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2022

Non-Executive Directors Survey

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Introduction

This is the fifth time that we've surveyed small and mid-sized quoted companies to gather insights into various aspects of the role played by their Non-Executive Directors (NEDs) and how their boards operate.

When we last conducted this research, no one could have predicted the challenges the world would be facing only a few months on. Since then, two years have elapsed. In that time, not only have we not returned to 'normal' but most companies are yet to establish a 'new normal' in their ways of working and the way they interact both internally and externally.

The pandemic drove and appeared to accelerate shifts in stakeholder expectations of companies. Firstly, as the health and well-being of our communities was the primary concern, companies that appeared to overlook these values and solely seek profits quickly became unattractive and short-term investments.

The murder of George Floyd at the hands of US police shone a brighter light on the issues of diversity and inclusion as it sparked global protests. Although much of the data for small and mid-caps does not yet show ethnic diversity, there have been significant improvements regarding gender diversity.

The proportion of women on boards has improved markedly since 2019 but companies still have some way to go if they are to match the expectations set out by the FCA, such as 40% of board members being women, in its recent policy statement ¹.

Recruitment methods for hiring NEDs has continued to move away from using networks and individual connections and more towards using head-hunters and search firms. This should support the drive toward greater diversity by hopefully widening the pool of potential candidates and ensuring objectivity in the process. The likely outcome will be a reduction of implicit or other types of bias that impede diversity.

The last two and a half years have also seen significant shifts in environmental policy which continues to develop at a rapid pace. COP26 was seen as a key moment where significant commitments were made, and regulation is following suit. However there remains a risk that small and mid-cap companies will fall behind. That fear isn't unfounded as companies report ESG as being one of the main areas where their boards lack expertise.

continued over...

¹ FCA, Diversity and inclusion on company boards and executive management, Policy Statement PS22/3, April 2022

Boards should remain committed to regular performance evaluation and we hope that annual board performance evaluations rise again from around two thirds of companies in this survey to beyond the three quarters recorded pre pandemic.

Regular performance evaluations may provide the impetus for companies to improve the aforementioned areas; where they feel they lack expertise and need to improve their recruitment processes.

As the fifth survey in this series, we are building up a good body of data, please share this with your board members and let us know what you think.

There is a lot of information in here that we trust companies will find useful. As an action point, Chairs and NEDs should consider the key messages from this report and ask these questions of themselves:

Three questions for Chairs

1. Do board performance assessments include metrics to measure improvement in key areas?
2. How do you ensure the right skills are on the board to address the most significant challenges?
3. Do your current recruitment methods support a diverse board composition?

Three questions for NEDs

4. Do you know in what areas your board is currently lacking skills and what can you do to cover these weak points?
5. Do other board members and investors see you as an independent actor on the board?
6. Are you able to commit enough time to the role and is the efficiency of your time commitment improving?



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About the survey

We have surveyed small and mid-sized quoted companies to mine a raft of information on Non-Executive Directors (NEDs) including how much they are paid, how many hours they work and how independent they are.

We have repeated this survey five times (in 2013, 2015, 2017, 2019 and 2022) and that allows us to use historical data and identify trends where appropriate or interesting.

This latest set of results was gathered in Q2 2022 with respondents from 107 small and mid-size quoted companies

The majority of respondent quoted companies have a market capitalisation of less than £500m. You can see the full breakdown in the methodology.

As a part of the process we also sought the views of advisors in a more modest survey.

Covered in relation to NEDs in this report are eight sections:

- | | |
|----------------------------|------------------------------|
| 7. Salaries | 11. Positions |
| 8. Working hours | 12. Value for money |
| 9. NED contribution | 13. Board evaluations |
| 10. Independence | 14. Recruitment |

The NED profile

In addition to our survey, we reviewed data available on 3,745 NEDs in 1,161 small and mid-sized quoted companies and found: ¹

- The average NED age is 61 years
- 869 NEDs are female (23%), 2,876 are male (77%)
- 386 companies have all male boards (29%)
- 775 companies (66%) have over 10% of women on their board with 259 companies (33%) having between 20-29% of women on their board.

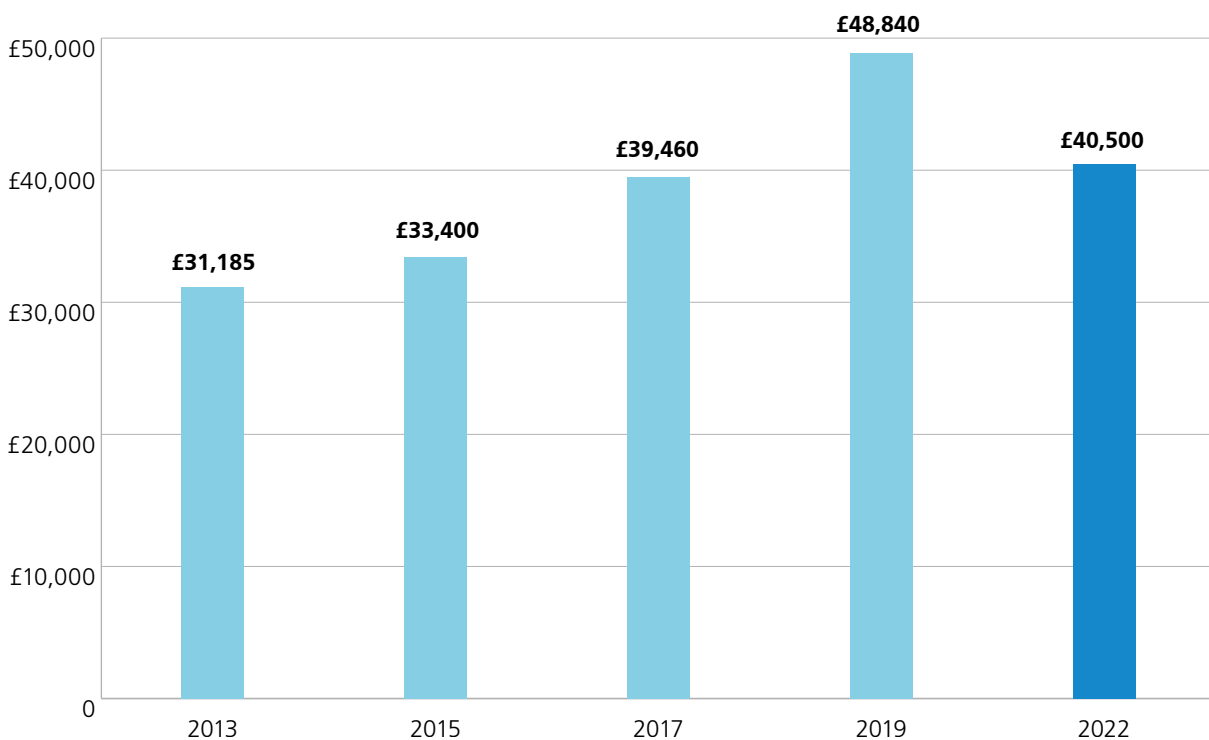
¹ Data extracted from BoardEx, 13 May 2022, of 3,745 NEDs in 1,161 companies on the FTSE AIM, SmallCap & Fledgling indices



1: Salaries

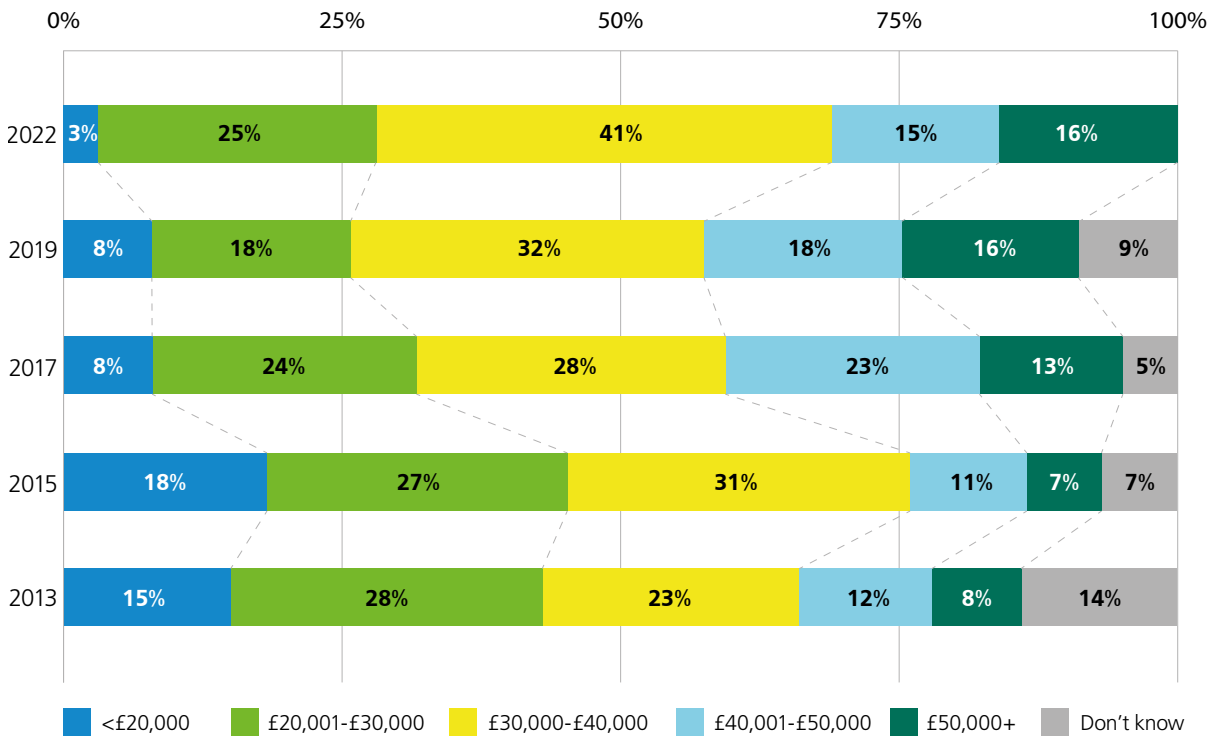
Average NED salary as reported by companies

We asked companies how much they pay their NEDs. The largest proportion of companies (41%.) paid their Non-Execs between £30,000-£40,000. The overall average was £40,500 which is a significant fall from 2019 where the average was £48,840. The fact that NED pay has fallen to a level similar to 2017 of £39,460, after consistently increasing from 2013, will raise questions for NEDs and companies alike.



You can see the breakdown of how companies pay their NEDs in the next chart. There is a notable increase in the proportion of companies paying over £50k salaries.

Distribution of NED salary 2013-22



In comparison, external sources report the median fees for a FTSE 100 NED to be £74,000 per year, and £58,000 per year in the FTSE 250 ².

The fact that NED pay has fallen to a level similar to 2017 after consistently increasing from 2013, will raise questions for NEDs and companies alike.



² KPMG, Guide to Directors' Remuneration 2021 (December 2021). bit.ly/3yVqY40



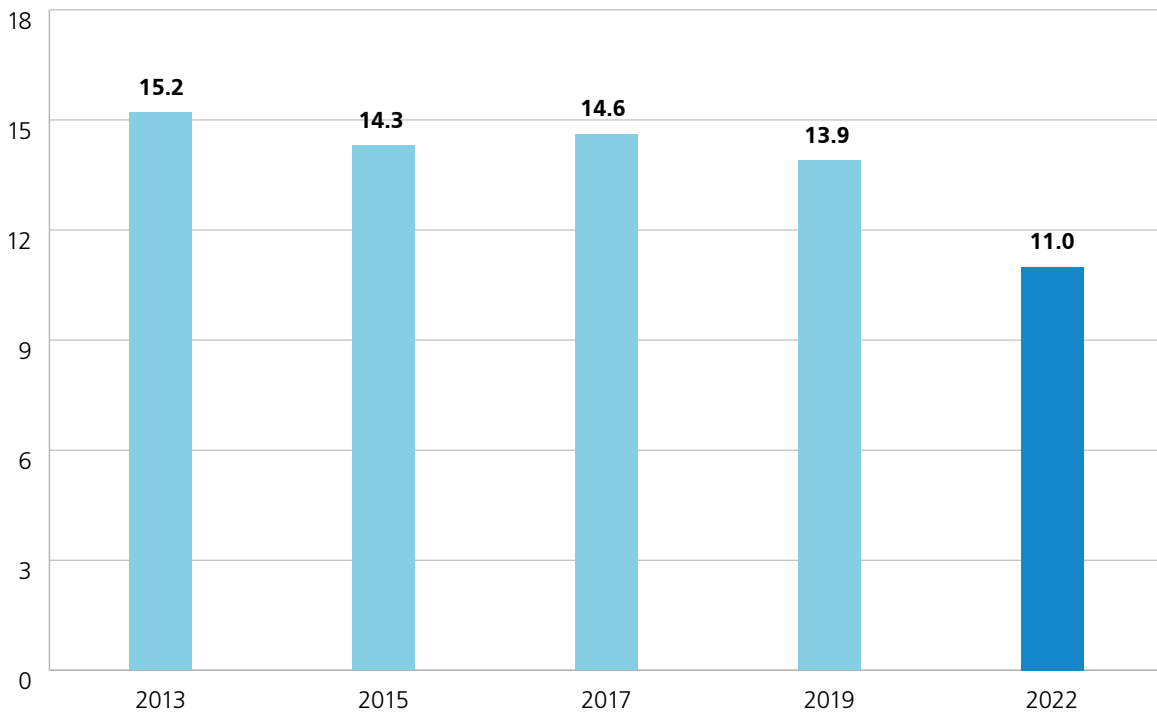
2: Working hours

Mean number of hours NEDs work per month as reported by companies

The survey asked companies how many hours their NEDs work for them.

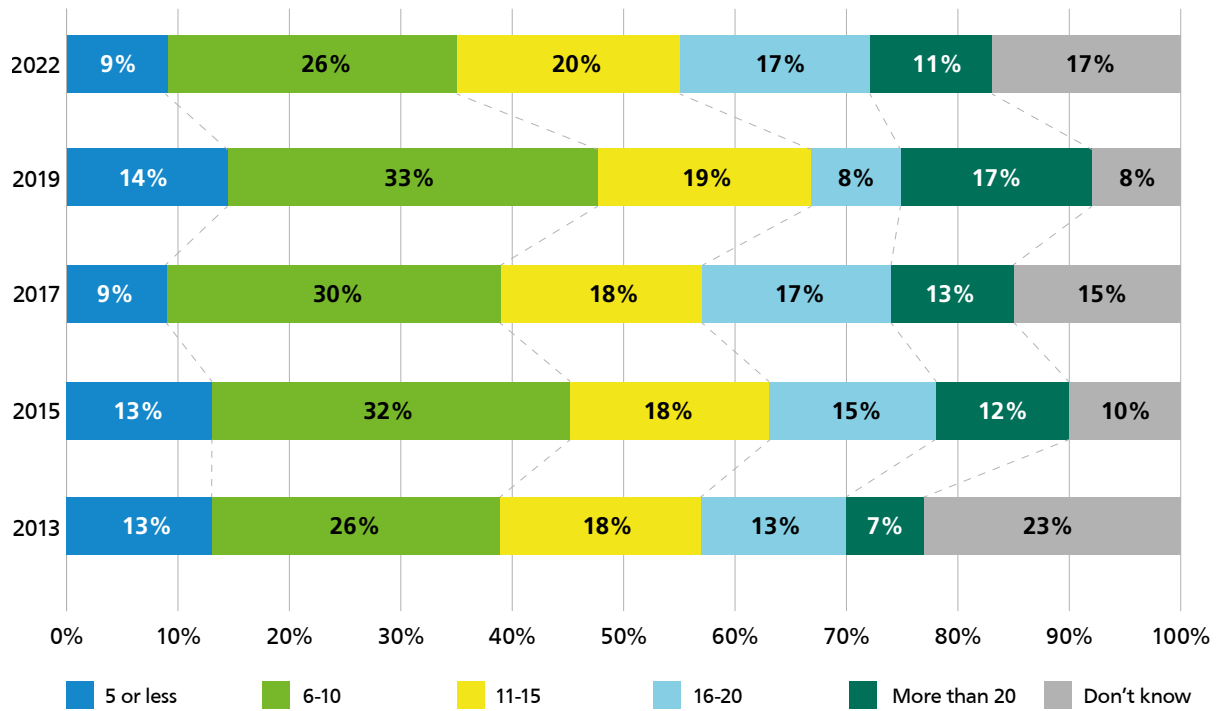
The mean number of hours per month that NEDs work for their companies was 11, down from 13.9 in 2019. This is markedly lower than any other figure this survey has recorded and may be a contributory factor to the decline in pay.

Average working time in hours for NEDs per month



As the next chart shows there is only a minority (11%) of NEDs that work more than 20 hours per month. This is more in line with the results from 2015, and 2017 but a significant drop from 2019.

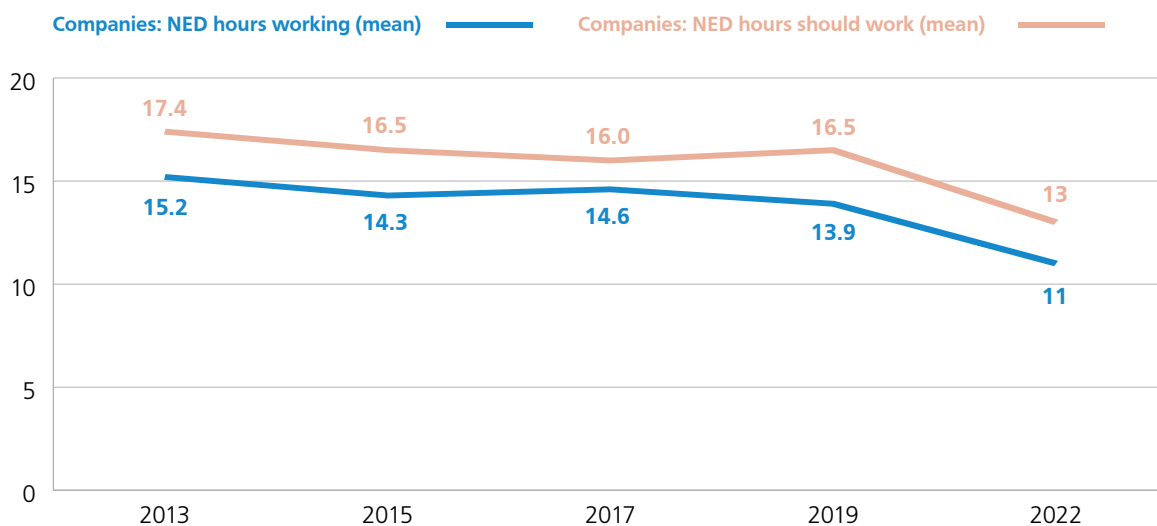
Change in distribution of working hours 2013-22



Company views on NED working hours

In addition, not only did we ask companies how many hours their NEDs work, we also asked how many hours they think they should work. NEDs have tended to work fewer hours than companies are expecting, but the difference between ideal hours and actual hours has decreased to one of the lowest gaps we have seen in this survey. In fact, 2017 was the only year where there was a smaller gap between expected hours and worked hours.

Ideal and actual working hours



Companies say their NEDs work on average 11 hours per month. They work less than companies think that they should, which is on average 13 hours per month.

Calculating the hourly and fulltime equivalent pay rate of NEDs

With this information, we can then work out an indicative mean hourly rate for a small and mid-cap NED.

If you take the mean salary reported to be paid to NEDs (£40,500) and the mean number of hours worked (11 per month), you can calculate they are paid a rate of £308.82 per hour ³.

You can then take this and further calculate that this correlates to a full-time equivalent salary of £638,164.80 per year ⁴. As we see later in this report companies feel they are getting some value for this cost.

³ Calculated by £40,500 divided by 12 months equals £3,375 a month.
£3,375 divided by 11 hours equals £306.82 per hour.

⁴ Calculated by the hourly rate of £306.82 times 40 (for a 40-hour work week), times 52 (for 52 weeks a year) equals £638,164.80.



3

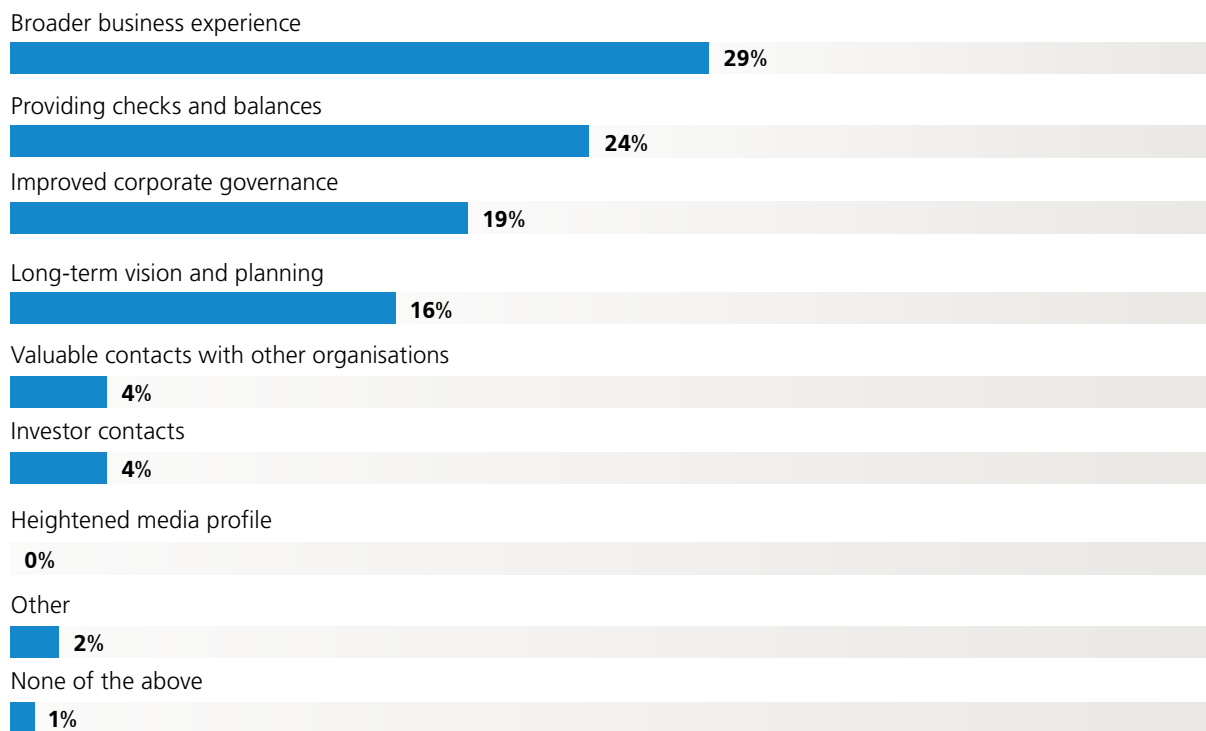
3: What NEDs deliver to companies

What NEDs contribute to companies

We asked where NEDs bring the most value to the companies that they work for. Companies rate the most prominent values as “providing checks and balances” and “bringing broader business experience.” Improved corporate governance is seen as the third greatest benefit according to the companies.

Providing checks and balances has increased markedly in the view of the companies as a contribution of their NEDs.

Value gained by companies from NEDs

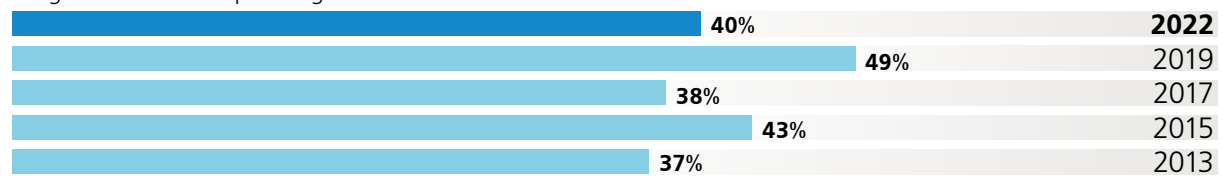


Where NEDs can contribute more

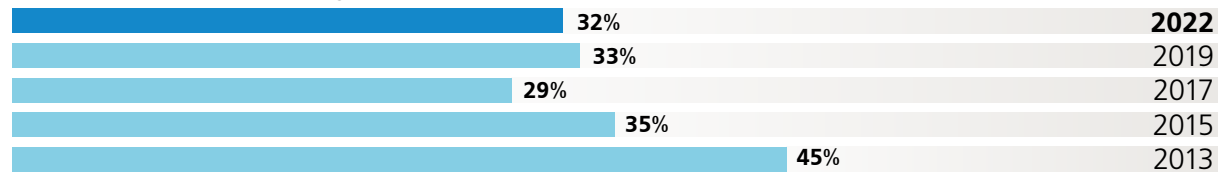
We also asked where companies believe their NEDs can contribute more. Long-term vision and planning, having valuable contacts with other companies and broader business experience were seen as the areas where NEDs could increase their impact. There is notable crossover in how companies see their current contribution and where they would like greater contribution. This shows that companies have a clear view of their NEDs’ value and potential value.

Where NEDs can contribute more

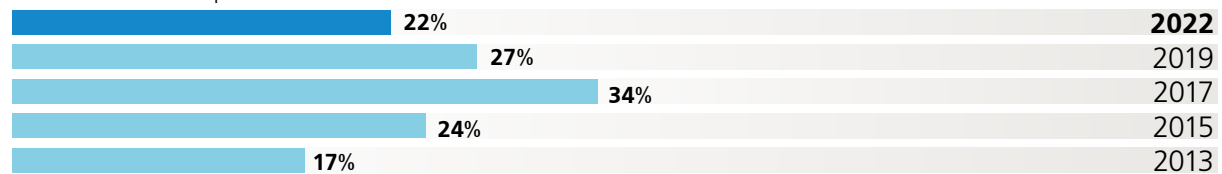
Long-term vision and planning



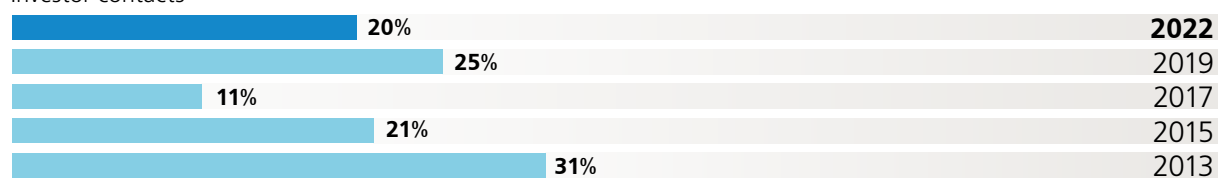
Valuable contacts with other organisations



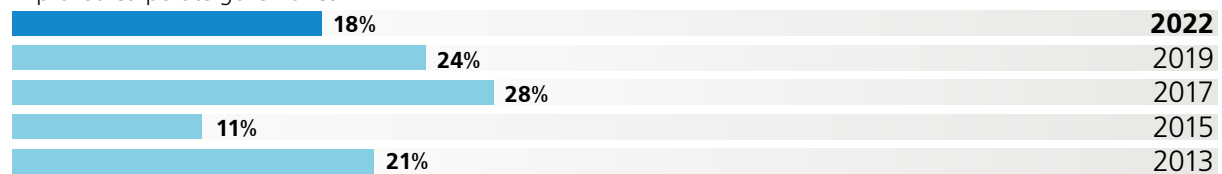
Broader business experience



Investor contacts



Improved corporate governance



Providing checks and balances



Heightened media profile



Other



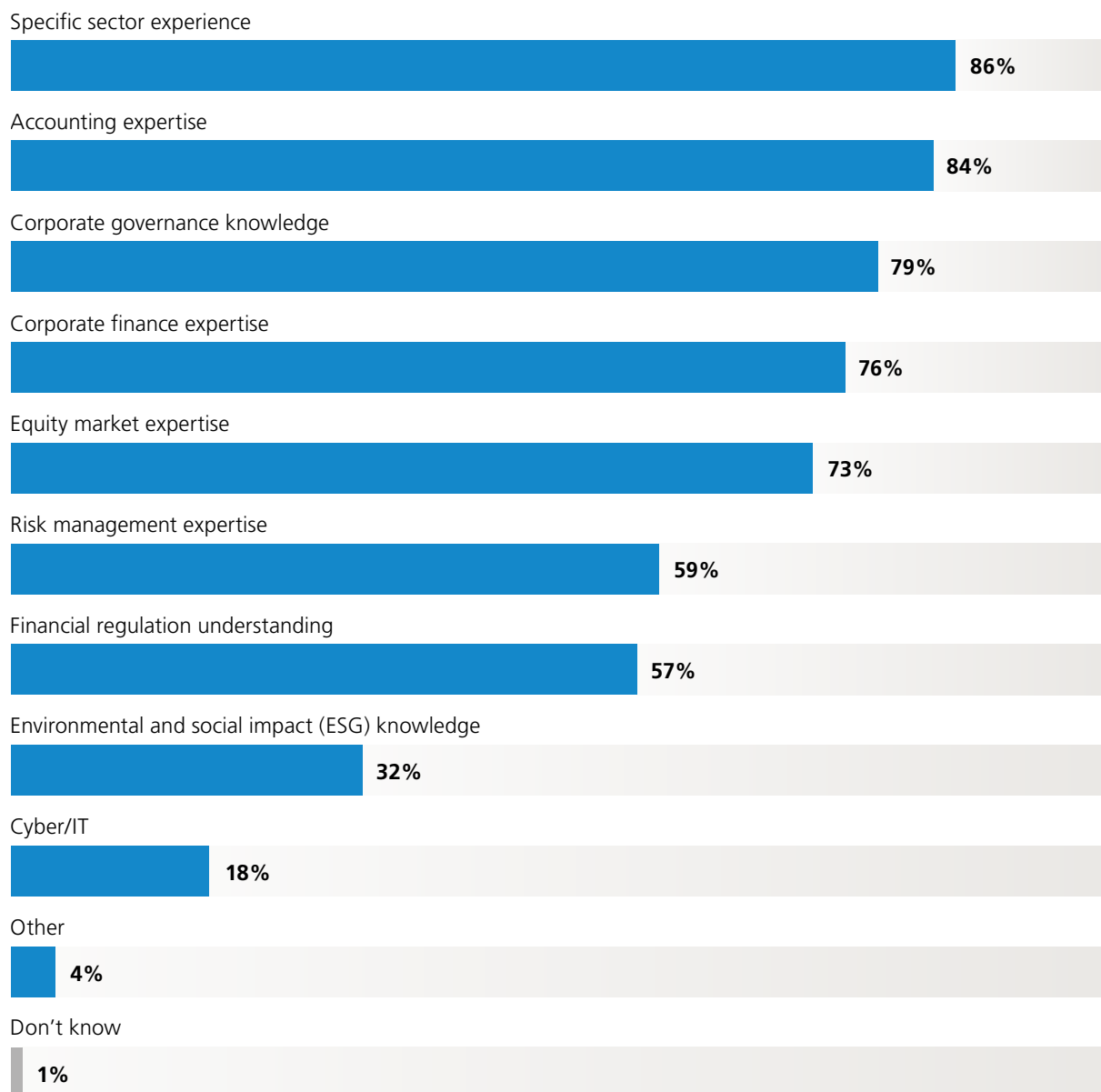
None of the above



The expertise of board members

A large proportion of companies believe their boards have sector specific, accounting and corporate governance expertise. These results show that companies have confidence in the breadth of their boards' expertise, with seven of the 9 areas being seen as strengths for 50% or more respondents and 5 of the 9 areas being seen as strengths for around three quarters, or more, of respondents.

Board areas of expertise



What skills do boards lack?

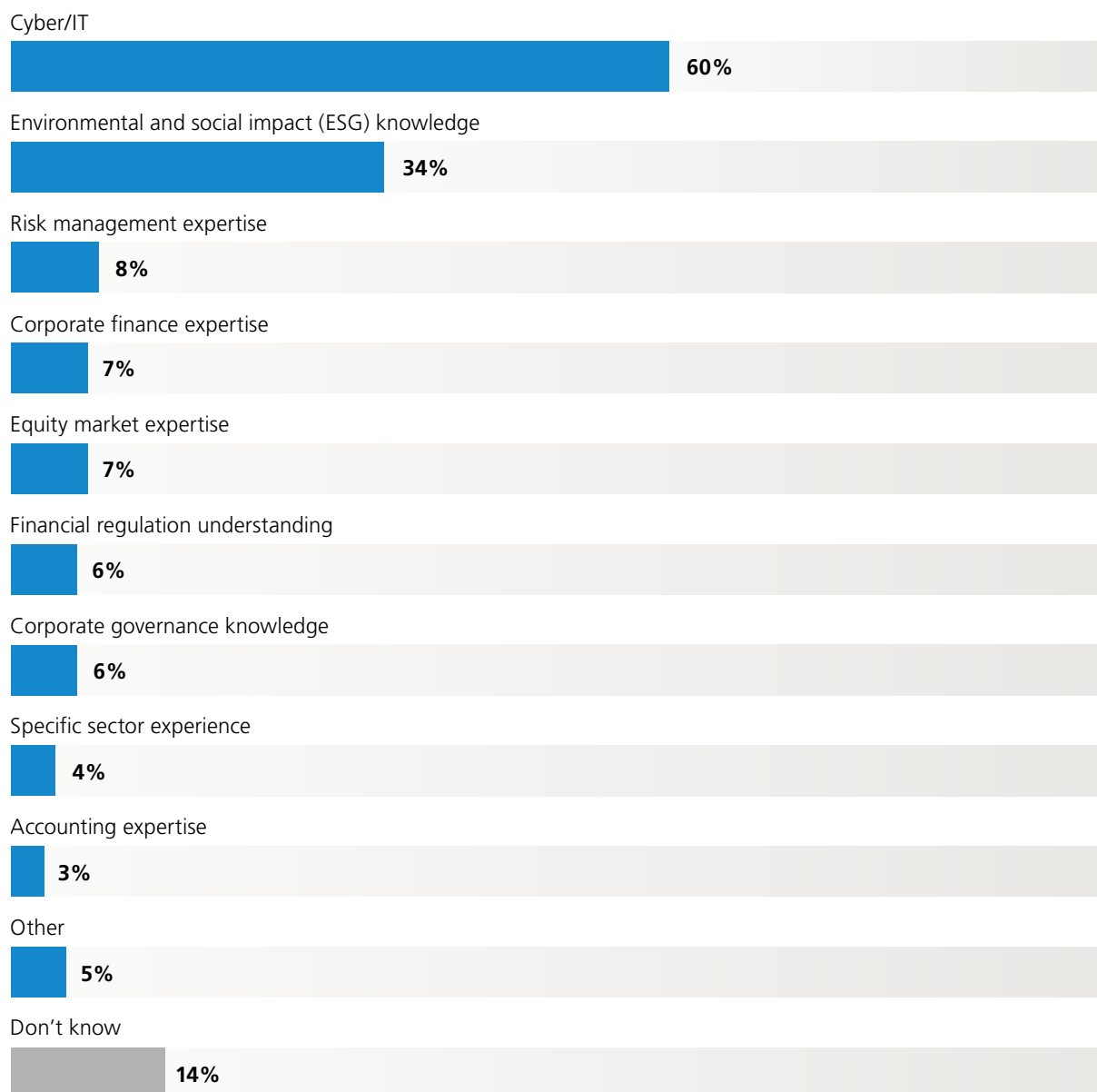
Companies clearly believe that their boards lack cyber/IT expertise as this is the only area that received a majority (60%) of respondents identifying it as a lacking area.

As mentioned earlier, the average age of a NED in this market segment is 60 years old, which may reflect on why cyber/IT is a skill that is deemed to be wanting.

Perhaps more worryingly ESG knowledge was also identified as lacking on small and mid-cap boards. This is mirrored by the small proportion that identified it as a strength. As this is such an important area for emerging regulation and investor expectations companies should be seeking to improve this.

On the other hand it is reassuring that all other areas were only seen as point of weakness for a small minority of respondents, less than 10 percent. ESG issues may therefore be an area boards seek to recruit expertise or get regular external input on.

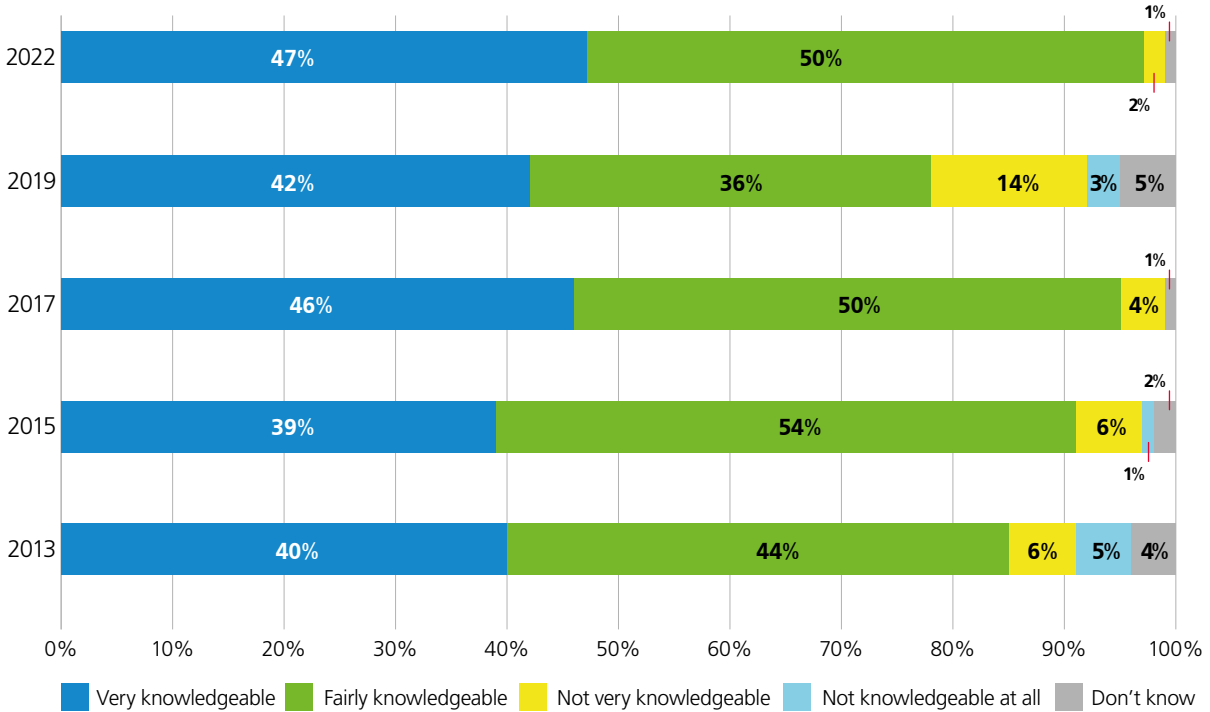
Areas where boards lack expertise



How knowledgeable are NEDs?

We asked opinions of how knowledgeable companies believed NEDs are about their businesses. The vast majority (97%) of companies believe their NEDs are very or fairly knowledgeable.

To what extent are companies' NEDs knowledgeable about small and mid-cap UK quoted companies and their business operations?



Perhaps more worryingly ESG knowledge was also identified as lacking on small and mid-cap boards



4



4: Independence

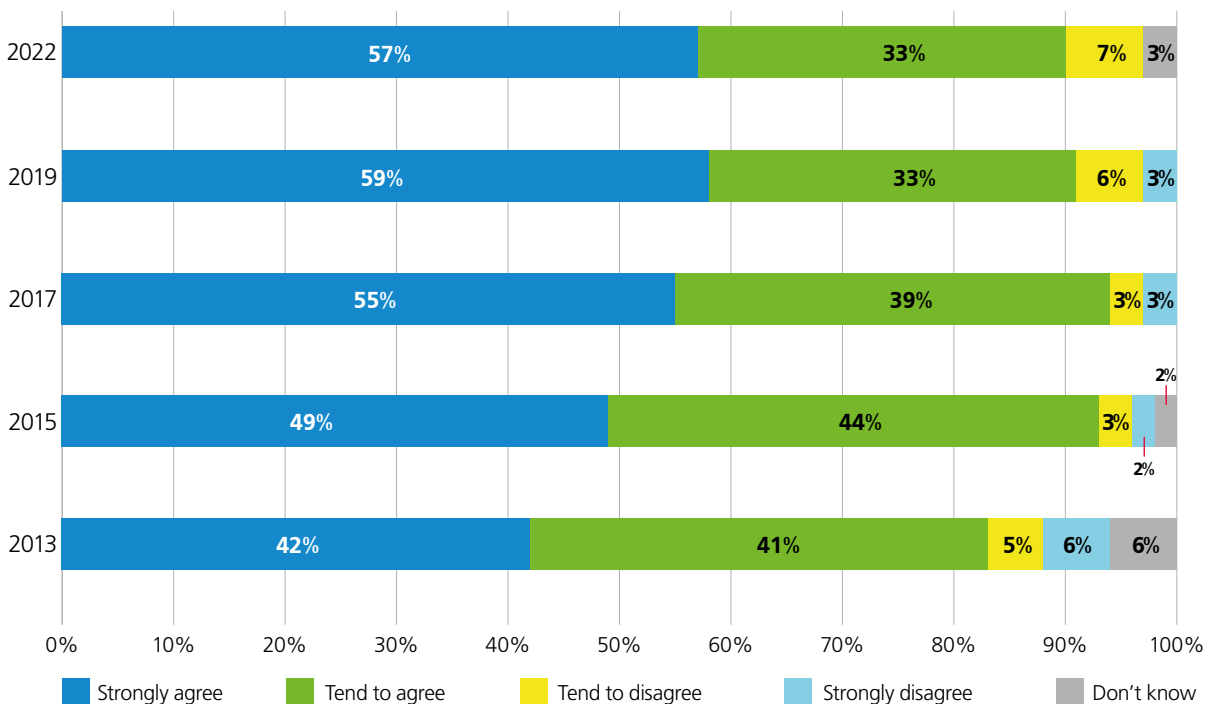
How independent do companies think their NEDs are?

Although companies saw their directors as knowledgeable about their companies they are still seen as broadly independent by the companies. Majority (57%) of company respondents strongly agreed and a total of 89% agreed, that the non-executive directors were sufficiently independent from management to provide a critical voice.

“It is my experience and that of some colleagues, that under the current requirements and other influencing factors, that the business community can lose sight of the fundamental purpose of the board. It would be interesting to [gather views] on the purpose of the board.” Comment from company respondent

The proportion of companies that strongly believe in the independence of their NEDs has stabilised in our recent surveys after increasing from just 42% in 2013. The use of external and more structured methods of seeking these appointments may also contribute to the impression of independence.

Company view of NED independence 2013-22





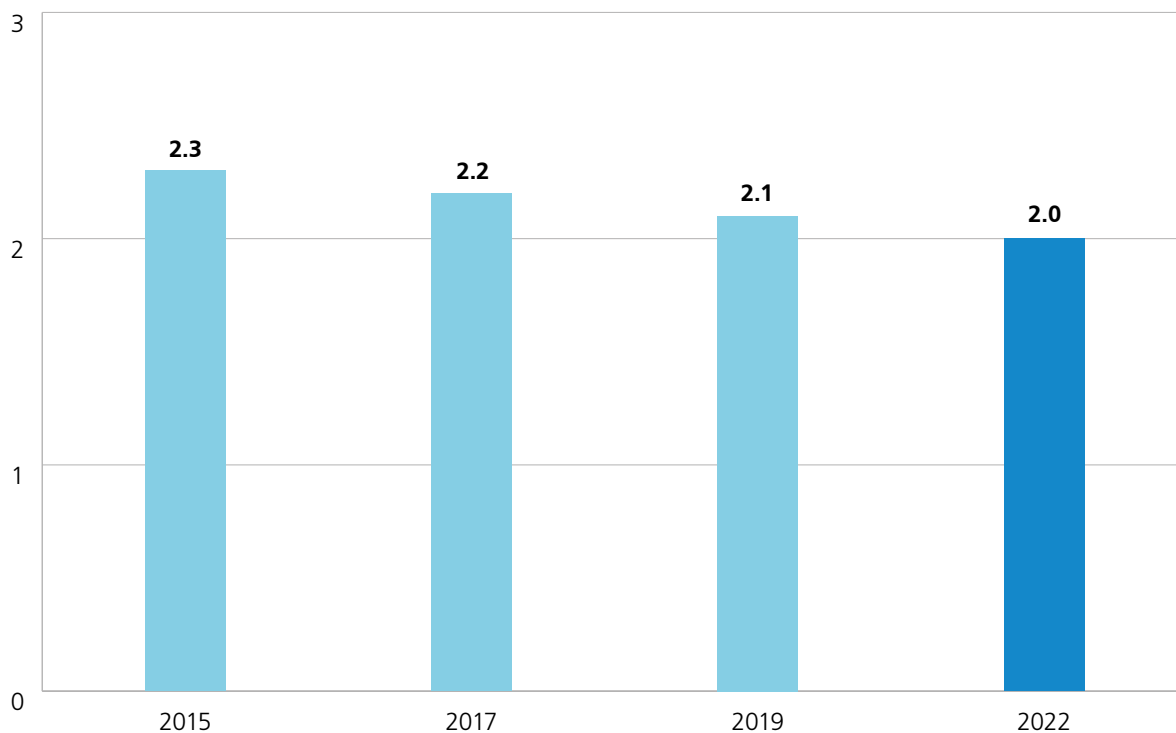
5: NED positions

Average number of positions held by NEDs

The number of positions held by NEDs has fallen slightly once more in this survey – the average now stands at two. There hasn't been a significant change in this average figure since the question was first asked in 2015, but looking at the underlying trends it appears that the number of NEDs that have settled on two positions has increased with fewer having only one and slightly more having three or more.

Average number of positions held by NEDs

(mean)

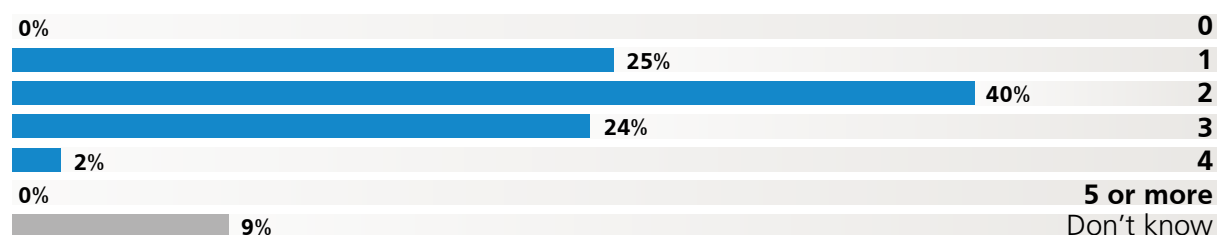


Number of positions held by NEDs

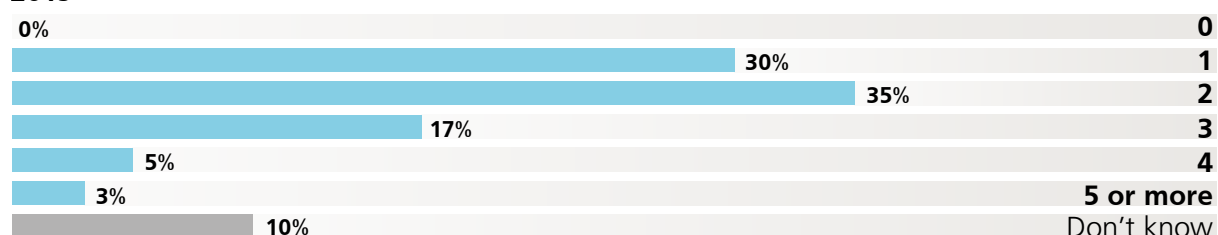
The breakdown of this figure shows that holding one, two or three NED positions is most common with 91% falling into these brackets in 2019 (when 'don't knows' are excluded).

Average number of NED positions held at one time 2015-22

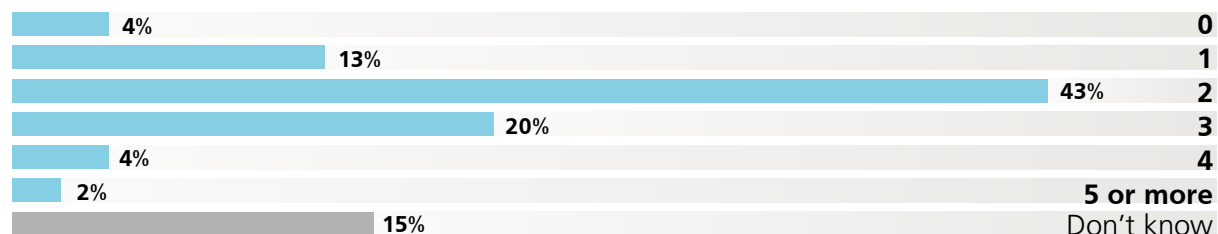
2022



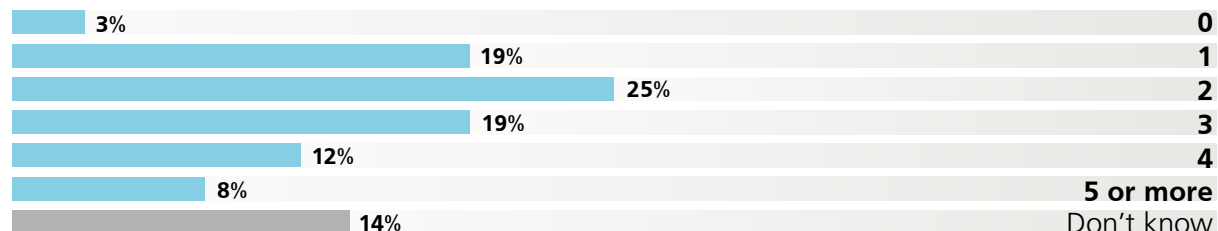
2019



2017



2015



It is notable that in 2019, compared to previous years, there has been an increase in those holding one role (from 13% in 2017, to 30% in 2019), and a decrease in those holding two roles (from 43% in 2017, to 35% in 2019).

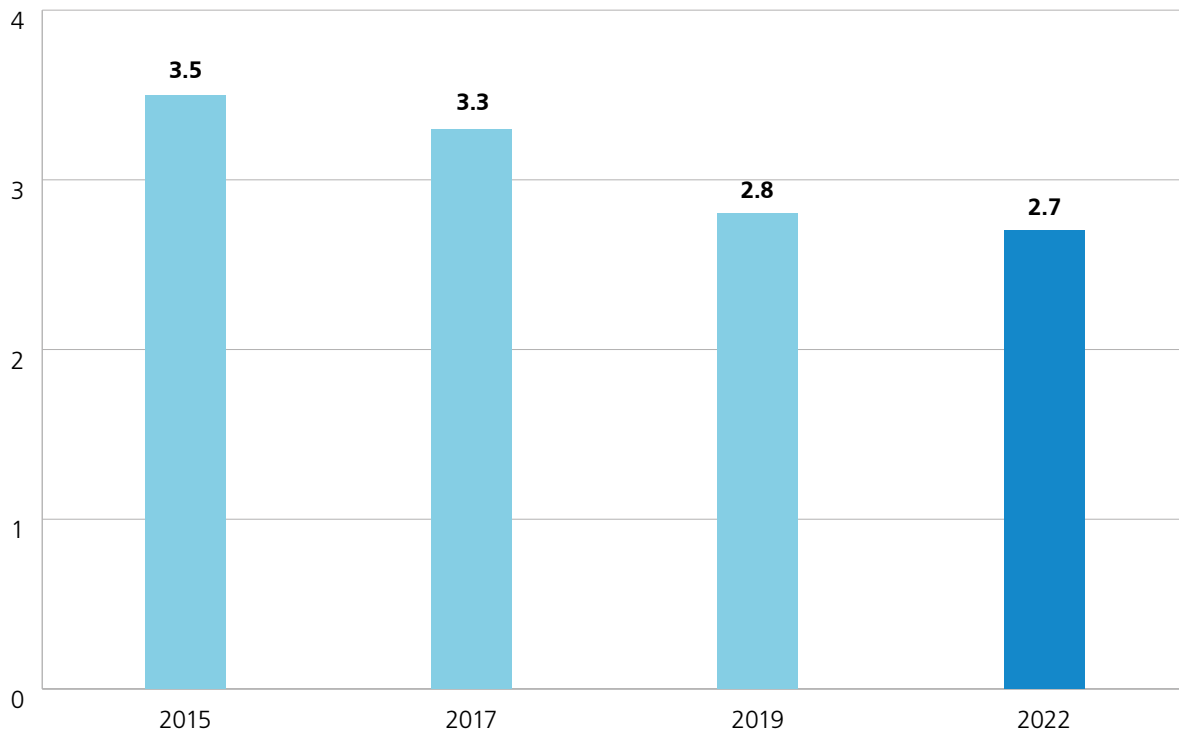
It is notable that in 2019, compared to previous years, there has been an increase in those holding one role

How many positions should a NED hold?

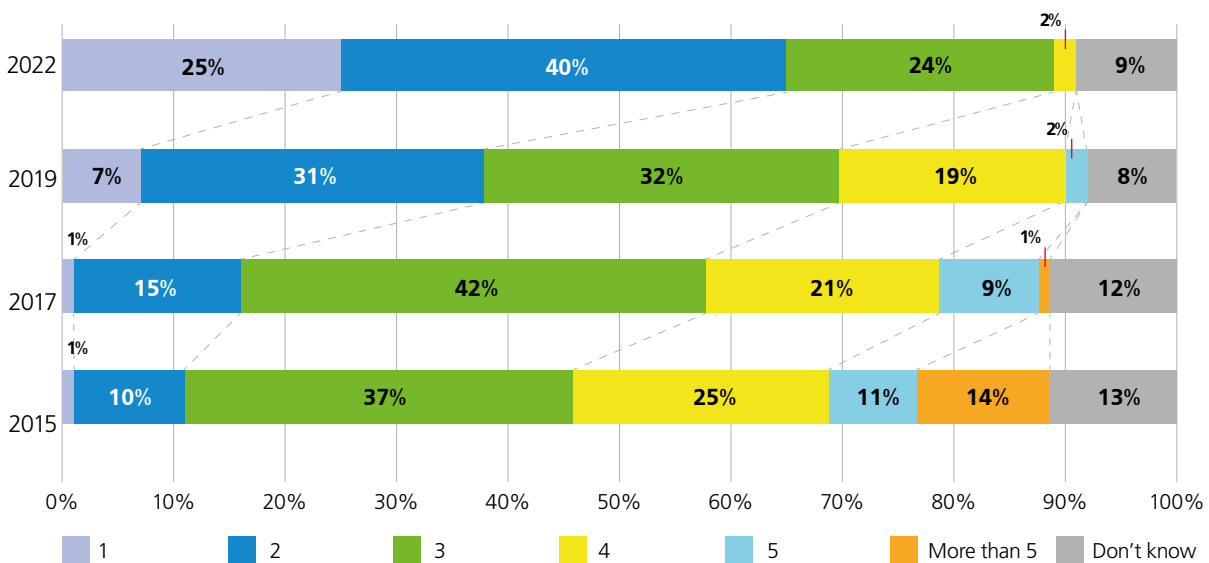
Views on the optimum number of NED positions any individual should hold has declined slightly over the years as well, with companies believing an average of 2.7 is ideal, down from 3.5 in 2015.

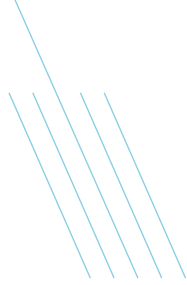
It appears the fears of over-boarding are impacting companies' views of what is ideal for them and that has fed through to how many appointments are being held by a board member at one time. Both trends can be seen in a positive light, reflecting that companies are looking further afield. We explore board recruitment later in this document.

Optimum number of non-Executive positions a NED should hold



Views on this are broken down in the chart below





6

“A very simple way for Boards to become more efficient is with a Board portal solution”

6: Value for money

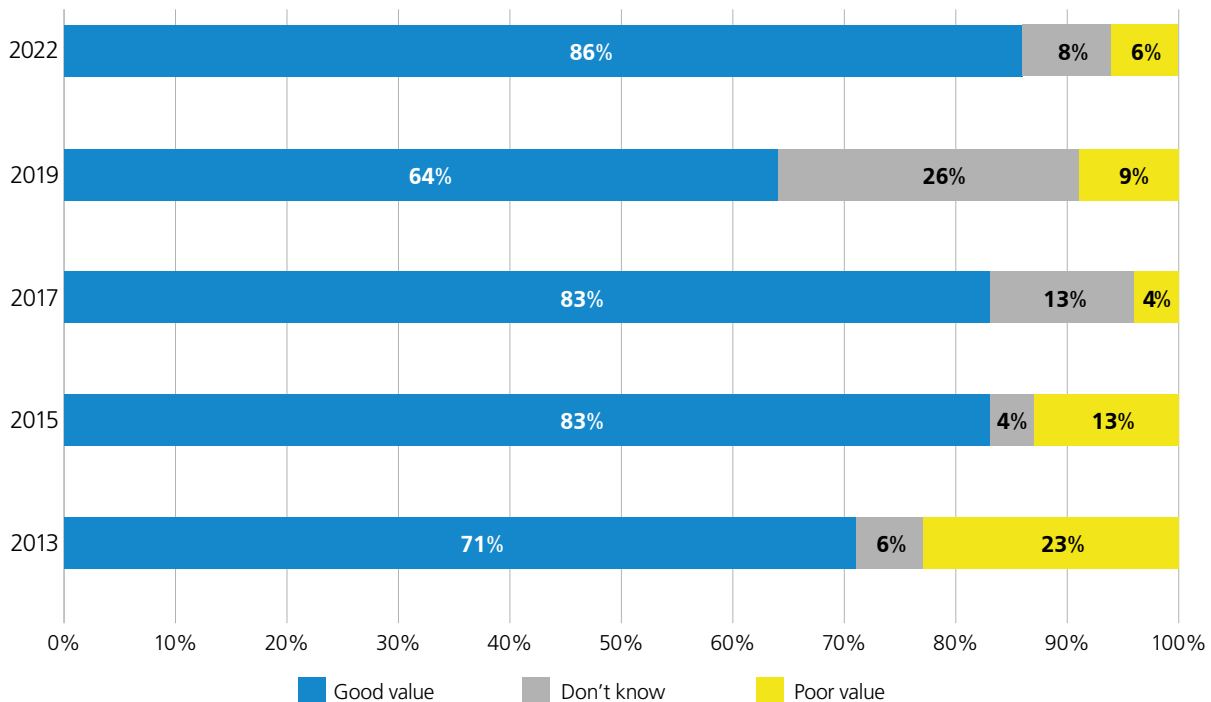
Are NEDs providing value for money?

After looking at salaries, working hours, and what NEDs bring to companies, the question is: are they providing value for money?

After the decline in companies thinking that their NEDs provide good value, with 64% agreeing with this in 2019 down from 83% in 2015 and 2017 the figure rose once more to 86%.

There has also been a small decline in the proportion of companies saying their NEDs provide poor value from 9% in 2019 to 8% in 2022 and companies appear much clearer regarding the good value they are getting from their NEDs.

Value for money from NEDs



There are means of further evaluation and increasing board performance that small and mid-caps appear to be underutilising.

As one company respondent commented:

“A very simple way for Boards to become more efficient is with a Board portal solution, almost every large company has one and most small and medium sized enterprises don't have anything in my experience which is a corporate governance issue.”



7

7: Board evaluations (methods & frequency)

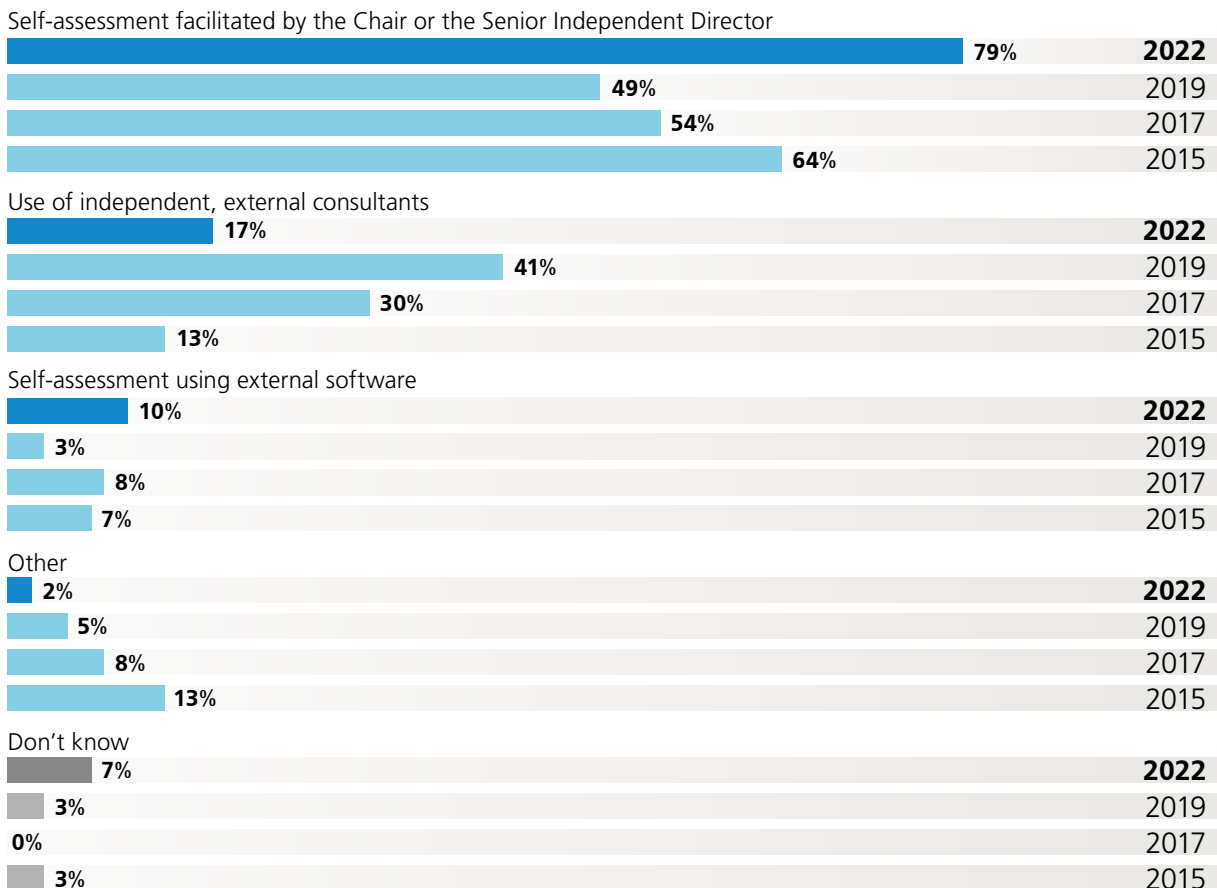
What board performance evaluation methods do companies use?

This survey found that by far the most prominent method of conducting board performance reviews is a self-assessment by the Chair or the Senior Independent Director, with 79% doing it this way. The proportion of companies using a the self assessment approach had been falling since 2015 where it was 64% to less than half in 2019 (49%). Its possible that the availability and ability for external companies to conduct the evaluations has likely been curtailed by Covid lockdowns. After rising significantly by 2019 to 41%, this year that number fell to 17%.

The use of independent external consultants has grown from 6% of companies in 2015 and 2017, to 17% of companies in 2022.

The QCA’s Board Performance Review Guide may have empowered chairs to conduct a self-assessment approach ⁵.

How do you evaluate the effectiveness of your board?



⁵ Board Performance Review Guide can be found at [TheQCA.com](https://www.theqca.com)

The frequency of conduct board performance evaluations

The majority (67%) of companies report that they conduct board performance evaluations on an annual basis. After an encouraging increase to nearly three quarters (74%) in our last survey this number has fallen but it could be inferred that performance evaluations have been made more difficult by the pandemic and lockdowns.

Frequency of board performance evaluations 2015-2022

Every meeting/multiple times per year



Every year



Every 2 years



Every 3 years



Every 4 years



Every 5 years



Longer than every 5 years



Don't know



Note: the option 'Every meeting/multiple times per year' was not offered in 2015 or 2017.

8: Recruitment

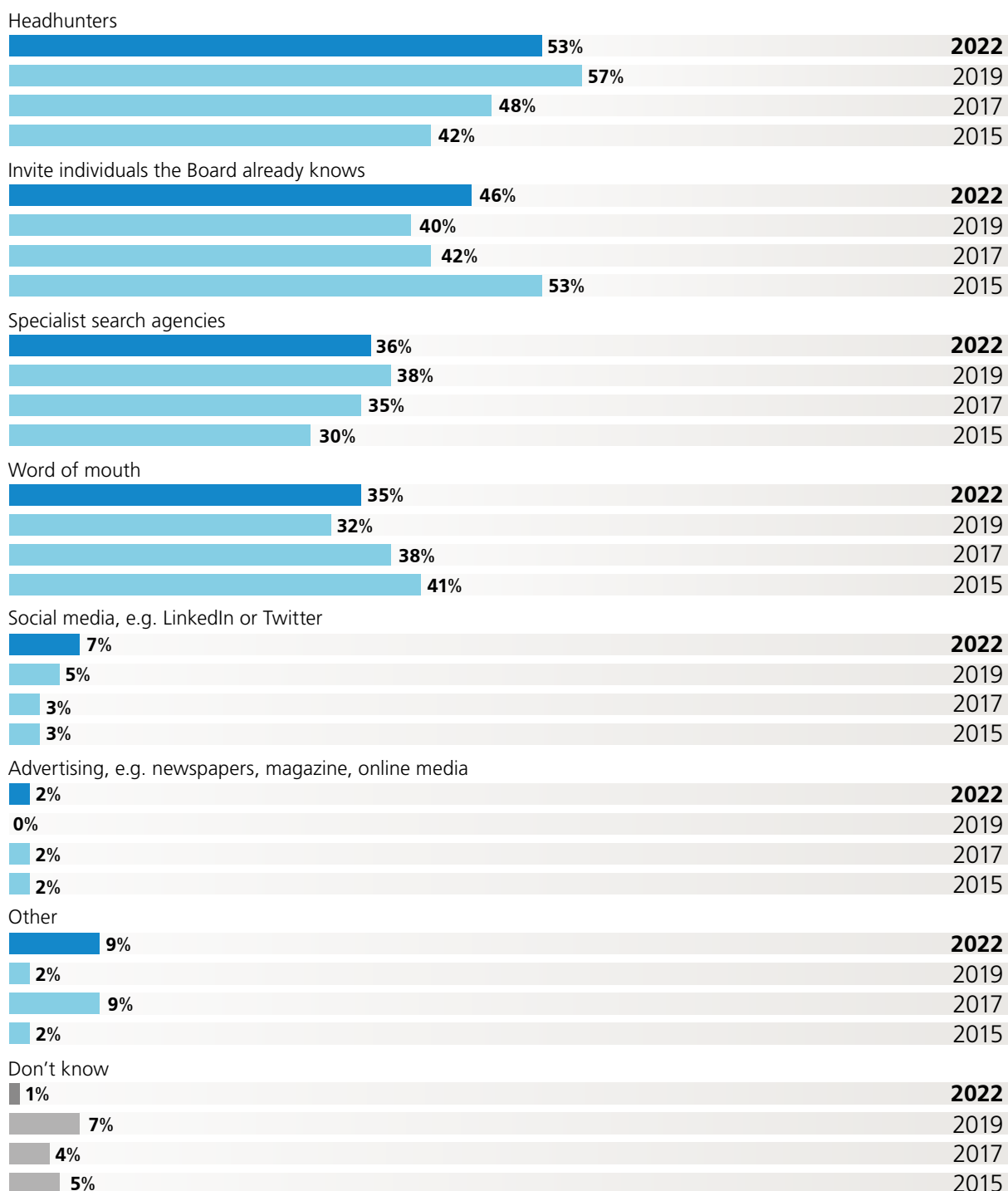
8

How do companies hire their NEDs?

The use of headhunters has fallen slightly since the last survey but remains the most common method for companies to fill director vacancies. More than half (53%) of the respondents said this was a method they used.

The proportion of appointments made through networks by “inviting individuals the board already knows” has continued to decline. This could indicate that as diversity has increased as a concern for appointments, specialists and headhunters are seen as a means of broadening the candidate pool. Conversely the proportion of “word of mouth” applications has risen slightly since our last survey.

What methods does your company use to recruit board directors?

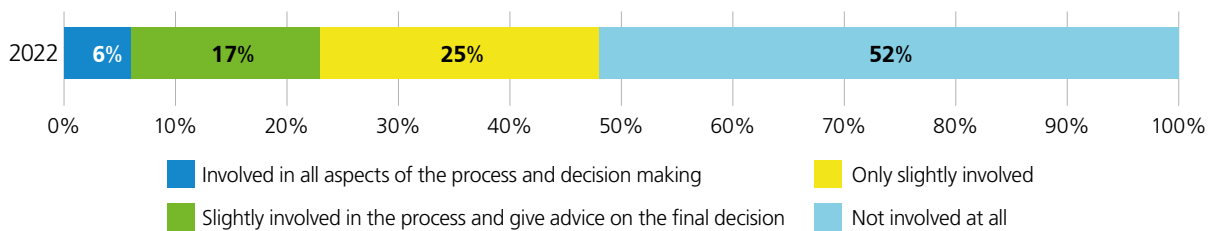


Investor involvement in board member recruitment

More than half of the respondents said that investors were not involved at all in their appointment processes with only 6% saying that investors were involved in all aspects of the process.

As stewardship increases in importance for investors, they may want to have a greater involvement in hiring processes, particularly to address the areas where investors are supposed to be having the greatest impact such as diversity and to address the lack of ESG expertise on boards to improve performance of their investee companies.

How involved are investors?



Companies are aware of their shortcomings in terms of diversity. One company respondent commented:

"[Many] areas are well covered but we lack ethnic diversity."

It is clear that these shortcomings can only be addressed by improving recruitment processes.

One advisor respondent felt as though the barriers to becoming a board member should be lower commenting:

"[Companies should] lower the gate for becoming an NED. If one is already on a Board as an NED it is easier to be successful in the process than if one is not. By definition the existing NEDs may well be older and have been in place for multiple years."

This reflects the view that widening the pool will also create more diversity of thought and younger boards with a fresher approach. This may also help to improve the perceived lack of expertise in emerging areas of acute challenges like ESG and Cybersecurity.



"If one is already on a Board as an NED it is easier to be successful in the process than if one is not"



Methodology

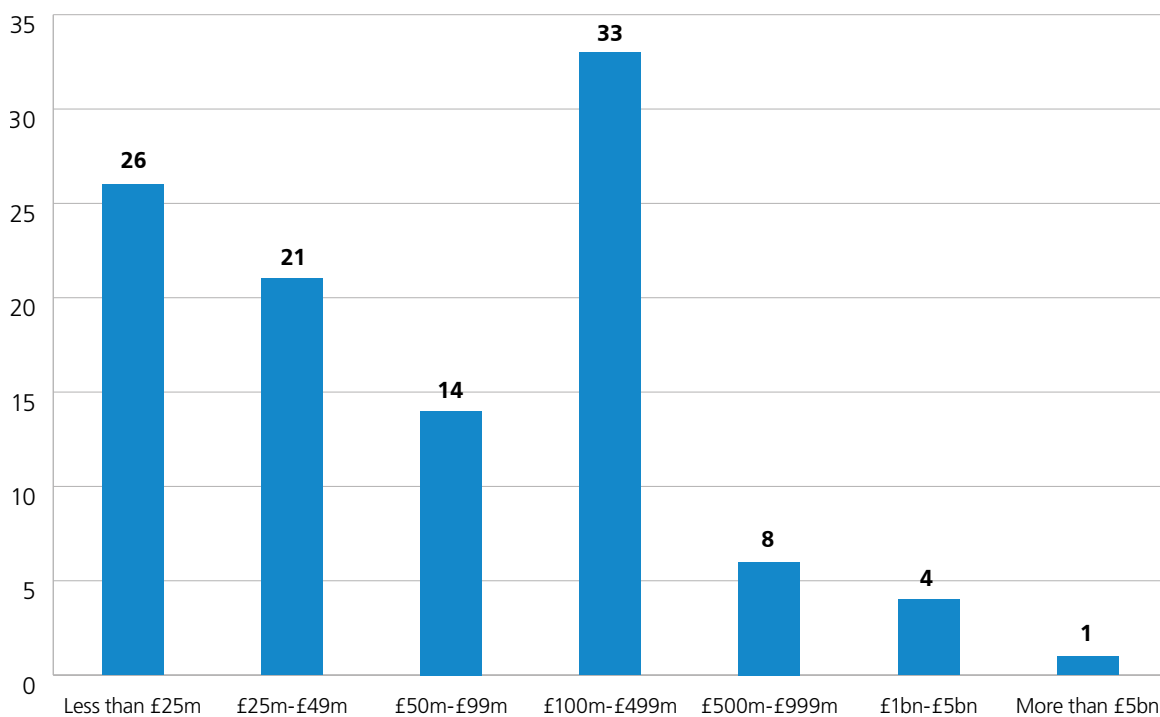
The questions are asked in the twice-yearly QCA/YouGov Small and Mid-Cap Sentiment Index

This survey was conducted between 22 March 2022 and 14 April 2022 by YouGov. There were a total of 107 respondents from small and mid-sized UK quoted companies.

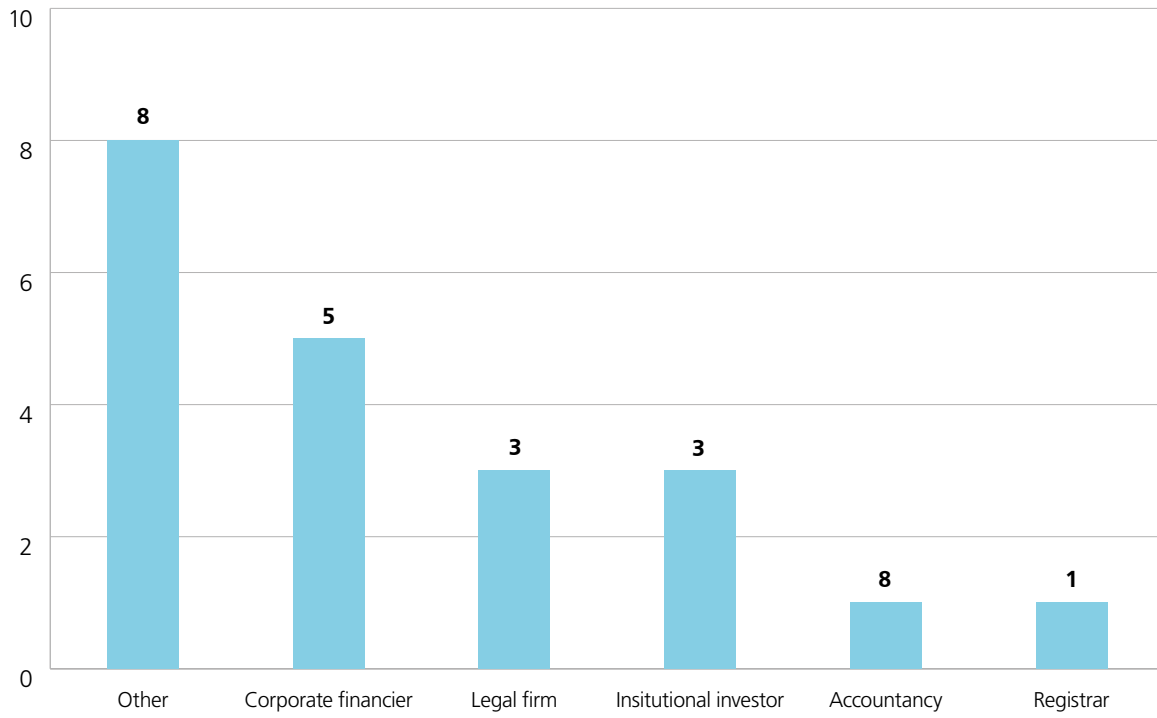
This survey has been conducted using an online survey administered to members and associates of the QCA. The responding sample is weighted by industry to be representative of small and mid-cap UK quoted companies, as derived from London Stock Exchange data, but the advisory companies are not weighted in any way.

As a part of the process we also sought the views of advisors in a smaller survey.

Respondent companies by market capitalisation



Profile of advisor respondents



About the QCA

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies.

The value of our members to the UK economy is vast – as is their potential. There are around 1,250 small and mid-size quoted companies in the UK, representing 93% of all quoted companies. They employ approximately 3 million people, representing 11% of private sector employment in the UK, and contribute over £26bn in annual taxes.

Our goal is to create an environment where that potential is fulfilled. We identify the issues that matter to our members. We keep them informed. And we interact to build the understanding and connections that help our members stay ahead. The influence we have, the influence we use, and the influence we grow, ensures that our members always benefit from the impact of our initiatives.

theqca.com

QUOTED COMPANIES ALLIANCE



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