The Expectation Gap

David Dumeresque, Partner at executive search firm Tyzack, talks to **Dawn Murden** about the rising pressure on non-executive directors

In the wake of every corporate scandal, there follows a predictable bout of soul-searching and indignation. Politicians, the media and out-of- pocket investors all question the quality of corporate governance, oversight and regulation.

When balance sheets implode due to fraud, malpractice or general incompetence, it's only right that the framework within which a public company operates is scrutinised. What's new is the pressure exerted on non-executive directors to take responsibility for the mistakes that led to those business failures.

But how realistic are these expectations within the context of the UK Corporate Governance Code?

David Dumeresque, Partner at executive search firm Tyzack, notes that politicians and the media attacked the boards of companies such as HSBC and Tesco for not knowing about operational problems. "[It] was actually expecting a new level of knowledge – NEDs hadn't even thought about some of the issues they were being questioned on, [and] were expected to know," he says. >

When assessing what's required from NEDs, particularly in the financial services sector, it's easy to conclude that there's been a fundamental change to the job spec. "There is clarity about the role a NED plays, which is to hold the board to account, provide constructive criticism… and represent shareholders, but now NEDs are also expected to understand the intricate nuances of very complicated businesses," says David.

This can blur the lines between executive and non-executive responsibilities, which has huge implications on boardroom discussion, personal liability and accountability.

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"The business community must have a debate about whether we need codification or legislation," argues David. "We need something that shows NEDs what is rational, because often they fail to realise what they are expected to know until something has gone wrong.

"It needs to be clearer because what they are being asked to do can actually put them in a potential position of conflict with the executives."

Quality, Not Quantity

As the role changes, there must be realism about the time NEDs of large listed companies must commit and what this means in terms of appropriate remuneration. According to David, "if you look at board packs, directors are saying: 'We are spending so much time on the remuneration report and corporate governance that frankly, no one has time to read it properly.' This detracts from the time they are able to devote to important business issues."

It can lead to a box-ticking approach, which is something the UK Corporate Governance Code is supposed to avoid with its preference for 'comply or explain'.

A NED's 'to do' list is already loaded with hefty annual reports and extensive governance and reporting requirements. Expectations for a detailed understanding of operations and a long-term strategic view mean their workload is larger than ever.

Not every board, it should be noted, has the same degree of regulatory scrutiny as those in financial services. That said, there is a far greater demand for NEDs to provide insights that go beyond what was previously expected.

"We need to look very carefully at how we prepare people for boards; it's not just about inductions or putting someone on a course. People need to understand the responsibilities and what the role truly entails," adds David. ■

FLEXIBLE REWARD STRUCTURES

While NEDs of financial services (FS) companies are typically paid more than their non-FS counterparts, the difference does not fully reflect the additional time it takes to fulfil regulatory responsibilities. I expect to see more flexibility in NED reward structures emerging, with fees for those chairing committees increasing to properly reflect the time, skill and knowledge required, as well as the increased accountability and personal liability associated with the introduction of new regulatory regimes. The current inflexible reward structure for NEDs seems to be from a previous era and out of touch with the demands and liabilities of NED life in the 21st century.

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David has over 25 years of experience as an advisor to a number of organisations, including large multinationals and small, owner-managed businesses. After five years practice in London and Paris with solicitors Slaughter and May, he spent some 10 years in investment banking with NatWest Investment Bank, Scrimgeour Vickers and Citicorp Investment Bank.

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