

The Role of the Non Executive Director

NEDs have a vital part to play in enabling boards to perform effectively, not only sending the right message to current shareholders and advisers but also making the company more attractive to future investors. They should actively contribute to the success of the enterprise by:

- bringing knowledge and experience to the board, whether in the context of the company's own industry sector or on matters such as marketing, finance, regulation, technology or public affairs
- combining this experience with a broad view of the company and its markets in order to contribute to the development and evaluation of appropriate business strategies
- supporting the executive team, whilst maintaining independence and objectivity and ensuring the adoption of corporate governance best practice.

Contributing to Business Success

Their knowledge, experience and relationship management skills add value to critical debates on a wide range of topics, which may include, for example:

- major investment decisions against a backdrop of economic instability such as fiscal uncertainty or exchange rate fluctuations
- understanding the opportunities and challenges of emerging technology in terms of improved customer service, better margin management, more efficient operations and significant competitive advantage
- evaluating the risks and potential benefits of outsourcing corporate services, selecting the most suitable partners and negotiating the best contracts
- establishing remuneration policies and appraisal schemes to reflect the particular characteristics of the business, linking executive incentives with both long- and short-term corporate objectives
- assessing the strategic options available to a company going through change, such as: access to investment capital for modern plant and equipment or new product development; the evaluation of new markets, at home or abroad; opportunities for mergers and joint ventures; above all, taking a dispassionate or lateral view of the business to find innovative ways in which the company can reposition, or even reinvent, itself.

NEDs and the smaller company

The non-executive director in a smaller company can add enormous value. An experienced independent voice can help a small or growing company to avoid pitfalls and to make better decisions that enable that company to prosper and succeed. The non-executive director should be viewed as a sensible investment decision.

During their growth smaller companies need sound, independent business advice. Non-executive directors are well placed to provide this. As the companies develop and become more relevant to the 'public interest', the guardianship role of non-executive directors becomes more relevant.

The primary added value of non-executives to a smaller company will initially be business expertise and advice. As the company grows, it will also benefit from more specific support on, for example, finance, marketing and research. Financially expert non-executive directors have a contribution to make in helping smaller companies avoid potential over-trading. They can ensure that they receive adequate and timely information both to run their business and to meet legal requirements.

The role of the non-executive director in growing smaller companies can include:

- business advice based on experience and knowledge
- financial expertise, particularly for management purposes but also in terms of meeting statutory requirements
- control and management practice
- challenge
- ambassadorship
- guardianship.

Best practice suggests the following key tasks for the role of the NED:

- “Strategy: NEDs should constructively challenge and contribute to the development of strategy.
- “Performance: NEDs should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
- “Risk: NEDs should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.
- “People: NEDs 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.”