

Non-executive boards

Roles, responsibilities & relationships

Role of the board

*Every company should be headed by an effective board which is collectively responsible for the success of the company. The board's role is to provide **entrepreneurial leadership** of the company within a framework of **prudent and effective controls** which enables risk to be assessed and managed.*

*The board should set the company's **strategic aims**, ensure the necessary **financial and human resources are in place** to meet its objectives and review management performance. The board should set the company's **values and standards** and ensure that its **obligations** to its shareholders and others are understood and met.*

UK Corporate Governance Code

An effective board...

- **Direction** for management
- Ethical leadership – **culture & values**
- Creates a **performance** culture – without exposing to excessive **risk**
- Well-informed, high-quality **decisions**
- Creates the right **framework** to meet statutory & regulatory requirements
- Is **accountable** – particularly to shareholders
- Thinks carefully about governance & evaluates own **effectiveness**

Guidance on Board Effectiveness, Financial Reporting Council, March 2011

Role of the chair

*The role of the chair is to **lead and manage the board**, to be responsible for **setting the board's agenda** and to **ensure that meetings are conducted properly**, order is kept, the agenda is followed, items are discussed and decisions are made.*

Corporate governance, Chartered Institute of Personnel Development (CIPD), October 2011

Chairperson's role

- Demonstrating ethical **leadership**
- Setting the board **agenda** – strategy, performance, value creation, accountability
- Managing timely **information**
- Identifying & managing **risk**
- **Succession** planning
- Leading effective **decision making**
- Ensuring **committees** are well structured
- Encouraging **engagement** from all board members
- Fostering **relationships** – executive / non-executive team
- **Working productively** with executive staff, especially the CEO
- **Consulting** with the senior independent director
- **Developing the board** – induction, reviews, acting on evaluation
- **Development of their role**
- **Communication with shareholders**

Guidance on Board Effectiveness, Financial Reporting Council, March 2011

Roles of Non-Executive Directors (NEDs)

Duties:

- To act within powers set out in memorandum of association
- To promote success of the company
- To exercise independent judgement
- To exercise reasonable care, skill & diligence
- To avoid conflicts of interest
- To not accept benefits from third parties
- To declare interests in proposed transactions or arrangements

Companies Act 2006

Role of NEDs

*As part of their role as members of a unitary board, non-executive directors should constructively **challenge** and help develop proposals on strategy. Non-executive directors should **scrutinise** the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that **financial controls** and systems of **risk management** are robust and defensible. They are responsible for determining appropriate levels of **remuneration** of executive directors and have a prime role in **appointing**, and where necessary **removing**, executive directors, and in **succession** planning.*

UK Corporate Governance Code, 2010

What skills do NEDs need?

- Integrity
- High ethical standards
- Sound judgement
- Willingness to challenge
- Interpersonal skills
- Confidence
- Ability to deal with conflict effectively
- Behavioral skills
- Listening skills
- Ability to communicate ideas
- Sensitivity, openness & awareness of non-verbal communication
- Persuasiveness
- Leadership & self-awareness
- Critical thinking, creativity & strategic awareness
- Business acumen, ability to identify opportunities
- Forward perspective, willingness to embrace change & innovation
- An enquiring & inquisitive mind – ability to assimilate, assess, analyse
- Co-operation & team working
- Facilitation skills
- The wider, strategic view
- Political astuteness
- Determination, tenacity, drive
- Keenness to develop – gain knowledge, skills
- Meeting prep & availability
- Problem solving & risk management
- A sense of humour

Guidance on Board Effectiveness, Financial Reporting Council, March 2011

Chair–CEO relationship

Ten commitments:

1. Keep everyone focused on mission
2. Clearly define & respect each other's roles
3. Avoid territorial behaviour
4. Add 'innovative' value
5. Help to make the board stronger
6. Develop a positive dynamic between staff & the board
7. Make communications a priority
8. Maintain a united front
9. Protect & support one another
10. Keep passions & emotions in check

The Chair-CEO Relationship, Ray & Berndtson, 2005

Chair–CEO relationship

A shared view of...

- **Strategic intent** – mandate, vision, mission, objectives
- **The company** – business & operating model, capacity, strengths & weaknesses
- **The world** – business environment, competitors, customers, external forces
- **The future** – forces & events – how they will impact

Together at the top: The critical relationship between the chairman and the CEO, Ivey Business Journal, 2006

What CEOs want from Chairs

- Support for the role
- Performance management
- Clarity – who does what
- Lead the board
- Advocate for the organisation

Two Leaders, One Direction, 2010 (training for Chairs & CEOs – Association of Chief Executives of Voluntary Organisations [ACEVO] / Northern Rock Foundation / Cass Business School)

What Chairs want from CEOs

- Keep the chair informed
 - Regular consistent info, evidence
- Assurance
- Lead the team effectively
 - Resources
 - Performance management
- Continually striving for improvement / never satisfied
 - Lead development of the strategic plan
- Resilience / determination / integrity / judgement
- Externally facing

Two Leaders, One Direction, 2010

Functions of the board

- Scrutiny & challenge
- Guardians of the identity (inc. belief in the organisation)
- Relevant skills, knowledge & expertise
- Support
- Advocate for the organisation
- Understand their job
- Keep the organisation in mind in other roles
- Participate actively
- Self-sustaining / managing
- Get behind the strategic plan
- Fight for the organisation

Two Leaders, One Direction, 2010

