

## **Response of** Laurence Shafe

I am a member of ITNEA and non-executive director of Intelligent Environments, a small UK AIM-listed IT company. I decided to write to express my point of view regarding the role of the non-executive director in small public companies. The views are my own rather than those of Intelligent Environments.

I feel that a lot of the current debate has been raised and is focused around the prevention of misleading corporate reporting. This is important and it leads to recommendations concerned with increasing the independence and authority of non-executive directors, changes to reporting standards and more formal reviews of non-executive directors and board processes.

However, I would like to raise the equally important objective of how the board should function in order to increase the short and long term value of the company and ensure that it is successful to the benefit of its customers, employees and shareholders, as well as the country as a whole.

With this objective in mind, I feel the most important requirement for a non-executive director changes from independence to experience and knowledge of the sectors in which the small company operates. It is often pointed out that non-executive directors can add value by a general experience of business brought from other sectors. However, small companies succeed through the focused application of specific knowledge and experience applied to particular sales and marketing situations where previous experience is of high value.

Also, the more knowledge a non-executive director has of the day-to-day operation of the company the more valuable and relevant the strategic input. This means that I would positively recommend non-executive directors of small companies to spend say half a day a month with the various key senior staff of the company. One way of achieving this that adds value for the company is for the non-executive director to undertake specific consultancy assignments of a strategic and advisory nature for the company. This has been seen to prejudice the independence of the non-executive director but I feel it is a useful way for them to really understand what is going on in the company and therefore act more effectively on the board. The financial reward from such assignments is small and it therefore no more prejudicial to independence than the director's fee.

The requirement to undertake such assignments implies that the non-executive director must have had previous experience in the particular industry in which the company operates otherwise it would be difficult to advise on specific issues. It also encourages the executive directors to look upon the non-executives as a useful resource rather than a corporate requirement. The best people can be attracted by paying a fee commensurate with the value such individuals would then add. In other words, non-executive pay should rise but more time should be spent with the company outside board meetings.

This new expanded role also means that non-executive directors can be set objectives and their performance appraised. Currently, I find it difficult to see in practice how this can be done, other than in a very superficial way. The role of the non-executive director is to understand the business of the company in sufficient detail to be able to advise and recommend specific strategic options that help maximise short and long term value and to be aware of any significant business issue and be able to recommend specific courses of action to minimise the short and long term impact on corporate value. This role requires a detailed knowledge of the activities of the company.

Regarding the relationship with shareholders, I feel that any company needs clear and consistent messages regarding its strategy and objectives for staff, shareholders and customers. It is difficult to engage in the debate that leads to these messages outside of the board even in a limited and circuitous form because all of the relevant factors are not and cannot be made public knowledge. This means that I have no problem with the non-executives meeting shareholders but the messages will be, or should be, the same of those from any other member of the board. Of course, shareholders may wish to see non-executive directors to express their opinion about the company and other members of the board and this is valuable information.

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