



Board's Eye View

An occasional review of all things board

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Global talent?

Less than 1% of Fortune Global 500 CEOs are poached from overseas, and 80% are promoted from within the company, according to [research](#) by the High Pay Centre.

A taxing problem?

The Tax Justice Network has issued a letter to FTSE 100 CEOs containing [advice](#) from legal firm Farrer & Co that says: "It is not possible to construe a director's duty to promote the success of the company as constituting a positive duty to avoid tax." Translation from legalese: pay up!

Chairs beware

Legal & General has warned that from 2015 (the deadline set by Lord Davies for FTSE 100 boards to achieve 25% female representation) it will [vote against](#) the Chair or the Chair of the nomination committee if they have not installed any women on the board, or if aspirational targets have not been set. Just 32 FTSE 100 companies have 25% women directors or more.

Tweeting CEOs

Twitter use among Fortune 500 CEOs has increased from 3.6% to 5.5% over the past 12 months, while the number that are active on LinkedIn is up from 25.9% to 27.9%, according to [research](#) by CEO.com and Domo. "The rise of Twitter in particular really points to the need for speed among CEOs. Business leaders desire information that is quick, succinct and easily digestible. Twitter more than any other social network delivers on that," said Josh James, CEO.com founder.

NEDs: Are you the weakest link?

Where the board table was once strewn with several dead trees worth of paper, now the tablet has taken over. [BoardPad](#), just one of the providers in the marketplace, estimates it serves over a quarter of the FTSE 100. Anecdotally, non-execs tell us that they love the convenience and functionality that tablets offer. But are companies in danger of putting their most important information at risk? As you would expect, electronic board papers come bristling with security devices, ranging from tough password policies to the ability to delete board papers with the click of a button from a central location. But with cybercrime estimated to cost the global economy some \$300bn a year, directors' tablets may appear a tempting entry point for hackers. Ensuring that electronic security stays one step ahead of the bad guys will be essential.

Bedroom v. Boardroom

Important questions that the Chair of the Remuneration Committee should ask the Chief Executive: Have you hit targets? Is the LTIP stretching and motivational for the management team? Everything okay at home? [A study](#) of 79 CEO divorces from Stanford University found that negative shocks to CEOs' wealth makes them more risk averse and leads to compensation committees increasing the value of 'at risk' pay. "The higher compensation is consistent with the board increasing compensation incentives in response to a decrease in a CEO's risk tolerance following a loss of outside wealth," the report said.

■ Want better returns? Hire a good-looking CEO

Attractive CEOs receive higher total compensation, boost stock performance when they appear on television, and achieve better returns on their first days on the job, according to [research](#) by economists at the University of Wisconsin. "The findings suggest that CEO appearance matters for shareholder value and provide an explanation why more attractive CEOs receive 'beauty premiums' in their compensation," the study said.

What should board directors know about social media?

Boards must distinguish between those social media practices that are beneficial for the transparency of the business and those that could damage the company's image or even raise legal risks. This is the conclusion of a [research paper](#) by the Global Corporate Governance Forum. To do this, it recommends that boards ask themselves three questions: "Do [board directors] have the knowledge necessary to understand [social media] changes and new technologies? Does the board need a change in composition to deal with the complexities of social media? Does the board need external support and training to do so?"

■ New rules on directors' pay come into effect. . .

Shareholders [have been given](#) a binding vote on pay, and remuneration reports will now require the approval of more than 50% of shareholders in order to pass; previously votes on compensation were advisory, so in theory boards could simply ignore the vote. While shareholder activism is certainly on the rise, and there have been large dissenting votes of more than 20 to 30% at several companies in the past year, Board's Eye View notes that only five FTSE 100 companies have had their pay rejected by more than 50% of shareholders since the non-binding advisory vote was introduced in 2002.



CEOs: Movie buffs

The Godfather is the most popular film among CEOs, according to Andrew Cave, who has been interviewing chief executives for the *Daily* and *Sunday Telegraph* for the last 17 years. Keep this in mind the next time your CEO makes you an offer you can't refuse . . .

Harvard number one

Harvard University, famous for handing out degrees to no fewer than eight US presidents, also produces more CEOs than any other university, according to new [research](#). Harvard provided 31 degrees to 25 chief executives of Fortune Global 500 companies. The University of Tokyo was ranked second, while Stanford University came in third.

Diverse audit committees?

Audit committees are seeking qualities beyond the "must-have" financial skills and auditing experience, according to a [report](#) by Ernst & Young. "These include *technology expertise and sensitivity to different cultures and compliance customs*," the report said.

Boardroom philosophers?

Need a new NED? Want a diverse perspective? Then you might consider appointing a philosopher. That's right, a philosopher. "With a proper philosophical perspective on the needs of customers, [boards] can start to see new market opportunities, rather than being left to fiddle with margins, wages and logistics," argues Alain de Botton.

Feeling the love?

Are your board members feeling loved enough? An academic [study](#) has found that the more love co-workers feel at work, the more engaged they are in the business. "It may not be surprising that those who perceive greater affection and caring from their colleagues perform better, but few managers focus on building an emotional culture. That's a mistake," says Sigal Barsade and Mandy O'Neill, authors of the study.

Are corporate boards gender stereotyped by the stock market?

Yes, according to [research](#) by the University of Exeter Business School. The study, which analysed over 80,000 trades made by board directors of companies listed on the London and Aim stock exchanges, found that the stock market responds more positively to trades made by male directors in their own company than their female counterparts – this is despite returns on trades made by female directors often exceeding those of male directors.

■ Remuneration up, 'no' votes down . . .

Directors' pay at FTSE 100 companies has risen 14% over the past year, according to a [report](#) by Income Data Services. Although basic pay rises have been "relatively restrained" and bonuses have fallen by 8.8%, a 58% rise in the median value of vested long-term incentive plans (LTIPs) meant directors' total earnings still grew markedly in 2012-13. "With nearly two-thirds of FTSE directors benefiting from an LTIP award in the latest year, the higher share-based payouts clearly made up for any ground lost in lower annual bonuses" said Steve Tatton, editor of the report. He added that this boost to overall earnings took place without any resurgence of last year's shareholder spring, with fewer institutional investors voting against remuneration reports. "This was perhaps because the vesting of large share awards is currently less visible to investors than salary increases and bonus payouts."

Time to call NetJets?

European boards convene an average of nine times a year, 50% more than their American counterparts, according to [research](#) by the National Association of Corporate Directors. Board service and travel consumes an estimated 300 hours a year in Europe, more than a US board's annual average of 227.5 hours. Speaking with one international NED recently we asked how they were able to combine board roles in several far flung cities? His reply: "One of my companies makes it very easy to attend a board meeting: they send a jet."

■ Boards must "improve" governance explanations

Companies are generally better at setting out the background and actions taken to mitigate any governance concerns than they are at explaining the rationale for their decisions. This is one conclusion of the Financial Reporting Council's 2012-13 [Annual Report](#). "In a few cases they do little more than assert that the actions taken are the most appropriate for the company," the FRC said.

Committee chairs – extra hours, but extra pay . . .

It's a well-known fact that the workload of remco and audit chairs has increased in recent years. On the plus side, it appears they are being compensated for the additional hours they are putting in. Research by Board's Eye View has found that the average fee for a FTSE 30 remuneration chair stands at £135,000, with FTSE 30 audit chairs taking home a cool £118,000. Chairs of FTSE 31-100 board committees aren't doing too badly either: remco chairs of these businesses are earning £90,000 on average, with audit chairs receiving £82,000.

■ And finally . . . monkey business in the boardroom

If you consider yourself the king of the swingers, or even just a corporate VIP, you could benefit from a trip to Chester Zoo. In the first management course of its kind in the UK, the zoo is opening its cages to local businesses so that they can observe the behaviours of chimps and apes. Patrick van Veen, who established the course, says he was particularly inspired by a former boss. "He was about two metres tall, he was huge, and he had small glasses. When you entered his office, he'd stare at you over them. He really was a gorilla."

What's New at Odgers Berndtson

- **The Financial Times Non-Executive Directors' Programme** – held in partnership with Odgers Berndtson, the [two day programme](#) covers the whole range of skills and knowledge needed for any non-executive directorships.
- **Event:** 1st April – Odgers Berndtson's Annual Chair & CEO Dinner with Dr Mark Carney (Governor, Bank of England)