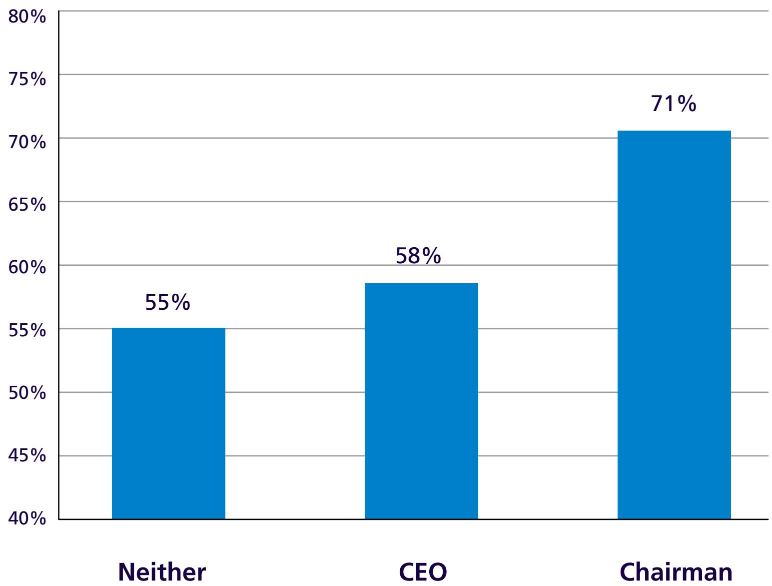
Nationality

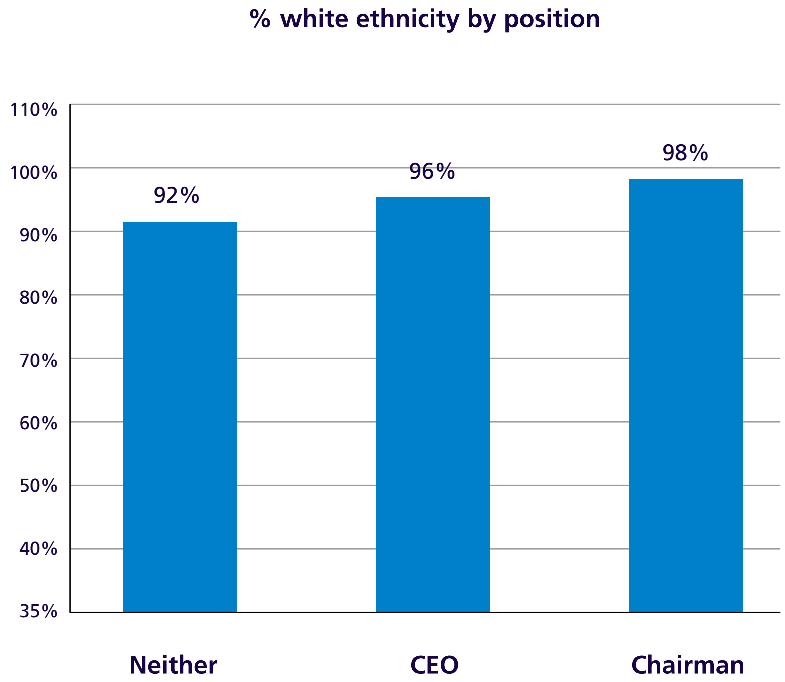
Chairs are more likely to be UK nationals and, therefore, well-steeped in the UK Business Culture. Whereas, up to now, the UK is internationally seen as very open to global talent (as reflected in the high proportion of non-UK CEOs), the Chairs' picture is slightly different (71% of Chairmen are UK nationals compared to 58% CEOs).

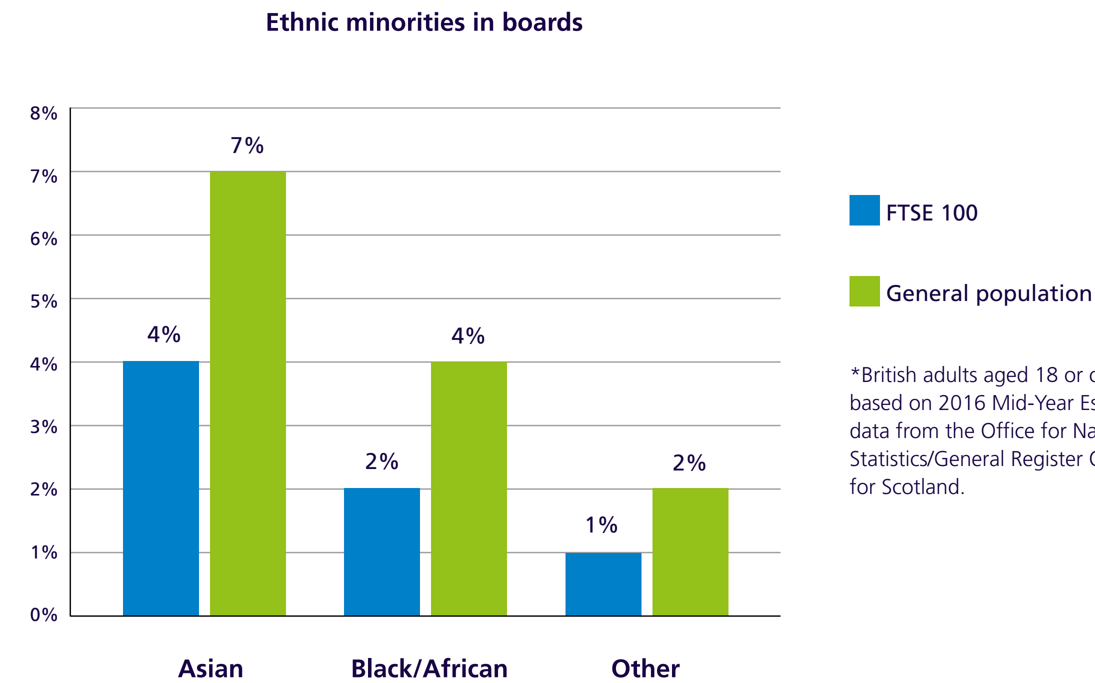
Board nationalities



% UK nationals by position





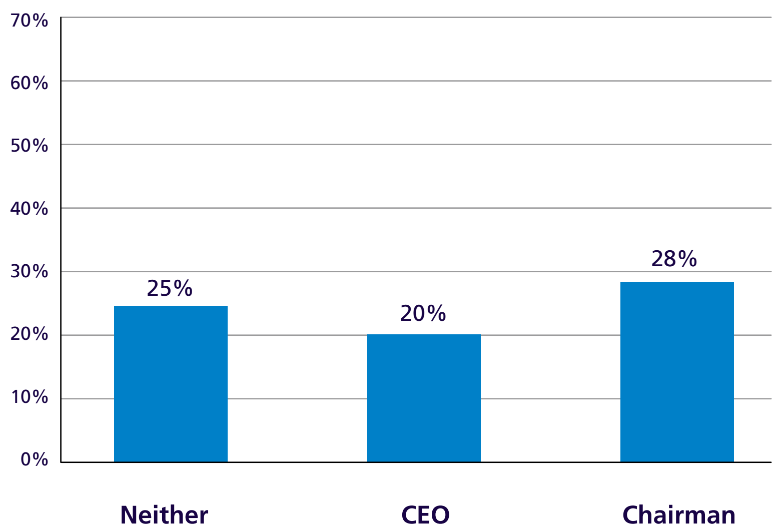


*British adults aged 18 or over based on 2016 Mid-Year Estimates data from the Office for National Statistics/General Register Office for Scotland.

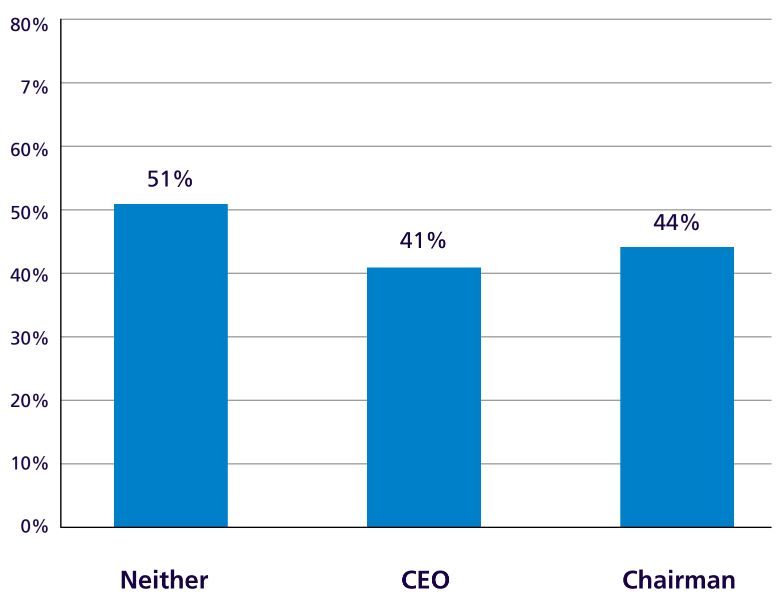
Elite education

Chairs are also more likely to have had an elite education, with nearly one third of Chairs having degrees from elite institutions (28% versus 20% for CEOs).

% elite educated by position



% finance background by position



Conclusion

Randall S. Peterson, Academic Director, London Business School Leadership Institute

It's been over 20 years since Elisabeth Marx first reported on the state of the FTSE 100 board in her report 'A View at the Top'. Her findings then, about how the boards of the most admired companies were more diverse, seemed to predict the future with all boards now having become more diverse in the broadest sense; with directors being more female, having more international experience, and being better educated.

The one place that profile of most admired companies did not predict the future was in having more executives. This trend was not extended here as the Higgs report in 2003, among others recommended reducing the size of the board and particularly in allowing the board to have greater independence from the executive. Our data demonstrate the impact of those reports in showing that the board has reduced in size, and particularly has reduced the number of executives on FTSE 100 boards.

In principle we agree with the spirit of boards having independence. In practice, however, it raises a number of important questions about how well the non-executives know the executive bench strength when they tend to have only the CEO and the CFO in front of them. And to what extent is CEO selection affected by direct in-depth exposure to fewer executives? Our data confirm that boards have become increasingly dominated by finance in the past 20 years.

Our data show not only that government pressure and reports have an impact on boardrooms, but so does public pressure. Gender composition has shifted dramatically in the boardroom in the past 20 years. As public voices have become louder in support of having more women in positions of power, more women have been appointed to FTSE 100 boards. Interestingly, however, that shift has not come from having more female executives on the board. The growth in women on the board has come from appointing more non-executives to these roles.

The other side of these observations, however, has to be that boardrooms shift in response to outside pressure. So, given the pressure for boards to better reflect the customers they serve, should we expect greater racial and ethnic diversity on boards in another 20 years' time? With growing political action around climate change, should we expect FTSE 100 companies to take a stronger hand in addressing their carbon footprint?

We look forward to seeing where we are in 20 years' time. In the meantime, we plan to continue to engage with those who are interested in good governance to generate evidence-based advice on what best practice looks like in the boardroom.

The future of board dynamics research

We hope to be around in 20 years' time to share the next update on FTSE100 boards. We wonder how technology will impact our ability to study boards, in the same way that electronic access has altered the detail of information we can find on current boards. The first time the research was done in the physical library. This time research was done through the library but remotely via electronic access. Changes have also allowed for additional types of data to be accessed on boards. For example, we can access a much broader array of information about international experience and careers by accessing social media such as LinkedIn.

Changes in technology continue to move on and change what we can study with boards. It is possible, for example, to analyse the publicly available social media posts, blogs, and/or other written records to assess directors' thought patterns and personality. More controversially, researchers are now assessing these things from publicly available photographs, oftentimes from the company websites. The Leadership Institute has started experimenting with these technologies already and has some preliminary data that could be used as a benchmark for that next study.

There is so much more to be learned about boards and board effectiveness.

Questions for consideration

1. Does having fewer executives on the board have an impact on the board's in-depth knowledge of operational details of the business?

2. How well do the non-executive directors understand the 'bench strength' of the executive team? Do they have a good understanding and can they evaluate the executive team's capability to implement the strategy when they see fewer executive directors regularly at board meetings?

3. How well do the non-executives know those executives with the highest potential to progress to the CEO role? How well do the non-executives know the main contenders in the CEO succession planning? Restricting the number of executives on the board typically only gives the non-executives a strong exposure and knowledge of the current CEO and CFO, but not necessarily to other senior executives that drive the business and could be potential CEO successors in the future?

4. From the executives' perspectives, not having significant exposure to board level thinking and discussions may also restrict their opportunity to have high-level, strategic discussions or to have their ideas tested by independent directors: in other words, does this restrict a major leadership development opportunity for top executives in a company?

5. Does the prevalence of accountancy/finance simply reflect the background of Chairmen and Nomination Committees? In other words, are the Nomination Committees simply recruiting in their own image? Are Nomination Committees diverse enough to look at the broadest range of non-executive candidates?

6. Research has shown that there are sources boards can draw upon to make themselves more diverse. What, if any, are the barriers you face in creating a more diverse board? When candidates join who have a different profile from the majority of those on the board, what are additional steps the Chairman may need to take in order to nurture a climate of inclusion and diversity in board membership?

Final thoughts

Peter Swabey, Policy and Research Director, ICSA: The Governance Institute

We have come a long way since 1996; boards have changed. But there is still a distance to go. As Professor Randall Peterson notes in his conclusion on page 39, there has been a significant change in gender composition, but this has been driven by the appointment of female non-executive directors. As we have reported on a number of occasions, there remains a lot of work to be done on the female executive pipeline to get to a position where the best candidate for an executive director role is as likely to be a female as male and to remove those obstacles, societal or systemic, which militate against this. Our paper 'Building a Balanced Board'[1], published at the 2019 ICSA conference, is an attempt to look at how organisations can address issues of boardroom diversity.

Similarly, Professor Peterson is correct in his observation that 'boardrooms shift in response to outside pressure'. One of the conclusions of ICSA's own report on Next Generation Governance[2] was that 'Respondents recognise that changing public expectations will impact the future development of governance'. Part of the purpose of this research was to identify similarities and differences in members' understanding of the role of governance – especially when it comes to addressing broader social issues, such as demographic and technological change, and environmental sustainability. What we found was that younger governance professionals see a stronger connection between these pervasive social issues and the governance landscape of the future. As Professor Peterson asks:

> 'given the pressure for boards to better reflect the customers they serve, should we expect greater racial and ethnic diversity on boards in another 20 years' time? With growing political action around climate change, should we expect FTSE 100 companies to take a stronger hand in addressing their carbon footprint?'

ICSA's research would suggest that the answer is 'yes'.

1 www.icsa.org.uk/buildingabalancedboard
2 www.icsa.org.uk/professional-development/nextgengov

That conclusion moves us to ask some questions about the future. Are boards likely to demonstrate similar, or perhaps greater, levels of change over the next 20 years? And how far can we, as governance professionals, support our boards through that change process?

In conclusion, I leave readers with some questions for further consideration:

- Could your organisation be more proactive about its role in addressing social issues before being required to do so by regulation or suffering the reputational consequences of being out of step with public sentiment? How might this be achieved?

- What can your board do to link more effectively discussion of current board composition and future composition in light of the company strategy with the outcome of the board evaluation exercise, board succession plans and executive and senior talent succession planning?

- What can your board do to remove obstacles within your own processes and practices to diverse candidates of all kinds progressing through the organisation?

- How can you demonstrate the good work that you are doing to your investors and stakeholders?

I do hope that you find this report thought provoking and would welcome your ideas and suggestions at policy@icsa.org.uk.

The Governance Institute

ICSA: The Governance Institute is the professional body for governance. We have members in all sectors and are required by our Royal Charter to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With over 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance.

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icsa.org.uk

The Institute of Chartered Secretaries and Administrators

ICSA: The Governance Institute
Saffron House
6–10 Kirby Street
London EC1N 8TS

Phone: 020 7580 4741
Email: info@icsa.org.uk
Web: www.icsa.org.uk

Twitter: @ICSA_News