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**2020**

**Non-Executive Directors Survey**

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## Introduction

**This is the fourth time that we've surveyed small and mid-sized quoted companies to gather insights into various aspects of their Non-Executive Directors (NEDs) and how they run their boards.**

One thing that stands out is an apparent disparity in perceived independence of NEDs between corporates and advisors. Whereas companies strongly believe in the independence of their NEDs, their advisory firms tend to be a lot more pessimistic about this. Is this just a perception issue that companies and NEDs need to be aware of, or is the outside-looking-in perspective of the advisor seeing something that the companies cannot as they are too close?

We have also found that the average age of a small/mid-sized company NED is 60 years old, with an 81% chance they will be male. Lack of diversity on the board is something that companies should be looking to address as they develop and grow. Our findings also show that Cyber/IT are the most lacked skills on small and mid-cap boards – does this reflect the age demographics? We find that recruitment methods for hiring NED roles is gradually moving away from using individual relationships and more towards using headhunters and search firms. This should increase the pool of people that companies can consider for roles but does it go far enough and are the recruiters looking for diversity in candidates or are they always going to the same people?

A third point that stands out is the increased recognition of the need for (and benefits of) external board evaluations. Companies are conducting board evaluations more frequently than in previous waves of this survey and an increasing proportion are using independent external consultants for this. We see this as positive, regularly assessing the performance and suitability of a company's board makes good sense and can help ensure the skills and experience of board members are right for the direction the company is going in.

continued over...

There is a lot of information in here that we hope companies find useful. As an action point, Chairs and NEDs should consider the key messages from this report and ask the below questions of themselves:

### Three questions for Chairs

1. Are you able to assess your board's performance effectively?
2. Are you aware of what skills and experience each of your NEDs brings and what gaps you may need to fill with future appointments given the direction and needs of the company?
3. What is the best way for your company to recruit NEDs and do you need to do something differently in the future?

### Three questions for NEDs

1. Do you know what you bring to your company's board and what skills you can develop to improve your performance?
2. Are you sufficiently independent of company management?
3. Do you dedicate sufficient time and focus to your NED role(s)?



**Tim Ward**  
Chief Executive, QCA



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Director – Engagement, Federated Hermes  
and Chair, QCA Corporate Governance Expert Group

## About the survey

**We have surveyed small and mid-sized quoted companies and their advisor firms to find out a raft of information on Non-Executive Directors (NEDs) including how much they are paid, how many hours they work and how independent they are.**

We have repeated this survey four times (in 2013, 2015, 2017, 2019) and that allows us to use historical data and identify trends where appropriate or interesting.

This latest set of results was gathered in Q4 2019 with respondents from 110 small and mid-size quoted companies and 39 advisory firms (this includes investors, lawyers, accountants, brokers etc).

The majority of respondent quoted companies have a market capitalisation of less than £500m. You can see the full breakdown in the methodology.

### Covered in relation to NEDs in this report are eight sections:

1. Salaries
2. Working hours
3. Knowledge, skills & experience
4. Independence
5. Positions
6. Value for money
7. Board evaluations
8. Recruitment

### The NED profile

In addition to our survey, we reviewed data available on 4,356 NEDs in 1,211 small and mid-sized quoted companies and found: <sup>1</sup>

- The average NED age is 60.4 years.
- 828 NEDs are female (19%), 3,528 are male (81%).
- 544 companies have all male boards (45%).
- The average company board has 10% women (median is 14%).

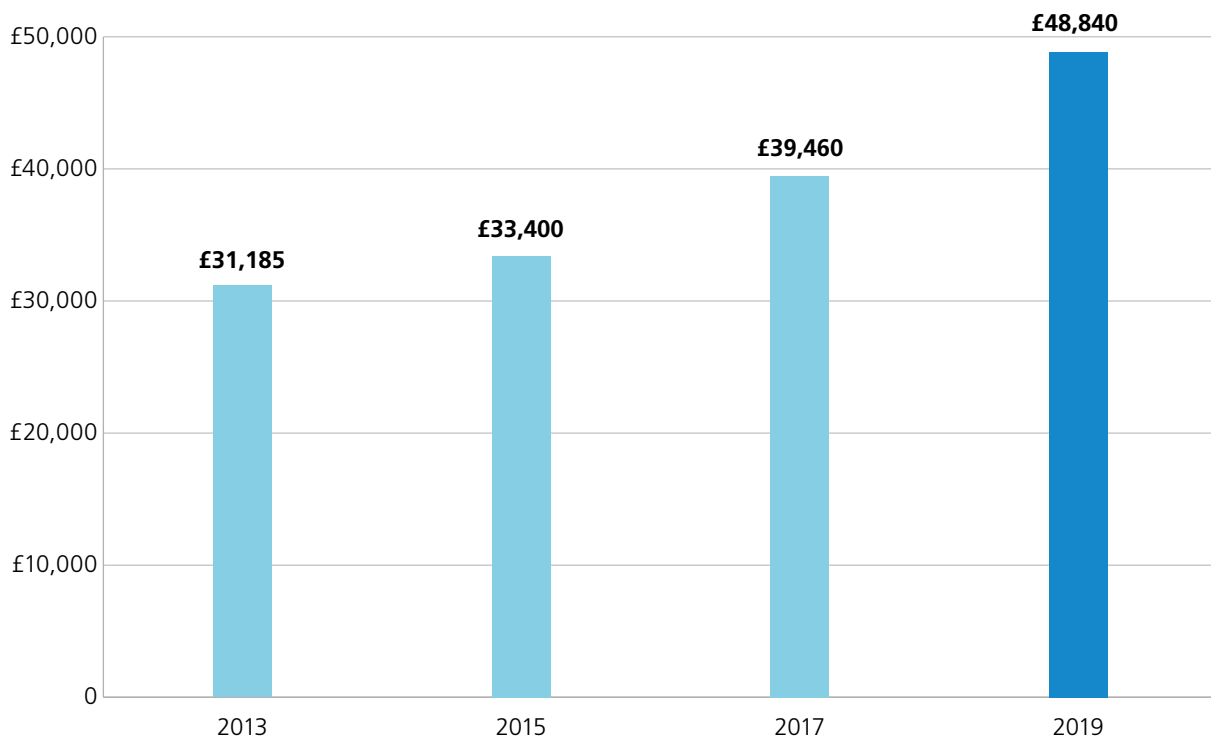
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<sup>1</sup> Data extracted from BoardEx, 28 February 2020, on 1211 companies on the FTSE AIM, SmallCap & Fledgling indices



## 1: Salaries

### Mean NED salary as reported by companies

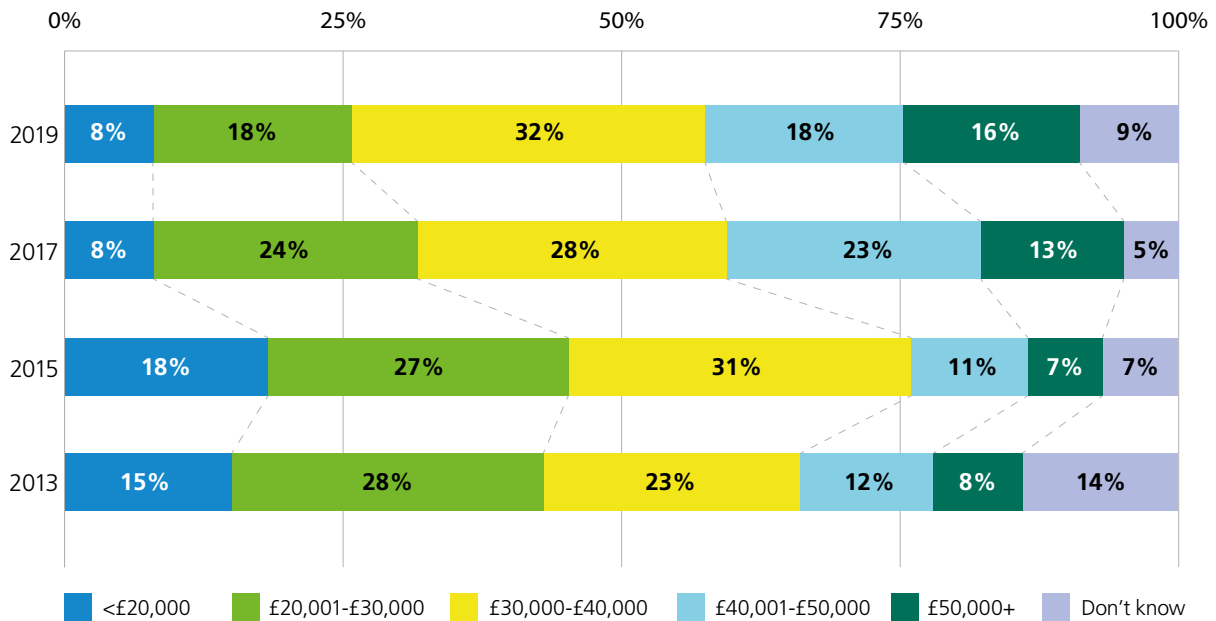


We asked companies how much they pay their NEDs. The results vary from below £20,000 a year (8%) to over £50,000 a year (16%) but the mean salary is £48,840.

This is a fairly substantial increase from two years prior (£39,460 in 2017) and has consistently gone up in the period we have been conducting this survey.

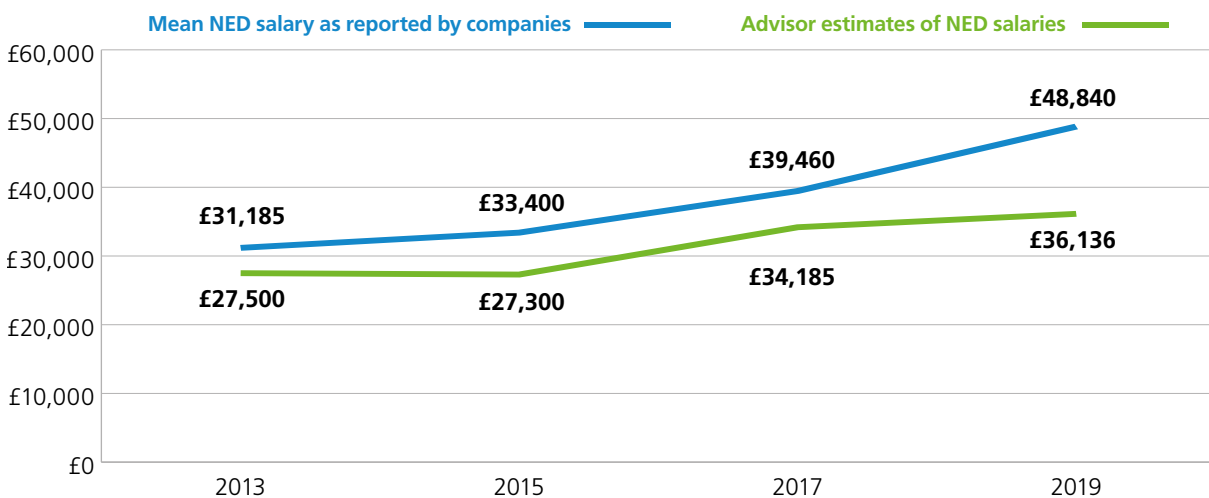
You can see the breakdown of how companies pay their NEDs in the next chart. There is a notable increase in the proportion of companies paying over £50k salaries.

## How much, on average, are NEDs in your company paid per year?



## Advisor estimates of NED salaries

We also asked advisory firms what they think companies pay their NEDs, and they have consistently underestimated this, with the gap between expectation and reality increasing over the years:



NED salaries have increased steadily since 2013. Respondents highlighted that over the same period the risks and requirements of the NED role have also increased and suggested NED salaries were still too low. For example, two respondents from quoted companies commented:

*"They [NEDs] are not paid enough for the risk they take on - there should be some sort of protection for NEDs via reduced liability."*

*"The changes in the UK Corporate Governance Code put a burden on NEDs which they are not able to shoulder. The inability to pay appropriate compensation and the inability to offer performance and equity linked compensation greatly reduces the quality of NEDs due to how this hampers recruiting."*

In comparison, external sources report the median salary for a FTSE 100 NED to be £70,000 per year, and £55,000 per year in the FTSE 250 <sup>1</sup>.

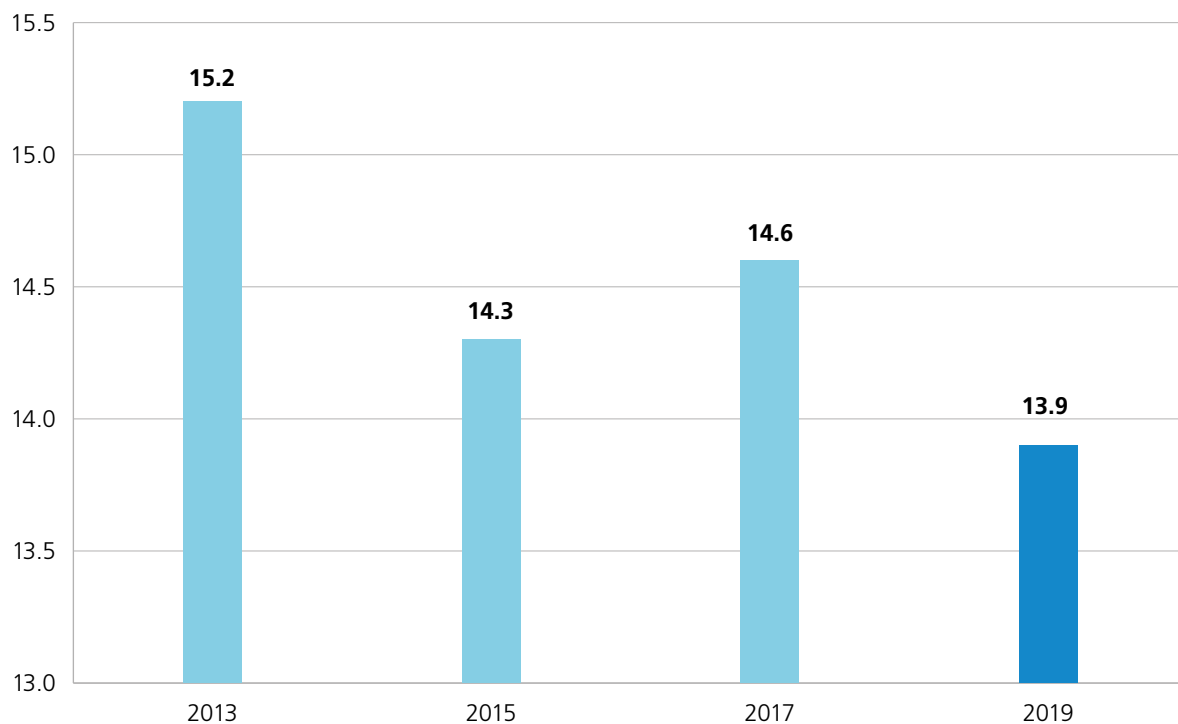
<sup>1</sup> KPMG, Guide to Directors' Remuneration 2019 (December 2019).



# 2

## 2: Working hours

### Mean number of hours NEDs work per month as reported by companies



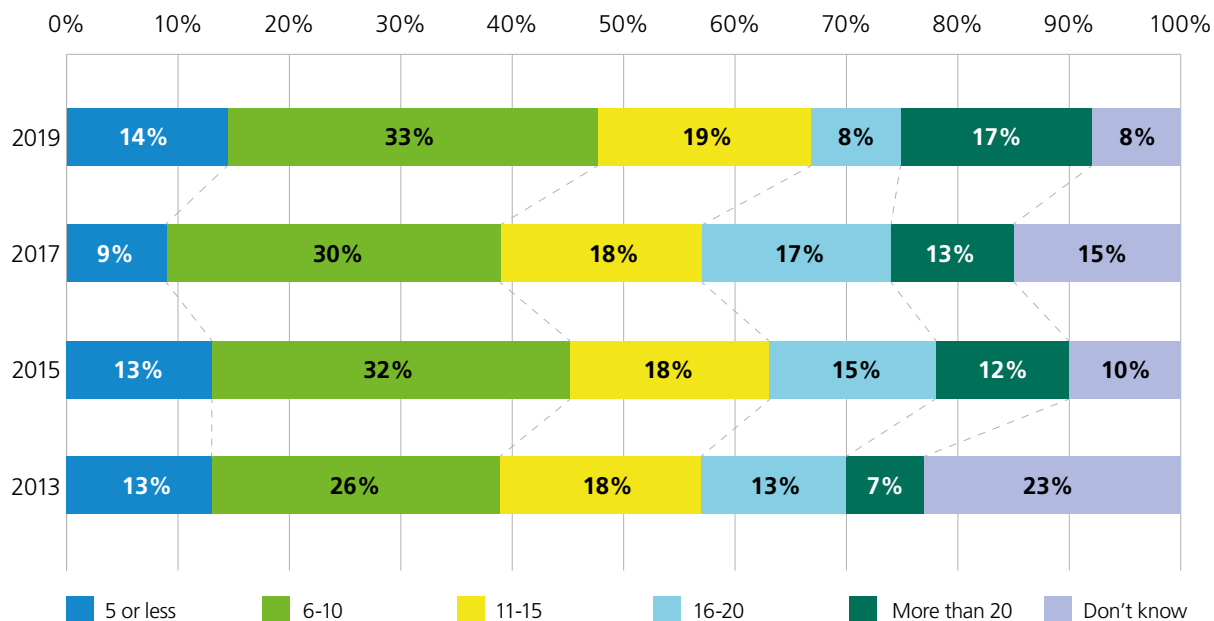
The survey asked companies how many hours their NEDs work for them.

The mean number of hours per month that NEDs work for their companies was 13.9 in 2019. This number is slightly lower than previous years.

Therefore while the overall average hours worked has decreased, there is evidence to suggest some NEDs are working more than previous years. As the next chart demonstrates there is a greater polarisation between those working more and those working less.



## Roughly how many hours per month, on average, do your NEDs currently spend working for your company?

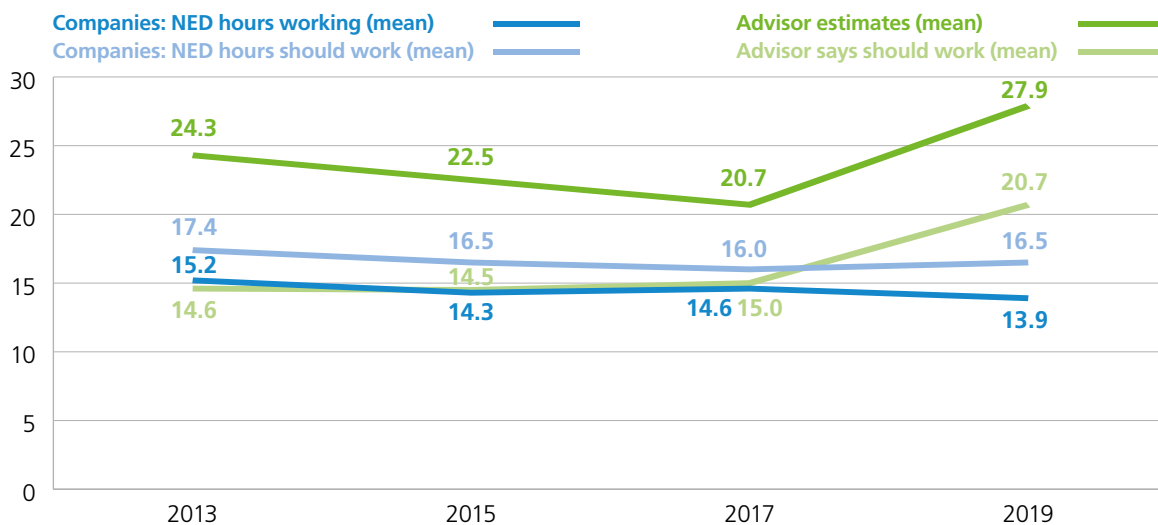


The full breakdown of how respondent companies answered this question shows though that there is actually an increase in the percentage of companies whose NEDs work more than 20 hours from 2017 to 2019 (from 11% to 17%), but also an increase of those that work less than five hours (from 9% to 14%).



## Company & advisor views on NED working hours

In addition, not only did we ask companies how many hours their NEDs work, we also asked how many hours they think they should work, and we asked advisory firms both how many hours they think company NEDs do work, as well as how many monthly hours they should work. The results can be seen in this chart:



This shows that:

- Companies say their NEDs work on average 13.9 hours/month;
- NEDs work less than companies think that they should (on average 16.5 hours/month);
- Advisors estimated NEDs to work on average 20.7 hours/month;
- This is less than the 27.9 hours/month on average advisors think they should work.

## Calculating the hourly and fulltime equivalent pay rate of NEDs

With this information, we can then work out an indicative mean hourly rate for a small and mid-cap NED.

If you take the mean salary reported to be paid to NEDs (£48,840) and the mean number of hours worked (13.9 per month), you can calculate they are paid a rate of £292.81 per hour <sup>2</sup>.

You can then take this and further calculate that this correlates to a fulltime equivalent salary of £609,044 per year <sup>3</sup>. This is obviously a nominal figure and does not reflect the reality of the role or a portfolio of roles.

Do companies believe they provide value for this? We investigate this more below.

<sup>2</sup> Calculated by £48,840 divided by 12 months equals £4,070 a month. £4,070 divided by 13.9 hours equals £292.81 per hour.

<sup>3</sup> Calculated by the hourly rate of £292.81 times 40 (for a 40-hour work week), times 52 (for 52 weeks a year) equals £609,044.80.



# 3

## 3: Knowledge, skills and experience

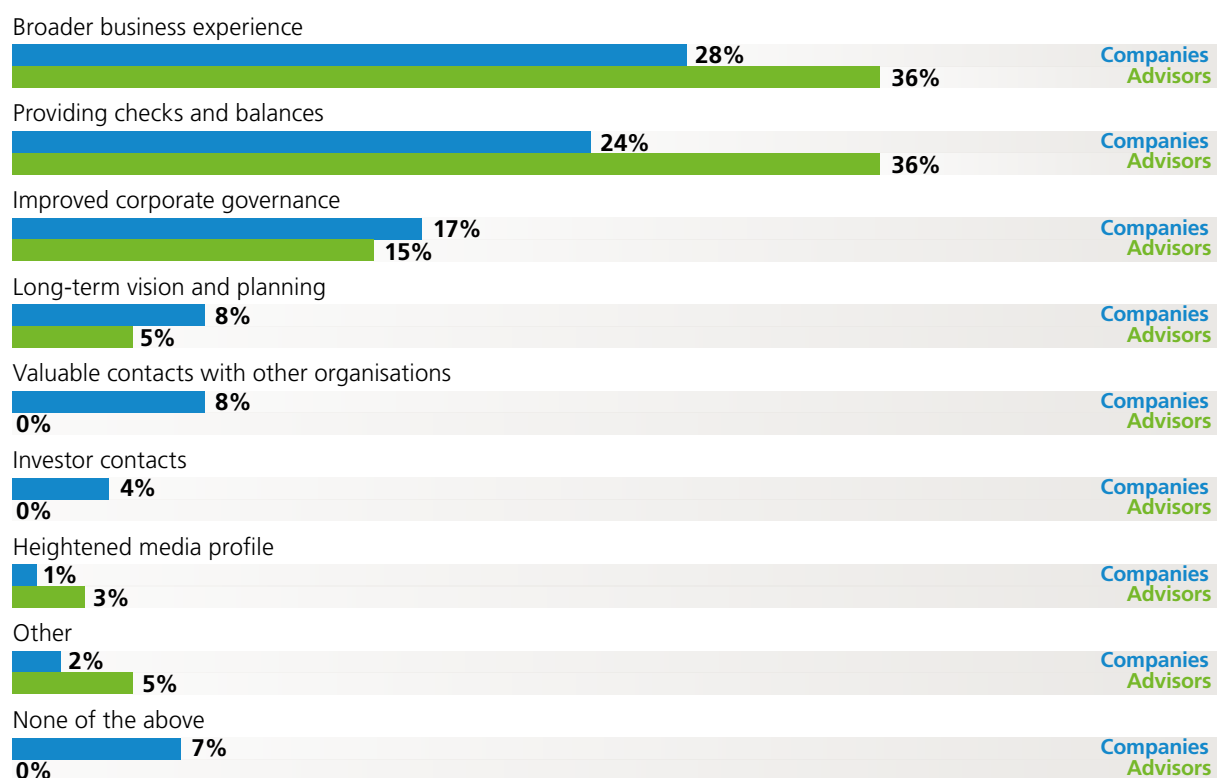
### What NEDs contribute to companies (and where they can contribute more)

We asked where NEDs bring the most value to the companies that they work for. Both companies and advisors rate the most important as:

1. Bringing broader business experience
2. Providing checks and balances
3. Improving corporate governance

These results have stayed largely consistent in previous years and so the historical data is not provided below.

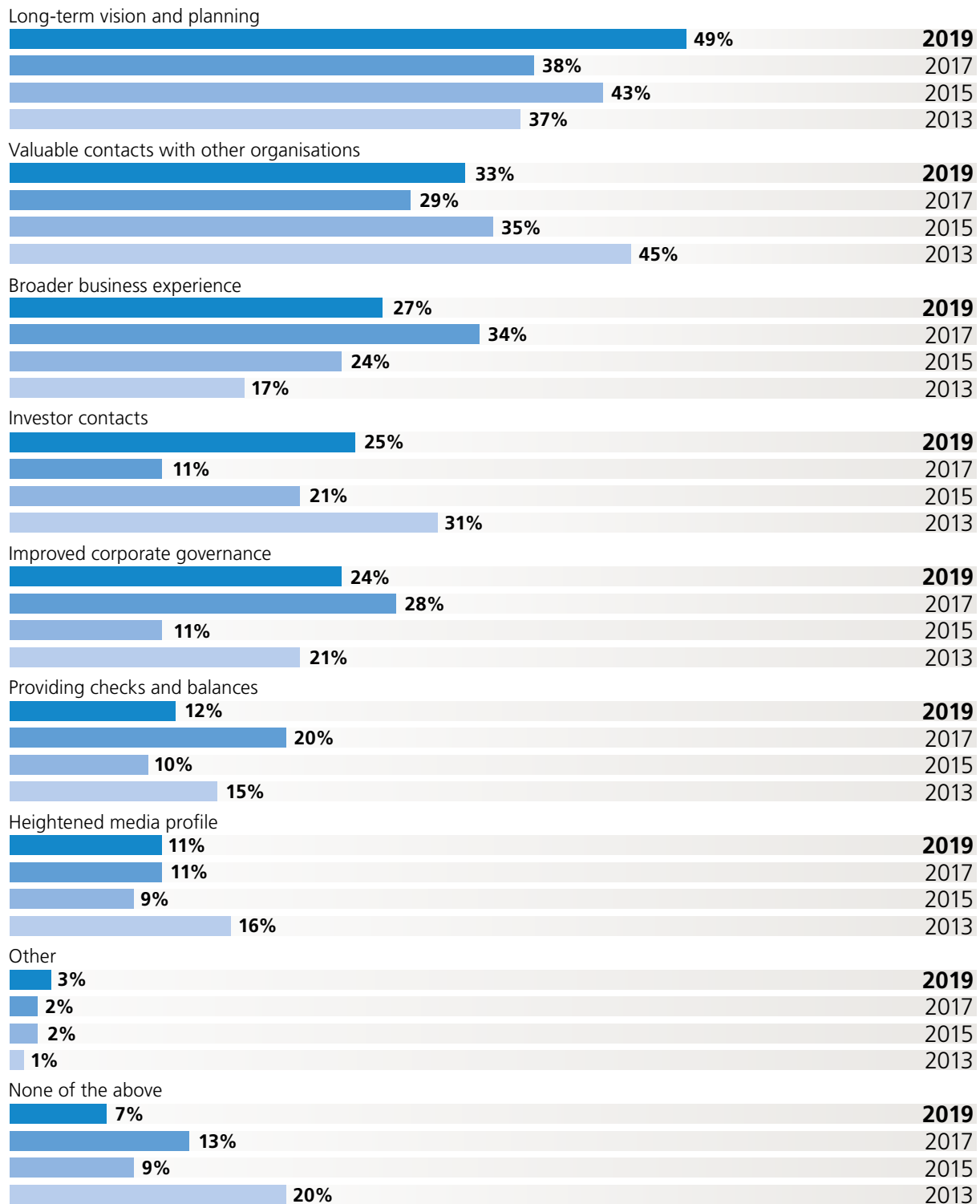
### Value brought to companies by NEDs



## Where NEDs can contribute more (according to companies)

We also asked where companies believe that their NEDs can contribute more. This was ranked as:

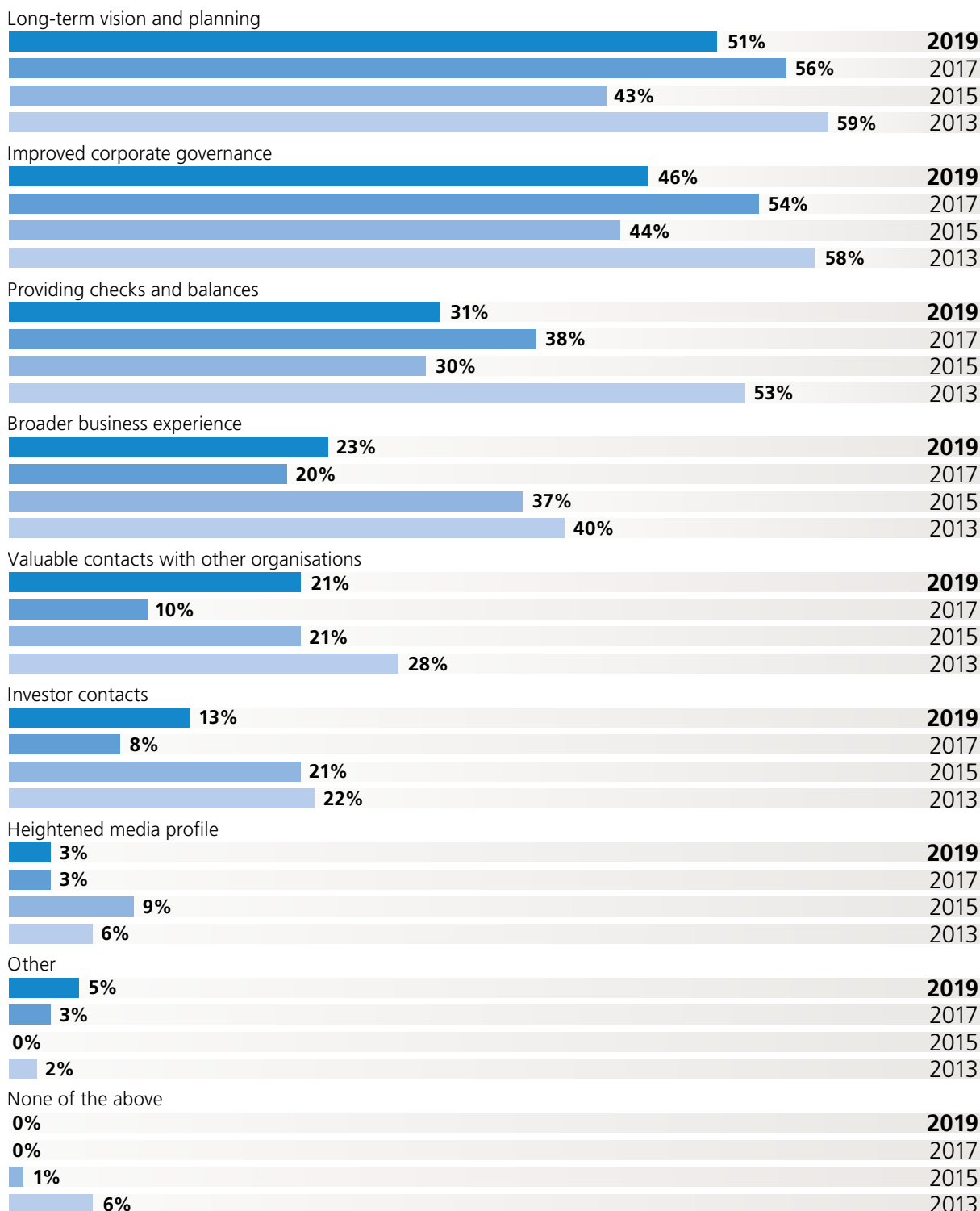
1. Long-term vision and planning
2. Valuable contacts with other organisations
3. Broader business experience



NEDs having valuable contacts with other organisations has declined over time in importance, and bringing long-term vision and planning and broader business experience has increased over time in importance to companies.

## Where NEDs can contribute more (according to advisors)

We also asked advisory firms how they think NEDs can contribute to the companies that they work for. Notably the contribution that NEDs make to improve corporate governance is given much greater importance by advisors than by the companies themselves.



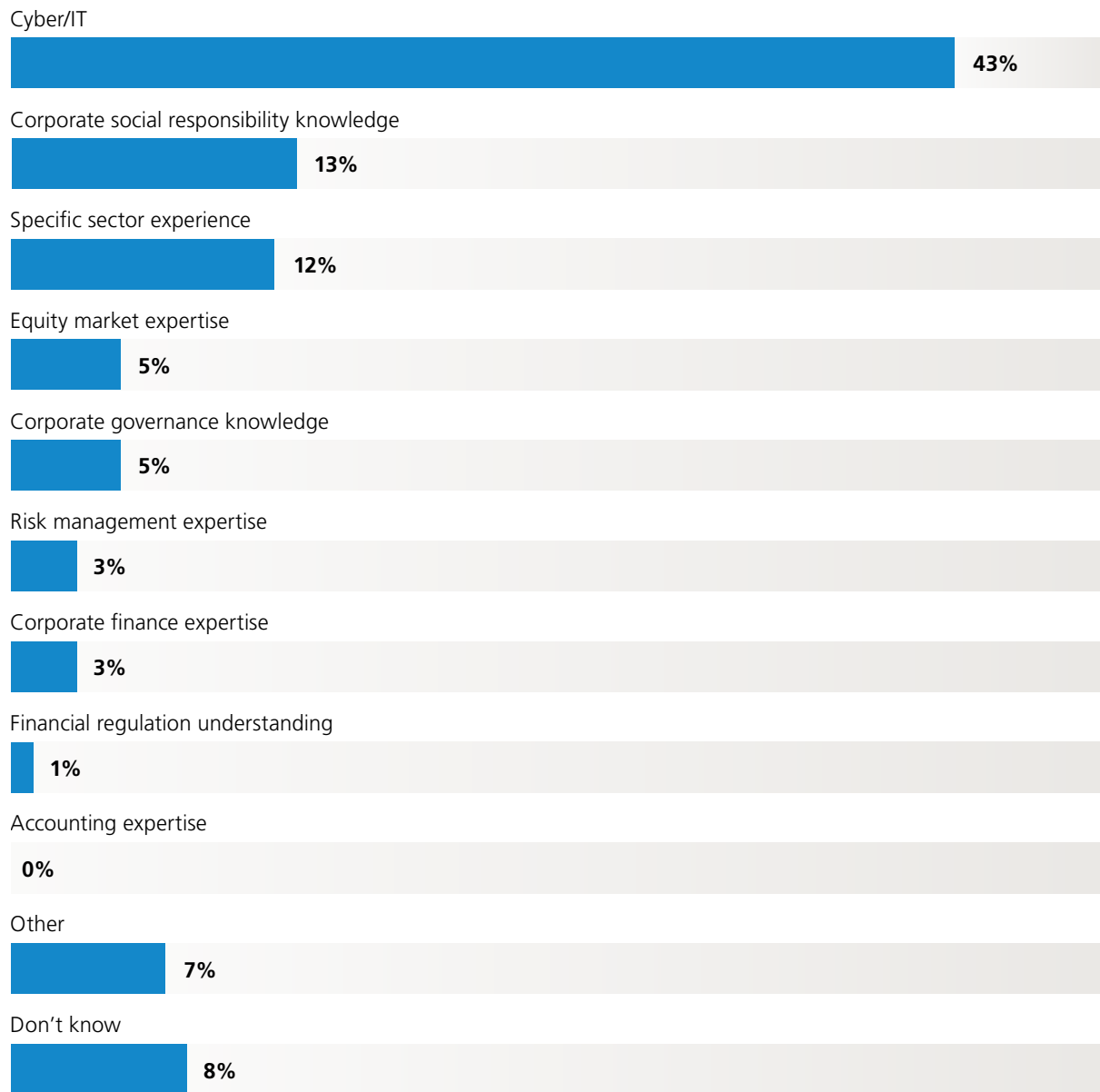
**“It is the Chair’s job to ensure that the Board gets value from the NEDs. It is also important to change the profile of the NEDs as the business develops.”**

(company respondent)

## Which one of the following skills, if any, do you most think your company's board lacks?

### What skills do boards lack?

In terms of skills, companies clearly believe that their boards lack cyber/IT coverage:



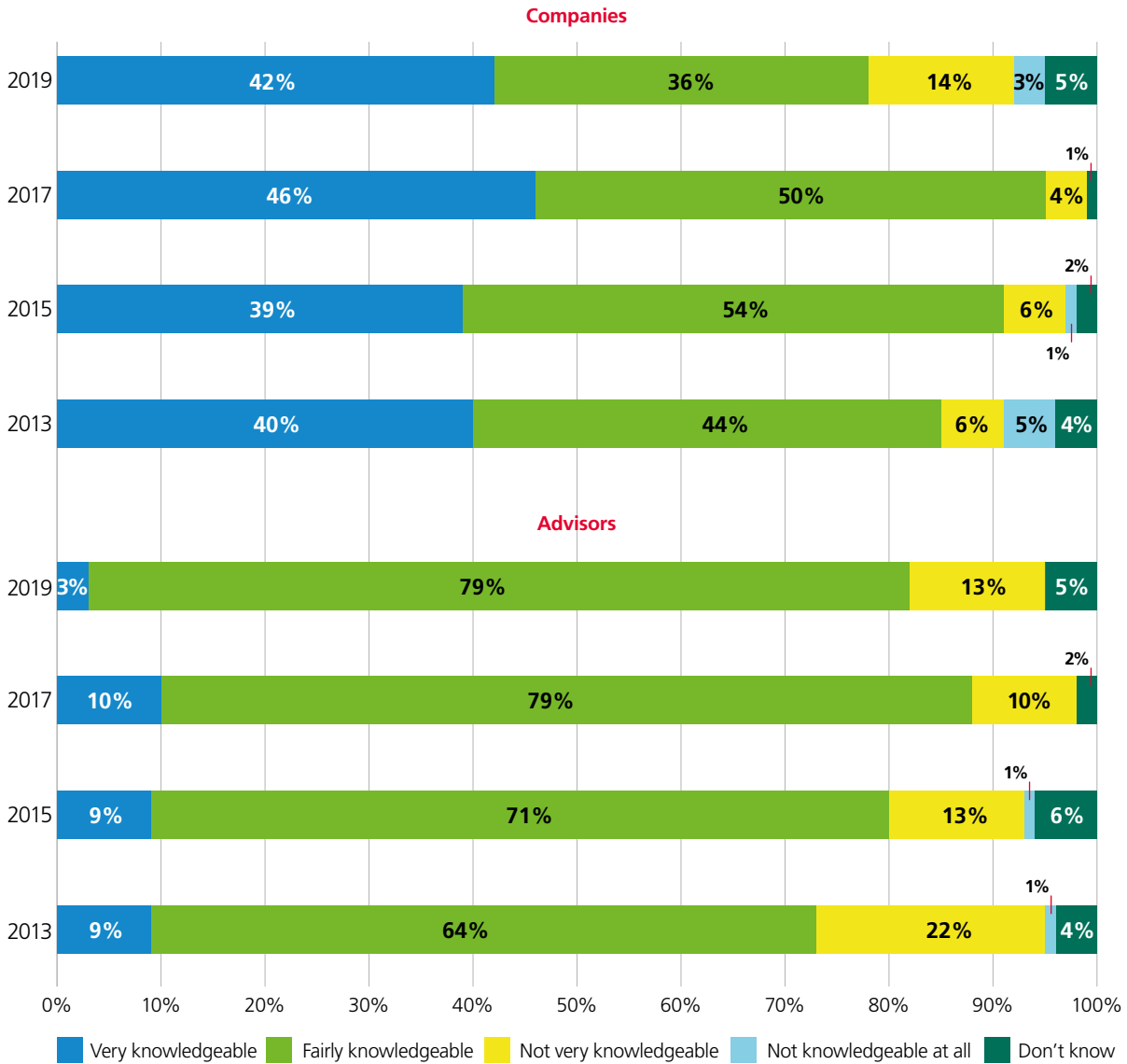
We found that the average age of a NED in this market segment is 60 years old, which may reflect on why cyber/IT is a skill that is lacking.

## How knowledgeable are NEDs?

We asked opinions of how knowledgeable companies and advisors believe NEDs are about their businesses.

Company respondents tend to be more positive with them more likely to rank their NEDs as very knowledgeable, but few advisors agree with this and are most likely to rate the NEDs as fairly knowledgeable. This divide has stayed largely consistent in the history of this survey.

## To what extent are companies' NEDs knowledgeable about small and mid-cap UK quoted companies and their business operations?



**“Non-execs need to invest time in the business to understand its dynamic – they have to be available to be sounded out. Independence does not prevent making a contribution outside the formalities of the board meetings.”**

(comment from advisor respondent)

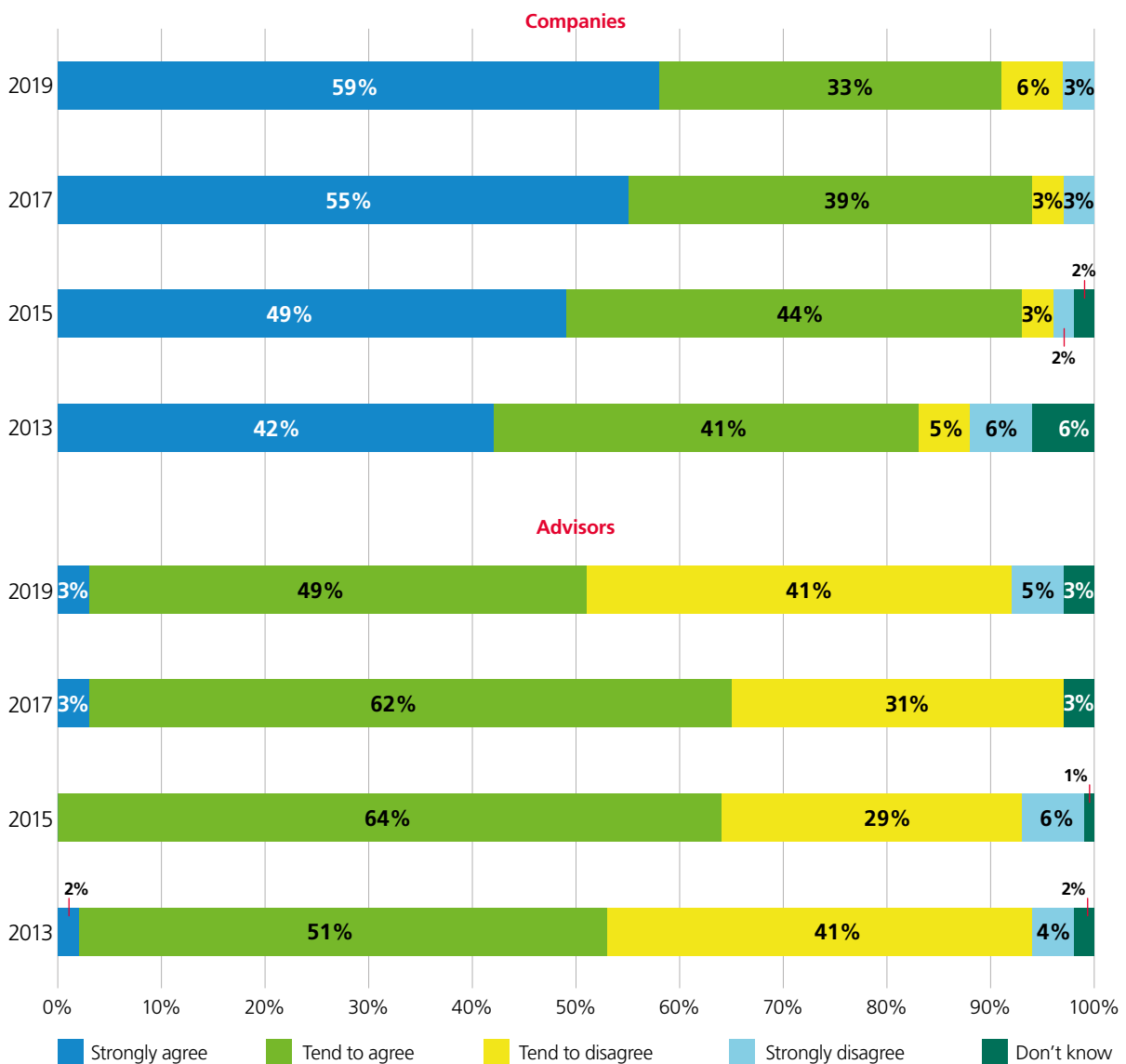


# 4

## 4: Independence

With regards to the independence of NEDs, companies are much more likely to rate their NEDs as independent than external advisors would and this corporate sentiment has got stronger over the years.

**In general, NEDs in my company/of small and mid-cap UK quoted companies are sufficiently independent from management to provide an independent and critical voice to the running of their companies**





The proportion of companies that strongly believe in the independence of their NEDs has increased over the years (from 42% in 2013, to 59% in 2019). But a fair proportion of advisory firms have tended to disagree with this sentiment with 46% disagreeing to some degree in 2019.

A respondent from a company outlined the challenges with NED independence:

*“NEDs play a vital role in holding executive management to account. They have to tread a fine line between remaining independent, on the one hand, so as to exercise critical scrutiny, and collaborative, on the other, so as to earn the trust and confidence of executive directors.”*

And one advisor commented that companies should change their NEDs more frequently:

*“They need to be forced to change more regularly, there are too many ‘stale’ NEDs.”*



# 5

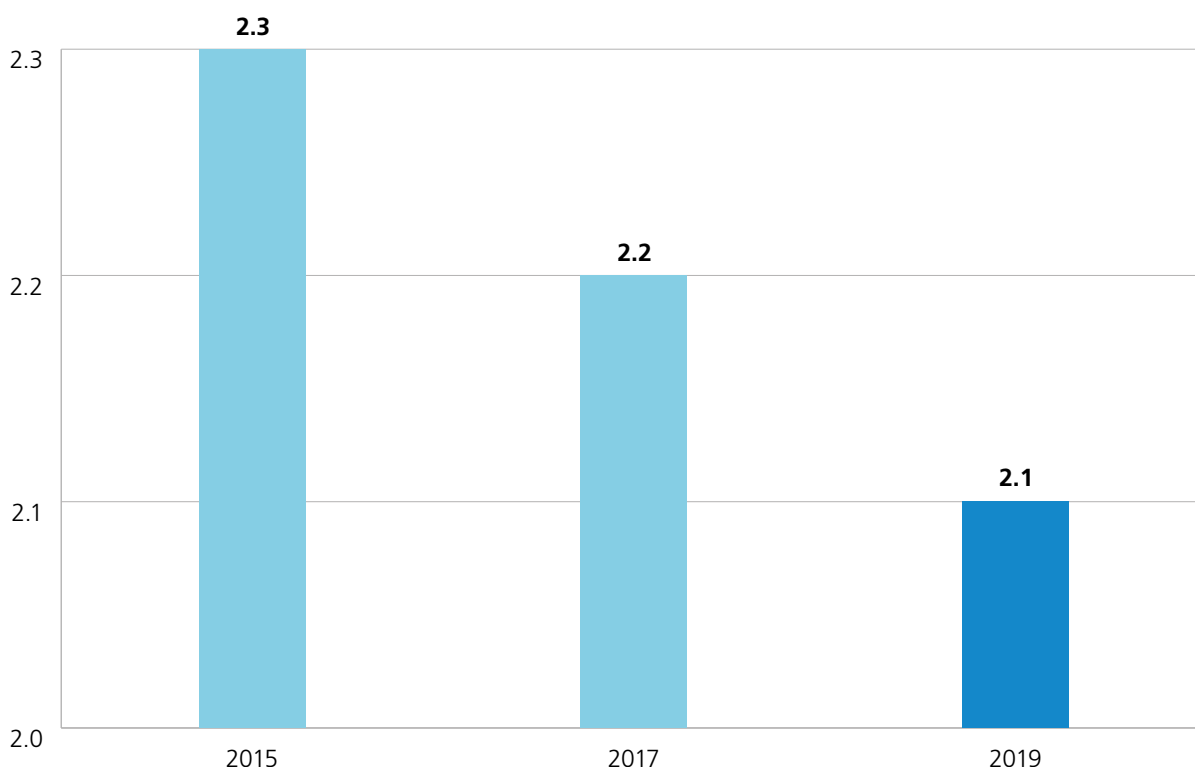
## 5: NED positions

### How many different roles does a NED typically have (and how many should they have)?

The number of different NED positions held by any individual has declined very slightly from past surveys but the mean remains around two.

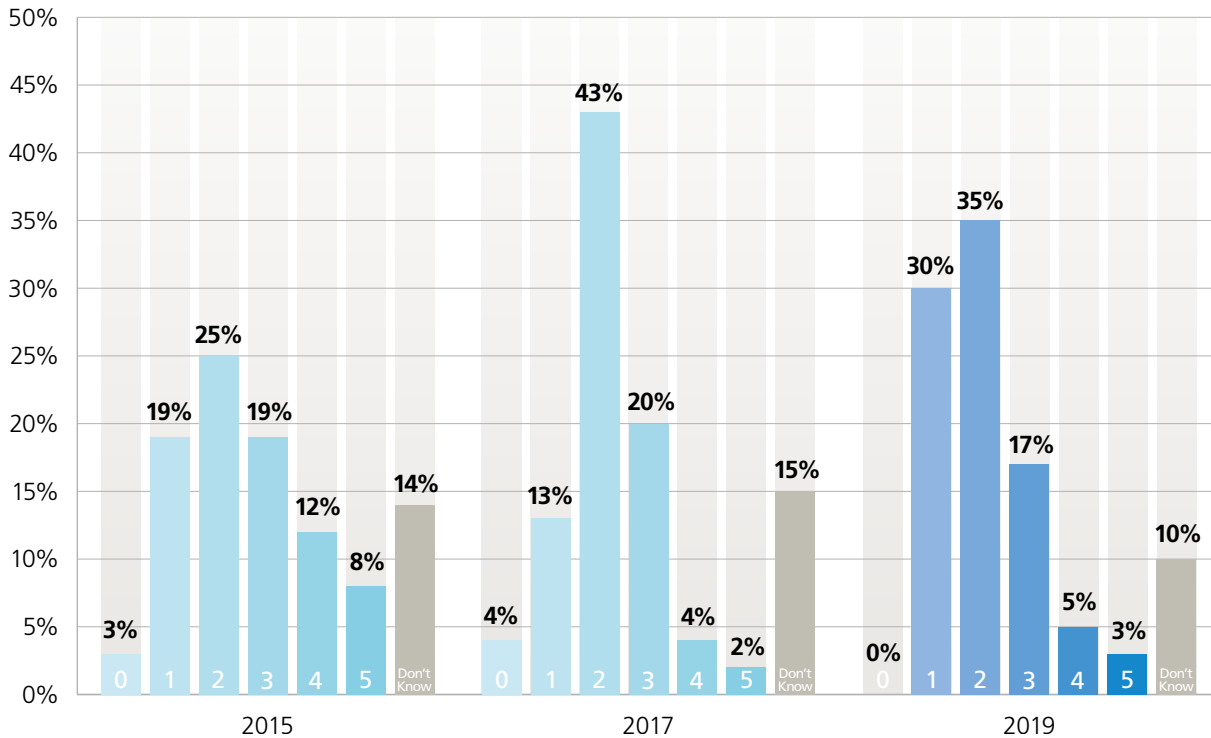
#### Average number of NED positions held

(mean)



## Number of positions held by NEDs

The breakdown of this figure shows that holding one, two or three NED positions is most common with 91% falling into these brackets in 2019 (when 'don't knows' are excluded).

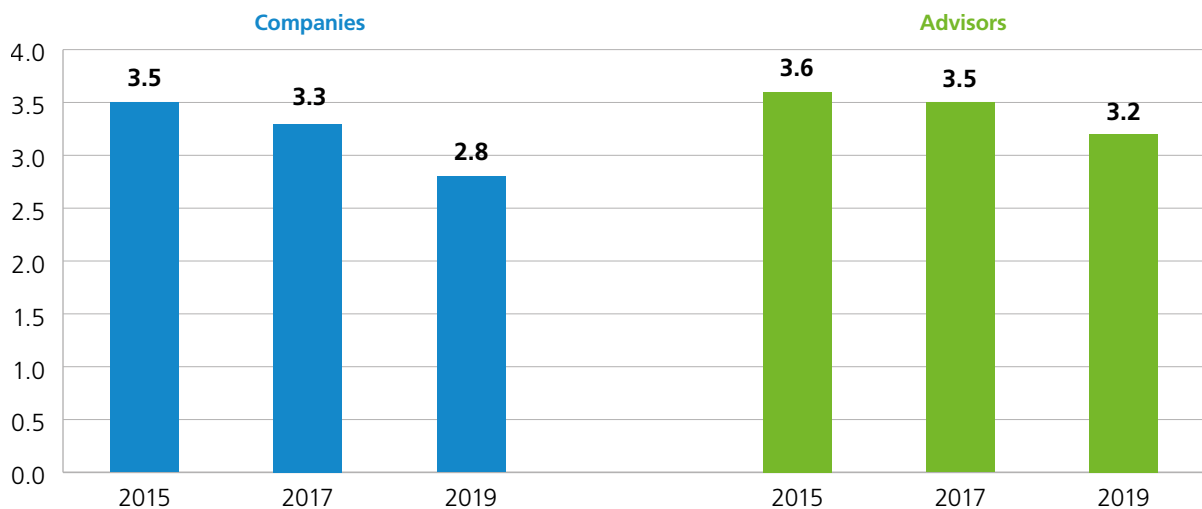


It is notable that in 2019, compared to previous years, there has been an increase in those holding one role (from 13% in 2017, to 30% in 2019), and a decrease in those holding two roles (from 43% in 2017, to 35% in 2019).

## Optimum number of Non-Executive positions a NED should hold

(views of companies and advisors)

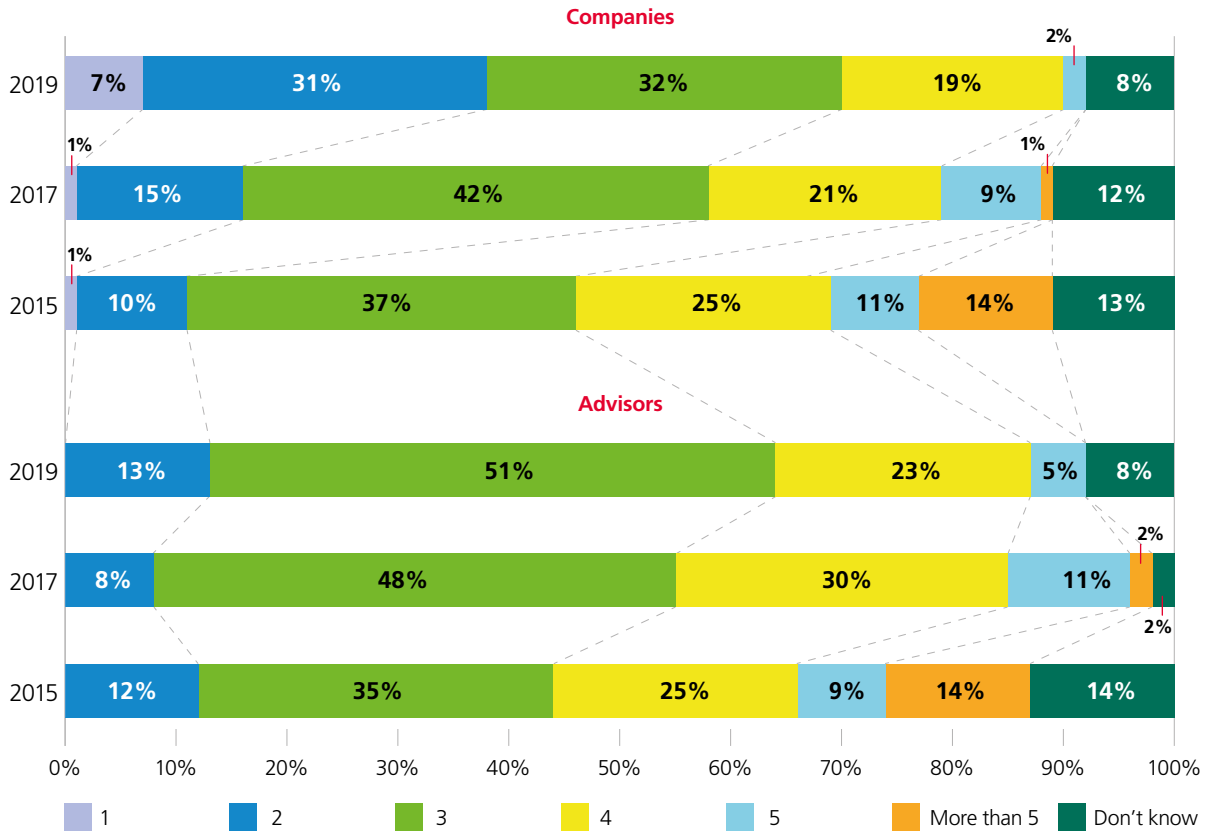
Views on the optimum number of NED positions any individual should hold has declined slightly over the years as well, with companies believing an average of 2.8 is ideal, down from 3.5 in 2015.



The breakdown of this figure shows that holding one, two or three NED positions is most common with 91% falling into these brackets in 2019 (when 'don't knows' are excluded).

## Optimum number of Non-Executive positions a NED should hold

Views on this are broken down in the below chart:



However, one company respondent pointed out the challenges with quantifying and presenting data like this:

*“There is no optimum number of NED roles – it depends what they are and how much time they take. Also, there is no average time per month - hours spike when we have a deal or corporate activity.”*



## 6: Value for money

After looking at salaries, working hours, and what NEDs bring to companies, the question is are they providing value for money?

There has been a decline in companies thinking that their NEDs provide good value, with 64% agreeing with this (down from 83% in 2015 and 2017).

However, there has also been a decline in the proportion of companies saying their NEDs provide poor value (from 23% in 2013, to 9% in 2019). The increase in “don’t knows” in 2019 to 26% accounts for this (and perhaps indicates companies need to review how they evaluate the effectiveness of their boards – see the section 7 in this paper).

### Do NEDs provide value for money?

(Views of companies and advisors)



You can see though that advisors tend to be less positive, and only around half believe NEDs provide good value for their companies. There is a historical decline in those that believe they provide poor value though – down to 13% in 2019, from a high of 37% in 2015.



## 7: Board evaluations (methods & frequency)

### What board evaluation methods do companies use?

This survey found that the most popular method of conducting board performance reviews is a self-assessment by the Chair or other Director, with 71% doing it this way. This has largely stayed the same in comparison to previous surveys.

The use of independent external consultants has grown though from 6% of companies in 2015 and 2017, to 15% of companies in 2019.

### How do you evaluate the effectiveness of your board?

Self-assessment facilitated by the Chair or the Senior Independent Director



Use of independent, external consultants



Self-assessment using external software



Other



Don't know

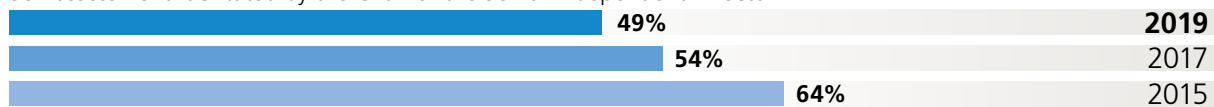


## How should companies evaluate boards?

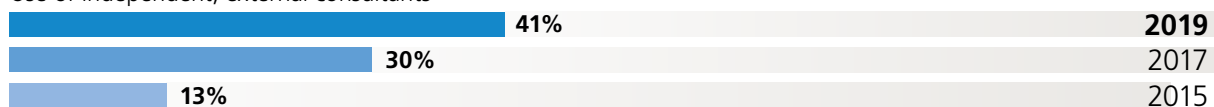
(advisors' views)

When advisors were asked how they think companies should conduct board evaluations, they were much keener on external consultants, with 41% recommending this. This has increased over previous years with the proportion recommending external consultants growing from 13% in 2015 to 41% in 2019. The proportion recommending self-assessments has decreased at a similar rate.

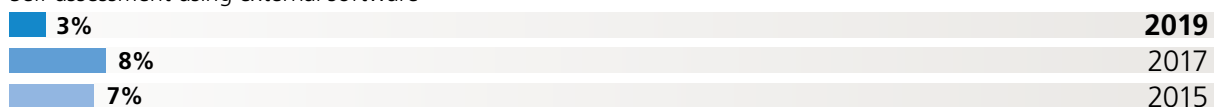
Self-assessment facilitated by the Chair or the Senior Independent Director



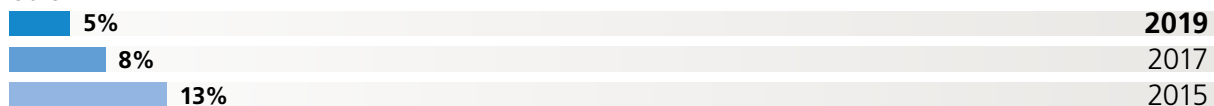
Use of independent, external consultants



Self-assessment using external software



Other

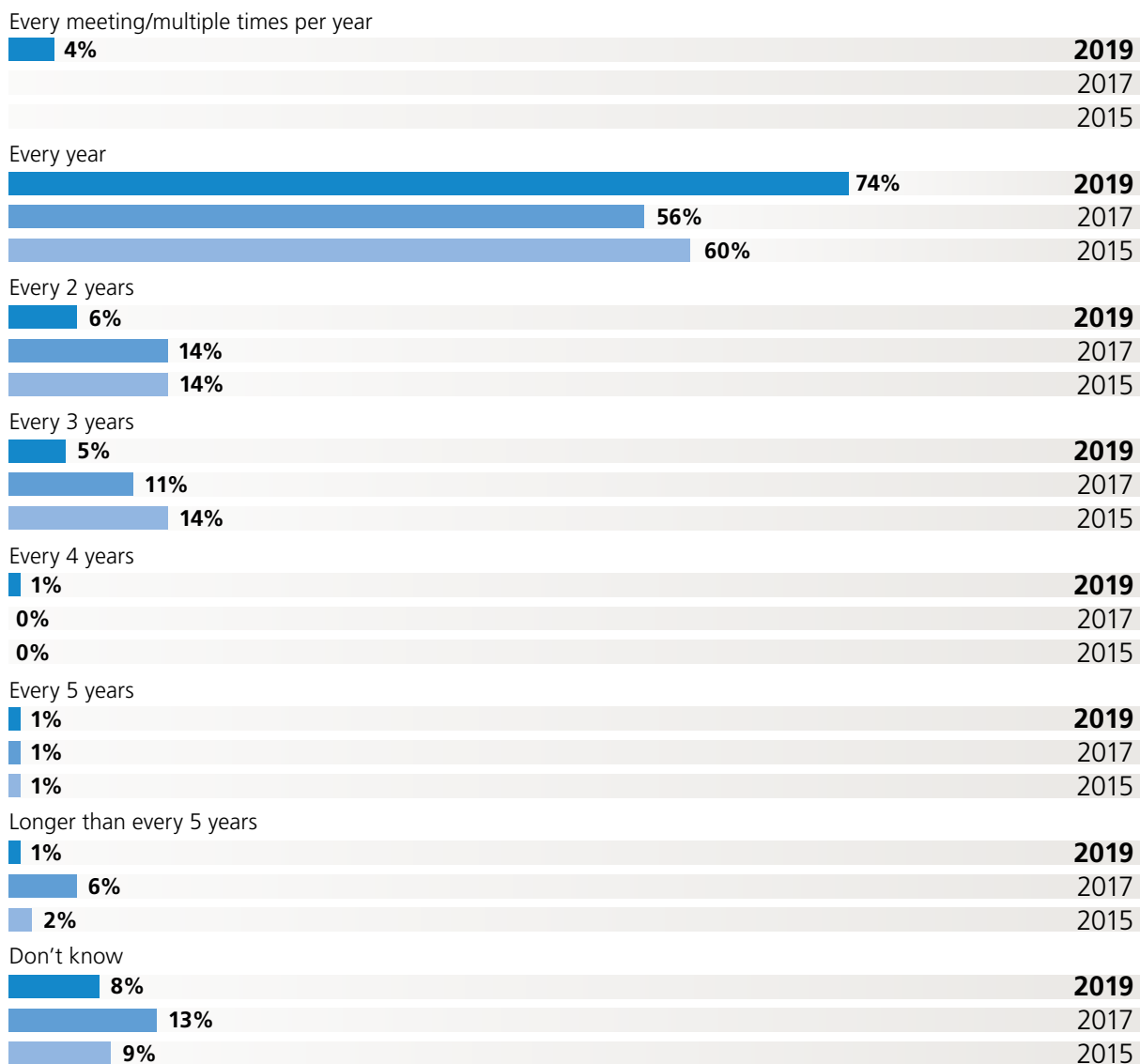


Don't know



## How often do you conduct board evaluations?

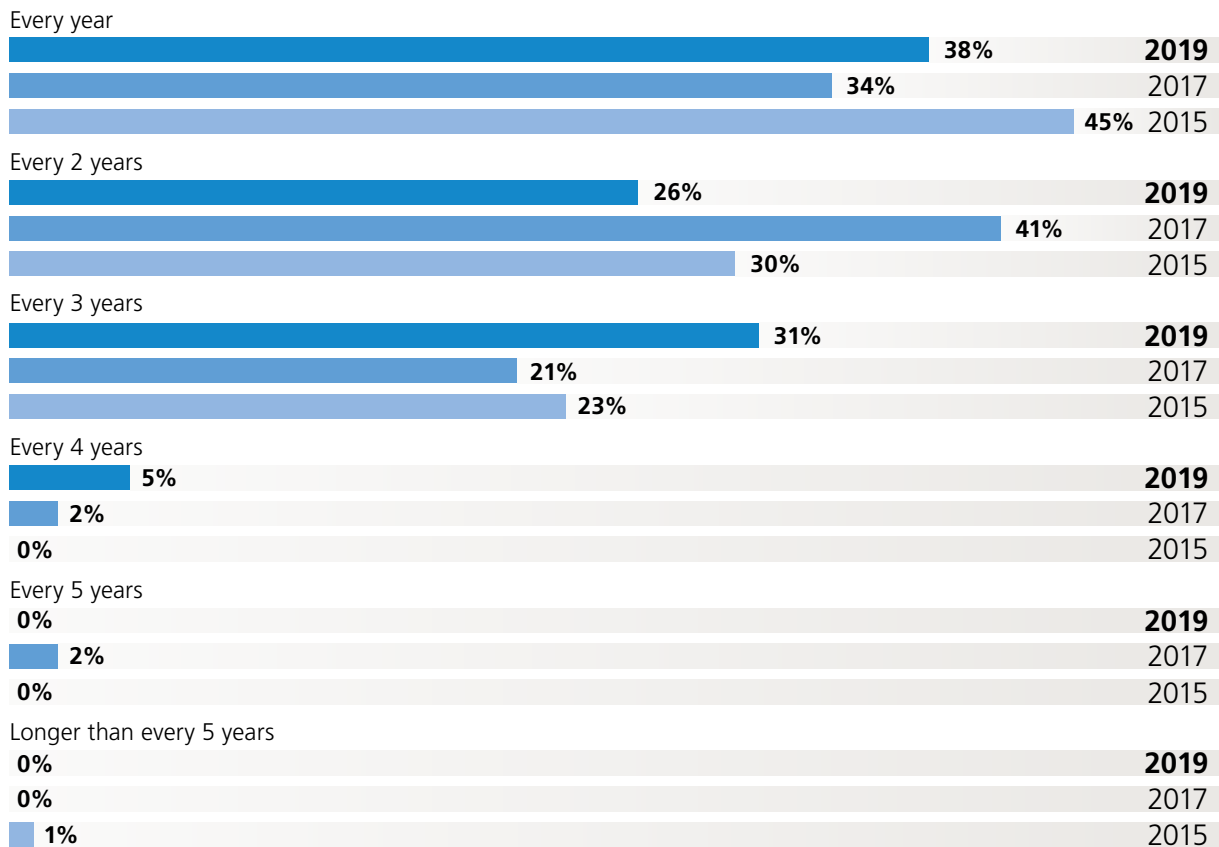
The vast majority (74%) of companies report that they conduct board evaluations on an annual basis. This is an increase in frequency compared to previous surveys, with more companies doing evaluations every year and fewer doing it every two or three years.<sup>4</sup>



<sup>4</sup> **Note:** the option 'Every meeting / multiple times per year' was not offered in 2015 or 2017.

## How often should you conduct board evaluations?

(advisors' views)







# 8

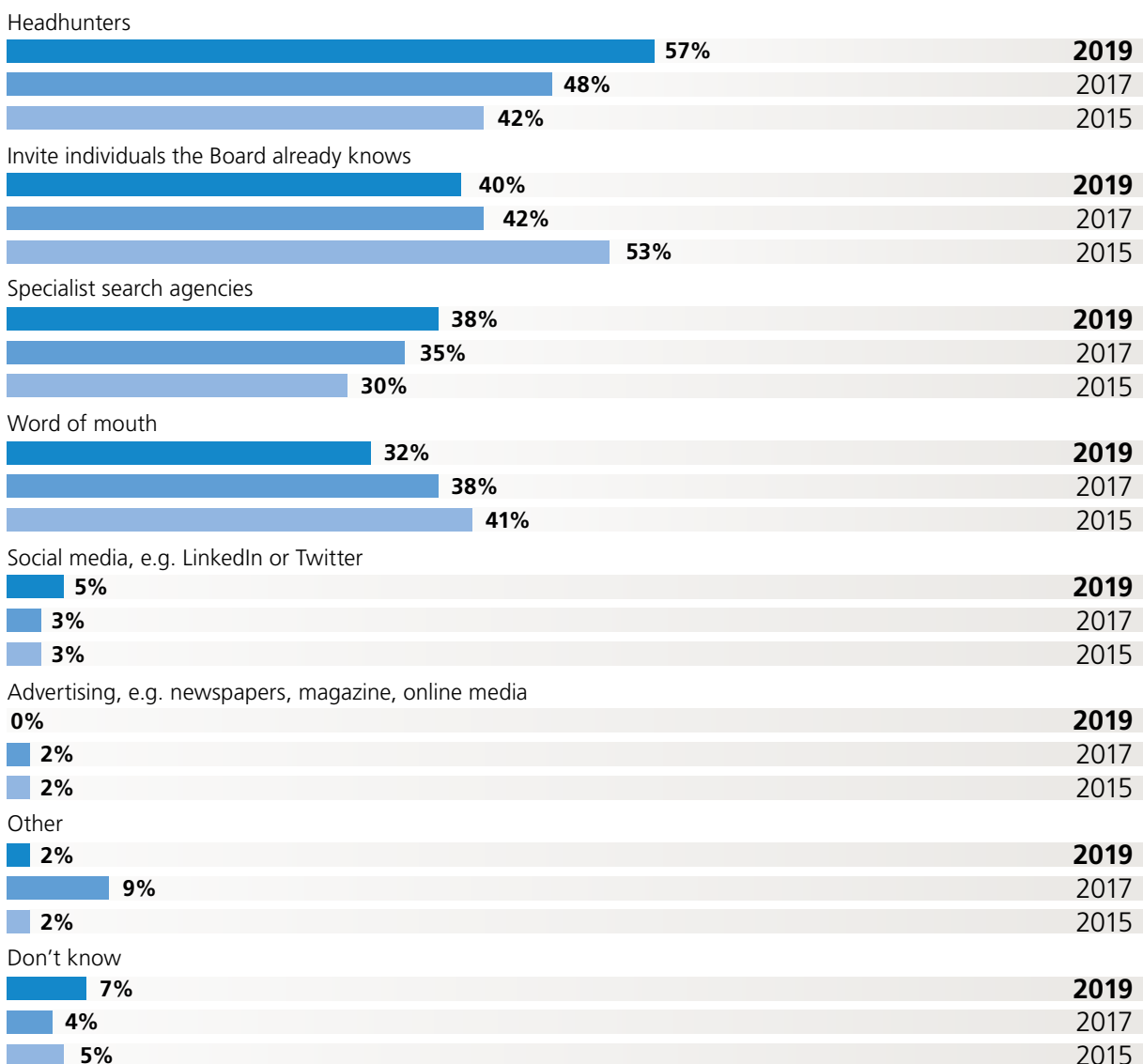
## 8: Recruitment

The use of headhunters to fill director vacancies has become the most common method for companies in 2019. Increasing from being used by 42% of companies in 2015, to 57% in 2019.

Accordingly, there is a decline in appointments being made through individual networks and relationships, with utilising “word of mouth” and inviting individuals the board already knows both becoming less common since 2015.

### What methods does your company use to recruit board directors?

(both executive and non-executive)



One advisor commented

*“If carefully selected, NED’s can be the difference between success and failure.”*

Other comments from advisory firms included:

*“Companies should be encouraged to take on first time NEDs so as to broaden and improve the pool available and encourage diversity. Companies should also take on NEDs who don’t necessarily have experience of their sector as that makes for more ideas and innovation in the boardroom.”*

*“A lot of recruitment from the usual channels can make boards rather homogenous.”*

*“As advisers are often key to these appointments, they should extend their networks of potential NEDs, perhaps even undertaking some specialist research that might lead them into new, ideally less City-oriented networks.”*

## About the QCA

**We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies.**

The value of our members to the UK economy is vast – as is their potential. There are around 1,250 small and mid-size quoted companies in the UK, representing 93% of all quoted companies. They employ approximately 3 million people, representing 11% of private sector employment in the UK, and contribute over £26bn in annual taxes.

Our goal is to create an environment where that potential is fulfilled. We identify the issues that matter to our members. We keep them informed. And we interact to build the understanding and connections that help our members stay ahead. The influence we have, the influence we use, and the influence we grow, ensures that our members always benefit from the impact of our initiatives.

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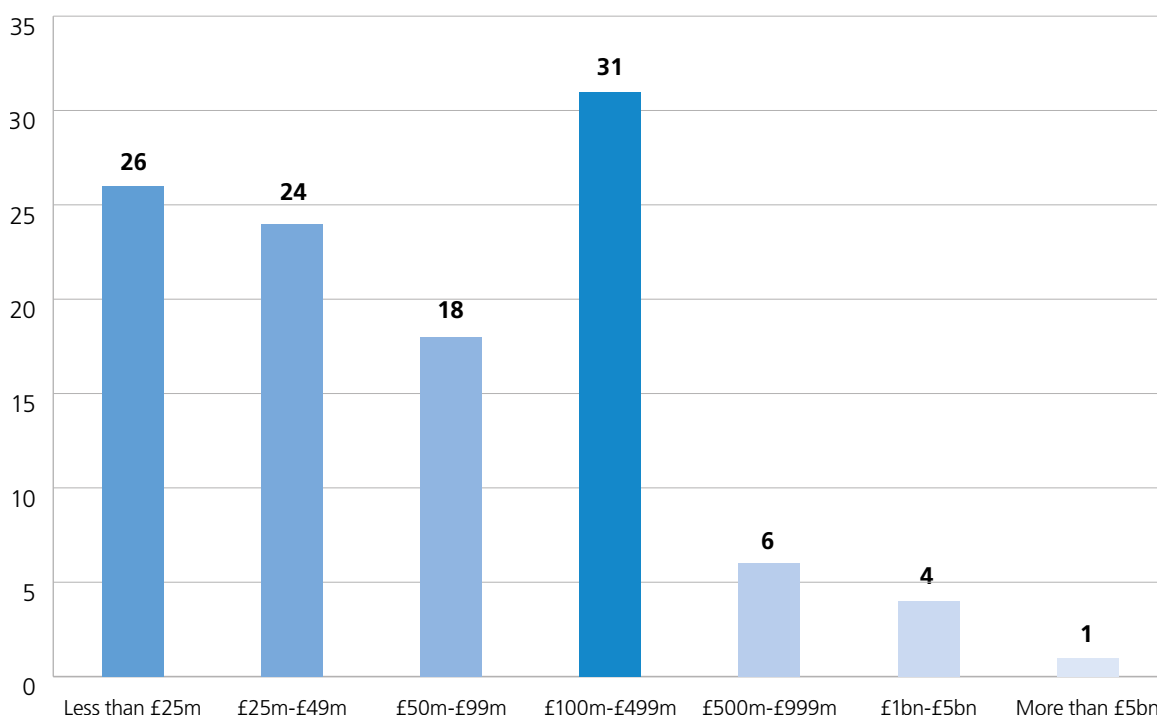
## Methodology

### The questions were asked in the twice-yearly QCA/YouGov Small and Mid-Cap Sentiment Index.

149 interviews were conducted between 22/10/19 and 18/11/19 by YouGov. 110 from small and mid-size UK quoted companies, 39 from advisory companies.

This survey has been conducted using an online interview administered to members and associates of the QCA. An email was sent to the QCA database, inviting them to take part in the survey and providing a link to it. A link to the survey was also circulated by the QCA to their contacts. The sample definition is "small and mid-cap UK quoted companies and advisory companies". The responding sample is weighted by industry to be representative of small and mid-cap UK quoted companies, as derived from London Stock Exchange data, but the advisory companies are not weighted in any way.

### Respondent companies by market capitalisation



Of the 110 companies, 86 are quoted on AIM, 18 on the London Stock Exchange Main Market and 6 from other or international exchanges.

# QUOTED COMPANIES ALLIANCE



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