Trust through governance

FT–ICSA Boardroom Bellwether

Insights into what boards are thinking from the survey of FTSE 350 company secretaries

Institute of Chartered Secretaries and Administrators

Summer 2015

Contents

Introducing Boardroom Bellwether

The FT–ICSA Boardroom Bellwether is a twice-yearly survey which questions companies on how their boards are addressing the challenges of the economy and the wider business and social climate.

This report summarises the key findings of the latest survey, which took place immediately after the UK general election in May 2015.

Carried out by ICSA in association with the *Financial Times,* the survey canvasses the views of the FTSE 350 by contacting the company secretary. Their pivotal position at the heart of the boardroom gives them a unique perspective on how boards are reacting to both internal factors, such as board composition, and external factors, such as market conditions. The data is analysed in an aggregated and anonymised form. Questions cover a range of general business and topical issues, as well as more specific governance matters. Although some questions change from survey to survey, the core remains the same to reveal trends and shifts in opinion.

We would like to thank all the company secretaries who found time to complete this survey. If you have any questions, comments or thoughts to share on any of the issues it raises, please do get in touch.

Peter Swabey FCIS
Policy and Research Director, ICSA
pswabey@icsa.org.uk
#FTICSABellwether

For full results, please visit www.icsa.org.uk/bellwether. Please note that, due to rounding up or down, the data from the survey does not always add up to 100%. In addition, in some of the graphics, 'don't knows' have been excluded from the results.

Highlights

Carried out within days of the general election and with new questions about EU membership and board culture and composition, this seventh Bellwether report pitches straight into how boards are reacting to the current business environment.

This summer's Bellwether report pays particular attention to how companies are reacting to the new government. Although economic confidence is improving, uncertainty around the UK's continued membership of the EU is a particular concern, with 63% of respondents rating Brexit as damaging to their company.

Despite three years of progress, gender diversity seems to be losing momentum – with 31% of respondents now reporting that they will not meet Lord Davies' target of 25% women on boards by the end of 2015. With the FRC publishing a discussion paper on succession planning shortly, it is time for nomination committees to step out of the shadows.

We asked about culture and behaviour this time, with generally positive results. Boards recognise the value of externally facilitated evaluation in helping to drive change and a high proportion of them are consulting regularly with employees.

The business environment

Economic confidence is returning after the low of winter 2014. Possibly as a consequence of a more decisive result than expected in the general election, three quarters of respondents (74%) anticipate improvement in UK economic conditions in the next 12 months. Economic conditions globally are also anticipated to be considerably brighter. However, this optimism is not translating into plans for expansion in the UK and Europe, with two thirds of the responses anticipating no change in their plans as a result of the election – although this could be down to nervousness around the UK's position on membership of the EU.

The new government

Election campaign promises were still fresh in the memory when this survey was carried out, so we asked for opinions about the government's manifesto commitments. The views are very consistent. Not surprisingly our respondents continue to support the government's stated intention to reduce red tape. Taxes and business rates are also mentioned. However, the effect of the uncertainty about the UK's position in Europe comes through very strongly, reflected in calls for 'a clear, fact-based debate on the EU question' and similar comments asking for 'transparent communication for the electorate'. Matthew Fell, Director for Competitive Markets at the CBI, explains: 'Firms want to see the EU do more of what it does well, like turbo-charging the Single Market in services and digital and signing more trade deals with the rest of the world … and less of what it does badly, including regulating on lifestyle issues.' The key finding here is that the majority (63%) believe a UK exit from the EU would cause some or significant damage to their company, with only 3% reporting that it would be positive. Ironically, only 7% indicate that their company would be willing to speak out for the UK to remain part of the EU.

63% believe a UK exit from the EU would cause damage to their company

Board composition

After three years of solid progress, confidence about appointing women to boards seems to be stalling. Despite consistent press attention, and after reaching highs of more than 50% for the past year, now just 42% of our group expect to meet Lord Davies' target by the end of 2015. However, a further 11% claim to have plans to meet the target in the next 12 months. Rowena Ironside, Chair of Women on Boards UK, comments on the results: 'Changing the status quo is always hard work, however strong the rationale. So a stalling of momentum in improving gender diversity is not a surprise.' Explanations point to a perceived lack of appropriately qualified women – which may still be true in some industries – underpinned by comments that women would be considered, but appointments are made on merit. Alongside gender, we have asked about other diversity indicators since 2012, and this time we specifically asked about ethnic diversity. Only 23% of respondents consider their board to be ethnically diverse.

Just 42% expect to meet Lord Davies' target by the end of 2015

We believe succession planning is one of the top board issues but evidence still suggests that nomination committees could be doing more to ensure an appropriate balance of skills, background and experience in the boardroom. This has also been announced as a focus of attention by the FRC in 2015–16.

Board development

This survey asked about the value of externally facilitated board evaluations for the first time. The majority of respondents regard them as constructive and 70% of boards use them as a catalyst for change. This is most encouraging. We believe external evaluation is a significant contributor to succession planning and director development, and brings vital objectivity and new thinking, particularly when uncomfortable issues have been identified.

Risk

Although companies vary in their approach to risk reporting and management, there is not much change to the results from winter last year. The top three risks are economic, operational and reputational. Interest in social media is increasing, but only 37% of respondents describe having a social media strategy as important – surprising given the reputational risks that can be associated with it. At the same time, about three quarters of respondents consider that their exposure to cyber risk is still increasing, despite featuring much lower in the rankings.

Only 37% describe a social media strategy as important

Economic confidence

The early Bellwether surveys, starting from spring 2012, showed a steady increase in confidence in economic conditions. In December 2014, that trend came to a juddering halt. The results of this summer's survey are more optimistic but there is still some way to go before we reach the peak of last July's results.

In this survey, we see 57% of respondents anticipating an improvement in global economic conditions over the coming 12 months – a significant increase from the low of 33% in December 2014 but still well below the 81% this time last year and 69% in December 2013. A quarter of respondents believe that there will be no change and just 10% believe that global economic conditions will decline – a significant decrease from 32% in December.

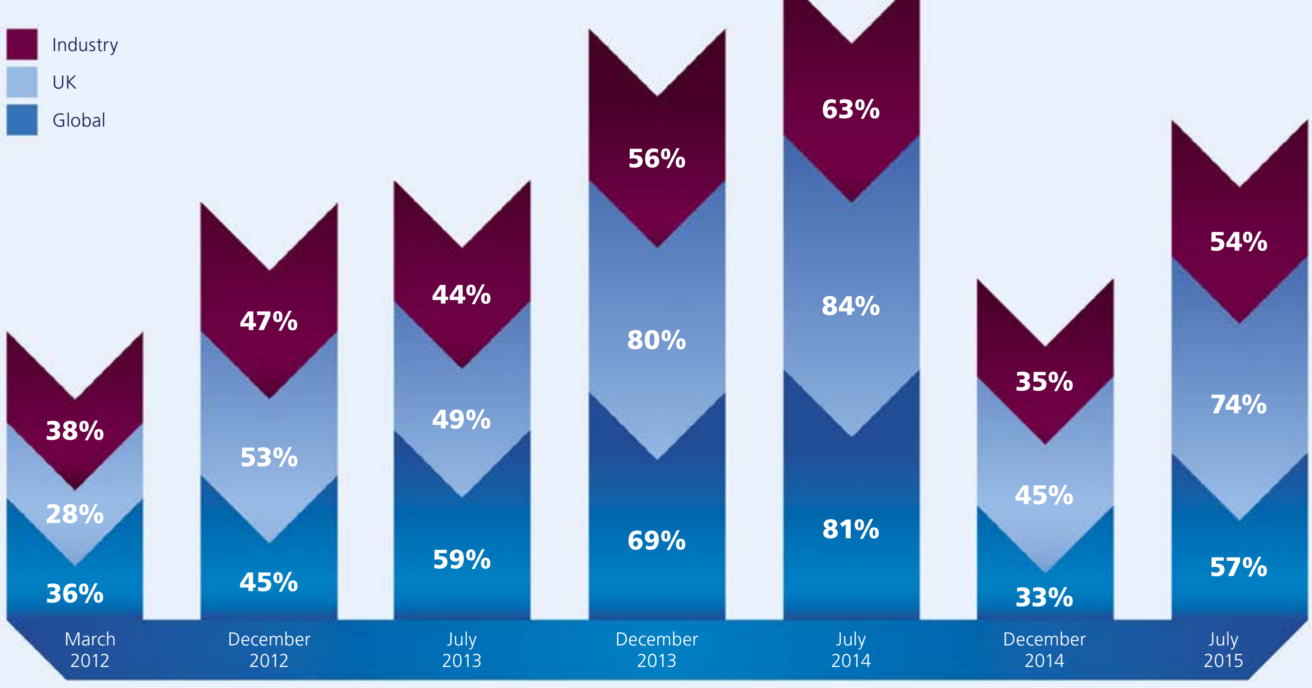
This pattern is repeated when thinking about respondents' own specific industries, with 54% predicting improvement and 13% a decline – another improvement in confidence

There is even more optimism about UK economic conditions – 74% anticipate improvement in the next 12 months

There is even more optimism about UK economic conditions – 74% anticipate improvement in the next 12 months, up from 45% in December, and only 3% predict a decline.

compared with 35% and 29% in December 2014. Overall we are seeing an improvement in economic confidence following the sharp fall six months ago.

Percentage of respondents anticipating an improvement in the next 12 months for the three sub-categories over the past seven surveys



Market conditions

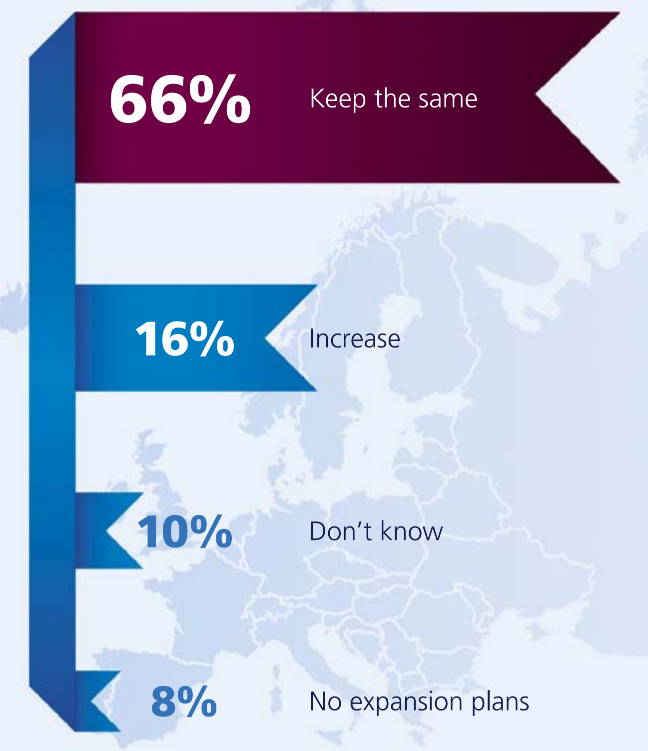
Expansion plans in the UK and Europe have been largely unaffected by the general election result, but capital expenditure is expected to increase.

To see whether market confidence might be directly linked to the election result, we asked about its impact on companies' expansion plans in the UK and Europe over the next 12 months. The correlation is not as significant as might be expected. Notwithstanding the election of a government which emphasises its support for business, and the general increase in economic confidence that we have already reported, two thirds of the responses anticipate no change to their expansion plans and a further 8% have no such plans. Only 16% of our group believe that the election result would motivate their company to increase its expansion activity.

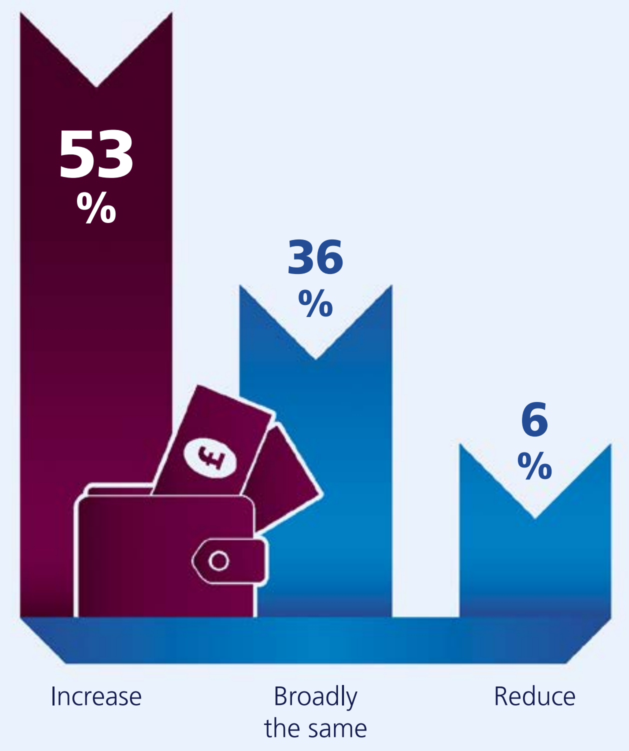
We then asked about capital expenditure. Historically, this has been an area in which responses have fluctuated considerably. In this latest survey, although capital expenditure is still predicted to remain unchanged by a number of respondents, the most common view is that it would increase. Those expecting it to increase have risen to 53% from 29% in December 2014 and 51% this time last year; while those expecting it to remain unchanged has fallen to 36% from 45% in December.

It seems fairly clear that after a downturn in confidence – perhaps arising from the uncertainty around the general election – companies are once again more positive about the future, and we may see the projected increase in capital expenditure develop into expansion in the medium term.

How will the result of the UK general election affect your expansion plans in the UK and Europe over the next 12 months?



Is your company's capital expenditure likely to increase or reduce over the next 12 months?



The new government

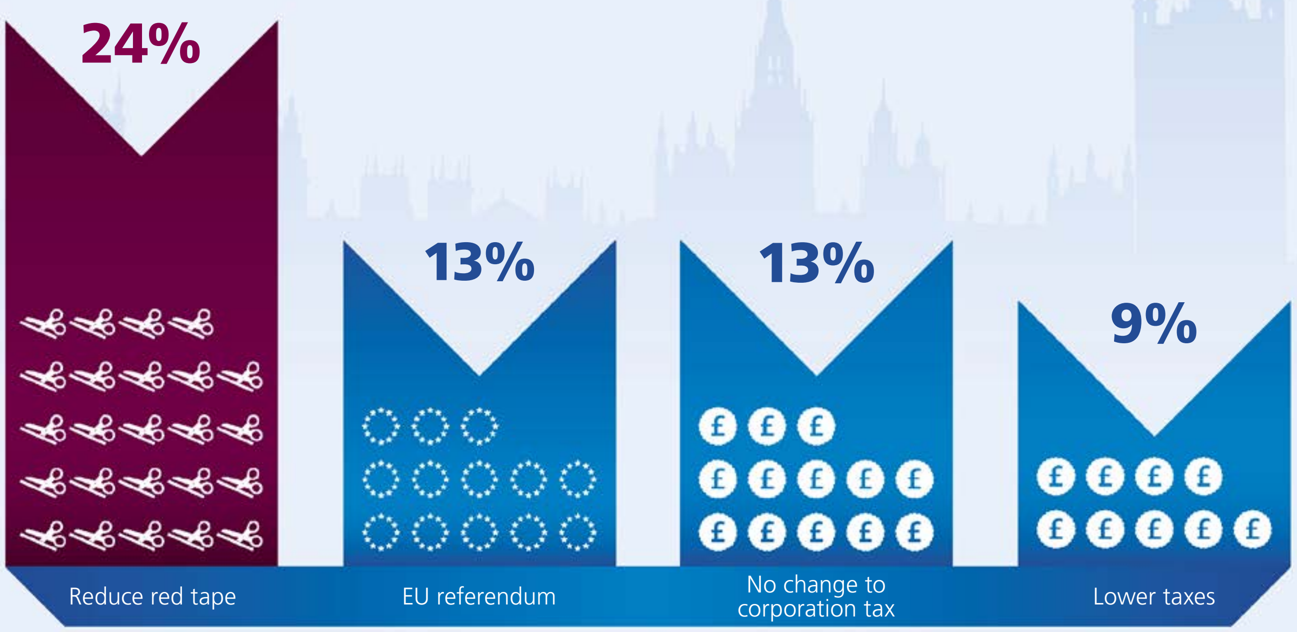
Companies would like to see a reduction in red tape and more certainty around the UK's relationship with the EU. The majority of companies believe that Brexit would be damaging to them, but few are prepared to say so publicly.

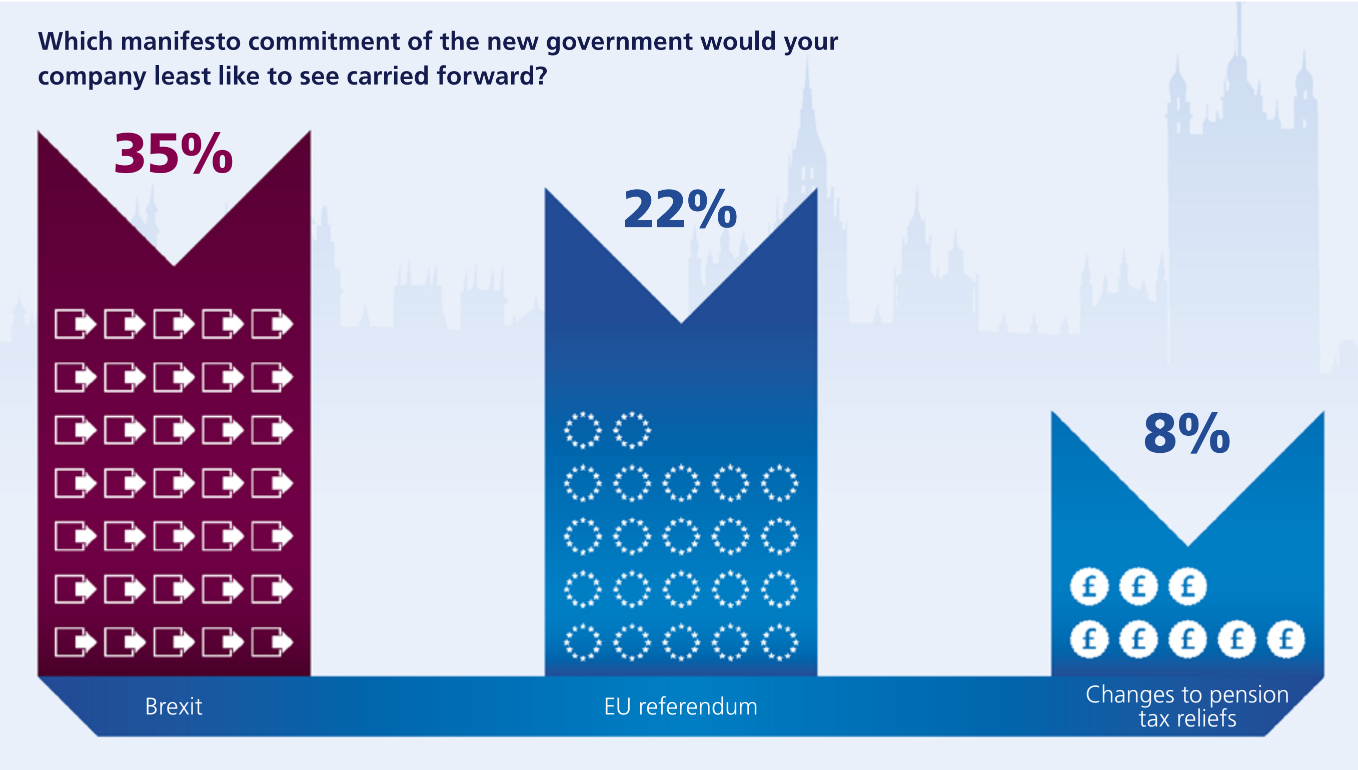
Top of the list are reducing red tape and concerns about the future of the UK relationship with the EU

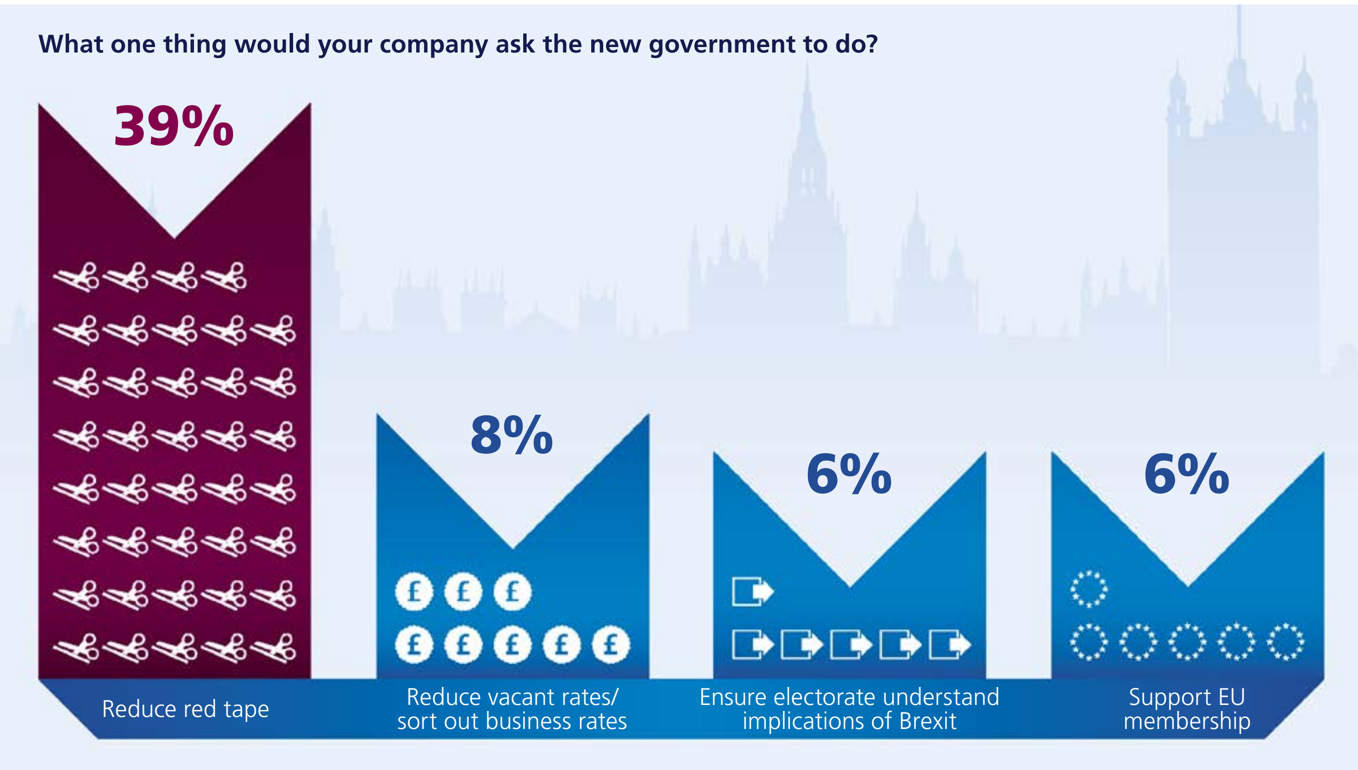
In previous surveys, we have looked at the degree to which the government and opposition were regarded as 'business-friendly'. Predictably enough, during the last parliament, responses showed high ratings for the government fairly consistently and very low ratings for the opposition. Given the proximity to the election, we thought that on this occasion it would be better to look at three slightly different questions – which government manifesto commitment would companies most and least like to see carried forward and which one thing would they ask the new government to do.

We expected a wide variety of responses, based in many cases about particular company issues – for example tobacco advertising, planning and infrastructure – but the themes from all three questions were all of a piece. Top of the list are reducing red tape and concerns about the future of the UK relationship with the EU. It is interesting that a number of companies see pushing for Brexit as a manifesto commitment. Those mentioning the EU referendum are split between those who do not want one on the basis that it might mean Brexit and those who want it done quickly to reduce uncertainty. Taxes, both business and personal, are also mentioned, as are business rates.

Which manifesto commitment of the new government would your company most like to see carried forward?




Which manifesto commitment of the new government would your company least like to see carried forward?
35%
22%
8%
Brexit
EU referendum
Changes to pension tax reliefs


What one thing would your company ask the new government to do?
39%
8%
6%
6%
Reduce red tape
Reduce vacant rates/ sort out business rates
Ensure electorate understand implications of Brexit
Support EU membership

Brexit

The majority of companies believe that Brexit would be damaging to them, but few are prepared to say so publicly.

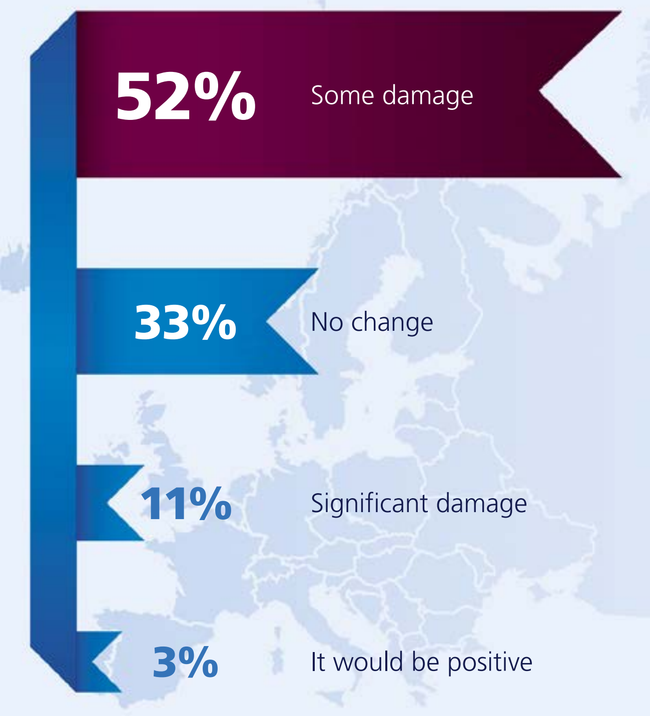
In previous surveys, we asked for views on a UK referendum on the EU and whether they believe that membership has a positive or negative effect on their business. Results have always been mainly positive towards the EU. This struck us as interesting given that the same respondents argued that the coalition government, with a policy of moving towards an In/Out referendum, was seen as significantly more business-friendly than the avowedly pro-EU opposition. This time we asked a more direct question about the degree of damage to their business that Brexit might cause. Although 3% believe that Brexit would be positive and a third think it would have no impact, 63% responded that it would cause some or significant damage.

In a similar way to the Scottish independence referendum, relatively few companies seem to be willing, at the moment at least, to make their views known – although the CBI has been firmly against Brexit. We asked whether companies would be willing to speak out publicly on this issue and, as expected, the most common response is 'don't know'.

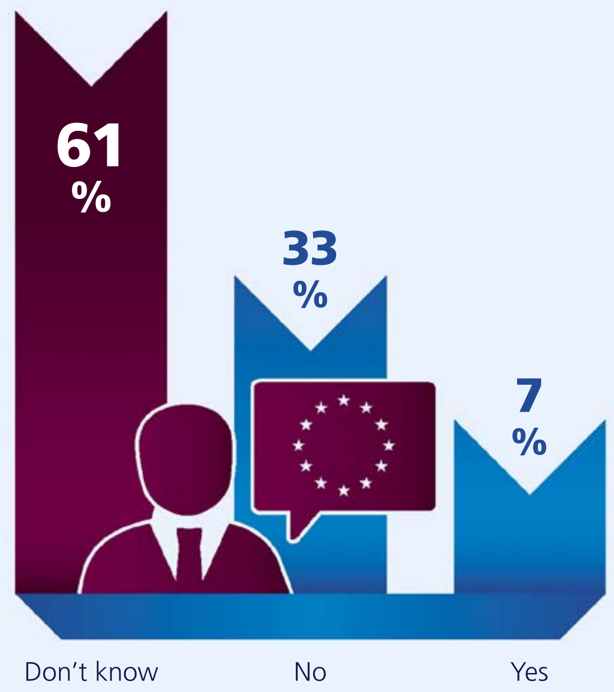
> *'It is the clear view of most CBI members that our economic future is best served by our continued membership of a reformed EU.'*
>
> **Matthew Fell,** Director for Competitive Markets, CBI

However, of those who do offer an opinion, just 7% indicate that their company is willing to put its head above the parapet, with 33% saying 'no' and the rest 'don't know'.

How damaging would a UK exit (Brexit) from the EU be for your company?



Would your company be prepared to speak out publicly for the UK to remain in the EU?



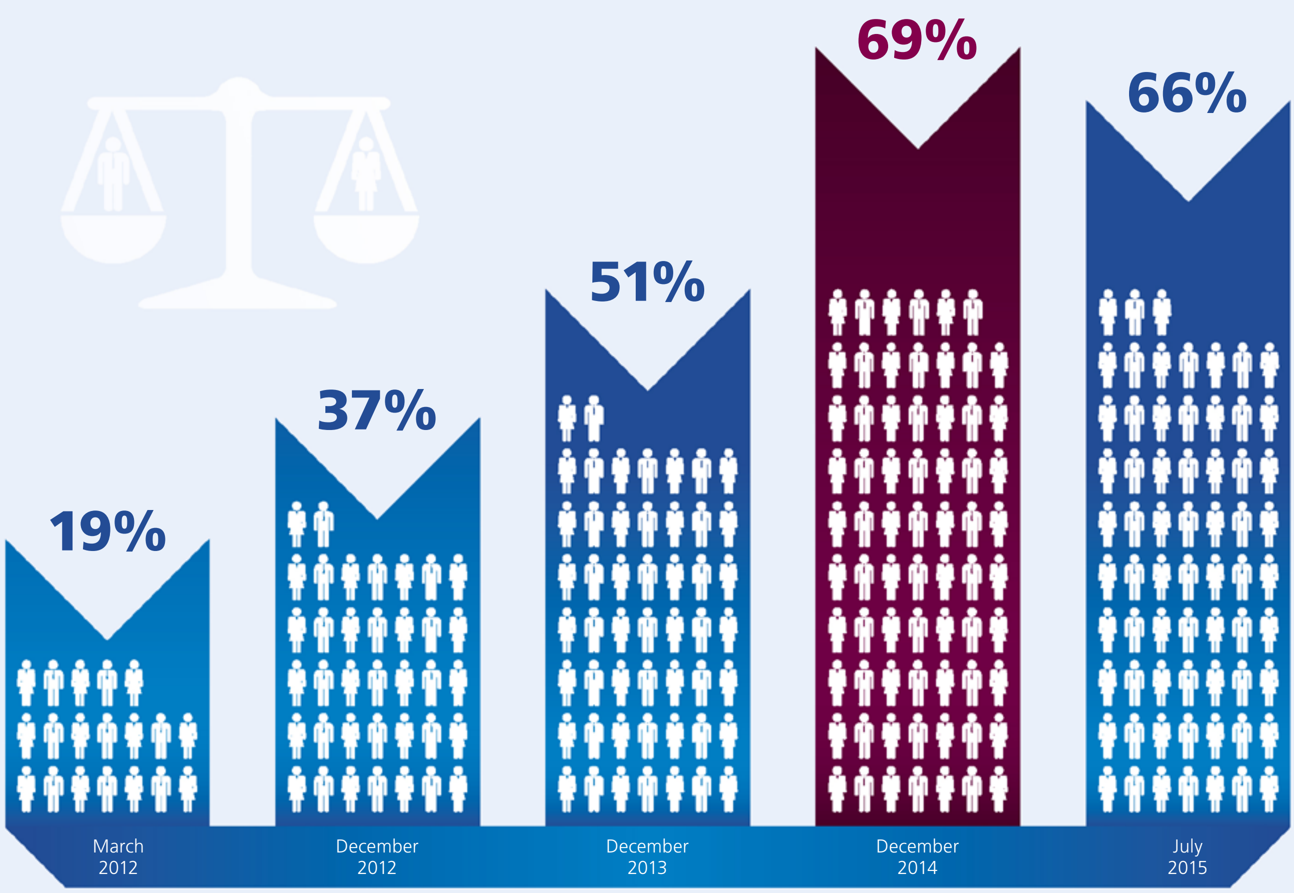
Diversity

We have asked about boardroom diversity since the surveys began. Although scores for gender diversity moved up significantly during 2012–14, progress has stalled – with a drop in the number of boards who expect to meet or get near to the Davies target of 25% women by the end of 2015. Scores for other indicators such as geographical spread or business experience have continued to increase.

In this survey we added ethnicity to the mix of questions for the first time and although in general companies do consider their boards to be diverse, this is the lowest scorer. Board composition and succession planning are major considerations for the board and these results suggest that the work of the nomination committee should be a greater focus for a number of companies. Quite simply, we are seeing good progress, but not enough thought seems to be going into the selection process.

Disappointingly, the percentage of respondents who believe that their boards are ‘diverse’ or ‘very diverse’ in terms of gender remains broadly static, slipping slightly to 66% from 69% in December 2014 and almost flat against the 67% in July 2014. There is a corresponding pattern at the other end of the scale, with 15% now reporting that their boards are ‘not diverse’ or ‘definitely not diverse’ in terms of gender, up from the 12% in December’s results – almost to the 16% from July 2014.

Percentage of respondents who consider their board to be diverse in terms of gender



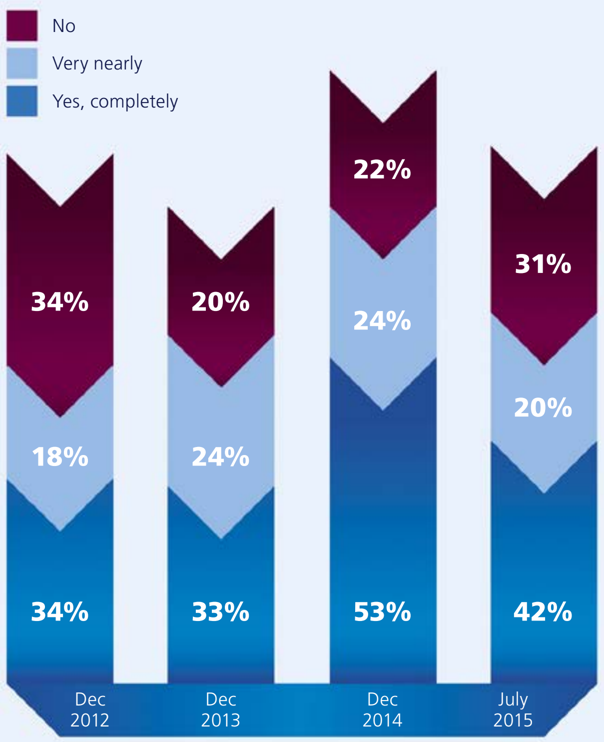
Gender diversity targets

In the context of the results on page 9, it is not surprising that the percentage of respondents now expecting that their company will meet or exceed Lord Davies' target has slipped to 42%, having plateaued at 53% for the past year. A further 20% – down from 24% in December 2014 – responded that the target will 'very nearly be met' (defined as 20–24% women) but 31% – up from 22% in December – now say that their companies will not meet even that target.

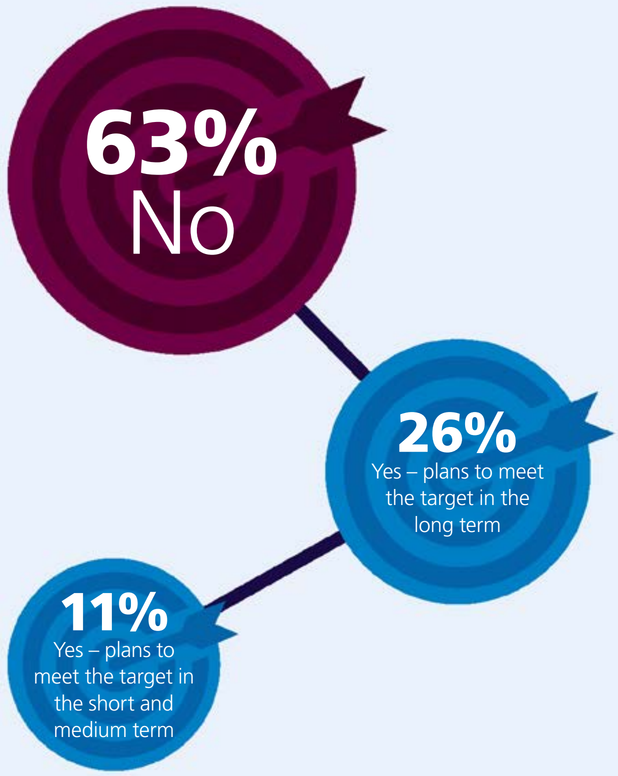
We asked those companies not expecting to hit the target for their reasons and whether they had plans in place to do so in the short, medium or longer term. Responses as to why range from the quality of candidates – in particular ones that are better suited to the role than male candidates – to adequacy of the pool, specific sectoral or company challenges and the circular issue of female candidates lacking the relevant experience on a board. The most common response is that although they would ensure that female candidates are considered, any appointment would be made on merit, regardless of gender. Although 37% are planning to meet the target within a year, 63% say that they have no such plans, and it remains to be seen whether this will be sufficient to avoid any regulatory compulsion.

> *'The important thing in the long run is to keep a spotlight on the increasing body of research which shows that diversity of leadership strengthens organisations, economies and society.'*
>
> **Rowena Ironside,** Chair, Women on Boards UK

Does your company expect to meet Lord Davies' 25% target for women on boards by the end of 2015?



If not, do you have plans to do so in the short, medium or long term?



Other diversity indicators

Much of the drive for increased diversity has been about gender – it is a fairly easy metric to identify. However, there are other indicators of wider representation, so we have been asking respondents to consider the educational background, ethnicity, geographical spread and business experience of their board members. We expect that these will be the subject of greater focus in the coming months.

In terms of wider business experience, 79% of respondents report that their board is diverse. Although this is a solid figure, it represents a significant drop from the figures in the high 80s reported since July 2013.

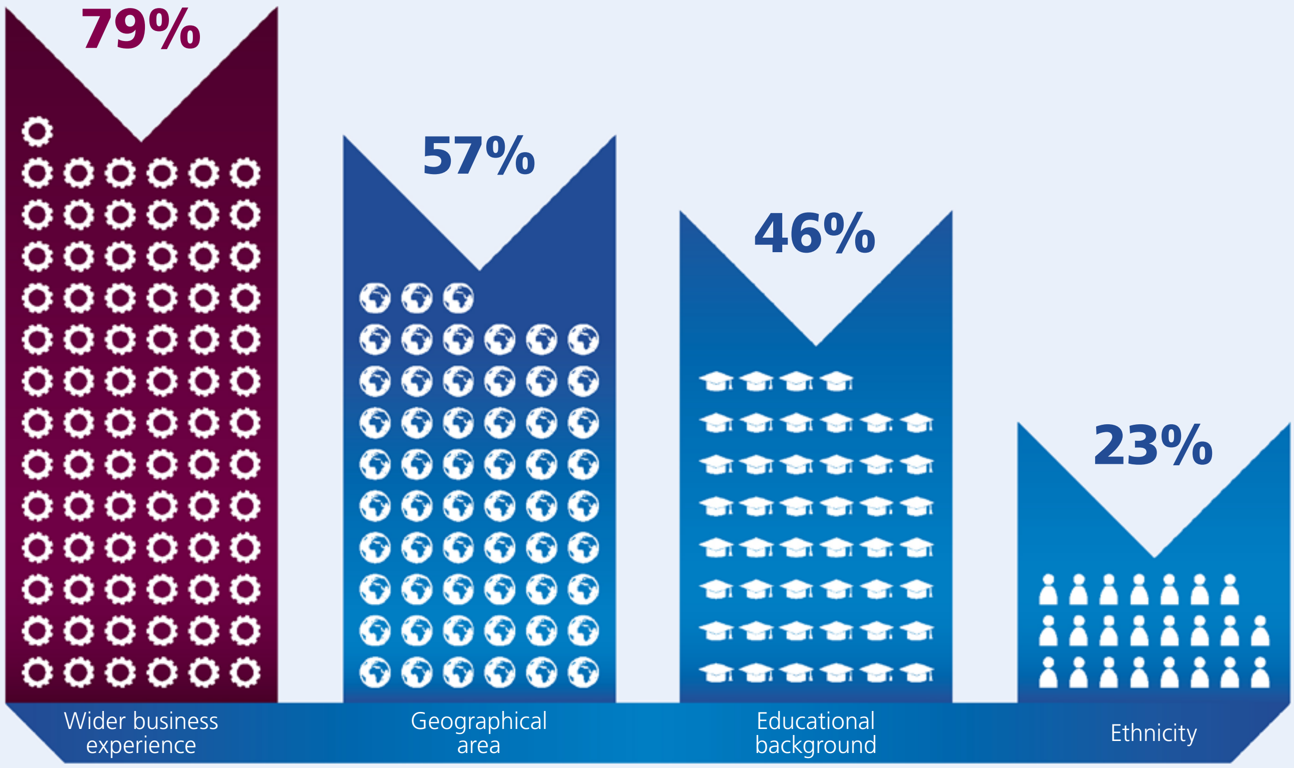
On the geographical area point, the percentage of respondents who consider their board to be geographically diverse increased to 57% from the 51% reported in December 2014.

For the second time, we asked about the educational background of board members – 46% of those surveyed feel that their board is diverse in this regard, a significant increase from 33% in December.

For the first time, we asked about the ethnic diversity of board members. Only 23% of those surveyed considered their board to be ethnically diverse. This is, perhaps, unsurprising but should be an area of future focus for nomination committees.

Although respondents seem to be confident that their boards are fairly diverse, when asked whether the executive pipeline will provide a sustainable pool of talented and diverse board members there is less certainty. 41% report that the pipeline is sufficient, 31% feel it is not and a surprising 23% are neutral.

To what extent does your company consider its board membership to be diverse in terms of wider business experience and geographical area?



Succession planning

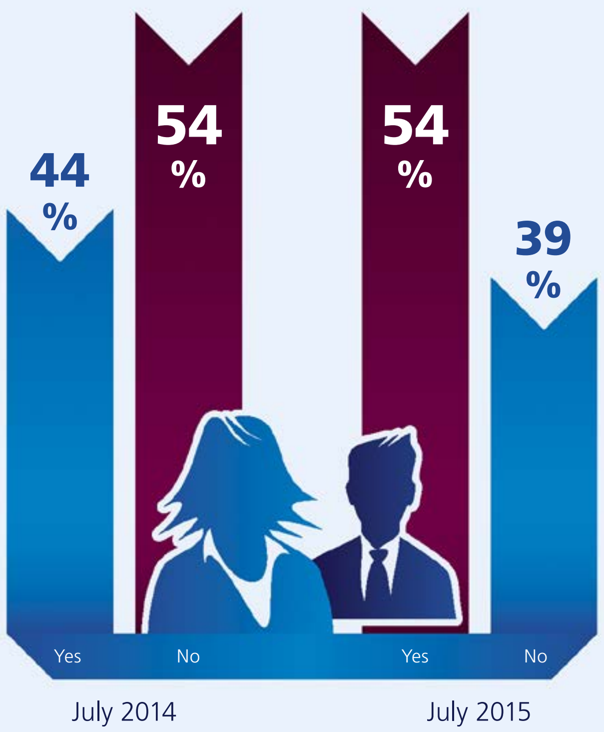
There is a very slight rise in the number of companies reporting a written succession plan for the board, with more than half now doing so.

Given the pressure to improve boardroom diversity, the nomination committee might be expected to be taking a much more active role in planning the future composition of the board. However, when we explored this, only slightly more than half (54%) of respondents report they have a written succession plan for their board – the majority of which are reviewed annually. Although this represents an increase compared with previous surveys, it is not as significant as we would have expected, particularly given the focus that the Financial Reporting Council is now putting on succession planning.

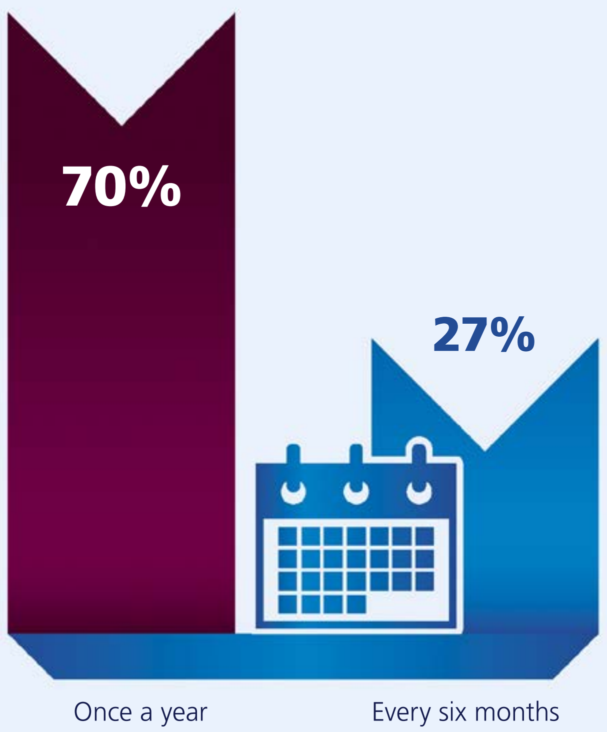
We believe that succession planning should be a key priority for companies, and through the nomination committee directors should satisfy themselves that plans are in place to maintain and even improve the balance of skills, experience and personal attributes in the boardroom. These findings give strong support to the view that more companies should place greater importance on the role and contribution of the nomination committee.

> *'Succession planning is essential to delivering an effective business strategy. It is pleasing to see that it is identified as an important issue which nomination committees should pay closer attention to.'*
>
> **David Styles,** Director, Corporate Governance Codes and Standards Division, FRC

Do you have written succession plan(s) for the board?



How often does the nomination committee review your succession plan(s)?



Board evaluation

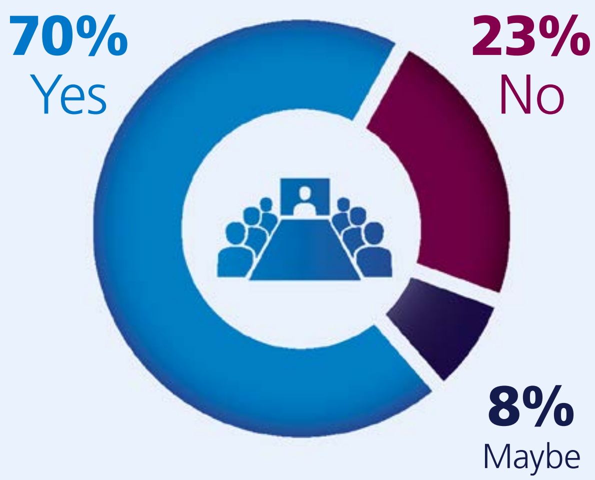
For the first time we asked companies about the value of board evaluation and its contribution to board performance.

Encouragingly, the survey finds that external evaluation of the board was constructive. Of the companies who had used external board evaluation in the past year, more than three quarters rate it useful and 70% report that their board had used the evaluation as a catalyst for change. A well conducted external board evaluation will provide insight and reassurance to the chairman, and highlight any gaps and concerns. Crucially, external evaluation brings objectivity and new thinking, particularly when uncomfortable issues have been identified.

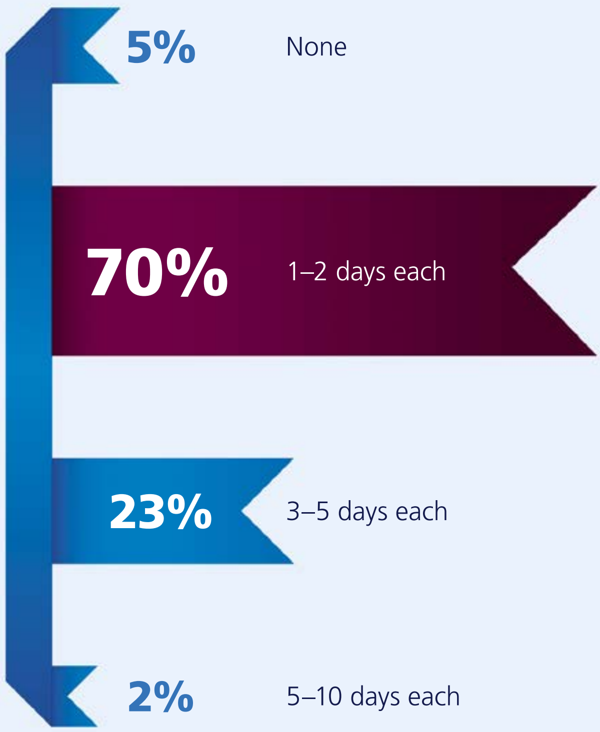
In 85% of cases, the company secretary had been highly involved in the board evaluation process, with 43% of respondents rating them as 'integral' to the exercise.

We asked companies about the training provided to non-executive directors. Most companies provide one or two days' annual training for their non-executive directors; some provide none and very few provide more than five days. This is interesting and we will explore this issue in more detail in the next Bellwether survey.

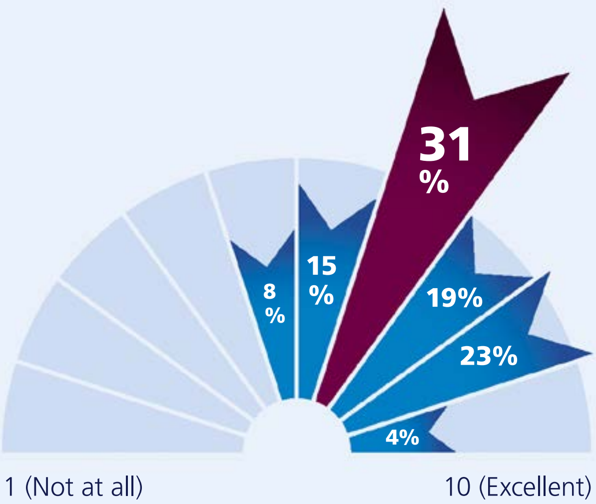
If you have used external board evaluation in the past year, has your board used this as a catalyst for change?



How much training did you provide for your non-executive directors last year?



How useful was your external board evaluation?



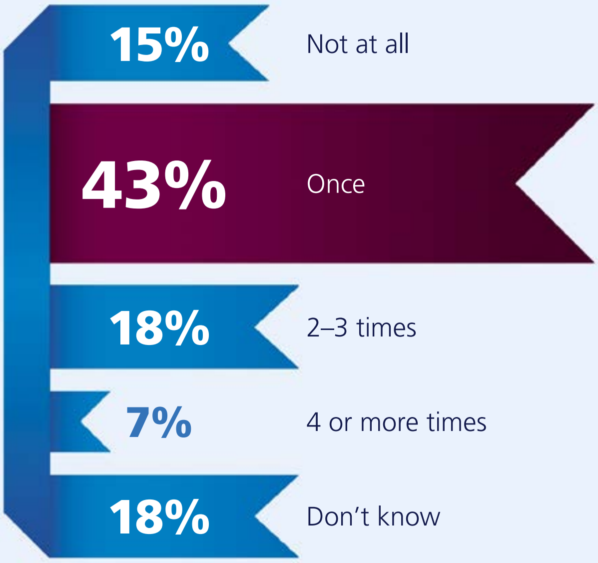
Culture and employee development

We asked some questions about corporate culture and the degree to which this has been discussed in the boardroom. It is clear that the majority of boards do take cultural issues seriously and that many of them actively consult with employees.

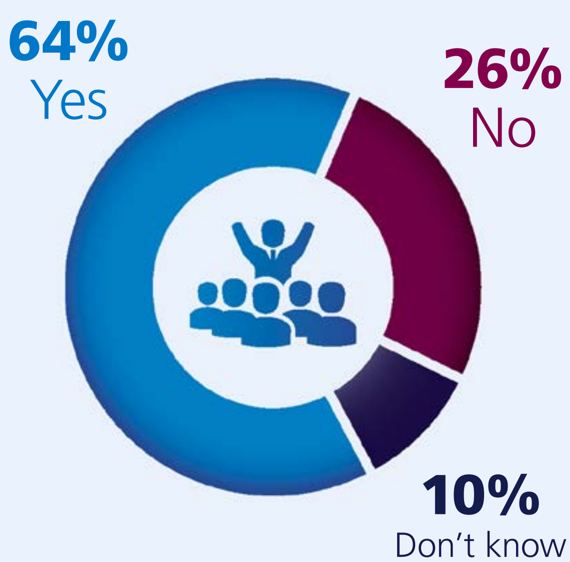
Board culture and behaviour is coming under more and more scrutiny, so it is pleasing that our respondents are tackling it. The results of the first question are consistent with the number of companies reporting that their board had used the evaluation as a catalyst for change. It is also positive to see that most of those surveyed report attempts to review culture and behaviour throughout the organisation. Setting the 'tone from the top' and influencing management and employees is obviously regarded as important.

Consultation with employees seems to be fairly well embedded. Only 15% of respondents state that they did not consult at all and the vast majority of results are considered at board level at least once. However, slightly worryingly, 25% did not feed back to employees at all.

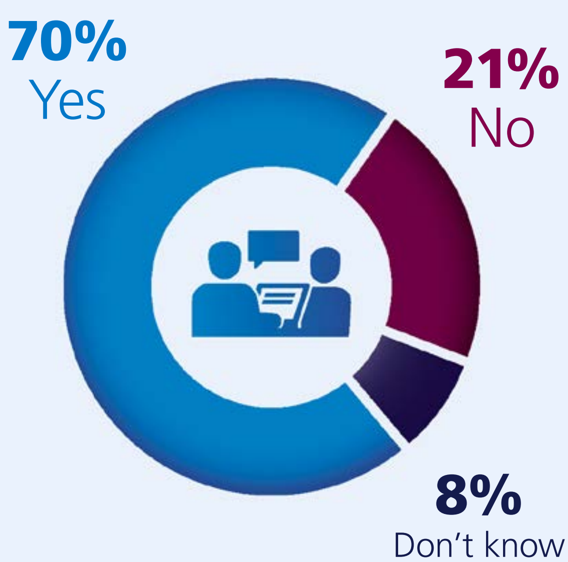
In the past 12 months, how many times have you asked your employees for their views on issues that affect them or your company?



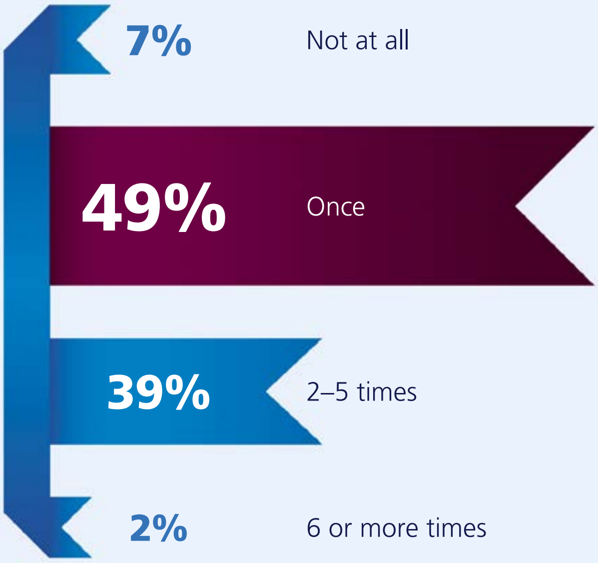
In the past year, has your board actively addressed culture and behaviour on the board itself?



In the past year, has your board actively addressed culture and behaviour in the wider organisation?



If you have done so, how many times has your board discussed employee views (excluding those of senior managers)?

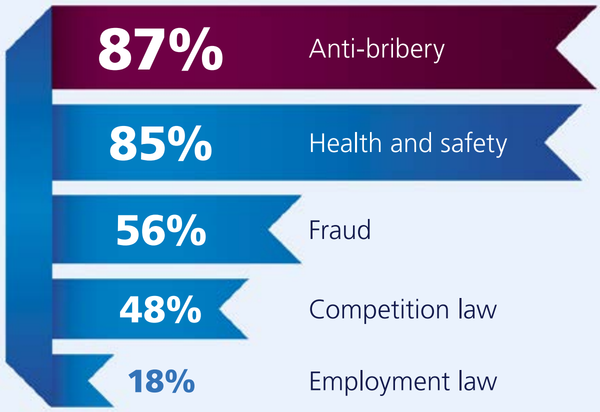


How does your company usually feed back the outcome of board-level discussion on employee consultation to your employees?

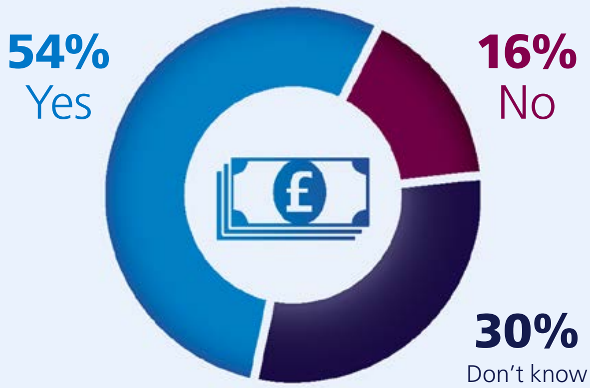
Thinking about employee development – particularly in the context of encouraging high standards of behaviour, culture and ethics – we asked about the training in certain areas. It is pleasing to see that the highest scores are for anti-bribery and health and safety.

Finally in this section we asked about another indicator of standards and culture with a question on the living wage. Perhaps a little surprisingly, only just over half of respondents report that they pay all their UK employees the living wage, although the high number of 'don't knows' might mean that this result is understated.

On which of the following does your company run regular training sessions for staff?

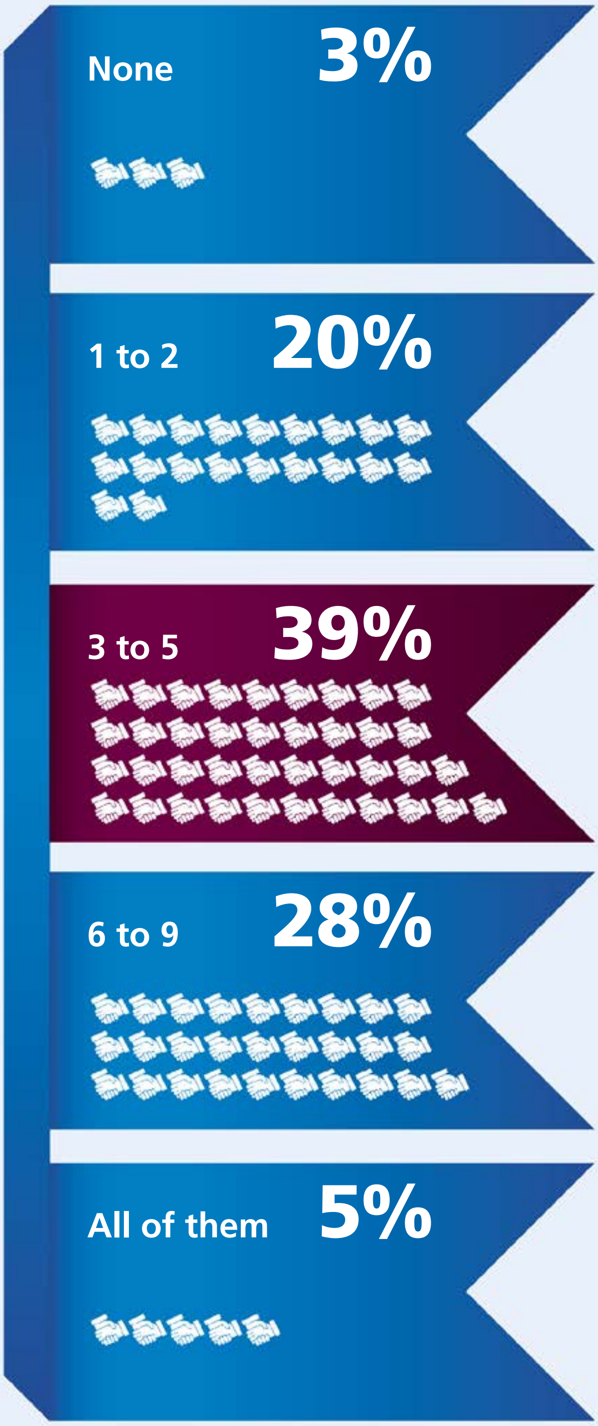


Does your company pay all its UK employees at least the living wage – £7.85 an hour generally and £9.15 an hour in London?



Shareholder engagement

How many of your top ten shareholders have any of your company's non-executive board members met in the past 12 months?



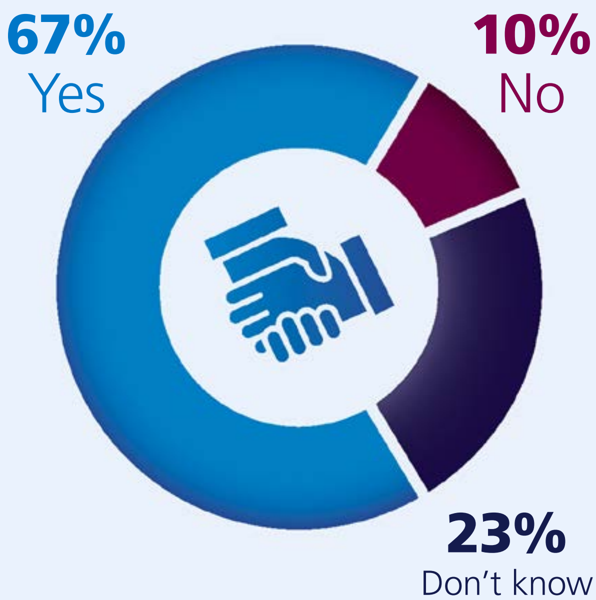
In previous surveys almost all of our group had a plan for engaging with their top ten shareholders.

We asked companies how many of their top ten shareholders had been met by any of their non-executive directors within the past 12 months. The results for non-executive director engagement are quite evenly split and show encouraging increases.

We asked if this level of engagement was sufficient. Two thirds of respondents believe that it is. However, it should not be assumed that a lack of engagement between non-executive directors and major shareholders is necessarily the fault of the company. Not all investors are able or willing to meet with non-executive directors.

In 2013, ICSA published guidance, 'Enhancing stewardship dialogue', prepared at the request of the 2020 Investor Stewardship Working Party, and engagement and stewardship remain at the heart of ICSA's focus on good governance. We will be publishing some more research on this topic later in the year.

Is this enough?



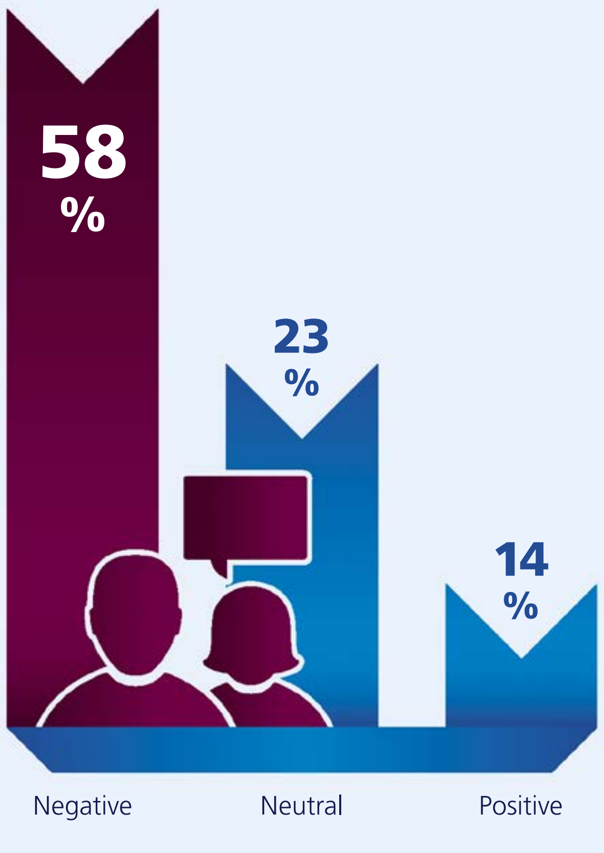
Proxy advisers and shareholder communication

The attitude to the influence of proxy advisers is still more negative than positive. Only 14% see them as a positive influence and more than half of the respondents feel that their influence on shareholder engagement is negative. The question must be asked as to whether this is the fault of proxy advisers or of their investor clients.

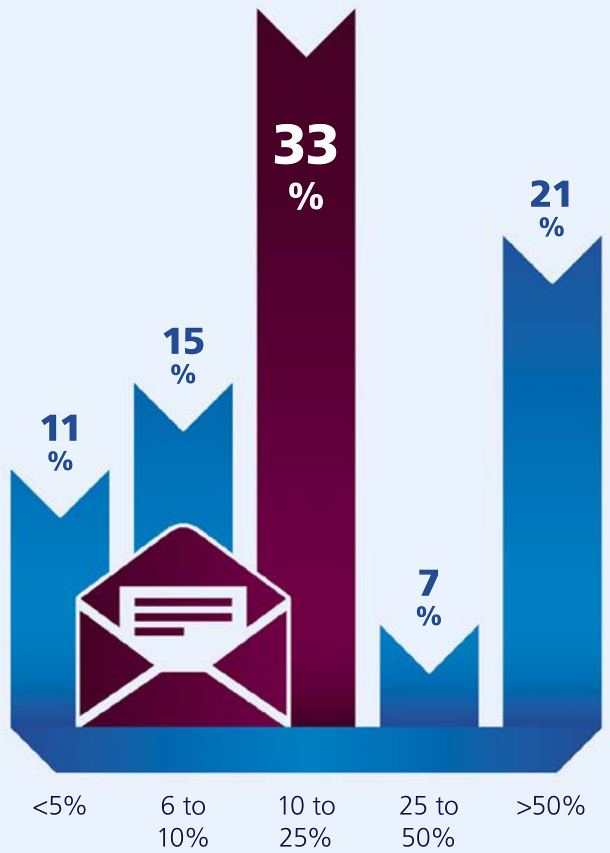
Our question about the percentage of shareholders still opting to receive hard copy communication is revealing. Eight years on from the implementation of the company communication provisions of the Companies Act 2006, a significant number of shareholders still receive hard copy communications. 21% of respondents report that more than half of their shareholders still require paper rather than electronic communication.

A number of companies – possibly those with larger share registers and consequently with a financial driver to change – have made significant progress on this issue. 11% of companies now post documentation to fewer than 5% of their shareholders and around a quarter of companies post to fewer than 10%. The bulk lie in the 10–25% range.

How does your company perceive the influence of proxy advisers on shareholder engagement with the company?



What percentage of your shareholders still opt to receive hard-copy communications?



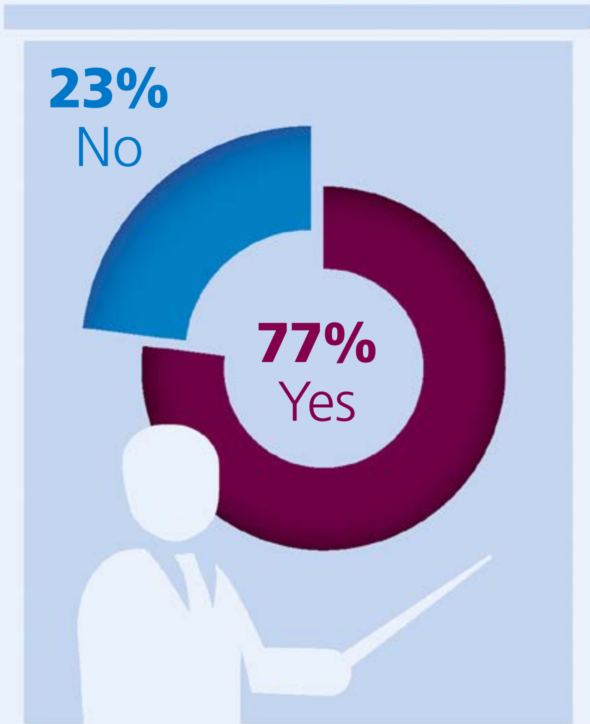
Risk

On a simple analysis of risk management and reporting, economic risk emerges as the top concern, with operational and reputational risk second and third.

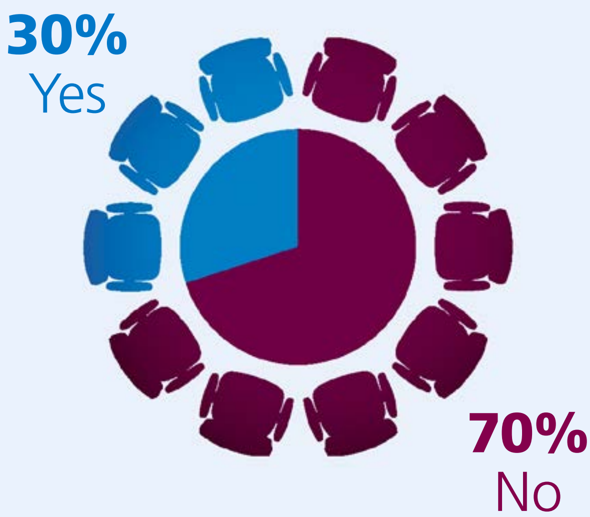
We began with some general questions before delving into more detail. 77% of boards receive regular updates from a chief risk officer or equivalent, but only 30% of companies have a risk committee as a formal committee of the board. This is not necessarily to say that they do not regard risk with sufficient importance, as some boards take the view that risk is a matter for the whole board, rather than one that can be delegated to a committee. The results on reputational risk are perhaps deceptive, as despite coming in at third place on the list, a further 46% put it in second or third position of risks facing their company.

What do you consider to be the main risk issues facing your company?

Does your chief risk officer (or equivalent) regularly present to the board?



Do you have a risk committee as a formal committee of the board?



Social media

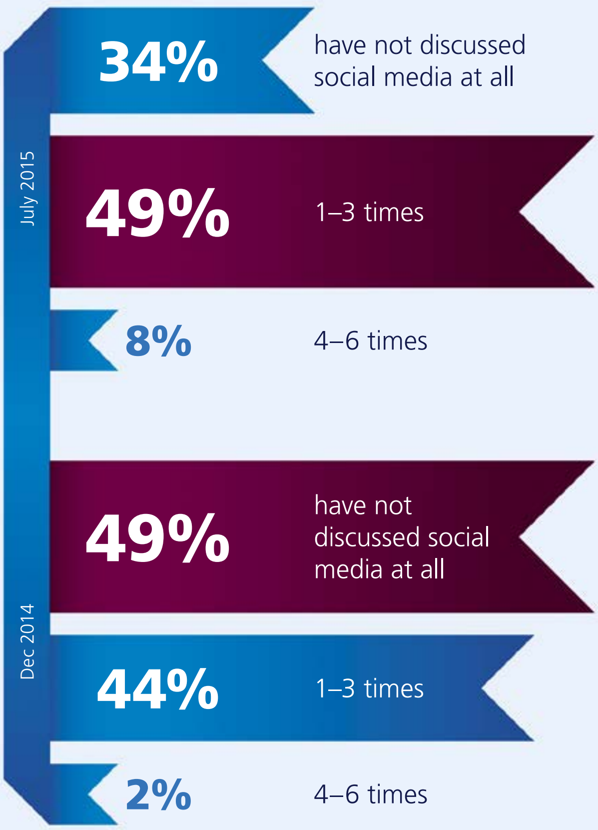
Social media has been a hot topic in the press. Given its potential impact and risk to reputation, for the past three surveys we have been tracking attitudes to social media strategy at board level and how important it is to the company. This summer's results show more engagement from boards than previously.

34% of respondents report that their board has never discussed a social media policy, although 49% have discussed it between one and three times. Only 8% respond that their board has discussed social media more often. This demonstrates a good increase in engagement, with more than half (57%) of boards discussing social media, compared with 46% in both July and December 2014.

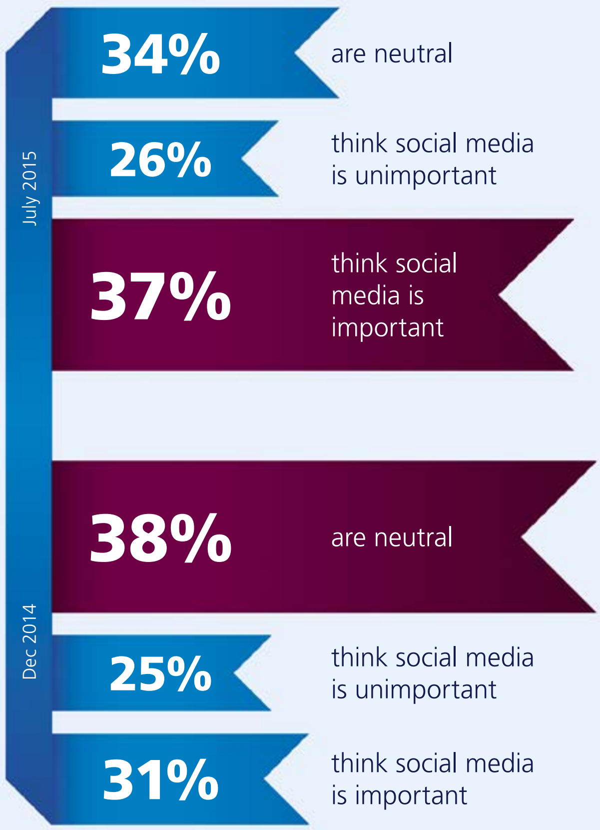
There is more evidence of engagement in the follow-up question, where 37% of respondents describe a social media strategy as important (or very important) to the board, a small increase on last December's report. 26% describe it as unimportant (or don't have one) and a further 34% as neutral. Given the reputational risks that can be associated with social media it is still a surprise this is not higher on the boardroom agenda.

Most companies now have their own Twitter account and Facebook page to help build customer relationships and engagement. This brings many advantages, but needs to be properly monitored and managed.

How often has your company's social media strategy been discussed at board level in the past 12 months?



How important is your company's social media strategy to the board?



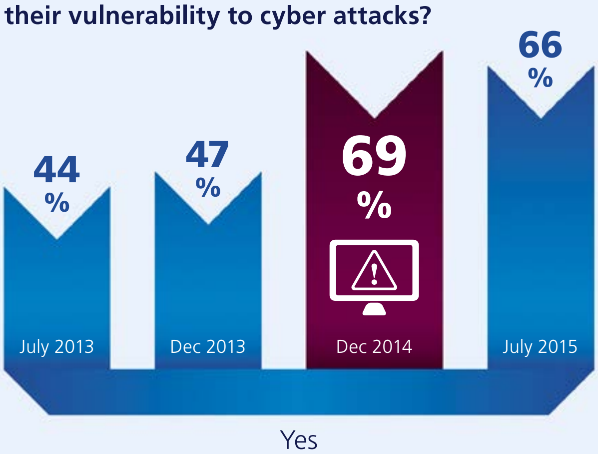
Cyber risk

Consistent with the findings from December 2014, around three quarters of companies still consider the threat of cyber risk to be increasing. Two thirds of companies are actively mitigating the risk, although a quarter are not. No one believes the risk to be decreasing.

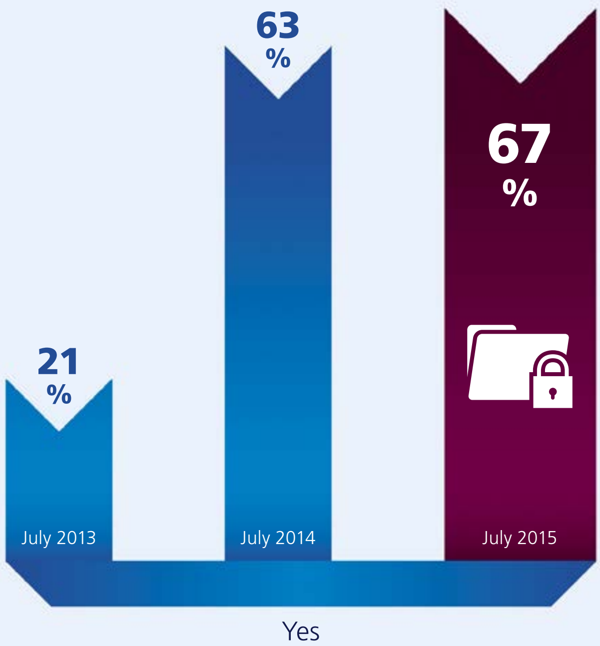
The government's Ten Steps guidance has clearly been of significant help, although there remains some way to go before the new Cyber Essentials scheme is similarly effective. A third of companies have already actively considered the scheme.

Does your board consider that its exposure to cyber risk is increasing or reducing?

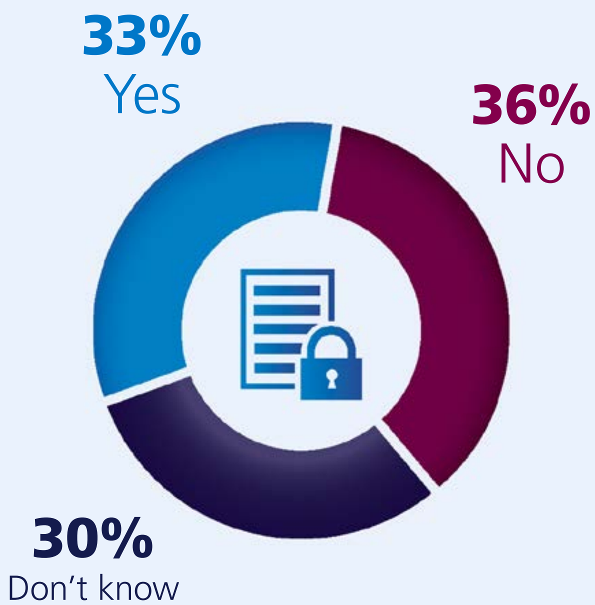
Has your board actively sought to identify its key information assets and thoroughly assessed their vulnerability to cyber attacks?



Has your board actively discussed the government's Ten Steps cyber security guidance?



Has your board/company actively considered the government's Cyber Essentials scheme?



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Institute of Chartered Secretaries and Administrators

Institute of Chartered Secretaries and Administrators
Saffron House
6–10 Kirby Street
London EC1N 8TS

Phone: 020 7580 4741
Email: info@icsa.org.uk
Web: www.icsa.org.uk

Twitter: @ICSA_News