LIFE IN THE BOARDROOM

2013 CHAIRMAN AND NON-EXECUTIVE DIRECTOR SURVEY

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Life in the Boardroom, the 2013 Chairman and Non-Executive Director Survey, is supported by:

1.

WELCOME AND REVIEW OF 2012

We thank all the 502 directors – 316 chairmen and 186 non-executive directors – who have contributed to the survey. They provided data on 1,328 appointments on main market, AIM and private company boards, including private equity-backed businesses, across all sectors. Now in its 23rd year, Life in the Boardroom is the most comprehensive study of its kind and we are pleased to report more responses this year than ever before.

2012 has again proved to be a challenging year for chairmen and non-executive directors with a variety of boardroom issues creating national headlines - be it international corporate tax planning (who would have thought such a previously dry topic would impact on the coffee we choose to drink!) to the LIBOR scandal or the mis-selling of PPI. Also, the much trumpeted 'shareholder spring' seems to have genuinely taken root with a marked increase in engagement of shareholders with companies. The binding votes on remuneration that come into force this year will undoubtedly encourage further engagement, but whether it leads to a fundamental and long term change in corporate behaviour remains to be seen.

In this year's survey, in addition to our detailed remuneration study, we cover a number of issues related to culture, ethics and wider corporate behaviour, and these have elicited some very interesting analysis and commentary. What seems apparent is that boards are debating these issues as never before but, as our survey shows, debate does not automatically lead to consensus and it certainly does not necessarily lead to action. Whilst the answers to a number of questions may seem obvious, other scenarios are like using full beam in fog – the difficulty of finding the way ahead is only highlighted.

In addition to our survey respondents, we are grateful for the contributions of Sacha Sadan of Legal & General Investment Management who comments on the rise of shareholder activism; Chris Hurley of LDC who talks about the role of the NED in a PE-backed business; and Jennifer Sundberg of Board Intelligence who discusses the importance of the provision of quality information in the board decision making process.

Whilst some may suggest that the on-going debate on boardroom pay has diminished, or has somehow been relegated to the side-lines, this is not the case. There still appears to be as much scrutiny as ever and, whilst there has been undoubted progress in curtailing some of the more obvious 'rewards for failure', there is still the on-going concern that the 'war on greed' will in fact become a 'war on wealth creation'. Pleasingly, the vast majority of NEDs surveyed continue to practice what they preach by displaying remuneration restraint – the majority have not received a pay increase this year nor do they expect a rise in the foreseeable future.

Another area of progress is that of women on boards. Having looked at this subject in some detail last year we simply note continuing progress, with 23% of NEDs in our surveyed companies being female. We plan to look at developments in this area again in our 2014 edition.

In summary, the role of the chairman and NED has never been more important nor more challenging and, whilst the financial rewards are generally not comparable to those for executive roles, the ideal non-executive is one who does not need the position for money and has chosen the company as much as vice versa.

2013 will undoubtedly bring its own challenges, but overwhelmingly our conclusion in this study is that the UK corporate governance model is still the clear favourite choice of most global firms and this, in no small measure, is down to the quality of its chairmen and NEDs.

2.

EXECUTIVE SUMMARY

Remuneration

- Chairmen and NEDs are leading by example on the remuneration front by keeping their remuneration down. For the vast majority of chairmen and NEDs, fee levels are not increasing. 82% did not have a pay increase last year and 84% do not expect one this year.
- Fees depend on company size, ownership, personal reputation, expertise, time, risk and a host of other factors. There is a very wide range of approaches and practices. There is no simple formula to setting fees and judgment must be used.
- Shares and options form an important part of remuneration for a small percentage of chairmen and NEDs, in the UK; but more than half of remuneration in the US.

Executive Remuneration

- Most chairmen and NEDs think the current pay levels of executive directors are about right, but an increasing percentage think pay is too high.
- Increasing numbers think the existing remuneration model is broken (too short term, not enough equity, and too much reward for failure).

NEDs' most important role is Strategy

- The most important part of the NED role is constructively challenging and helping to develop proposals on strategy.
- Responsibilities for people and pay issues received a lower ranking, indicating that, compared to strategy, it is relatively easy to recruit, motivate, incentivise and reward high calibre executives.
- The most important NED skill cited by those surveyed is the ability to challenge other board members. Independence and objectivity are also ranked high in desired skills as is prior experience of issues likely to face the board.
- The ability to challenge other board members is highly desired, but asking difficult questions in the right way is a tough path to tread. 65% disagree with the statement "NEDs who are perceived as 'difficult' are side-lined or marginalised", however, a significant minority of those surveyed (18%) agree or strongly agree that such NEDs are marginalised.

Appointments Procedure

- Executive Search is the predominant process used to recruit NEDs in all but the smallest companies which mainly use the personal contacts of their directors to source candidates.

Culture and Ethics are discussed more often

- The corporate scandals of recent years are stimulating debate in boardrooms as never before – the crux of the conversation is essentially to what degree does the business's perceived moral obligations impact on its duty to generate returns for shareholders.

Private Equity owned companies

- The role of a NED in a private equity owned company is more focused on business success than in a quoted company, where there is over-focus on process.
- PE owned companies pay their NEDs less than quoted companies, but often they have shares or options. They pay significantly less for small (<£10 million turnover) companies and about 12% less for other companies (this is a weighted average by company size). They pay their chairmen 1% less (although the pattern varies with size – it is significantly less for large companies). There may however be compensation via equity based opportunities for wealth accumulation.

3.

FEES

3.1 Fees - Chairman

Fees are usually linked to the time spent, company size, ownership, sector, risk and other company specific factors. Our survey first shows fee levels broken down by company size and ownership. The first table shows data for UK quoted companies (i.e. main market listing or AIM). The average fee for the less than £10 million and £10 to 30 million turnover categories are significantly more than the median figures, which indicates that some companies are paying much higher than others and this produces an inconsistent pattern of averages of £54,000, £103,000 and then £80,000 in the next category. Other than this, the data shows a consistent pattern of fees linked to company size.

UK QUOTED companies, excluding Investment Trusts. Total fees £000 p.a. (including shares)						
	Turnover £ millions					
	< 10	**10 to 30**	**30 to 100**	**100 to 300**	**300 to 1,000**	**1,000+**
Upper Quartile	50	100	86	108	175	250
Median	**15**	**40**	**68**	**100**	**133**	**200**
Lower Quartile	9	25	52	85	98	165
Average	**54**	**103**	**80**	**103**	**138**	**221**
Sample Size	15	11	24	15	22	15

Note: 50% of companies pay at or above the median and 50% at or below it. Upper quartile means 25% of companies are above this. Lower quartile means 25% of companies are below this. Average is the statistical mean.

We have separated out Investment Trusts from other quoted companies, as the role of directors in such companies is different and this is reflected in the chairman's remuneration which is generally much lower.

INVESTMENT TRUSTS. Total fees £000 p.a. (including shares)						
	Market Capitalisation £ millions					
	< 10	**10 to 30**	**30 to 100**	**100 to 300**	**300 to 1,000**	**1,000+**
Upper Quartile	31	31	51	-	40	-
Median	**30**	**28**	**40**	**-**	**35**	**-**
Lower Quartile	30	22	35	-	35	-
Average	**31**	**26**	**45**	**27**	**36**	**-**
Sample Size	3	4	4	2	5	0

The next table shows the breakdown for private equity and venture capital owned companies. As is our practice, we have not smoothed the data. Thus, it allows readers to form their own conclusion. For example, the median figures show a consistent pattern of increasing with size of company turnover: however average figure for the £30 to £100 million turnover category is £97,000 versus the median of £51,000. By looking at the categories on either side, we see that a figure of say £70,000 might be a better estimate of the average rate.

PRIVATE EQUITY owned companies. Total fees £000 p.a. (including shares)							
	Turnover £ millions						
	< 3	**3 to 10**	**10 to 30**	**30 to 100**	**100 to 300**	**300 to 1000**	**1,000+**
Upper Quartile	38	39	58	85	100	111	-
Median	**24**	**30**	**40**	**51**	**60**	**78**	**-**
Lower Quartile	19	25	30	40	50	59	-
Average	**44**	**39**	**50**	**97**	**95**	**84**	**103**
Sample Size	23	30	43	36	17	8	2

Compared to quoted companies, private equity back companies tend to pay higher for small companies (<£10 million turnover) and lower for larger companies. However, the median fees' weighted average by company turnover is 1% less in private equity backed companies.

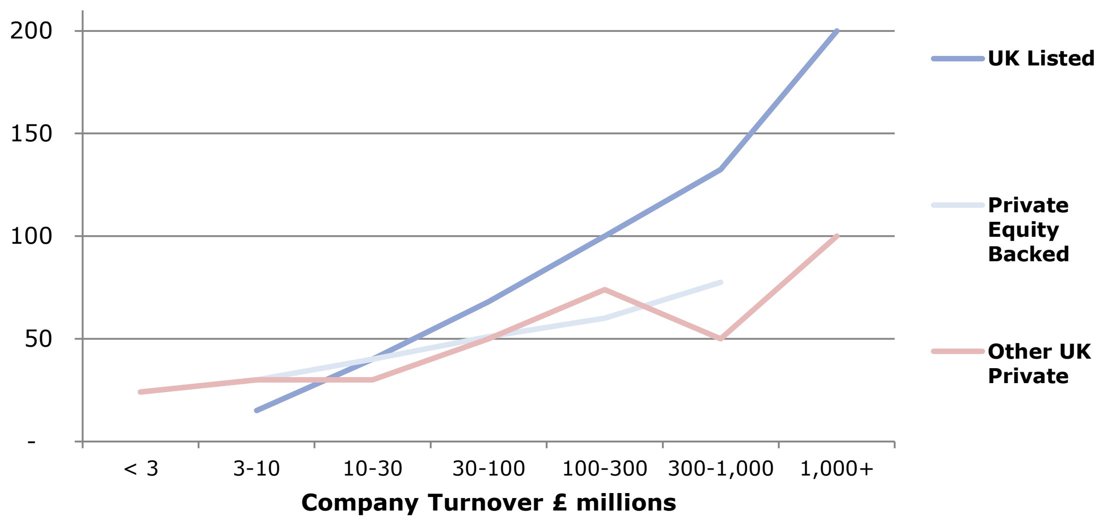
OTHER UK PRIVATE companies *. Total fees £000 p.a. (including shares)							
	Turnover £ millions						
	< 3	3 to 10	10 to 30	30 to 100	100 to 300	300 to 1000	1,000+
Upper Quartile	40	50	40	75	110	120	130
Median	**24**	**30**	**30**	**50**	**74**	**50**	**100**
Lower Quartile	12	18	20	30	50	50	84
Average	**47**	**62**	**37**	**102**	**123**	**111**	**114**
Sample Size	39	39	33	13	9	5	4

** excludes Public Sector / Not For Profit / Charity*

In general, it appears that chairmen of private equity owned companies are paid similarly to other unquoted companies of similar size.

Quoted companies above £30 million turnover appear to pay higher fees, with the premium rising with company size.

Chairmen: Median Fees. Sector Comparison



There are relatively few large private companies and the variations in the survey results reflect this.

Financial Services

We also looked at the financial sector and compared the pay to other sectors. We did this analysis on the basis of market capitalisation or, for private companies, the estimated firm value. We found little difference in remuneration levels between financial and other sectors, for both chairmen and non-executives directors. This is an interesting result as executive pay in banks and other financial services is significantly higher than in other sectors. However, no such pattern persists in relation to chairmen or NEDs.

Public Sector

The public sector is paying substantially less than listed companies; and for many small public sector organisations no fees are paid. We suspect this is an area for concern – it is difficult to insist on the highest standards of competence, contribution, conduct and performance when directors are not paid a fair reward. If people are paid fairly, then they expect to be held to account. With increasing pressure on costs and value for money in the public sector, this problem can only grow.

Conclusion

There is a wide range of practice in setting fees for chairmen. The variety of practice suggests that fee levels do not reflect a well ordered economic market and that candidates and companies should negotiate hard over fee levels on appointment.

Daily Rates - Chairman

We have calculated the 'daily rate' by dividing the total fees (including payments in shares) by the number of days worked in the year.

The data show quite a variation, but indicate that for UK quoted companies the median daily rate for a chairman is less than £1,000 for companies with less than £10 million turnover, rising to £2,000 for medium sized companies (£30 million to £300 million turnover), and £3,000 or more for larger companies. Some chairmen are paid a significantly larger amount and this is why the averages and upper quartiles in the smaller turnover categories are much higher than the median figures.

UK QUOTED companies, excluding Investment Trusts. Daily Rates £ (including shares)						
	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	1,694	2,528	2,771	2,855	2,994	5,056
Median	**667**	**1,290**	**2,034**	**2,250**	**2,614**	**3,500**
Lower Quartile	402	1,071	1,490	1,768	2,308	3,024
Average	**1,156**	**1,985**	**2,222**	**2,308**	**2,752**	**3,903**
Sample Size	15	11	24	15	22	15

The data for Investment Trust chairmen follow a different pattern.

INVESTMENT TRUSTS. Daily Rates £ (including shares)						
	Market Capitalisation £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	1,892	3,594	3,800	-	1,750	-
Median	**1,477**	**2,262**	**2,417**	**-**	**1,500**	**-**
Lower Quartile	959	1,107	1,389	-	1,111	-
Average	**1,409**	**2,439**	**2,771**	**1,864**	**1,767**	**-**
Sample Size	3	4	4	2	5	-

In private equity backed companies and other private companies the median daily rates are around £1,000 for smaller companies, rising to £2,000 or more for companies with larger turnover.

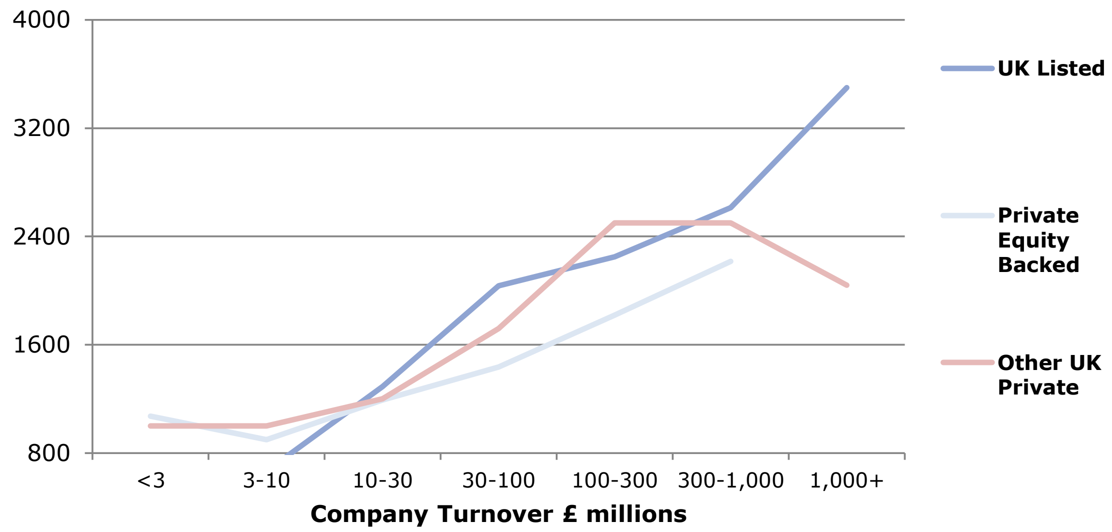
PRIVATE EQUITY backed companies. Daily Rates £ (including shares)							
	Turnover £ millions						
	< 3	3 to 10	10 to 30	30 to 100	100 to 300	300 to 1000	1,000+
Upper Quartile	2,172	1,667	1,879	2,081	2,444	3,027	-
Median	**1,071**	**898**	**1,190**	**1,436**	**1,818**	**2,217**	**-**
Lower Quartile	800	727	783	1,045	1,290	1,402	-
Average	**2,895**	**3,253**	**1,606**	**3,436**	**2,431**	**2,150**	**2,714**
Sample Size	23	29	43	36	17	8	2

OTHER UK PRIVATE companies*. Total fees £000 p.a. (including shares)							
	Turnover £ millions						
	< 3	3 to 10	10 to 30	30 to 100	100 to 300	300 to 1000	1,000+
Upper Quartile	2,083	1,702	1,672	2,857	3,056	3,333	4,163
Median	**1,000**	**1,000**	**1,200**	**1,719**	**2,500**	**2,500**	**2,041**
Lower Quartile	600	647	813	962	1,143	889	1,361
Average	**2,493**	**2,480**	**1,950**	**3,177**	**6,332**	**2,665**	**3,002**
Sample Size	37	38	31	13	9	5	3

** excludes Public Sector / Not For Profit / Charity*

The differences by sector are shown in the graph below.

Chairmen: Median Daily Rates. Sector Comparison



% Increases – Chairman

85% of chairmen did not have a fee increase in 2012 and 84% do not expect one in 2013.

Increases in total annual fees LAST YEAR.	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to300	300 to 1,000	1,000+
Upper Quartile	0%	0.0%	0.0%	0.0%	2.0%	0.0%
Median	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Lower Quartile	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Average	**1.2%**	**1.1%**	**2.7%**	**2.3%**	**2.2%**	**3.2%**

Expected Increases in total annual fees IN 2013.	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	0.0%	0.0%	0.0%	0.0%	2.8%	1.5%
Median	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Lower Quartile	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Average	**1.3%**	**0.8%**	**0.8%**	**2.1%**	**1.4%**	**0.8%**

The average figures are much higher than the medians and in some cases higher than the upper quartile. This is because some chairmen have had/are expecting significant increases. Quite a number of companies have not made any increases, so it would appear others have given quite substantial increases. In addition, we suspect that new appointees are able to negotiate higher fees than their predecessors.

Satisfaction Rating

27% of chairmen feel their remuneration is too low, 71% about right and 2% too high. The results are consistent across all sizes of company.

Other employee surveys consistently report that most employees feel their pay is too low. It is interesting to note that chairmen are more satisfied about their pay than employees generally.

Last year the results were similar: 26% of chairmen felt their remuneration was too low, 72% about right, and 9% too high.

The average chairman has 1.7 chairmanships and 1.4 other NED roles where he/she is not chairman, works about 96 days per year and receives £123,000 in remuneration in respect of these roles.

3.2 Fees - Non-Executive Directors

The average non-executive director in this survey has 1.9 roles, works 43 days a year and is paid £77,250 for his/her non-executive director work.

Fees are usually linked to the time spent, company size, ownership, sector, risk and other company specific factors. First our survey shows fee levels broken down by company size and ownership. The first table shows data for UK quoted companies (i.e. main market or AIM).

UK QUOTED companies, excluding Investment Trusts. Total fees £000 p.a. (including shares)							
	Turnover £ millions						
	< 10	**10 to 30**	**30 to 100**	**100 to 300**	**300 to 1,000**	**1,000 to 3,000**	**3,000+**
Upper Quartile	54	35	39	55	60	73	102
Median	**33**	**35**	**33**	**43**	**50**	**60**	**78**
Lower Quartile	21	25	28	37	45	50	59
Average	**40**	**29**	**35**	**47**	**55**	**65**	**84**
Sample Size	18	15	45	41	57	39	28

Investment Trusts pay their NEDs lower fees than quoted companies.

INVESTMENT TRUSTS. Total fees £000 p.a. (including shares)						
	Market Capitalisation £ millions					
	< 10	**10 to 30**	**30 to 100**	**100 to 300**	**300 to 1,000**	**1,000+**
Upper Quartile	29	21	30	26	22	-
Median	**25**	**19**	**22**	**23**	**22**	**-**
Lower Quartile	19	17	18	21	21	-
Average	**30**	**19**	**26**	**25**	**24**	-
Sample Size	10	4	4	10	6	-

PRIVATE EQUITY backed companies. Total fees £000 p.a. (including shares)							
	Turnover £ millions						
	< 3	**3 to 10**	**10 to 30**	**30 to 100**	**100 to 300**	**300 to 1000**	**1,000+**
Upper Quartile	25	20	40	46	50	51	70
Median	**15**	**11**	**30**	**33**	**35**	**45**	**50**
Lower Quartile	8	8	23	19	25	34	35
Average	**19**	**13**	**35**	**73**	**84**	**42**	**63**
Sample Size	15	12	20	12	9	8	9

OTHER UK PRIVATE companies*. Total fees £000 p.a. (including shares)							
	Turnover £ millions						
	< 3	**3 to 10**	**10 to 30**	**30 to 100**	**100 to 300**	**300 to 1000**	**1,000+**
Upper Quartile	32	17	30	38	41	54	52
Median	**8**	**14**	**24**	**25**	**32**	**40**	**44**
Lower Quartile	6	10	15	21	25	35	34
Average	**24**	**14**	**28**	**32**	**38**	**45**	**49**
Sample Size	16	27	29	23	20	12	8

** excludes Public Sector / Not For Profit / Charity*

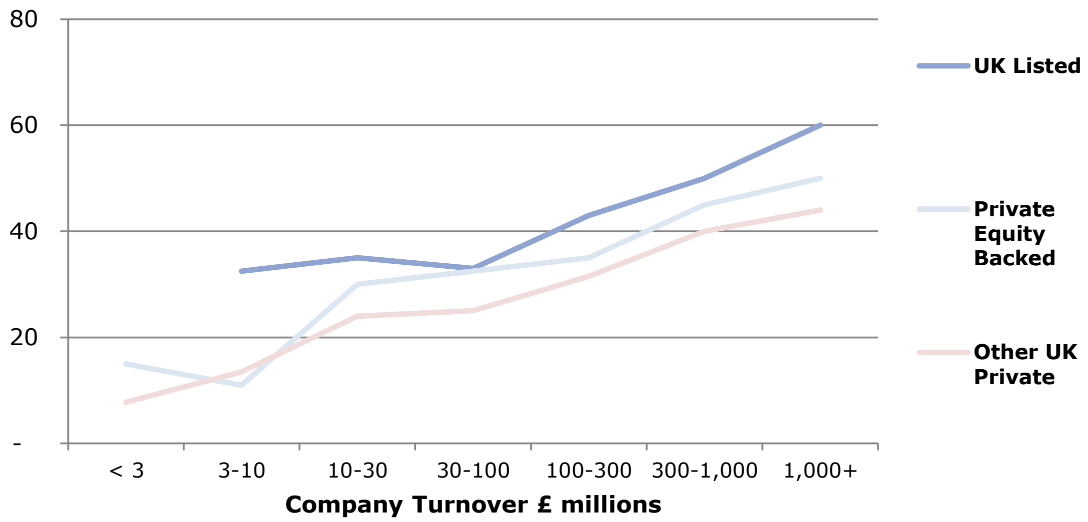
Non-executive director fees levels in private equity backed companies are lower than in quoted companies (excluding investment trusts). This is particularly the case for small companies, although we see that in some cases the potential gains from options/shares may compensate for this difference (see page 9 for further analysis of this). For companies with more than £10 million turnover, median fee levels are about 12% lower in private equity owned companies.

However, this comparison is not wholly appropriate as, in order to align interests with their own, many private equity houses ensure that the non-executives at their portfolio companies also own a sizeable proportion of shares (or options) in their portfolio companies. In effect non-executives are forfeiting their short term remuneration for a greater potential gain at the sale/exit point, which is typically a maximum of 5 years down the line. Results from our survey show that non-executives' share ownership ranges from £10,000 to £3.5m.

This year's sample contains a greater representation of this type of remuneration structure (which we believe to be reflective of market) and as a result the median figures have decreased. Although the data for non-executive directors' fees for PE back companies is lower than last year, we do however note that frequently non-executives do hold shares or options in their companies. So any assessment of fees needs to include the role, time commitment and equity stakes as well as the basic fees themselves.

Sometimes the data for medians, averages and quartiles cannot explain what is really happening and one needs to look at the combination of time, fees, shares owned and equity participation. We have studied in detail the raw data in order to draw the above conclusions. There are some cases where quite low fees are paid. With these provisos, we present below the sector comparisons of median fee levels.

NEDs: Median Fees. Sector Comparison



The logical argument why fee rates are substantially higher in quoted than private companies is that there is more risk in being a non-executive director of a quoted company. However, in some cases, share ownership and share options in private companies can compensate for lower basic fees. Data on share ownership and options are on pages 11 and 12.

Fee levels in other UK private companies are significantly less, on average by about 25%, when compared to listed companies.

As noted on page 6, fees for non-executive directors in the financial services sector are similar except in the very smallest companies (<£10 million market cap size).

Daily Rates for Non-Executive Directors

We have calculated the 'daily rate' by dividing the total fees (including payments in shares) by the number of days worked in the year.

In quoted companies, the median daily rates are around £1,300 per day for smaller companies and £1,900 per day for larger companies.

UK QUOTED companies, excluding Investment Trusts. Daily Rates £ (including shares)							
	Turnover £ millions						
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000 to 3,000	3,000+
Upper Quartile	2,178	1,435	1,786	2,500	2,386	3,116	3,010
Median	**1,471**	**1,203**	**1,400**	**1,941**	**1,800**	**1,935**	**2,297**
Lower Quartile	1,177	1,028	1,179	1,200	1,442	1,460	1,925
Average	**1,687**	**1,139**	**1,636**	**2,033**	**2,025**	**2,412**	**2,821**
Sample Size	18	14	45	41	56	39	28

We have separated out Investment Trusts, as they seem to pay differently to other quoted companies.

INVESTMENT TRUSTS. Daily Rates £ (including shares)						
	Market Capitalisation £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	2,727	3,060	1,831	2,167	1,574	-
Median	**2,400**	**2,179**	**1,303**	**1,867**	**1,226**	**-**
Lower Quartile	2,000	1,446	856	1,393	1,118	-
Average	**3,239**	**2,327**	**1,385**	**1,843**	**1,348**	-
Sample Size	9	4	4	10	6	-

Private equity backed companies (see next page) pay similar daily rates to quoted companies, except in the <£10 million turnover category, where they pay significantly less, but equity based remuneration may compensate for the difference.

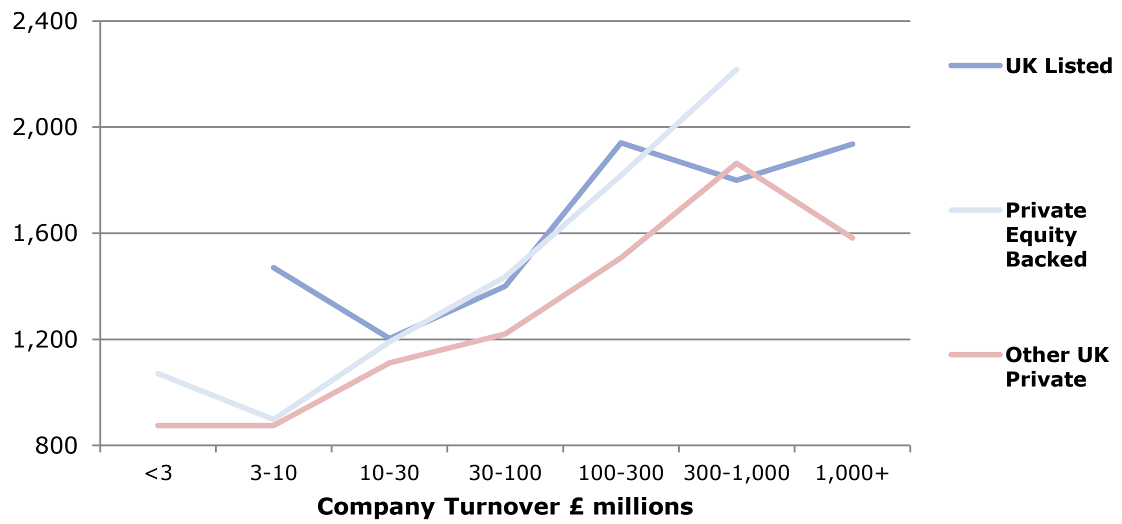
PRIVATE EQUITY backed companies. Daily Rates £ (including shares)							
	Turnover £ millions						
	< 3	3 to 10	10 to 30	30 to 100	100 to 300	300 to 1000	1,000+
Upper Quartile	2,172	1,667	1,879	2,081	2,444	3,027	-
Median	**1,071**	**898**	**1,190**	**1,436**	**1,818**	**2,217**	**-**
Lower Quartile	800	727	783	1,045	1,290	1,402	-
Average	**2,895**	**3,253**	**1,606**	**3,436**	**2,431**	**2,150**	**2,714**
Sample Size	23	29	43	36	17	8	2

Other UK private companies pay lower rates per day, compared to PE backed companies, except in the £10 to £30 million turnover category.

OTHER UK PRIVATE companies*. Daily Rates £ (including shares)							
	Turnover £ millions						
	< 3	3 to 10	10 to 30	30 to 100	100 to 300	300 to 1000	1,000+
Upper Quartile	1,641	1,196	1,500	1,756	2,180	2,260	2,280
Median	**875**	**875**	**1,111**	**1,220**	**1,507**	**1,863**	**1,581**
Lower Quartile	471	628	923	944	1,215	1,514	1,008
Average	**1,214**	**963**	**1,402**	**1,987**	**1,714**	**2,128**	**1,618**
Sample Size	16	27	29	22	20	12	8

** excludes Public Sector / Not For Profit / Charity*

NEDs: Median Daily Rates. Sector Comparison



Daily fee rates for non-executive directors and chairmen have fallen well behind the total remuneration levels of CEOs. The average CEO of a FTSE 100 company receives £4.8 million total remuneration *(source MM&K/Manifest Executive Directors Total Remuneration Survey September 2012 edition)*. This equates to £21,000 per day - compared to the typical rates of £2,000 to £3,000 for non-executive directors. The average FTSE 250 CEO receives approximately £8,000 per day.

% Increases - Non-Executive Directors

82% of non-executive directors did not have a fee increase in 2012 and 84% do not expect one this year (2013).

Increases in total annual fees LAST YEAR.	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to300	300 to 1,000	1,000+
Upper Quartile	0.0%	0.0%	0.0%	0.0%	2.5%	2.0%
Median	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Lower Quartile	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Average	**0.5%**	**1.0%**	**1.6%**	**1.5%**	**2.4%**	**1.8%**

The average figures are much higher than the medians and in some cases higher than the upper quartile. This is because some NEDs have had/are expecting significant increases. Quite a number of companies have not made any increases, so it would appear others have given quite substantial increases: in addition we suspect that new appointees are able to negotiate higher fees than their predecessors.

Expected Increases in total annual fees IN 2013.	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%
Median	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Lower Quartile	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Average	**0.7%**	**1.2%**	**1.1%**	**1.0%**	**2.6%**	**1.2%**

Satisfaction Rating

66% of non-executive directors feel their remuneration is about right, 33% too low and 1% too high. The results were consistent across all sizes of companies. These results are similar to last year and the year before.

Non-executive directors are more satisfied about their pay than employees.

Committee Work and Fees

99 Audit Committee chairmen and 56 Remuneration Committee chairmen provided data on time spent and fees in respect of these committees. We also received data from 45 Audit Committee members and 34 Remuneration Committee members.

In most cases the chair and members do not receive any additional fees. For those who receive additional fees, the average figures in £s are:

Average fees for specific Committee work in £	Turnover £millions						
	< 10	10 to30	30 to 100	100 to 300	300 to 1,000	1,000+	All Companies
Audit Chair	**11,000**	***3,000****	**6,542**	**10,188**	**9,214**	**14,132**	**10,818**
Audit Member	*6,625*	*3,500*	*12,250*	*9,000*	5,900	12,091	9,389
Remuneration Chair	***5,000***	***3,000***	***4,000***	**5,818**	**9,833**	**9,233**	**7,670**
Remuneration Member	*3,333*	*3,750*	*5,250*	8,833	4,571	6,786	6,118

** italics indicate small sample size so data may not be reliable.*

We also asked about separate fees in respect of pension fund work/trusteeship as we thought this was an area where growing requirements were leading to more formalised arrangements. We only received data from 10 survey participants. The fees ranged from £2,000 to £40,000 per year; the median is £13,500 and average £16,000.

3.3 Share Ownership, Share Options and Fees Paid in Shares

Share Ownership

84% of chairmen own part of their company. In companies with less than £10 million turnover, the median chairman's stake is 5%, but this drops to a tiny percentage for big companies. However, there is a wide range of practice. Interestingly, the median size of the stake, in £s, is similar across different sizes of company.

In private equity owned companies, chairmen typically have around a 2% stake (more in smaller companies and less in larger ones, but typically worth several hundred thousand pounds). Some chairmen of private companies own larger percentages: often this is because they are founders or they are family owned firms.

Chairman: % of company owned	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	12.0%	3.2%	3.0%	1.3%	0.15%	0.07%
Median	**5.0%**	**2.0%**	**1.0%**	**0.5%**	**0.03%**	**0.02%**
Lower Quartile	2.0%	0.4%	0.2%	0.1%	0.02%	0.01%
Average	**10.2%**	**4.2%**	**2.0%**	**1.6%**	**2.04%**	**0.24%**
Shares owned £000 median	150	320	260	300	168	300
% with some ownership	**71%**	**70%**	**73%**	**71%**	**79%**	**76%**

60% of non-executive directors own part of their company. In companies with less than £10 million turnover, the median stake is 4%, but is a tiny percentage for large companies. There is a very wide range of practice.

NEDs: % of company owned	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	10.0%	2.0%	0.3%	0.2%	0.03%	0.02%
Median	**4.0%**	**0.7%**	**0.2%**	**0.1%**	**0.01%**	**0.00%**
Lower Quartile	0.9%	0.1%	0.0%	0.0%	0.01%	0.00%
Average	**9.8%**	**4.1%**	**0.9%**	**0.4%**	**0.23%**	**0.54%**
Shares owned £000 median	70	125	50	75	50	90
% with some ownership	**54%**	**52%**	**58%**	**58%**	**71%**	**75%**

Fees Paid in Shares

Only 15% of chairmen are paid part of their fees in shares in their company. However, for those who receive shares, the amounts are significant and there is a wide range of practice. The quartiles and sample size numbers relate only to those who are paid partly in shares.

Chairman: Fees paid in Shares £000	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	50	82	200	150	-	-
Median	**25**	**32**	**100**	**58**	**-**	**-**
Lower Quartile	21	20	20	26	-	-
Average	**81**	**59**	**149**	**134**	**-**	**-**
% paid partly in shares	**20%**	**14%**	**16%**	**15%**	**2%**	**9%**

NEDs: Fees paid in Shares £000	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	35	88	25	125	38	60
Median	**14**	**35**	**20**	**30**	**30**	**40**
Lower Quartile	10	13	12	20	26	17
Average	**92**	**48**	**77**	**82**	**39**	**44**
% paid partly in shares	**9%**	**6%**	**8%**	**6%**	**6%**	**12%**

8% of non-executive directors are paid part of their fees in shares. However, for those who receive shares, the amounts are significant and there is a wide range of practice. Nearly all the larger companies which pay part of fees in shares are quoted - 12% of companies with £1 billion plus turnover pay part of their fees in shares. However, only 13% of all quoted companies do so, with the median value being £38,778. Although the UK Corporate Governance Code recommends payment of part of fees in shares, most (87%) do not comply with this part of the Code. If non-executive directors are unwilling to be paid in shares, it makes it difficult for them to insist that executives receive large parts of their rewards in shares.

In the US, payment in shares is much more common, see Appendix 2.

Share Options

20% of chairmen hold share options in their company. In companies with less than £10 million turnover, the median chairman's options are over 2.5% of the equity, but this drops to a tiny percentage for large companies. However, there is a wide range of practices.

Chairman: % of company under Option	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	5.0%	3.0%	1.0%	2.00%	0.24%	-
Median	**2.5%**	**1.0%**	**0.5%**	**1.75%**	**0.14%**	**-**
Lower Quartile	1.1%	0.5%	0.3%	1.13%	0.08%	-
Average	**3.2%**	**2.3%**	**0.7%**	**1.38%**	**0.16%**	**-**
Median value of shares under option £000	100	200	400	1,075	280	-
% with options	**22%**	**21%**	**22%**	**11%**	**17%**	**12%**

We have not presented results where the sample sizes are small.

14% of non-executive directors hold share options in their company. In companies with less than £10 million turnover, the median options are over 0.6% of the equity, but are a tiny percentage for large companies. There is a wide range of practice.

NEDs: % of company under Option	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	1.0%	1.1%	0.3%	0.54%	-	0.34%
Median	**0.6%**	**0.3%**	**0.1%**	**0.08%**	**-**	**0.02%**
Lower Quartile	0.4%	0.2%	0.1%	0.08%	-	0.01%
Average	**0.7%**	**0.7%**	**0.3%**	**0.39%**	**0.03%**	**0.23%**
Median value of shares under option £000	60	140	58	300	205	100
% with options	**16%**	**18%**	**20%**	**6%**	**11%**	**11%**

The practices of small companies are different to larger ones.

The prevalence of options in AIM companies is much higher. We find that many NOMADs fail to recognise companies' previous circumstances when considering a move to AIM and far too often cite the UK Corporate Governance Code principles that options and geared incentives are not appropriate for non-executives and that large shareholdings compromise an individual's independence. The Code is designed for large quoted companies. Smaller companies will find it better to follow the QCA's Remuneration Committee Guide for Smaller Quoted Companies.

The survey results show that significant shareholdings and options are commonplace in AIM and private companies. This data can be used by companies to explain that their approach is not uncommon and why they are not compliant with the principles of the Code.

4.

TIME SPENT

4.1 Chairmen

We know a few very large companies of which the chairman has a 3 to 4 day a week time commitment, however the survey shows that for most FTSE 100 companies (equivalent to about £3,000 million turnover or greater), 2 days per week are required. More generally, the 'typical' chairman works one day a week, although for smaller companies with less than £30 million turnover the median is ½ day a week (i.e. around 2½ days per month).

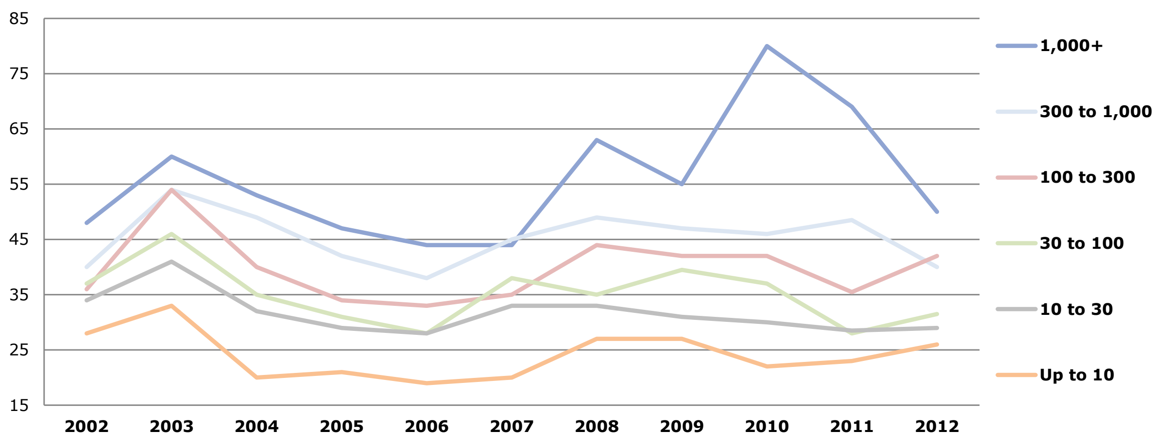
As is shown in the table below, the time commitment for larger companies tends to be greater than for smaller companies and the upper quartile commitment tends to be twice as much as for the lower quartile, which shows there is a large variation.

Chairmen considering new appointments need to clarify the time commitment that is expected by the company. The role of the chairman in many larger companies, and how he/she fulfils it, is significantly different to that in a smaller company, where in many cases the role is primarily that of running the board meetings and requires little more time than being just a non-executive director.

Chairman: Days spent per year	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	43	45	44	54	52	99
Median	**26**	**29**	**32**	**42**	**40**	**50**
Lower Quartile	16	19	22	31	27	38
Average	**30**	**34**	**37**	**42**	**45**	**64**
Sample Size	74	54	73	44	40	27

The time commitment peaked in 2008, as the credit crunch and liquidity crisis required extra meetings and time. Since then, the time required for most chairmen has reduced slightly.

Median Days Per Year - Chairman

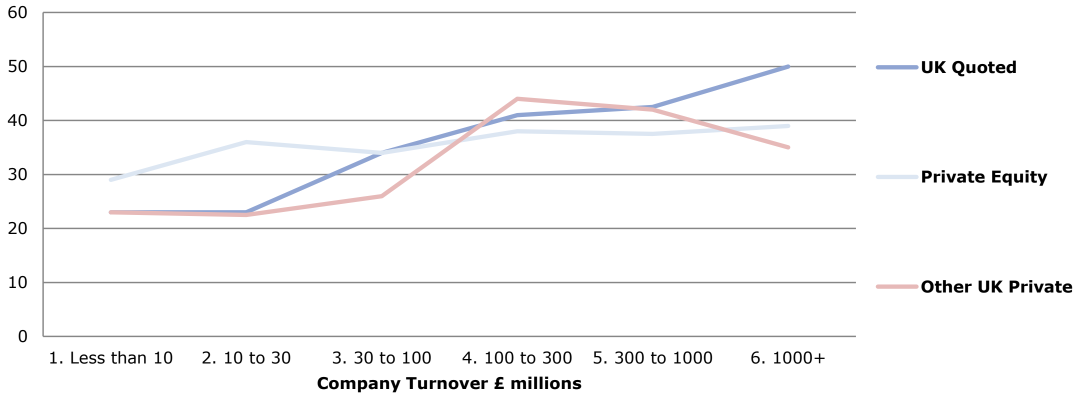


The changes inspired by the Higgs Review have now bedded in. The average number of board sub-committee meetings, particularly audit and remuneration, has continued to rise. Particularly in smaller companies, board committees and board meetings are often scheduled on the same day. This reduces the total time required.

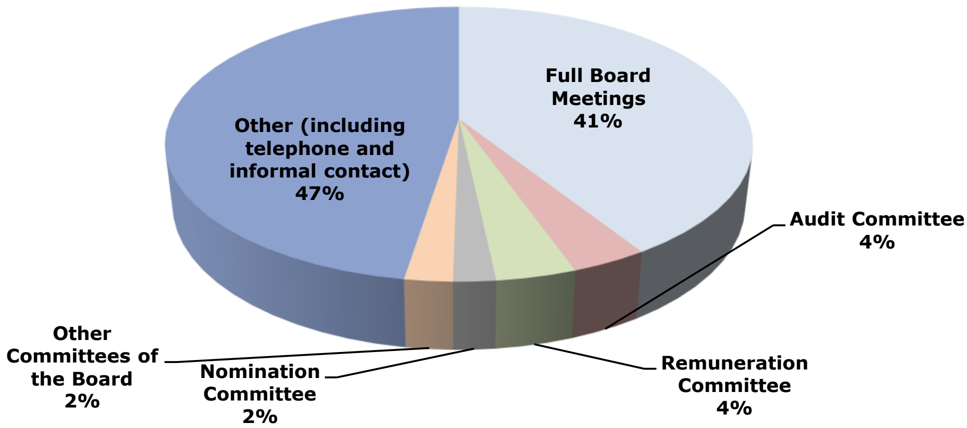
This year, the data for the £1 billion plus turnover category shows a drop in time spent and suggests there is less extra work involved in these companies. Hopefully, this is a sign that the challenges of the financial crisis and ensuing recession are easing.

The nature of the chairman role is different in smaller companies, where, for most chairmen, the role is more similar to a non-executive director. The graph below shows that private equity backed companies require their chairmen to spend more days in the job than quoted companies.

Median Days Per Year - Chairman

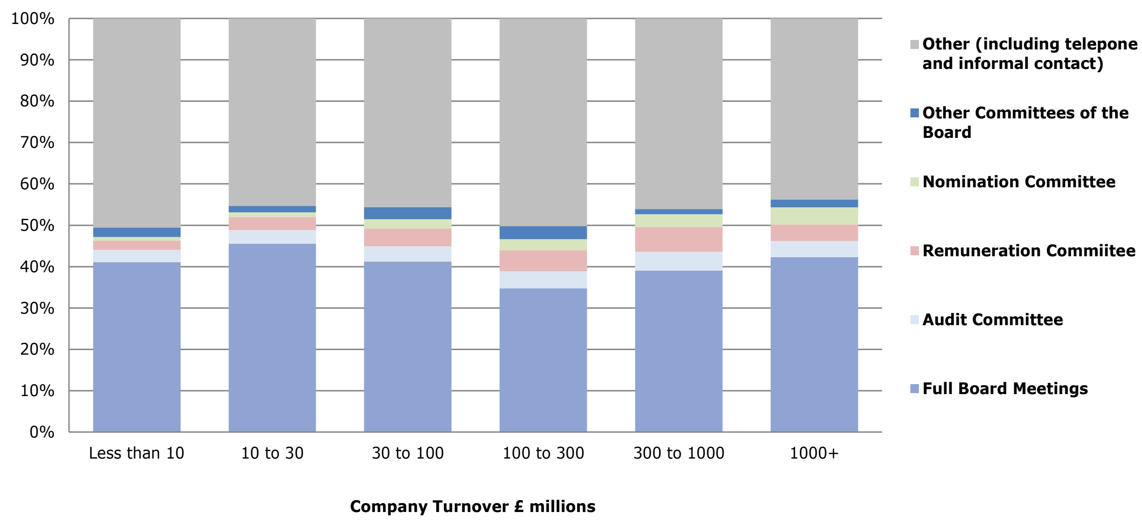


Chairman - % of Time Spent



The table below shows, based on respondents' replies, how chairmen typically spend their time. It is noticeable how little time is spent on remuneration issues, despite the large amount of attention given to it by proxy voting agencies and the media.

Chairman - % of Time Spent by Activity



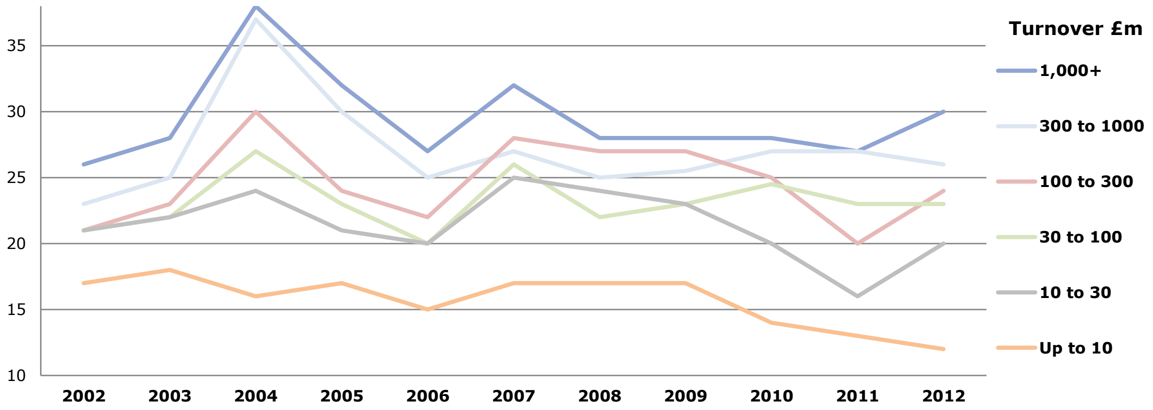
4.2 Non-Executive Directors

The following table shows the median, average and quartile spread of days worked by company size. Not surprisingly, the smallest companies require less time and the largest more time. The additional time required by larger companies is proportionately less than for chairmen.

As is shown in the table below, the time commitment upper quartile tends to be twice as much as the lower quartile, which shows there is a large variation. Non-executive directors considering new appointments need to clarify the time commitment that is expected by the company.

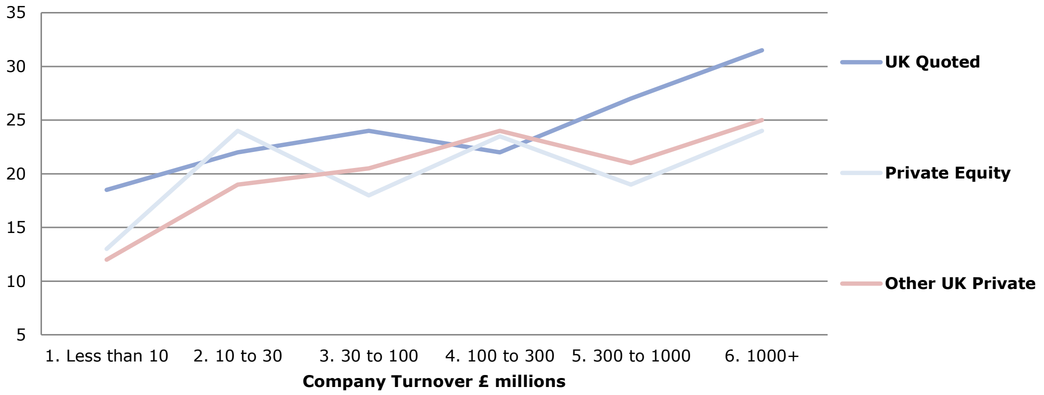
NEDs: Days spent per annum	Turnover £ millions					
	< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Upper Quartile	23	28	27	33	33	39
Median	**12**	**20**	**23**	**24**	**26**	**30**
Lower Quartile	8	13	15	16	19	23
Average	**17**	**22**	**22**	**25**	**27**	**31**
Sample Size	209	106	110	119	105	118

Median Days Per Year - NEDs



Following the Higgs Review in 2003, there was a sharp increase in the amount of time required, particularly by larger companies. The time required has since reduced. There was a slight increase when the liquidity crisis first arose in 2007, but since then the time requirement has dropped slightly to an average of just over 2 days a month. Particularly in smaller companies, board committees and board meetings are often scheduled on the same day. This reduces the total time required.

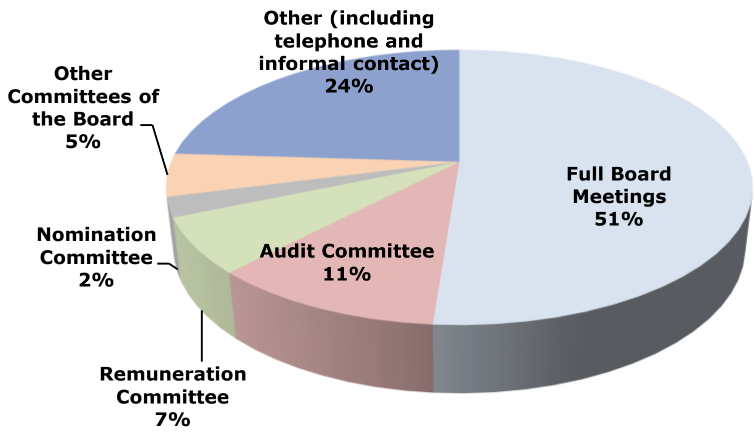
Median Days Per Year - NEDs



Larger companies listed on the main market require a higher time commitment than other companies. However this is not the case for smaller quoted companies. Some public sector companies require quite a lot more time than average.

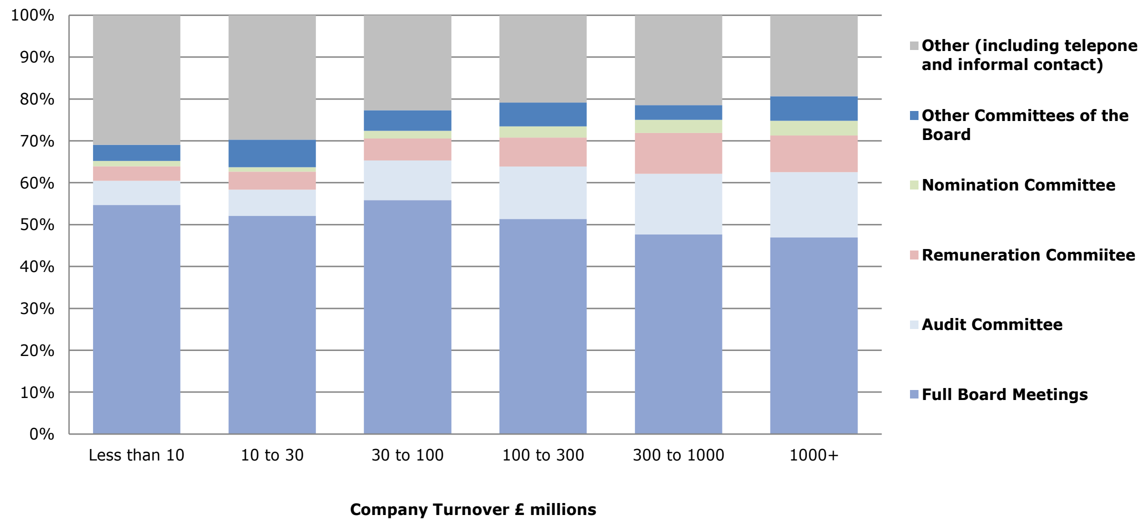
We also asked respondents for a detailed breakdown of how they spent their time. Board meetings and preparation for them were the main areas in which time is spent. The next largest category was "other", which included telephone and informal contact.

NEDs - % of Time Spent



The detailed breakdown by size of company is as follows. The audit committee in larger companies is significantly more time consuming than in smaller companies. The remuneration committee in larger companies is also significantly more time consuming than in smaller companies, though not to the same degree as the audit committee.

NEDs - % of Time Spent by Activity



4.3 Board Committees

Committee work tends to take 2 to 4 days per committee for most companies, but is significantly more time consuming in the largest companies, particularly for the chair of the Audit and Remuneration Committees.

The typical time spent is as follows:

AUDIT COMMITTEE - Number of days

		Turnover £ millions					
		< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Chair	Upper Quartile	3	3	4	6	8	10
	Median	**2**	**2**	**3**	**4**	**6**	**6**
	Lower Quartile	1	1	2	2	4	5
	Average	**2.4**	**3.1**	**3.4**	**5.1**	**6.6**	**8.7**
Member	Upper Quartile	4	2	4	4	4	6
	Median	**2**	**2**	**3**	**3**	**3**	**4**
	Lower Quartile	2	1	2	2	2	2
	Average	**1**	**1**	**1**	**1**	**1**	**1**

REMUNERATION COMMITTEE - Number of days

		Turnover £ millions					
		< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Chair	Upper Quartile	2	2	4	5	5	6
	Median	**1**	**1**	**2**	**4**	**4**	**5**
	Lower Quartile	1	1	1	2	3	3
	Average	**1**	**1**	**0.5**	**1**	**1**	**2**
Member	Upper Quartile	2	2	2	4	4	5
	Median	**2**	**1**	**2**	**2**	**2**	**4**
	Lower Quartile	1	1	1	1	1	2
	Average	**0.5**	**1**	**0.5**	**0.5**	**0.5**	**1**

NOMINATIONS COMMITTEE - Number of days

		Turnover £ millions					
		< 10	10 to 30	30 to 100	100 to 300	300 to 1,000	1,000+
Chair	Upper Quartile	2	2	2	2	4	2
	Median	**1**	**2**	**2**	**1**	**3**	**2**
	Lower Quartile	1	1	1	1	1	1
	Average	**1**	**1**	**1**	**1**	**1**	**1**
Member	Upper Quartile	2	2	4	2	2	3
	Median	**1**	**1**	**2**	**1**	**1**	**2**
	Lower Quartile	1	1	1	1	1	1
	Average	**1**	**1**	**0.5**	**0.5**	**0.5**	**0.5**

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5.

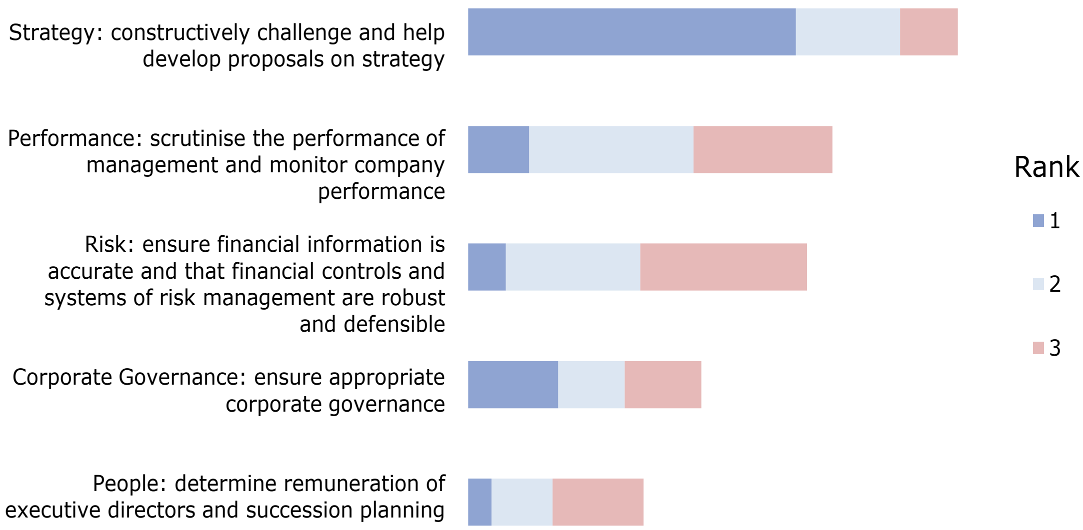
5.1 THE NON-EXECUTIVE DIRECTOR ROLE

The UK Corporate Governance Code says that non-executive directors have responsibilities in the areas of strategy, performance, risk, people and also ensuring appropriate corporate governance. We asked respondents to rank these responsibilities in order of importance from 1 to 5.

Strategy was the number one ranked answer by a considerable margin. Monitoring performance and risk were ranked two and three.

In comparison, people issues received the lowest ranking, which would imply that it is relatively easy to recruit, incentivise, motivate and reward the necessary high-calibre executives to implement and deliver the strategy.

NED responsibilities ranked in order of importance (top three rankings)

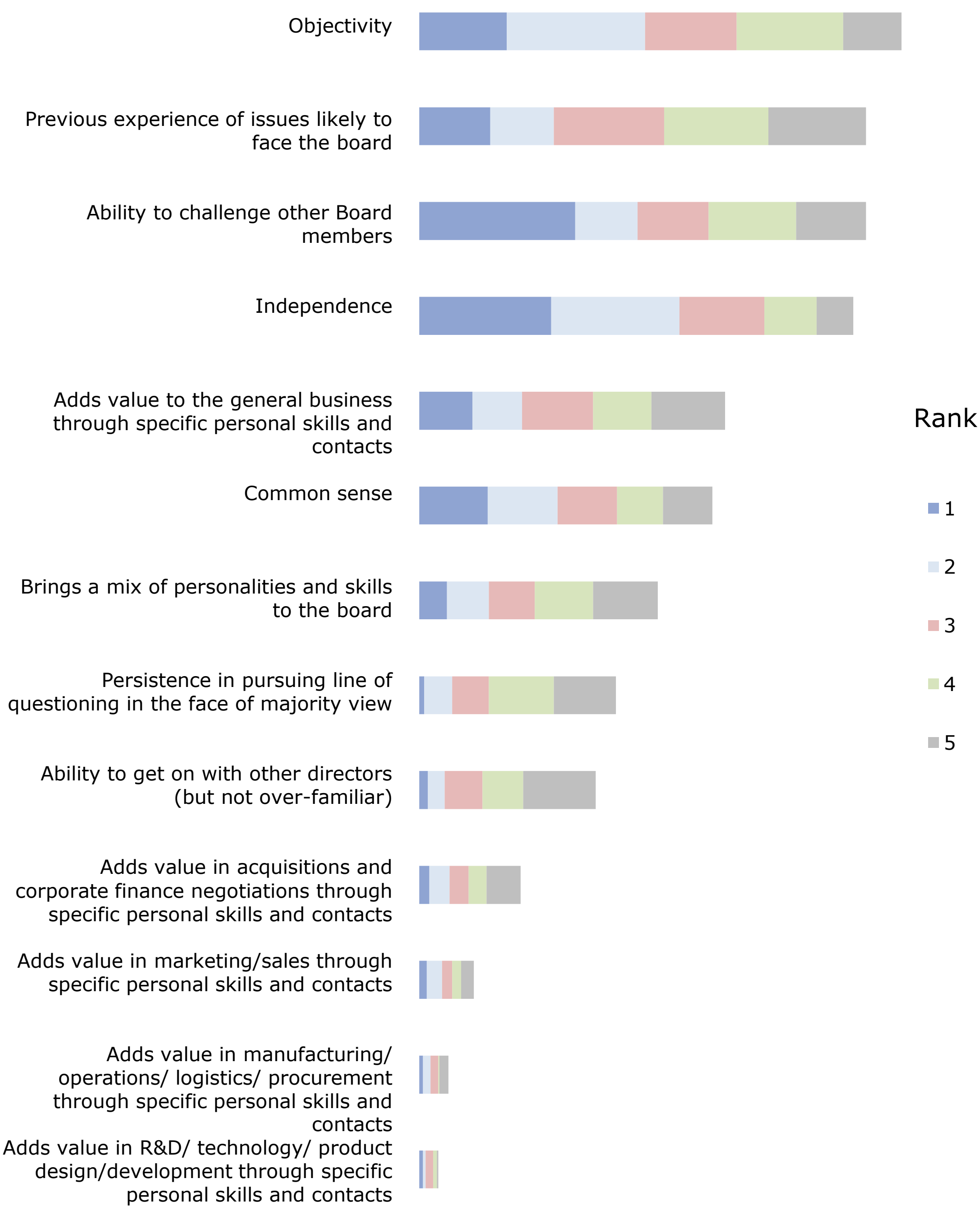


Another aspect of the non-executive role is the competences, skills and behaviours that the individual brings to the company. The questionnaire listed 13 skills/behaviours and respondents were asked to rank the top five, with one being the most important.

As the graph below shows, the most important rank went to the ability to challenge other board members, with the second highest competence being independence and the third objectivity.

However, when we counted up the total scores for competences, we found that objectivity was the most frequently mentioned.

NED skills and behaviours ranked in order of importance (1 is highest)



Of course, companies at different stages of development will find that particular skills are of more value to them. However, the above shows an interesting profile of what a typical non-executive director is like.

There were a number of people who gave other reasons, the most common of which was strategy skills.

6.

CULTURE AND ETHICS

Almost all survey respondents agree that company culture is a key factor in decision making. Culture is difficult to define and elusive to measure. We would have liked to ask how you measure culture, but that was not possible in a survey of this kind. So instead we focused on some of its key components.

	Disagree strongly	Disagree	Neutral	Agree	Agree strongly
The culture of the firm is a key factor in the board's decision making process.	0%	4%	9%	**43%**	45%
In my companies, the desire to compete and win is given a higher priority than trust and ethics.	4%	14%	29%	**46%**	7%
If it is not illegal, then NEDs should influence decisions made by the executive team based on the morality of what the company does.	2%	5%	6%	**40%**	**47%**
Aggressive corporate tax planning is entirely appropriate behaviour.	15%	**41%**	**30%**	12%	2%
NEDs who are perceived as difficult are side-lined or marginalised.	14%	**51%**	16%	16%	2%
Corporate Sustainability is given a significant amount of attention and there is not over focus on short-term issues.	2%	17%	**32%**	**37%**	12%
Corporate Social Responsibility is given a significant amount of board attention.	2%	20%	**38%**	**31%**	9%
When designing remuneration policies, it is important to consider the cultural fit of pay proposals and their impact on the culture of the company.	0%	2%	5%	**63%**	30%
Quoted company boards are over–focused on process in comparison to private or private equity companies.	2%	17%	23%	**43%**	16%

Striving for success is important, but should the desire to win be given a lower priority than trust and ethics?

53% of respondents agree that the desire to compete and win are given a higher priority to trust and ethics. This supports the populist view that companies have little regard for ethics.[1]

However, 87% of those surveyed believe that NEDs should intervene on the basis of morality and attempt to influence decisions made by executives regardless of whether the executive team has made a decision that is within the law.

Whilst is could be interpreted as a positive that 56% of NEDs are not in favour of aggressive tax planning, it still means that 30% are neutral and therefore one may suppose be unwilling to challenge such behaviour. A further 14% are actively in favour of aggressive tax planning. This represents a challenge if Government believes such behaviour needs to be curtailed.

We were interested to find out what happens to NEDs who cause too much trouble or are perceived as awkward (but not incompetent). Are they managed out, encouraged to voice their opinions, side-lined, or are more subtle strategies employed?

Two thirds of respondents answered "disagree" or "strongly disagree" to the statement that NEDs who are perceived as difficult are side-lined or marginalised recognising, we assume, that there is often a need for different views to be aired and openly debated.

[1] A good summary of business and ethics is in the following article http://www.businessballs.com/ethical_management_leadership.htm

Again however, a significant minority of those surveyed (18%) agree or strongly agree that such NEDs are marginalised. We have seen the disasters unfurl in the financial services industry as NEDs seemed to be asleep on the job and were unwilling, or unable, to ask difficult questions. These are worrying results which many companies would be wise to discuss. Having a bit of grit in the system could save some companies from disaster. Getting the right balance between wasting time, efficient process and constructive challenge requires great skill from the chairman.

Our final question on culture was about process. The vast majority agree that quoted company boards are spending too much time on process, whether this is on corporate governance matters, risk studies or other quasi-legal duties. In contrast, private equity-backed companies seem to be more focused on making decisions and getting things done. Whilst there may well be an element of a lack of understanding of the importance of process in a FTSE 100 company, and even an element of bias on the part of mid-market PE-backed firms, the scale of the opinion (59% agreeing that plcs are too process oriented) suggests that there needs to be a least some degree of 're-balancing'.

Shareholder Spring: what are the long-term effects?

Contributed by Sacha Sadan, Director of Corporate Governance, Legal & General Investment Management

This year's voting season was the first time since 2009 that shareholders really came out in force to oppose contentious pay practices, particularly where underperforming companies were still looking to reward their top management. This misalignment of performance and pay meant that when the AGMs kicked into action in April, CEOs at a number of companies were forced to step down following significant shareholder votes against their remuneration packages. This made a lot of headlines and was quickly dubbed the 'Shareholder Spring'.

Executive remuneration has always been a good source of headlines, and outsiders may wonder whether the Shareholder Spring was real or just a media frenzy. Undoubtedly there were a lot of 'no' votes (figure 1) where shareholders felt that companies had refused to take account of best practice, align pay with performance or acknowledge the changing climate and attitude towards executive pay.

Figure 1: Significant votes against remuneration reports

Company	Against (%)	Main reason for dissent
Pendragon	67.2	Increases in incentive scheme maxima
Cairn Energy	67.0	Chairman discretionary incentive award
Centamin	63.0	Company partially waived targets for bonuses
Darty	60.0	Row over the "golden hello" to CEO
WPP	59.8	Egregious pay of CEO
Aviva	54.4	High CEO pay and moderate performance
William Hill	49.9	CEO retention package
Trinity Mirror	45.9	High CEO pay and poor performance
Easyjet	44.3	Major shareholder in dispute with board
Other large companies with significant dissent		
Xstrata	84%	Retention packages in merger: egregious CEO pay
Prudential	30.3	High CEO pay and moderate performance; failed merger
Barclays	26.9	Egregious CEO pay; company culture

However, what we were seeing was a greater number of shareholders exercising their stewardship responsibilities. Some of this increased activity may have been as a result of the implementation of the Stewardship Code, but it was also in reaction to unrealistic company pay packages. Shareholders are also reacting to criticisms that they do not provide a consistent message by communicating more with each other.

However, the Shareholder Spring does not highlight the good work being done behind the scenes by companies that consult with their shareholders prior to changing pay schemes. In the first half of this year, we saw a 47% increase in the number of company meetings where remuneration was an agenda item. Some of these meetings were held to discuss the idea of possible changes. Over 50% of the companies that came to LGIM were consulting, as part of a two-way process that led to an agreed consensus. Some of these discussions were held collaboratively with other institutional investors and produced positive results.

New remuneration regulations come into effect in October 2013 with a binding vote on pay policy. These regulations mean that remuneration committee members will be more accountable than before. Shareholders, including LGIM, are starting to vote against the re-election of the Chair of the Remuneration Committee where policy is not in line with best practice.

Wider and better engagement is a positive trend. At LGIM, we ask companies to consider a pay structure with one long–term incentive plan that is simple to understand, based on long-term performance, and linked to the strategy of the business.

Better engagement with shareholders will undoubtedly lead to increasing demands being placed on the non-executives that comprise the remuneration committee. This may result in fewer non-executives wanting to take on this role, which in turn may put an upward pressure on fees.
www.lgim.com

7.

BOARD EFFECTIVENESS

7.1 Ratings

We have asked the question on board effectiveness for many years and this year's answers show little difference to last year's.

We asked whether chairmen and non-executive directors felt their boards were fully, partially or not at all effective.

Board Effectiveness %	All	Main Market	AIM/ PLUS	Private Equity / Venture Capital Backed	Other UK Private Company (excl PE/VC backed)	Overseas Owned or Main Listing Quoted Overseas	Public Sector / Not for Profit / Charity
Fully effective	77%	66%	62%	52%	52%	77%	66%
Partially	**21%**	**30%**	**35%**	**46%**	**46%**	**21%**	**30%**
Not at all	1%	4%	3%	2%	2%	1%	4%

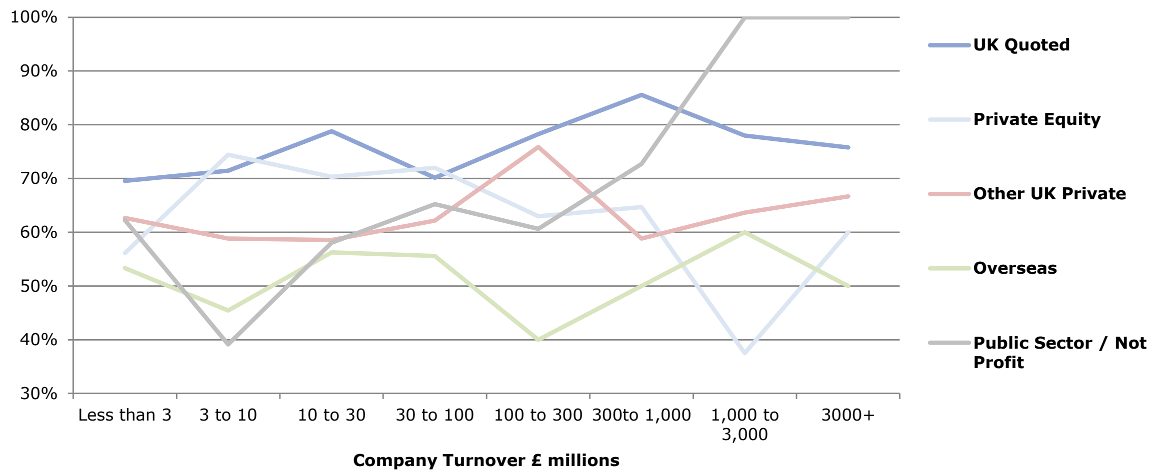
The data suggest that AIM, private and overseas owned companies need to work harder on their board effectiveness to achieve the same level of performance as fully listed companies.

Small AIM companies have less effective boards. We were not surprised to see that larger AIM company boards are as effective as main market company boards, as in most cases they follow the same best practices as fully listed companies.

This year we separated out the responses for private equity owned companies. We expected that the PE ownership structure would lead to more focussed and better boards than other similar sized companies, but this was not the case. This surprising result suggests that many of these companies also need to work harder to make their boards run better.

The increase over last year in those reporting a fully effective board in PE backed companies, private companies and public sector businesses is encouraging.

% of respondents stating boards are "fully effective"

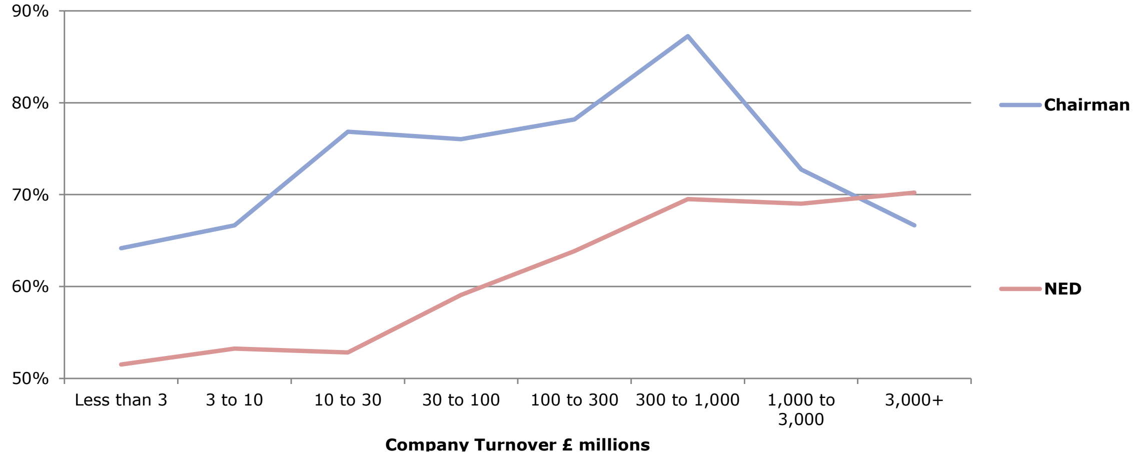


Chairmen are more positive than others

It is notable that chairmen rated their board meetings as more effective than non-executive directors.

Board Effectiveness	Chairman	Deputy Chairman	Senior Independent Director (SID)	Other Non-Executive Directors
Fully	73%	65%	61%	61%
Partially	**26%**	**33%**	**35%**	**35%**
Not at all	1%	2%	4%	3%

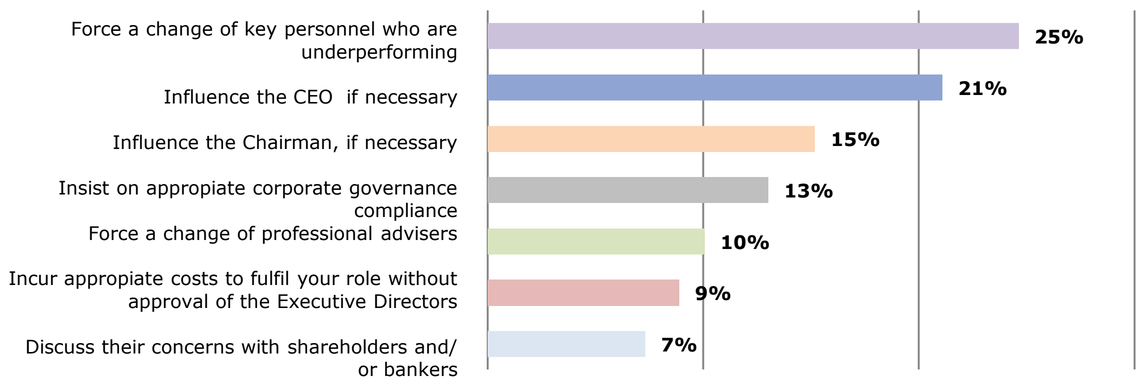
% of respondents stating boards are "fully effective"



This difference might be explained partly by most chairmen painting a rosier picture, and partly by the natural inclination to rate oneself more highly than one's peers. However, when we analysed the data by company size, we found that in the largest companies the result was reversed with the chairmen being less confident in their own assessment of their boards' effectiveness than were their non-executive directors. These findings further highlight the need for collective board training, particularly in private groups and reflect rather badly on certain chairmen whose overriding responsibility is to ensure that the board is an effective unit to represent shareholders, lead the company and plan for the future.

Survey participants were concerned in a minority of cases about the ability of NEDs to influence key board issues. As many as 25% felt the non-executive directors collectively might not be able to force a change of key personnel who were underperforming. 21% had concerns about being able to influence the CEO. Whilst strong CEOs are sometimes necessary, getting the balance of leadership and listening is crucial.

% with concerns about the NEDs ability to:



7.2 Board Size

The average board size of survey participants is 5.5 directors, with slightly more non-executives than executives.

18% of directors are female. 23% of non-executives are female and just 12% of executive directors.

Number of board members	Men	Women	Total
Executives	2.3	0.3	2.6
Non-executives	**2.2**	**0.7**	**2.9**
Total	4.5	1.0	5.5

7.3 Other Key Issues

The chairman's role is more demanding than 5 years ago. 86% agree with this statement. The causes we suspect are greater public scrutiny and the difficult economic environment. Another factor could be the massive technological changes that are highly disruptive to business models in some sectors.

As always, one should challenge the veracity of data. As most of the respondents are chairmen, we wonder if we should discount their responses (as they would say that, wouldn't they?).

Fortunately, despite the increased demands, there is no shortage of able candidates willing to take on chairman roles.

	Disagree strongly	Disagree	Neutral	Agree	Agree strongly
The role of the chairman is more demanding than it was 5 years ago.	0%	3%	11%	**49%**	37%
Major shareholders of quoted companies engage sufficiently in helpful dialogue with directors.	4%	**34%**	32%	26%	3%
The level of engagement with key shareholders has increased in the past 12 months.	0%	8%	31%	**53%**	7%
Pressure on pay from shareholders and other external bodies has increased considerably in the past 12 months	0%	7%	19%	**58%**	16%

In 2010 the Financial Reporting Council published its new Stewardship Code, so these responses are of particular interest.

53% agree, but just 7% strongly agree that the level of engagement with key shareholders has increased in the past 12 months. 31% are neutral and interestingly very few disagree.

These results indicate that there is significant tension between shareholders and directors (38% disagree that major shareholders engage sufficiently in helpful dialogue). The results suggest that chairmen and NEDs have significantly different views from their shareholders about corporate governance issues and, in particular, about remuneration levels and how executive remuneration packages should be structured.

Although there is dialogue, there is no consensus. Shareholders have different views. Some shareholders engage and some do so constructively, but many shareholders do not engage at all. We think the problem is on both sides. Some companies do not volunteer good information to their shareholders, particularly on pay and other difficult issues.

The populist view of the Shareholder Spring of more engagement and more constructive shareholder to company relations may have arrived. However, these results indicate the jury is out on whether the Shareholder Spring has really taken root and will make a long term difference. Sacha Sadan of Legal & General Investment Management writes further about this on page 22.

A high-performing board adds value where and when it is needed the most, shaping the vision of the organisation and helping the business to accelerate along its chosen path. However, all too often boards underperform their potential, becoming an administrative burden on the directors and the management teams that support them.

Board Intelligence specialises in unlocking the potential of boards and their committees. They help to clarify the role of the board and the conversation they want to be having and equip directors with the information they need, to stimulate the right discussion and enable smarter, faster decision making.

So we asked Jennifer Sundberg, the founder of Board Intelligence, to give her views on the importance of the provision of quality information in the board decision making process.

IN THE DRIVING SEAT

Contributed by Jennifer Sundberg, Managing Director, Board Intelligence

I won't try to feign enthusiasm for the start of the F1 season next month, but there is one feature of the sport that I find intriguing and that boards may do well to heed.

McLaren have signed a £20m deal with their new driver, Sergio Pérez, so clearly he's a man of considerable talent. But to get the most out of him they won't rely on his talent alone. Pérez will be joined in Melbourne with a 25-strong entourage dedicated to telemetry, enabling detailed information about the car's performance to be collected and analysed in real time. In fact, McLaren invest over 5% of their budget in the latest gadgets and analytics, to help optimise race performance and unlock Perez's potential.

Over the last few years, many boards have put great effort into making sure they have the right people at the boardroom table. But, as with racing drivers, the best directors should rely on more than just sixth sense to steer the fortunes of the company successfully towards its goals; they need high quality information. The main source of information for most non-executives is the board pack and regardless of sector or size of company, board packs tend to share some regrettable characteristics: they are invariably too big to read, running to many hundreds of page; they are too narrow in scope, being heavily weighted towards backward-looking financials; and they are turgid in style - "an obstacle to clear thinking" to quote one seasoned director. Think F1 driver coming up to a bend with no ear piece and only a rear-view mirror to navigate with.

The challenge of providing directors with the right scope and quality of information was echoed in a recent survey, by KPMG, which revealed that one in five non-executives felt out of depth in boardroom discussions because of inadequate briefing materials. Non-executive directors are not superhuman – however experienced and skilled they may be. They face the phenomenal task of supervising and stewarding the business within a handful of days per month but this would be a whole lot easier if they were given the tools to do their job.

As a first step, boards should be more demanding about the formal flow of information they receive. A well configured board pack should act as a pre-read for board members and provide the stimulus for the conversation the board wants to have. It should allow them to see how the business has fared in the past, in matters both financial and non-financial, and whether their agreed strategy is guiding them towards their goals. And rather than a many hundred page good-news-story, the board pack should provide clear, unvarnished insight that brings out the 'so what?', to spark debate and steer board members towards the things that really matter.

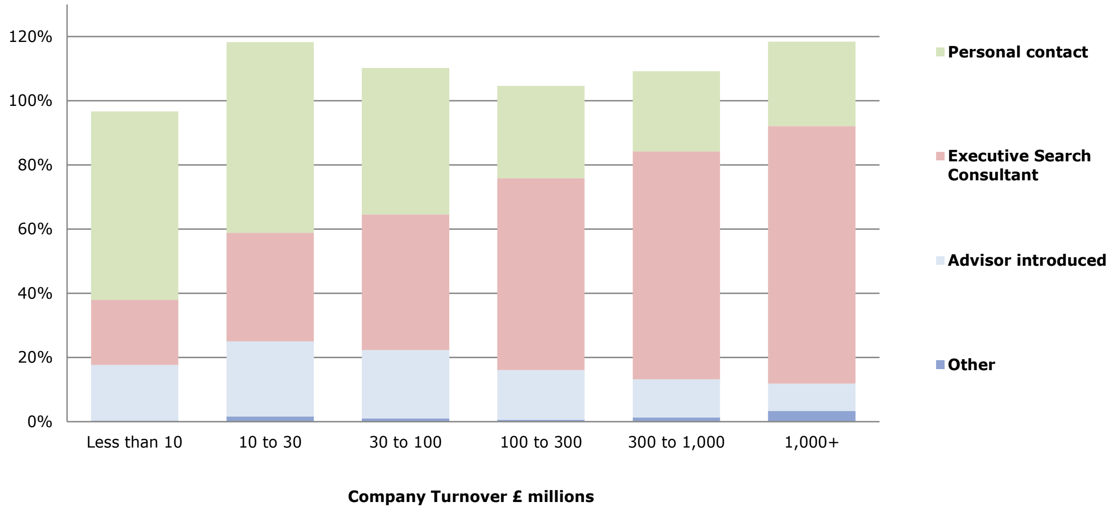
Of course, just as a clear visor and telemetry can't guarantee a spot on the winner's podium, high quality information alone cannot guarantee flawless decision making and boardroom success. But what a quality board pack can do is get the board into the right gear, focus their attention on where it's needed the most and enable directors to draw on their experience and expertise.
www.boardintelligence.co.uk

8.

THE APPOINTMENTS PROCEDURE

Our figures clearly show that larger companies are more likely to use search and selection specialists when sourcing and appointing non-executive directors. The reason for this, aside from time constraints, is the consultant's knowledge of, and access to, a particular sector and candidate pool. In addition, having an external perspective is often desired by the hiring company.

How are Non-Executive Director appointments made:



Some companies use more than one method for recruitment, which explains why the total comes to more than 100%.

Participants were asked what other methods were used and these included: via an advertisement, via a bank and/or private equity house, approached by new owners on acquisition, elected, investor appointed, personal contacts through the owners and via a trade association representative.

From a supply and demand perspective, there has been a consistent level of demand across the entire NED market. However, there has also been a noticeable increase in supply. The reasons for this are twofold: a plural career is now seen as more desirable than ever before especially for women (and the UK has seen commendable progress in the number of women on boards). Perhaps less well understood is the fact that, at the other end of the pipeline, NEDs are remaining more active for much longer. No doubt there is a short term economic element to this, but more fundamentally, a NED career for a lively '70 – something' has become more acceptable.

In practical terms, the somewhat unintended impact of this is increasingly demanding and highly specific criteria being applied to NED appointments although, encouragingly, 'diversity' is still seen as important.

9.

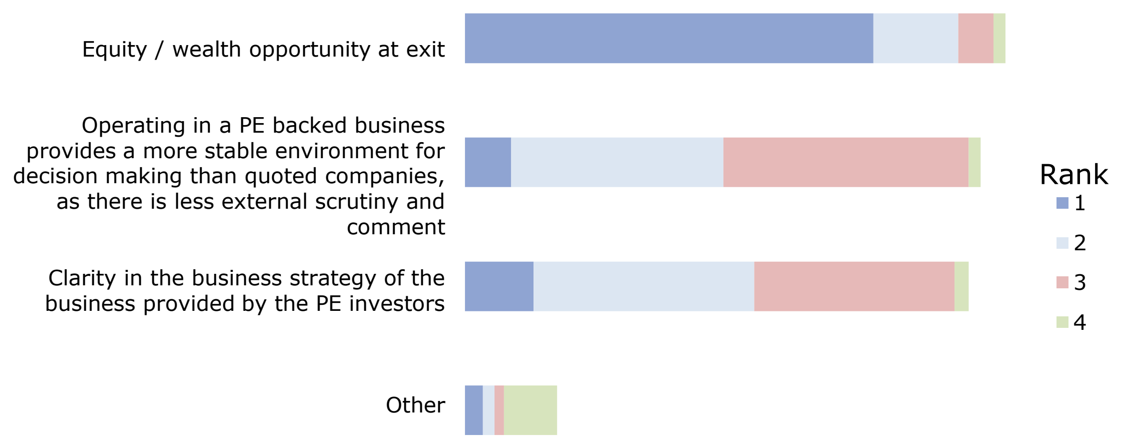
PRIVATE EQUITY BACKED COMPANIES

We were keen to find out if respondents felt there were significant differences between private equity/venture capital backed companies and listed companies/other private companies. The results clearly show that quoted company boards are over-focused on process in comparison to private equity companies.

	Disagree strongly	Disagree	Neutral	Agree	Agree strongly
Quoted company boards are over–focused on process in comparison to private or private equity companies.	2%	17%	23%	**43%**	16%

In private equity backed companies, the survey results suggest that money is given a much higher priority than is typically the case in other organisations. In contrast, most of the academic research (e.g. McClelland) suggests that power is the great motivator, or that people are driven by the need for achievement or affiliation needs. This survey clearly shows that equity/wealth opportunity is the number one ranked motivator by a large margin.

Main Motivation of Executives in Private Equity



There are other benefits of working in private equity backed companies, such as less external scrutiny. Management are unencumbered by frequent external reporting which provides a more stable environment for decision-making than in quoted companies. Also the business strategy is often more aligned as it is typically developed and agreed between the private equity investors and management. In contrast, in quoted companies, the pursuit of shareholder value can be affected by a frequently changing share ownership register which can lead to frequently changing strategies. And companies looking for US investors will be required do quarterly reporting.

We could summarise this as there being a bond of trust between management and shareholders built around a pre-agreed investment agreement and this is reflected in some of the other reasons listed for working in private equity backed companies, which are as follows:

- A chance to put your own intelligence, courage, energy, skills and cash to work where the rules of the game are pretty straightforward
- Flexibility and pace of decision making makes you faster on your feet
- A PE backed business is more focussed on growth, margin expansion and better asset utilisation
- There is less tension between shareholders and management. There is the ability to plan, develop and manage a business in confidence and to share with the PE investor the ups and downs
- Avoidance of excessive attention to governance
- More freedom to focus on what is needed to make the business high performing, rather than dealing with PR, city comment, analysts, etc.

The Role of Non Executives in a PE-Backed Business

Contributed by Chris Hurley, Regional Managing Director, LDC

Being on the board of private equity-backed businesses is probably among the most satisfying but also challenging of roles for NEDs. These companies are by their nature in the midst of exciting change, as they adopt fresh, often ambitious, strategies and prioritise growth.

Probably the key focus for an NED on a PE-backed business is as a growth facilitator rather than a board policeman, which is more the role of NEDs on listed companies. With PE-backed businesses, management typically have a significant ownership element, so the interests of shareholders and directors are aligned, while with public companies this is not the case, so NEDs have a greater role as governance guardians and board watchdogs.

In such an entrepreneurial venture as a PE-backed business, there are probably two important functions for an NED to fulfil: being a sounding board for executives, and injecting operational experience/skills that help to maximise growth.

As a sounding board for management, NEDs are there to bring a fresh perspective to the business. They should on the one hand strive to build unity within the board, facilitating consensus and ensuring that decisions support the company's overall vision, but also be prepared to raise questions and ask tough questions.

NEDs should also contribute operationally to the success of the company, drawing on the expertise that they have acquired in building their executive career. With likely backgrounds as CEOs or CFOs, they should share their experience in formulating growth strategies and finding solutions to operational issues.

Given this backdrop, we typically look for NEDs whose backgrounds involve similar disciplines and expertise to that required by management in the business, but not necessarily from exactly the same sector as they are meant to provide a broader vision and different perspective. In specific situations, where, for example a buy and build strategy is being implemented, a NED's deal and acquisition experience would be useful, or if a company is looking to expand to other countries having an NED on its board with knowledge of those new markets would be relevant.

Whether NEDs should have "more skin in the game" is a persistent question. With a listed company the answer is probably no, as it may detract from NEDs' independence and objectivity. However, in a private equity-backed business, where the targets are growth and a profitable exit, it's reasonable even essential that NEDs are incentivised by options or equity as part of a wider compensation deal so they will be as committed as the executive management to growing the business.

The criteria by which we assess NEDs constantly evolve, driven by the economic/regulatory issues as well as the business climate. Given the tough economic environment of the past few years, NEDs who are considered a safe pair of hands have probably been the most sought after, but as the UK economy brightens we are likely to see a growing appetite for NEDs who are more expansive and visionary thinkers as businesses seek to return to a strong growth path.

Our aim in appointing NEDs is always to work very closely and consensually with the chief executive and finance director, building a board that both we and senior management believe can take the company forward and fulfil the vision all parties have for the business.
www.ldc.co.uk

* LDC is part of Lloyds Banking Group

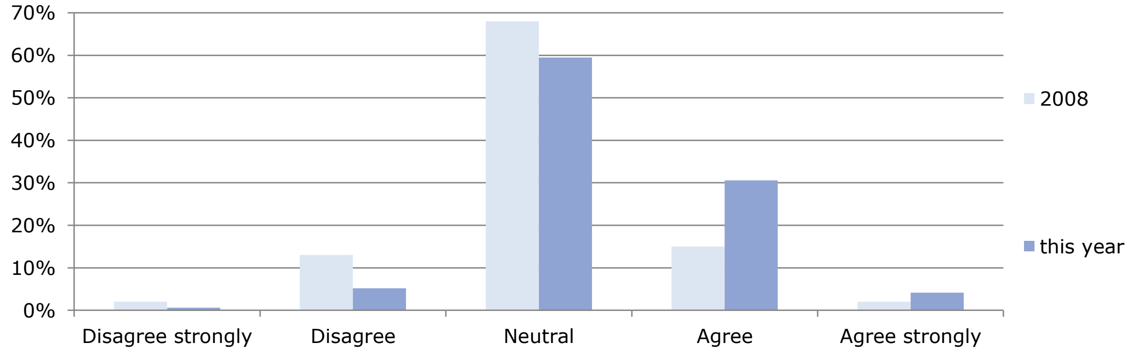
10.

VIEWS ON EXECUTIVE REMUNERATION

Remuneration is very much a topical issue and attracts much press attention and political debate.

Most (60%) respondents think that executive directors' pay is about right, with 31% thinking it is too high and 5% thinking it is far too high. This is a significant shift in views from previous years as shown in the graph below.

Remuneration of executive directors is too high

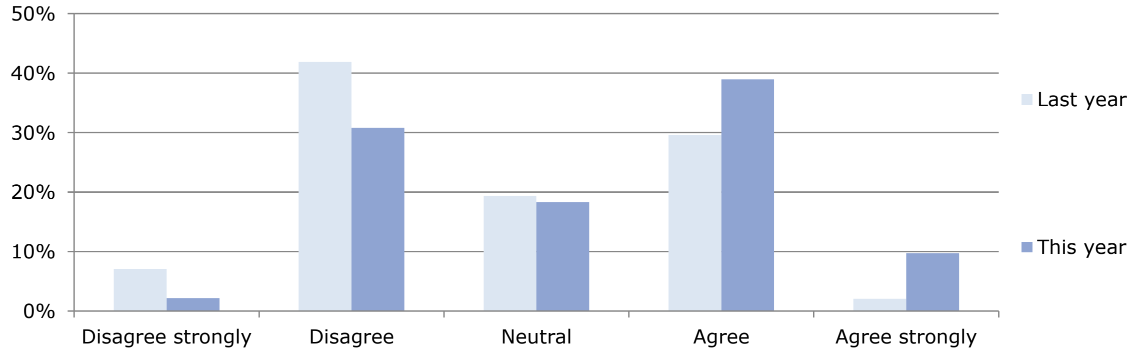


There is strong agreement that salary as a proportion of total pay is about right (66%), whilst 20% believe there is too much performance related pay and 14% too little.

The next question asked whether the existing remuneration model is broken (e.g. too short term, not enough equity, poor linkage to long term performance). There are many commentators and academics who have expressed these views. In MM&K's remuneration consulting work these issues are often raised. We think a 'one size fits all' approach does not work. Remuneration needs to reflect strategy, culture, talent management and the particular circumstances of the company.

Slightly more respondents thought the existing remuneration model is broken than those who thought it was not. The important thing to note is that this is a bimodal distribution. Therefore, gaining consensus in many remuneration committees will be difficult, as people have such fundamentally different views. It is however encouraging to note that only 2% strongly disagreed with this statement and that there has been a shift in views since last year.

The existing remuneration model is broken (e.g. too short term, not enough equity, poor linkage to long term performance)



Vince Cable and BIS have made proposals for additional voting and disclosure on directors' remuneration. The new voting rules are the most contentious with 8% of respondents disagreeing strongly with the new proposals for separate votes on remuneration policy and implementation for quoted companies. A further 26% disagreed with 29% undecided as to whether it is a good idea.

	Disagree strongly	Disagree	Neutral	Agree	Agree strongly
The separate votes on Remuneration Policy and Implementation, for quoted companies as proposed by Vince Cable/BIS, is a good idea	8%	**26%**	29%	**32%**	5%
Improved remuneration disclosure, in quoted companies, as proposed by Vince Cable/BIS, is a good idea	4%	17%	20%	**49%**	**10%**
Disclosure, in quoted companies, of 10 years of CEO pay and company performance, as proposed by Vince Cable/BIS, is a good idea	5%	25%	20%	**42%**	8%

In contrast, the proposals for improved remuneration disclosure are supported quite strongly with slightly less in favour of the disclosure in quoted companies of 10 years CEO pay and company performance. We at MM&K have been strongly in favour of the need for such legislation and think that Vince Cable and BIS have done a good job.

The requirement to disclose 10 years of CEO pay and company performance will highlight those companies where the linkage between pay and performance has been poor and will force companies to think through more clearly how to structure pay and performance and how to disclose this information. Although the proposed legislation is limited to an enforced disclosure of CEO total pay realised and total shareholder return, we expect the companies will disclose more information than this, such as the expected value of total remuneration awarded in each of the years, together with other KPIs and the relationship of CEO pay to average employee pay. Only by disclosing such additional information will companies be able to explain their remuneration strategy and how they have implemented it in a cohesive integrated fashion. Companies which do not have a sound remuneration strategy or which flip-flop from one approach to another will be exposed by this new legislation, which is no bad thing.

A number of the very large companies in the FTSE 100 have significantly increased the bonus opportunity in the past decade and now some have a maximum bonus of 300% of salary or more. With target bonus set at 50% (or in some cases 60%) of maximum, it would appear that for such companies at least some part of bonus is semi-guaranteed. We were interested to see to what degree chairmen and non-executive directors felt that bonus should reflect the performance in the year. A huge majority, 91%, agreed that it should.

	Disagree strongly	Disagree	Neutral	Agree	Agree strongly
Bonus should reflect the performance in the year (i.e. it should not be a form of semi-'guaranteed' deferred salary)	1%	4%	3%	**45%**	**46%**
Long Term Incentive should be an opportunity for capital accumulation, the size of which is potentially life changing	0%	10%	9%	**56%**	24%
When designing remuneration policies, it is important to consider the cultural fit of pay proposals and their impact on the culture of the company	0%	2%	5%	**63%**	**30%**
Measuring the performance of a company is complex, so it is inevitable that pay is complex if we wish to link pay to performance	4%	28%	10%	**43%**	15%
Directors should not be allowed to sell shares in their company until at least two years after they leave, so that they are linked to the impact of long-term decisions made during their tenure	4%	27%	20%	**37%**	11%

The second question in this section asked about long-term incentives and whether they should give an opportunity for capital accumulation the size of which is potentially life changing. 80% agreed with this. We at MM&K recommend careful financial modelling to understand the potential gains and to ensure that this objective can be achieved.

There is very strong support, 93%, of the need to consider culture, when designing remuneration policies. The Walker report and many others have noted that the culture created by incentives in the banking industry ("greed, short-termism and irresponsibility"[2]) was dysfunctional. It is most encouraging that directors now acknowledge the importance of culture.

There have been demands for less complexity in directors' remuneration from many quarters, including the media, the ABI, CBI and many politicians. Our view is that some things in life are not simple and directors' remuneration is one of these. It requires intellectual rigour, attention to detail and a great deal of knowledge across a wide range of subjects to design good remuneration strategies.

58% of respondents agree that measuring the performance of the company is complex, so it is inevitable that pay is complex, if companies wish to link pay to performance. However, a third of respondents disagree. On this occasion we think it is quite possible for both to be right, as in some cases companies make their pay arrangements unduly complex.

One of the biggest reasons for the current complexity is the one size fits all model of remuneration that some advisers have marketed for the last decade, coupled with the somewhat defensive approach adopted by some remuneration committees who feel they will not be subjected to criticism if they follow the same policies as other companies. This over-reliance on benchmarking has created the current problems. We think it needs to be replaced with companies rethinking their remuneration strategies based on their own particular circumstances.

HSBC implemented an innovative new remuneration policy in 2011, whereby executives were not allowed to sell their shares acquired in incentive schemes until after they retired. Hermes published in 2012 a discussion paper advocating a similar approach. Professor Brian Main[3] published a paper in 2011, suggesting directors should hold their shares for at least two years until after they leave so that they are linked to the impact of long-term decisions made during their tenure. Therefore, we thought it was appropriate to ask whether chairmen and non-executive directors agreed with such an approach - views are mixed, with 48% in favour, 31% against and 20% neutral.

Our 2012 survey found that 81% of chairman and NEDs believed ownership of significant amounts of shares improves the alignment of executive directors and shareholders; 93% of chairman and NEDs believed the principles and culture of long-term share ownership should be encouraged for executive directors, so they build their shareholding during their entire tenure at the company; and 93% of chairman and NEDs believed encouraging a longer-term focus by deferring part of the annual bonus into shares was a good idea.

Despite these strongly supportive answers, when we asked what the multiple of salary that CEOs should own in shares should be, the answers were around three times salary. This appears to be in conflict with their other answers about 'significant' share ownership. The answers this year are higher than last year, by quite a bit.

CEOs should have a target to own shares worth a minimum of 0, 1, 2, 3, 5, 10 times salary	**% choosing this answer this year**	% choosing this answer last year
0	**4%**	6%
1	**11%**	17%
2	**27%**	22%
3	**26%**	24%
5	**27%**	24%
10	**9%**	6%

[2] President Obama in his 2009 Inaugural Address

[3] See http://www.davidhumeinstitute.com/images/stories/Seminars/Career_Shares_-_policy_implementation.pdf

11.

YOUR COMMENTS

The following comments are verbatim quotes from chairmen and non-executive directors who completed the survey questionnaire. This fascinating collection captures the variety, depth and challenge of Life in the Boardroom. There are several common themes, so we have grouped comments under generic headings.

The Role of a Non-Executive Director

The role of a NED can appear attractive on the outside but when things go wrong (particularly with PLCs) the job can be a nightmare BUT the NED must then stand his (or her) ground in the interests of Shareholders and other Stakeholders.

There is a huge difference between the role of a NED in a quoted company and a NED in a small private company. These companies are responsible for employing over 56% of people in non-government jobs and benefit from the input of a NED.

The role of the NED is that you are a full director of the company and charged under the Companies Acts with pursuing the success of the company just the same as the exec directors. The big difference is that an NED is at all times independent of the execs, hopefully more experienced across a broad range of commercial issues and can formulate the difficult questions, identify and address the key issues, taking difficult judgements where necessary. Good governance is about doing things right: it's not a process, it's about getting under the skin of the business and having the right mind set.

There is a growing danger of widening the gap between risk and reward for NEDs. The position of a NED is widely considered to be under-rewarded for the level of personal risk and contributions made. However, NEDs must be better qualified and be prepared to make significant contributions to improve board behaviours in order to stimulate board and company performance. The "old boy network" is not a healthy source of independent and dynamic NEDs.

With the overt support of the CEO, NEDs should have regular and independent access to senior and middle management on site, encourage an open dialogue about the opportunities and problems which are being experienced within business units and debate these findings with Executive Directors in a well informed and constructive manner. This will significantly increase the time commitment of NEDs, but will ensure a much greater understanding of the real issues facing the company and a more valuable contribution from the NEDs.

The value of NEDs is often overlooked by both analysts and shareholders - a major education exercise is needed.

NED remuneration does not always reflect the responsibility of the role. However I suggest that most NEDs also fulfil the role for the satisfaction they gain and for the involvement in the enterprise. I feel that ranking responsibilities in particular is not appropriate, they are all equally important. It isn't a matter of separating such issues but ensuring the right balance of focus and attention.

Risk has been the biggest NED growth area in my experience and this is largely positive.

There should be a real commitment to risk management as a key driver of board agenda.

Board Effectiveness

Board...constantly remind the directors of their general and specific responsibilities within the board, the company staff and outside marketplace. Companies...to have an upside down organisation chart as well as a traditional one and to maximise 'walk about management' by the board, in addition to traditional responsibilities. To constantly review the relevance of the general and specific strategies and align staff to changes required.

Boards should play an active role in looking after the well-being and success of the company in an open, transparent and constructive manner. Too often boards are jolly clubs lacking professionalism. In the end boards are not leisure clubs providing occupational therapy for bored / retired execs.

NEDs should be prepared to ask the 'daft' questions and be proactive in their enquiry of the business. They should not shirk from asking unwelcome questions when the need arises. Since becoming an NED, I have realised how important the role is and how appallingly I have seen it been done in the past. NEDs are not on the board simply to do the bidding of the CEO. Their independence is paramount.

Consideration should perhaps be given to a statutory obligation to employ the services of suitably skilled non-exec director(s) for all limited companies perhaps linking number and length of time required (measured in days per annum) commensurate with a framework built around turnover, shareholders' funds and average number of employees in a financial year.

Generally chairmen need to be more aware and engaged. Too often they and the CEO form a cabal. NEDs should demand better exposure to senior managers and should insist on visits to locations other than head office. NEDs should communicate better with each other and challenge both chairman and CEO in a structured way.

I think that effective working together, good chairmanship and clear strategy setting and clear unambiguous leadership are essential pre-requisites to successful companies.

Many more companies would be significantly better off if they did employ the services of an NED or independent chairman

The time commitment has undoubtedly risen over the past 5/6 years but that is probably associated with the difficult trading conditions. Clearly remuneration of NEDs has not risen in comparison with the time commitment but that too is probably a function of difficult trading conditions. There is a tendency for Government regulation to respond to egregious examples of poor practice that, by the time government gets round to it, have been dealt with anyway; but the majority are then left with extra time consuming regulation that adds little/no value. In general the governance of public companies in the UK as compared with other jurisdictions is of a pretty high order.

There is a need for greater emphasis on the improvement of the behaviour of boards. This presents a more complex challenge than simply monitoring remuneration and performance but greater focus on behaviour would be a greater driver of change than merely monitoring what can be easily measured.

Too much power given to a major shareholder who uses that at the boardroom is damaging to colleagues and the business.

Let the boards do their job, assuming they are properly constituted and remove the bureaucratic and political time wasting interference.

The biggest issue as far as I am concerned is how to ensure NED's can be critical and independent and not be side-lined by having views that do not meet the approval of Executives or major shareholders who are represented on boards. It is very hard for NEDs to do their job properly especially in companies that have a narrow share ownership or in companies which are dominated by particular shareholders. Their role becomes window dressing for compliance.

The most important role of the board in any company is to establish good corporate governance, challenge and support the strategic direction and ensure effective succession planning.

I think there is finally recognition that length of tenure can be a major plus not a negative. Even the regulators are coming round to this.

My view is that NED positions are still too often filled by personal contacts; and, similarly, search firms do not cast their nets wide enough. Too much a club within a club !

Shareholder Engagement

I would expand upon the shareholder dialogue question. There is a major disconnect between fund-managing/client-facing shareholders and their compliance/governance functions. The proxy companies like REV and ABI are not thinking through in depth their issues and, often they are just factually wrong. However, they still recommend votes against certain resolutions based on flawed data or sheer ignorance. When one challenges the firm, the client-facing fund manager (with whom you have your regular performance dialogue) is almost wholly unconcerned or oblivious and you are forced to speak with the compliance official who, more often than not, just takes the lead from the proxy companies and has no insight or holistic picture of what he/she/the firm is trying to achieve. It is time we moved the lens from the company boardroom to the fund management firm in order to ensure the latter has a collective and consistent voice that comes from the real-world manager and not from a back-office bureaucrat.

The attitude of shareholders in listed companies towards non-executive directors is often misguided. True performance and independence cannot be measured by length of service, option schemes, shareholdings and method of recruitment. The best NEDs have a track record of making a difference to companies at board level.

Executive Directors' Remuneration

Make the pay incentives much more long term, so that the management team has to take a longer-term view for the company (ie vesting after 3-5 years). Compare the CEO's pay to the man on the workshop floor and make sure it is not outside of a reasonable ratio. It is always difficult to understand the company issues enough in order not to be fooled by the management team. The board works best when directors and management see it as a partnership of mutual help rather than something adversarial. Incentives need to be aligned between the NEDs and the management with the shareholders.

Annual bonus percentages have increased to ridiculous levels for Executive Directors. LTIPs are becoming too complex to truly motivate. Institutions who grasp for much longer vesting periods have good intentions, but fail to take account of the basic drivers of human nature!

Executive director incentives should be paid from a pool allocated as a fixed percentage of net profit, and the ceiling should be set at fixed multiples of average salary of all staff, in order to make sure that they are paid at a more reasonable level.

Executives in quoted companies should not be allowed to make representations on their own pay but rather it should be the Remuneration Committee responsibility to propose and then consult on pay as in Australia. So called LTIPs are too often actually short term (3 years) and replicate short term pay in criteria.

Let's stop bashing compensation if one doesn't understand the complexity of the company and its business.

In the field of remuneration (outside of a given company) NEDs tend to talk to NEDs and exec to exec. It would help if NEDs and exec directors met more frequently to share views and gain insights across corporates from both an exec and NED point of view.

Greater disclosure on rewards will further increase the current 'leapfrogging'. Very few boards will consider their Execs as less than at least upper quartile, which mathematically is not possible, keeping ongoing upwards pressure on exec reward. Non-disclosure is a better option.

I am convinced that the best companies reward **all** their permanent staff with shares and/or share options. Making everyone a shareholder leads to much greater commitment, corporate responsibility and gets rid of the issue of us and them.

Linking overall remuneration to returns obtained by shareholders is absolutely fundamental and share price performance as well as earnings performance is a crucial ingredient in this mix. Non Executives should be eligible for share options providing these are 'proportionate' and relatively modest and providing also that the NED has made an additional commensurate direct investment in the Company's shares from his/ her own financial resources.

On remuneration, many plans are unnecessarily complex and, in most companies, I believe targets required to achieve large payouts are far too easily achieved - as illustrated by the very high percentage payouts regularly achieved in bonus and long term plans.

The highest levels of remuneration are repulsive; damaging socially and damaging to the whole wealth creating sector. The problem will not be solved by legislation, although that may help. The solution is a moral and cultural change of attitude. It is deeply offensive that people of modestly superior talents seek rewards that bear no meaningful relationship with the pay of 99% of the workforce.

The private equity structure for CEOs and other directors is broadly the right one - bring shared goals and risk and reward - and is a good template. The rewards for failure that we have seen with a number of public companies are damaging not only to the individual shareholders of those companies; it is additionally very bad for the climate and politics around the business world. It is bad for society and UK plc. There is a very broad consensus amongst the public that rewards for failure are the norm. Clearly this is not the case, however it highlights the need for shareholders to use their power. The public sector executive layers are also known or believed to be protected by gold plated pensions and benefits although of another scale. There is a need in the public sector, quangos and particularly for large company boards to be more challenging and diverse - different backgrounds, more women and imagination in appointments.

Top pay has become out of all proportion to the real contribution of ultimately replaceable individuals. This was not the case a mere 20 years ago. You cannot get on the board of a middle to large group unless you have been on the board of another- that is way too narrow a field to choose from in today's world hence the deep rooted self-interest now practised at the top of companies.

Remuneration for CEOs has become too high in relation to rewards for shareholders. Remuneration advisors and search agencies, who earn fees on the basis of size/pay scale of jobs, together with their surveys and reports, have helped to drive up executive remuneration. This is inappropriate, particularly in a recessionary market. As a result, shareholders and investors are critical of these rewards and a culture that they see as 'compensation for failure' in comparison to their own rewards and risks.

Benchmarking is a curse.

Rem Com decisions are too much influenced by external payroll statistics. Once an executive is on board his primary remuneration increase should come from remuneration linked to out-performance. If there is no out performance, his bonus should be not being sacked!

The issues over recent years that have most concerned me are: i) NEDs failing to understand the risk profile of their companies activities and a) allowing their businesses to take inappropriate commercial risk and b) rewarding executives for taking those risks without understanding what true value, if any, has been created - most typified by the melt down in the financial services industry ii) A corporate roundabout on executive pay where it is in everyone's best interests to keep upping directors' pay, using the generally unjustified excuse that the director is irreplaceable, leading to a growing and unjustified gap between executive pay and general pay iii) the complexity, inflexibility and often downright stupidity of the ever burgeoning accounting rules that make most quoted company annual reports an exercise in compliance and PR rather than a useful guide to past and future performance.

The "bonus" culture, particularly within the financial services and banking sector has meant that remuneration has become completely out of proportion for the value the individual has directly contributed - reward the genuine creators of growth and jobs. How can you trust the advice or judgement of an adviser whose sole motive is to ensure the deal is completed, regardless... Bonuses should be a "thank you" for a job well done, with a maximum of 50% of salary - it should not be life changing for stitching a couple of short term deals together. If there is to be a large reward paid, then it should be put into escrow and released over the next two to three years.

Service agreements should be designed such that there is no reward for failure or premature departure.

The chairman of any company should be charged with holding a minimum number of shares in that business.

Remuneration is getting more complicated and sitting on 2 Australian boards, one of which has had 1 'strike' at the last AGM (2nd AGM next week....!!), it's a huge issue to get the votes through the proxy advisors (who only tick boxes). It also takes up a lot of time, and the remuneration consultants are getting richer on it! However, it is making boards think more about remuneration and STIs and LTIs and their relationship to share performance. The mining industry is very insular and sexist with very few women are on boards, but again, Australia is making companies declare their diversity in their annual reports now.

Diversity

The issue of Women on boards is corrosive. Directors, of either sex, should be there on merit alone - no other consideration.

To be an NED has become increasingly time consuming, onerous and carries a lot of responsibilities. It is not easy to find women who actually want to take all these issues on and travel on top of this to foreign countries. Women on boards should not become a quota, but linked to type of industry i.e. it is easier to find a woman for a personal care company than for an extraction company.

Boards should not be gender or race biased for "politically correct" reasons and all board members, Executive or Non-Executive, should be there on merit.

Before pushing the women on boards issue, Government should put its own house in order re Civil Service, Parliament, Quango, Judiciary, Police Force, Army, etc. on female representation. Publication of full details re public sector pay should precede any further details being required in the private sector - e.g. Universities, Councils, Civil Service, Police Force, Parliament, etc. including FULSOME details on pension entitlements.

Other

Externally facilitated board evaluation as a stimulus for improved board efficiency and effectiveness.

Boards and NEDs in particular should be appropriately trained and engage in CPD to keep their knowledge up to date.

There should be a national D&O insurance scheme.

Thank you for your comments - short and pithy or long and detailed. All are valuable contributions to the debate

12.

SAMPLE SIZE AND COMPOSITION

	Number in survey	Average Chairman roles	Total Chairman roles	Average NED roles	Total number of NED roles (where not Chairman)	All Directorships	
						Average	Total in survey
Chairman (i.e. at least one board chairman role)	316	1.7	537	1.4	444	3.1	981
NED (i.e. with no chairmanship roles)	186	NA	NA	1.9	347	1.9	347
Totals	502	1.7	537	1.6	791	2.6	1,328

The survey was completed by 316 chairmen and 186 others with non-executive directorships.

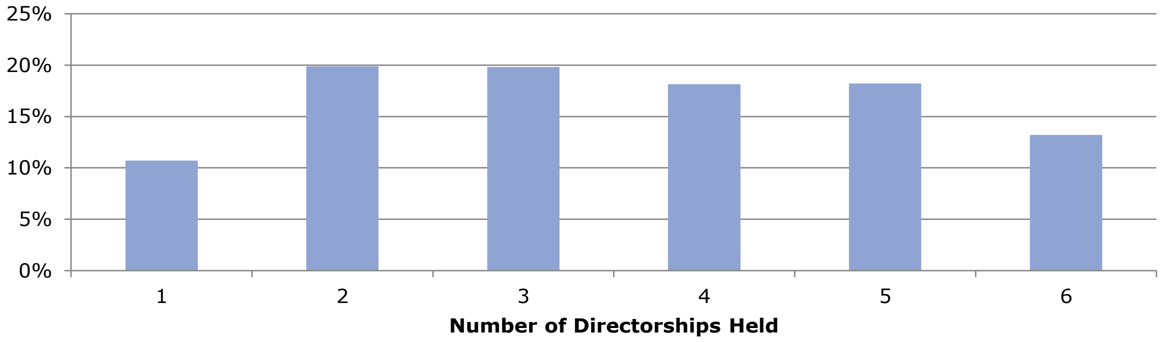
The 316 chairmen in our survey held an average of 1.7 chairman roles and 1.4 non-executive directorships.

The survey results for non-executive directors have been compiled from 502 respondents:

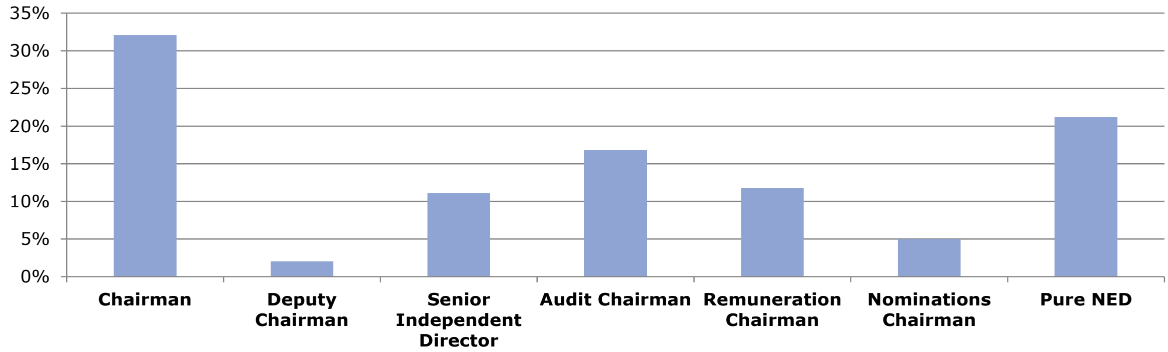
- The 316 chairmen who also hold 444 other non-executive directorships;
- 186 other non-executive directors in our survey (i.e. those who are not also a chairman of any company), who hold an average of 1.9 NED appointments each.

The results for “non-executives” are based on responses covering 791 directorships in total.

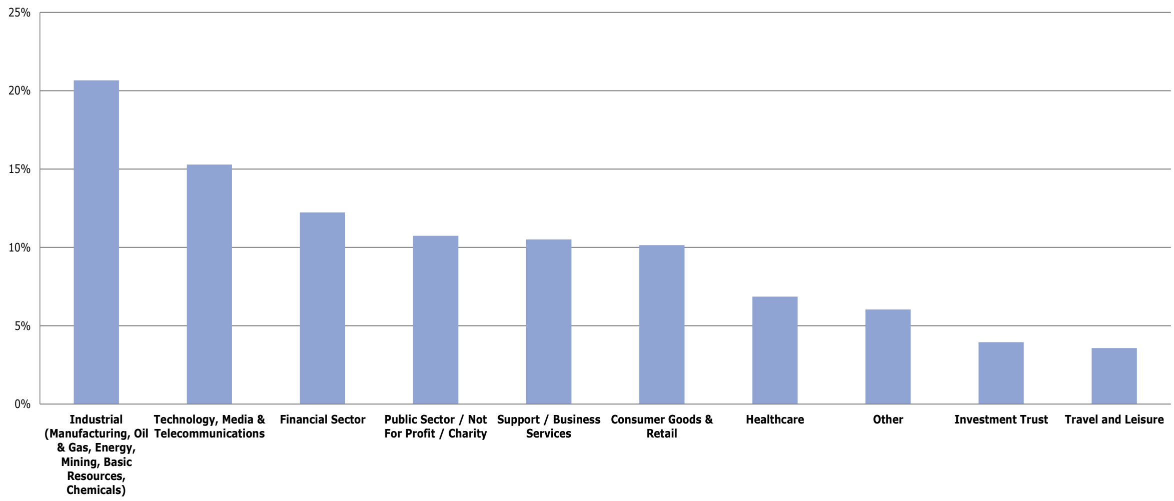
Number of Directorships (i.e. Chair and NED roles. Excludes executive directorships)



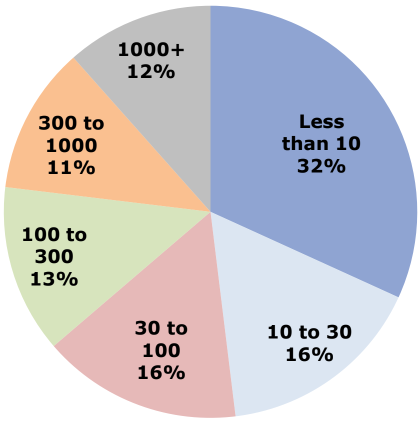
% of Directorships



Sector breakdown of directorships

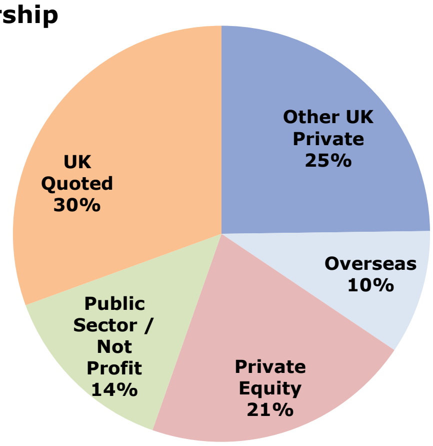


Turnover £million and % in each category

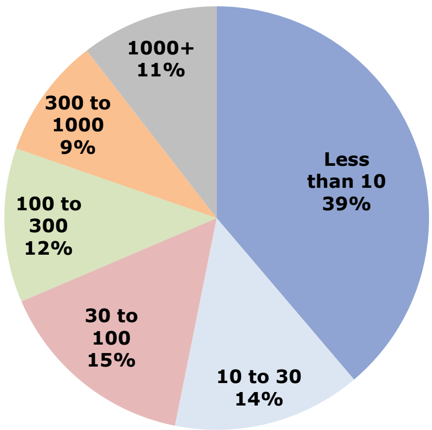


The strength of our survey, now in its 23rd year, has always been its coverage of companies inside and outside the FTSE Index, whereas other surveys only cover companies and groups which publish directors' remuneration details.

Ownership



Market Capitalisation £million and % in each category



As you see, we enjoy significant input from non-executive directors of companies in the smaller listed, private and, increasingly, the venture capital and private equity areas. We design data collection forms that highly experienced and busy non-executives are willing to complete. To this end we do not ask a mass of detailed questions but concentrate on the important issues.

This highlights one of the areas where this survey differs from those completed by company secretaries or others on behalf of non-executive directors. In our view, most of those studies underestimate the amount of time committed, increasingly by non-executive directors on contact with fellow directors, whether it is face to face, by phone or by email.

Appendix 1: Data from Annual Accounts (source Manifest)

Detailed data on fees from published accounts are shown below. The data in this section are based on accounts for year ends up to October 2012. In many cases the data is for the financial year ending in December 2011 and March 2012. The data in the preceding section are based on survey responses about fees and time commitments collected in November/December 2012 when the respondents completed the questionnaire. **In drafting the commentary we have been careful in our use of tenses to identify the differences in the data sources and its contemporaneity.**

The **"SNED plus"** definition" means that the senior non-executive director is also the deputy chairman and the **"SNED minus"** group consists of those who do not carry this responsibility. We have analysed the nomination committee chairman figures to exclude those who are also company chairmen. The tables below show the median and quartile fees for chairmen and non-executive directors. In each case the figures are shown on an inclusive basis so that the figures of, for instance, the chairmen of the remuneration committee include all their fees. In most cases the Nominations Committee Chair is the Chairman: the data below for Nominations Committee Chairs excludes those cases where the Chairman is Chairman of the Nominations Committee. The UK Corporate Governance Code prohibits chairmen from chairing the Audit or Remuneration Committees.

FTSE 100	Lower Quartile £	Median £	Upper Quartile £
Chairman	278,750	350,875	500,000
Deputy Chairman	159,836	172,085	181,829
SNED+	73,500	103,000	138,173
SNED-	72,000	95,000	122,667
Audit Chair	72,250	91,881	118,000
Nominations Chair (excl. Chairs)	83,000	122,673	154,513
Remuneration Chair	71,050	90,846	115,250
Audit Member	63,000	82,000	112,500
Nominations Member	65,000	80,000	104,000
Remuneration Member	65,480	88,000	121,500
All NEDs	66,400	85,000	112,732

FTSE 250	Lower Quartile £	Median £	Upper Quartile £
Chairman	100,000	150,000	200,000
Deputy Chairman	50,000	59,000	88,750
SNED+	44,000	53,000	65,000
SNED-	43,218	52,000	63,000
Audit Chair	42,584	51,000	63,000
Nominations Chair (excl. Chairs)	38,254	52,000	73,321
Remuneration Chair	45,000	51,500	62,000
Audit Member	38,000	47,000	56,282
Nominations Member	40,000	49,242	60,000
Remuneration Member	43,000	50,000	66,000
All NEDs	38,167	49,245	60,000

Small Cap	Lower Quartile £	Median £	Upper Quartile £
Chairman	28,000	39,000	100,000
Deputy Chairman	27,500	45,000	73,000
SNED+	22,000	36,000	45,000
SNED-	22,000	37,000	45,000
Audit Chair	22,000	29,250	44,250
Nominations Chair (excl. Chairs)	27,500	35,000	39,500
Remuneration Chair	29,000	35,000	40,500
Audit Member	20,000	26,000	40,000
Nominations Member	20,000	28,000	40,000
Remuneration Member	25,000	35,500	47,750
All NEDs	20,000	25,574	40,000

Note: The Small Cap chairman median fees seem quite low. However, the upper quartile is more than double the median. This spread is unusual. We would advise against merely using the median as the benchmark figure for Small Cap chairmen. The data suggests that some chairmen either have experience that commands a higher fee level, or work much harder, so justify a higher fee on that basis.

Fledgling	Lower Quartile £	Median £	Upper Quartile £
Chairman	30,000	50,000	80,000
Deputy Chairman	28,500	29,000	29,500
SNED+	28,000	35,000	45,000
SNED-	28,000	36,000	45,000
Audit Chair	23,000	30,000	40,000
Nominations Chair (excl. Chairs)	30,000	40,000	78,750
Remuneration Chair	30,000	64,429	91,500
Audit Member	27,500	35,000	39,500
Nominations Member	29,000	35,000	40,500
Remuneration Member	20,000	26,000	40,000
All NEDs	20,000	26,000	38,000

AIM	Lower Quartile £	Median £	Upper Quartile £
Chairman	35,994	50,000	70,000
Deputy Chairman	51,151	65,000	77,605
SNED+	30,000	34,289	40,000
SNED-	30,000	34,289	40,000
Audit Chair	25,000	30,000	45,000
Nominations Chair (excl. Chairs)	30,000	43,090	70,000
Remuneration Chair	40,750	59,565	82,188
Audit Member	25,000	30,000	39,443
Nominations Member	25,000	32,849	43,370
Remuneration Member	25,000	33,167	45,000
All NEDs	25,000	30,000	42,226

This analysis included 246 Small Cap, 42 Fledgling companies and 189 AIM companies.

The following tables show the % increases of the latest annual report data versus the previous year (note the analysis includes only those incumbents who were directors in both years). The FTSE 100 companies are increasing fees at median rates of 5% for NEDs and 4% for chairmen, which is much higher than smaller companies.

Chairman	FTSE 100	FTSE 250	Small Cap	Fledgling	AIM
Lower quartile	0.0%	0.0%	0.0%	0.0%	0.0%
Median	**3.7%**	**2.9%**	**2.7%**	**1.7%**	**0.0%**
Upper quartile	8.4%	9.1%	7.7%	8.9%	6.8%
Average	**5.0%**	**7.1%**	**5.4%**	**8.8%**	**8.2%**

Non-Executive Directors	FTSE 100	FTSE 250	Small Cap	Fledgling	AIM
Lower quartile	0.0%	0.0%	0.0%	0.0%	0.0%
Median	**4.9%**	**3.8%**	**2.1%**	**0.0%**	**0.0%**
Upper quartile	12.8%	11.1%	9.1%	7.9%	13.3%
Average	**7.8%**	**7.5%**	**5.4%**	**5.1%**	**12.5%**

The tables below highlight the changes in median salary for chairmen and "All NEDs" for the period of 2005 to 2012.

Overall, fees for non-executive directors of FTSE 100 companies have increased by 8% for the chairmen and 8% for NEDs over the last year; and by 6% and 10% for FTSE 250 chairmen and NEDs respectively. The median increase is about 3% for NEDs of smaller companies, with larger increases(c 8%) for NEDs of AIM companies.

Chairman	FTSE 100	FTSE 250	Small Cap	Fledgling	AIM
2005	222,500	100,000	46,000	18,563	30,671
2006	250,000	105,000	48,000	28,250	35,000
2007	273,000	110,000	50,000	25,760	35,779
2008	300,000	120,000	38,750	30,000	40,000
2009	323,000	125,000	46,500	39,500	53,000
2010	310,000	140,000	40,000	49,000	48,619
2011	347,500	145,000	41,000	43,500	50,000
2012	**350,875**	**150,000**	**39,000**	**50,000**	**50,000**
% increase p.a. 2005 to 12	7%	6%	-2%	15%	7%

All NEDs	FTSE 100	FTSE 250	Small Cap	Fledgling	AIM
2005	55,000	27,500	25,000	13,500	20,000
2006	60,000	36,000	26,000	18,500	22,000
2007	64,161	40,000	27,000	19,500	24,000
2008	75,000	41,000	27,500	23,500	25,181
2009	80,000	44,000	30,000	26,000	31,000
2010	75,000	44,000	25,016	26,000	29,500
2011	86,000	48,000	30,000	26,581	31,000
2012	**94,000**	**50,000**	**30,000**	**29,000**	**34,578**
% increase p.a. 2005 to 12	8%	9%	3%	12%	8%

Sample sizes: Below we show the numbers of NEDs that were included in the analysis this year.

Number of NEDs included in the analysis	FTSE 100	FTSE 250	Small Cap	Fledgling	AIM	Total NEDs (including Chairmen)
2012	**589**	**1,116**	**966**	**142**	**513**	**3,326**

Many companies have left the market and so there are fewer companies now quoted in the Small Cap Index, Fledging Index or on AIM. Manifest collect information on all Small Cap companies, but only a sample of Fledgling and AIM companies.

Appendix 2: Comparative data from US, Canada, Singapore/SE Asia and UK

The following data have been sourced from:

- The Conference Board, which provided data on US companies. See www.conferenceboard.org for more information.
- The Conference Board of Canada which provided data on Canadian companies. See www.conferenceboard.ca for more information.
- Freshwater Advisers, Singapore based remuneration consultancy, which provided information based on companies quoted on the Singapore Stock Exchange and may be indicative of practice in other SE Asia countries. See www.freshwateradvisers.com for more information.

Comparisons between countries are difficult as legal duties, risks, roles and survey methodologies may differ. With this proviso, the comparative data is as follows.

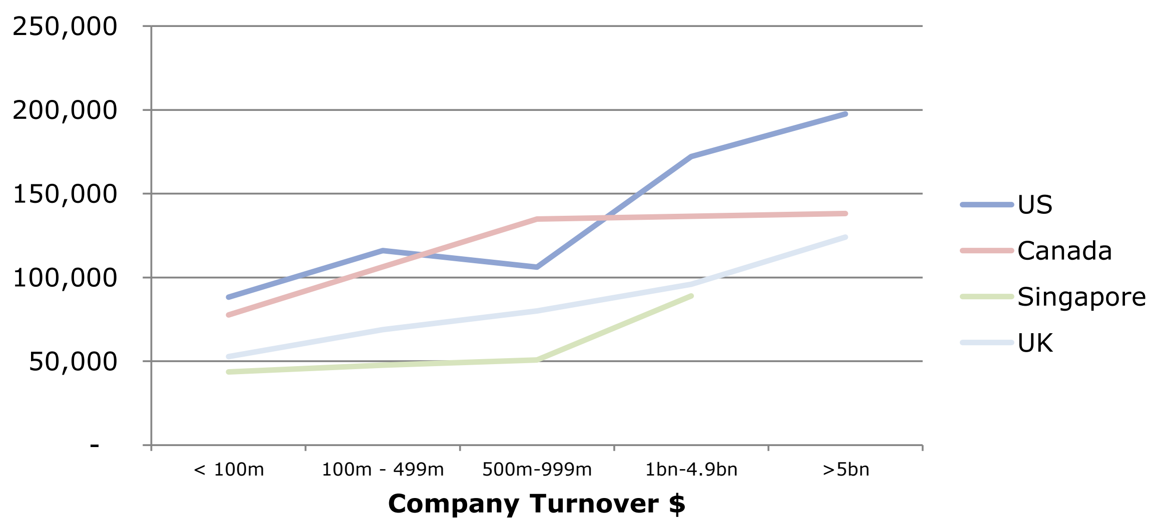
Non-Executive Director[4] Remuneration Levels – Median (in US$ except Canada)

	Turnover US$				
	< 100m	100m - 499m	500m-999m	1bn-4.9bn	>5bn
US	88,240	116,049	106,215	172,240	197,644
Singapore	43,564	47,598	50,830	88,910	-
UK	52,800	68,800	80,000	96,000	124,000

In C$	<150m		150m-2bn		>2bn
Canada	77,648	-	134,851	-	138,171

This shows that the US and Canada pay higher remuneration than the UK as is illustrated by the graph below, where we have interpolated missing data points.

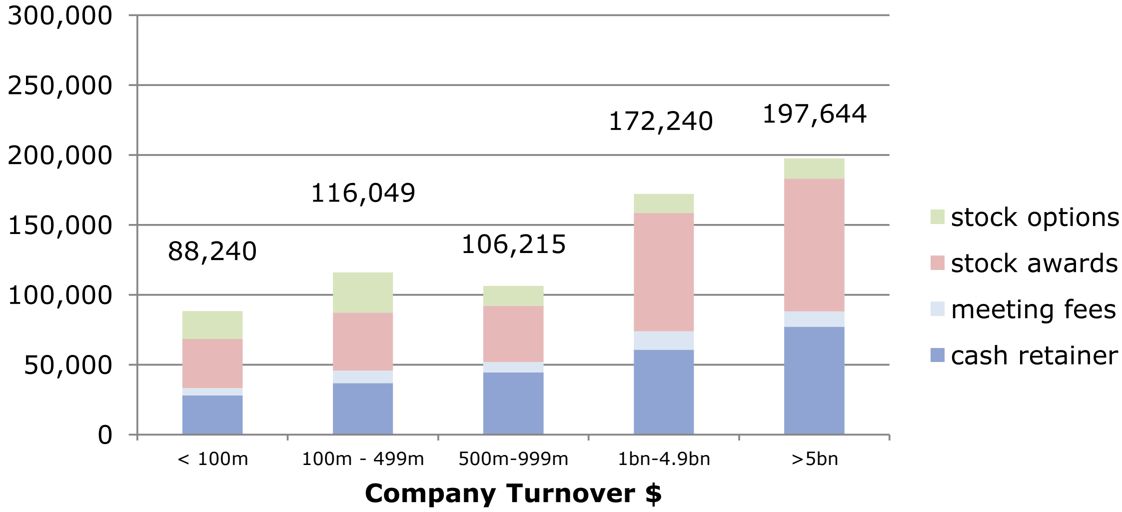
Non-Executive Director Remuneration Levels – Median



[4] In North America the term external director is used. The role and responsibilities to a non-executive director in the UK are similar.

The main reason for the difference is the much greater element of equity compensation in the US and Canada. The figures for the US are as follows.

US: Non-Executive Director Remuneration Levels – Median



About the Directorbank Group

The Directorbank Group comprises of two market-leading brands, Directorbank and Hanson Green, and offers a complete range of board level recruitment solutions to the full spectrum of companies from Private Equity-backed businesses and private firms to FTSE and AIM quoted organisations.

Directorbank is a leading source of chairmen, non-executive directors, chief executives, finance directors and all other board level positions, including interims, for Private Equity backed businesses.

More than 60 Private Equity houses and advisers from the UK and Europe retain Directorbank's services to gain access to a strong network of high-calibre board directors. These directors are immediately available for portfolio company directorships, due diligence assignments and industry/strategic advice.

Directorbank also works with portfolio companies directly, undertaking complex search assignments within short timeframes. The company's leading position in the demanding Private Equity market gives it the capability, insight and drive to provide a highly responsive service. Directorbank's sector, functional and international consultants are experts in their chosen field and are competitively placed to identify individuals with significant experience of working with Private Equity investors and management teams to create value.

Hanson Green is a specialist search firm with a market leading position in the appointment of non-executive chairmen and directors. Whilst the firm's unique, in-depth experience lies mainly in this area it has also completed numerous other board level assignments at the request of its clients.

Founded in 1989, Hanson Green was a pioneer in identifying the need for professionally-appointed non-executive directors and has been a key contributor to the ongoing debate on corporate governance best practice ever since. They co-founded the Henley Centre for Board Effectiveness and have worked with the Cass and Warwick Business Schools on corporate governance thought leadership.

Hanson Green's proven track record of solving clients' recruitment challenges, combined with the unrivalled quality of its service, has made them a search partner for a wide range of FTSE and AIM quoted companies based in the UK and overseas. As experts in board composition, they have always promoted the value that diversity of thinking, experience and perspective can bring to a board and, as such, they have been closely involved with the consultative process feeding into Lord Davies' review of Women on Boards.

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About MM&K

MM&K assists clients to design and implement executive remuneration strategies, which support their values, culture and business plans.

Executive Remuneration: advice to remuneration committees on directors' and executives' remuneration policy and best practice; salary levels; benefits; design and implementation of annual bonus plans and long term incentives; performance measures; target setting; good corporate governance; financial modelling; provision of benchmarking and market practice reports.

Private Equity Remuneration: survey and advice on remuneration policy and practice in the private equity and venture capital industry. MM&K advises private equity firms on their remuneration structures including carried interest plans for both independent and captive funds.

Employee Share Plan Design & Administration: Design and implementation of HMRC approved and unapproved employee share schemes; LTIPs; CSOPs; SIPs; EMIs; SAYE; JSOPs; employee benefit trusts; 'phantom' share plans; performance share plans; growth share plans; carried interest plans; co-investment plans; trustee services; share valuations; and share scheme administration. We provide design and administration services to quoted and unquoted companies, including specialised services to SMEs.

Pay Surveys: market-leading surveys of remuneration policy and practice in the global private equity and venture capital industries; 'Life in the Boardroom' survey of chairmen and non-executive directors' views, roles, time spent and fees; the Executive Directors' Total Remuneration Survey, produced jointly with Manifest; bespoke remuneration studies and market benchmarking reports.

Our clients include listed and unlisted companies, partnerships and not-for-profit organisations. We operate across a wide range of sectors and have particular strengths in oil & gas, investment management (including private equity, venture capital and hedge funds) retail, media and construction.

The benefits to our clients of working with MM&K include:

- Client relationships: At least one MM&K principal will maintain close contact with the client throughout any project. We develop strong and enduring client relationships and are regarded as a trusted adviser in the boardroom.
- Experience: Each of MM&K's principals has more than 25 years' experience of executive remuneration consulting and their careers include periods when they operated in other fields, including investment banking, industry and the professions. Clients can therefore draw upon our ability to exercise the judgement which derives from this wealth of experience.
- Multi-disciplinary: MM&K's team is multi-disciplinary. We bring together consulting, advisory, legal, accounting, HR, analytical and modelling skills to help design and implement demonstrably practical and transparent means of dealing with our clients' problems.
- Service quality: MM&K provides top quality advice and prompt service. We present complex issues in a straightforward manner. We will not over-complicate and we will ensure that there are no surprises in relation to the work we do with our clients.
- Implementation: We implement the recommendations we agree with our clients, providing formal documentation and communication material, as required.

MM&K is a member of the Remuneration Consultants' Group and has signed up to its code of practice.

MM&K is owned by its employees and directors.

MM & K Limited is authorised & regulated by the Financial Services Authority.

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