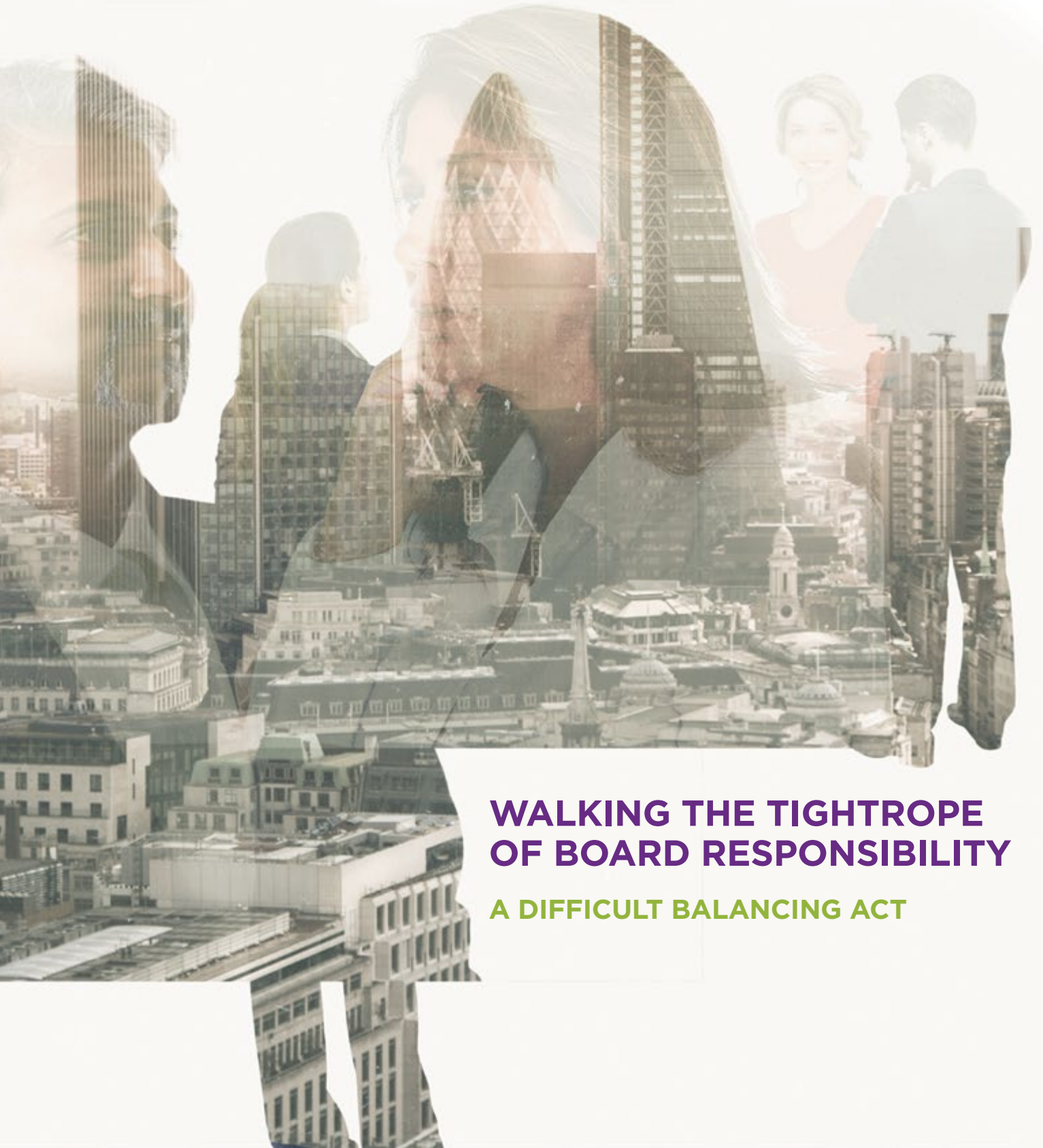


ADVANCED BOARDROOM
EXCELLENCE

TYZACK



**WALKING THE TIGHTROPE
OF BOARD RESPONSIBILITY**

A DIFFICULT BALANCING ACT



FOREWORD



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The research undertaken for this report considered the issue of whether we are expecting too much from non-executive directors? The survey looked at the increasing demands and pressures on non-executive directors; and asked is there a better system?

Over recent years the role of the non-executive director in UK companies has changed significantly. The commitment to knowledge and understanding of the business are becoming considerably greater, whilst the legal duties, responsibilities and accountabilities, should not be underestimated by those considering taking on such roles.

The introduction to the Higgs report states: "Corporate governance provides an architecture of accountability - the structures and processes to ensure companies are managed in the interests of their owners. But architecture itself does not deliver good outcomes. People, and their relationships, are the key to attaining the desired level of individual and overall effectiveness at board level".

It is the responsibility of the Chairman and the Nominations Committee to ensure that there is a proper balance of skills and

experience amongst the NED's on the Board, and accordingly it is critically important that the NED's are chosen for what they can contribute in terms of their skill set, business experience, independent perspective, and commercial acumen. However, in my view it is not a necessary prerequisite that NEDs should have experience of the industry in which the Company operates, although at least one of them should have. What is essential is that they have sufficient emotional intelligence and engagement to work with the other Directors to constructively challenge the Executive in Board discussions and in formulating the strategy.

The most effective NEDs are those with strong influencing skills, awareness and sensitivity to other views, good listening skills, insight, vision and above all good judgement and the ability to seek a proper consensus at Board meetings. Risk awareness and management together with risk appetite are becoming increasingly important and Boards should ensure that they undertake a programme of deep dives into relevant and specific parts of the business as well as having a number of properly managed site visits for the NEDs.

To develop an in depth understanding of a business, the culture and the strategy is time consuming and both new and existing NEDs need to spend time with the Executive outside of Board meetings and additionally also to undertake a significant and ongoing training and development programme.

There are two key pieces of advice I would offer to NEDs in building a successful relationship with the board - keep in touch with fellow non-executives between board meetings, and learn as much as you can about the business in your induction period.

This report offers an array of insights and commentary on the non-executive role to deliver the required monitoring of corporate governance, assurance for the investor community and independent strategic advice to the executive, all to be achieved while responding to a greatly increased workload as a result of the increasingly enhanced and extended regulatory, governance and legal requirements.

Sean M Watson

Sean Watson qualified as a solicitor with Slaughter and May in 1972, and joined CMS Cameron McKenna (previously McKenna & Co) as a Partner in 1978 later becoming Head of Corporate Finance. Sean has retired from the Partnership and is now a Consultant. In April this year he was appointed a Non-Executive Director of Argus Media one of the world's leading oil and gas, hydrocarbon and minerals, data, pricing, and reporting media businesses. He served as a Non-Executive Director of TT Electronics PLC, a leading global provider of highly engineered electronics for critical applications, for 7 years with the last 5 years as Chairman and he retired in May this year. Previously he was a Non-Executive Director of Informa PLC from 2000 to 2009. Sean is a Trustee of Princess Alice Hospice in Esher.

HELEN PITCHER OBE



The age of the 'Hi-Vis' NED has arrived. No longer a gentle stroll through the executive's 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. Nowhere is this more true and thrown into greater relief than in the FTSE 250, where the expertise, skill and knowledge of NEDs can contribute directly and very effectively to the company strategy and operational excellence.

Today, NEDs are expected to have substantial industry expertise, to know their organisation, spend significant time meeting with the executive and making location visits. In addition, they are required to be collectively coherent, independent and interpersonally effective. These behavioural aspects of the Board interaction are especially important in the FTSE 250 and maturing start-up companies, where the Board and executive, working as a coherent unit is crucial.

In a well-shaped Board the NED expertise and skills will both challenge the company and actively support the practical and goal driven aspects of the strategy. A good example of this is the arena significantly to the executive strategic and operational capability.

From the governance viewpoint the FRC's Combined Governance Code and Guidance on the Effective Board, places a significant emphasis on Boardroom behaviour and dynamics, this focus is a response to the various 'trap doors' which Boards have regularly fallen through. Having observed many Boards, the interaction, challenge and support from a confident, capable, balanced and congruent group of NEDs, is a joy to behold and while the executive team can often feel under pressure and scrutinised, that is the point. It is the maturity of the NEDs, to deliver a balanced

independent oversight, with a supportive and effective input, that is a key behavioural aspect of their effectiveness.

This in turn makes the role of the Chairman as important as ever, but where the shaping and development of the Board is particularly critical. The effective blending and active engagement of the Board can produce remarkably positive results for the company. It requires the Chairman to have a capability to build consensus and nurture inclusiveness between the NEDs themselves, and in turn with the executive team. This is especially true as boards become more diverse and independent minded, to paraphrase a number of chairman I have spoken to recently 'the discussion and debate is more active, engaged, challenging and productive, but boy is it harder to build a consensus'.

Being a NED is undoubtedly a challenge, the instinct to behave like an executive can be overwhelming, to negotiate the challenges and cope with the complexities and ambiguities of the role, and contribute without seeking to command and control, is no easy role to undertake. Thankfully we are seeing an increase in the development and coaching support especially for new NED, to accelerate their behavioural learning curve into a different role on the Board with its changes of emphasis and expectations.

Nevertheless being an NED, can be very rewarding, not necessarily in the financial sense, as our respondents point out, but at a personal level. My own observation, especially amongst NEDs with a FTSE 250 or NED role in a start-up in their portfolio, is that they enjoy this opportunity for a direct impact of their expertise on the company and value this culmination of their expertise developed over a long career.

I would like to thank all the participants who took part in our research. They are busy people and we greatly appreciate the time they took to share their opinions and insights.

Helen Pitcher OBE

Chairman

Advanced Boardroom Excellence

DAVID DUMERESQUE



The research which underpins this timely report was stimulated by a growing awareness that the pressures and challenges facing NEDs have changed, and in most cases become more onerous. As an executive search firm undertaking several non-executive director (NED) assignments every year, we wanted to confirm or disprove this premise and to identify whether the conventional understanding of the NED role needed radical rethinking – or, indeed, whether it had become untenable.

Our early interviews with NEDs reflected a wide divergence of views about the level of knowledge of the business which NEDs were expected to have. In many cases, this came down to a straight difference between whether the business was in a regulated (primarily financial services) or non-regulated environment.

Our research indicates that NEDs in heavily regulated sectors are increasingly concerned about the level of regulation, their personal liability, the ‘senior manager’ rule and the impact of the new views on knowledge and responsibility held by the FCA and the PRA. NEDs in less regulated environments are, for the moment, much more sanguine about their prospects. However, there is, even among the latter, a fear of ‘regulation creep’.

There was a general view that there are more candidates for NED roles than there are roles available, matched by some scepticism about how many of these candidates are qualified to take such roles or indeed fully understand what the NED role entails. There is a general concern that the impact of the media and the regulators is pushing NEDs to become more and more ‘semi-executive’.

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. The challenge of growing this pool of qualified candidates is a responsibility for individual companies and the corporate sector as a whole. Similarly, there is a real requirement to ensure cognitive diversity – a genuine breadth of perspective and experience – on boards, which again depends on an increased pool of candidates.

From our perspective as executive search consultants, however, the most striking finding of our research was a general view that Chairmen, nominations committees and, indeed, our own profession had historically failed to address the overall composition of the board sufficiently seriously. It is clear that, even if the old boys’ network has declined, there has nevertheless been a lack of imagination and foresight in constructing boards which work well together, think carefully and are able to provide sufficient challenge and support to the executives. No longer should search consultants be able to get

away with just providing a list of “potentially suitably qualified candidates”. Rather, they should be challenged to approach the search for NEDs with the same intellectual rigour, depth of research and creative thought that they would bring to an executive assignment.

It is a challenge which Tyzack looks forward to meeting over the coming years.

David Dumeresque

Partner
Tyzack

INTRODUCTION

We expect a lot from non-executive directors (NEDs), including financial literacy; an understanding of business strategy; acceptance of compliance obligations; and the ability to build good working relationships with the executive management team. The non-executive oversight role demands that the holder evaluate and synthesise huge amounts of information and then ask questions of executive management that are challenging while not threatening.

On top of this, in recent years a raft of regulatory reforms, codes of practice, public pressure and investor activism have all attempted to improve board governance and effectiveness. As custodians of corporate governance, NEDs oversee a company's corporate affairs and ensure it is run according to sound principles, that it heeds the views of shareholders and the public at large, and that a wide spectrum of interests covering, amongst other things, social and environmental considerations are taken into account. In terms of strategy, NEDs must ensure a rigorous debate takes place and that once a strategy is in place, it is adhered to.

In short, with shareholders demanding more accountability from management and directors, a non-executive role is no longer a sinecure. Directors themselves are looking for greater clarity around their duties, which have become much more challenging and time-consuming than they were in the past.

To explore the breadth and range of these challenges Advanced Boardroom Excellence and Tyzack Partners conducted detailed interviews with more than 30 non-executive directors of organisations in a range of sectors (primarily in the FTSE 250), to gather their views.

Following the summary below the report covers the detailed responses from participants.

The Report is focused around the context of the following questions;

- Are we expecting too much from NEDs?
- What are the increasing demands and pressures on them?
- Is there a better system of overseeing corporate affairs?



SUMMARY

The summary is structured around the future of the non-executive role, their independence, the depth of involvement required of NEDs and the thorny issue of remuneration relative to the demands of the role.

The findings section sets out detailed responses in relation to how NEDs themselves view their changing role.

THE FUTURE OF THE NON-EXECUTIVE ROLE

Next year, 2016, will see the introduction of the joint Prudential Regulation Authority/Financial Conduct Authority (PRA/FCA) Senior Managers' Regime, which will hold senior managers in financial services companies to account for governance and any breaches thereof. Where there is a failure under an area of their responsibility there will be a presumption of personal accountability, unless they can satisfy regulators that they took "reasonable steps" to prevent, stop or remedy regulatory breaches by their company.

Whether this will have the effect of enhancing governance and tackling the issues that concern the regulators remains to be seen. It may well act as a disincentive for those thinking of taking up non-executive roles, and financial services companies could find themselves faced with paying higher board fees for a dwindling pool of willing and credible candidates.

It is, perhaps, stating the obvious to point out that new NEDs may need some education to equip them for their role, especially around understanding boardroom dynamics and how to challenge effectively. The Corporate Governance Code places an obligation on a company's chairman and company secretary to arrange tailored developmental training appropriate to the business and its strategy. Induction training for new board members and ongoing board development time are key to effective and professional boardroom performance.

There is a pool of talent willing to be considered for non-executive roles, but those seeking their first board role can find it difficult to obtain. Given the increased level of professionalism expected of non-executives, we asked our respondents about remuneration, and found that the gap between executive and non-executive pay had grown enormously, and that fees are not viewed as adequate in respect of NED responsibilities and

commitment. There is a distinct imbalance between reward and potential financial and reputational risk.

However, our respondents are very definite about the value of their independent stance. While recognising the value of recruiting those with specialist knowledge for board roles, they want to see that expertise applied to broadening the perspective of boards.

THE INDEPENDENT PERSPECTIVE

It is crucial that NEDs have a degree of independence from their executive colleagues on a board. But what do we mean by 'independence' in this context?

Independence is an essential component of professional behaviour. It does not allow vested interests to exert undue influence and it is free from any constraints that would prevent a correct course of action being taken.

The five main ethical threats that can undermine or reduce such independence are self-interest, self-review, familiarity, advocacy and intimidation. Levels of independence are likely to vary but corporate governance codes are designed to reduce threats to the independence of NEDs, particularly in terms of length of tenure.

The primary fiduciary duty of a non-executive is to the company's shareholders. In order to increase non-executive independence, some shareholders prefer to bring new non-executives from outside the industry in which the company competes. This is because informal networks that threaten independence can build up within an industry over time as staff move between competitor companies and collaborate in industry umbrella bodies. In addition, people from outside the industry can have a "new broom" effect, bringing a fresh perspective on any given problem, while the absence of previous business relationships usually means that non-executives will not have any alliances or prejudices likely to affect their independence.

Reports, from Cadbury in 1992 to Walker in 2009, have resulted in the non-executive role becoming more demanding and influential, but they fail to outline specifically what the role of the non-executive actually comprises. Having attracted much attention from regulators, governance reforms have progressively increased the number of non-executives on UK boards so that they now dominate on audit, executive remuneration and nomination committees in order to safeguard corporate accountability. However, there is an increasing concern that the standards of knowledge and responsibility expected in financial services organisations will, as a result of ‘regulation creep’, inexorably become the norm across all sectors, irrespective of their validity or appositeness.

It is imperative that companies appoint NEDs who can add value. A strong NED can contribute to improvements in a company’s performance and profit that far outweigh his or her remuneration. A non-executive will be more involved with and committed to the business than external consultants, banks or accountancy firms, who have other commitments and whose remit is necessarily circumscribed both in subject matter and time.

An NED has exactly the same legal responsibilities as an executive director. While the exact nature of the non-executive role varies from business to business, it will focus on areas such as corporate governance, financial controls, risk management, monitoring the performance of the management team, succession planning and remuneration. Being unencumbered with operational day-to-day issues enables non-executives to bring a strategic view to potential risks and opportunities. They also bring objectivity, insight and a perspective that allows them to ask the questions that may be missed in the day-to-day running of a business. Questions such as “Could we do this better?” can provide an impetus for considering new and innovative approaches.

In essence the non-executive is seen as a guardian of the corporate good, acting as a bridge between executive directors and shareholders. That is to say, the non-executive monitors executive actions and questions executive decisions and is required to ensure that the company is acting responsibly and in the best interests of shareholders and other stakeholders. The assumption is that the interests of those who invest in the company are safeguarded by the appointment of non-executives who exercise independent judgement.

DEPTH OF INVOLVEMENT

Can a non-executive maintain an independent perspective while becoming involved with the company and more influential on the board? Can

we reasonably expect increased commitment and involvement from non-executives, who accept the same legal responsibility as executives but are paid significantly less? If non-executives are paid more to spend more time on company business, how independent can they really be?

Cadbury argued that non-executive director independence might diminish as board tenure increased. Hampel concurred with this view, saying: “There is a risk of non-executive directors becoming less efficient and objective with length of service and advancing age, and the board should be vigilant against this.” Non-executives are now limited to three terms of service.

However, we asked our sample of non-executives about independence and they did not see any potential for conflict. A few raised the issue of independence and long tenure but the majority thought that long-term involvement with a company improved their knowledge and understanding of its affairs, so adding to their effectiveness.

For a long time an NED’s role was seen as being a more or less amateur, part-time affair, a perk for the ‘old school tie’ brigade. Fees reflected attendance at eight to ten board meetings a year, with individuals typically reading board papers on the journey into the City, and perhaps attending a board dinner and the AGM. The role has changed out of all recognition and our sample of respondents told of a heavy workload that included reading hundreds of pages of board and committee papers, as well as taking part in multiple conference calls and site visits.

REMUNERATION

Alongside this workload shouldered by non-executives, expectations of their involvement in the business of a company have also increased significantly. The extent to which they are expected to understand not only the external influences on the business but the inner workings of the company itself have expanded significantly over the last decade to the point where some consider that the level of knowledge expected is unachievable. However, non-executive remuneration has not followed suit. The debate now is not only about the level of their annual fees but about their exclusion from long-term incentive schemes such as share options. Cadbury thought such options might cloud their objectivity, stating: “We regard it as good practice for NEDs not to participate in share option schemes.”

Our respondents were, on the whole, united in believing that non-executive remuneration does not at present adequately reflect the time commitment and responsibilities of the role. Some thought that

ownership of stock options (as opposed to shares) by non-executives could impair their independence and possibly influence them into supporting policies not necessarily in the wider, long-term interests of the company. If stock options were considered appropriate, it was only in circumstances where they might be exercised once a non-executive had stepped down from the board. While there is also an argument that paying individuals partly in shares can aid the alignment of non-executive interests with those of investors, most respondents were of the view that it could prove a distraction. Respondents who considered their basic fees to be satisfactory also tended to see incentives structures as having a limiting impact on attitudes to the business, especially given the risk and increasing commitment required.

Fees for NEDs have, in recent years, been on an upward trend as the regulatory nature of the role expanded in the fallout from the recent recession. However, as one of our respondents pointed out, companies are keen to demonstrate restraint in non-executive pay by ensuring that any pay rises awarded are not out of kilter with those of their wider workforce. With average employees' pay increases limited to inflation in many cases, it is hard for companies to justify a higher increase for NEDs.

CONCLUSION

Our interviews with non-executive directors show that their responsibilities and the demands on their time have grown considerably in recent years. They are expected to bring an external perspective to the board, to demonstrate a degree of understanding of the business and, according to Professor Julian Franks of London Business School, who is quoted on page 10, "...to make the organisation better". As one of our respondents pointed out, a non-executive directorship is not for the faint-hearted.

While non-executives have the same legal responsibilities as executives, their pay lags behind that of their full-time board colleagues and fails to reflect the new realities of their position. That will clearly have to change if organisations are to continue to attract talented individuals who are willing and able to take on the increasingly important non-executive role and act as custodians of good corporate governance.

HIGH-VIS NEDS

The findings of this research suggest that the day of the 'high vis' non-executive director has arrived. With shareholders demanding more and more transparency and accountability, the NED has had to come out of the shadows and become more obviously a guardian of corporate governance.

NEDs' workloads have also increased, with those serving on the boards of the 'Big Four' banks shouldering a particularly heavy burden. Our respondents typically attend ten board meetings a year, spending up to five days preparing for each one, while additional committee work can add another 30 days to the annual total. Non-executives are also now expected to have considerable business knowledge, though not necessarily specific sector knowledge.

But non-executive pay has not kept up with these developments. Most of our respondents thought their reward did not reflect the legal and reputational risks they faced, and the increased responsibilities of their role. Respondents did not think this would affect the number of candidates for non-executive positions, but some warned that suitable candidates could be deterred from applying to join boards, especially of financial services firms. Respondents also highlighted the difficulty of finding fresh faces, with some criticising search firms for being risk-averse when putting forward potential candidates.

Turning to the hot topic of boardroom diversity, many respondents took the view that the concept should not be narrowly defined in terms of gender but encompass diverse skills sets and perspectives. Again, some thought that search firms were unduly cautious about selecting candidates with diverse points of view. One telling comment was that knowledge and diversity are not mutually exclusive.

THE EXPERT VIEW

Julian Franks, Professor of Finance at London Business School, argues that non-executive directors must have some understanding of the industry in which they are working – especially if this is a regulated industry. He points out that one of the issues for HSBC, which was recently embroiled in scandal involving misconduct in its Swiss business, was that some of the bank’s non-executives had no experience of banking.

As a non-executive director himself, Professor Franks recognises that he always needs to understand more about the business, and therefore spends significant time getting to know it. He suggests that new non-executives should ask people in the industry about the company, its chief executive and what is going on within the industry.

Professor Franks believes that the role of a non-executive is to give advice, to be independent and to challenge. 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, he adds.

The non-executive role also involves giving an external view and representing that to the organisation, according to Professor Franks. He gives the example of the board of a financial services institution which needs to represent the views of society as a whole about banks to ensure that the institution acts in ways that are judged acceptable outside the banking fraternity. “They need to help to make the organisation better,” he says.

The time commitment required of non-executives depends upon the size of the company, but Professor Franks thinks that approximately 40 days is about right. That means organisations need to look carefully at the costs of non-executives. Similarly, individuals must think long and hard before taking on a non-executive position. Professor Franks himself is turning down a number of public sector opportunities because they are asking for too much time. He believes these problems are also diminishing the pool of talent, especially in the public sector.

He considers that it is necessary to enshrine non-executive responsibilities in law. “It would be helpful to really bottom out what the responsibilities are and what they are not,” he says. “But you cannot expect a non-executive to know the unknowable.” For instance, in the HSBC case it would have been sufficient for non-executives to ask whether the bank was ‘clean’ in Switzerland and then to question what had been done to ensure there was no misconduct. “Once they had done that, they had no need, and should not be expected, to take further investigative steps. At the end of the day they have to trust the executives,” says Professor Franks.



SUMMARY OF RESPONSES

Despite these challenges, however, the following summary of responses to the questions we put to non-executives suggests that their commitment is not in doubt.

If business is to continue to attract candidates of high calibre we must acknowledge the contribution they bring to the board. Given the time commitment, competence and diligence demanded of NEDs, the role should be viewed as a worthwhile one requiring skills, knowledge and understanding that can make a real difference to the success of a company

MOTIVATION

What attracted you to the non-executive role in the first place?

Half of our respondents took up their first non-executive directorships while working in an executive role. Some took roles with not-for-profit or charitable organisations, one with a research institute and the others with subsidiaries of their existing companies.

The other half of our respondents had left an executive role or taken early retirement and wanted a meaningful role in their post-executive career.

Remuneration was not seen as a motivating factor for our respondents, although they voiced a growing imbalance between reward and the required effort. In fact, one commented that he liked the independence and that the modest remuneration he received meant it would not be too difficult to walk away if things did not go to plan. On the balance of reward and effort, when asked about remuneration, respondents mostly agreed that it had not kept pace with increases in potential reputational risks and the overall responsibilities of the role.

Several respondents saw the move to a non-executive board role as a development opportunity that formed part of their long-term career planning.

Two respondents mentioned the length of time it had taken them to secure their first non-executive role.

The consensus was that they enjoyed the work – the challenge and variety of working for different organisations at different stages in their development. Our respondents also felt that they were able to add value, and enjoyed seeing things from the ‘other end of the telescope’.

The following comments capture some of these views.

“ I WANTED TO DEFINE MY VALUE IN TERMS OF A ‘PUBLIC SECTOR HEART AND COMMERCIAL BRAIN’ AND WANTED TO FIND ROLES WHERE PEOPLE WOULD FIND VALUE IN MY EXPERIENCE. I BELIEVED IT WAS TIME TO GIVE SOMETHING BACK.”

“ I GET A LOT MORE SATISFACTION OUT OF WORKING FOR THE SMALLER COMPANIES AND NOT-FOR-PROFIT ORGANISATIONS, WHERE YOU CAN MAKE MORE OF A DIFFERENCE.”

“ IT IS A PROFESSIONAL JOB AND SHOULD NOT BE TREATED AS A MATTER OF CONVENIENCE. PEOPLE NEED TO TRAIN AND KEEP UP TO DATE TO BE GOOD NON-EXECUTIVE DIRECTORS. I WILL ONLY WORK WITH THE RIGHT TYPE OF BOARD.”

“ I LEFT AN EXECUTIVE ROLE FOR WORK-LIFE BALANCE PURPOSES. I VIEWED A NON-EXECUTIVE ROLE AS AN OPPORTUNITY FOR LEARNING AND DEVELOPMENT. I CAN MAKE A WORTHWHILE CONTRIBUTION AND LIKE THE FLEXIBILITY OF A PORTFOLIO CAREER. I ENJOY THE VARIETY AND CHALLENGE WHILE HAVING CONTROL OF MY WORK SCHEDULE.”

Are you interested in further non-executive roles?

Several respondents stated that they were not currently interested in further roles, with two saying they would not consider taking on more roles without divesting themselves of a current role. One respondent said that he would not consider a role with a FTSE100 company, and another that he would be reluctant to take on a directorship in a regulated environment.

Other respondents would consider additional non-executive roles if these were likely to be interesting and enable them to add real value.

It was important to our respondents to be able to respect other board members and have a measure of compatibility with them. Knowledge of the sector and empathy with the business were also prerequisites for some. One respondent commented that she would be unwilling to take on a role with a tobacco or drinks company.

Other responses to this question included the following.

“YES, IF I COULD ADD VALUE, BUT I DON'T NEED TO DO ANYTHING NOW THAT DOES NOT INTEREST ME. I DON'T CARE HOW PRESTIGIOUS IT IS, BUT WOULD CONSIDER SOMETHING COMMERCIAL THAT IS INTERESTING. I OFTEN GET APPROACHED BUT LOOK CRITICALLY AT WHAT IS INVOLVED.”

“NOT JUST FOR SAKE OF HAVING SOMETHING TO DO, I WANT TO WORK WITH PEOPLE I LIKE, DOING SOMETHING THAT IS OF INTEREST; YOU CAN MAKE A REAL DIFFERENCE IN SOME ROLES.”

“YES, BUT I WOULD BE VERY CHOOSY ABOUT WORKING IN A REGULATED ENVIRONMENT.”

“ONLY IF I CAN MAKE A PROPER COMMITMENT, WILL I THINK VERY CAREFULLY ABOUT ANY ROLES THAT ARE OFFERED.”



FORMAL TIME COMMITMENT

What is the formal board time required?

In general it seems that most respondents attend around ten board meetings a year as NEDs. Preparation time is likely to add at least a further ten days to this. However, the time that NEDs are required to devote to board duties depends on their role and the size of the organisation. In a crisis some respondents had found that they had to devote a significant amount of additional time to board business.

Chairing a committee is widely regarded as demanding a great deal of additional time, as some of the following comments suggest.

“ WITH ONE [COMMITTEE] NOT MUCH TIME IS NEEDED AND IT IS PREDICTABLE AND READING IS PREDICTABLE, BUT FOR OTHERS MORE TIME IS REQUIRED. WAS TOLD BY AN EXPERIENCED NON-EXECUTIVE DIRECTOR TO DOUBLE WHAT I WAS TOLD WAS REQUIRED IN TERMS OF TIME COMMITMENTS. THAT SEEMS TO BE PAR FOR THE COURSE.”

“ IT IS IMPORTANT WHEN APPOINTING PEOPLE WHO ARE IN FULL-TIME GAINFUL EMPLOYMENT ELSEWHERE AS NON-EXECUTIVE DIRECTORS TO ENSURE THAT THEY TAKE ACCOUNT OF THE TIME COMMITMENT.”

“ IT IS VERY DIFFICULT TO DEFINE; IT IS ALWAYS HARD WORK AND DEPENDS UPON WHERE THE COMPANY IS IN THE ECONOMIC CYCLE, NOT ONLY GLOBALLY, BUT ALSO IN RESPECT OF THE INDIVIDUAL COMPANY.”

How long do you spend preparing for board meetings?

Respondents reported spending between two to five days preparing for each board meeting and longer if they were chairing the meeting.

Again, preparation time is dependent on the size of the organisation involved. The amount of reading required can be considerable, depending on the time of year and which committees the respondent was working on. As one respondent put it: “The preparation time varies significantly and can be substantial. For instance, where there is a requirement for preparation for an AGM, or where there is going to be a new remuneration policy put in place, there will be a significant amount of extra time talking to advisors.”

How much additional time do you spend as a chairman or committee member?

This depends on the company and the role, as is clear from the following responses. Respondents also agreed that chairing a meeting is likely to require additional preparation time.

“ ADDITIONAL COMMITTEE TIME CAN ADD ANOTHER 30 DAYS. THERE’S LOTS OF PREPARATION, LOTS OF PAPERS TO READ AND ABSORB, AND CONFERENCE CALLS WITH THE TEAM. THEN THERE IS REVIEWING PAPERS BEFORE PUBLICATION AND LOTS OF CONSULTATION WITH SHAREHOLDERS, WHICH IS TIME-CONSUMING. TAKING ON A NON-EXECUTIVE DIRECTORSHIP IS NOT FOR THE FAINT-HEARTED - THERE WILL BE HUNDREDS OF PAGES OF READING FOR EACH MEETING AND POSSIBLY SIGNIFICANT TRAVEL TIME.”

“ THE TIME COMMITMENT IS VERY ONEROUS IF YOU ARE ON THE BOARD OF A ‘BIG FOUR’ BANK.”

“ SITTING ON THE NOMINATIONS COMMITTEE ADDS A LOT OF WORK AT THE MOMENT. GIVEN THE EXPECTATIONS OF THE PRA THAT WE PROVIDE A DETAILED UNDERSTANDING OF WHY PEOPLE HAVE BEEN APPOINTED, WHO ELSE WAS CONSIDERED AND WHY THEY WERE NOT APPOINTED, THIS CAN BE AN EXTREMELY BURDENSOME TIME COMMITMENT.”

INFORMAL TIME COMMITMENT

How much time do you spend annually on business engagement – on visiting and being briefed on the business?

All our respondents expected to spend at least several days a year visiting company sites and operations, which sometimes involves international travel. Several respondents mentioned time spent mentoring and encouraging executives and managers within the business, a responsibility they plainly relished and valued.

Most respondents reported that board dinners were useful for keeping in touch, and that conference calls between meetings were particularly useful for those chairing the board or committees.

A couple of respondents commented that new NEDs may need to devote more informal time in the first year of their appointment. As one noted: “More time is needed at the beginning of a new non-executive role, but everyone does it differently. Of course, where you are more familiar with a business you will pick up the necessary details more quickly. It is important that there is an engagement with the business early on, but more important that there is ongoing engagement.”

Other responses to this question included the following.

“ I PERCEIVE MY ROLE AS BEING TO PROVIDE VALUABLE AND VISIBLE LEADERSHIP. I SEE ALL THE HEADS OF SERVICE AND AM REGULARLY OUT IN THE BUSINESS ASKING PEOPLE ABOUT THEIR CONCERNS. ALL OF THIS INFORMATION CAN THEN BE SYNTHESISED SO THAT I HAVE GOOD AMMUNITION FOR ASKING RELEVANT QUESTIONS AT BOARD MEETINGS. YOU NEED TO UNDERSTAND THE ECONOMIC MODEL AND FIND OUT HOW PEOPLE FEEL ABOUT THE ORGANISATION.”

“ IT REALLY DEPENDS ON HOW MANY BOARD MEETINGS THERE ARE AND WHERE THEY TAKE PLACE. IN ADDITION, THE NON-EXECUTIVE NEEDS TO MAKE THREE OR FOUR VISITS A YEAR TO PEOPLE WHO ARE NOT INVOLVED AS MEMBERS OF THE BOARD.”

“ I REGULARLY VISIT THE COMPANY TO TAKE STOCK AND ALSO TO GET OUT AND ABOUT TALKING TO CUSTOMERS. I NEED TO ENSURE THAT THE COMPANY IS ACTUALLY DOING WHAT IT IS TELLING ME IT IS DOING. I CAN SPEND AS MUCH, OR AS LITTLE, TIME AS I WANT TO ON THIS.”

Does the board set aside additional time for its own development?

Respondents highlighted the value of the board setting aside time to review the performance both of individual non-executives and of the board as a team. This enables the chair and board to discuss perceptions of their roles and contributions. They can then consider how the board as a whole works and its effectiveness, with a view to suggesting ideas for improvement. Such a review is separate from the appraisal of non-executives.

Board development time varied hugely among our respondents, ranging from a couple of days a year to around 15 days.

As some of the following comments indicate, our respondents particularly valued any time they spent with professional advisors. Those with professional qualifications aim to keep up to date, but respondents also cited specialist training around specific issues such as solvency and pensions.

“ WE SENT ONE OF OUR BOARD MEMBERS, A DOCTOR, AWAY ON AROUND TWENTY DAYS OF TRAINING ON FINANCIAL MATTERS IN ORDER TO REALLY BRING HIM UP TO SPEED AS A NON-EXECUTIVE DIRECTOR.”

“ I SPEND ABOUT EIGHT TO TEN DAYS A YEAR WITH THE ACCOUNTANTS OR OTHERS SO THAT I AM KEPT UP TO SPEED WITH CHANGES IN LEGISLATION, ACCOUNTING PRACTICES, ETC. IN ORDER TO BE WELL PREPARED FOR MY BOARD ROLE.”

“ FEEDBACK AND BOARD PERFORMANCE REVIEWS CAN BE VERY REVEALING AND USEFUL AND SOMETIMES A LITTLE UNCOMFORTABLE.”

What extra time is required for first year induction?

NEDs should anticipate putting in more than the stated time commitment and probably expect an intensive first three to six months for an effective induction. It seems reasonable to suggest that prospective NEDs should prepare fully for the role, undertaking training as required, and being subject to regular review and continuing professional development.

The amount of time considered appropriate for induction training for a new board member varies but ranges from around three days up to ten days, partly depending on the size of the organisation and also the experience of the board member concerned.

All respondents felt that formal board induction time was important and valuable, with most respondents expecting to follow up induction training under their own steam.

One respondent commented that newly appointed non-executives might not make best use of this training as they lacked the context to make sense of the information they were given. But after three to six months they would recognise the gaps in their knowledge and take steps to deal with them.

Respondents also made the following observations.

“ I BELIEVE NON-EXECUTIVE DIRECTORS SHOULD SEE ALL THE CEOs AND THEIR DIRECT REPORTS AS PART OF THE INDUCTION PROCESS BUT NOT NECESSARILY ON A REGULAR BASIS.”

“ I FIRMLY BELIEVE ONE SHOULD NOT TAKE UP A DIRECTORSHIP WITHOUT HAVING A PRETTY GOOD UNDERSTANDING OF THE BUSINESS IN THE FIRST PLACE.”

“ MOST BOARDS VIEW THIS AS NECESSARY, EVEN OUTSIDE OF THE HIGHLY REGULATED FINANCIAL SERVICES WORLD. DIRECTORS NEED TO UNDERSTAND WHAT IS REQUIRED OF THEM AND THERE SHOULD BE ONGOING UPDATES FOR ALL DIRECTORS.”

“ LEARNING ABOUT A NEW COMPANY TAKES TIME. YOU CAN'T DO IT IN TWO WEEKS. YOU NEED TO SEE THE BUSINESS OVER A SIX TO TWELVE MONTH PERIOD, GETTING TO KNOW THE BUSINESS, THE MANAGEMENT AND THE BOARD AS WELL AS OTHER PEOPLE WHO IMPACT ON THE ORGANISATION.”

“ INDUCTION TRAINING MIGHT VARY CONSIDERABLY; IF IT IS A GOOD DIVERSE BOARD YOU WILL HAVE SOME PEOPLE FROM OUTSIDE THE INDUSTRY AND THEY WILL NEED MORE TIME. I CREATED MY OWN PROGRAMMES TO HELP ME BECOME BETTER INFORMED. IT IS BEST DONE IN SMALL BITES OVER THE FIRST YEAR. I KNEW WHO I WANTED TO MEET AND WHAT I NEEDED TO LEARN.”

How long are your other time commitments?

The answer to this question is: “As long as a piece of string!” Some respondents reported minimal additional time commitments, whereas others pointed out that there might be specific requirements for strategic events or at times of crisis.

As one respondent said:

“ DIRECTORS NEED TO BE EDUCATED AS TO WHAT IS EXPECTED OF THEM, STARTING WITH THE NUMBER OF MEETINGS, WHICH WILL DEPEND ON THE SIZE OF THE COMPANY. SO THE RELEVANT PREPARATION TIME VARIES. ONE DIRECTOR I KNOW SPENDS FOUR DAYS PREPARING FOR BOARD MEETINGS. I THINK FOR EVERY DAY OF MEETINGS YOU WOULD BE LOOKING AT A MINIMUM OF ONE OR TWO DAYS, SOMETIMES MORE, FOR PREPARATION. IT CAN BE A LOT, WHICH IS WHY REGULATORS ARE INTERESTED IN THE NUMBER OF ROLES NON-EXECUTIVE DIRECTORS HOLD.”

For NEDs of international companies, travel will also add significantly to the time they are required to devote to their role.

What do you view as a reasonable time commitment?

Effective and professional NEDs need to put in time and involvement above and beyond attendance at regular board meetings if they are to contribute fully to organisational development.

Responses to the question of what a reasonable time commitment would be ranged from 20 days up to 75 days, so plainly this depends on the specifics of the situation. In regulated industries such as financial services or energy a great deal more time is required.

Our respondents also pointed out that regulatory issues take up an increasing amount of time and one-off projects such as mergers or issues around reputational risk will make additional demands on non-executive time.

“ IF I AM DOING THE THING SERIOUSLY I WANT TO DO IT PROPERLY. IT CAN BE TIME-CONSUMING, DEPENDS WHAT IT IS, ESPECIALLY IF THERE ARE EXTRA ONE-OFF PROJECTS. FOR FORMAL NON-EXECUTIVE ROLES THERE IS ALWAYS A STRATEGY DAY EVERY YEAR.”

“ DEPENDS ON WHAT IS GOING ON; AND, IF YOU ARE CHAIR THEN YOU SPEND TIME ON THE PHONE TO SENIOR EXECUTIVES REGARDING PARTICULAR ISSUES SUCH AS M&A OR A REPUTATIONAL/PR ISSUE GOING ON.”

“ IN A LARGE MULTINATIONAL IT IS DIFFERENT BUT 20-30 DAYS IS ABOUT THE RANGE FOR A UK PLC. IF YOU SPEND MUCH MORE TIME, THEN YOUR INDEPENDENCE WILL START TO BE AFFECTED.”



SELECTION FOR A BOARD NON-EXECUTIVE ROLE

Did this meet expectations? Was the time commitment envisaged and talked about during the selection process realistic?

Our respondents were evenly split between those who thought that the commitment required was clear, openly discussed and agreed, and those who thought that requirements were usually underestimated. One respondent commented that it is much harder to judge what is required than you might think.

Another respondent thought it important that this area should not be over-regulated. At times of specific need or crisis board members can find that they have to devote time, often at short notice, over and above their regular commitment.

Other responses to this question included the following.

“ WHEN THEY THINK ABOUT HOW MUCH TIME A NON-EXECUTIVE WILL NEED TO SPEND ON BOARD BUSINESS THEY ARE ALWAYS THINKING ABOUT ‘BUSINESS AS USUAL’. THERE ARE TIMES WHEN THE COMPANY WILL HAVE EXTRA NEEDS AND THESE CAN’T BE FACTORED IN. SOMETIMES PEOPLE ARE NEEDED AT SHORT NOTICE AND THIS OBVIOUSLY MAY MILITATE AGAINST PEOPLE WHO ARE IN A FULL TIME JOB.”

“ NOT AT ALL REALISTIC, IT IS NEVER WHAT THEY SAY, ALWAYS MORE.”

“ THIS IS ALWAYS UNDERESTIMATED, BUT AT THE SAME TIME IT IS TERRIBLY DIFFICULT TO QUANTIFY. MOST NON-EXECUTIVE APPOINTMENT LETTERS WILL STATE THAT THEY ARE EXPECTED TO SPEND 30 DAYS PER ANNUM ON BOARD BUSINESS. THIS IS FAR TOO LITTLE BUT AT THE SAME TIME A SIGNIFICANT AMOUNT OF THAT CAN BE UNDERTAKEN AT HOME. IN THE REGULATED SECTOR YOU ARE LIKELY TO BE SPENDING MUCH MORE TIME THAN IS OFFICIALLY SPECIFIED BY YOUR CONTRACT.”

“ PROBABLY NOT, I HAVE LEARNED TO ASK THE QUESTIONS BETTER. IT IS NOT ABOUT DELIBERATE DISTORTION BUT AROUND DIFFERING PERCEPTIONS OF WHAT IS INVOLVED.”

“ THEY TEND TO UNDERESTIMATE, NOT DELIBERATELY, THEY (HEAD HUNTERS AND CHAIRMEN) ARE TRYING TO TALK YOU INTO IT; IT TAKES MORE TIME THAN THEY REALISE TO UNDERSTAND WHAT GOES ON, TO MAKE CONTACTS, AND PLAY YOURSELF IN.”

What is your view as to whether a board should recruit for diversity rather than depth in the industry when selecting NEDs? What are the implications of that choice?

Non-executive candidates need to show that they can constructively challenge the executive team and provide evidence of independent thinking, curiosity, and ability to question and probe diligently but unthreateningly. They also need to demonstrate excellent listening and influencing skills, courage, and acceptance that theirs is a supporting, rather than a lead role.

The consensus was that an effective board needs depth of experience and a diverse profile. Several respondents mentioned that the concept of diversity should be interpreted as broadly as possible, rather than just emphasising gender diversity. In addition, the point was well made that a diverse board is not necessarily one that is lacking in knowledge.

Respondents noted that the chair should ensure that the board has an appropriate mix of skillsets and relevant experience to provide the requisite advice and guidance.

As the comments below indicate, respondents were all inclined to value a diversity of points of view and thought that a board comprised of smart and experienced people who bring new ways of thinking to the table is likely to be effective.

“ THEY [KNOWLEDGE AND DIVERSITY] ARE NOT MUTUALLY EXCLUSIVE. THERE IS THIS BIZARRE CONCEPT OF MERITOCRACY, BUT THE ONE THING THAT GIVES MOST ADDED VALUE TO BOARD IS APPOINTING SOMEONE WHO THINKS DIFFERENTLY.”

“ NON-EXECUTIVE DIRECTORS NEED TO BE CURIOUS AND HAVE EMPATHY SO THAT THEY CAN BRING TO BEAR THEIR EXPERIENCE OF OTHER BUSINESS SITUATIONS TO THE TABLE.”

“ THIS HAS MASSIVE IMPLICATIONS. I FEEL VERY STRONGLY THAT YOU NEED REAL EXPERTISE, ESPECIALLY IN FINANCIAL SERVICES. THE BIG MISTAKE SOME BOARDS MAKE IS TO DO SOME WRETCHED SKILLS AUDIT AND THEN RELY ON THAT. YOU NEED BREADTH AND DEPTH BUT THEY HAVE TO BE THE RIGHT PEOPLE FOR THE JOB.”

“ FIRST, DEFINE DIVERSITY. TO ME THIS IS ABOUT HOW THEY SEE THINGS – THEIR NEW PERSPECTIVE IS WHAT MATTERS, AS A DIFFERENT ANGLE ADDS VALUE TO THE BOARD. THEIR DIFFERENT POINTS OF VIEW AND SEEING WHAT OTHERS DO NOT SEE, IS WHERE THEY ADD VALUE. I HAPPEN TO BE FEMALE BUT THAT IS NOT WHAT MAKES MY POINT OF VIEW DIFFERENT!”

“ BEING ABLE TO SAY, ‘I DON’T UNDERSTAND’ IS WHAT STIMULATES FRESH THINKING.”

“ THIS DEPENDS ON SECTOR. BY AND LARGE DIVERSITY OF SKILLSET IS VALUABLE, THOUGH CLEARLY IN HIGHLY REGULATED INDUSTRIES YOU NEED TO HAVE A CORE OF PEOPLE WHO REALLY UNDERSTAND THE BUSINESS. IN OTHER TYPES OF BUSINESSES THEY NEED TO BE ABLE TO UNDERSTAND THE CUSTOMERS AND THE SUPPLY CHAIN AND BE ABLE TO HELP TO ADVISE THE BOARD. IN MY NOT-FOR-PROFIT WORK THE EXECUTIVE DIRECTORS ARE ALL ‘CARING/SHARING’ AND NEED A COMMERCIAL EDGE FROM THE OTHER NON-EXECUTIVES. IT IS THE RESPONSIBILITY OF THE CHAIR TO ‘SQUARE THE CIRCLE’.”

Is it becoming more difficult to get experienced non-executive candidates for the board?

The response to this question was a resounding “no”. All our respondents think there are many candidates willing to be considered for non-executive roles. There was, however, a recognition that in the highly regulated financial services sector it is more difficult to find experienced candidates willing to take on the challenge. The risk/reward equation is increasingly uppermost in the minds of good candidates.

Several respondents pointed out that the emphasis on gender diversity is unhelpful and that female candidates want to be appointed on merit, not gender.

“ THERE IS A SURPRISING NUMBER OF CANDIDATES WHO STILL WANT TO DO IT. HOWEVER, IT IS IMPORTANT FOR QUOTED COMPANIES TO FIND PEOPLE WHO HAVE ALREADY HAD EXPERIENCE AT PLC/AUDIT COMMITTEE/REMUNERATION COMMITTEE LEVEL.”

“ IT HAS ALWAYS BEEN A CHALLENGE. FOR SPECIFIC SEARCHES FOR CERTAIN EXPERIENTIAL PROFILES IT CAN BE MORE DIFFICULT BUT EVERYONE IS LOOKING FOR THE BEST PEOPLE AND THERE ARE ONLY SO MANY PEOPLE WHO ALREADY SERVE, SO WE NEED TO THINK OUTSIDE THE BOX AND TAKE A CHANCE SOMETIMES.”

“ THE SAME SAFE NAMES COME UP AGAIN AND AGAIN, OR SAFE PEOPLE COME OUT OF REGULATION OR COMPLIANCE. CHAIRMEN DON’T LIKE TO TAKE RISKS, NOR DO HEAD HUNTERS.”

“ AT THE MOMENT WE ARE AT A CROSSROADS BETWEEN THE OLD BOARD MEMBERS WHO, TO A LARGE EXTENT, ARE LESS INVOLVED IN THE BUSINESS AND A NEW GENERATION WHO ARE REALLY ADDING VALUE.”

“ NON-EXECUTIVE DIRECTORS WORRY MORE AND SOME HAVE LEFT THE ARENA; WE DO NEED MORE ACCOUNTABILITY AND PROFESSIONALISM BUT THE MANNER IN WHICH THIS IS BEING IMPLEMENTED WORRIES ME. THERE WILL ALWAYS BE UNKNOWN RISKS BUT WE NEED TO BE REASONABLE AND NOT SCARE AWAY THOSE WITH INTEGRITY WHO WE NEED IN THE BOARDROOM.”

Is it becoming more difficult to get new non-executive candidates for the board?

Again, our respondents think that there are plenty of credible, qualified and willing candidates.

However, several commented that it can be difficult to secure one’s first non-executive role. A Catch 22 situation means you can’t get a board role if you don’t have board experience. But you can’t get experience if you can’t find a role. Some respondents bemoaned the fact that boards now tended only to contain the Chief Executive and the Chief Financial Officer as executives. Not only did this mean that the flow of information could be much more tightly controlled by the CEO but also that fewer executives were getting exposure to the board and therefore were felt to lack the necessary credentials for non-executive appointments – especially in the quoted environment.

Chairmen and investors prefer to appoint experienced candidates, and don’t want to put in time ‘house training’ new non-executive directors. Several respondents also commented that head hunters are risk-averse when it comes to putting forward a diversity of candidates.

“ THE NEXT GENERATION OF NON-EXECUTIVE DIRECTORS MAY BE LESS CONCERNED ABOUT THE IMPACT OF INCREASED REGULATION AS THEY WILL HAVE GROWN UP WITH IT,” REMARKED ONE RESPONDENT.

Other comments included the following.

“ LOTS OF PEOPLE ARE WILLING TO BE CONSIDERED, BUT EXECUTIVE SEARCH NEEDS TO WORK HARDER AT THE LEVEL DOWN FROM THE EXECUTIVE COMMITTEE TO FILL NEW ROLES. SOME SEARCH FIRMS ARE UNIMAGINATIVE IN THEIR APPROACH AND DO NOT SEARCH EXTENSIVELY ENOUGH AND DON’T SELL THE COMPANY WELL ENOUGH.”

“ IT IS BECOMING HARDER TO SATISFY THE INVESTORS, BECAUSE WHEN CANDIDATES HAVE NOT BEEN ON A MAIN BOARD, THEY ARE LIKELY TO QUESTION WHETHER OR NOT THEY REALLY UNDERSTAND THE ROLE AND KNOW WHAT GOOD CORPORATE GOVERNANCE IS.”

“ YES, AND THIS IS PROBABLY A GOOD THING. IN SOME INDUSTRIES EVERYBODY KNOWS EVERYBODY AND THEREFORE ALL YOU ARE DOING IS RECYCLING PEOPLE. THE INCREASED WORK ON DIVERSITY MEANS THAT THIS IS BECOMING LESS OF AN ISSUE.”

“ THE PROBLEM HERE IS GETTING PEOPLE TO GET THE EXPERIENCE OF BEING ON A BOARD WHEN THEY ARE IN FULL-TIME GAINFUL EMPLOYMENT. I WOULD RECOMMEND A POSSIBLE TWO-TIER SYSTEM WHEREBY PEOPLE CAN BE ON THE BOARD, PROVIDING ADVICE AND GUIDANCE BUT WITH A LOWER LEVEL OF RISK AND RESPONSIBILITY, WHICH WILL ENABLE THEM TO LEARN ABOUT BECOMING NON-EXECUTIVE DIRECTORS.”

What, in your view, are the added pressures on experienced and new non-executive directors?

Many shareholders increasingly look for informed and relevant background experience, rather than just general business experience. This trend towards a professional approach to recruiting NEDs requires a positive commitment from the potential director to dedicate the time and effort needed to the role.

The level of knowledge and understanding of the business expected of non-executives is now considerably greater than it was, and this puts pressure on those taking up these roles. Regulations are constantly amended and updated and, as the following comments suggest, keeping up with these changing requirements places additional demands on non-executives, often at the expense of being able to debate real business issues at the board.

“EXTRA REGULATION AND THE FACT THAT BUSINESSES ARE BECOMING MORE GLOBAL MEAN IT IS ADDING SOME PRESSURE. ADDITIONALLY, THE EXPECTATIONS OF THE INVESTOR COMMUNITY AND, INDEED, OTHER BOARD MEMBERS, ARE HIGHER AND THE COMPETITIVE ENVIRONMENT MAKES IT QUITE DIFFICULT TO MEET THESE EXPECTATIONS OCCASIONALLY. FOR FINANCIAL INSTITUTIONS THERE IS SIGNIFICANT ADDED PRESSURE AND PEOPLE ARE BEGINNING TO CONSIDER THAT IT IS OVERLY REGULATED.”

“DEPENDS ON THE BUSINESS. THERE IS A CONTINUALLY INCREASING AMOUNT OF REGULATION THAT YOU HAVE TO KEEP UP WITH AND INTERFERENCE BASICALLY BY POLITICAL PROCESSES. IT HAS ALWAYS BEEN THAT WAY BUT IT IS MORE SO NOW, AND WE SEEM TO SPEND MORE TIME ON SUCH ISSUES RATHER THAN ON GETTING ON WITH BUSINESS.”

“BEING A NON-EXECUTIVE, PARTICULARLY IN FINANCIAL SERVICES, IS DRAMATICALLY DULLER THAN IT USED TO BE! YOU HAVE TO SPEND SO MUCH TIME WADING THROUGH ARCANE AND RATHER THEORETICAL PAPERWORK, WHICH IS NOT REALLY VERY USEFUL. IN REGULATED INDUSTRIES THE WHOLE PROCESS BOGS DOWN THE BOARD IN UNHELPFUL CONSIDERATIONS THAT WON'T REALLY HELP IN THE NEXT CRISIS.”

“PRESSURES OF MORE REGULATION, PERFORMANCE AND PROBITY FROM SHAREHOLDERS, REGULATORS AND THE MEDIA ARE MAKING NON-EXECUTIVES REALLY HAVE TO THINK QUITE CAREFULLY BEFORE THEY TAKE UP THE ROLES.”

“THERE HAVE ALWAYS BEEN PRESSURES BUT HISTORICALLY THEY HAVE NOT BEEN AS WELL RECOGNISED AS THEY ARE NOW. NON-EXECUTIVES ARE NOW EXPECTED TO KNOW AS MUCH AS THE EXECUTIVES BUT THIS IS NOT APPROPRIATE; THEY CANNOT KNOW AS MUCH AS AN EXECUTIVE – NOR INDEED SHOULD THEY. THERE ALWAYS SHOULD HAVE BEEN ISSUES AROUND THIS BUT HISTORICALLY THEY HAVE BEEN SWEEPED ASIDE. THERE IS SIGNIFICANT INCREASED SCRUTINY AND THE PRESSURE ON THE

CHAIR IS INTENSE. EXECUTIVES ALSO WANT MORE FROM THE NON-EXECUTIVES, AND SHAREHOLDERS HAVE GONE TOO FAR IN THEIR INTERFERENCE WITH THE BOARD. THIS IS ESPECIALLY TRUE IN TERMS OF THINGS LIKE REMUNERATION.”

“REGULATION CAN TAKE A SIGNIFICANT AMOUNT OF TIME; IT IS NOT DIFFICULT BUT IT IS INCREDIBLY TIME-CONSUMING. I THINK THAT THE THREE-YEAR REVIEW OF THE BUSINESS IS A FARCE AND ADDS NO VALUE. MOST OF THE RULES AND REGULATIONS THAT HAVE BEEN CREATED ARE TO CATCH BAD COMPANIES AND CROOKS, BUT 90 PER CENT OF COMPANIES ARE FINE. THE RESULT IS A NUMBER OF GOOD COMPANIES ARE GETTING TIED UP IN TOO MUCH RED TAPE. THE BIG ISSUE FOR UK PLC IS GROWTH AND PRODUCTIVITY AND EVERYTHING TO DO WITH CORPORATE GOVERNANCE IS STIFLING THAT”.

“THERE HAS BEEN A GENERAL INCREASE IN THE WORKLOAD LEADING TO A REQUIREMENT TO BE BETTER BRIEFED AND TO GET CLOSER TO THE BUSINESS. THERE IS ALSO A CHANGE IN ATTITUDE AND SIGNIFICANT UNPLEASANTNESS AGAINST DIRECTORS. NON-EXECUTIVES ARE, THEREFORE, ON THE DEFENSIVE AND ARE BEING MUCH MORE RISK-AVERSE. THIRDLY, THE INCREASE IN REGULATION WHERE ALL ISSUES ARE REGULATED FOR OR LEGISLATED AGAINST IS AFFECTING THE PRESSURES ON THE NON-EXECUTIVES.”

“REGULATORY COMPLEXITY IS AN ISSUE. SO MANY DIFFERENT REGULATIONS TO FOLLOW, ALL KINDS OF REGULATORY ISSUES, SOME CONFLICTING, ALL EXTREMELY POLITICISED. REPUTATIONALLY, YOU HAVE A LOT MORE RISK AND HAVE TO BE REALLY ON THE BALL, PUT IN A LOT OF TIME AND ABSORB A GREAT DEAL OF VERY TECHNICALLY DEMANDING DATA.”

Do you think there will be enough willing non-executive candidates in the future?

There was a resounding “yes” in answer to our question. In spite of the increasing responsibilities, time commitments and liabilities associated with taking on a non-executive directorships, the role continues to attract a lot of interest from current and retired executives. Motivations vary widely: some aspire to a portfolio of directorships, while many want a single appointment to stay involved in their industry and “give something back”.

While there are plenty of candidates willing to be considered for non-executive roles, whether they are all suitable is a different matter.

Respondents noted the difficulty of finding fresh faces. There were also comments suggesting that chairmen and search firms are risk-averse in considering left-field candidates. A number of respondents think it may be more difficult for organisations in financial services to find willing and credible candidates for non-executive roles.

“ GOOD QUESTION. PEOPLE WILL STILL WANT TO BE NON-EXECUTIVE DIRECTORS BUT THE DAYS OF DOING MORE THAN FOUR ARE LONG OVER, IF YOU ARE GOING TO DO THE JOB PROPERLY. IF IT BECOMES MORE ONEROUS, BANKS AND INSURANCE COMPANIES WILL PROBABLY FIND IT MORE DIFFICULT. I HAVE SAID ‘NO THANKS’ TO ROLES IN FINANCIAL SERVICES AS IT IS TOO MUCH IN TERMS OF TIME REQUIRED.”

“ BASED ON WHAT I HAVE SEEN THERE IS A SENSE FROM MANY OUTSIDE THE FINANCIAL SERVICES FIELD THAT THEY WOULD NOT GO INTO A FINANCIAL SERVICES ROLE BECAUSE THE RESPONSIBILITY IS TOO MUCH AND WITHOUT THE RELEVANT BACKGROUND IT IS NOT APPROPRIATE. IT IS SEEN AS A DIFFICULT PATH IN FINANCIAL SERVICES, BECAUSE PEOPLE NOW FOCUS ON THE ACCOUNTABILITY MORE.”

“ THERE ARE MORE THAN ENOUGH CANDIDATES, THOUGH WHETHER THEY ARE ALL SUITABLE AND HAVE UNDERSTOOD THE PRESSURES IS OPEN TO QUESTION.”

“ PROVIDED THERE IS SOME RELIEF AS TO THE LEVELS OF RESPONSIBILITY THEN THERE WILL BE ENOUGH PEOPLE. SOME MAY NEED THE MONEY BUT THERE WILL BE INDUSTRIES (ESPECIALLY REGULATED ONES) WHERE IT WILL BECOME TOUGHER. THE CURRENT ENVIRONMENT IS STIFLING THE ABILITY OF GENERALISTS TO GET ONTO REGULATED BOARDS AND IN SOME RESPECTS THE MODEL IS BROKEN.”

“ AT THE MOMENT THIS IS NOT A PROBLEM, BUT ON BALANCE, I WOULD SAY TAKE IT ON AT YOUR PERIL. THE UPSIDE DOES NOT WARRANT THE RISK.”

Do you think the responsibilities and depth of knowledge required are acting as a deterrent?

The consensus seems to be that, particularly in respect of appointments to the boards of financial services companies, there is or will be a deterrent effect.

“ WHAT CAN BE A DETERRENT IS PERSONAL LIABILITY. THINGS MAY HAPPEN IN AN ORGANISATION OF WHICH YOU, AS NON-EXECUTIVE, ARE AND SHOULD BE, UNAWARE. IT’S POSSIBLE THAT PEOPLE MAY MAKE THE WRONG JUDGMENT BECAUSE THEY HAVE BEEN GIVEN THE WRONG INFORMATION AND, IF THERE IS SIGNIFICANT LEGAL LIABILITY THIS WILL, OVER TIME, BECOME A DETERRENT.”

“ THERE IS A DETERRENT EFFECT. FOR PEOPLE OUTSIDE THE FINANCIAL SERVICES ARENA THIS IS A CONCERN BUT IT PROBABLY DOES NOT AFFECT THOSE FAMILIAR WITH THAT WORLD.”

“ THERE NEEDS TO BE A BALANCE OF REWARD IN ORDER TO TAKE ON THE INCREASING RESPONSIBILITIES.”

“ I BELIEVE OVERALL IN REASONABLE REGULATION BUT CURRENT LEVELS, COUPLED WITH THE CRUSHING BURDEN OF INTERFERENCE FROM REGULATORS, ARE ACTING AS A DETERRENT FOR MANY.”

“ YES, THE RESPONSIBILITIES ARE A DETERRENT; AS IS THE LEVEL OF REMUNERATION IN THE LIGHT THEREOF.”

Do you think new non-executives understand what is expected of them?

There was an even split on this question; some new non-executives do not realise what they are letting themselves in for. Other respondents felt that the role was fairly well understood but that responsibilities associated with it should be covered in the recruitment process.

“ MOST NEW NON-EXECUTIVES HAVE NO UNDERSTANDING OF THE RESPONSIBILITIES OR COMMITMENT OF A NON-EXECUTIVE, EVEN IF THEY HAD SAT ON A BOARD.”

“ YOU HAVE TO DO YOUR DUE DILIGENCE. THERE ARE BOUND TO BE ADJUSTMENTS TO MAKE BUT IT IS WHAT I EXPECTED.”

“ CERTAINLY HOPE SO. IF NOT, THE BOARD IS AT FAULT FOR NOT MAKING THIS CLEAR AT THE OUTSET.”

“ DEPENDS WHAT THEIR BACKGROUND IS. I, PERSONALLY, DID NOT FIND THE TRANSITION DIFFICULT AND THINK THAT IS BECAUSE I WAS FAMILIAR WITH THE LEGAL BACKGROUND, UNDERSTOOD THE ROLE AND THE DIVIDE BETWEEN EXECUTIVE AND NON-EXECUTIVE AND WHAT IT IS LIKE TO BE SUPPORTIVE BUT TO SAY WHAT NEEDS TO BE SAID. I HAVE HEARD THAT NEW NON-EXECUTIVES ARE NOT ALWAYS FAMILIAR WITH WHAT BEING A DIRECTOR IS ABOUT, SO INDUCTION TRAINING IS IMPORTANT. THEY MAY BE TRYING TO INTERFERE AND GET TOO INVOLVED. THEY NEED TO BE GIVEN TIME TO SETTLE IN AND FIND THEIR FEET. SOME DO THIS MORE EASILY THAN OTHERS, OF COURSE.”

“ PEOPLE DO NOT UNDERSTAND THE COMMITMENT AND THINK THAT IT IS MUCH EASIER THAN IT IS. TECHNICAL PEOPLE (ESPECIALLY FINANCE DIRECTORS) FIND THAT THEY ARE UNABLE TO CONTRIBUTE MORE WIDELY TO BUSINESS ISSUES AND CAN OFTEN GET STUCK IN DETAIL.”

“ THIS DEPENDS ON THE QUALITY OF MENTORING. YOU SHOULD BE PREPARED AND WILL KNOW WHAT THE DOWNSIDES ARE, BUT WILL STILL NEED SOMEONE TO GUIDE YOU AND A GREAT CHAIRMAN HELPS.”

REMUNERATION FOR BOARD NON-EXECUTIVE ROLES

If candidates are to be encouraged to take on non-executive roles their reward needs to be commensurate with that of senior executives (pro rata to their part-time commitment). NEDs share onerous legal responsibilities with executive directors, and in many cases are more experienced. The fees paid should adequately reflect the mix of responsibility and contribution to company success that the role carries.

Fees paid vary considerably, depending on company size, time commitments and many other factors. Remuneration should be sufficient, without being excessive, to attract credible and qualified candidates. It is not practical to suggest or set levels of reward; candidates have different motivations and expectations, while organisations differ in their ability to pay. Potential NEDs will take a view as to adequate remuneration for their energy and commitment.

Our respondents clearly feel that fees have not kept up with increased responsibilities, personal risk and time demands.

In 2014 the IDS Executive Compensation Review reported that the basic fee for FTSE 100 NEDs is now £65,816. The average additional fee for remuneration committee members is now £12,622, while the additional fees commanded by remuneration committee chairmen is £21,258.

Does remuneration for the non-executive role reflect the new realities of the position?

The consensus among our respondents is that remuneration has not kept pace with increased responsibilities and time demands.

“ WE NEED TO LOOK AT THE RATIO BETWEEN CEO AND NON-EXECUTIVE DIRECTOR REMUNERATION. THIS HAS GROWN BEYOND ALL MEASURE OVER THE PAST FEW YEARS. NON-EXECUTIVE DIRECTORS ARE PAID FAR TOO SMALL A PROPORTION. THE STARTING POINT FOR ANY RATIO SHOULD BE 10 TO 1 AGAINST THE BASE SALARY, PENSION AND BENEFITS OF THE CHIEF EXECUTIVE.”

“ NOT PARTICULARLY – NOT FOR THE MONEY, COMPARED TO EXECUTIVE PAY AS THERE IS MUCH MORE ACCOUNTABILITY, MAYBE A RATIO OF EXECUTIVE PAY COULD BE CONSIDERED.”

“ DEPENDS ON THE ROLE. I THINK THAT PEOPLE FROM OUTSIDE SEE THE NUMBER OF DAYS AND SEE THE PER DIEM AND THINK IT

IS HIGH. HOWEVER, GIVEN THE RESPONSIBILITY I DON'T THINK IT IS SO HIGH. I DEFINITELY TAKE A VIEW THAT IF YOU LOOKED AT IT ON AN HOURLY BASIS, GIVEN THE TIME THESE ROLES CAN TAKE, THEN I DON'T SEE NON-EXECUTIVE PAY AS MONEY FOR OLD ROPE.”

“ NO, BUT YOU HAVE TO BE CAREFUL. RISK-REWARD IS NOT THERE BUT ON THE OTHER HAND YOU DON'T WANT PEOPLE WHO NEED THE JOB FOR FINANCIAL REASONS.”

“ REMUNERATION IS NOT SUFFICIENT BUT IT IS DIFFICULT TO ADJUST THE LEVEL OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS AT A TIME WHEN THERE HAS BEEN LITTLE, IF ANY, WAGE INFLATION FOR WORKERS. THIS IS ESPECIALLY THE CASE WHERE THERE IS SIGNIFICANT CORPORATE ACTIVITY WHICH TAKES THAT MUCH MORE TIME BUT DOES NOT NECESSARILY DELIVER IMMEDIATE INCREASES IN PROFIT.”

“ [COMPANIES ARE] TRADING ON THE FACT THAT PEOPLE WANT WHAT THEY SEE AS PRESTIGIOUS ROLES. THERE IS A GAP BETWEEN EXECUTIVE ROLES AND CONSULTING ROLES, WHICH MEANS THAT NON-EXECUTIVE FEES ARE NOT REMOTELY IN LINE. IT IS A QUESTION OF SUPPLY AND DEMAND.”

Is there an appropriate remuneration balance for the extra committee responsibility and should there be a different level depending on the committee, in particular audit?

In broad general terms most respondents think that, given the amount of work involved in chairing a committee, fees could be increased for this work. The point being made is that if you want quality, then you have to pay a premium for it.

What in your view is a reasonable level of compensation for the non-executive role?

Respondents note that this may well depend on the size of the organisation and scope of the role. £50,000 was suggested as a starting point for non-executive roles in FTSE 250 companies. Remuneration for committee roles and for chairing a committee might be £7,000 and £10,000 respectively.

Compared to the rate some of our respondents might charge for consultancy work, their NED fees are negligible. Respondents suggested that if a company will not pay the right ratio, or a day rate equivalent to that of the audit partner servicing the company's account, then it needs to explain why. That would be a first step to ensuring a fair level of compensation.

NON-EXECUTIVE DIRECTOR INDEPENDENCE

What is your view on the level of independence of the non-executive in the context of being asked to do more and have greater involvement with the company?

All our respondents were sure that their independence was not, and should not, be compromised. The consensus was that this is about mind-set, and that the non-executive must maintain independence at all costs.

One respondent did note that after a number of years on the board one tended to 'go native' to an extent. Another said that if you spend 50-60 days a year in an organisation you "become part of the scenery". Other comments included the following.

" THE PROBLEM IS THAT NEDS ARE INCREASINGLY ASKED TO BECOME INVOLVED IN THINGS THAT WILL COMPROMISE THEIR INDEPENDENCE."

" I THINK IT SHOULD BE POSSIBLE TO MAINTAIN INDEPENDENCE BUT THERE IS A DANGER THAT NON-EXECUTIVES ARE OBLIGED TO GET OVER-INVOLVED. POLITICIANS DON'T HAVE ENOUGH KNOWLEDGE ABOUT WHAT THE BOARD AND NON-EXECUTIVES ARE THERE TO DO, AND THIS IS SHOWN IN THE CODES THAT HAVE BEEN IMPLEMENTED. SOME NEW REGULATIONS HAVE MADE OUR WORK UNNECESSARILY COMPLICATED."

" I THINK THE TERM NON-EXECUTIVE IS WRONG, WE SHOULD CALL IT 'INDEPENDENT'."

" I DON'T THINK THERE IS A CONFLICT BUT YOU MUST BE CAREFUL HOW YOU TREAD; WE HAVE A LEGAL, MORAL AND ETHICAL RESPONSIBILITY TO SHAREHOLDERS. I THINK THE REALITIES ARE THAT NON-EXECUTIVES HAVE TO BE MORE INVOLVED THAN IN THE PAST."

" THE QUESTION IS USUALLY AROUND INDEPENDENCE OF THOUGHT, AND MOST DIRECTORS SHOULD BE ABLE TO MAINTAIN THIS. HOWEVER, THERE IS MORE AND MORE INVOLVEMENT REQUIRED AND IT IS BECOMING MORE AND MORE DIFFICULT TO REMAIN FULLY INDEPENDENT."

" THIS HAS ALWAYS BEEN AN ISSUE. WHERE YOU ARE REQUIRED TO CHALLENGE BUT SUPPORT THEN IT IS GOING TO GIVE RISE TO CONFLICT AND THIS IS WHY DIVERSITY IS IMPORTANT. REGULATORS HAVE AN UNREALISTIC EXPECTATION OF LEVEL OF INVOLVEMENT THAT CAN BE ACHIEVED."

Do you think the level of knowledge and involvement required of non-executives is realistic?

The level of knowledge and commitment required is, by and large, regarded as being reasonable and realistic. The role is more demanding than it used to be and the regulatory burden is onerous, particularly in financial services.

" A MASSIVE INCREASE IN GOVERNANCE MITIGATES AGAINST THE BOARD BEING ABLE TO LOOK AT THE STRATEGY AND PERFORMANCE OF THE BUSINESS. PEOPLE NEED TO SPEND MORE TIME ON THIS BUT GOVERNANCE IS EATING INTO THE AVAILABLE TIME, AND THEREFORE THE EFFECTIVENESS, OF THE BOARD,"
OBSERVED ONE RESPONDENT.

Others made the following points.

" COMPANIES ARE DEMANDING MORE FROM THEIR NON-EXECUTIVE DIRECTORS AND, IF THEY DON'T PRODUCE THE GOODS, ARE GETTING RID OF PEOPLE."

" RATHER THAN KNOWLEDGE, IT IS EXPERIENCE THAT IS SOUGHT BUT CROSS-FERTILISATION IS NOT CONSIDERED, WHICH WOULD OFTEN BE USEFUL. WITH REGARD TO INVOLVEMENT, YOU HAVE TO KNOW WHERE TO DRAW THE LINE, YOU ARE NOT AN EXECUTIVE AND SOMETIMES NEW NON-EXECUTIVES STRUGGLE WITH THIS."

" THE LAW MAKES NO DIFFERENTIATION BETWEEN A NON-EXECUTIVE DIRECTOR AND AN EXECUTIVE DIRECTOR. HOWEVER, A JUDGE WILL LOOK AT THINGS IN THE ROUND AND RECOGNISE THAT EVERYBODY CAN'T KNOW EVERYTHING. OVERALL, THE BOARD IS BEING ASKED TO HAVE A SIGNIFICANTLY HIGHER LEVEL OF KNOWLEDGE THAN IN THE PAST AND IN SOME CASES THIS IS UNREALISTIC."



Does the expected level of commitment have an impact on the requirement to be independent?

Non-executives did not regard this as a problem, despite their heavy workload. Responses to this question included the following.

“ PROVIDING THAT NON-EXECUTIVES RECOGNISE THEIR BOUNDARIES, THERE IS NO IMPACT ON INDEPENDENCE.”

“ AS CHAIRMAN I HAVE HAD, OCCASIONALLY, TO STOP NON-EXECUTIVES BECOMING TOO INVOLVED IN THE COMPANY.”

“ NO, IN FACT I MAKE SURE I DO UNDERSTAND THE BUSINESS AND THE DETAIL. SO THAT I CAN DO THE RIGHT THING, STAND ASIDE, CHALLENGE AND TAKE THE PART OF STAKEHOLDERS.”

“ INDEPENDENCE IS A STATE OF MIND AND THE LEVEL OF KNOWLEDGE REQUIRED, WHILE SOMETIMES EXCESSIVE, SHOULD NOT AFFECT THIS. HOWEVER, BECAUSE THE INDIVIDUAL HAS TO HAVE MUCH CLOSER RELATIONSHIPS WITH EXECUTIVES IN ORDER TO GAIN THE LEVEL OF KNOWLEDGE REQUIRED, THIS CAN BE AN ISSUE.”

“ WE ARE NOT REALLY INDEPENDENT. WE DON'T WORK THERE FULL-TIME BUT ARE CHOSEN FOR OUR KNOWLEDGE, AND AS MEMBERS OF A TEAM WE ALL HAVE TO PULL TOGETHER. AFTER ALL, WHOSE AGENDA ARE WE FOLLOWING? THERE IS, TO SOME EXTENT, A MUDDLED NOTION OF INDEPENDENCE AND A DAMAGING ANTI-BUSINESS SENTIMENT FROM THE POLITICAL SPECTRUM WHICH IS PUSHING BUSINESS ON THE DEFENSIVE.”

What is your view of where the strategy question starts and finishes for the non-executive members of the Board?

The Financial Reporting Council's view of the responsibilities of non-executives in relation to strategy is summarised in the following statement:

“As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.”

(Financial Reporting Council, 2012, para. A.4)

While noting that it can be difficult for new non-executives to carry out these duties, all our respondents were clear that they have a major role in formulating strategy, reviewing it with executives and holding them to account for their performance.

Respondents' comments on the strategy question included the following.

“ IT IS DOWN TO NON-EXECUTIVES TO TEST THE STRATEGY, RATHER THAN TO DEVISE IT. THEY NEED TO ASK THE QUESTION AS TO WHETHER THE STRATEGY WILL DELIVER WHAT SHAREHOLDERS EXPECT FROM THE COMPANY. HOWEVER, IN REALITY, IN SMALLER COMPANIES A BOARD MAY NEED TO BE MORE INVOLVED IN FORMULATING THE STRATEGY THAN IN TESTING IT.”

“ OVERSIGHT IS WHAT WE ARE THERE FOR – NON-EXECUTIVES CAN'T BE EXPECTED TO SEE EVERYTHING THAT GOES ON.”

“ YOU NEED A GOOD UNDERSTANDING OF THE COMPANY AND MARKET TO TAKE PART IN THESE DISCUSSIONS. THIS DOESN'T HAPPEN OVERNIGHT, IT IS GRADUAL – NOT SLOW, BUT A CONTINUOUS PROCESS. NON-EXECUTIVES NEED TO BE WELL BRIEFED AND INVOLVED WITH STRATEGY; THOUGH CLEARLY THE PEOPLE WITH THE BEST KNOWLEDGE OF THE ORGANISATION ARE THE EXECUTIVES, BUT THE NON-EXECUTIVES OFFER CHALLENGE AND PERSPECTIVE.”

“ NON-EXECUTIVES PLAY A SIGNIFICANT ROLE IN GIVING TIME TO DEBATE AND QUESTION AND ADVICE.”

“ THE NON-EXECUTIVE DIRECTORS CANNOT FORMULATE STRATEGY. IT IS DOWN TO THE CHIEF EXEC AND THE REST OF THE EXECUTIVE TEAM TO FORMULATE A STRATEGY AND THE NON-EXECUTIVES NEED TO FINESSE, MODIFY OR REJECT IT IF ABSOLUTELY NECESSARY. IT IS DOWN TO THE NON-EXECUTIVES TO TEST IT AND TO ENSURE THAT IT IS REASONABLE.”

Where do you see the pressures for greater involvement/ engagement of non-executives emanating from?

As the following comments indicate, respondents see pressure coming from regulators, shareholders and from board members themselves.

“ IT IS IMPORTANT TO DETERMINE WHAT IS NEEDED IN EACH PARTICULAR CASE, RATHER THAN TO ASSUME THAT ‘ONE SIZE FITS ALL’.”

“ THIS IS COMING FROM SHAREHOLDERS AND EXECUTIVES. IN MY OPINION SHAREHOLDERS ARE GETTING TOO INVOLVED IN WHAT THE NON-EXECUTIVES DO.”

“ REGULATION IS A MAJOR ISSUE AS THERE ARE MORE AND MORE THINGS TO MONITOR. BOARDS AND EXECUTIVES SEEM TO WANT MORE INSIGHT AND INVESTORS ARE PUTTING SIGNIFICANT AMOUNTS OF PRESSURE ON THE SENIOR INDEPENDENT DIRECTORS. THE RESULT OF THIS IS THAT, OCCASIONALLY, THE NON-EXECUTIVES CAN GET IN THE WAY OF THE EXECUTIVES.”

“ THERE IS A LOT OF POLITICAL NONSENSE AROUND DIRECTORSHIPS, BUT IN THE REAL WORLD IT WORKS THE WAY IT WORKS. THE NOTION THAT INDEPENDENT NON-EXECUTIVES SHOULD KNOW AS MUCH AS THE CEO UNDER THE LAW IS RISIBLE.”

“ A COMBINATION OF REGULATORS AND OTHER STAKEHOLDERS PUT A LOT OF PRESSURE ON BOARDS BUT GIVEN THE COMPLEXITY AND GLOBALISATION OF MODERN BUSINESS, IT IS IMPORTANT THAT WE ARE MORE ON BOARD AND ENGAGED AND INVOLVED IN WHAT IS GOING ON.”

“ PRESSURE COMES FROM THE REGULATORS; SHAREHOLDERS JUST WANT THE BOARD TO GET ON AND KEEP THE COMPANY SUCCESSFUL. I SUPPOSE THAT REGULATORY PRESSURE IS PRESSURE FROM THE PEOPLE. WE HAVE A WIDER RESPONSIBILITY THAN ONE HAD 10-12 YEARS AGO, WHICH IS NOT A BAD THING.”

“ THIS IS COMING FROM ALL SORTS OF REGULATION AND LEGISLATION. ADDITIONALLY, INTERNATIONAL COMPETITION AND THE REQUIREMENT TO UNDERSTAND NEW ROUTES TO MARKET (ESPECIALLY E-COMMERCE) ARE ALSO PUSHING THE NON-EXECUTIVES CLOSER TO THE BUSINESS.”

What support would help you as a non-executive to perform your role even better?

Respondents value an efficient company secretariat and assistance from accountants. There is a lot of administrative work involved in non-executive roles, and help with this and with logistics is also appreciated.

A number of respondents mentioned the value of induction training, ongoing mentoring and board effectiveness reviews.

“ MOST CEOs REGARD THE BOARD AS A NECESSARY NUISANCE RATHER THAN ANYTHING ELSE. BY FAR THE MOST WORTHWHILE ROLE IS IF THE CEO DOES WORK WITH THE BOARD, AS IT IS MUCH MORE INTERESTING.”

“ AN INTERNAL PERSON, ON POINT, TO HELP NON-EXECUTIVES FIND THOSE THEY NEED IN ORDER TO DISCUSS AND EXPLORE ISSUES; THAT IS TO SAY, AN INTERNAL GUIDE BECAUSE IT CAN BE HARD TO FIND OUT WHO IS THE PERSON IN THE COMPANY TO PINPOINT ON CERTAIN MATTERS.”

“ BOARD EFFECTIVENESS REPORTS CAN BE A MAJOR HELP IN THIS REGARD.”

“ I’M A GREAT BELIEVER IN 360 DEGREE APPRAISALS, WHETHER FACILITATED OR NOT. BOARD EVALUATION IS ALSO USEFUL. GOOD APPRAISALS HELP PEOPLE TO GET BETTER AND I LIKE THERE TO BE A RIGOROUS EVALUATION OF THE BOARD AND WHAT IT HAS ACHIEVED.”

“ JUST KEEPING UP WITH THE IT NOWADAYS IS A CHALLENGE; A GOOD COMPANY SECRETARIAT THAT ENSURES WE ARE KEPT INFORMED, AND OPEN LINES TO EXECUTIVES AS NECESSARY.”



How distinct do you see the boundary between a non-executive and an advisor or consultant? Is there potential for confusion?

Our respondents did not see this as a problem area. As the following comments suggest, they view non-executives as independent and believe that there should be no confusion.

“ THERE IS A REAL DIFFERENCE AS TO THE RESPONSIBILITIES OF NON-EXECUTIVES. THE RIGHT THING HAS TO BE DONE AND WE ARE THERE TO SEE IT IS DONE.”

“ THERE SHOULD NOT BE ANY CONFUSION AS THEY ARE ESSENTIALLY DIFFERENT ROLES.”

“ I DON'T THINK THERE IS, THE NON-EXECUTIVE HAS A VOTE AND LEGAL LIABILITY; AN ADVISOR HAS NEITHER.”

“ IT IS CLEAR WHAT THE DIFFERENCES ARE. NON-EXECUTIVES MAY OFFER ADVICE, IN THE SENSE THAT THEY BRING IDEAS FROM OUTSIDE, SUGGEST DIFFERENT WAYS OF DOING THINGS AND OFFER COUNSEL. SO THEY BEHAVE LIKE AN ADVISOR, BUT THE DIFFERENCE IS THAT THE ADVISOR IS PAID TO COME IN AND ADVISE AND THEN GO AWAY. THE NON-EXECUTIVE HAS A LASTING RELATIONSHIP WITH THE ORGANISATION AND HAS ACCOUNTABILITY.”

“ THERE SHOULD NOT BE BUT SOME INDIVIDUALS DO CONFUSE THEMSELVES. IT TENDS TO BE A PROBLEM WITH NEW NON-EXECUTIVES WHO WANT TO TELL YOU WHAT TO DO, RATHER THAN ASK YOU WHY OR HOW YOU ARE DOING SOMETHING”.

Should non-executives (other than the audit committee chair) be recruited for specific sector/functional experience?

An influential academic paper examining board effectiveness makes the following observation. “Non-executives are expected to bring experience and knowledge gained outside the organisation, to challenge and test both the overarching strategic framework of the business as well as specific proposals for strategic investment, divestment and change.” (McNulty, Roberts and Stiles, 2002).

Our respondents tended to agree. On the whole, they feel that the chair is responsible for ensuring a good mix of skills and experience and that they fulfil their board role using their broad judgement rather than functional expertise. Respondents pointed out, however, that sometimes a board needs specific skills or experience.

“ ABSOLUTELY, YOU SHOULD BE RECRUITING FOR SPECIFIC SKILLSETS TO HELP THE BOARD BUT THEY SHOULD NOT TAKE OVER FROM THE RESPONSIBILITIES OF THE EXECUTIVES.”

“ IT IS VALID TO ASK FOR PARTICULAR EXPERTISE, BUT YOU MUST BE CLEAR THAT THEY ARE NOT THERE FOR ADVICE BUT FOR CHALLENGE, AND THAT IT IS THE ROLE OF THE CHAIR TO ENSURE THAT PEOPLE FULFIL THE ROLE OF NON-EXECUTIVE BY USING THEIR BROADER JUDGEMENT RATHER THAN FUNCTIONAL EXPERTISE”.

“ OVERALL, THE BOARD MUST HAVE ENOUGH CORE STRENGTH. PERHAPS A PERCENTAGE OF THE BOARD IS RECRUITED FOR SPECIALISM. IF THE RIGHT PERSON IS APPOINTED THEY BRING NOT JUST EXPERIENCE BUT A DIFFERENT WAY OF THINKING TO APPLY TO THE BROADER ISSUES; BUT YOU NEED TO GIVE THEM REALLY GOOD INDUCTION”.

“ YES, ESPECIALLY ON COMMITTEES, YOU NEED TO HAVE A FEEL FOR THE MILIEU, AND TO UNDERSTAND HOW REMUNERATION WORKS AT SENIOR LEVELS AND THE GOVERNANCE AROUND IT. YOU NEED PEOPLE WITH APPROPRIATE TECHNICAL KNOWLEDGE – PEOPLE WHO ARE SUBJECT MATTER EXPERTS – BUT ALSO SOME DIVERSITY OF PERSPECTIVE.”



INVESTOR COMMUNITY

Is the current corporate governance regime providing adequate assurance for the investor community?

Respondents seem to feel that the current regime, while not perfect, is fit for purpose and that there are ample opportunities for investors to question the chair and board. One respondent commented that regulatory requirements have made it more difficult, rather than easier, for shareholders to find the information they need in a mass of paper. Others made the following points.

“ INVESTORS NEED TO RECOGNISE THAT INVESTMENT CARRIES A RISK AND THAT NOT EVERYTHING IS SOMEBODY’S FAULT.”

“ SOME INSTITUTIONS UNDERSTAND THE ISSUES BUT IN MOST THERE IS A SPECIFIC DIFFERENCE BETWEEN GOVERNANCE AND INVESTING PART OF THE INSTITUTION. THIS HAS, IN SOME CASES LED TO THE RIDICULOUS SITUATION WHERE FUND MANAGERS ARE PERFECTLY HAPPY WITH A PARTICULAR ISSUE (OFTEN AROUND REMUNERATION) BUT WILL VOTE AGAINST IT BECAUSE IT IS AGAINST THEIR ‘POLICY’. THIS IS ESPECIALLY THE CASE WITH AMERICAN INSTITUTIONS WHERE ISSUES OF CORPORATE GOVERNANCE ARE OUTSOURCED TO VOTING INSTITUTIONS.”

“ AS A FRAMEWORK IT IS RIGHT AND GOOD; THINGS DO GO WRONG BUT THE FRAMEWORK IS RIGHT.”

“ ON THE WHOLE, UK PLC IS A GOOD PLACE BUT THERE COULD BE MORE DIALOGUE BETWEEN SHAREHOLDERS AND THE BOARD. IF THE BOARD CAN KEEP THE SHAREHOLDERS INTERESTED AND INVOLVED, THEN THERE IS A MUCH GREATER CHANCE OF BETTER UNDERSTANDING AND MORE CAN BE ACHIEVED.”

Some respondents were less satisfied with the current corporate governance regime. One said:

“ NO, THE BALANCE IS ALL WRONG AND THE CORPORATE GOVERNANCE REGIME GOES INTO DETAIL IN THE WRONG AREAS. I CANNOT UNDERSTAND WHY PEOPLE READ SOME OF THE REPORTS, OR INDEED WHO READS THEM. ON THE WHOLE, THE CITY HAS VERY LITTLE UNDERSTANDING OF BUSINESS AND THERE IS A SIGNIFICANT LACK OF EXPERIENCE AND COMMON SENSE.”

Another said:

“ YES, ALMOST TOO MUCH. THEY ARE LITERALLY SPOON-FED QUARTERLY RESULTS AND GIVEN MORE THAN ENOUGH. I’M NOT TOO SYMPATHETIC – ACCOUNTING RULES ARE VERY STRONG IN THIS COUNTRY.”

What, in your view, are the biggest concerns of the investor community?

About half of the respondents mentioned remuneration, which remains a pressing concern for some investors.

Short-termism was also mentioned, as was the robustness and accuracy of information provided to stakeholders.

“ THEY DON’T WANT SURPRISES; THEY WANT TO KNOW WHAT IS REALLY GOING ON, FEEL CONFIDENCE IN THE STRATEGY THAT THE BOARD AGREES AND THAT IT IS ONE WHICH IS ROBUST AND READY TO EXECUTE.”

“ THE FUND MANAGEMENT COMMUNITY IS WORRIED THAT REGULATORS WILL GO AFTER THEM NEXT. ULTIMATELY, FUND MANAGERS DON’T CARE ABOUT ANYTHING OTHER THAN PERFORMANCE.”

“ INVESTORS WANT TO KEEP CONTROL OF REMUNERATION. FURTHERMORE, THEY NEED TO MAKE SURE THAT THE CEO ISN’T RUNNING RIOT. THEY WANT TO SEE DIRECTORS PROVIDING CHECKS AND BALANCES.”

“ INVESTORS WANT TO MAKE MONEY AND DON’T WANT ANY SURPRISES. ON THE ONE HAND, SHAREHOLDERS DON’T WISH TO BE INSIDERS BUT, ON THE OTHER HAND, THEY WANT TO KNOW EVERYTHING.”

“ FROM THE INVESTING COMMUNITY THIS IS ALL ABOUT SUSTAINABLE GROWTH. I AM FIRMLY OF THE BELIEF THAT COMPANIES SHOULD OVER-DELIVER AND UNDER-PROMISE. YOU NEED TO HOLD THINGS BACK BECAUSE THERE ARE NO PRIZES FOR INCONSISTENT PERFORMANCE.”

“ FUND MANAGERS ARE ONLY INTERESTED IN NUMBERS BECAUSE THAT IS WHAT AFFECTS THEIR BONUS. ANALYSTS WANT TO GET THE NUMBERS RIGHT AND CARE ABOUT LITTLE ELSE. OVERALL THE ATTITUDE IS FAR TOO ‘TICK BOXY’ AND THE PROBLEM IS THAT BECAUSE PEOPLE ARE TRYING TO TICK BOXES THEY CAN VOTE DOWN GOOD POLICIES.”

What areas of corporate governance could be improved?

Respondents expressed the following views.

“ WE NEED TO ENSURE THAT NOT TOO MUCH WEIGHT IS GIVEN TO GOVERNANCE OVER CREATING VALUE FOR SHAREHOLDERS. AT THE MOMENT THE PENDULUM IS SWINGING FAIRLY HARD TOWARDS TOO MUCH GOVERNANCE.”

“ THERE IS NOT MUCH THAT IS NOT ALREADY COVERED BY SOME SORT OF CODE OR REGULATION! COMPANIES ARE BETTER MANAGED AS A RESULT, AND GENERALLY THE INFORMATION WE MAKE AVAILABLE IS GOOD STUFF AND WE DEMONSTRATE WE ARE COMMITTED.”

“ CORPORATE GOVERNANCE COULD BE IMPROVED BY MAKING SURE THAT THERE IS AN INITIATIVE THAT ‘LESS IS MORE’ IN REPORTING. MORE INFORMATION SHOULD BE GIVEN AROUND HUMAN CAPITAL ISSUES RATHER THAN JUST THE PHYSICAL ASSETS. THIS WOULD HELP TO IMPROVE THE PERFORMANCE OF COMPANIES.”

“ ‘COMPLY OR EXPLAIN’ WORKS WELL AND ON THE WHOLE MEANS THAT THERE IS A MEASURED APPROACH.”

“ SOME GOVERNANCE AROUND TARGETS IN RESPECT OF THE ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY ARE COMMENDABLE BUT NOBODY POLICES IT AS NOBODY REALLY CARES; THEY CARE ABOUT RETURN ON CAPITAL. IF ANYTHING, THINGS ARE TOO PRESCRIPTIVE NOW, TOO RULES-BASED.”

“ TOO MUCH OF IT AT THE MOMENT IS BOX TICKING AND THERE IS NO REAL FEEDBACK. THERE IS STILL A WAY TO GO IN TERMS OF GETTING SHAREHOLDERS INVOLVED, ESPECIALLY IN SMALLER COMPANIES. MOST IMPORTANTLY, SHAREHOLDERS NEED TO UNDERSTAND BUSINESS AS A WHOLE.”



NON-EXECUTIVE DIRECTOR CAPACITY

Have you been a non-executive director with a full-time role or have you experienced a board colleague who has been in this position?

Around half of our respondents had held both executive and non-executive roles at the same time.

As the demands of their role increase, non-executives need to structure their workloads to carry out their duties efficiently and effectively. There is now more scrutiny of the maximum number of roles a non-executive can carry out successfully. Those contemplating taking up a directorship in an organisation of any significant size should take a realistic view of their ability to contribute fully and professionally to more than a limited number.

One experienced respondent pointed out that taking a non-executive role always used to be seen as a distraction, although if it were in a not-for-profit organisation that was generally considered to be acceptable. Other respondents made the following comments.

“ REALISTICALLY, I THINK IT IS VERY DIFFICULT. IF I WERE CHAIR I WOULD NOT WANT MY CEO GOING OFF TO TAKE UP A NON-EXECUTIVE ROLE.”

“ CORPORATE GOVERNANCE SHOULD BE FIRMER ABOUT THE NUMBER OF ROLES TAKEN ON.”

“ IT IS ALWAYS GOOD IF YOU CAN HAVE ONE OR MORE PEOPLE DOING BOTH ON A BOARD, THEY BRING A LOT OF EXPERIENCE WHICH CAN BE REALLY USEFUL, AND IN SOME AREAS IN-DEPTH KNOWLEDGE IS REQUIRED.”

Effectiveness while in another full-time role. Does it work? What, if any problems do you see with it?

The problems most frequently cited by respondents were around time constraints.

“ WITHIN SENSIBLE LIMITS IT WORKS VERY WELL BUT MUST BE MONITORED.”

“ YOU HAVE TO BE QUITE CLEAR ABOUT MAKING ENOUGH TIME FOR A NON-EXECUTIVE ROLE AND THOSE YOU ARE WORKING WITH MUST KNOW THAT IT IS A SEPARATE RESPONSIBILITY FOR WHICH YOU NEED TIME AND SPACE. I DON'T SEE ANY PARTICULAR PROBLEM GIVEN THAT ONE SHOULD NOT TAKE ON A ROLE WITHOUT BEING SURE OF HAVING THE TIME AND RESOURCES TO DO IT WELL.”

“ THE MAIN ISSUE IS AROUND TIME. THE FLEXIBILITY IS LIMITED AND THERE IS A RISK THAT PEOPLE MAY TAKE THEIR EYES OFF THE BALL DEPENDING ON WHAT IS HAPPENING IN THE OTHER PARTS OF THEIR LIFE. UNDER NO CIRCUMSTANCES SHOULD ANYBODY HAVE MORE THAN ONE NON-EXECUTIVE ROLE WHILE THEY HAVE A FULL-TIME EXECUTIVE ROLE.”

Benefits of another full-time role: what added dimensions does it bring?

Respondents believe that non-executives with other full-time roles bring a diversity of opinion and experience to the board.

“ I THINK THAT A NON-EXECUTIVE ROLE, IN TERMS OF THE DAY JOB, IS IMMENSELY VALUABLE AS YOU DEVELOP SKILLS IN CONFLICT MANAGEMENT AND EFFECTIVE CHALLENGE. THERE ARE LOTS OF THINGS THAT YOU DEVELOP AS A NON-EXECUTIVE WHICH PLAY BACK INTO THE DAY JOB AS YOU HAVE THE BENEFIT OF SEEING OTHER APPROACHES TO RISK AND STRATEGY AND REMUNERATION; THERE ARE ALL SORTS OF CROSSOVERS.”

“ IT DOES BRING KNOWLEDGE OF UP-TO-DATE PRACTICE AND ENSURES PEOPLE ARE REALLY ON THEIR GAME.”

“ IT IS GOOD FOR A CEO ESPECIALLY TO UNDERSTAND THE ROLE OF INFLUENCING AND TO BE ABLE TO LEARN AND REFLECT RATHER THAN JUST PUSH THINGS THROUGH.”

In light of the increased requirements and expectation of knowledge and time commitment, is the non-executive director role tenable in the future?

Overall, respondents feel that the non-executive role as currently constituted is tenable.

“ I LIKE TO THINK SO; WE DON’T REALLY WANT PROFESSIONAL NON-EXECUTIVES – THAT WAS NOT EVER THE PURPOSE OF HAVING NON-EXECUTIVES ON THE BOARD. THE WEALTH OF KNOWLEDGE THAT EXPERIENCED NON-EXECUTIVES BRING TO THE BOARD FROM OTHER SECTORS IS REALLY VALUABLE. NON-EXECUTIVES ARE GETTING YOUNGER, THOUGH WE SHOULD NOT THINK OLDER PEOPLE DO NOT HAVE A VALUABLE PART TO PLAY. THE AMERICANS HAVE NO AGE LIMIT AND IT CAN BE A GOOD THING, OR A BAD THING – WE SHOULD NOT JUDGE PEOPLE BY THEIR AGE. A MIX OF EXPERIENCE AND KNOWLEDGE CAN BE USEFUL.”

“ WE WILL NEED TO MAKE CHANGES; THE ROLE IS CHANGING AND DIRECTORS ARE MORE AWARE OF THE RESPONSIBILITIES, AND WITH THE TIGHTENING OF GOVERNANCE NON-EXECUTIVES ARE MORE AWARE OF THE RISKS. WE DON’T WANT THINGS TO BE TOO COSY BUT NEED TO LOOK AT RISK-REWARD, AND CONSIDER REPUTATIONAL RISKS. SOCIAL MEDIA MAKES EVERYTHING SO MUCH MORE VISIBLE. THE RISKS ARE HIGHER BUT REWARDS ARE NOT GREAT.”

“ WORKING AS A NON-EXECUTIVE IN THE REGULATED MARKET WILL BECOME MORE AND MORE DIFFICULT AND FEWER AND FEWER PEOPLE WILL BE INTERESTED.”

“ WE WILL HAVE TO LOOK MORE WIDELY WHEN CHOOSING NON-EXECUTIVES AND THE BOARD WILL HAVE TO BECOME MORE DIVERSE, NOT ONLY IN RESPECT OF ITS GENDER AND ETHNICITY BUT ALSO IN THE BACKGROUND OF INDIVIDUALS WHO ARE ON IT. RELATIVE REWARDS WILL NEED TO IMPROVE.”

“ OVERALL, I DO NOT SEE ANYBODY HAVING A BETTER MODEL. IN THE US TOO MUCH POWER IS GIVEN TO THE CEO AND THE CHAIRMAN, AND THE CONTINENTAL MODEL WOULD NOT WORK HERE.”

“ IT IS TENABLE. I AM NOT IN FAVOUR OF CODIFICATION OF RESPONSIBILITIES.”

What do you think is the portfolio capacity of a non-executive who only works as a non-executive?

Some respondents thought six would be the maximum but most seem to regard three or four roles as reasonable. This obviously depends on the organisation and on individuals and their appetite for the workload and commitment.

“ IF YOU HAVE A PORTFOLIO CAREER, DON’T TAKE ANYTHING NEW ON UNTIL YOU ARE COMFORTABLE IN THE ROLES YOU ALREADY HAVE. I DON’T TAKE ON A LOT OF NEW THINGS AT ONCE AND ALWAYS TRY TO GET A GOOD ESTIMATE OF TIME AVAILABLE AND NEEDED.”

“ THREE IS THE MOST I THINK YOU COULD DO, IF YOU WANTED TO DO IT REALLY WELL, THAT WOULD BE MANAGEABLE BUT PRETTY FULL ON.”

“ THE NUMBER OF ROLES UNDERTAKEN IS AN ISSUE; WE WILL NEED SOME FORM OF OUTSIDE INVOLVEMENT/SUPERVISION. THE DAYS OF PEOPLE HOLDING MULTIPLE ROLES MUST BE NUMBERED.”

“ RESPONSIBLE NON-EXECUTIVES WILL IMPOSE THEIR OWN CAP. I’D PREFER NOT TO HAVE RULES – GUIDANCE BUT NOT REGULATION WOULD SEEM APPROPRIATE.”

“ IT IS NONSENSE TO TRY TO PUT A NUMBER ON IT. WE NEED TO APPLY COMMON SENSE TO EACH SITUATION.”



IS THERE A BETTER SYSTEM? IF SO, WHAT WOULD IT LOOK LIKE?

Some observers advocate a two-tier board structure as in continental Europe – an executive board and a supervisory board, the latter consisting of non-executives, as well as other stakeholders such as employees. This is at odds with the traditional UK system of a unitary board that embraces the philosophy of ‘collective responsibility’.

Respondents, overall, are happy with the unitary board system and do not favour the supervisory board, as used in Germany; only one respondent spoke in favour of this model.

Respondents agree, however, that the system will develop and evolve, with a number saying they would favour better understanding of the role, responsibilities, liability and limitations of the NED.

“ GOVERNANCE SHOULD BE ABOUT CHALLENGE, WHICH LEADS TO BETTER DECISIONS AND, THEREBY, TO BETTER OUTCOMES. I AM CONCERNED THAT BRINGING IN A LEGAL FRAMEWORK WOULD BE DIFFICULT BECAUSE IN DRAFTING LEGISLATION IT WILL BE IMPOSSIBLE TO COVER ALL PROBABILITIES.”

“ INDEPENDENT DIRECTORS ARE A GOOD THING.”

“ THERE IS ALREADY SOME FORM OF CODIFICATION AND WE NEED TO BUILD UNDERSTANDING OF THIS AROUND THE MARKET. IN COMMERCIAL COMPANIES THE NON-EXECUTIVES SHOULD BE THE VOICE OF THE SHAREHOLDERS AND ENSURE THAT THE COMPANY IS RUN FOR SHAREHOLDERS. I BELIEVE THAT NON-EXECUTIVES ARE CRUCIAL TO THE SURVIVAL OF CAPITALISM.”

“ THERE SHOULD BE MORE EXECUTIVES ON THE BOARD, RATHER THAN THE CURRENT MOVE TO PURELY NON-EXECUTIVES. WHILE NOT IN FAVOUR OF LEGAL DEFINITION OF THE RESPONSIBILITIES OF NON-EXECUTIVES, I THINK THERE SHOULD BE A BETTER DEFINITION OF RELEVANT REQUIREMENTS AROUND PRACTICE AND RESPONSIBILITY.”

“ IT WOULD HELP IF THERE WAS A CLEAR DELINEATION AND UNDERSTANDING OF THE LEVELS OF KNOWLEDGE EXPECTED OF NON-EXECUTIVES, WHAT THEY ARE RESPONSIBLE FOR (AND WHAT THEY ARE NOT RESPONSIBLE FOR) AND OVERALL GUIDANCE ABOUT BEHAVIOUR, PROVIDED THAT IT IS INTELLIGENT AND NOT PURELY A BOX-TICKING EXERCISE.”

“ THERE IS A CURRENT MEANNESS OF SPIRIT THAT NEEDS TO BE DEALT WITH; JOURNALISTS, MPs AND THE GENERAL PUBLIC TAKE POT-SHOTS AT DIRECTORS WHICH DOES NOT HELP. THERE IS, HOWEVER, NO BETTER SYSTEM AND WHERE THERE IS A WIDE OWNERSHIP OF SHARES YOU NEED STEWARDS OF THE ASSETS.”

“ WIDE GUIDANCE AND THE FRAMEWORK ARE FINE AND I THINK WE ARE DOING WELL, THOUGH WE MAY BE IN DANGER OF TRAVELLING TOO FAR DOWN THE LEGISLATIVE ROUTE, WITH UNINTENDED CONSEQUENCES. CULTURE AND ETHICAL RESPONSIBILITY ARE WHERE WE SHOULD FOCUS; IT IS IMPORTANT AT SENIOR LEVEL AND SHOULD PERCOLATE RIGHT THROUGH THE ORGANISATION.”

“ I’M NOT AWARE OF A BETTER SYSTEM, ALL HAVE FLAWS. THE PRINCIPLE OF NON-EXECUTIVE CHALLENGE IS VERY GOOD. VINCE CABLE SUGGESTS EMPLOYEES SHOULD SIT AS REPRESENTATIVES ON REMUNERATION COMMITTEES; I WOULD BE HAPPY TO TRY IT.”

ANY OTHER COMMENTS?

Respondents added the following general comments.

“ OUR SYSTEM IS FAIR, IT IS PREDICATED AROUND NOT BEING INFLUENCED BY PAY.”

“ DIVERSITY ON THE BOARD IS A HOT TOPIC AT THE MOMENT. EVERYONE SAYS WE NEED DIVERSITY AND THEY ARE SAYING IT BECAUSE OF THE GENDER ISSUE, BUT I THINK DIVERSITY SHOULD BE MORE ABOUT DIFFERENT WAYS OF THINKING. I WOULD BE INTERESTED TO HEAR FROM OTHERS IN DUE COURSE WHAT THE END RESULT OF A DIVERSITY POLICY REALLY DELIVERS. PEOPLE SAY THEY WANT DIVERSITY, BUT DO THEY IN FACT WELCOME IT WHEN IT HAPPENS?”

“ BY ALL MEANS, LET’S THINK ABOUT THINGS DIFFERENTLY AND DO THINGS DIFFERENTLY, BECAUSE THAT GOES TO THE HEART OF GROUPTHINK, WHERE EVERYONE IS THE SAME AND WE RELY ON THE WAY WE HAVE ALWAYS DONE THINGS. BUT IN REAL TERMS, WHAT IS THE ACTUAL EXPERIENCE OF DIVERSITY IN ACTION, AND DO WE REACT WELL TO THE CHALLENGE THAT DIVERSITY BRINGS? IN THE UK WE FOCUS ON WOMEN. WHAT WILL HAPPEN AS A RESULT OF THAT?”

“ WHAT TENDS TO HAPPEN WHEN YOU BRING IN NEWCOMERS IS THAT THINGS HAVE TO CHANGE; AND HOW WELL DO BOARDS REACT TO SIGNIFICANT CHANGE? WE WILL ONLY SEE THE RESULTS COME THROUGH OVER THE NEXT NUMBER OF YEARS, IT WILL BE INTERESTING TO SEE THE EFFECTS AND IF IT ACTUALLY CHANGES ANYTHING. WILL MORE WOMEN ON THE BOARD MAKE A DIFFERENCE TO HOW THE BOARD OPERATES?”

“ THERE IS NO SUCH THING AS A NON-EXECUTIVE CHAIRMAN. HOWEVER, THIS DOES NOT MEAN THAT THEY CANNOT BE INDEPENDENT.”

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INTERVIEWERS

David Dumeresque

Partner, Tyzack



Helen Menhenett

Consultant Associate



PROJECT TEAM

Mark Winkle

CEO and Executive Coach



Jackie White

Chief Operating Officer



ADVANCED BOARDROOM EXCELLENCE

23 Berkeley Square London W1J 6HE

www.abexcellence.com

TYZACK

33 St James's Square, London, SW1Y 4JS

www.tyzackpartners.com