

# blackthorn|focus



Non-Executive Directors in the  
FTSE350

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# 1 What is a Non-Executive Director?

The number of Non-Executive Directors in the boardrooms of UK companies has increased dramatically since the *Higgs Report* of 2003.

Recent difficulties in the financial markets and increased incidence of corporate failure have highlighted the role. Investors are keener to secure representation on a board and the business community is even acknowledging the NED contribution through awards.

Yet the role is not well understood or appreciated. In research, one source (in the non-profit sector) wrote:

that is exactly what staff say too. Who are these people, where did they come from, what are they doing and to whom are they accountable?

Expectations and endeavour will vary between investors, companies and individuals. Wikipedia defines the role thus:

Non-Executive directors have responsibilities in the following areas:

- **Strategy:** Non-Executive directors should constructively challenge and contribute to the development of strategy.
- **Performance:** Non-Executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitoring, and where necessary removing, senior management and in succession planning.
- **Risk:** Non-Executive directors should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.
- **People:** Non-Executive directors are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, senior management and in succession planning.

## 2 What is Corporate Governance?

Wikipedia's definition of corporate governance reads:

the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

The Financial Reporting Council's *UK Corporate Governance Code* has the following:

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies ... The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.

Investors expect good corporate governance will protect and enhance shareholder value by ensuring their interests are central to the board's decisions.

improved corporate governance $\implies$ decreased risk $\implies$ increased value
--

We might expect a Non-Executive Director of a FTSE350 company to be paid around £40,000 for their work. The Financial Reporting Council's requirements make good corporate governance an expensive habit. It is not uncommon for investors to be outnumbered by board members at the Annual General Meeting of a mid-cap company.

Crucially, it is becoming increasingly clear that investor perceptions of corporate governance do have a bearing on share prices. This is most apparent among smaller companies when a share price responds to the announcement of a Non-Executive appointment or departure.

### 3 Non-Executive Directors in the FTSE350

Blackthorn Focus examined the distribution of Non-Executive Directors in the FTSE100, FTSE250<sup>1</sup> and the AIM UK 50<sup>2</sup>. This was a comprehensive study where each director operating in those companies was uniquely identified. Different individual directors having the same name were accounted for.

- there are 2,060 Non-Executive Director roles in the FTSE350
- these jobs are filled by 1,707 individuals

though much is made of the multiple roles held by company directors, we can see the vast majority of Non-Executive Directors in the FTSE350 **do not** have a board level role with another large company.

As would be expected, the number of Executive and Non-Executive Directors on the board of a company declines with market capitalisation.

	Average NEDs on board	
	Mode	Mean
FTSE100	6	7.4
FTSE250	5	5.3
AIM UK 50	3	3.5

- **seventeen** FTSE100 companies have more than **ten** Non-Executives on board
- **HSBC** has the largest number of Non-Executives at **fifteen**
- Non-Executives are **not** required by AIM Rules...
- ... but they are usually on board when a company joins AIM today

<sup>1</sup>together, the FTSE100 and FTSE250 make the FTSE350, the 350 largest companies on the Main Market of the London Stock Exchange, as measured by market capitalisation

<sup>2</sup>the 50 largest UK companies on AIM by market capitalisation

How many different roles does each Non-Executive in the FTSE350 have?

- 219 people have two Non-Executive roles with FTSE350 companies
- 49 have three
- 12 have four

Of the executive roles in the FTSE350

- 977 exec roles exist
- filled by 976 people
- 127 executive directors of FTSE350 companies have a NED role elsewhere in the FTSE350

## 4 Women in the FTSE350

The Financial Reporting Council's *UK Corporate Governance Code* of 2010 replaces *The Combined Code*. The new Code makes an explicit reference to board diversity.

The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.

— *UK Corporate Governance Code, B2: Appointments to the Board*

How diverse is the FTSE350?

- **216** of the 2,070 Non-Executive positions are filled by women
- there are 977 executive positions, **39** are held by women
- **32** women have a Non-Executive role at more than one FTSE350 company

The disparity is stark. So, why are women:

- better at securing Non-Executive roles than executive roles?
- better represented among multiple Non-Executive roles than single roles?

## 5 Specific company policies

Here are some examples of the expectations companies place on board members from recent annual reports.

### **Amlin:**

The Company's policy is to allow executive directors ... to accept one substantive non-Amlin related outside non-executive appointment

— *Amlin plc 2009 Annual Report*

do investors value communication with Non-Executive directors?

### **Wellstream Holdings:**

The non-executive directors are available to meet shareholders through the year to discuss any concerns. No such meetings were requested or took place during the year.

— *Wellstream Holdings plc 2009 Annual Report*

just outside the FTSE350, **Chaucer Holdings** is a £250m non-life insurer

### **Chaucer Holdings:**

Non-Executive directors will be required to hold shares with a value equivalent to 100% of base fee in respect of services provided to the Group...It has been agreed that the Non-Executive Directors can elect to have part of their fee paid in shares bought in the open market

— *Chaucer Holdings plc 2009 Annual Report*



## NEDucation

NEDucation is a series of training events for Non-Executive directors.

First held in June 2010, NEDucation is a Blackthorn Focus initiative designed to inform, update and educate Non-Executive directors with UK-listed plcs.



**Ian Price, Financial Services  
Authority**

NEDucation 2010 was the first event in the series.

Hosted by international law firm *Davies Arnold Cooper*, NEDucation 2010 highlighted the issues most relevant to the Non-Executive director community.

In an environment of evolving regulation and legislation it is essential Non-Executive directors are kept informed of changes in the marketplace.

Blackthorn Focus was delighted at the high quality selection of speakers secured. Held following publication of the new *UK Corporate Governance Code* and *CP 10/3*, the *Financial Services Authority* and *Financial Reporting Council* both presented their perspective to an audience of Non-Executives.

*Jardine Lloyd Thompson* contributed a very well received session on Directors and Officers Insurance.

Event hosts *Davies Arnold Cooper* addressed crucial new legislation introduced by the new Bribery Act.



**Michael Lea, Jardine Lloyd Thompson**

The NEDucation series of events focusses on the role of a Non-Executive director within a listed company.

Expert speakers were recruited from within the financial markets to advise and inform the audience at NEDucation 2010 on how to discharge their responsibilities.



**Chris Wilkinson, Numis Securities**

It is vital Non-Executives understand the perspective of investing institutions.

Corporate governance experts from *Black-Rock*, *F&C Asset Management* and *Hermes Equity Ownership Services* discussed just what they expect from Non-Executives and how those in the role can protect shareholder interests.

Specific issues discussed included communication with investors, succession planning and social, ethical and environmental considerations.

One key relationship a company has is with their corporate broker. Chris Wilkinson provided some key insights into how a company should interact with the financial markets particularly around profit warnings and director remuneration.



**Tim Goodman, Hermes Equity Ownership Services**

## 7 Summary



Chris Spencer-Phillips

In the aftermath of the financial crisis it is essential that Non-Execs become more effective. Their responsibilities as a corporate policeman or watchdog are widely known

but they should also make a contribution over and above the requirements of Corporate Governance. Such objectives inevitably increase the time required of Non-Execs — pay must rise to reflect this.

The new Corporate Governance Code urges companies to promote greater boardroom diversity and appoint, on merit, from different backgrounds. However, frequently Non-Execs appear on multiple boards; this is in part because most search firms expect their research department to find Non-Execs who are on comparable boards already. This cannot be healthy, as it restricts the introduction of new Non-Execs and hampers diversity. The big City “Search” firms charge high fees for providing a Chair or Non-Executive Director as they have expensive offices and large overheads. This is fine for large companies who feel that they need to be seen using such firms but most SMEs and AIM or PLUS companies cannot afford these fees and revert to “cronyism” — identifying a Non-Exec

from their own contacts. This often leads to an ineffective and inappropriate Non-Exec appointment since there has not been a transparent and focused approach to identifying the best candidates.

This Catch-22 situation leads to a shortage of experienced and diverse candidates for Non-Exec roles.

The effective and professional Non-Exec needs to put in more time and involvement if they are to contribute fully to the company’s development. The Chairman should plan each Non-Execs involvement on a team basis, building on the strengths and competences of each member. They are a resource to be used, not just Corporate Governance police!

Non-Execs must put in extra time to understand the issues of the business beyond what can be absorbed in monthly (or less frequent) board meetings. In one company (Pod Foods) where we provided a Chairman and three Non-Execs, in addition to attending monthly Board meetings, all have a separate role such as: mentoring the MD, property, the brand etc. — an excellent example of a company using Non-Execs to the full.

Non-Execs must get to know the executives, key staff and customers to understand the business beyond board paper summaries, otherwise their contribution will be of little value, executives will not bother talking to them and a downward spiral is created.

**Chris Spencer-Phillips is Managing Director of First Flight, a specialist provider of Non-Executive Directors**

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