



August 2002

## REVIEW OF THE ROLE AND EFFECTIVENESS OF NON-EXECUTIVE DIRECTORS

### B. ATTRACTING AND APPOINTING NON-EXECUTIVES

It is necessary to work from the assumption that the best non-executive directors are usually too busy to wish to take on any other directorships. These are the people that companies are keen to attract to their boards rather than those who are readily available - and probably need the money.

What attracts a director to a particular appointment is the confidence that he or she can contribute certain experience and skills that are currently not being provided adequately by others. The most important element, however, is good personal chemistry with the other directors.

Directors fees have to be appropriate. If the director's fee is unduly low, a director may feel that his contribution is not properly valued.

It is difficult for a company to approach potential NEDs personally without an intermediary, such as a headhunter, because there are frequently personal sensitivities which can lead to embarrassment should an appointment ultimately fail to be concluded. An efficient headhunting exercise will provide a selection of capable people who match the requirements of the company.

#### Possible issues for comment.

9. a) **Essential skills**
  - i) A proven record of success as a plc director
  - ii) Good interpersonal skills
- b) **Secondary skills**
  - i) An understanding of the City
  - ii) Experience of managing change
  - iii) A broad financial awareness
  - iv) Sector knowledge relevant to the company
  - v) Geographical knowledge relevant to the company
  - vi) Business development, marketing and brand building
  - vii) Reasonable computer literacy

Over the next ten years the role is likely to be more valued by the executive team as the NEDs' contributions become more widely appreciated. Remuneration should also increase as the role becomes more demanding.



## F. SMALLER LISTED COMPANIES

For the smaller company, where headhunting may be too expensive an exercise, Hanson Green has a practical scheme, called Annex. This enables directors who are sponsored by their companies (usually FTSE 100) to be placed as a non-executive director on smaller company boards to expand their experience. This scheme has been active since 1995 and through it more than 100 board appointments have been effected. It is a valuable source of talented NEDs, particularly for the smaller company which may not have the resources to find them in the normal way. Annex is explained in Hanson Green's Corporate brochure.

31. Different factors apply when selecting NEDs because smaller companies are reluctant to pay headhunters to search for them. Alternatives, such as Hanson Green's Annex scheme – **where search fees do not apply** – enables smaller listed companies to have a choice of NEDs from a wide pool of talented and successful businessmen and women.

Advertising for NEDs seldom provides a sufficiently high calibre selection of candidates and can be a time-consuming and relatively expensive alternative.

## G. INTERNATIONAL CONTEXT

The British Code of Conduct is now regarded in every other country in the World as the standard to follow. The clarity of the legal aspects, the clearly stated duties and liabilities of the directors, the thorough research and development in the whole sphere of corporate governance and the willingness with which corporate Britain has embraced the various Governance reports has created a positive environment in which we give an example to the rest of the World.

32. Few lessons can therefore be learnt from international experience.

In the United States, the NEDs are not bound by a legal and moral obligation to make sure that the accounts reflect reality. This leaves the door open for an undue amount of litigation, frequently on a no win, no fee basis.

In Europe, where the non-executive director is usually a supervisory or advisory board member, with no legal liabilities, the independence of the directors is rare. Outside directors on most of the European boards have a formal business relationship with the company – such as bankers, lawyers, accountants etc. and in some cases are major customers or suppliers.



33. Other models of corporate governance or different boardroom roles or dynamics are most unlikely to contribute more to company performance, because the directors/advisors are not as closely involved in the company's business (see attached Hanson Green Advisory Board brochure).
34. It would be detrimental to UK practice were it to be brought more in line with that in other countries. It would be a backward move when the rest of the world is moving towards the UK standards of Corporate Governance.