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Non-Executive Directors – There needn't be a shortage of high calibre candidates!

It has become fashionable to complain about the critical shortage of high calibre Non-Executive Directors (NEDs) but, says David Stewart, a partner in the business and career mentoring firm, IDDAS, it is not strictly true. 'In our experience there are many more people who would like to be NEDs than there are roles. A different issue is the balance between those who are properly equipped to be NEDs and the number of roles. Here there is a better balance. There is a tendency amongst larger companies to appoint NEDs from a relatively small pool of experienced senior people'. Widen the gene pool, Mr Stewart argues, and more potential NEDs will suddenly emerge, who can be trained or mature into their roles.

Appointing NEDs or taking NED roles are much more complicated issues than they might first appear, and both companies and individuals need to do a huge amount of planning to get such appointments right.

Under the Combined Code for quoted companies, best practice is to have a balanced board of executive and non-executive directors with an appropriate mix of skills. Following the publication of Sir Derek Higgs' report on 'The Role and Effectiveness of Non-Executive Directors' in 2003, there has been a massive increase in focus on Corporate Governance. Surprisingly however, little attention has been paid to the practical implications of recruiting NEDs or taking on an NED role.

When appointing an NED, the board should start with its company's strategy firmly in mind and systematically assess its own individual capabilities against this to determine what skills, competencies and behaviours are required from the new NED. In other words, the board should fit the individual to the business, not the other way round. And these days more than ever making the right hiring decision is critical to the company's City reputation.

The company must have a rigorous recruitment process and ensure that it gets the personal chemistry side of things right, too. It also needs to run a detailed and effective induction programme for the successful candidate.

An NED is often a person with a portfolio of different roles or may be an executive director of another company – sometimes even a competitor. The ED sometimes seeks or is encouraged to seek NED roles as part of his or her mainstream career development. Such individuals need to be clear that they can meet the company's expectations in terms of knowledge and skills and can devote the appropriate amount of time (usually at least 20 days per annum) to be effective. The role therefore needs to fit in with the individual's other commitments, responsibilities and aspirations for the foreseeable future.

For those seeking NED roles an important first step is to review motivational influences, career history and aspirations. Sometimes it is useful to use psychometric tools, which can be helpful in discussing behaviours and in beginning to define the sort of NED role which might be appropriate. There are many possibilities including the private, public, not-for-profit and charitable sectors where firms such as IDDAS will assist their clients with detailed research as well as headhunter and networking contacts. Once an appropriate opportunity is identified, IDDAS supports clients in conducting detailed due diligence on all aspects of the company or institution. They are also reminded to make sure there are no business or other conflicts of interest which might prove difficult to manage.

In years gone by NEDs were simply expected to bring good commercial sense and perhaps some sector specialism to a board. Nowadays the world also looks to NEDs to ensure good corporate governance. For this reason it is advisable for aspiring NEDs to bring themselves up to date with best practice. IDDAS addresses this issue by offering practical and pragmatic sessions on the responsibilities of the board and the audit & risk, nomination and remuneration committees. Time is also spent on the important softer issues like appreciation of the demands and interests of all stakeholders, learning to contribute in an unfamiliar environment and culture, and acting as a source of influence and guidance rather than relying on the use of direct authority.

In contrast to the practical considerations of recruiting or taking on an NED role, the issues of remuneration and legal liability attaching to NED roles have received more extensive commentary. In summary, annual fees usually range between £20,000 and £50,000 depending on the size of the company. Additional fees may be payable to those chairing the audit and risk or other sub-committees. NEDs have the same legal liability as executive directors and should ensure the company has appropriate Directors and Officers Liability cover. The indications in the UK so far are that it is sufficient, in legal terms, for NEDs to show that they are exercising proper, proportionate and reasonable diligence in their roles. Even so, this means that if NED roles were ever sinecures this is no longer so, further reinforcing the case for widening the 'gene pool'.