

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

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**Introduction**

The views I am putting forward are based on those opinions and vignettes that I have noted from senior executives, and those board meetings that I have facilitated. This knowledge has been built up of over ten years experience as an executive coach where privileged information and insights have been shared. Hopefully, it will provide some real insights into how a cadre of effective non-executive directors can be developed in the UK.

**A: Role**

1. In many organisations there is lack of clarity as to what the role of the board really is. After several “away days” and hours of meetings, there is still a lot of clarity amongst executives about their role, the role of the board, and what a Chairman does. Very few directors have a business relationship with the non-executives outside the boardroom. In fact, some CEO’s have made it quite clear to their executives that they do not look favourably to their meeting the non-executive Chairman, or other non-executives without them.
2. There is still confusion about what the key roles of non-executives should be. When this is agreed in theory, it is often not carried out in practice. There seem to be few employment contracts, as there would be for executive directors. This should include terms of separation.
3. Non-executives appear to view themselves in a variety of ways. These include:
  - A specialist e.g. strategy, communication
  - An independent coach
  - A person with experience that no one else on the board has e.g. run a business in China
  - A policeman
  - A challenger (and therefore often just a “blocker”)There is sometimes confusion both by the board and the non0-executive as to which role s/he should play.

4. Non-executives should be independent in their different roles. There should be greater clarity as to what this means e.g. independent financially, or just not connected with the business in any way e.g. supplier, partner, auditor, family etc.
5. Conflicts of interest arise when there are other give and take relationships outside this particular board. This includes family relationships, reasons given for hiring the non-executive, and other work related interests. Where politicians are involved this is even more sensitive.
6. Time commitment depends much on how the role of the non-executive is defined. Many just turn up for board meetings, which entails about 10-12 days a year. Non-executives should really understand the business, visit sites, shops, and offices as well as be a customer/consumer. This would involve about 20 days a year. With regard to pay, should the non-executive be paid per diem rate what s/he would be paid as an executive?
7. The non-executive chairman should also act as the senior independent non-executive. In instances where there is only an executive chairman a non-executive should report to him/her.

### **B. Attracting and appointing non-executives**

1. Non executives should be numerate, an experienced line manager ( 5 years), have clarity about the difference between executive and non-executive role, and build an independent balance in the board (i.e. not worked with other board members, and no known political or other relationships).
2. All the emotional competencies are needed: integrity, influence, empathy, listening, communication, self-awareness, and coach skills. In addition they need to have good verbal critical reasoning, strong numerate skills, and be a conceptual thinker. It is often helpful that they come from different industry sectors, and a variety of business situations, e.g. small, medium as well as large.
3. Recruitment is a tough task. Many head hunters have a narrow view of what would make an excellent non-executive. This is partly due to the fact that they are briefed very directly by the Chairman about s/he thinks the company needs. In fact very often they are advised of the appropriate names as well. The search exercise becomes a farce. Rarely, do non-executives have any formal assessment or appraisal. Rarely, do they have clarity about their role, beyond legal obligations and duties.
4. The pool of non-executives should definitely be widened. Many of the executives I

have worked with would make excellent non-executives, but they are seen as either too young, not well connected, not well enough known, or only from a large family business, or typically no experience as a non-executive. Chairmen and search consultants should be aware of the huge added value from talented professionals (e.g. lawyers, accountants,) and people outside of their non-executive “box”.

5. Many up-and-coming executives require and wish for the non-executive experience. If they are expected to work about 20 days per annum they should be rewarded in the same way as the more experienced non-executives. Cash and share options definitely attract the talented non-executives. Experience is not enough.

### **c. Structures and Accountability**

1. In many instances, the recommended structures for board committees do facilitate governance. This is not always visible to some members of the board who complain of lack of transparency, trust and communication. Non-executives also appear to have communication mainly with the Chairman, and very little with other executives. Where there is one non-executive per executive a sensible and balanced debate seems to be maintained.
2. Nomination and remuneration committees appear to be working well on the whole, Their main problem is dealing with the failing executive, where there are often high reward for success as well as failure. This puts them in conflict with shareholders and investors, who are willing to pay for success but feel cheated when paying for failure.
3. The processes in place for setting objectives, and reviewing performance are poor. In fact, it appears that not many non-executives have formal performance appraisals. Sometimes they are asked to remain on for another term of office, but few recognise their strengths as non-executives. They are often seen as “untouchable” especially if they are a prominent politician or businessperson. There should be more transparency about the performance of non-executives to shareholders.
3. Non-executives are able to challenge, inasmuch as they understand their role.

### **D. Relationships with shareholders and others**

1. Most meetings with institutional shareholders appear to take place with the CEO, Chairman, FD, and Communications/PR director. It should be mandatory for at least one non-executive director to be present as well.
2. The main role of the Chairman is to create conditions for all directors to be effective. Not all Chairmen are skilled at “chairing”. Often the climate in the boardroom is intimidating, and directors are reluctant to challenge. Company

secretaries are often just playing a “recording” role” and therefore feel unable to support non-executives as they are not active members of the board.

#### 4. **Support**

1. “Basic” training is provided by some institutes and business schools for non-executives. This provides invaluable knowledge around legal and governance issues.
2. Many executives struggle with the transition from the executive into the non-executive role. They feel lonely, isolated and often fail to recognise that they need to play different non-executive roles in different businesses. Women and minorities often feel isolated. “A different dynamic happened at board meetings as soon as there were two women non-executives”  
Induction for non-executives often is patchy, and entails meeting other executives and non-executives. Few non-executives visit businesses independently, they are usually accompanied by an executive director. On-going connections with parts of the business (at the shop floor level) should be considered to be part of the role.

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