



The New Non-Executive Director

■ Executive Summary

The essential dilemma facing new Non-Executive Directors is that they only spend a limited time with the company and yet they are, from day one, as accountable as anyone on the executive team should anything go amiss.

How can a new NED cope? The average NED may only spend 18 to 20 days per year working with the company, and if they are also Executive Directors on another board, the rules require that they must come from a non-competing business. Uncomfortably, they are both at arms length and exposed. The outside world has developed a perception that the NEDs can pick up nuances. And yet their very independence makes it hard to do so.

There are practical steps which new NEDs can take to maximise effectiveness

Best light

Tougher still, the information the NEDs receive is developed by the executive team and naturally, the executives may wish to portray everything they do in the best possible light. Not that the executives are being dishonest. There is an understandable inclination, possibly underpinned by executives' profit-related remuneration, to show a good picture to the board.

more relevant than qualifications or status when filling new positions.

Even if the NEDs' instincts are suitably sensitive and acute, investors and legislators should not set expectations of independent directors unrealistically high. It is unreasonable to expect an NED to detect a well concealed fraud that has eluded the executives and auditors. No amount of governance can prevent a determined fraud.

Good instincts

All these factors – time, distance and the executive monopoly on data – make it hard for NEDs to dig deep enough under the surface to unearth problems. If they do not happen to come from a relevant industry, then the NEDs need to have developed antennae and be in a position instinctively to perceive if things are not going as they should. Good instincts are usually based on experience, which is why potential new board members' track record should be

Flight to quality

But there are practical steps which new NEDs can take to maximise effectiveness. "First, you should pick a company where you trust the integrity of the Chairman and CEO and think they are very able," says one former FTSE 100 Chairman. He detects a flight to quality, in which the best governed companies find it increasingly easy to attract NEDs. Poorly governed companies find it correspondingly hard to attract





talent to the board. Such businesses risk getting locked into a spiral of worsening governance, with a possible impact on performance.

Basic questions

Once on the board, a new NED should allocate enough time for the job, get to know key people at board level and below, ask the basic questions, insist on digging behind the data where appropriate and be prepared to sound the alarm if the board fails to work as a group.

Naturally, NEDs must, as the starting point, leave adequate time to read and assimilate board papers. If the board papers are unclear or appear to be incomplete, it is essential to seek additional information. The best NEDs understand that the right to information is an essential part of detecting problems and they must ensure they get it. They should also make sure of their rights to independent advice - legal if necessary - so that in a crisis of confidence they are not automatically forced to rely on the judgment of executive management. Many NEDs cultivate executives one step below board level. This is a good group from which to pick up information, advance warning of emerging business developments and possibly problems. It is vital that at least the Chairman and a Senior Independent Director can listen to the management at any level and assume leadership if a problem should arise.

Commitment

One battle-hardened NED reckons that an independent director of a listed company should set aside at least two days a month, slightly more than the anecdotal average. Some even argue that 30 days a year

is necessary. The exact amount of time involved is not as important as the principle that commitment must truly match the role.

Fees clearly must be sufficient to reward commitment; it is healthy that NED remuneration has risen recently. However, fees should not be so high as to jeopardise independence.

Collective body

Finally, the risks to NEDs are lower if they know how to identify well-governed companies to join. Instinct matters here of course. When thinking of accepting an NED post, it is also essential to be sure that the board is a collective body, jointly responsible for decisions and the actions it takes. Independent board evaluation can be useful in this regard.

Well-governed companies will provide proper induction. A new NED should not be shy to ask for a full introduction programme. Training on the role and responsibilities of the NED is available from a number of independent organisations and can be extremely helpful. Individual annual appraisals by the Chairman are also useful in giving guidance on what is expected of NEDs and making objectives clear.

Stand back

A strong board which functions well as a group and which is constituted in such a way that internal conflicts are properly mitigated will deliver a stronger company, less prone to accidents. If NEDs can help ensure that a company is well-governed by challenging weakness in a positive manner, without appearing to threaten the executives, then the risk of failing to detect impending disaster should diminish.

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NEDs can be at their most effective, help to generate value and uncover issues before they become problems, by standing back from the coal face and asking basic questions.

These simple pointers can help NEDs resolve the dilemma of being distant and yet accountable. A sensible amount of thought and preparation will assist new NEDs to enjoy what is a satisfying and influential role.

Think carefully before you join the board. Above all, remember that individuals of integrity and commitment are essential to corporate well-being.

The Financial Times Non-Executive Directors' Club development seminar – held in partnership with Odgers Berndtson

The two day programme advises current and aspiring NEDs on the challenges of the role.

It offers an intelligent and practical guide to how good governance can be a competitive advantage rather than a burden and covers the whole range of skills and knowledge needed for any non-executive directorship.

The objective is to prepare senior executives to become NEDs at a time when expectations of independent directors are increasingly high. The content includes practical advice on:

- Role and responsibilities.
- Legal and financial responsibilities.
- Role and remit of the remuneration and audit committees.
- The different challenges facing NEDs on listed companies, private equity-backed enterprises, SMEs and not-for-profit organisations.
- Expectations of board members, as seen by experienced Chairmen and NEDs.
- Tips for getting an NED role.
- How a NED role can benefit an executive's career and employer.

For more information, email ned@odgersberndtson.com



■ About Odgers Berndtson

Odgers Berndtson is one of the leading international executive search firms and the largest in the UK. Our reputation for excellence and integrity has been established over 40 years. We act as trusted advisors to clients who need help recruiting for important positions.

Odgers Berndtson's Board Practice is responsible for some of the most important recent Chairman and Non-Executive Director appointments as well as for executive board roles.

As part of a truly global firm, the Board Practice spans all major markets. We work with a wide range of FTSE and AIM-listed companies, international groups, private equity-backed businesses, family-owned organisations, and small and medium sized enterprises.

We have a thorough understanding of board and committee structures, and board dynamics. Our team includes experienced directors of publicly quoted and privately held companies. In short, we know how boards work.

Odgers Berndtson has been an influential voice in the corporate governance debate. We understand how the principles of good governance, applied practically and not by rote, can help create strong, effective boards that add real value to an organisation.

Our wide experience and deep knowledge is brought to bear on every board appointment we undertake.

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