

Board Monitor UK 2023

In 2022, boards in the United Kingdom gained a deeper understanding of the risks of volatility.



About the report

This report is part of Heidrick & Struggles' long-standing study of trends in board composition in markets around the world. Produced by our global CEO & Board Practice, these reports track and analyze trends in non-executive director appointments to the boards of the largest publicly listed companies in Australia (ASX 200), Belgium (BEL 20), Brazil (B3), Canada (TSX 60), Colombia (COLCAP), Denmark (OMX Copenhagen 25), Finland (OMX Helsinki 25), France (CAC 40), Germany (DAX and MDAX), Hong Kong (Hang Seng), Ireland (ISEQ), Italy (FTSE MIB), Japan (TOPIX Core 30), Kenya (NSE Top 40), Mexico (BMV IPC), the Netherlands (AEX), New Zealand (NZX 10), Norway (OBX), Poland (WIG 20), Portugal (PSI 20), Saudi Arabia (Tadawul), Singapore (STI 30), South Africa (JSE Top 40), South Korea (KOSPI 50), Spain (IBEX 35), Sweden (OMX 30), Switzerland (SMI Expanded), the United Arab Emirates (ADX and DFM), the United Kingdom (FTSE 350), and the United States (Fortune 500). Information about executives is gathered from publicly available sources, BoardEx, and a Heidrick & Struggles proprietary database.

Thanks to the following Heidrick & Struggles colleagues for their contributions to this report:

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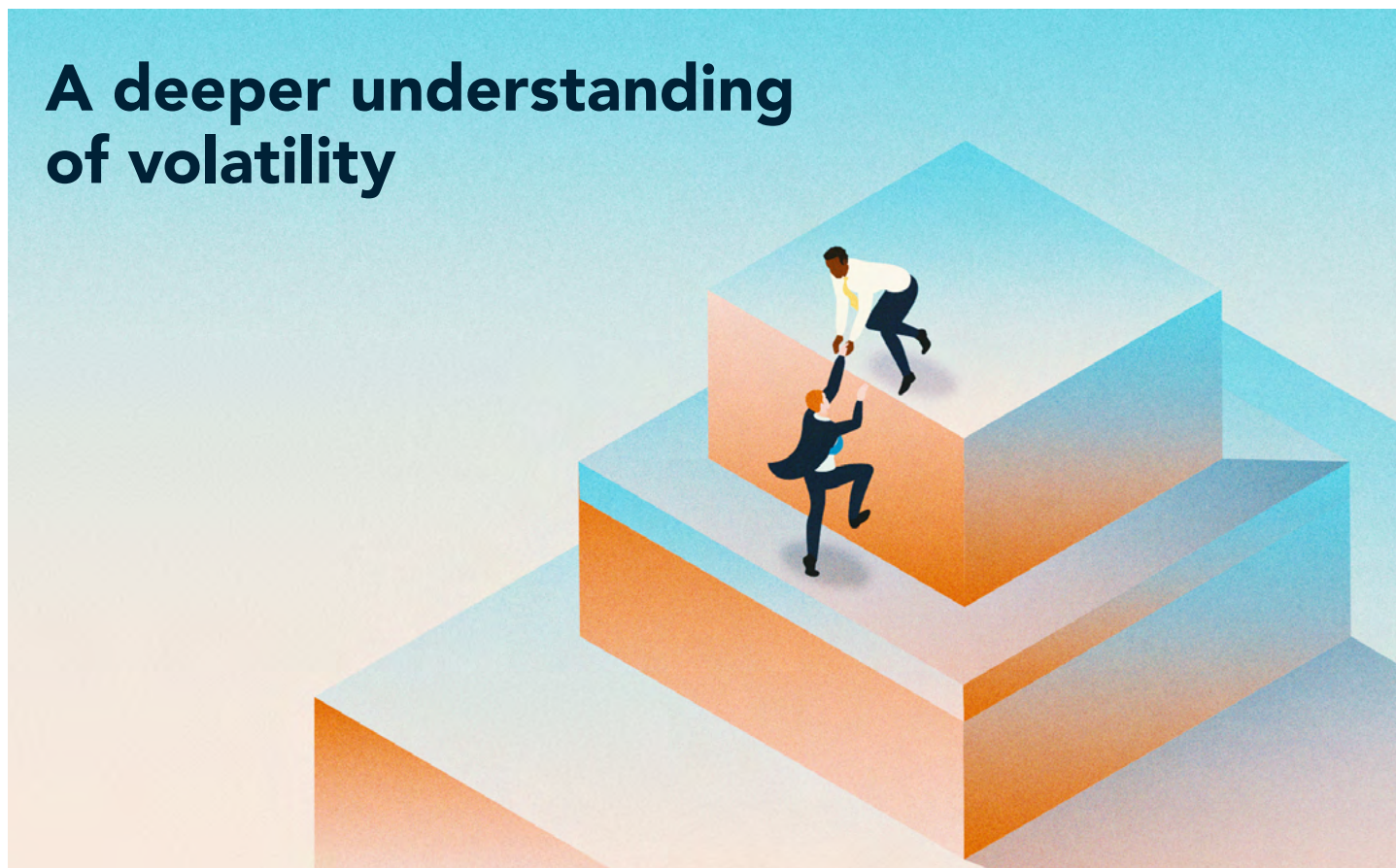
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A deeper understanding of volatility



In 2022, boards in the United Kingdom gained a deeper understanding of the risks of volatility; the cost of living crisis and the unrest that is dominating British society are the perfect storm, gathering due to the Covid-19 pandemic, the increasing global calls for social justice, the continuing impacts of the war in Ukraine, the Brexit fallout, and the final coup delivered by the short-lived policies of the Liz Truss government.

It's no surprise that trust in government in the United Kingdom has fallen to a seven-year low and that people are looking for radical change.¹ As in many countries, people are turning to business to step in and solve both urgent crises such as stagnating wages and longer-term societal issues such as sustainability, income inequality, access to work, and systemic discrimination.

In that context, sustainability understood broadly continues to be a central focus of business strategies.

And these concerns will likely contribute to the addition of more demands on boards—the Financial Conduct Authority (FCA) is planning to publish a set of new, clearer sustainability disclosure requirements to make it harder for companies to exaggerate their progress or greenwash.²

Gender and ethnic diversity remains another focus of regulation, with the FCA having adopted the recommendations of the FTSE Women Leaders: that 40% of board members of FTSE 350 companies be women by the end of 2025. And, crucially, that a these companies have a woman in one of the four critical leadership roles on boards—CEO, CFO, chair, or senior independent director (SID).³ In addition, the FCA has adopted the Parker Review's target for FTSE 100 companies to have one ethnically diverse member of the board by the end of 2021, and the same for the FTSE 250 by end 2024.⁴

But societal pressures have not in any way displaced investors' expectations for profit, which means that boards and companies must continuously balance their decision making considerations between responding to employees' needs for higher wages, ensuring their organizations continue to provide the return on investment that shareholders are seeking, and planning for short- and long-term scenarios that will change business models.

How did FTSE 350 boards respond to all these drivers and expectations last year? They showed diminished appetite for new non-executive appointments compared to 2021 (though comparable to the prior two years). And, aside from the record share of seats that went to women, we saw a retreat to more familiar, traditional profiles of directors: people with previous board experience and CEO and CFO backgrounds.

¹ Edelman Trust Barometer 2023, Edelman, January 2023, edelman.com.

² CP22/20: Sustainability Disclosure Requirements (SDR) and investment labels, Financial Conduct Authority, March 2023, fca.org.uk.

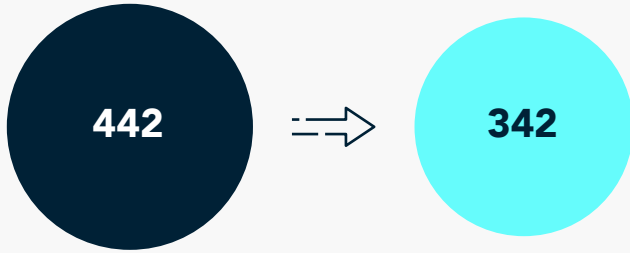
³ FTSE Women Leaders Review: Achieving Gender Balance, FTSE Women Leaders, February 2023, p. 8, ftswomenleaders.com.

⁴ EY, "Parker Review announces new targets to improve ethnic diversity of FTSE 350 senior management teams and large private businesses," press release, March 13, 2023, ey.com

Key findings

There was a decrease in the number of appointments: 342 in 2022, compared to 442 in 2021. Following a spike in the number of appointments in 2021, this signals a return to pre-pandemic levels.

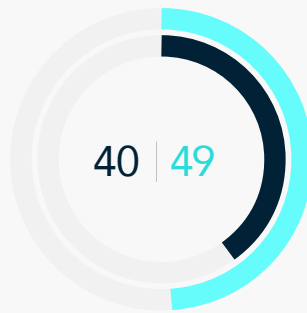
■ 2021 ■ 2022



A record share of seats went to women in 2022: 58%.



There was a record number of active executives appointed in 2022, 49% compared to 40%.



The share of seats going to directors of ethnicities other than white remained similar: 23% in 2022, compared to 22% in 2021.

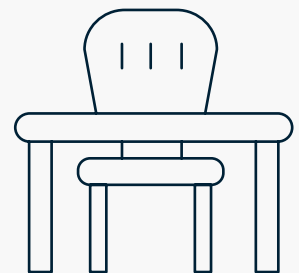
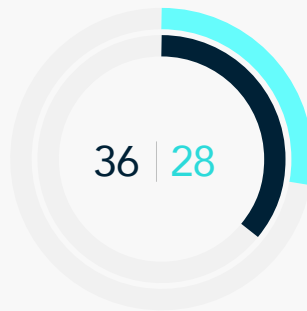
2021



2022



The share of seats going to first-time public board directors dropped to 28% in 2022, compared to 36% in 2021, the lowest levels since 2019.



Snapshot of 2022 findings

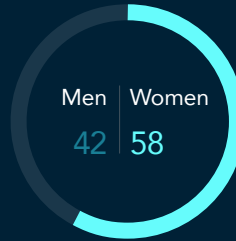
New seats filled



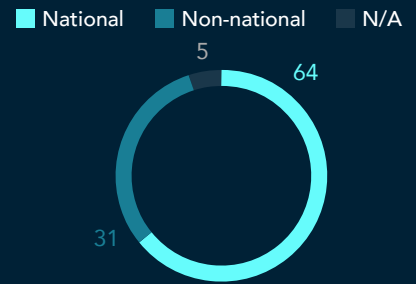
Average age



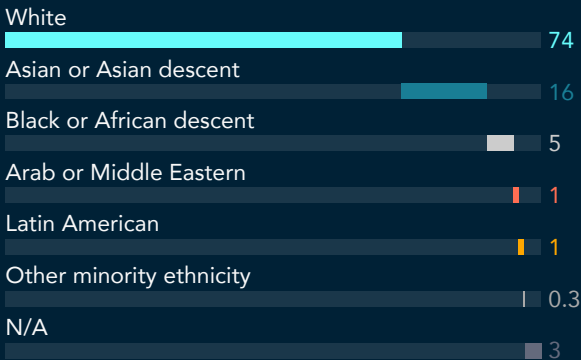
Gender balance (%)



Nationality (%)



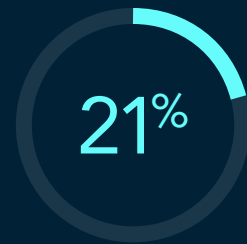
Ethnicity (%)



Education (%)



MBA

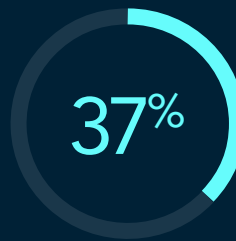


Prior C-suite experience

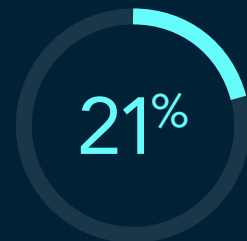
C-suite previous experience (%)



Current or former CEO experience

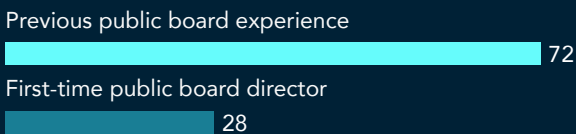


Current or former CFO experience



Career experience

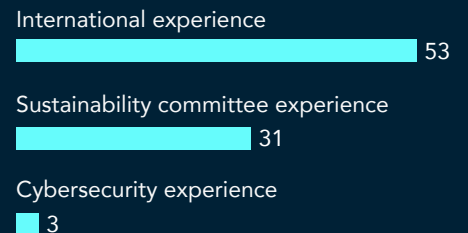
Public board experience (%)



Active vs. retired executives (%)



Other previous experience (%)



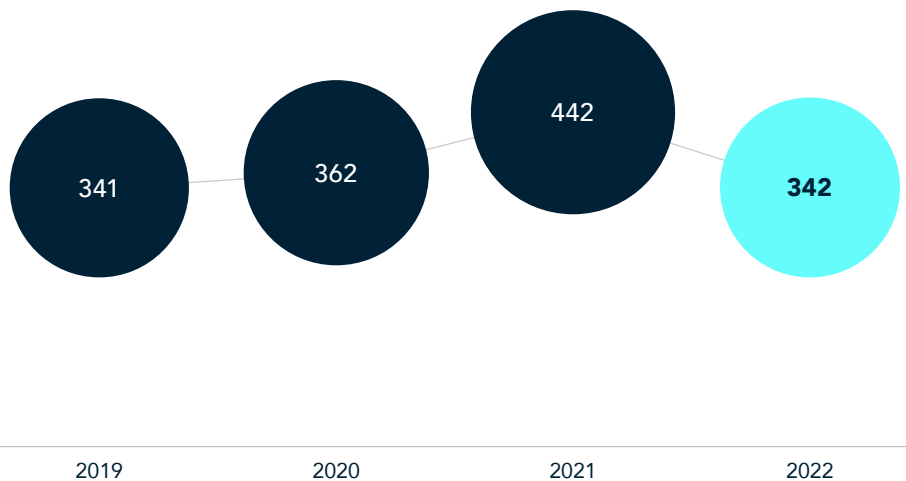
Board composition trends in 2022: A return to previous norms and director profiles



A lower number of board appointments at FTSE 350 companies

The number of appointments in 2022 decreased significantly, from 442 in 2021 to 342, but is similar to 2020 and 2019. This could signal a return to previous levels of appointments—as companies would have bolstered their boardrooms in 2021 in response to increased levels of uncertainty.

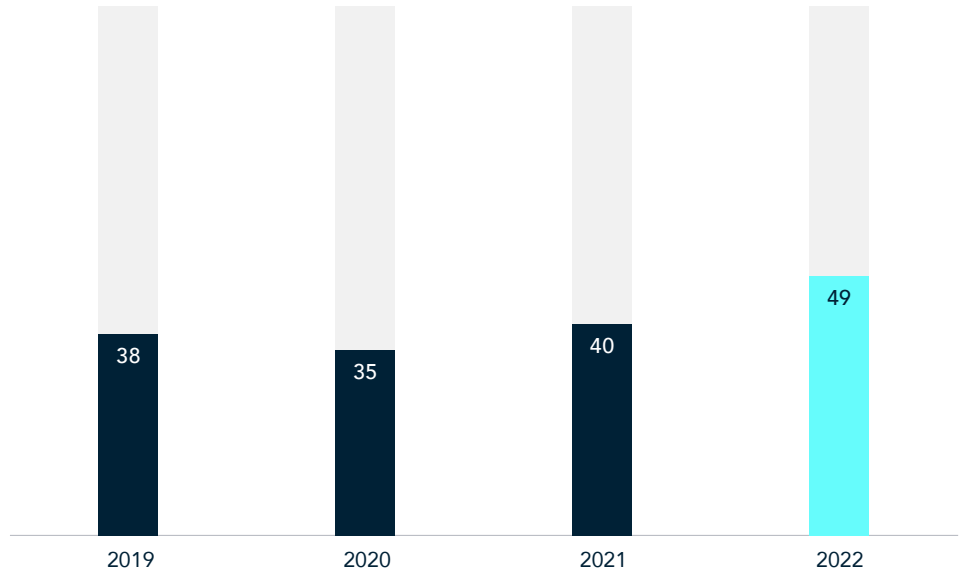
Number of board seats filled, 2019–2022



Seeking executive and board experience

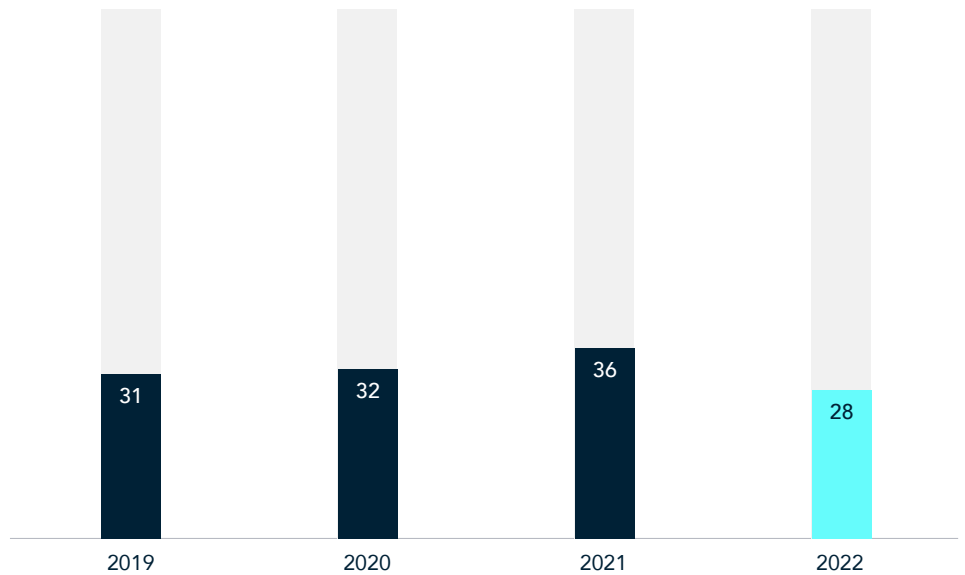
There was an increase in the share of directors who are active in their executive roles, rather than retired. This has been a growing trend over the last three years, with boards looking for executives who are dealing with the same challenges and opportunities in their companies in real time.

Active executives, 2019–2022 (%)



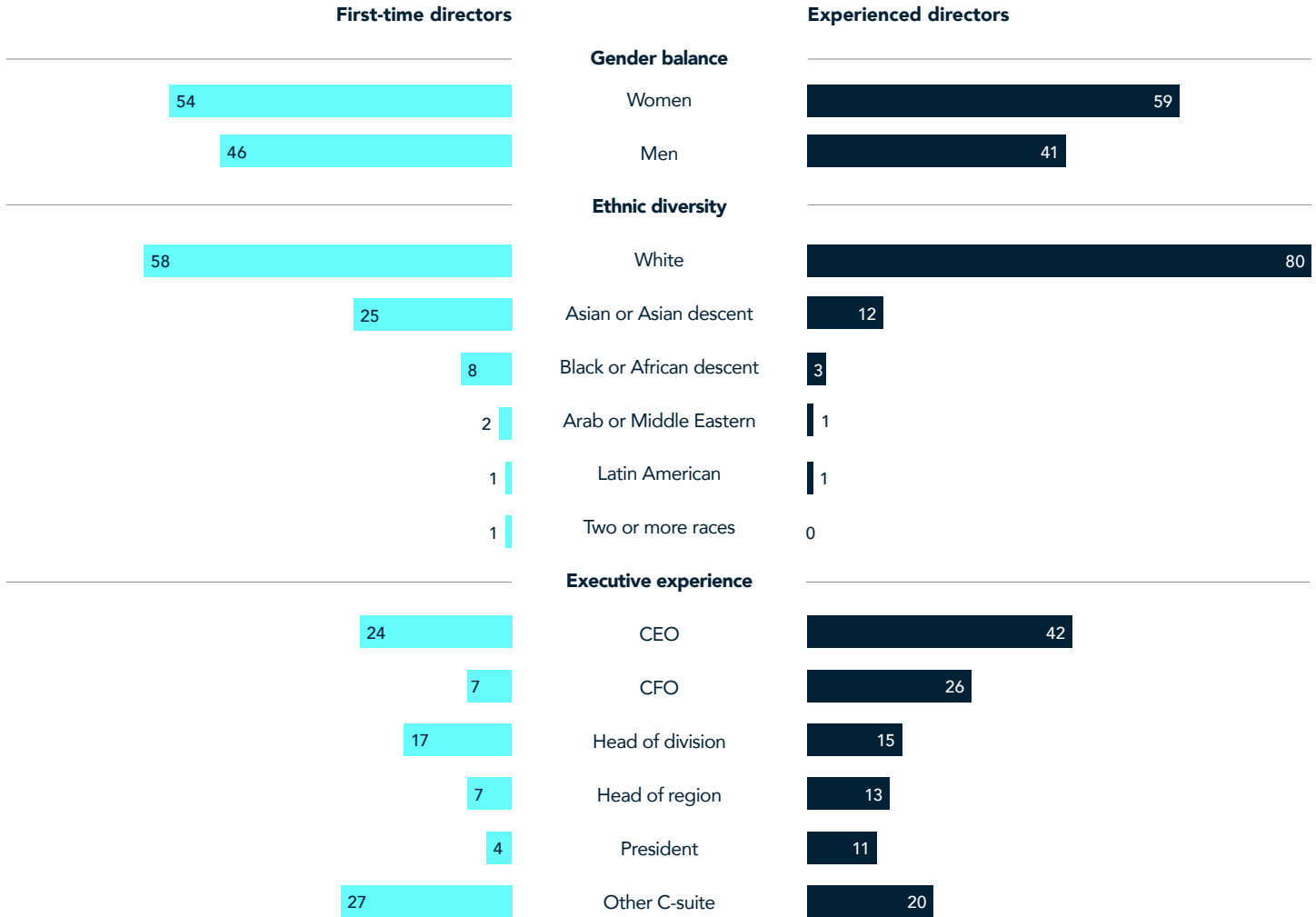
Another trend that reflects a return to previous norms is the drop in the share of seats going to first-time public board directors, the lowest since 2019. This shows that boards were seeking board as well as executive experience. First-time directors more often came from an underrepresented ethnic background compared to their experienced counterparts: notably, there was a higher share of first-time directors who were Asian or of Asian descent or Black or of African descent.

Share of first-time public board directors, 2019–2022 (%)



First-time directors have less executive experience than their peers with prior public board experience. First-time directors have more often held C-suite roles other than CEO, CFO, head of division, head of region, and president.

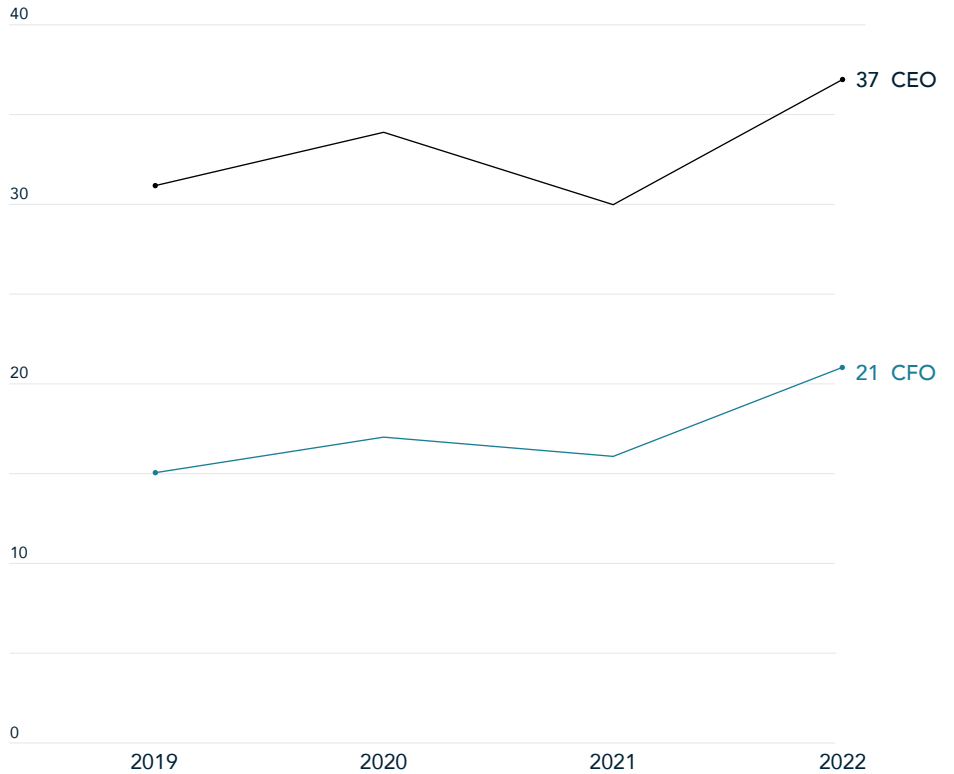
First-time directors vs. experienced directors (%)



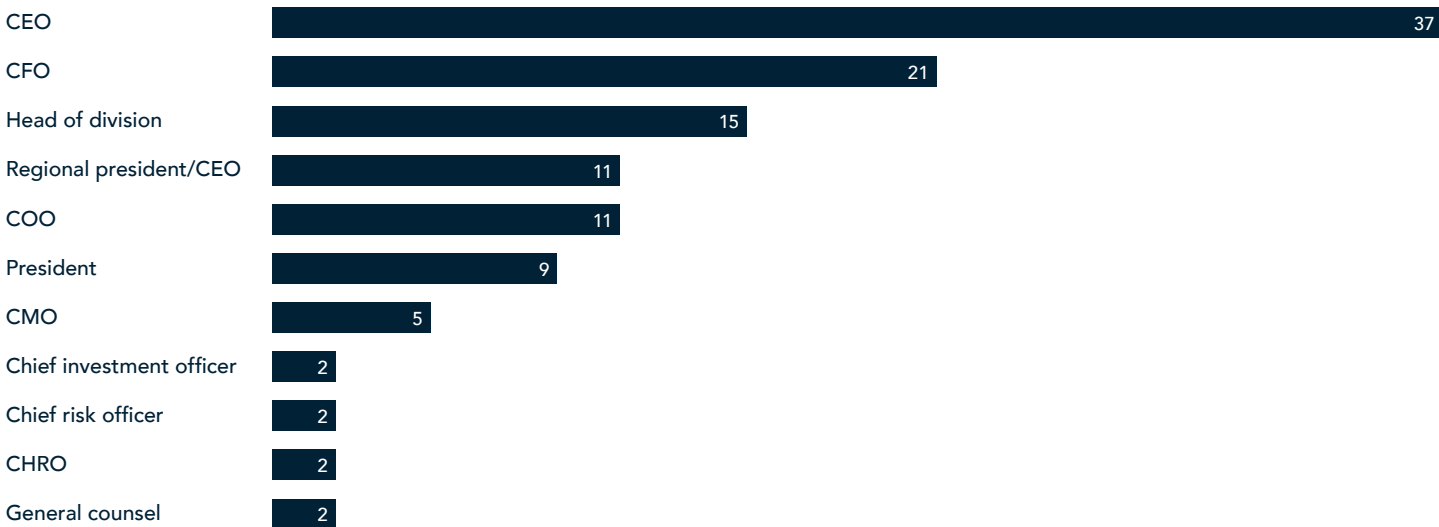
Executive roles

For all incoming directors in 2022, similar to the trends in the United States' Fortune 500 boards, we saw an uptick in the share of seats going to directors with CEO and CFO experience, both at their highest since 2019. Aside from these two positions, the most frequent sources of executive experience were head of division, COO, and head of region.

CEO and CFO experience trends, 2019–2022 (%)



C-suite experience, 2022 (%)



Sector experience

Overall, financial services was the most sought-after industry background, followed by consumer and business services. Notably, 43% of the healthcare and life sciences boards seats went to directors with consumer experience, and 42% of technology and telecoms seats went to directors with financial services backgrounds.

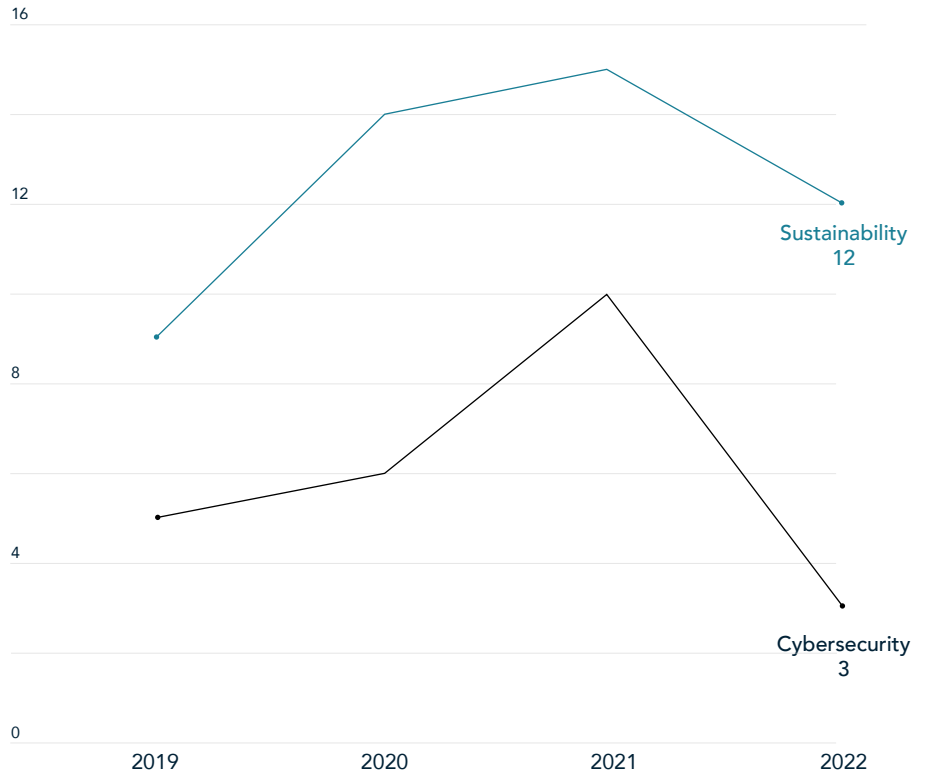
Industry experience, by board industry (%)

	Board industry					
	Overall	Consumer	Financial services	Healthcare and life sciences	Industrial	Technology and telecoms
Director career industry experience Business services	25	27	26	13	26	21
Consumer	36	69	23	43	32	37
Financial services	46	30	64	26	31	42
Industrial	23	12	15	26	46	16
Healthcare and life sciences	7	3	5	43	6	0
Technology and telecoms	12	18	5	9	13	47
Other	11	4	10	17	14	16

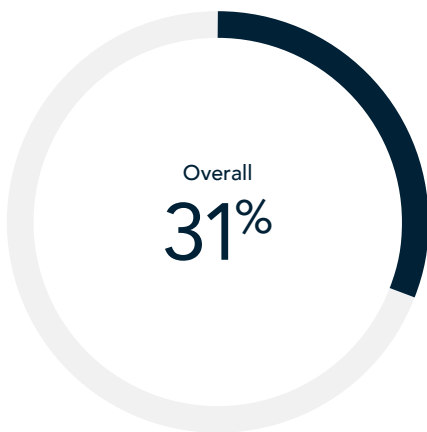
Other professional experience

We saw a drop in the share of seats going to directors with cybersecurity experience in an executive role, as well as a drop in the share of seats going to directors with sustainability experience. However, 31% of seats went to directors with experience on a sustainability committee.

Other experience trends, 2019–2022 (%)



Sustainability committee experience of new appointments (%)



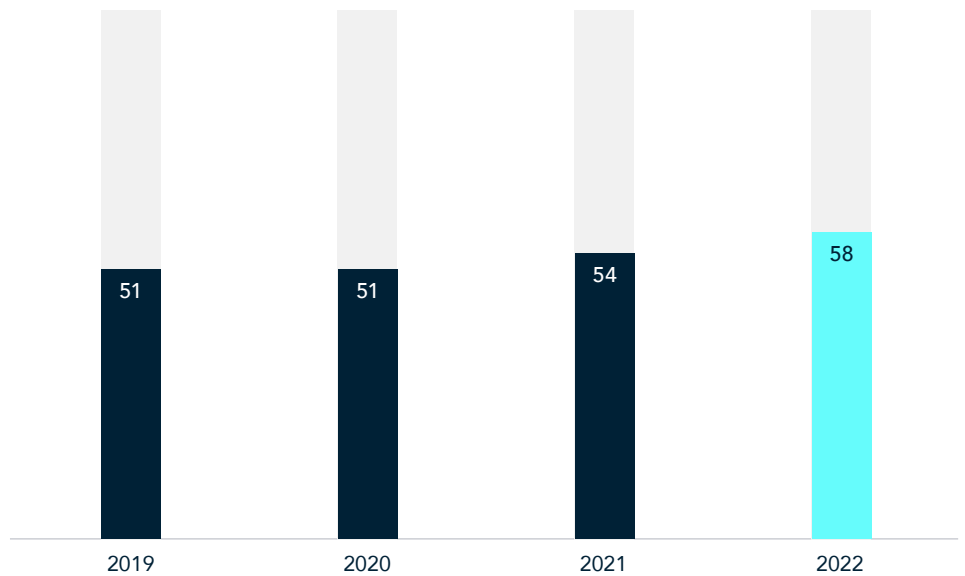
Progress on diversity



Gender balance

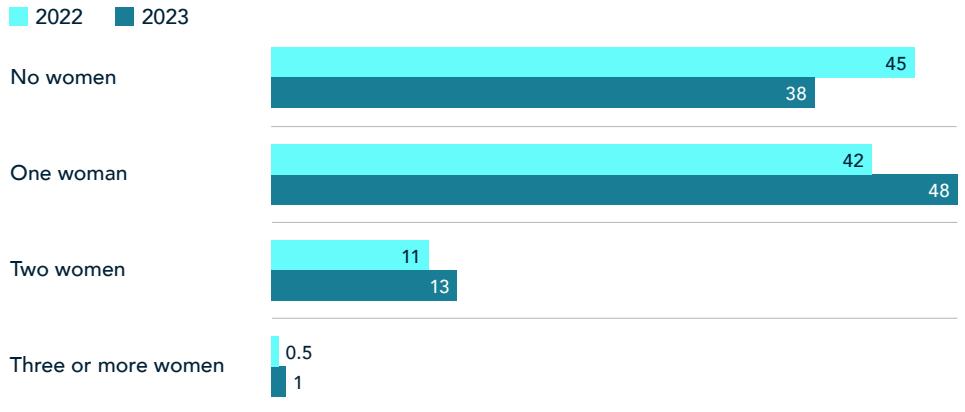
The share of seats going to women hit a record high in 2022, at 58%, no doubt at least in part due to the FCA requirement that at least 40% of all board members are women by the end of 2025. It's also notable that the share of seats going to experienced directors is higher than the share going to men: women made up 59% of the appointments going to experienced directors, up from 52% in 2021.

Share of women director appointments, 2019–2022



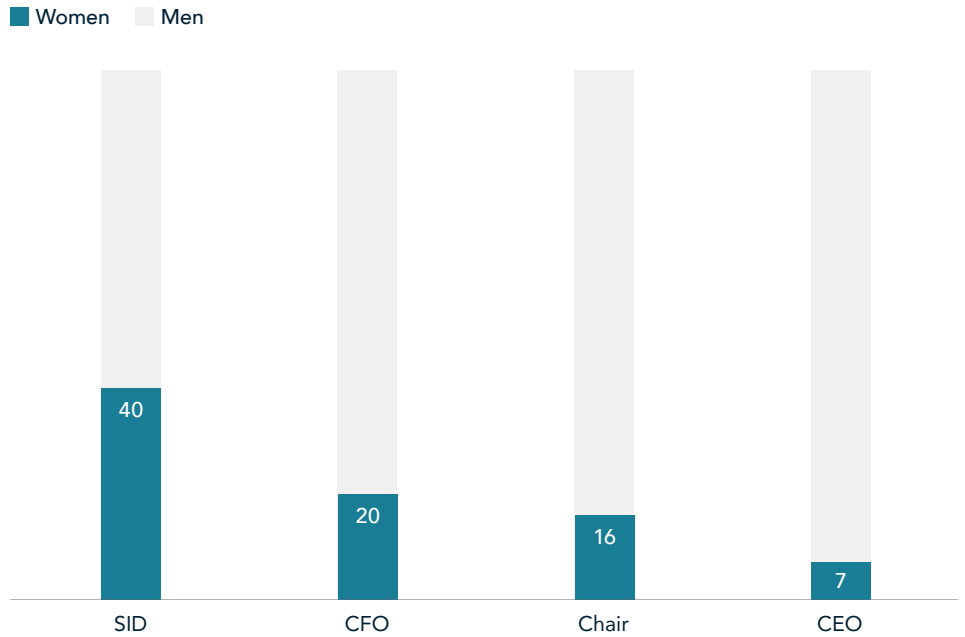
But our analysis shows that when looking at full board composition, though an average of 41% of FTSE 350 seats are held by women, still only 55% of companies reached the 40% quota. However, the target is well in sight, as 93% of companies have women in 30% of board seats. The United Kingdom is also one of the handful of markets where at least 20% of companies have reached gender parity.

Number of women in positions of influence at FTSE 350 companies, 2022 vs. 2023 (%)



It is also encouraging to see that boards have also made some progress in appointing women in one of the four positions of influence required by the same regulation: CEO, CFO, chair, or senior independent director (SID). While in 2021, 45% of companies had no women in any of the four positions, there are only 34% companies in the same situation now. By far the most common role filled by women is SID, with 40% of all SID roles having gone to women. Thought it's worth noting that while more companies now have at least one woman in a position of influence, the overall aggregate percentage for all roles has only gone up one percentage point, from 19% to 20%.

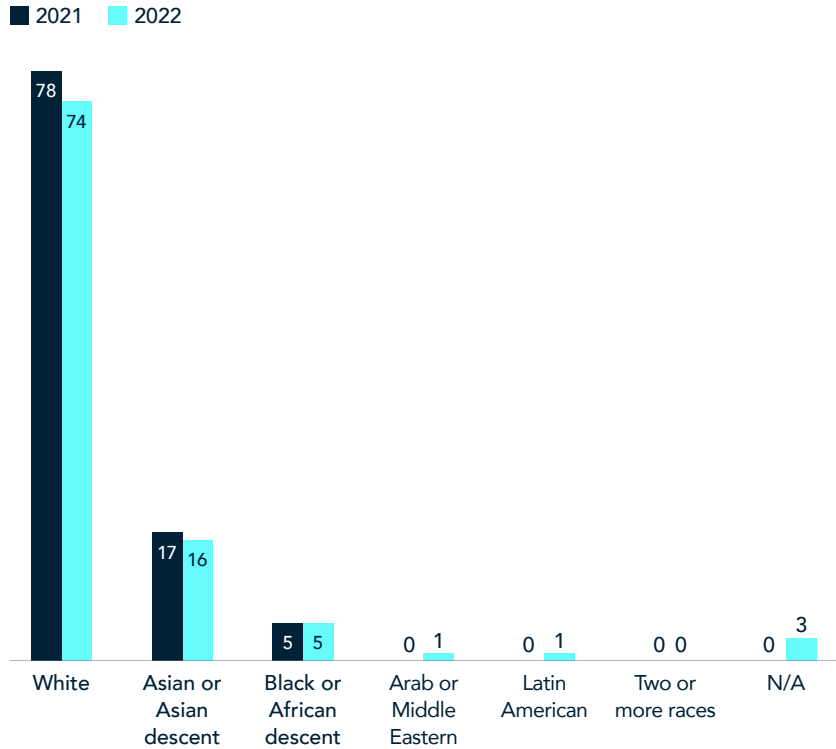
Gender balance in positions of influence at FTSE 350 companies, 2023



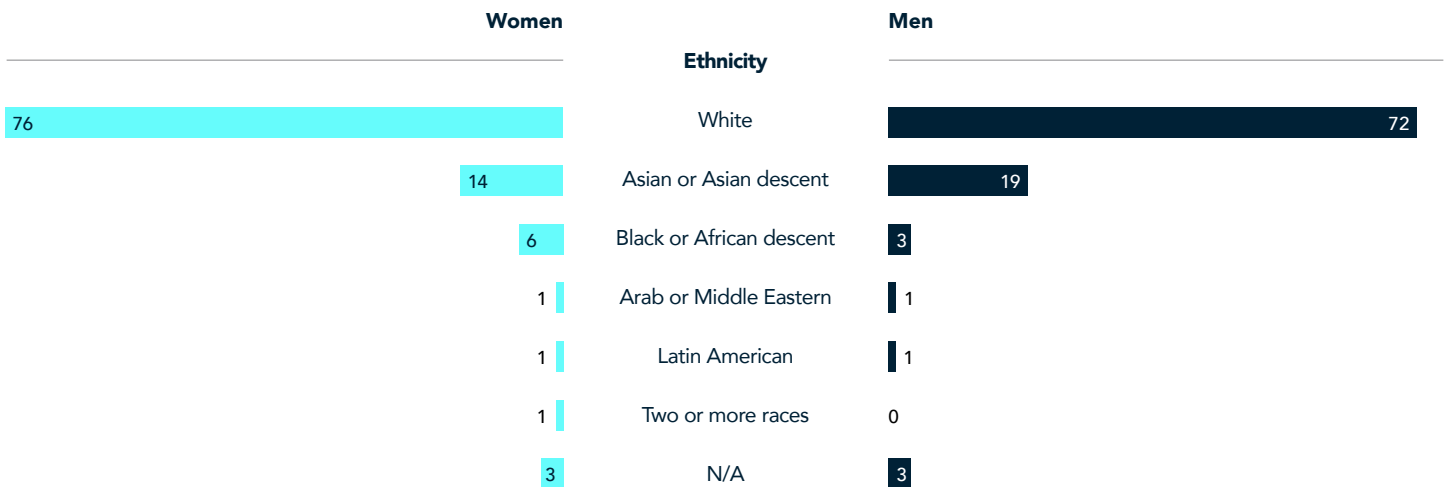
Ethnicity trends

There was slower progress on ethnic diversity in 2022, despite the fact that the FCA requirements also include the presence of a director of an ethnicity other than white on each board. While we saw an incremental improvement overall, with 24% of the seats going to directors from underrepresented ethnicities, compared to 22% in the previous year, this will not bring the progress FCA is aiming for. The Parker Review showed that the figures indicate that while 96% of FTSE 100 companies are already meeting that target, only 66% of FTSE 250 do so.⁵

Ethnicity of new appointments, 2021 vs. 2022 (%)



Ethnicity of new directors, by gender, 2022 (%)

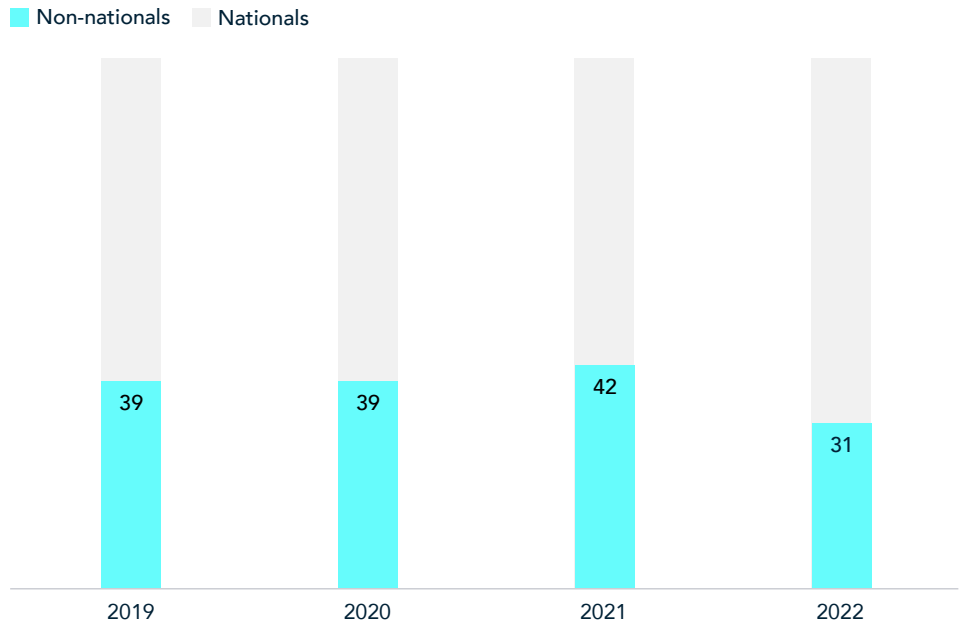


⁵ David Tyler, *Improving the Ethnic Diversity of UK Business*, The Parker Review Committee, March 2023, ey.com.

Nationality

Compared to prior years, there was a decrease in the share of seats going to directors who are not British citizens.

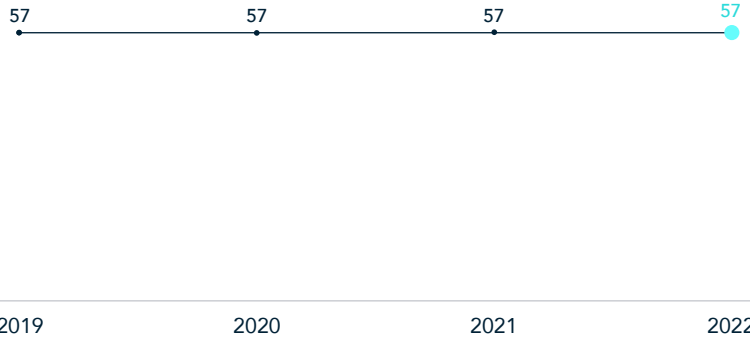
Nationality trends, 2019–2022 (%)



Age trends

The average age of directors appointed in 2022 held steady at 57. However far fewer seats went to directors under 55: 28% in 2022, compared to 40% in 2021; and more seats went to directors over 55: 66% in 2022, compared to 60% in 2021. This trend reduces boards' ability to tap into the skill sets and expertise of younger generations that also have fresh valuable perspectives to bring into board decision making.

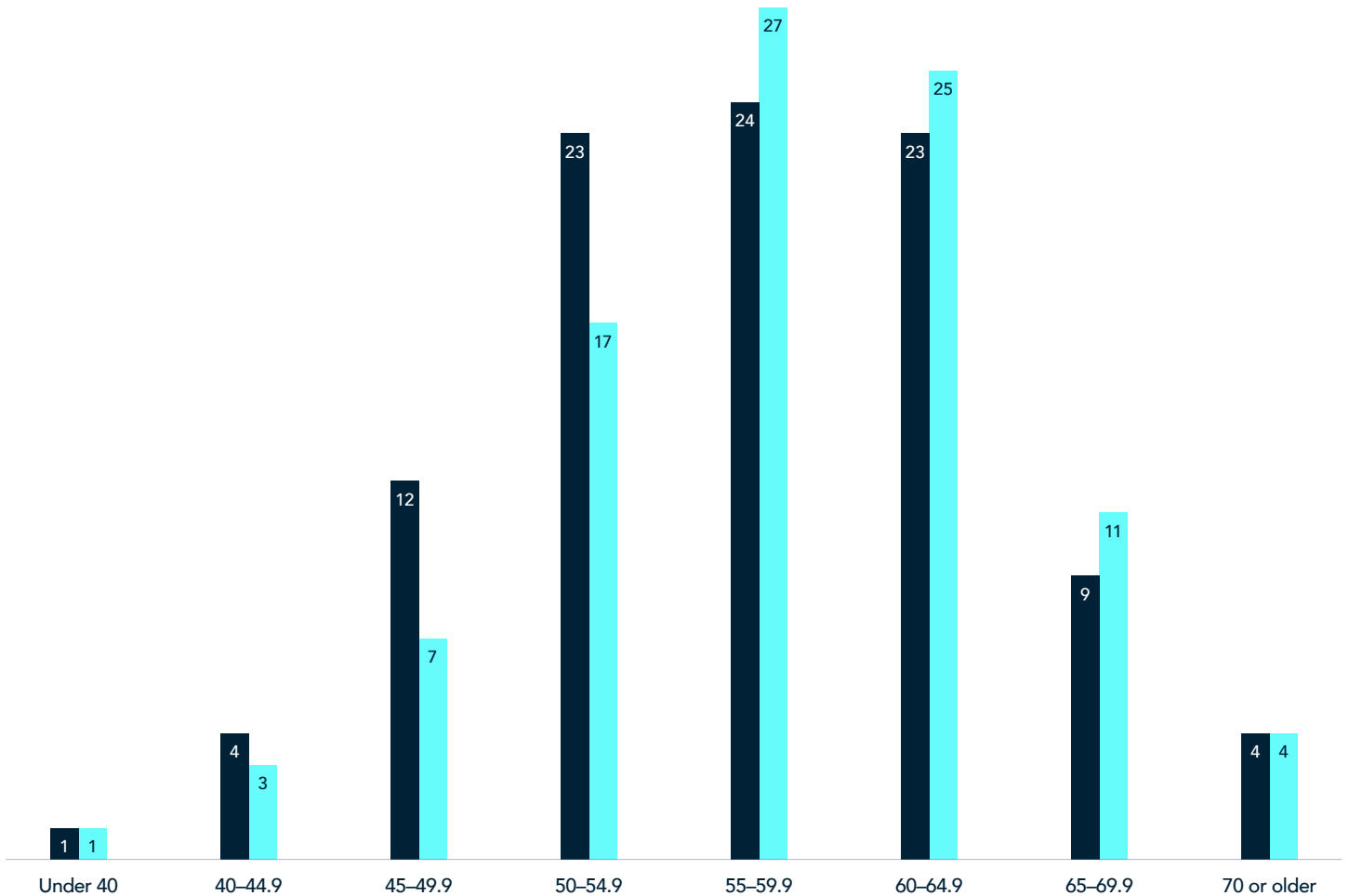
Average age of new appointments, 2019–2022



Note: Numbers do not sum to 100% because data was unavailable for 6% of directors.

Age distribution, 2021 vs. 2022 (%)

■ 2021 ■ 2022



Looking forward



The greatest challenge ahead for UK boards is to build capabilities that will enable them to successfully tackle the socioeconomic volatility that shows no signs of subsiding, while at the same time complying with increasing regulatory demands and maintaining a long-term strategic agenda and profitability. Even more than before, they must balance the pressures from their stakeholders to step up their role in society and address the rising concerns from their investors regarding their returns.

Maintaining the overall strategic value of the board in its entirety, rather than focusing on individual appointments, remains the golden rule of board composition. This will give boards strategic competitive advantage over the long term, particularly if their succession planning aims to address a wide range of scenarios and implications for board composition.

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So, what are best-in-class boards doing? They are:

Actively seeking new directors whose backgrounds combine a mix of traditional expertise (such as CEO or CFO) with knowledge that is newer on boards' skills matrix, such as digital, sustainability or cybersecurity, or from different industries. While boards will always require directors with broad executive experience, those who will be able to participate in all decision making, it's important that new directors also bring in additional areas of expertise that are needed in today's environment.



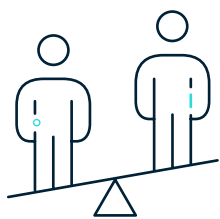
Bolstering sustainability acumen on boards.

As the UK government is preparing a new set of disclosure requirements to make it harder for companies to exaggerate their progress against sustainability targets—particularly those pertaining to climate change—boards will have to invest more time and effort into making sure their companies are clear on what their targets and road maps are. While it might be more difficult, arguably, to find non-executive directors with executive sustainability experience, the recent proliferation of sustainability board committees could offer another pool of sustainability-savvy candidates.



Staying tightly focused on diversity beyond gender, including racial and ethnic representation.

Best-in-class boards are building their networks and improving their outreach to potential directors from underrepresented ethnic or socioeconomic backgrounds. The 2022 appointments haven't shown decisive progress on this DE&I dimension, which makes this a priority area for focus for many companies.



Bringing younger directors onto boards. The average age of directors appointed over the past few years has been remarkably stable, and the average age of directors overall has increased slightly. Best-in-class boards understand the advantages of perspectives brought in by executives who are in earlier stages of their careers and are, in many cases, closer to the intricacies of some of the newer issues boards need to address, such as climate change.



Seeking new members who have the ability to take on a leadership role, either that of a chair, senior independent director, or committee leader. This is an area where we see a fierce competition for talent between companies that are trying to plan two steps ahead.



Creating a space for temporary seats at the table or bringing in voices from outside as a sounding board when voices beyond those in the boardroom need to be heard. These range from ad hoc committees to observers, advisors, or shadow boards.



Appendix

Overview of new diversity regulatory requirements

FTSE Women Leaders

- The voluntary target for FTSE 350 boards and leadership teams is now a minimum of 40% women's representation, by the end of 2025. FTSE 350 companies should have at least one woman in the chair or senior independent director role on the board, and/or one woman in the chief executive officer or finance director role in the company by the end of 2025.
- The scope is extended beyond FTSE 350 companies to include the largest 50 private companies in the United Kingdom, by sales. This will provide consistency of regulatory approach and drive further progress across British business.
- Key stakeholders, such as the investment community and corporate governance agencies should continue to set best-practice guidance, or have in place alternative mechanisms as appropriate, to encourage any FTSE 350 board that has not yet achieved the 33% target for 2020, to do so.

The Parker Review

Voluntary board requirements

- FTSE 100 companies had the 2021 target to have at least one minority ethnic director on their boards.
- FTSE 250 companies have been given a deadline of 2024 to appoint at least one minority ethnic director.
- Fifty of the United Kingdom's largest private companies have been now set the target of having at least one ethnic minority director on the main board by December 2027.

Senior management voluntary requirements

- Each FTSE 350 & top 50 private companies will be asked to set a percentage target by December 2023, for senior management positions that will be occupied by ethnic minority executives in December 2027.

CEO & Board of Directors Practice

Heidrick & Struggles' CEO & Board of Directors Practice has been built on our ability to execute top-level assignments and counsel CEOs and board members on the complex issues directly affecting their businesses.

We pride ourselves on being our clients' most trusted advisor and offer an integrated suite of services to help manage these challenges and their leadership assets. This ranges from the acquisition of talent through executive search to providing counsel in areas that include succession planning, executive and board assessment, and board effectiveness reviews.

Our CEO & Board Practice leverages our most accomplished search and leadership consulting professionals globally who understand the ever-transforming nature of leadership. This expertise, combined with in-depth industry, sector, and regional knowledge; differentiated research capabilities; and intellectual capital, enables us to provide sound global coverage for our clients.

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ONE LEADERSHIP TEAM AT A TIME®

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