



Brewin Dolphin Securities Ltd Response to the DTI Consultation on the role and effectiveness of non-executive directors

The ideal non-executive director

Being positive and pro-active

There is a danger that the role of the non-executive will soon be cast exclusively as a corporate watchdog - overshadowing the greater contribution that they can make through their wise counsel and business experience. Non-executives need to look forward and be involved in strategy rather than solely hunting down errors, a watchdog role that could set them at odds with the executive leading to concealment of information as has happened in the USA. Their dual role needs to be balanced accordingly, so that a non-executive is both an adviser and a supervisor. Ideally they will have a somewhat pro-bono attitude to their non-exec work, be generous in giving their time and resources to the company and this is particularly important for NEDs of SQCs. On this issue we support the call for a cap on the number of non-executive directorships any one person can hold, with say a maximum of three for executives in full time employment. Professional NEDs may well be able to manage five or six non-executive directorships. Time is an important requirement for reading board papers and relevant industry material in addition to attending [monthly] board meetings. Non-executives need good interpersonal skills, be able to work within the team and equally be independent minded. Ultimately non-executives should take up the role because they find the work interesting and satisfying and believe they can make a positive contribution to the development of the company. There needs to be a sense of enthusiasm and enjoyment in their work - board meetings for both executives and non-executives alike should be stimulating, and even fun.

A variety of skills

A board should recruit Non-executive directors with a variety of skills, executive experience in the relevant sector and with commitment. Yet often these attributes tend to translate into good political and financial connections. A non-executive director who has 20 years IT or marketing experience may be of more use to a company than an MP with some grand connections but very little time. In our increasingly technological world, experts in technology should be in higher demand; legal and accountancy professionals would also make valuable contributions, but often shy away following their understanding of the disproportionate risk: reward ratio.

Encouraging people to become non-executives

What you know not who you know

In order to obtain experience from a greater variety of sources, the pool that boards select non-executives could be extended. Presently UK plcs tends to favour those with City or Westminster experience as seen in the Financial Times Newspaper Survey, published on 13th August 2002, which assessed the input of parliamentarians into the non- executive system. The survey revealed that parliamentarians held a total of 819 directorships and a survey in July by Labour Research, an independent research body, showed that 28% of FTSE 100 companies had at least one peer on their board and with some peers having more than 10 directorships.

We strongly support the CBI suggestion that Senior Managers within PLCs should be seconded as NEDs to other PLCs to gain Boardroom experience and indeed this is a policy we have in place within Brewin Dolphin and which has been a great success.

Imaginative recruitment and training provision

To widen the pool, those who don't consider themselves skilled or well connected to be non-executive directors need to be encouraged. Boards will also have to be more adventurous in their selection, looking for candidates

from a wider range of backgrounds; and be prepared to provide more specific industry training, as well as more general legal and accountancy training and access to independent professional advice, all at the company's expense.

Attracting non-executives: the debate over pay versus liability

Risk versus Reward

Our feeling is that non-executive directors should not be taking the positions for the pay: their role is advisory, and it requires a pro - bono attitude. In any case we would argue that the levels of pay couldn't compensate for the current personal risks involved when taking up a non-executive directorship. The risk to ones reputation should in itself be sufficient incentive for non-executives to take their responsibilities seriously. If the level of remuneration is increased sharply as some suggest it might affect NED's independent stance.

Reducing Personal Liability

A survey by Ernst and Young in February 2002 noted that "*the legal responsibility of non-executives has really come to the fore over the last year and they are directly in the firing line*". Our concern, widely shared, is that the issue of liability is having a negative impact on recruiting non-executives; people are concerned that will be personally liable for a company's failure, as well as suffering a loss of reputation. This issue urgently needs to be addressed.

Currently non-executive directors share the same legal responsibilities as executive directors (although the courts appear to be taking a different line). This fact of same liability is troubling, as the amount of time, knowledge and information about the company that any non-executive has is far less in comparison to his executive counterpart. It has been estimated by Hanson Green, a recruitment firm, that 80% of directors and NEDs of UK PLCs do not have adequate directors liability cover. [Financial Times 22/4/02]. Although we recognise that there will be debate as to what 'sufficient' cover is, we would suggest that directors liability insurance should be offered as standard to all non-executive directors for UK PLCs at the company's expense.

Principles should remain the same for smaller quoted companies

Previous corporate governance studies have tended to focus on larger companies and have not directly discussed how the position differentiates for smaller listed companies. The principles behind an effective non-executive role should remain the same for smaller quoted companies. However, NEDs of SQCs may well have to be on call and available to advise Executives on an ad hoc basis and more frequently than at regular board meetings, particularly as many NEDs may provide a skill which cannot be afforded on a full time basis by a young PLC.

Charlotte Black
Marketing Director
Brewin Dolphin Securities Ltd.

Filename: Brewin Dolphin Securities.doc
Directory: C:\tmp\work\R501110\KAREN\R501110
Template: C:\Documents and Settings\kanese.DEVELOPMENT\Application
Data\Microsoft\Templates\Normal.dot
Title: 6 September 2002
Subject:
Author: Pearce_L
Keywords:
Comments:
Creation Date: 08/10/2002 14:12
Change Number: 2
Last Saved On: 08/10/2002 14:12
Last Saved By: camassey
Total Editing Time: 1 Minute
Last Printed On: 11/10/2002 10:56
As of Last Complete Printing
Number of Pages: 4
Number of Words: 949 (approx.)
Number of Characters: 5,414 (approx.)