

THE MARKET FOR NON EXECUTIVE DIRECTORS IN THE UK

Background

I see a lot of senior business people who would like to serve as a non executive director.

Some want to do so to broaden their experience. They are already an executive director and are encouraged by their CEO or chairman to take on an outside appointment. Others are not yet near retirement age and are considering a portfolio of interests rather than a single full time job. And others again have retired and want something to keep them motivated and involved away from the garden and the golf course.

The purpose of this paper is to describe the sort of opportunities that are available but at the same time to explain some of the realities of the market place. I believe that there are far more people wanting non executive director roles than there are opportunities but, conversely, in some areas there are not enough people with the right qualities coming forward.

Overview

The market for non executive directors varies widely. There is a world of difference between serving on the board of a major listed company and being the only member of a small private company board who is not from the immediate family of the founder. Yet both have an important though different role to play.

Anyone considering a non executive director role should therefore be sure they understand the differences and decide where they might be able to make a contribution. Doing so will mean that they set their sights realistically and are not disappointed if opportunities don't immediately come their way.

Too many senior business people do not think deeply enough about how their experience will be seen by a company's chairman and rely on a general (and probably justified) feeling that all their experience of a lifetime in business must self-evidently, be of value. But there is a big difference between being a successful *executive* director and a valued *independent non executive* director.

There are as many different non executive director roles as there are companies, agencies, charities, trusts, etc as want them. But I will describe seven different market "segments" in what follows

- The largest 30 companies (say) of the FTSE 100
- The rest of the FTSE 100 and the FTSE 250

- Most other fully-listed and AIM companies
- Larger private companies
- Public sector bodies and related agencies
- Not-for-profit organisations (including mutuals)
- Family companies

Head hunters such as Clive & Stokes International are invariably used to find candidates.

FTSE “30” companies

These businesses are huge and global. Their boards are often quite large (up to 20 directors or even more) and representative in character – including people from each of the major markets where the group operates. You will probably need to have experience of such businesses as an executive director or have had a senior government or civil service role if you are to be of interest. Almost all non executive directors are “independent” under the terms of the Combined Code.

Other FTSE 100 and 250 companies

Although large by market capitalisation these businesses can vary in size and complexity considerably. You will almost certainly need to have prior listed company board experience (attending a course on corporate governance is not sufficient) and some other specific knowledge or contacts of value to the business if you are to be considered. Again almost all will be “independent” non executive directors.

It is in this segment of the market that there is a possible gap – experienced people with a financial background who are prepared to chair the audit committee or serve on it as a recognised financial expert. A recently retired finance director would fit the bill but those still working full time often find the time demands of such roles too great. I believe that some of the more commercial senior audit partners who have recently retired from the Big Four firms would be really valuable but in my experience most say they do not want to expose themselves to the “risk” involved!

Other listed and AIM companies

There is an enormous variation in scale and type of business in this segment of the market. Importantly these companies, though listed, do not have to comply with the provisions of the Combined Code and therefore do not have to have an equal number of independent non executive directors and executive directors. But there is a perception that the larger ones should be somewhere close to meeting this requirement.

Head hunters, such as Clive and Stokes International, may be used but the search process is often much more informal and professional advisers often play an important role in suggesting suitable candidates.

Larger private companies

Large private companies have no formal need for non executive directors – whether independent or not. But many do have non executives on the board either providing special market knowledge and experience or perhaps representing a major investor from a venture capitalist or private equity house. Such investors often have their own list of trusted people who they will nominate to look after their interests. Most will be relatively “hands off” unless something goes wrong or the business does not progress under the executive management team in the way the investors expect.

Public sector bodies

An increasingly “corporate” approach to management has been a feature of the public sector for the past 15 to 20 years.

Very visible evidence of this was the creation of NHS Trusts where there is a persistent demand for business people to serve on Trust boards. But the time demands can be great, the financial rewards relatively poor (in relation to the time demands at any rate) and there is often a degree of frustration at the relative lack of autonomy from the NHS central management functions.

But most areas of government now have their own boards too. Most of the main central government departments have them with some non executive representation. Again the ability to make a difference may not be great but such appointments provide interesting insights to the workings of government and for the right person (with the required skills as and influencer) they can be rewarding.

Most of these appointments are advertised and head hunters, such as Clive and Stokes International, are often involved too.

Not-for-profit organisations

This segment of the market covers a huge range of charities, pressure groups and think-tanks as well as a number of largish mutual organisations such as building societies.

The boards of such bodies are appointed in accordance with the trust deed or other constitutional document and invariably require all or most of the trustees/directors to be “independent” and in many cases to receive no financial rewards for their labours.

Larger not-for-profit organisations are required to make board appointments in a very transparent way involving at least one advertisement and perhaps the use of a head hunter, such as Clive and Stokes International, as well.

Family companies

Family companies only appoint non executive directors because they want to and believe they will get real value out of the appointment. There is no required, formal recruitment process although a friendly bank manager or investor might be influential. The role can be very

important but can also be lonely – if the rest of the board are from the “family” there is no one else to turn to in times of crisis.

Conclusion

A lot more could be written on what to do and what to look for if you think you would like to serve as a non executive director. But a broad understanding of the market – as described above – is an important starting point.

A final word. If you are to be “independent” (of mind) then it is important to avoid financial dependence. So if any one of your non executive appointments provides you with income on which you come to rely then you lose that independence. Arguably you will be at your most effective if you really can walk away if you do not like what the company on whose board you serve is up to.

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