

Review of the role and effectiveness of non-executive directors

Consultation Paper

Comments from:-
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A) Role

- 1 I start from the belief that all directors should be called 'directors' and should be chosen, engaged and described as such. One of them should be appointed chairman - chairman of the board, rather than chairman of the company. Any director who, in addition to his duties as a director, also holds an executive role may be described as an executive director or his executive function may be attached to his title as in 'marketing director' or 'director, marketing'. The relationship of the chairman to the director should be the same in each case.
- 2 Each individual is likely to have some areas of special interest or expertise and, indeed, their selection should have taken account of this fact. Each board should contain as many specialisms as is appropriate and practicable.
- 3 Probably most boards arrive quite nearly to 2 above automatically.
- 4 All directors should work in an environment which permits and encourages total independence of thought and expression on all issues.
- 5 Probably in areas of company financial performance and remuneration. Solutions would depend on company size: larger companies will have relevant committees, smaller ones would better rely on frankness and openness under the guidance of their chairman.
- 6 Each director should have a 'compartment of his mind' permanently allocated, indeed dedicated, to each company in which he holds office. This obviously involves the function of time and, therefore must limit the number of posts held.
- 7 No

8 There should be no distinction

B) Attracting and appointing non-executives

9 See 2 above.

10 Integrity and common sense.

11 See 2 above.

12 It should not be difficult for most boards, possibly with help from their advisers, to find candidates. It is wrong automatically to suspect the choice of individuals already known to existing directors. In many cases this will be the best way to find well-suited individuals who will quickly and smoothly reach a level where they can contribute. The use of professional selection experts is quite likely to produce theoretically good applicants but not necessarily compatible ones.

13 The pool is already there.

14 Simplicity is the key. Where a company has progressed sufficiently to be able to afford to do so a sensible salary or fee should be paid taking account of 6 above. When a company is at an early stage of evolution it may be more practicable to remunerate partly or wholly by equity. It will be noted though that the erstwhile enthusiasm for option schemes is now beginning to be questioned.

15 All directors would be wise to have insurance cover.

C Structures and accountability

16 See 1 above

17 A board which intends to have effective control of their company had better be small enough not to be unwieldy. Even for a very large company it is difficult to see why this should involve more than ten.

18 No

19 Judging from some press comment they appear not to work too well on occasion - but I have little personal knowledge.

20 No comment

21 The performance of the board as a whole is the critical matter and this should be clear to shareholders at all times.

- 22 Any director should be able to challenge any aspect of the operation of the company.

D Relationships with shareholders and others.

- 23 The larger shareholders should set the pace. If all is well they may be content to have no more than the formal amount of contact. Otherwise they may require closer contact in which case they should make a suitable request and ensure that they will have access to any of the directors as they may require. Any idea [if there is one] that some directors should have the right to clandestine contact with shareholders is anathema.
- 24 Chairmen should do all of these things.
- 25 If 1, above, is adopted the question does not arise.
- 26 No comment.

E Support

- 27 As directors they need the same amount of information that all other directors need in relationship to their duties as directors.
- 28 This is only important when an individual joins a new board; and then it is very, very important. It is not sufficient to depend upon hoping to learn what is required merely by attending board meeting - however frequently they are held. For each new entry there must be devised a comprehensive induction programme.
- 29 I suspect that in most cases, certainly.
- 30 They should do, under 28 above.

F Smaller listed companies.

- 31 Often smaller listed companies are in the throes of trying to make the transformation from owner control to shareholder control. This is usually a very difficult time and the key to success will often lie with the chairman. In such circumstances he will probably need to be new to the company and have no executive role. He needs to be thoughtful, tolerant and wise and to expect difficulties in most cases. But, once these initial problems have been overcome, the board structure and performance should revert to normal.

G International context

- 32 I have little experience in overseas models of boardroom activity. But wide experience of attempts to borrow bits of overseas practice without understanding the whole context. Almost always ends in tears.
- 33 Do not know.
- 34 Do not know.

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