

For immediate release

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Non-Executive roles great, but in Financial Services? “No thanks”

New research suggests that ‘regulation creep’ is deterring NEDs looking at roles in Financial Services

Incoming regulations designed to make company boards more accountable for corporate failings could have a dramatic and damaging effect on the diversity on Britain’s biggest financial services businesses and the way their Boards are run, according to a new report.

Advanced Boardroom Excellence, a leading board effectiveness consultancy, and Tyzack Partners, the international executive search firm, are highlighting that the financial services sector could be in for a shock when it comes to recruiting new blood from 2016 onwards.

The report, entitled ‘Walking the Tightrope of Board Responsibility – a Difficult Balancing Act’, suggests that the introduction of the ‘Senior Managers’ Regime’ next year could act as a deterrent to and lead to a narrowing of experienced and capable business people considering non-executive directorships at leading financial services companies. While they are excited and enthusiastic about being a NED in companies where they can make a difference, the City gets a big ‘thumbs down’.

Announced in response to a wave of scandals that have rocked confidence in the City’s ability to regulate itself, rules to be introduced by the Prudential Regulation Authority and the Financial Conduct Authority will hold Non-Executive Directors (“NEDs”) to account for governance and breaches thereof.

The thorny issue of boardroom pay looks set to return

“This has accelerated what has been a growing problem of getting a broader set of business- and customer-focused minds into our financial service industries”, said Advanced Boardroom Excellence Chairman, Helen Pitcher OBE. “Our research suggests that the appeal of NED roles in heavily regulated industries, especially financial services, is falling. This, together with remuneration which is not keeping pace with the responsibilities, means the City could be caught flat-footed when the new regulations come into force next year. With the credibility question of more ex-bankers overseeing our financial service companies we should be looking for greater diversity not a narrowing of the NED base in Financial Services.”

With participants expressing concern that NED remuneration already lags behind the commitment, responsibilities and personal reputational risk of the role, the thorny issue of boardroom pay looks set to return as the City comes to terms with the concept of greater personal liability. The “risk-reward balance is not there,” according to one participant, whilst another had already said “no thanks to roles in financial services as it is too much in terms of time required.”

A diminishing return on regulation creep

The report also cautions that on many boards now the only executive directors are the Chief Executive Officer and the Chief Financial Officer, which will have a severe impact on the future pool of potential NED candidates with substantial main board experience.

“A side-effect of ‘regulation creep’”, suggests David Dumeresque, Partner at Tyzack, “is a potential trio of dysfunctional outcomes: An upward pressure on higher board fees, which in turn increases the already significantly high costs of corporate governance, with a dwindling pool of willing, experienced and credible candidates.”

David also suggests that “the ‘Senior Managers’ Regime’ will make anyone interested in starting their NED career in financial services think twice, just by looking at the serious liabilities they will face as they become more senior.”

The age of the ‘Hi-Vis’ NED?

“What is clear from the report’s findings”, says Helen Pitcher, “is that the age of the ‘Hi-Vis’ NED has arrived. No longer a gentle stroll through the executive team’s view of the world nodding sagely. The NED has to develop and preserve a delicate balancing act between enthusiastic support and critical challenge of the executive. No mean feat, by anyone’s standards.”

Julian Franks, Professor of Finance at London Business School, himself a non-executive, emphasises the importance of the role to the City’s future: “Non-executives need to look at the bigger issues, to hold the executive management to account and challenge the thinking of the leadership of the business. They need to help to make the organisation better.”

On a more positive note, outside the City environs, NEDs found their roles engaging and satisfying as they increasingly sought to bring a professional and impactful style to the boardroom. Even with the growing commitments, increased legal responsibilities and lagging pay, business leaders are seriously motivated to engage as custodians of broader stakeholder interests and while they may take more searching out, are willing and able to focus on good corporate governance.

“Walking the Tightrope of Board Responsibility – A Difficult Balancing Act” is available in full at www.abexcellence.com or www.tyzackpartners.com.

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Notes to Editors

Advanced Boardroom Excellence

- Advanced Boardroom Excellence is a board effectiveness consultancy dedicated to individual and collective director effectiveness. The organisation is passionate about the development and improvement of boardroom standards, behaviour and ethics.
- AB Excellence’s experience in leading business and supporting chairmen, CEO’s and directors is underpinned by continuous research.
- Advanced Boardroom Excellence is led by Helen Pitcher, supported by an experienced team who have worked together for more than 20 years.

Tyzack

- Tyzack is a multidisciplinary executive search firm which acts for the boards and senior leadership teams of clients in numerous industry sectors and international locations.
- Tyzack recruits for main and executive board roles including chairs, non-executive directors and chief executives as well as functional leadership appointments in finance, operations, marketing, sales and human resources.
- Founded in 1958, Tyzack is the UK's longest-established independent executive search firm and is owned and managed by its partners. It is a founder member of Tinzon Group, a global alliance of independent executive search firms.