EgonZehnder

Rethinking Board Motivation

A global analysis of the challenges, motivations, and trends for board directors today

Being a board director today requires more time and more effort. The responsibilities, liabilities and overall time commitment will remain at this heightened level - or increase - in the future.

This increase in commitment means board directors may have to limit the number of board roles they take on, and companies may need to rethink how they attract and retain their board directors in a more competitive environment. However, empirical evidence suggests that this hasn't necessarily translated into higher compensation.

To understand the environment and landscape board directors are operating in today - and will be operating in in the near future - this global study sheds lights on the motivation, dedication, and compensation of board directors across a range of public companies through a series of interviews and a survey that uncovers important trends to watch.

Key Findings

Based on the insights from the 100 companies studied, we found several trends to watch:

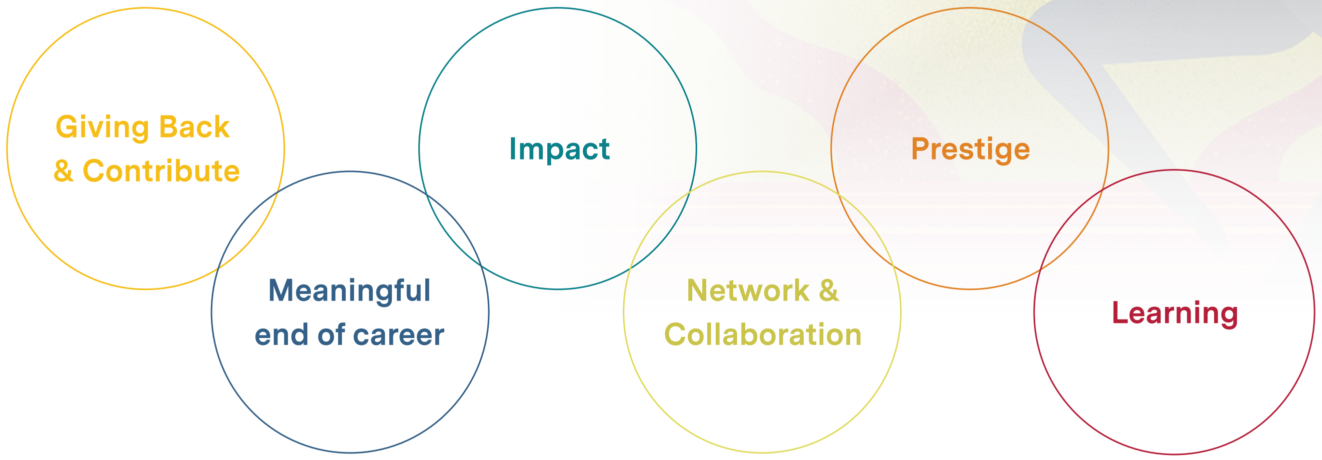
MOTIVATION

Directors want to make a real impact on the board

The motivations to join boards are shifting toward impact and purpose over monetary rewards or prestige.

Two of the main drivers of this shift are the increasing responsibility and personal risk - both reputational and legal, along with a new generation of more diverse board candidates. Another trend we are seeing with this change is that board directors are now accepting fewer board positions, in order to fully devote themselves to a smaller portfolio of companies.

To address these motivations and attract board talent, companies must gain a deeper understanding of these motivations.



- **Giving Back & Contributing:** Board work is a significant way to give back the knowledge executives have earned throughout their careers and contribute to better outcomes for organizations and their stakeholders.
- **Meaningful end of career:** Board work today is more critical than ever to ensure that companies not only grow, but also have a societal impact. For more experienced members, serving on a board is a chance to end a career on a high note.
- **Impact:** Boards serve today as stewards of company issues and uphold environmental, social, and governance commitment. There isn't a better place than a board for opportunities for greater impact.
- **Network & Collaboration:** Board members can build solid relationship and exchange ideas with their peers, who are increasingly diverse; not only in gender, racial-ethnic, and demographics, but also in ideas, backgrounds, and life experiences globally. This is a key motivation for those who seek to leverage their expertise as a director while connecting with individuals who provoke different and innovative ideas as part of a group.
- **Prestige:** Boards are a two-way street. Not only does a director provide meaningful contributions, but the prestige that stems from these roles also enhances their personal and professional brand, wherever they may be on their professional journeys.
- **Learning:** This was mentioned by most respondents as a key motivator, with many noting "weaning off the executive muscle", "how to govern versus be an executive", "broadening sector knowledge" and "exposure to new industries and geographies" as key areas for growth.

The culture and dynamics of boards can vary significantly – in terms of openness, inclusiveness, alignment, efficiency, and more – therefore board director candidates will probe their personal match with a specific board environment more than ever.

Interestingly, money does not often seem to be a key motivator, but some board directors will look at the opportunity cost of taking one appointment versus another when reaching their maximum capacity or when retiring early and building a portfolio career.

Key Findings

Based on the insights from the 100 companies studied, we found several trends to watch:

COMPOSITION

Boards will be smaller and have more P&L leaders

Our study suggests that composition of boards is changing due to the **increasing complexity** of board work. To meet the new challenges that accompany these changes, it is essential that boards are set up accordingly.

Key Findings

- While our study indicates an average board size of 12 across all markets, our interviews with board practitioners suggest a much smaller board size of 8 to 9 members. Where possible, boards should review their size and prepare for a potential adjustment of **8 to 9 members**, maximum to enable effective collaboration, content-driven discussions, appropriate focus, and results-orientation. This set up will emphasize the quality of contributions while increasing the number of meetings each year.
- Committee work can be strengthened by **increasing the number of committees and pulling in topic experts as advisors** as needed. This will ensure proper delegation of relevant topics and appropriate coverage.
- An **increase** in compensation may be vital to attract global talent, diverse leaders, and experts who are scarce and in high demand. Having board directors who possess **transformational P&L leadership experience** and who can contribute to holistic strategic discussions is essential to enhancing future board performance.

The Boardroom Landscape

12 Board Size

11 Number of meetings

4 Number of committees

Averages from our Study Population: **100**

Key Findings

Based on the insights from the 100 companies studied, we found several trends to watch:

COMMITTEES

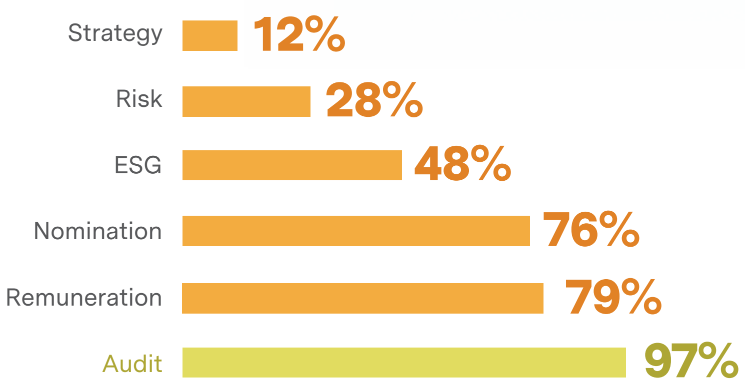
Effective boards are empowering their committees

An essential part of board work is done in its committees, making it necessary to understand the types of committees that have been established and if these committees mirror their importance both now and in future board work.

- Not surprisingly in our study, the most established committees are **audit (97%), remuneration (79%) and nomination (76%)**. (Japanese companies notably have a separate audit and supervisory board and do not have an audit committee.)

Typical Board Committee Structures

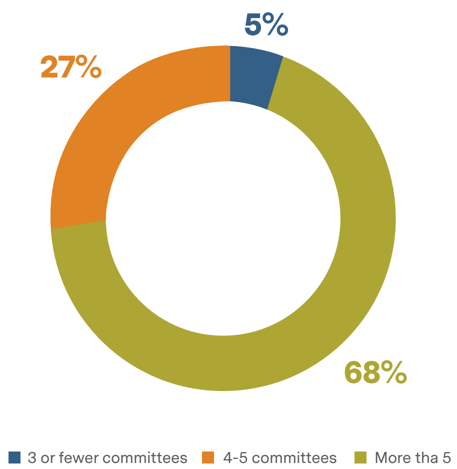
Share of types of committee across all companies, in %



- Nearly 80% of companies have at least four committees in place, and more than 40% of companies have five to seven committees.

Distribution number of committees, in # companies

Our data shows the **audit committee as the most pivotal**, followed by the nomination committee, noting that both will remain critical in the future.



Population: **100**

- A substantial number of companies (**48%) have established an ESG** committee focused on environmental sustainability, CSR, DEI, and organizational health.
- Most boards also have other committees related to the company's specific industry or challenges (e.g., cybersecurity, health and safety, risk).
- Some boards have combined committees; for example, a governance committee that houses both nominations and compensation or a finance committee that houses both risk and audit.

> "The ESG committee will become increasingly important, especially with climate change providing impetus to a lot more scrutiny in this area."
>
> Experienced board director and former CFO

Based on the insights from the 100 companies studied, we found several trends to watch:

TIME COMMITMENT

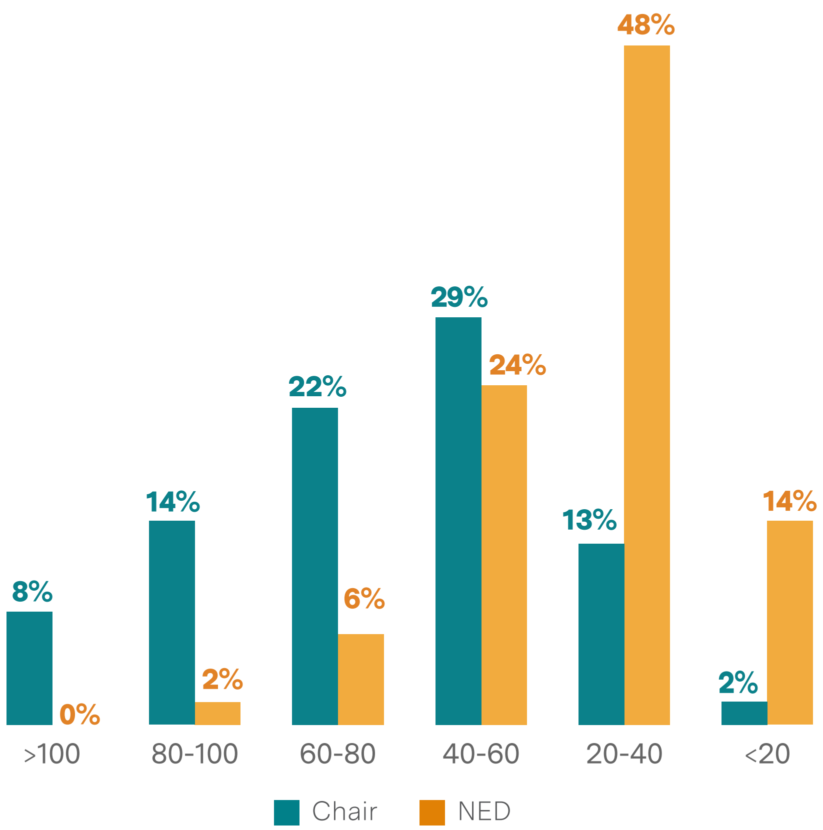
Board workload is following an upward trajectory

The time commitment board directors and chairs need to invest in their board work has increased significantly, and we expect this trend will continue. To appropriately compensate board work, it is essential to dive deeper into companies' expectations of board directors.

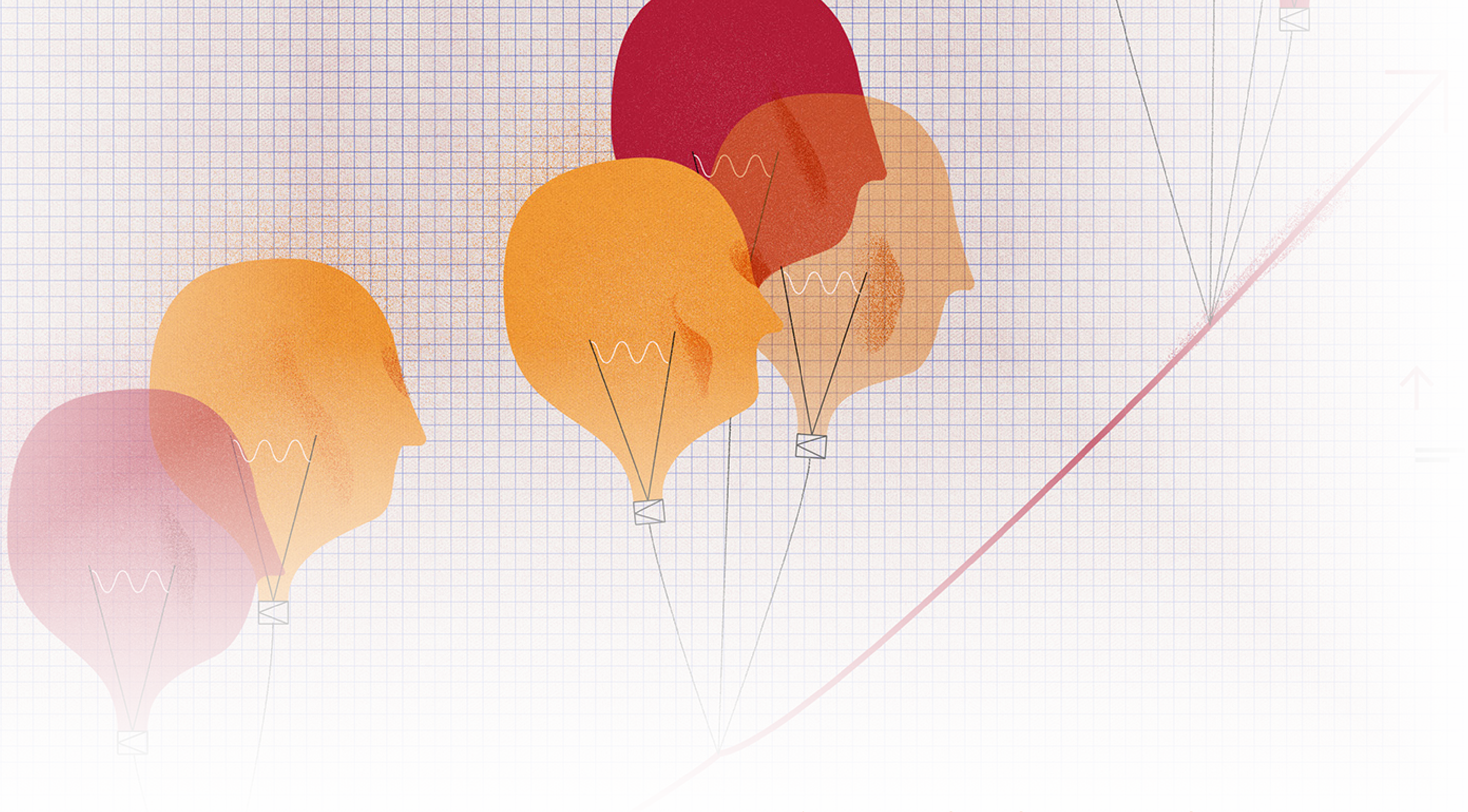
Most survey respondents estimated the current time commitment of a **board director** (including meetings, preparation, informal conversations and more) to be **20 to 40 days per year** (plus/minus 20 days) for a single directorship.

The time spent on a single directorship by the board **chair** was higher, with most respondents estimating **40 to 60 days per year** (plus/minus 20 days).

Time commitment for board role in days per year



- As the time commitment for board directors ticks up, much of the additional workload can be attributed to increased demands, including **stakeholder expectations, transparency required by regulators, and personal risk** (reputation and legal). As quoted by one of the respondents: "Being on a board now means a lot of work/personal responsibility. It is not just 'something to do' as an extra."
- Our respondents noted that they expect **committees** will take on the bulk of the additional work to preserve decision-making and strategy discussion time in full board meetings.
- **Chairs** will be the primary orchestrators of these changes, which increases the need for strong leadership skills from chairs, including the ability to constantly deal with new information and situations and ensuring that all board directors are engaged and contributing at a high level. "The **chairperson should become a coach of each board member,** and this is a revolution," a respondent shared.



COMPENSATION

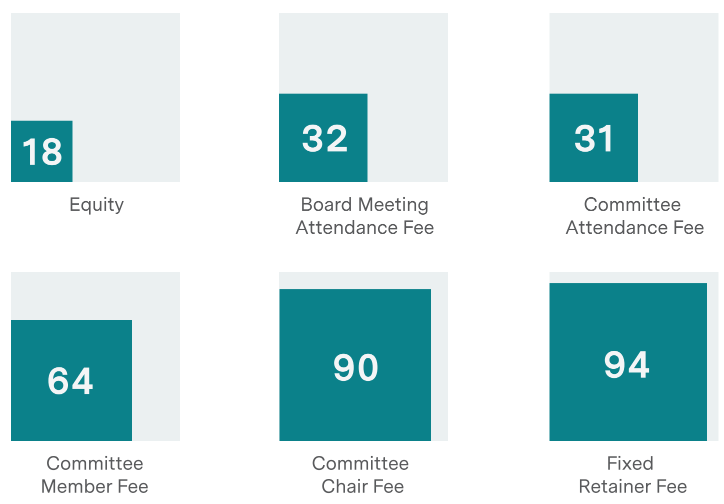
Simplifying and reflecting on compensation is key

While it is nearly impossible to make cross-regional comparisons with board director compensation (also taking into account the number of board meetings and industry), there are a few trends that we have seen.

For most public boards, director compensation is a mix of the following:

- Fixed board fees (annual, one-time sum)
- Leadership role compensation (chair and committee chair)
- Committee fees
- Stock (a mix of annual award and dividends)
- Perks, travel allotments, short term bonuses, one time stock awards, etc. (varies according to market, industry, etc.)

Number of companies which apply a specific remuneration component

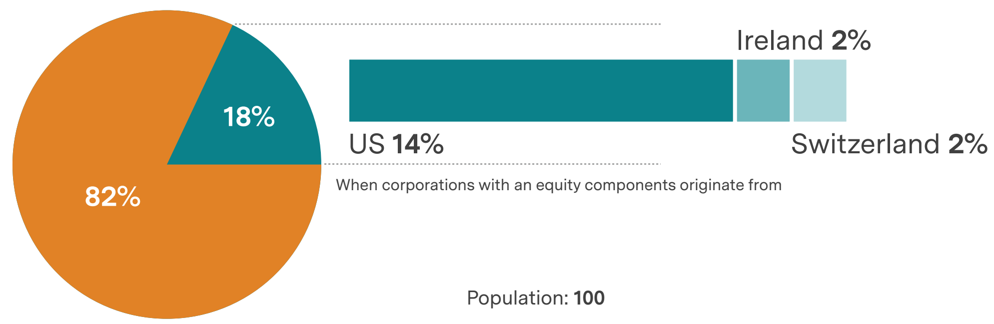


Population: **100**

**Fixed retainer includes both for Chair and Independent Board Director roles*

About **94% of the companies studied use a fixed retainer fee**, followed by **committee chair (90%) and committee member fee (64%).** Committee chair/member fees are most popularly used in Europe.

Both board and committee meeting attendance fees, as well as equity compensation, are less widespread practices across the globe. Less than 20% of the companies studied use **equity**, though it is common practice in the **United States, with equity share ranging between 50% to 60%** on average. Equity is typically composed of stock awards and has a longer vesting period that often extends beyond the term of a director. There are a few markets outside of the United States that employ equity to compensate board directors on a discretionary basis, including Switzerland and Ireland. In the APAC region, you are likely to only see that companies that are listed on the Australian Securities Exchange (or ASX) use share-based payments of compensation.



Population: **100**

Share in %

- Corporations which only pay in compensation terms.
- Corporations with equity as part of director compensation.

To prepare for increased scrutiny, many corporations have begun to **simplify their pay structures**, focusing on reasonable annual cash retainers and stock awards, while eliminating committee member pay and leadership retainers.

Additional Forms of Compensation

There is ongoing debate on whether board directors can be paid in LTI. There are voices cautioning against this type of compensation, as it might undermine the independence of board directors, while others feel strongly that compensation needs to be more linked to the **long-term performance** of a company, similarly to PE companies. As an alternative, some respondents suggested linking compensation to **long-term ESG performance**.

Some boards also bifurcate pay programs by increasing pay for directors who live more than 6-8 hours of travel from company headquarters.

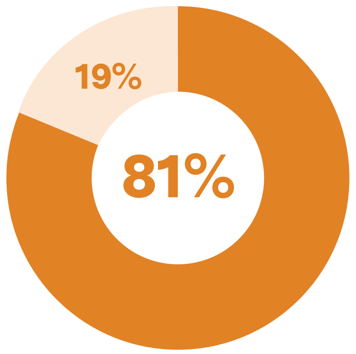
> "There needs to be alignment across countries on whether non-executive directors can be compensated in a way that is tied to the financial success of a company."

> "In public companies, board directors represent stakeholders, not just shareholders. A share plan for board directors can give the wrong impression."

Pay Levels

The level of pay for board directors varies across sectors and regions, in accordance with fluctuating time commitment, risks, and role complexities. Boards today discuss more in every meeting, meet more frequently, and have increasing commitments outside of the boardroom. Because of this, boards are paying more attention to director pay, looking for outliers from their local, regional and global peer groups to attract the right talent. As one respondent said, "If the company requires board directors to have more meaningful engagement and make an impact on the company's strategic imperatives and long-term business, then the company should think of providing a more innovative compensation package."

Most board experts and practitioners in our study suggest an **increase in compensation** for public company directors due to **increased complexity, risk, and related time commitment.** **81%** of respondents agree that "compensation of board directors should be reviewed for potential change." However, a small group – especially some of the board practitioners – were happy with the way compensation is currently handled.



Compensation Benchmark Results - Our most important findings in numbers

Average Annual Board Retainer ranges between €11k to €330k, with a median of €141k

- Board retainers remain the highest for Financial Services, followed by Health and Technology.
- Regionally, North America reports the highest median value, followed by APAC, UK and EMEA.

Average Annual Chair retainer ranges between €21k to € 4340k (which is an outlier), with a median of €333k

- Chair retainers remain the highest for Health, followed by Financial Services and Energy.
- Regionally, the UK reports the highest median value, followed by APAC, EMEA and North America (it's common for US companies to have a combined CEO-Chair role with no separate retainers).

90% of the companies in our study use Committee Chair fees as a component of board member compensation, most popularly being used in the EMEA

- The Automotive sector reported the highest median for Committee Chair fees at €68k, followed by Financial Services (€58k). For the overall set, Committee Chair fees average €49k.

64% of the companies studied use Committee Member fees as a component of board member compensation, most commonly in the EMEA

- The Energy sector reported the highest median for Committee Member fees at €57k, followed by Chemicals (€48k) and Consumer (€46k). For the overall set, Committee Member fees average €35k.

Less than 35% of the companies studied use Board/Committee Meeting attendance fees, most popularly used in the EMEA

FUTURE

Board Performance Now and in the Future

In light of the increased pressure on chairs to ensure **engagement and contribution** of board directors, we asked survey participants about the best way to measure board effectiveness and the individual contributions of directors. A variety of review forms and tools were suggested, including **individual feedback sessions with the chair, 360 reviews, peer reviews, surveys (directly following each meeting), self-assessments and third-party assessments**. It was suggested that these reviews should not only focus on individual contributions but on director development. While board directors are facing more demanding tasks and challenges, their **collective and individual development appears to be strongly underinvested in**. This is a missed opportunity for boards to fully capitalize on their potential to have impact and contribute to a broader change agenda.

This finding is in line with findings from our recent **Board of the Future study**, which shows that continuous development of directors is a matter of survival in today's world and that a key element for development is frequent evaluations of the full board and individual directors.

Board performance is a function of competencies of the members, efficiency of its processes, and its effectiveness as a team. We believe that boards globally could benefit from more reflection on the following questions: **Whom** do we have on the board and whom do we need? **What** is the role of the board? **How** should the board operate?

Conclusion

Board directors' aspirations to increase influence and societal impact are intersecting with rising levels of responsibility, time commitment, and stakeholder expectations – a reality that holds true both for public and private companies. To shed light on the landscape board directors are operating in today, and how boards can respond, this study identifies significant trends in directors' motivations, board composition, committee work, time commitment, and average director compensation within and across various markets worldwide.

We believe that board members are increasingly more **careful and thorough** in how they select their **future directorship roles**. This means that in order for boards to remain competitive in attracting board talent, they will need to recognize the **evolving nature of board commitment** as well as design comprehensive development plans for their directors.

Fortunately, organizations can successfully navigate the landscape of modern governance dynamics while considering all implications for current and future board members. In order to attract board talent, we recommend asking yourself the following questions:

- Does your boardroom allow a director to make **meaningful impact**?
- Does your **board size** allow diverse perspectives while remaining **agile**?
- Is your board **compensation aligned** with commitment and contribution?
- Are your **committees empowered** enough to enhance effective governance?
- Do board dynamics drive **engagement and contribution**, supported by continuous development?

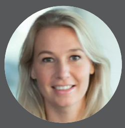
Board service has never been as demanding as it is today. Applying a holistic lens to how boards are approaching their internal dynamics as well as their recruiting strategy will be paramount to not only prepare organizations for current challenges but also to embrace future prospects.

Demography

This study comprises data from 100 listed companies across industries and geographies, analyzing various compensation components and additional structural board data.

Companies analyzed are in the revenue range of €1 billion to €253 billion with market cap in the range of €9 billion to €422 billion and have been selected to ensure uniform distribution across sectors with appropriate global coverage.

Authors



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About Egon Zehnder

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We believe that together we can transform people, organizations and the world through leadership.

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