

## Public expectations of UK non-executive director roles on the rise amid stagnating pay

01 February 2019 | 14:59 UTC

Growing public expectations on UK non-executive directors (NEDs) to challenge the boards they sit on is not reflected proportionally in the level of their remuneration packages, three industry experts told *Activistmonitor*.

Since the financial crisis, individuals have been far more reluctant to take on the NED role as they worry about personal liability, low remuneration, an unclear mandate and high public expectations, said Eoin O'Shea, chief executive officer at **Temple Grange Partners**, a risk and compliance consultancy.

The UK Corporate Governance codes states that "Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account."

The expectations placed on NEDs can be unreasonably high given they are asked to stop companies from making mistakes though they might not have the necessary information to do so as they are part time and removed from the daily running of the business, said Peter Swabey, policy and research director at **The Governance Institute**. However, their fees have not really gone up, added Swabey. On the other hand, the more pay you receive from a company, the less independent you are perceived as being, he added.

There is no legal distinction between executive and non-executive directors, according to the [Institute of Directors](#). As a consequence, in the UK unitary board structure, NEDs have the same legal duties, responsibilities and potential liabilities as their executive counterparts.

Increased pay package for NEDs would be welcomed as the benefits and liabilities of the role are out of sync at the moment, argued Roger Barker from the **Institute of Directors**. The deliberate difference between remuneration for executive and non-executive roles, where incentive structures are reserved for executives, should however be kept, he noted.

### **On-board activism**

NEDs should be interventionists and play a part in stress-testing for governance issues at a company, argued O'Shea.

Having someone inside the board asking tough questions on audit, consultancy appointments and accountability is one of the best forms of

activism possible for a company, concluded O'Shea.

Non-executives won't necessarily stick together where executive directors might be tempted to, which tends to be positive for the company, Swabey said.

NEDs may have less leverage on decision-making than executives, but should be well-prepared for when an activist enters a company because they will often be the ones required to respond to their demands, a legal advisor told this news service.

Good communications at the board level is fundamental because as soon as an activist starts attacking one director or another, it is not ideal to have board members second-guessing each other in an inappropriate way, the legal adviser added.

### **Director profiles**

The 1992 Cadbury Report initiated a debate about the main functions and responsibilities of non-executive directors, according to the Institute of Directors. As the Cadbury Report said, they "should bring an independent judgment to bear on issues of strategy, performance and resources including key appointments and standards of conduct".

Non-executive directors are expected to focus on board matters and not stray into 'executive direction', thus providing an independent view of the company that is removed from the day-to-day running. While one of the experts believed the attractiveness of NED roles across all sectors remained high, all three agreed that financial services companies, particularly banks, were having issues filling non-executive positions. Generally, boards suffer from a lack of diversity of opinion and need to broaden their scope, all three added.

Experienced board members do not necessarily translate into diverse board members, commented Swabey, adding that a high degree of expertise remains a top requirement but more flexibility in profile selection could be shown to attract people from academia or public services onto boards. More tech-savvy individuals, who might have developed expertise outside the executive route, should be included in the pool of candidates for NED roles, argued Barker.

A professional code of conduct for NEDs would be a good manual to have going forward, as long as it does not harm companies which lack resources, Barker concluded.

by Claudia De Meulemeester and William Mace