

The role and value of the non-executive director in AIM companies

A Guest Article by Chris Spencer-Phillips
June 2011

The role and value of the NED in AIM companies

A Guest Article by Chris Spencer-Phillips for TCii Strategic and Management Consultants

Ensuring board balance and independence

The Combined Code on Corporate Governance (now called the UK Corporate Governance Code), the result of government-led reviews over several years, set out standards of good practice for UK listed companies. The main principle under section A.3, "Board balance and independence", states:

"The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking."

Code Provision A.3.2 of the Combined Code states:

"Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors."

(A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.)

AIM companies should have at least two independent non-executive directors, and companies listed on the PLUS Stock Exchange at least one.

A non-executive director (NED) has responsibilities as a "corporate policeman or watchdog" with adherence to good practice, adherence to boardroom disciplines, corporate governance and corporate responsibilities.

Why appoint a non-executive director?

All directors, including NEDs, are required to:

- provide entrepreneurial leadership of the company
- set the company's strategic aims, and
- set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

In addition, the role of the NED has the following key elements:

- **Strategy:** NEDs should constructively challenge and help develop proposals on strategy.

The role and value of the NED in AIM companies

A Guest Article by Chris Spencer-Phillips for TCii Strategic and Management Consultants

- **Performance:** NEDs should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
- **Risk:** NEDs should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.
- **People:** NEDs are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, executive directors, and in succession planning.

What benefits do NEDs bring to an AIM company?

A non-executive director will:

- strengthen the board and provide an independent viewpoint
- contribute to the creation of a sound business plan, policy and strategy
- review plans and budgets that will implement policy and strategy
- be a confidential sounding board for the MD/CEO and keep the focus of the MD/CEO
- have the experience to objectively assess the company's overall performance
- have the experience and confidence to stand firm when he or she believes the executive directors are acting in an inappropriate manner
- ensure good corporate governance
- provide outside experience of the workings of other companies and industries, and have beneficial sector contacts and experience gained in previous businesses
- have the ability to clearly communicate with fellow directors
- have the ability to gain the respect of the other directors (it helps if he or she is liked, but this is not essential)
- possess the tact and skill to work with the executive directors, providing support and encouragement where difficult decisions are being made
- have contacts with third parties such as financial sources, grant providers and potential clients
- provide comfort to a company's suppliers, bankers and funders.

The role and value of the NED in AIM companies

A Guest Article by Chris Spencer-Phillips for TCii Strategic and Management Consultants

How much time will an NED give an AIM company?

The average time commitment for a non-executive director is 24 to 30 days a year. This increases for larger companies.

For a chairman, the average time commitment is 30 to 40 days a year. This increases for larger companies, owing to the number of board subcommittees, such as audit and remuneration, which take up about 15% of the time.

Board meetings, including preparation, tend to take up about 40% of the time spent. Strategy and planning meetings take a further 10% of the time, and subcommittees take another 20%.

How much will an AIM company need to pay an NED?

The average pay for a chairman of an AIM listed company is between £1,000 and £1,700 a day for smaller companies and £2,000 to £3,000 for larger companies. This works out at around £36,000 a year for a small company and up to £60,000 a year for a larger company.

The average pay for an NED in an AIM-listed company is around £1,300 a day for smaller companies and £1,800 a day for larger companies. This works out at around £24,000 a year for a small company and up to £45,000 for a larger company.

Some 15% of chairmen and 10% of NEDs receive part of their fees in shares.

The prevalence of share options in AIM-listed companies is high, and around half of NEDs own part of their company.

*Chris Spencer-Phillips
Managing Director – First Flight
(With information provided by Cliff Weight of MM&K)*

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