

The changing role of the non-executive director

A Guest Article by Chris Spencer-Phillips
June 2011

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Going beyond the minimum

In the aftermath of the financial crisis, it is essential that non-executive directors (NEDs) become more effective.

It is widely known that NEDs have responsibilities as a “corporate policeman or watchdog” with adherence to good practice, adherence to boardroom disciplines, corporate governance and corporate responsibilities. However, they should make a positive contribution to their companies, over and above the minimum requirements of corporate governance.

Such objectives inevitably increase the time required of NEDs to carry out their responsibilities, so they should be paid more.

Hampering diversity

The new Corporate Governance Code urges companies to promote greater boardroom diversity and appoint, on merit, from different backgrounds, and appoint more women. Only too frequently, though, NEDs appear on multiple FTSE boards.

This is partly because most search firms, when they get a new NED project, expect their research department to come up with NEDs who are on comparable boards. This cannot be healthy, restricting the introduction of new NEDs and hampering diversity.

Inappropriate appointments

Furthermore, these big City search firms charge very large fees for providing a chair or non-executive director, as they have expensive offices to pay for and high overheads to cover. This may not be a problem for FTSE companies that feel they need to be seen to use such companies. But most AIM and PLUS companies and SMEs cannot afford these fees.

So they revert to “cronyism”, identifying an NED from their own contacts. This often leads to an ineffective and inappropriate NED appointment, since there has not been a transparent and focused approach to finding the best available candidates.

It is a catch-22 situation that leads to a shortage of experienced and diverse candidates for NED roles.

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A resource to be used fully

It can be argued that there is an over-emphasis on corporate governance in the new Code. NEDs obviously are expected to contribute to good corporate governance at board meetings, but this is not enough. The effective and professional NED needs to put in more time and involvement if they are to contribute fully to the company's development.

The chairman should plan each NED's involvement on a team basis, building on the strengths and competences of each member. They are a resource to be used, not just policemen to check on corporate governance.

We provided one client company with a chairman and three NEDs. As well as attending monthly board meetings, they all have a separate role – for example, mentoring the MD, property, the brand, the menu, finance. This is a good example of a company using NEDs to the full.

Understanding all the issues

NEDs must put in extra time to understand the issues of the business beyond what can be absorbed from monthly (or less frequent) board meetings and their paper summaries. They must get to know the executives, key staff (such as sales and warehouse managers) and customers.

Otherwise their contribution will be of little value; executives will not bother talking to them, and a downward spiral will be created.

*Chris Spencer-Phillips
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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.