

**Non-Executive Directors Review Consultation**

All the points and issues raised are, in my opinion, extremely pertinent, and doubtless you will receive varied comment and feedback from all quarters of the business and corporate community; as a recruiter, I thought it practical to restrict my contribution to the points you indicated under section **B: Attracting and appointing Non-Executives**.

Having met with several hundred business professionals over the last few years, specifically in respect of their interest in securing Non-Executive opportunities, it has allowed me to gauge the views of a wide range of individuals whilst at the same time obtain a very strong feel for the way the Non-Executive Director (NED) market operates.

The first thing that strikes me is the high level of informality that surrounds the appointment process, which is surprising and which some even describe as “alarming” on the basis that a NED is a Board level appointment and as such should be afforded a high level of importance. There is little doubt that the casual and indifferent attitude that pervades has resulted in inappropriate appointments with companies selecting individuals to do no more than make up the numbers as against looking to them to make a telling and meaningful contribution. Why is this?

- a) A legacy of the situation pre the introduction of Corporate Governance when NEDs typically comprised of retired businessmen who wished to maintain a link with business and saw acting as a NED the best way to do so but, seemingly, in many instances treated the role as a sinecure.
- b) The failure of companies to fully appreciate how a NED can help- what he/she is there for, and consequently not bothering to devote sufficient time or focus to recruiting an individual who will add value.

My belief is that, before anything else, the whole of the Plc community and business in general needs to be made aware and understand why the recruitment of independent NEDs is necessary, in order that the concept is positively embraced and their presence welcomed wholeheartedly.

At the moment, my experience and the discussions I have with Chairmen and Chief Executives strongly suggest that too many companies demonstrate a lackadaisical attitude and hence the chasm that is evident in the NED market.

### **Personal qualities and attributes**

Above anything else, an individual must show desire, enthusiasm and a strong sense of purpose in wanting to make a significant contribution as a NED. I am impressed that the individuals with whom I meet only wish to put themselves forward and serve as a NED if they recognise that they can lend genuine assistance and help make a difference to the business. It is not a question of who you are but what you can do that is the key factor. An often heard criticism is that it is an elite band of individuals who are selected on the basis of their high profile standing as against their actual effectiveness as a NED.

Going forward, whilst individuals should be able to demonstrate a track record of success, this in itself does not guarantee that they will be a competent NED; getting there on one's reputation must be overlooked in favour of those who view the role of a NED as much more than the kudos it can bring and a belief that simply turning up to Board meetings is a satisfactory dispensation of their duties.

For those companies with whom Downing Moser Associates (DMA) has worked in introducing NEDs, they have taken the trouble to review and assess the mix of skills, qualities and attributes that currently exist, enabling a brief to be put together which will focus on finding an individual whose background and experience is complimentary, and who may also offer an alternative perspective.

All too frequently a company will ask the nomad, broker or other professional adviser for names and suggestions when trying to find a new NED; whilst this is a straightforward exercise to which an adviser can respond, what they fail to do (some by their own admission) is to identify candidates who have the right background for the company in question at the current stage of their development or business cycle; as such, companies who are new to the Plc arena find themselves hiring someone because they trust their adviser, rather than having made a thorough assessment of the merits of that particular individual and how he/she is actually going to contribute.

For more mature and experienced companies, it is a combination of taking an easy way out together with the avoidance of paying a fee for using a recruiter; undeniably wrapped up with the latter is the attitude that "it is only a NED appointment" and hence the decision not to engage a recruiter.

In my experience, those companies who do take seriously the selection process want to ensure that the Board as a whole is balanced in terms of the functional and sector knowledge; the size of the Board will be an influencing factor but typically having an individual with a City/finance background is seen as obligatory, complimented by someone who is familiar with the business or the sector in which it operates and someone else who can demonstrate a particular expertise which is going to be particularly helpful towards the company's future growth. Each individual will be delegated responsibility as far as participation on the various committees is concerned.

### **Recruiting Non-Executives**

It is often said that part of the problem with NEDs is that finding suitable calibre candidates is an onerous task and that the supply of such individuals is limited. This was a principal factor behind my decision to create and develop a NED practice, to enable companies with specific needs to access high calibre individuals possessing the requisite background and experience.

Many companies do not look hard enough to find NEDs, hence the reliance upon professional advisers or alternatively utilising circuitous and tenuous means, for example friends, the golf club, etc. Companies need to be encouraged to adopt a more formalised process which will eliminate inappropriate appointments and ensure that they are selecting from a pool of executives who are both suitable and interested in the proposition.

Outside of the FTSE 100 many companies do not have a designated Nominations Committee and at times a collection of names is gathered, perhaps informally, before any approaches are made. It is not necessarily the Chairman who dictates the process, quite often the responsibility will lie with the Chief Executive or even the Finance Director; perhaps a designated Independent Director could be given the task of conducting or overseeing the appointment process as part of assigned responsibilities?

Widening the pool of potential NEDs means, quite simply, giving a greater number of people the opportunity to display their ability and compete for the positions that become available, not churning out the same old crowd who often will end up with multiple appointments; which in itself is a contentious issue as it calls into question whether these individuals are able to devote sufficient time and focus if acting as a NED at more than two or three companies.

Increasing the supply base requires a fundamental shift in attitude, away from the thinking that a NED can be found conveniently and expediently via a personal or professional contact to operating on a level playing field, thus facilitating a process whereby the prospects are enhanced of a greater crop of talent being given the opportunity to demonstrate their credentials. A frustration for many people that I meet is that they are denied the chance to compete because they don't belong to a particular network and are not going to come under consideration unless a formal, independent process is conducted.

The purpose of this response is not to promote the services of DMA but, quite simply, if companies wish to benefit from being presented with a shortlist of quality candidates who offer and bring with them a diverse set of skills then specialists such as ourselves can offer a solution. Head hunters are used all the time for Executive Board positions, why not for NEDs, particularly when one considers the importance and significance of the role with all the responsibilities that accompany it? At the very least, the misfortunes of Marconi and Enron have highlighted this and prompted the DTI backed enquiry.

As globalisation spreads and the boundaries over which business is conducted reduce, it will increase the scope for greater international representation on UK Boards. I am aware of companies who specifically seek a NED with international exposure as they seek to penetrate a new market or develop a new business, and where the local knowledge and insight of a non-UK Director is seen as being invaluable.

Inextricably linked in the issue of pay is the profile of a NED as for many the level of remuneration is a peripheral factor in their decision to join a company Board. Without doubt, the overwhelming majority of individuals with whom I come into contact are independently wealthy and not reliant upon the fee income to sustain their standard of living. In some cases, they do not even receive the fee directly rather it is paid to their employer in lieu of granting them the time to broaden their business experience by serving as a NED. As full time executives, it raises the question as to whether they are capable of giving sufficient time to allow them to perform adequately and responsibly their duties as a NED. Seemingly these duties are only going to increase, thereby putting additional pressure on executives to serve effectively as NEDs.

Should NEDs constitute primarily of those who have chosen to embark upon a portfolio career (Allan Leighton) and those who are winding down or retired from full time executive duties? In essence, those people who have time to prepare, to focus and carry out their duties without being saddled or having the burden of holding down a full time role.

It is these types of individuals who, being in a position to devote and offer more, should be remunerated accordingly based on the increased time and input they can provide; doubling the salary of a NED who is a full time CEO is not going to result in that individual doubling his contribution, he/ she is simply not in a position to do so. As such, the message that I am receiving is that by all means increase the pay of a NED but only on the basis that their contribution is going to rise commensurately. Perhaps engaging a full time executive is not the way forward if business wants to extract the maximum contribution from the NEDs they engage?

## **Conclusion**

In summary, I would highlight the following points:

- i) Ensure that the whole corporate community readily accepts the presence of a NED to avoid impotent and ineffectual appointees;
- ii) Appoint individuals on the basis of their ability and desire to contribute proactively so that the business benefits tangibly from their presence;
- iii) Encourage companies to focus more intently on the appointment process, shy away from the convenience of using contacts and adopt a more formalised approach;
- iv) Increase the access and widen the pool of Directors by utilising recruitment organisations who are dedicated to the sourcing of NED candidates; and
- v) Consider the profile/background of NEDs; if the level of commitment is to rise and responsibilities increase, can a full time executive be expected realistically to undertake the role of a Non-Executive?