

When Neds become bosses

Non-executive directors rarely step into the chief executive's shoes, but John Rishton is doing just that at Rolls-Royce, writes James Ashton

Filling the shoes of Sir John Rose, outgoing chief executive of Rolls-Royce, was never going to be easy. In 14 years, he has transformed the aero-engine maker into one of Britain's flagship companies, tripling turnover and increasing its market value fourfold. It's no wonder Rolls's board launched a global search for the next boss when Rose suggested it was time to leave.

Its biggest competitor, Pratt & Whitney, is based in America and almost half of the company's order book is with customers in the Middle East and Asia. The new chief might have been expected to come from one of those regions.

So some observers were surprised when Rolls announced that its next boss would not need to come halfway round the world to take up the reins — he had been sitting in the boardroom all the time. John Rishton, a non-executive director for the past three years, is to become its next chief executive.

It was an unconventional solution. On the plus side, Rishton would hit the ground running. But how does a non-executive, brought in to police the behaviour of a company's executives, make the switch to the boss's seat and prevent the relationship with his fellow directors from becoming too cosy?

"Moving from a non-executive position to the chief executive's role is highly unusual and is potentially fraught with risks," said Kit Bingham, head of the non-executive practice at Odgers Berndtson, the executive search firm.

"A non-executive spends perhaps two to three days a month on a company's business and takes a high-level strategic view of its operations, prospects and the quality of its management," he said.

"A chief executive's engagement with the company, by contrast, is all-consuming. A non-executive director position is scant preparation for the chief executive role of a company, and it is no easy matter to step from one role to the other."

Experts said that it was Rishton's experience that made him an over-ridingly strong candidate, irrespective of whether he was already on

the board. Not only was he once the finance director of British Airways, one of Rolls's main customers, but he has also gained chief executive skills running Royal Ahold, the Dutch retailer.

"Rishton has the best of both worlds," said Helen Pitcher, chairman of Iddas, a consultancy that provides assessment and mentoring to boards and senior executives at clients including Diageo and Standard Life.

"He is an experienced chief executive who also benefits from inside knowledge regarding the strategic direction and issues facing Rolls-Royce, plus existing relationships within the business."

Nor do corporate governance experts see a problem with boardroom part-timers going full time — as long as the board can explain clearly why it came to its decision.

Seamus Gillen, policy director at the Institute of Chartered Secretaries and Administrators, said: "Central to this is that the company has a nomination committee that is working well. Then there is the question of what issues it considered in making the appointment, including how well defined the company's succession strategy is and how the appointment fitted into that strategy."

"It should be clear from this process that the successful candidate was the best person for the job and wasn't appointed on the basis of expediency or friendship."

The UK Corporate Governance Code is more concerned about the chief executive becoming chairman of the same company — interestingly, a solution that Rose was rumoured to be keen on at one stage. The problem there is that a chairman may find it hard to accept his successor making changes to a strategy that he or she put in place.

There are several precedents for the Rishton move, however. Intertek, the FTSE 100 testing and inspection group, selected Wolfhart Hauser as its chief executive in 2004. He had sat on the board of the company as a non-executive for two years as well as working as a consultant to develop group strategy.

Replacing Richard Nelson was a



Moving up: Rishton has been on the Rolls board for three years and gained chief executive skills running Royal Ahold

tall order. He had led the company, which inspects the standard of everything from oil to shirts and solar panels, from when it was a division of Incheape, the trading company, through private equity ownership and onto the stock market.

When he ran TUV Sueddeutschland, Intertek's closest German rival, Hauser had competed with Nelson for a number of acquisitions. Again, the candidate's familiarity with the company was held up as a great advantage when his appointment was announced.

The same was true at Aegis, the digital media group that buys advertising space for clients including Deutsche Bank and China Telecom. In 2005, Robert Lerwill, a non-executive director, stepped up to become

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chief executive after Doug Flynn departed to run Rentokil Initial. Nine years earlier, Lerwill had served as finance director of WPP, one of Aegis's closest rivals, making him eminently suitable.

Pitcher at Iddas points out that it is far more common for a non-executive to progress to the role of chairman or senior independent director — the lightning rod for shareholder concerns over how the chief executive is performing.

However, with a younger breed of non-executives coming through the ranks, the path from part-time to full-time roles is likely to become more trodden, not less. The only drawback is if non-executives have "gone plural" without first gaining operational experience.

"Boards should be wary of appointing a non-executive who doesn't have chief executive experience, as he or she may struggle to make the transition from an influencing role to that of directing the business and co-ordinating the top players within it," said Pitcher.

Detractors say choosing from within in this way can also give the impression that the company has missed the chance to bring in fresh blood and carry out a review of its strategy.

Bingham at Odgers, though, does not believe it pays to be overly prescriptive. As long as the company has searched widely for its next boss, it doesn't matter if he or she has been under its nose all the time, he said.

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