

**Work,
Remuneration
and
Motivation
of
Directors**



Social Organisation Limited

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1 Introduction

This report on the work and remuneration of directors is the second by SOL to deal with this subject. Statistical information is again combined with a discussion of results so as to make their meaning clear.

Our first survey provided much information about the work and remuneration of directors which had not been available before, on the rate for the job and the rate for the man, as well as on the performance of the board and of the companies it directs.

The second survey on work remuneration, and motivation of directors, which is reported here, not only updates the earlier remuneration survey⁽⁵⁾ but also shows how remuneration is changing. Sample size and survey scope were increased considerably and the report contains much additional information in areas covered previously.

Three new sections are included, as follows :

- 4.3 Parity National Remuneration Scales are included so that any director can determine reliably the amount by which he has gained or lost ground compared with other directors, and the amount he should have received so as to maintain parity with others working at his level.
- 6 Motivation The motivation of directors has been analysed to show which factors motivate directors towards better performance.
- 7 Directing This section discusses the work of directors, including boardroom problems and organisation.

1.1 SCOPE OF SURVEY

Two hundred and fifty-five directors completed questionnaires and 364 jobs were analysed which compare with 169 and 233, respectively, in the previous survey.

1.2 COMPOSITION OF SAMPLE

This section provides information about the distribution of companies in the sample by turnover and by number of employees, about the work of the company and of its directors, and about the main area in which they are located.

1.2.1 COMPANY SIZE BY TURNOVER AND BY EMPLOYEES

The composition of the sample is illustrated by figures 1 and 2 which show company size in terms of turnover and employees, respectively.

1.2.2 FIRM'S CLASSIFICATION

Table 1 shows the composition of the sample according to the activity of the company, and compares it with the 1968 composition.

1.2.3 JOB

Executive directors covered most functions, but mainly management and administration, marketing and sales, finance, production, secretaryship, technical, accounting and personnel management. This follows the pattern of response obtained last year.

1.2.4 LOCATION

Twenty-two per cent of the questionnaires were received from the London area, 65 per cent were returned from other English counties, the remainder coming from Scotland (7 per cent), Northern Ireland (4 per cent) and Wales (2 per cent).

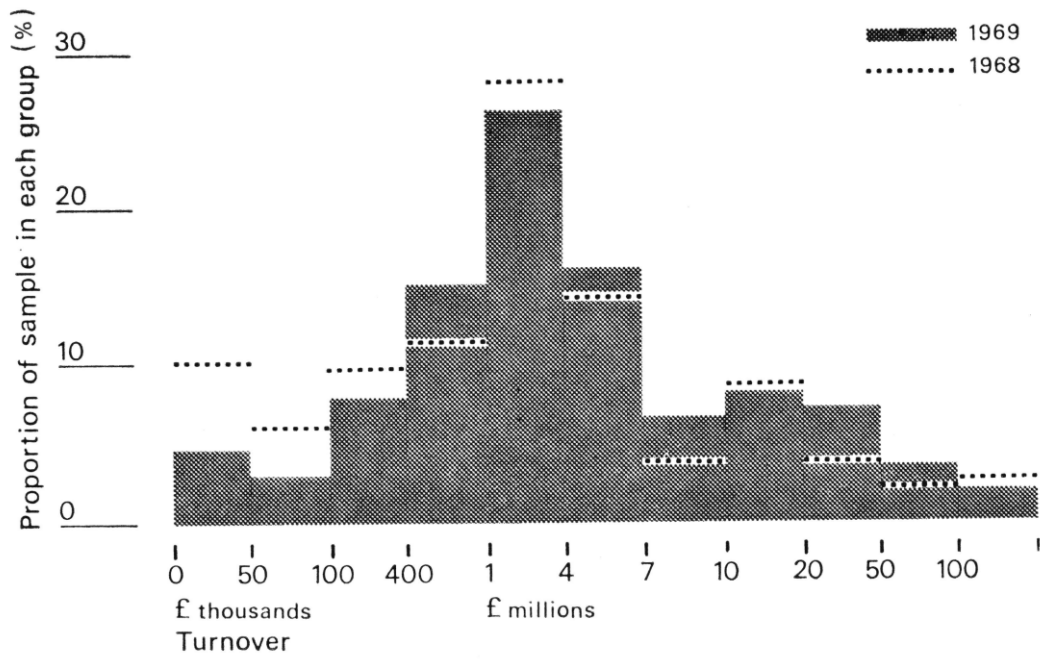


Figure 1 COMPANY SIZE BY TURNOVER

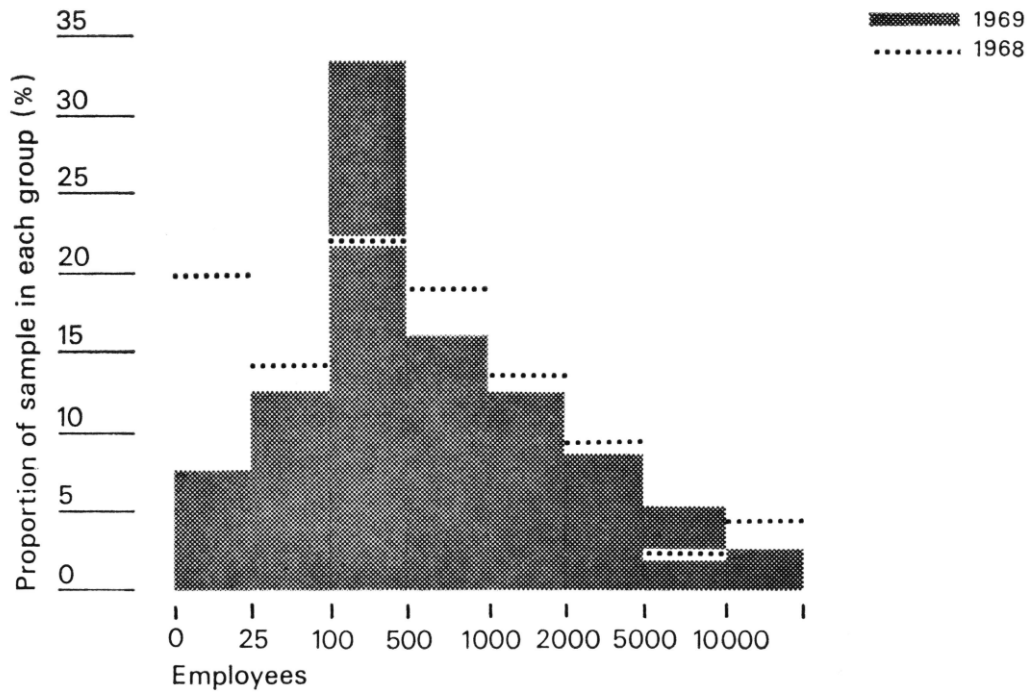


Figure 2 COMPANY SIZE BY EMPLOYEES

1.3 STATISTICAL NOTES

Median remuneration is the middle remuneration when all the remuneration figures are arranged in order of magnitude, beginning with the smallest and ending with the largest. This means that 50 per cent of directors receive less and 50 per cent receive more than the median.

The lower decile, lower quartile, upper quartile and upper decile give the remuneration of directors who are 10, 25, 75 and 90 per cent up the scale, respectively.

Where distributions are illustrated, as in figure 5, the proportion plotted is the percentage count based on a constant group interval. In this way the actual pattern is illustrated, undistorted by variation in group intervals.

1.4 FURTHER INFORMATION

The amount of information we have accumulated over a number of years compels us to be selective. More is available to those interested. Subscribers, who take all our reports, obtain them at reduced rates.

Those interested are invited to write directly to us. Anyone may do so.

1.5 ACKNOWLEDGEMENTS

We would like to thank those who participated in the survey for the trouble they took in completing our questionnaire. They can obtain the report at an extremely favourable rate.

Our previous survey was received with considerable interest and we would like to thank those who took the trouble to comment on it and to write to us with helpful suggestions. The present report is a more useful document as a result, and we look forward to receiving further comments and suggestions.

Table 1. FIRM'S CLASSIFICATION

<i>Classification</i>	<i>Proportion of sample</i>	
	<i>1969</i>	<i>1968</i>
	%	%
Manufacturing	50.4	50.6
Distributive	15.1	20.5
Services	11.2	8.9
Construction	10.4	5.0
Insurance, banking and finance	7.6	8.1
Professional and scientific	2.5	5.8
Others	2.8	0.4
	100.0	100.0

2 Job Analysis

2.1 JOB DESCRIPTION

The company is owned by shareholders who appoint directors. Directors are elected, represent, and can be dismissed, by shareholders and are responsible for safeguarding the invested capital, for ensuring that investors get an adequate present and future return from their investment.

Some directors of smaller companies own a substantial part of the capital. Directors may also represent the investor of a considerable part of the invested capital. To this extent they are directly concerned with the company's profit performance and progress.

Directors meet and jointly make decisions which should result from their combined knowledge and experience.

A part-time director attends board meetings and is generally appointed because of the interests he represents or because of his particular knowledge or experience. Part-time directors determine policy or provide specialist knowledge which assists in deciding policy, but carry no responsibility within the company for carrying out policy.

The chairman is the elected head of the company. It is the chairman who often formulates policy and carries final power and authority. This is mostly a part-time appointment.

The managing director is responsible for running the company within the general framework of the board's policy, calling upon the chairman to settle questions of policy between board meetings. Under a part-time chairman the managing director is the chief executive, responsible through the chairman to the board. Managing directors almost wholly hold executive positions.

Executive directors work full-time for the company as departmental heads, being generally responsible to the managing director. They mostly hold only one appointment, being departmental heads appointed to the board, making available their specific knowledge and experience.

2.2 APPOINTMENT AND POSITION

Directors may be appointed to the board as part-time or as executive directors and may hold different positions as follows :

Appointments	1. Part-time 2. Executive
Positions	1. Chairman 2. Chairman and Managing Director 3. Managing Director 4. Director

Figure 3 and figure 4 illustrate the composition of the sample by appointment and by position. Twenty-eight per cent of jobs are part-time appointments.

Table 2 analyses jobs by position and by appointment. The position of Chairman is mostly a part-time appointment, while Managing Director and 'Chairman and Managing Director' positions are generally executive appointments.

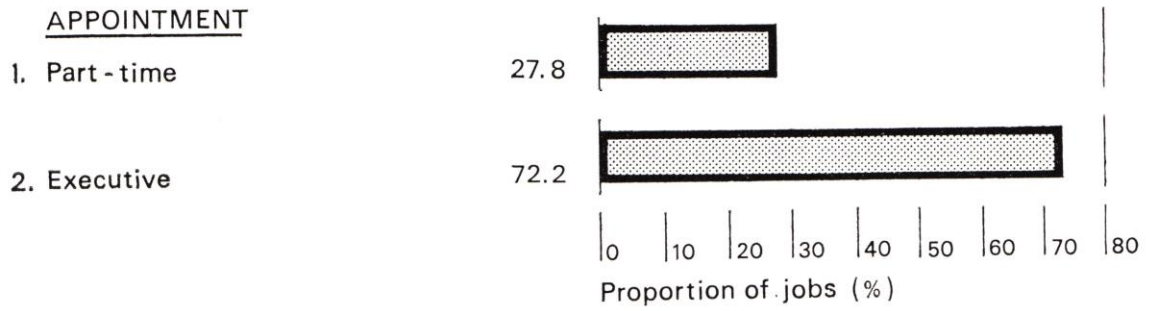


Figure 3 APPOINTMENTS

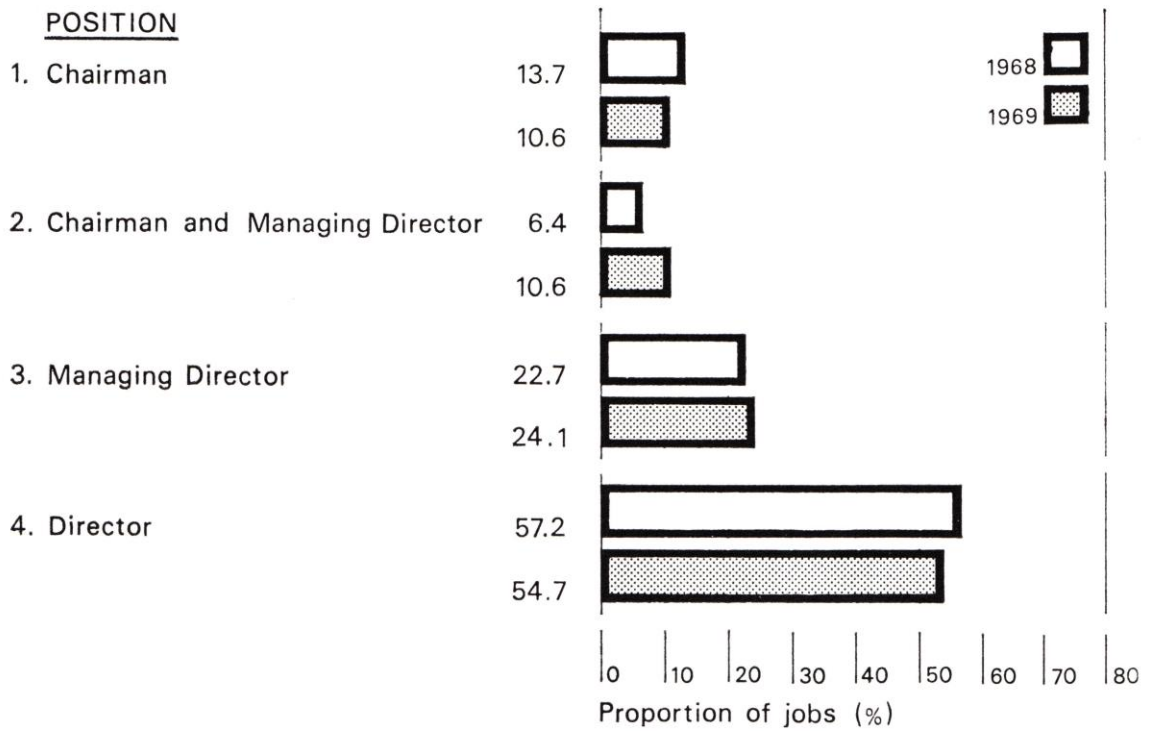


Figure 4 POSITIONS

Table 2. JOBS BY POSITION BY APPOINTMENT

Position	Appointment		Total
	Part-time	Executive	
	%	%	%
Chairman	62.2	37.8	100
Chairman and Managing Director	13.5	86.5	100
Managing Director	4.8	95.2	100
Director	34.0	66.0	100

3 Rate for Job

The rate for the job is the pay per appointment, being the company's assessment of the worth to the company of getting this work done, depending on inherent job requirements such as level of responsibility, and on what the company has to pay to get this work done.

3.1 REMUNERATION FOR PART-TIME AND EXECUTIVE APPOINTMENTS

The rate for the job depends to a large extent on whether the appointment is executive or part-time. Remuneration from an executive appointment is largely salary, while remuneration from part-time appointments consists mostly of retainer and fees for attending board meetings.

The 1968 survey included appointments for which no remuneration was received by the holder, amounting to 19.8 per cent of the total number of appointments. When appointments carry no remuneration, they are part of another paid appointment, such as may have been made to assist co-ordination between boards, to aid communication, to ensure policy is followed. Hence only remunerated appointments are included in this survey. This change does not affect comparisons of remuneration with earlier years.

Figure 5 shows how executive and part-time work is paid, remuneration being the sum of salary, retainer, fees, commission, bonus and profit sharing, excluding fringe benefits, arising from this one appointment.

The tables which follow compare remuneration paid in 1968 and 1969 for different positions, Table 3 applies to part-time appointments, while table 4 applies to executive appointments.

Table 3 shows that the median remuneration for part-time appointments increased by £110 (22 per cent) to £610. While 43 per cent of part-time directors received under £400 in 1968, the general increase in fees meant that only 33 per cent received under £400 in 1969. The most frequently paid amount was £100–£200 in 1968, and figure 5 shows that it was £200–£300 in 1969. There has thus been a marked increase in fees paid for attending board meetings, particularly at the lower end of the scale.

Fees received by chairmen increased by about 90 per cent which compares with about 20 per cent for directors. This is reflected in the remuneration ratio, a director's fee now being 42 per cent of the chairman's, instead of 67 per cent in 1968.

Table 4 shows that the median remuneration for an executive appointment increased by £750 (15 per cent) to £5,750. The remuneration of managing directors and of directors increased by about 19–20 per cent. The remuneration ratio between them is about 85 per cent, but this is not a ratio between positions in the same company.

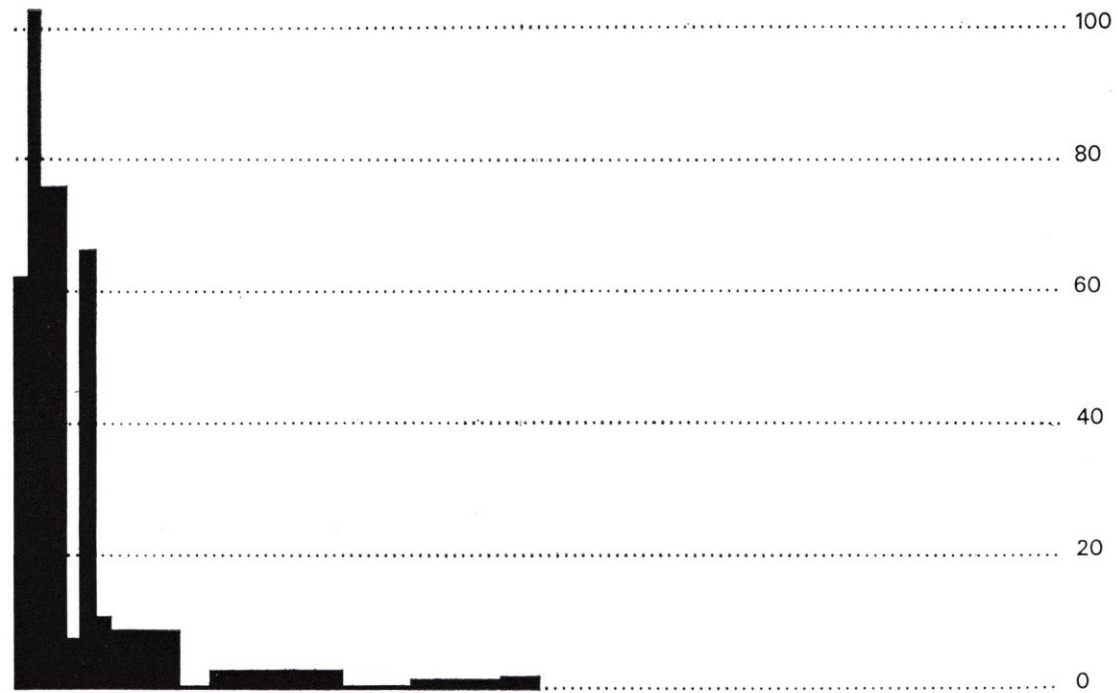
Table 3. REMUNERATION FOR PART-TIME APPOINTMENTS BY POSITION

Position	Remuneration 1969			Remuneration 1968	1968–9 change in Median	
	Lower Quartile	Median	Upper Quartile	Median	£	%
	£	£	£	£	£	%
1. Chairman	570	1050	1550	550	500	91
4. Director	240	440	800	370	70	19
All positions*	270	610	1150	500	110	22
Remuneration ratio Director/Chairman (%)	42	42	52	67	14	—

* Includes positions 'Chairman and Managing Director' and 'Managing Director'.

PART-TIME

..... 120



EXECUTIVE

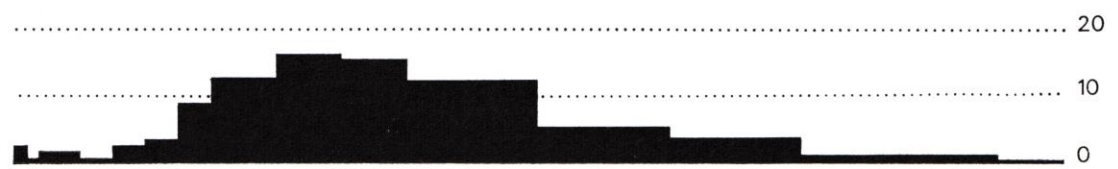


Figure 5 PAY PER EXECUTIVE AND PER PART-TIME APPOINTMENT

Table 4. REMUNERATION FOR EXECUTIVE APPOINTMENTS BY POSITION

Position	Remuneration 1969			Remuneration 1968	1968-69 change in Median	
	Lower Quartile	Median	Upper Quartile	Median	£	%
1. Chairman	£ 4100	£ 6200	£ 9500	—	—	—
2. Chairman & Managing Director	4650	6000	8200	—	—	—
3. Managing Director	4550	6350	8900	5300	1050	19.8
4. Director	4000	5400	7000	4550	850	18.7
All positions	4200	5750	7900	5000	750	15.0
Remuneration ratio						
Director/Managing Director (%)	88	85	79	86	91	—

3.2 SHARING IN PROFITS

A share of profits in addition to basic salary may be provided through either commission, bonus or profit sharing, and table 5 shows the extent to which each of these schemes is used. Profit sharing is the most common. The proportion of jobs which offer profit sharing increased from 23 per cent to 27 per cent, due to an increase in the number of executive directors who share in profits.

Table 6 shows to what extent profit sharing depends on appointment, position, or share ownership. It can be seen that 34 per cent of executive appointments provide profit sharing compared with 8 per cent of part-time appointments. Profit sharing is used to produce results.

Table 5. PROFIT SHARING BY TYPE OF SCHEME

<i>Basis</i>	% of jobs	
	1969	1968
Commission	3	5
Bonus	20	26
Profit sharing	77	70
Total	100	100

Table 6. PROFIT SHARING BY APPOINTMENT, POSITION, AND SHARE OWNERSHIP

	<i>Proportion of jobs which provide a share in profits</i>	
	1969	1968
	%	%
<i>Appointment</i>		
Executive	34.0	—
Part-time	8.0	—
<i>Position</i>		
Chairman	24.3	—
Chairman and Managing Director	30.6	—
Managing Director	31.8	31.5
Director	25.6	21.0
<i>Share ownership</i>		
Controlling	32.4	—
Others	25.7	—
<i>All jobs</i>	27.3	23.0

3.3 FRINGE BENEFITS

3.31 TYPE

The main fringe benefits are sole use of company car, Top Hat pension scheme, free life assurance and subsidised lunches.

For each one of these, the percentage of directors receiving it is given by figure 6. About 90 per cent have sole use of a company car.

3.32 NUMBER AND COMBINATIONS

Figure 7 shows how fringe benefits are distributed among directors, according to the number of benefits received, showing the most common combinations. Almost all directors receive some fringe benefits, usually two.

3.33 CHANGES DURING 1968–1969

There has been no material change since the 1968 survey in the type, number or combination of fringe benefits received by directors.

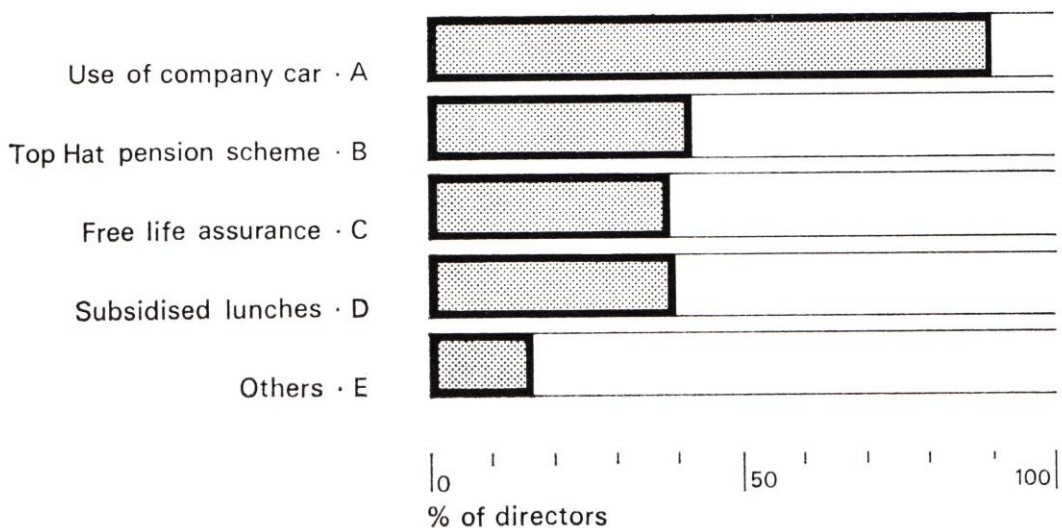


Figure 6 FRINGE BENEFITS ACCORDING TO TYPE

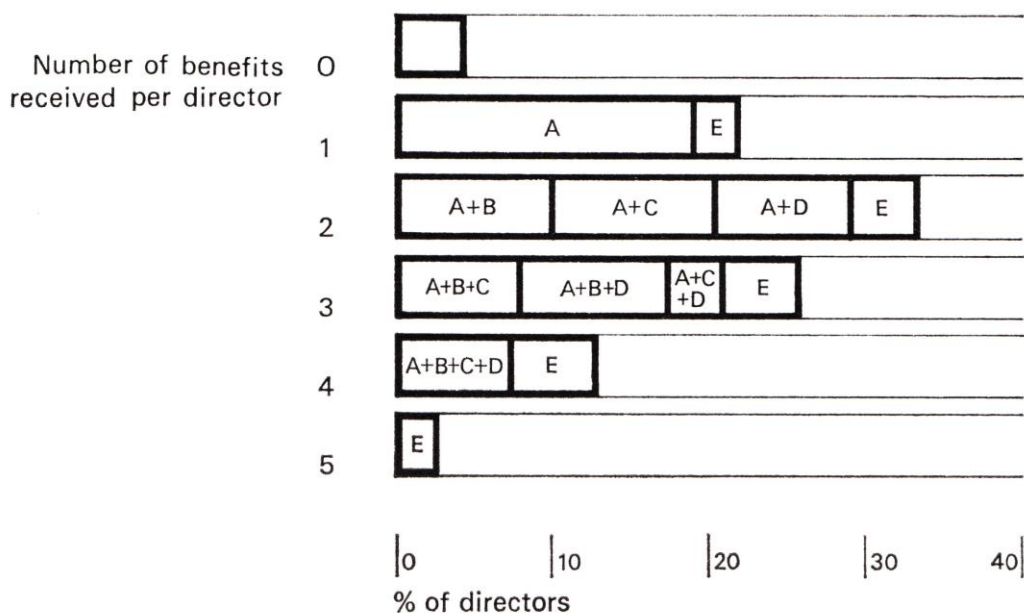


Figure 7 FRINGE BENEFITS ACCORDING TO NUMBER AND COMBINATION

3.4 AGE

The median age of those holding executive positions is 47.3 years, and of those holding part-time positions is 50.0 years.

3.5 COMPANY AND JOB SERVICE

Table 7 provides information on job and company service, showing what proportion of directors held their job or remained in the company for less than the given number of years.

The table shows that 50 per cent of directors had remained with the employing company for 15.3 years in 1968, which compares with 13.1 years in 1969, and had held their job for 7.0 years in 1968 compared with 5.7 years in 1969.

Both the length of service with the company, and the time the job has been held are smaller.

3.6 WORKING WEEK

Directors have been grouped according to how long they work each week and figure 8 illustrates the proportion of directors in each group, and compares this with the 1968 data.

The median working week is 48.6 hours, compared with 47.5 hours during 1968, an increase of 2.3 per cent.

3.7 HOLIDAYS

Figure 9 shows the proportion of directors taking holidays of different lengths.

Holidays taken are counted by what would otherwise have been normal working days, excluding statutory holidays.

Table 8 shows how the length of holidays taken changed between 1968 and 1969. The median holiday increased from 15.4 to 16.7 days, an increase of 8.5 per cent.

Table 7. JOB AND COMPANY SERVICE

	<i>Proportion of directors who stayed in job or company for less than the given number of years</i>	<i>Job residence</i>		<i>Company service</i>	
		1969	1968	1969	1968
	%	years	years	years	years
Lower quartile	25	2.6	3.6	6.1	7.1
Median	50	5.7	7.0	13.1	15.3
Upper quartile	75	11.1	12.6	24.3	27.6

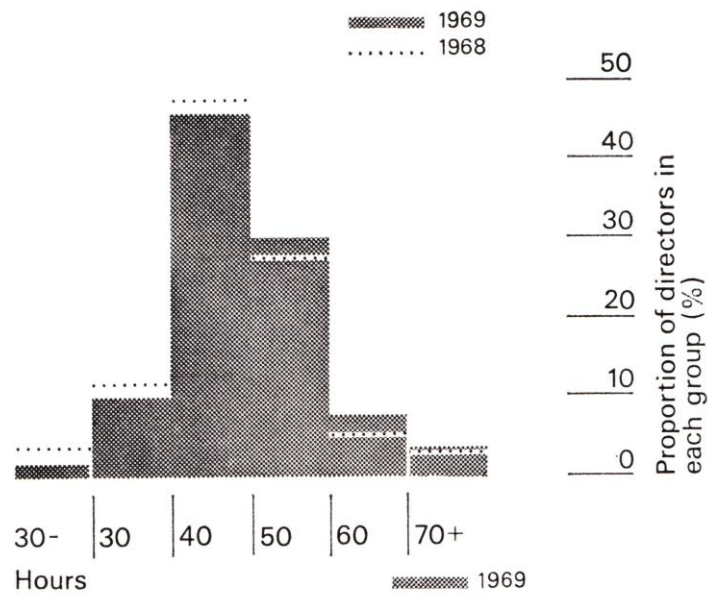


Figure 8 WORKING WEEK

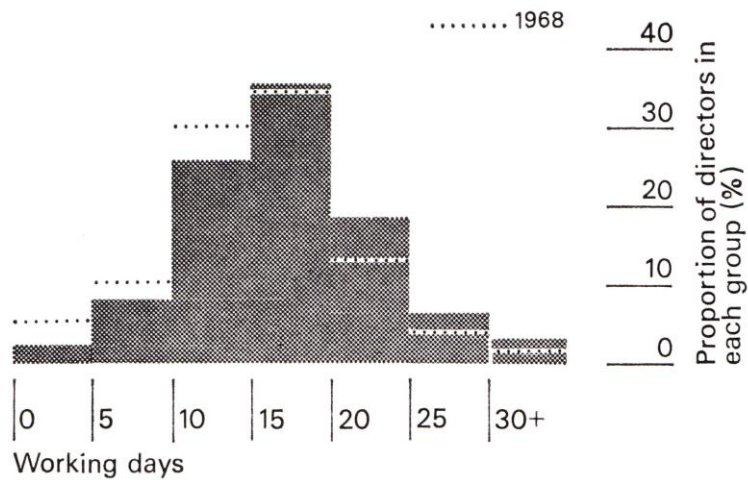


Figure 9 HOLIDAYS
(Excluding statutory holidays)

Table 8. HOLIDAYS

	<i>Holidays</i>		<i>Change</i>	
	<i>1969</i>	<i>1968</i>	<i>1968-1969</i>	
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>%</i>
Lower quartile	13.1	11.7	1.4	12.0
Median	16.7	15.4	1.3	8.5
Upper quartile	20.6	18.8	1.8	9.6

4 Rate for Man

4.1 REMUNERATION

National Remuneration Scales enable the company to estimate the increase which needs to be given so as to maintain an executive's position compared with others of his age working at the same level outside the company. National Remuneration Scales also enable a director to assess to what extent he is maintaining his position.

This section describes National Remuneration Scales, discusses that for 1969 and compares it with that for 1968, showing how remuneration has changed, and showing how the scales can be used for comparing and estimating remuneration changes. The information given here enables a director to assess whether he is gaining or losing ground compared with other directors of his age who are working at the same level.

4.11 NATIONAL REMUNERATION SCALE

Directors gain experience and absorb it, applying the lesson learned one day to work done the next. Their experience continues to increase and as a result so does the responsibility they carry. As responsibility increases, remuneration increases accordingly. Experience, responsibility and remuneration increase as directors grow older. But some directors will be more successful than others depending on their ability and on the opportunities and scope available to them.

Figure 11 is the National Remuneration Scale for directors, based on the 1969 survey, and details the remuneration of directors, stating how this depends on age and on degree of success. It is seen that a National Remuneration Scale consists of lines corresponding to different levels of individual success, called grade lines. Grade 'G' measures level in profession and degree of success. The more successful the director the higher is his grade. The success of a G40 director would be such that 40 per cent of directors as old as he is earn less, while 60 per cent earn more. 50 per cent of directors earn less than the median G50 director, 50 per cent earn more. The success of a G70 director is such that 70 per cent of directors of his age earn less, only 30 per cent earn more.

The National Remuneration Scale shows that the remuneration of more successful directors increases more rapidly with age than that of less successful directors. Unsuccessful directors reach their maximum while relatively young, successful directors reach it just before normal retiring age. This pattern is similar to that which exists for managerial, executive, technical, scientific and other staff⁽¹⁾.

Individuals tend to maintain their position in their profession and a director can expect to advance according to his grade line. But reaching a higher grade means gaining ground, dropping to a lower grade means losing ground, compared with colleagues working at the same level. As long as a director maintains his grade, he is content but may be frustrated if able to do better without having the opportunity to do so. If he loses ground he generally feels frustrated, if he gains he generally feels satisfied.

4.12 REMUNERATION 1969

The 1969 remuneration pattern is given by figure 11 which is the National Remuneration Scale for directors.

Remuneration is taken to include gross annual salary, directors' retainer, fees and share in company profits through commission, bonus and profit sharing. It is taken as the sum of schedule 'E' and schedule 'D' income.

It applies to chairmen, managing directors and directors, and to those holding the position 'Chairman and Managing Director', irrespective of whether the director is controlling, executive or part-time. Their relative position is shown by their respective grades, for example a managing director generally has a higher grade than the director who reports to him.

The median (G50) director's remuneration is £4,250 at age 35, rising to a maximum of £6,700 at age 55. An unsuccessful (G10) director's remuneration increases from £3,450 at age 35 to his maximum of £4,100 when 47 years old.

4.13 REMUNERATION 1968

The 1968 National Remuneration Scale is given by figure 10.

4.2 REMUNERATION CHANGES 1968-1969

Table 9 shows how the remuneration of directors depends on age and grade, and the extent to which 1969 remuneration exceeds that for 1968. The increase is shown as amount and as percentage.

Less successful directors received the highest percentage increases, but the largest amounts went to median directors. The younger the director, the higher the percentage increase, but the larger amounts went to directors between 45 and 55 years old. The remuneration of successful directors increased by smaller amounts and percentages than that of their median, less successful, colleagues.

Table 9. REMUNERATION CHANGES 1968-1969, BY AGE AND DEGREE OF SUCCESS

Age (in 1969)	Grade (Level in profession, degree of success)			Remuneration		Increase	
				1969	1968	£	%
					£		
35	Unsuccessful	G10	3450	2800	650	23.2	
	Moderately successful ..	G30	3900	3200	700	21.9	
	Median success	G50	4250	3550	700	19.7	
	Fairly successful	G70	4600	4050	550	13.6	
	Successful	G90	5250	4750	500	10.5	
40	Unsuccessful	G10	3800	3150	650	20.6	
	Moderately successful ..	G30	4550	3750	800	21.3	
	Median success	G50	5200	4350	850	19.5	
	Fairly successful	G70	5900	5200	700	13.5	
	Successful	G90	7000	6400	600	9.4	
45	Unsuccessful	G10	4100	3350	750	22.4	
	Moderately successful ..	G30	5050	4200	850	20.2	
	Median success	G50	5950	5050	900	17.8	
	Fairly successful	G70	7050	6300	750	11.9	
	Successful	G90	8800	8200	600	7.3	
50	Unsuccessful	G10	4050	3400	650	19.1	
	Moderately successful ..	G30	5250	4400	850	19.3	
	Median success	G50	6500	5600	900	16.1	
	Fairly successful	G70	7950	7250	700	9.7	
	Successful	G90	10450	9700	750	7.7	
55	Unsuccessful	G10	3800	3300	500	15.2	
	Moderately successful ..	G30	5150	4400	750	17.0	
	Median success	G50	6700	5750	950	16.5	
	Fairly successful	G70	8600	7900	700	8.9	
	Successful	G90	11700	11050	650	5.9	
60	Unsuccessful	G10	3400	2950	450	15.3	
	Moderately successful ..	G30	4800	4100	700	17.1	
	Median success	G50	6450	5650	800	14.2	
	Fairly successful	G70	8700	8050	650	8.1	
	Successful	G90	12450	11850	600	5.1	
65	Unsuccessful	G10	2850	2500	350	14.0	
	Moderately successful ..	G30	4200	3650	550	15.1	
	Median success	G50	5900	5250	650	12.4	
	Fairly successful	G70	8250	7800	450	5.8	
	Successful	G90	12400	12000	400	3.3	

4.3 PARITY

This section shows how a director can

- 1 determine his grade from the National Remuneration Scale and use this to estimate
- 2 the increase in remuneration he should have received had he maintained his position, that is corresponding to parity when there is no upward or downward change of grade, the director neither gaining nor losing compared with other directors,
- 3 and the amount gained or lost compared with other directors and the extent of the change.

As shown by sections 4.11 and 4.12, a director's grade states his level in his profession, and the comparison is with other directors of his age who are working at the same level. It applies to chairman, chairman and managing director, managing director and director, irrespective of whether they are controlling or hold executive or part-time appointments.

4.31 HOW TO DETERMINE GRADE

The method of determining a director's grade, using a National Remuneration Scale, knowing the director's age and his remuneration in the period covered by the survey, is to select his age on the horizontal scale and then move vertically upwards until the horizontal line is reached which represents his remuneration. The point where the vertical and horizontal lines intersect gives the grade, which is estimated from the grade lines.

Example 1 35 years old in 1968, which is the survey year, remuneration then being £3,190. Using National Remuneration Scale for 1968 (NRS 1968, figure 10) it is seen that the two lines intersect on the G20 line and his grade is thus G20.

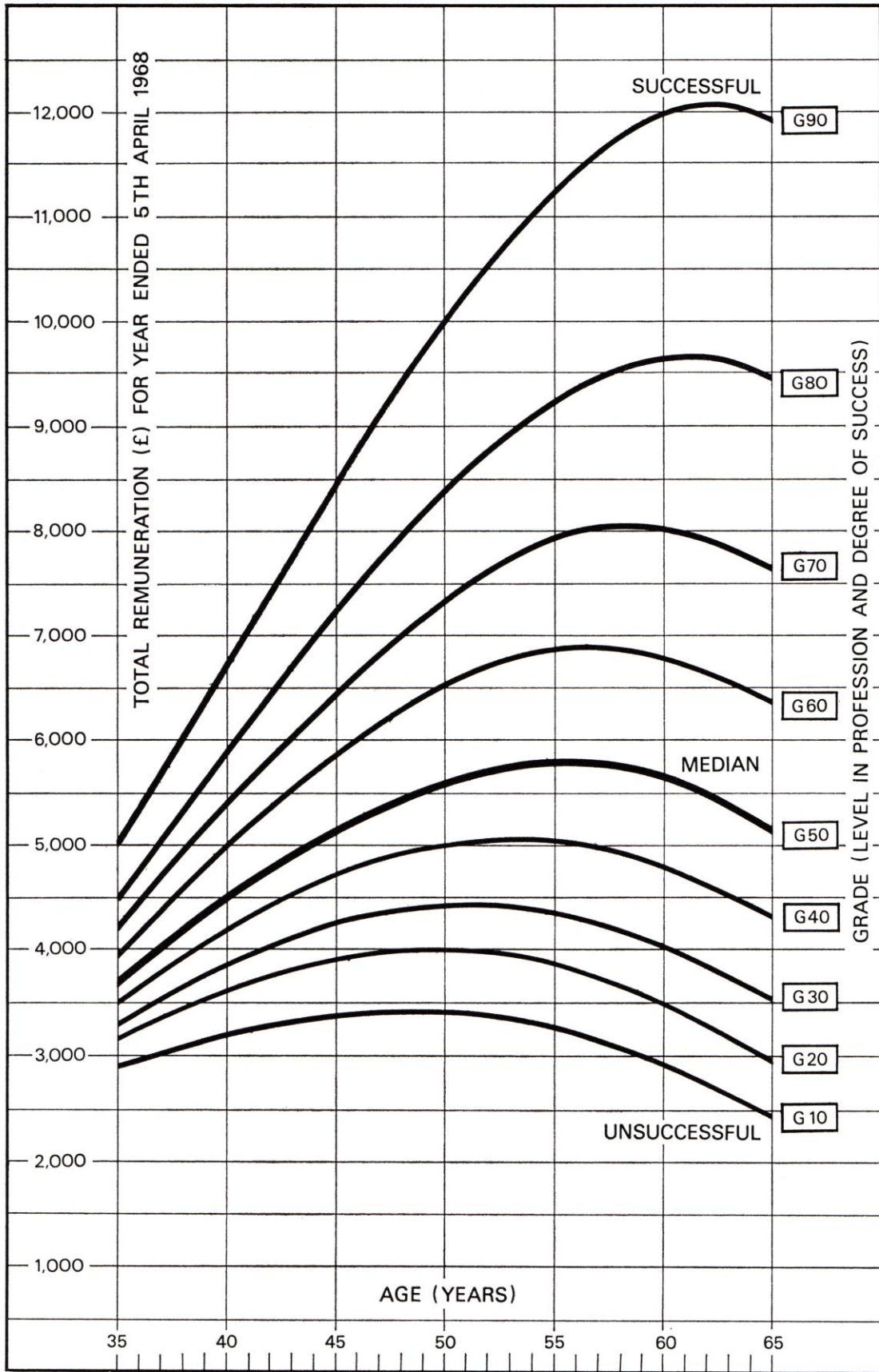


Figure 10 NATIONAL REMUNERATION SCALE FOR DIRECTORS IN U.K. (1968)

4.32 HOW TO ESTIMATE THE REMUNERATION INCREASE CORRESPONDING TO PARITY

Given age and remuneration in 1968, use NRS 1968 (figure 10) to determine the grade.

Use this grade, and his new age in 1969, to determine the director's 1969 remuneration from NRS 1969 (figure 11). This is the remuneration he should have received in 1969 so as to maintain parity.

The method is illustrated by example 2:

Example 2	Year	1968	
	Age	35	
	Remuneration	£3,190	
	Hence grade is	G20	(See example 1)
	Year	1969	
	Age	35+1=36	
	Grade	G20	
	Hence remuneration is	£3,750	(See NRS 1969, figure 11)

This 'parity' remuneration of £3,750 is that which the director should have received in 1969, had he maintained parity, that is maintained his position relative to other directors of his own age and working at the same level.

4.33 HOW TO ESTIMATE THE GAIN OR LOSS COMPARED WITH OTHER DIRECTORS

The difference between actual remuneration received and that corresponding to parity gives the amount which the director has gained or lost compared with other directors.

Example 3 Estimate 'parity' remuneration as illustrated by example 2 where we estimated

Grade	G20
'Parity' remuneration	£3,750

Given the actual 1969 remuneration and grade, the remuneration and grade differences are then calculated as follows:

		<i>Remuneration</i> (1969, £)	<i>Grade (% in</i> <i>profession,</i> <i>1969)</i>	<i>Notes</i>
Example 3.1 <i>Gain</i>	Actual	3,920	G27	Given
	For parity	3,750	G20	From example 2
	Difference (gain)	<u>170</u>	<u>7</u>	
Example 3.2 <i>Loss</i>	Actual	3,650	G15	Given
	For parity	3,750	G20	From example 2
	Difference (loss)	<u>-100</u>	<u>-5</u>	

Example 3.1 shows that the director gained £170 compared with others of his own age who are working at his level, and as a result he improved his position among directors by 7 per cent, from the 20 per cent to the 27 per cent level.

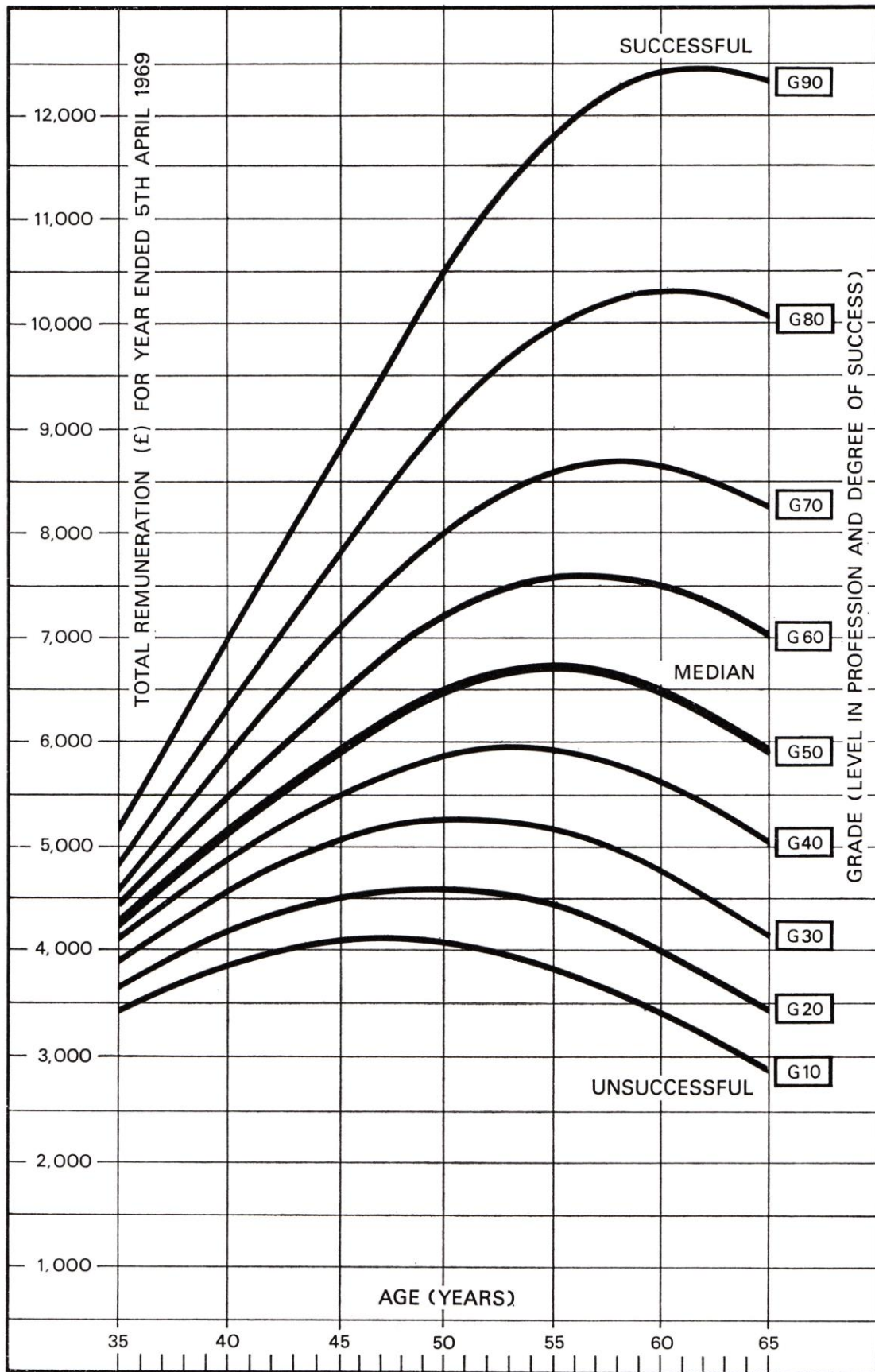


Figure 11 NATIONAL REMUNERATION SCALE FOR DIRECTORS IN U.K. (1969)

4.4 SHARING IN PROFITS

The extent to which directors share in profits, including commission, bonus and profit sharing, is given by tables 10 and 11.

Thirty-five per cent of directors receive income through sharing in their company's results. Table 11 shows that the median amount is £950, the 1968–1969 increase being 5.6 per cent. Figure 12 illustrates the extent to which directors share in profits. An appreciable proportion of directors receive substantial amounts.

Table 11 also shows that the median share of profits is 18.5 per cent of basic salary. Figure 13 shows that an appreciable proportion of directors share in profits to the extent of 30 per cent to 100 per cent of basic salary.

Section 6 on motivation shows that profit sharing is strongly motivating and those who share in profits receive substantial amounts.

Table 10. EXTENT OF PROFIT SHARING

<i>Year</i>	<i>Extent (Directors sharing in profits, as percentage of all directors) %</i>
1969	34.7
1968	34.1

Table 11. SHARE OF PROFITS BY AMOUNT AND BY PERCENTAGE OF BASIC SALARY

	<i>Share of Profits</i>				
	<i>Amount</i>		<i>Change 1968–1969</i>		<i>Percentage of basic salary of recipient</i>
	<i>1969</i>	<i>1968</i>	<i>Amount</i>	<i>Percentage</i>	
	£	£	£	%	%
Median	950	900	50	5.6	18.5

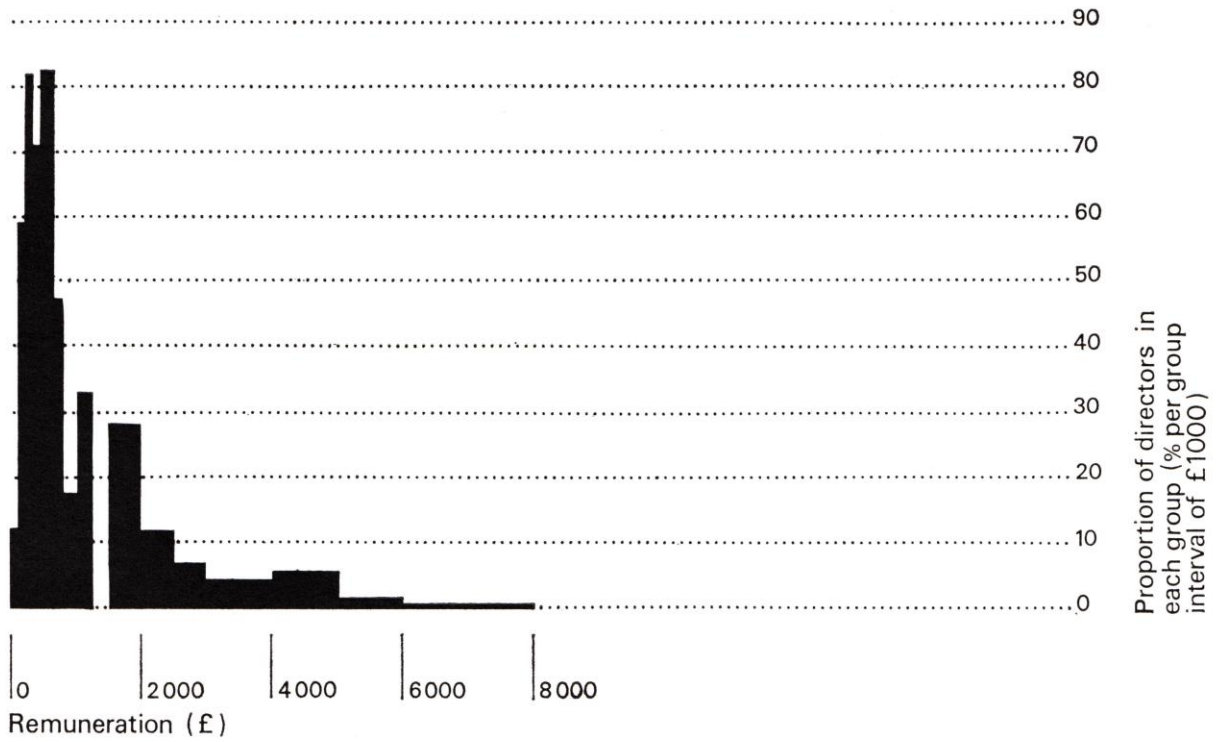


Figure 12 SHARE OF PROFITS AS AMOUNT

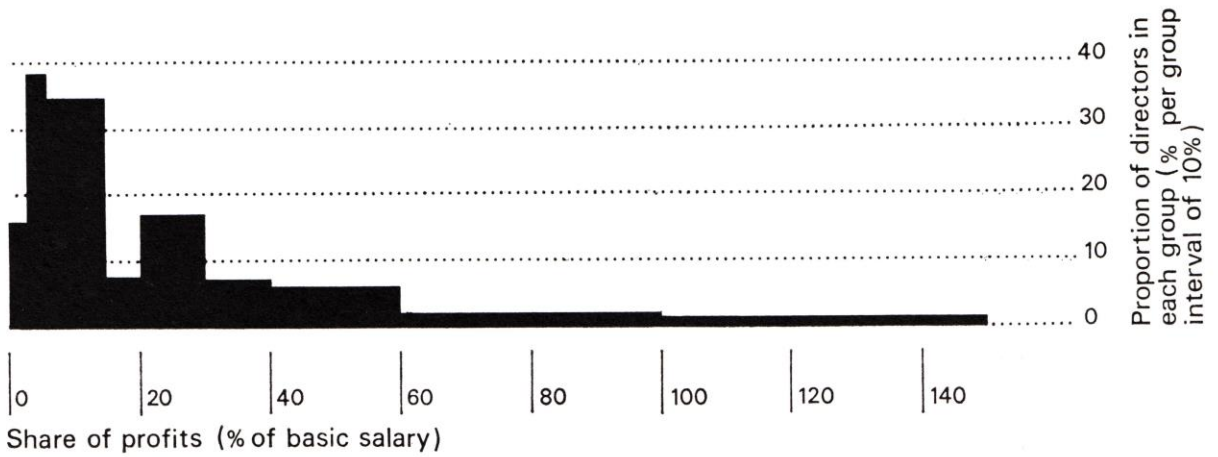


Figure 13 SHARE OF PROFITS AS PERCENTAGE OF BASIC SALARY

4.5 NUMBER OF DIRECTORSHIPS

Table 12 provides information about the number of directorships held by directors. The 1969 data is further illustrated by figure 14.

The 1968 survey⁽⁵⁾ included both remunerated and unpaid appointments; the 1969 survey was restricted to remunerated appointments. The difference between 1968 and 1969 shows that an appreciable number of directors hold appointments for which they are not remunerated and which are thus part of another paid job.

Sixty-two per cent of directors have only one remunerated appointment, while 11.5 per cent have more than three appointments.

Table 12. NUMBER OF DIRECTORSHIPS

Number of appointments	Proportion of directors	
	1969	1968
	%	%
1	62.4	33.9
2	15.4	24.6
3	10.7	8.6
4	3.6	11.0
5	4.3	6.8
6+	3.6	15.1
	100.0	100.0

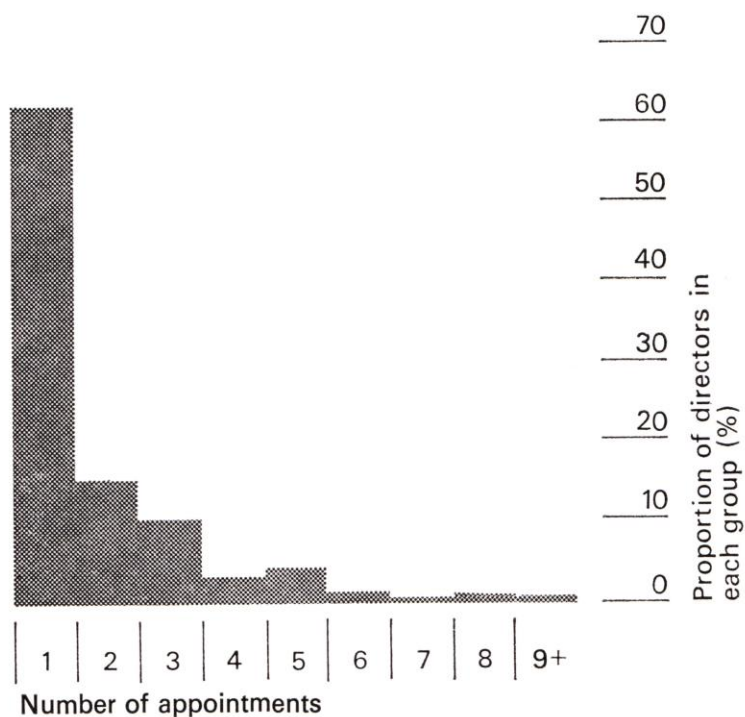


Figure 14 DIRECTORSHIPS

4.6 AGE AND EXPERIENCE

The median age of directors is 47.7 years and their length of experience, since first being appointed a director, is 10.8 years, which compares with 48.6 and 10.0 years, respectively, in 1968.

4.7 ACADEMIC AND PROFESSIONAL QUALIFICATIONS

The following three tables 13, 14 and 15 show the proportion of directors who have academic qualifications, the proportion who have professional qualifications, and the professions in which they are qualified.

Twenty-nine per cent of directors are qualified to diploma and degree level. Sixty per cent have professional qualifications, mostly in the accountancy, engineering, management, marketing and sales, and secretarial fields. Eighteen per cent of directors have two professional qualifications while 6 per cent have three or more.

Table 13. ACADEMIC QUALIFICATIONS

<i>Highest qualification</i>	<i>Proportion of directors</i>	
	<i>1969</i>	<i>1968</i>
	%	%
School Leaving Certificate ..	65.5	70.4
Intermediate, HNC, HND ..	5.2	3.6
Degree and Diploma	29.3	26.0
All directors	100.0	100.0

Table 14. PROFESSIONAL QUALIFICATIONS BY PROFESSION

<i>Profession</i>	<i>Proportion of qualifications held by directors</i>	
	<i>1969</i>	<i>1968</i>
	%	%
Accountancy	23.3	20.9
Engineering	19.4	12.9
Management	13.7	7.9
Marketing and sales	7.5	7.2
Secretarial	6.2	10.8
Other	29.9	40.3
All directors	100.0	100.0

Table 15. PROFESSIONAL QUALIFICATIONS BY NUMBER HELD

<i>Number of professional qualifications</i>	<i>Proportion of directors</i>	
	<i>1969</i>	<i>1968</i>
	%	%
0	40.4	41.9
1	35.3	38.3
2	18.4	14.4
3+	5.9	5.4
All directors	100.0	100.0

5 Controlling Directors

This section provides information about directors who control 5 per cent or more of the issued share capital, called controlling directors. 21.3 per cent of the appointments analysed were held by controlling directors.

5.1 APPOINTMENTS BY COMPANY SIZE

Table 16 shows the proportion of appointments held by controlling directors in companies of different sizes.

While 37 per cent of appointments in companies with an issued share capital of under £100,000 are held by controlling directors, they hold very few appointments in large companies.

The larger the company the less likely it is that a director would own more than 5 per cent of its share capital and table 16 confirms this. Controlling directors work in smaller companies compared with other directors.

5.2 POSITION

Table 17 shows that 61 per cent of 'Chairman and Managing Director' positions are held by controlling directors. This is about three times the percentage of all appointments held by them.

A higher proportion of controlling directors hold 'chairman' positions, and a larger proportion hold 'Chairman and Managing Director' positions, compared with their number among directors.

The link between the positions of Chairman and of Managing Director in one person indicates the closeness of ownership and management, of policy making and of executive work, which one would expect to find in smaller companies and with directors who own a substantial part of the share capital.

5.3 REMUNERATION

Table 18 compares the remuneration of controlling directors with that of other directors, for executive and for part-time appointments. Remuneration for executive appointments includes salary and share of profits.

Remuneration of controlling directors for executive appointments is consistently less, and fees for part-time appointments seem to be consistently higher, compared with other directors.

Controlling directors work in smaller companies compared with other directors and this accounts for the lower remuneration of controlling executive directors.

5.4 PROFIT SHARING

The proportion of controlling directors who share in profits is 32.4 per cent which compares with 25.7 per cent for other appointments.

Table 16. PROPORTION OF APPOINTMENTS HELD BY CONTROLLING DIRECTORS, BY SIZE OF COMPANY

<i>Size of company</i>		<i>Proportion of appointments held by controlling directors</i>	
<i>(Issued share capital)</i>			
£		%	
1– 99 thousand	36.7
100–399	22.7
400–699	17.1
700–999	22.2
1– 3 million	17.8
4– 6	—
7– 9	—
10– 19	11.1
20– 49	—
50– 99	—
100+	—
All	21.3

Table 17. POSITIONS HELD BY CONTROLLING DIRECTORS

<i>Position</i>	<i>Proportion held by controlling directors</i>	<i>Proportion who hold the position</i>	
		<i>Controlling directors</i>	<i>Other directors</i>
	%	%	%
Chairman	29.4	14.1	9.3
Chairman and Managing Director ..	61.2	31.0	5.4
Managing Director	18.1	21.1	26.3
Director	13.6	33.8	59.0
All appointments	21.3	100.0	100.0

Table 18. REMUNERATION OF CONTROLLING DIRECTORS

<i>Appointment</i>	<i>Directors</i>	<i>Remuneration</i>	<i>Executive</i>		<i>Part-time</i>	
			<i>Controlling</i>	<i>Other</i>	<i>Controlling</i>	<i>Other</i>
			£	£	£	£
Lower decile	2380	3140	240	200
Lower quartile	3850	4150	400	330
Median	5400	5850	740	580
Upper quartile	7000	8000	—	1050
Upper decile	9300	11000	—	1900

6 Motivation

6.1 BASIS

Motivation towards better performance depends on the satisfaction of needs for responsibility, achievement, recognition and growth. Needs are felt and their intensity varies from one person to another and from time to time, and so does the extent to which they are motivating.

Behaviour is learned, earned reward encourages even better performance, thus reinforcing desired behaviour. Reward can be other than money, such as increased responsibility.

Directors are generally in positions of considerable responsibility, success often depending on individual effort. Remuneration is seen to be a recognition of achievement and directors are likely to respond well to financial incentives.

6.2 MOTIVATING FACTORS

A motivating factor may directly motivate towards better performance, or the degree to which it is lacking may be a source of dissatisfaction. Conversely, a factor may be a source of dissatisfaction and its removal may be felt to be motivating.

6.3 EXTENT AND DEGREE OF MOTIVATION

Some factors are directly motivating, are felt to provide reward and incentive. A measure of the extent to which they are motivating is the proportion who felt strongly about the factors, mentioning them without prompting.

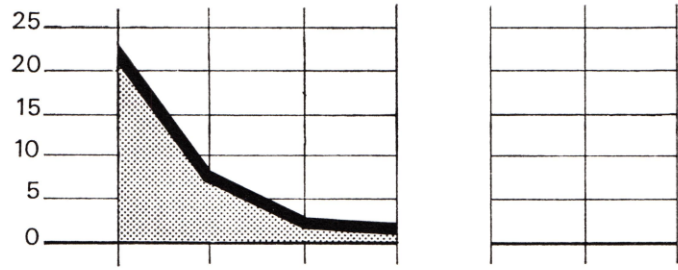
Some factors are felt to be more important than others, are felt to motivate to a higher degree. The relative intensity of felt need is indicated by their most frequent position when ranked according to importance.

6.4 ANALYSIS

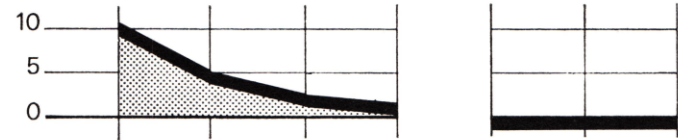
We asked for comments about being a director and these enabled us to isolate motivating factors and sources of dissatisfaction. The response indicated how strongly directors felt about each factor, and just how important it was relative to other factors.

Table 19 gives the data for the most frequently mentioned factors. Figure 15 illustrates the extent and degree to which each factor motivates, sources of dissatisfaction being charted as negative, while table 20 summarises the findings.

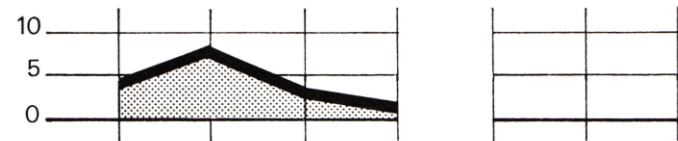
1. REMUNERATION



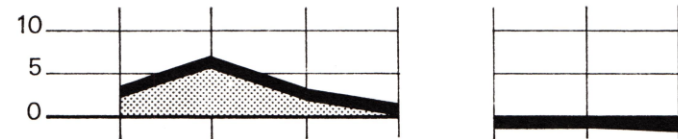
2. PROFIT SHARING



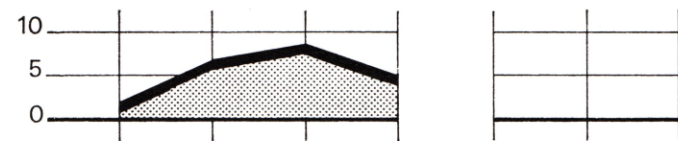
3. SHARE OPTION AND PURCHASE SCHEMES



4. BONUS



5. PENSION



6. TAXATION
(Income tax and surtax)

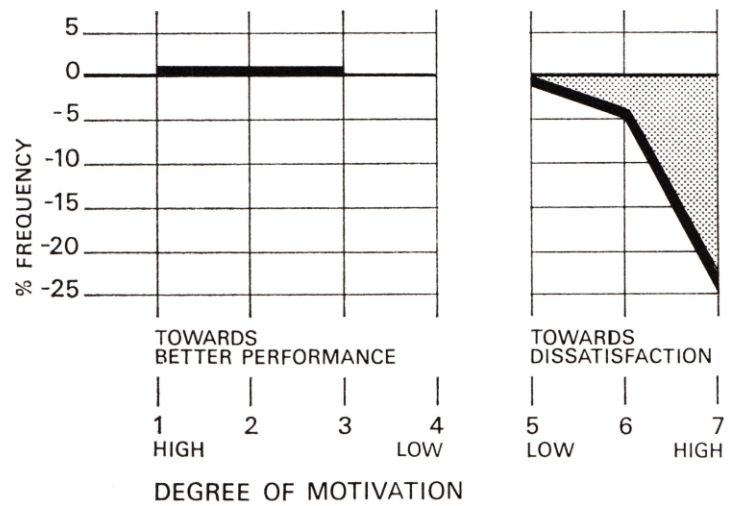


Figure 15 MOTIVATION OF DIRECTORS: TYPE, EXTENT AND INTENSITY OF MOTIVATING FACTORS

6.5 CONCLUSIONS

6.51 REMUNERATION

Remuneration, consisting of salary and fees, is the most important of the motivating factors. Thirty-three per cent of directors commented on it and most of these considered it to be of first importance.

6.52 PROFIT SHARING

Profit sharing is a strong motivator, considered to be of first importance by directors. To a few directors the absence of a profit sharing scheme is a source of dissatisfaction.

6.53 SHARE OPTION AND PURCHASE SCHEMES

Share option and purchase schemes are motivating, but not to the same extent or degree as remuneration and profit sharing. Almost all those who commented on them considered that share option and purchase schemes should be provided.

6.54 BONUS

Bonus payments are motivating, but not to the same extent or degree as remuneration and profit sharing.

Many of those who commented on bonus considered that a bonus scheme based on profits encourages better performance. Some directors regard the absence of a bonus scheme as a source of dissatisfaction.

6.55 PENSION

About a third of the directors who commented on pensions considered that a pension should be 'adequate', or 'attractive', or 'generous'. A further third would like to benefit from a Top Hat pension.

Pension is felt to be motivating by quite a few directors but not to the same degree as the other motivating factors mentioned already.

6.56 TAXATION

Income tax and surtax are felt to be a source of dissatisfaction to a high degree. But only a few directors feel that a reduction in taxation would encourage better performance.

6.57 TAKE-HOME PAY

What matters is take-home pay and this can be increased either by reducing taxation or by increasing remuneration. Reducing taxation does not encourage better performance, increasing remuneration is highly motivating.

Table 19. MOTIVATING FACTORS BY DEGREE

<i>Motivating factor</i>	<i>Degree of Motivation</i>							
	<i>Towards better performance</i>				<i>Towards dissatisfaction</i>			
	<i>High</i>			<i>Low</i>	<i>Low</i>			<i>High</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	
<i>% frequency</i>								
1. Remuneration	22.5	6.4	2.5	2.0	—	—	—	—
2. Profit sharing	9.8	4.6	2.0	0.8	0.4	0.4	0.4	0.4
3. Share option and purchase schemes	4.8	7.5	2.3	1.5	—	—	—	—
4. Bonus	3.9	6.7	3.1	0.7	0.4	0.5	0.8	0.8
5. Pension	1.1	5.9	7.1	4.3	—	—	—	—
6. Income tax and surtax ..	0.6	0.6	0.3	—	0.3	4.9	25.1	—

Table 20. MOTIVATING FACTORS BY EXTENT
AND BY DEGREE

<i>Motivating factor</i>	<i>Extent</i>	<i>Degree</i>
	<i>(%)</i>	<i>(Order of importance*)</i>
1. Remuneration	33	1
2. Profit sharing	18	1
3. Share option and purchase schemes	16	2
4. Bonus	16	2
5. Pension	18	3
6. Income tax and surtax	32	7

*See figure 15 for scale.

7 Directing

Directors work long and arduous hours and feel that pressures are increasing. Business problems are seen to be more complex, competition is getting more intense. Underlying this is that we live in a time of change, indeed in a time of accelerating change. To survive in the jungle one must adapt to it, to survive in a changing environment one must adapt to change. A company has to do more than just survive : it needs to be successful and advance.

7.1 ADAPTING TO CHANGE

The company which adapts to change gains an immediate competitive advantage over one that does not. It determines how things are changing today so as to anticipate how things are likely to change in the future. In other words it forecasts change and plans accordingly, steering a course instead of drifting. Those who adapt to change in this way are likely to prosper, those who do not are likely to stagnate.

New technology is making its impact felt, economic growth is accelerating, human processes are being replaced by equipment. Modern equipment costs a great deal, purchasing power of money is reducing, replacement costs are increasing. Selling is being replaced by marketing as prices are more and more determined by the competitive situation, production following demands of the market.

While large companies can employ experts, with small companies it is largely the board of directors which plans the course ahead.

7.2 SETTING OBJECTIVES

It is in the setting of objectives that the board allows for changes that are taking place, setting the course. Among their objectives directors consider :

- 1 Adequate return on capital, while maintaining its value.
- 2 Adequate remuneration for directors and others employed in the business.
- 3 Expansion at least in accordance with the increasing market.
- 4 Company development through product planning and cost reduction.
- 5 Capital expenditure and cash flow.

One needs to set the speed as well as the course and for this reason objectives are usually quantified as well as timed, stated as definite measurable changes to be achieved within a stated time span.

7.3 PLANNING

By considering objectives one obtains a clear idea of where one wishes to go, evaluates where one is today and the company's strengths and weaknesses, including all the resources of the company. Determining what the opportunities are one compares alternative ways of getting from where one is to where one wishes to go, so as to decide on the best possible strategy for achieving the directors' objectives.

Directors generally plan and look ahead, often intuitively. Compared with this, planning as described here takes more time but is necessary if the company is to prosper in a changing environment. Such planning is helped considerably by a certain amount of experience since it is not always easy to reach objectivity, for example in smaller companies and family businesses.

7.4 REMUNERATION OF DIRECTORS

Directors need to be provided with income appropriate to the level at which they work, need to maintain their position among directors and in the community, with an appropriate share in the increasing standard of living.

Some directors have been losing ground for some considerable time without having been aware of this, but can now see from National Remuneration Scales how successful they are compared with other directors and how remuneration should increase year by year if they are to maintain their position among directors.

Incomes and differentials for wage earning men and wage earning women, for economists, marketing practitioners, accountants, engineers, personnel and sales staff and for directors are available in form of a remuneration pattern⁽⁵⁾ for the UK (1968) and enable one to evaluate one's own position in the community.

7.5 SIZE OF BOARD⁽⁵⁾

Decisions made by the board of directors should result from their combined knowledge, experience and foresight. There is need to take appropriate and decisive action but smaller boards have difficulty in providing objectivity and balance, while larger boards have problems of communication.

The size of the board depends on the job it has to do. When the company has less than 25 employees the most frequent board size is three directors. When it has between 1,000 and 2,000 employees the most frequent board size is nine directors.

The most common board size is five members. Companies headed by a board of about five directors tend to achieve best performance.

7.6 SMALLER COMPANIES

Smaller companies have to offer something that gives them an advantage over their often larger competitors. This can be personal service, better delivery, or better value, which means same quality at lower price or better quality at same price.

Teamwork is generally not a problem in the smaller company except when personalities clash. Its problems are more likely to be concerned with forward planning rather than with organisation, with profitable use of techniques rather than with communication.

The smaller company has to use its resources effectively. It needs to move with the times, but often neither needs nor can afford expertise on a full-time basis. Often it does not realise to what extent part-time expert knowledge can assist its operations, making all the difference between stagnation or success.

7.7 LARGER COMPANIES

One way of overcoming problems of size is to merge. This often involves some loss of independence and directors of subsidiary companies have their own problems.

Directors like to be at the centre of events, and enjoy running a successful company. A sense of achievement results from seeing the company successful as a result of one's own decisions and policies. Directors need scope and freedom of action, need clear terms of reference and authority to implement. Motivation is through delegation of responsibility.

8 Summary

8.1 REMUNERATION

There has been a marked increase in fees paid for attending board meetings, particularly at the lower end of the scale. Fees received by chairmen increased by about 90 per cent which compares with about 20 per cent for directors.

The median remuneration for part-time appointments increased by £110 (22 per cent) to £610. The median remuneration for an executive appointment increased by £750 (15 per cent) to £5,750.

Less successful directors received the highest percentage increases, but the largest amounts went to median directors. The younger the director the higher the percentage increase, but the larger amounts went to directors between 45 and 55 years old. The remuneration of successful directors increased by smaller amounts and percentages than that of their median, less successful colleagues.

8.2 PARITY

Some directors have been losing ground for some considerable time without having been aware of this. Hence National Remuneration Scales are included so that a director can determine reliably the amount by which he has gained or lost ground compared with other directors, and the amount he should have received so as to maintain parity with others working at his level.

8.3 PROFIT SHARING

Thirty-four per cent of executive appointments provide profit sharing compared with 8 per cent of part-time appointments. Profit sharing is used to produce results.

The median share of profits is 18.5 per cent of basic salary. The median amount is £950, the 1968–1969 increase being 5.6 per cent. An appreciable proportion of directors share in profits to the extent of 30 per cent to 100 per cent of basic salary.

Profit sharing is strongly motivating and those who share in profits earn substantial amounts. The proportion of all appointments which offer profit sharing increased from 23 per cent to 27 per cent, due to an increase in the number of executive directors who share in profits.

8.4 CONTROLLING DIRECTORS

Controlling directors work in smaller companies and a far greater proportion of them hold the position of 'Chairman and Managing Director' compared with other directors. This link between the positions of Chairman and of Managing Director in one person indicates the closeness of ownership and management, of policy making and of executive work, which one would expect to find in smaller companies and in directors who own a substantial part of the share capital.

The remuneration of controlling directors for executive appointments is consistently less than that of other executive directors, because controlling directors work in smaller companies. Fees received by controlling part-time directors are higher than fees received by other part-time directors.

8.5 MOTIVATION

The motivation of directors has been analysed to show which factors motivate directors towards better performance.

Remuneration, consisting of salary and fees, is the most important of the motivating factors, followed by profit sharing.

What matters is take-home pay and this can be increased either by reducing taxation or by increasing remuneration. Reducing taxation does not encourage better performance, increasing remuneration is highly motivating.

9 Previous Work

'Status and Remuneration of the Professional Man in Industry' provided the basis⁽¹⁾ for surveying and comparing salaries and remuneration and shows how to apply it. The term 'professional employee' is used to describe all levels of managerial, executive, professional and technical staff, including the board, and it is shown that professional employees are paid according to definite remuneration laws and according to National Remuneration Scales.

Measures were defined which enabled individuals and groups to be compared with other individuals and groups, measuring differentials and incentive. Valid equations were derived to show how remuneration and status vary with age and time, allowing also for economic factors. Economic indices were used to illustrate the changing pattern of the national economy and the equations developed in terms of such indices. Salary increases of professional employees for economic factors were shown to be determined by manual employees' wage rates instead of by their earnings.

National Remuneration Scales apply to all staff levels and work reported⁽⁴⁾ by the Department of Employment and Productivity indicates that National Remuneration Scales apply to wage earners also.

Work and Remuneration of Directors⁽²⁾ assesses directors' rewards, including fringe benefits, and puts forward an objective measure of the worth of fringe benefits.

Appropriate Pay⁽³⁾ shows quantitatively how incomes are changing in the United Kingdom and how additional purchasing power is being shared out among different levels of the population. Differentials are increasing and the use of only percentages when talking about salary and income changes is misleading. Amounts matter also.

The Effective Board : A Study of the Work and Remuneration of Directors⁽⁵⁾ is based on the 1968 survey. It shows how remuneration depends on age and on individual success and compares remuneration of executive with part-time directors. A remuneration pattern illustrates remuneration and differentials in the UK, from wage earning women to directors.

The report gives the most common combinations of fringe benefits and compares the cost of fringe benefits to the company with their value to the executive.

Some boards are shown to be more effective than others and their performance is related to the board and to the company it directs.

10 References

- 1 Status and Remuneration of the Professional Man in Industry ;
Social Organisation Ltd., London, 1961, £50.
- 2 Work and Remuneration of Directors ;
Social Research Development Ltd., London, September 1968, £4.20 (£4.4.0).
- 3 Appropriate Pay ;
Social Research Development Ltd., London, September 1968, £7.35 (£7.7.0).
- 4 Results of a New Survey of Earnings in September 1968 : Part 1—Distribution of Earnings
by Occupation, Age and Region ;
Employment and Productivity Gazette, May 1969.
- 5 The Effective Board : A Study of the Work and Remuneration of Directors ;
Social Organisation Ltd., London, July 1969, £4.20 (£4.4.0).



PUBLICATIONS

SALARY ADMINISTRATION AND MANPOWER PLANNING

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