Composition of company boards

Company law has little to say about the composition of the boards of public companies beyond the requirement that they should have at least two directors. Not surprisingly, boards vary widely in form: some even quite large companies have the minimum number of directors, whereas others have twenty or more; the whole board, including the chairman, may be committed full time to the company, or there may be a majority of part-time directors who advise principally on the overall direction of the business. Moreover, the rôle of these non-executive directors can vary widely; in some companies they are given special responsibility for overseeing particular aspects of the company's operations, for example the financial function and liaison with the external auditors.

There are no comprehensive figures from which the actual position and pattern can be established, and changes monitored. From time to time, however, attempts have been made to compile data, either by conducting surveys or by examining company reports. The Bullock Committee is among those to have made such efforts, and its report included an analysis of the boards of the largest industrial companies as listed in *The Times 1,000 1975–1976*.[1]

Research undertaken by the Committee indicated that, among the largest 1,000 companies, very few had boards with more than fifteen directors, and that over three quarters had ten or less; smaller companies, as might have been expected, tended to have smaller boards. Nearly 25% of companies were found to have no non-executive directors, while nearly 10% had more than five—the majority thus having between one and five.

The Committee carried out its research over three years ago and the climate of thought on company board structure has to some extent shifted since then. It has become more widely recognised that companies can benefit substantially from the advice of experienced and detached outside directors who, while not involved in the day-to-day running of the business, nor dependent on it as a principal source of income, can offer advice and guidance on long-term strategy and help to scrutinise management performance. Audit committees and the like are increasingly seen as a useful way of bringing their advice into sharper focus. The Governor of the Bank touched on these arguments when he addressed the Institute of Directors in November 1978.[2]

Without up-to-date figures, it is impossible to judge to what extent such thinking has been translated into practice, and so, at the beginning of this year, the Bank attempted to repeat the Bullock Committee's analysis—using the list of companies in *The Times 1,000 1978–1979*—to see whether companies had in fact been taking more non-executive directors on to their boards. As yet, only a small number of companies state in their accounts whether directors are executive or non-executive; and this distinction thus for the most part had to be judged from their scales of remuneration. (Companies are required to record in their accounts the numbers of directors remunerated within each band £0–£2,500, £2,501–£5,000, and so on.) As a general rule, low-paid directors will tend to be non-executive, but account has to be taken of executive directors whose reported remuneration is low because they have been directors for only part of the year.

Deciding where to draw the line between low-paid and other directors can be difficult, but examination of a sample of accounts suggested that £7,500 was an appropriate point; for companies where the earnings of directors were much higher than average, the numbers of non-executive directors was suggested by obvious breaks in the range of earnings paid to directors.

The Bank's survey suggested that the use of non-executive directors has, in fact, become more widespread among the top 1,000 companies since the Bullock Committee's survey was conducted. The proportion of companies with three or more such directors had risen from just over a third to just over half, whereas those without any had fallen from 25% to 12% (see Table A).

Table A

Number of non-executive directors	Percentage of companies in *The Times 1,000*	
	Bullock survey	Bank survey
Six or more	10	15
Three, four or five	26	38
One or two	39	35
None	25	12

The survey also found that the size of company boards had scarcely changed since the Bullock survey; this would suggest that non-executive directors have been increasing not only in number but also proportionately.

As might be expected, the survey found that the larger companies tend to have a larger number of non-executive directors: of the top 250 companies, 63%

[1] *Report of the Committee of Inquiry on Industrial Democracy*, Cmnd. 6706 (HM Stationery Office: 1977), page 62.
[2] This lecture was reprinted in the December 1978 *Bulletin*, page 536.

had three or more and 34% had five or more; of the remaining 750, only 19% had five or more non-executive directors and 13% (against 9% in the top 250) had none.[1] However, as Table B shows, the proportion of non-executive directors was apparently slightly higher among the smaller companies in *The Times 1,000* list.

Table B

Number of non-executive directors	Percentage of companies in		
	Top 250	Next 750	Top 1.000
Six or more	23	13	15
Five	11	6	7
Four	17	14	15
Three	12	17	16
Two	15	20	19
One	13	17	16
None	9	13	12
A Average number of non-executive directors	3.7	2.8	3.0
B Average size of board	10.9	7.7	8.5
Ratio A:B (per cent)	*34*	*36*	*35*

About one quarter of the companies in *The Times 1,000* are controlled by foreign shareholders. This presents certain difficulties both in compiling and in interpreting the figures for non-executive directorships. Thus a director in a foreign-owned company may appear to have a non-executive rôle (because of his low emoluments), but could equally be working full time and drawing a salary from the foreign parent. The rôle of non-executive directors will, in any case, be rather different in a foreign-owned company, where many of the scrutiny and oversight functions normally associated with non-executive directors are, in fact, performed by the parent company. The Bank's survey was able to distinguish between UK and foreign-controlled companies, and Table C shows the effects of excluding the latter from the results. On the face of it, the difference is not substantial, though there were extreme variations in the positions of some of these companies, which does support a case for excluding them from a regular series of this nature.

Table C

Number of non-executive directors	Percentage of companies	
	The Times 1.000	*The Times 1.000* excluding foreign-controlled companies
Six or more	15	12
Three. four or five	38	39
One or two	35	37
None	12	12
Average number of non-executive directors	3.0	2.8
Average size of board	8.5	8.4

The mere presence of non-executive directors on company boards does not, of course, ensure that they will be active in their rôle of independent critical advisers, nor that companies will use them in this way. Nevertheless, the rise in the number of non-executive directors on the boards of the top 1,000 companies does suggest growing acceptance of their rôle, and is therefore encouraging. It is hoped to repeat the survey at intervals to check developments.

[1] Companies are ranked by turnover; ranking companies by numbers employed makes no appreciable difference in this respect.