



HM**Thinking**

The art of attracting Board talent in a changing world



Introduction

Things have changed. Board composition is no longer about solely attracting “the heavy hitters”, most of which were well-known former Group CEOs and CFOs. It is about anticipating the massive changes companies are facing and bringing to the table the individuals who also have technology, ESG, capital markets or disruption experience, as well as true diversity. Boards need to provide the right level of support, challenge and vision and equip the company for the next decade. So, at a time when the war for talent has never been greater, FTSE companies need to understand the potential candidates’ concerns when considering FTSE board roles and how to creatively address these.

What is important to Board candidates

Aside from the importance of who the Chair is and the culture of the Board, the following five considerations play a pivotal role in the candidates’ decision to take on a Board position.

Getting inspired

“FTSE100” used to be the magic word to get the interest of potential candidates. Although this is still true to an extent, the nature of the business and where it stands in its cycle (growth vs. operational excellence; restructuring vs expansion), its sustainability credentials and its purpose and values are increasingly important in the eyes of candidates. Excellent candidates want their Board role to have a meaningful and positive impact.

Making a difference

Board candidates, especially those with highly sought after experience, such as digital or ESG backgrounds, want to add value. The balance between governance box ticking duties and strategic oversight is a key consideration. Currently, Boards spend over 30% of their meetings auditing past decisions and this is likely to increase with the coming new governance rules. The strategic role of FTSE Boards is likely to decrease, as is the speed at which decisions are taken. In comparison, private equity portfolio businesses are seen as agile, decisive and focused on strategy, rather than governance. They are an increasingly more attractive proposition than FTSE Boards, especially to senior Board members who already have one or more listed Board positions.

Time commitment

Top FTSE companies hold an average of 8 scheduled Board meetings a year. For similar sized companies in the US and the continent, the average number of meetings is 5. Even if UK Boards are ready to hold some of their Board meetings by video, a Board role in the UK is a significantly larger commitment compared to other jurisdictions.



Liability and disclosure

This is a particularly crucial consideration for potential candidates who are not working in the UK. The new UK SOX, the extended jurisdiction of ARGAs and the recommendations of the recent reviews are likely to sensibly increase the potential liability of UK Board directors. This, together with the amount of disclosure already required of candidates, may be a stumbling block, whether this is the decision of the individuals or the veto of the companies they already work for.

Remuneration

Whilst remuneration may not be the main motivation to take on a Board role, it can also be a substantial deterrent. Average total compensation for S&P500 Non-Executive Directors is in excess of \$300,000 (£216,000), with stock grants representing over 50% of the total compensation. In comparison, FTSE100 Non-Executive Directors are paid a third of what they would get in the US, with a median base fee of £70,000 (already inflated by the higher financial services Board fees). Furthermore, UK Board members are increasingly asked to be members of, or even chair, sub-committees. Yet, although the number of days required to Chair committees substantially increases the time commitment required, the remuneration for such Committee Chair roles averages only £20,000 in the FTSE100.

What will help tip the balance

Despite the above considerations, there is still a cachet attached to being on a FTSE Board. Yet, we can't expect to ask more of our Board members and aim to appoint the most talented global candidates by only relying on the FTSE brand. There are three activities, commonplace in executive appointments, that boards can undertake which will tilt the best talent in their favour.

Courting the talent

The search for Board candidates is of course about selecting the best talent but it is also about convincing them that the company's story, ambition and values are in line with their aspiration and worth the commitment. As well as choosing the candidates, the Chair, the nominations committee and often the leadership team need to play an increasingly bigger role in promoting the opportunity.

Looking ahead

"Succession planning" should not be a terminology reserved to CEO, CFO and Chair appointments. The war for talent is global for executive and non-executive director roles and we need a change of mindset, from considering Board appointments as a recruiting event to a relationship building process. In the same way that Group CEO succession should start well ahead of the anticipated departure of the incumbent, Board succession should be planned in advance to allow for enough time to attract the best possible talent and bring the flexibility required to adjust the Board composition to the needs of the business.

Remunerating fairly

Board fees need to be re-evaluated to be competitive and in line with the demands of the non-executive roles. This is particularly the case for some roles that already do or will (with new rule changes) require disproportionate additional time for the current marginal fee increases. Some argue that the investor community is most worried about remuneration for failure and would not disagree with an increase in Board fees. Whilst this may prove to be true, it won't happen without the concerted effort of FTSE Chairs and advisors to have a dialog with the institutional shareholders. There needs to be a recognition from investors that the role of the Non-Executive Directors is critical to the sustainability and performance of their investments.



Conclusion

At a time when the UK wants to strike the right balance between being at the cutting-edge of global best practice and remaining a world-class destination for investment, the war for talent is intensifying. As demands on NEDs increase, FTSE companies cannot rely on the cachet alone to ensure a steady flow of highly qualified candidates. Instead, they will need to employ many of the tactics used for the best executive appointments. Those who are able to put together the most compelling all-round proposition will stand the best chance of success.

Hedley May is a global executive search firm dedicated to finding exceptional talent to transform Boards and executive leadership teams. Shining a bright light, we help create a better future through our commitment to doing the right thing for our clients, candidates and the communities we serve.

For 20 years, the Board & CEO practice team has worked alongside many of the leading listed and private Boards globally, with a strong and trusted reputation for providing independent and forward thinking advice. We are one of the most experienced teams in the market having placed over 120+ Board Directors and 80+ FTSE 350 Board Directors.

We think creatively and laterally and believe in diversity in its broadest sense. In the past 24 months, 78% of our FTSE 100 Board appointments were diverse.