



# Board's Eye View

An occasional review of all things board

Kit Bingham | Head, Chair & NED Practice  
kit.bingham@odgersberndtson.com

AUTUMN 2014



## Executive directors

Executive directors are a talented bunch. In addition to having a demanding day job, many find the time to make a contribution as a NED on another board. Of the 198 NEDs serving on the boards of the UK's 20 largest public companies, 42 are also serving executive director elsewhere, according to research by Board's Eye View. Just three FTSE 20 companies don't have any executives serving as NEDs on their boards.

## Number crunch

50: the percentage of FTSE 100 retailers without a NED with a retail background, according to research by Board's Eye View.

## NED fees

If you want to be paid top dollar as a NED, you could do a lot worse than work for a Swiss pharmaceutical business. A 12 country study of 393 of Europe's largest public companies has found that Swiss companies pay their NEDs the most (£217,000), while pharmaceuticals was found to be the highest paying industry sector. At the other end of the spectrum, Austrian NEDs were found to take home the least pay (£22,000), while transport was found to be the industry sector that paid the lowest fees.

## Domestic M&A drought?

Deal frenzy? What deal frenzy? [Statistics](#) from the Office for National Statistics revealed the lowest reported level of domestic M&A activity since 1969 in the first quarter of 2014. Slow economic growth and a lack of confidence within the M&A markets were cited as factors which contributed to the decline.

## CEOs – less lonely at the top?

The higher you climb, it has often been said, the lonelier it gets. And so it is with chief executives. The intensity of the CEO's job, coupled with the scarcity of peers to confide in, can leave many CEOs feeling isolated. What's a CEO to do? In times gone by, chief executives might have turned to a senior banker, broker or other adviser to gain an external perspective. In today's environment, where hyper-sensitivity to sharing non-public information is a daily fact of management, such outside conversations are curtailed and of limited value. There is no shortage of external mentors and coaches, but not every CEO sees value in such relationships. Internally, the chair is an obvious source of counsel, but equally there are limitations. Only a certain level of candour is possible with someone whose job it is to monitor and assess your performance. Executive directors offer another channel of support to the CEO, though power relationships and vested interests can inhibit full transparency. Most CEOs we spoke to were both philosophical and realistic. Their view was, yes it is lonely at the top, bad luck, deal with it. Read more in our forthcoming board paper: *Less Lonely at the Top*.

## Odgers Berndtson awarded FTSE 350 accreditation

Odgers Berndtson is pleased to announce it has been accredited under the Enhanced Code of Conduct for executive search firms. Accreditation specifically acknowledges those firms with a strong track record in promoting gender diversity at board level in FTSE 350 businesses.

## Algorithms . . . coming to a boardroom near you

Is this the beginning of the end for fleshy board directors? Deep Knowledge Ventures, a Hong Kong-based VC firm, has [appointed](#) an algorithm to its board of directors. The program, known as VITAL, will become an equal member of its board of directors and can "use historical data-sets to uncover trends that are not immediately obvious to humans," the firm said. The three shortlisted candidates who lost out to VITAL – Short Circuit, Wall-E and IBM's supercomputer Deep Blue – were unavailable for comment.

## The secret to getting the top job? Standing tall

6.5 centimetres. That's the difference between good and great, at least as far as CEO pay is concerned. A [study](#) of 1.3 million Swedish men has found that CEOs who were one standard deviation – 6.5 centimetres – above the mean CEO height of five feet 10½ inches were paid 4% more. "It's about the observability," says Samuli Knüpfer, an author of the study. "You directly observe someone's height. It takes you a while to figure out cognitive and non-cognitive skills."

## Diversity diversified

[Academic study](#) finds that diverse boards perform better. Yes, you've heard it before. Only this time the study in question used a broad definition of diversity encompassing gender, race, age, experience, tenure and expertise. Published by Wake Forest University, the research examined the performance of over 2,000 companies across a 13 year period and argues that research on board diversity has largely focused on gender diversity, leaving wider questions of board diversity largely unexplored. "We found strong evidence that board diversity [in its widest sense] significantly curbs excessive risk taking and that diverse boards tend to pay more in dividends," says Dr Ya-wen Yang, co-author of the study.



## Internal succession

It's an age old succession question: if your CEO goes under a bus, who is ready and capable to take over the reins? The answer for most boards comes from within. Literally within. Research by Board's Eye View has found that of the 47 FTSE 350 CEO appointments this year, boards have chosen insider candidates on 35 occasions.

## Female CEOs

In eight out of the last ten years, the proportion of women becoming CEOs of the world's 2,000 largest public companies has been higher than the proportion of those leaving the role, according to a study by Strategy&. But while the numbers are moving in the right direction, the study suggests that it will take a quarter of a century until a third of the 2,000 largest public companies have female CEOs. "A lot of these companies were started at least 50 years ago when there were no women in the workforce, much less running companies," says Ken Favaro, author of the study. "It takes a long time for work culture to change ... It is a cultural drag, but it is a drag that will decline over time."

## High performing boards

Board members with very high impact invested eight extra days a year on strategy, according to research by McKinsey & Co. The best performing boards were found to spend three extra days debating performance management, and three extra days on both talent and risk management.

## Sweeney review

Charlotte Sweeney's review of the Voluntary Code encourages search firms to share their female hiring data for board positions. We are pleased to report therefore that in the calendar year 2013, 43% of FTSE 350 board searches that Odgers Berndtson advised on resulted in a female appointment.

## I'm a celebrity get me onto a board

What do OJ Simpson, Lance Armstrong, Gerald Ford, Priscilla Presley, Michael Jordan, Sidney Poitier and Billie Jean King have in common? Top marks for those who guessed that they were all once NEDs of private and publicly listed companies. Yes, really. And if you're wondering what qualified this eclectic bunch to hold board positions at businesses such as Walt Disney, MGM and Philip Morris, Dr Stephen Ferris of the University of Missouri has the answer. After [studying](#) 700 celebrity appointments to corporate boards from 1985 to 2006, he found that a little stardust can go a long way. Not only are celebrity appointments a useful way of reaching out to customers, it was discovered they enhance shareholder value over one, two and three year periods.

## ■ Company secretaries – no longer a 'glorified clerical position'

A glorified clerical position whose primary responsibility is form-filling and ensuring compliance with rules of little substance. This was one FTSE 250 executive director's scathing view of the role of the company secretary in a 2012 [APPG report](#). Thankfully, the role is held in much higher regard by Henley Business School and the ICSA. A new [study](#) has found that company secretaries act as a vital bridge between executive and non-executive directors, and can help the nominations committee identify a 'good' chair from a 'bad' one. "They have seen chairmen screw it up, they have seen chairmen get it right, they have seen the board fall apart, they have seen boards hold together under the most difficult circumstances," says one chair who contributed to the report.

## Dear John . . .

Being outstanding at your job is one way to make it to the board. Failing that, you could just rename yourself John. Research by Board's Eye View has found that John is the most popular name for FTSE 100 and NASDAQ 100 board directors.

## ■ Board directors – time to ditch the suit?

Power-suits, braces, shoulder pads and brogues. The business attire of board directors is fairly predictable. But are they missing a trick? Former PayPal founder and CEO Peter Thiel, who now runs a venture capital fund, has a highly successful [investment strategy](#) which board directors may heed: don't do business with anyone who wears a suit. An early investor in companies such as Facebook, LinkedIn and Spotify, Thiel says he developed his theory after investing in CEOs who wore flash suits to try to compensate for their inferior products. "Maybe we still would have avoided these bad investments if we had taken the time to evaluate each company's technology in detail," he says. "But the team insight – never invest in a tech CEO that wears a suit – got us to the truth a lot faster."

## Friends with the CEO? Keep quiet . . .

Logic dictates that when you disclose personal ties between directors, you create transparency and better governance. But what does logic know? An [experiment](#) by the American Accounting Association has found that ties of friendship between board directors and the CEO can impair the directors' independence, and that the disclosure of the relationships only serves to worsen this effect. Instead of toughening their oversight of their CEO, directors who disclosed a friendship "went easier on the CEO, perhaps believing that they had done their duty by disclosing the relationship," the study says.

## ■ And finally . . . Warren Buffet's and Bill Gates' favourite business book

It's the literary equivalent of the raising of Lazarus. An out-of-print collection of essays about corporate America published in 1969 has shot to the top of bestseller lists after it was revealed to be both Bill Gates' and Warren Buffet's favourite business book. [Business Adventures](#) by John Brooks chronicles key moments in American industry, including the rise of Xerox, the Ford Edsel failure and the GE and Texas Gulf Sulphur scandals. "Today, more than two decades after Warren lent it to me—and more than four decades after it was first published—*Business Adventures* remains the best business book I've ever read," said Gates.