



GET INTO THE HEAD OF A NED

What does the world look like from the other side of the board table?

Catherine Stalker looks at how executives can help non-executive directors do their jobs better

Whether you are an executive or non-executive director (NED), the chances are that at one time or another you'll have found yourself in a board meeting, gazing wistfully out of the window, wishing you were elsewhere, asking yourself: who on earth decided this was a good way of leading a company? If you stop to think about it, boards are improbable constructions made up for the large part of part-time outsiders - the NEDs - who know considerably less about the business than the people they are supposed to be overseeing.

WHAT NEDs BRING TO THE PARTY

When they work well, however, boards can be weird and wonderful. The combination of the executives engrossed in the day-to-day running of the business and the NEDs who are one step removed can be a powerful one. NEDs are often



TURNING THE TABLES: PREPARING FOR NED-LAND

Many boards find it helpful to have a current FD or chief executive officer as a non-executive director (NED). But if you're a CFO thinking of taking the plunge, how do you go about it?

Choose the organisation with care: if it's too close to your own sector, there may be conflicts of interest. As a finance expert with skills that are transferable across sectors, you can explore something different.

Consider the time commitment: you've still got the day job but you have to commit to attending all the board meetings, not to mention the strategy days and the site visits...and the emergency meetings if there's a crisis.

Think carefully about committees: you're likely to be asked to chair the Audit Committee. It's a lot of extra work and you might be better to spend some time as a committee member first.

Spend time with them before deciding: ask to meet several board members, including executives, as part of the recruitment process. Can you work with them and is the chemistry right?

Take the induction seriously: you need to understand the company well in order to contribute sensibly to discussions, so don't put induction meetings off, but don't rush them either. Spread the induction out and look on the first six months as learning time.

Prepare for the new role: you're used to being in charge but, as a NED, you need to have an impact through influencing and gaining respect, not by being the boss. A specialist coach can help you think through the NED role and how you'll approach it.

Don't try to take over: resist the temptation to roll up your sleeves and get stuck into the detail - offer advice but don't be surprised if it's not always taken.

Don't dive in too fast: avoid talking too much, especially in your first meetings. Take the time to soak up the atmosphere and get used to the unique culture of the new board.

Measure success: seek feedback from the chair, if they have not offered it within three to six months.

able to see the bigger picture more clearly than the managers who live and breathe the operational detail - they can be a valuable sounding board for management to test their ideas. Additionally, they can increase clarity of thinking by requiring managers to explain coherently what direction they're travelling in and why, setting targets and regularly discussing progress.

Using their past experience and varied perspectives NEDs can also point out possible consequences down the road, steering executives away from the potholes and the cliff-edges. "I come out of every board meeting with a list of points," the finance director of an FTSE-listed company explains. "They see things through a different lens, give me new options and, by debating with them, we're able to be more certain about our strategic choices."

At the best boards, the executives value the counsel and input of their NEDs - both

in and out of the boardroom. They also appreciate the discipline that comes with demonstrating that sound safeguards and controls are in place, recognising that it helps limit the potential risks for investors, staff and other stakeholders - and the discipline of having to argue their case in front of critical friends.

WHEN IT ALL GOES WRONG

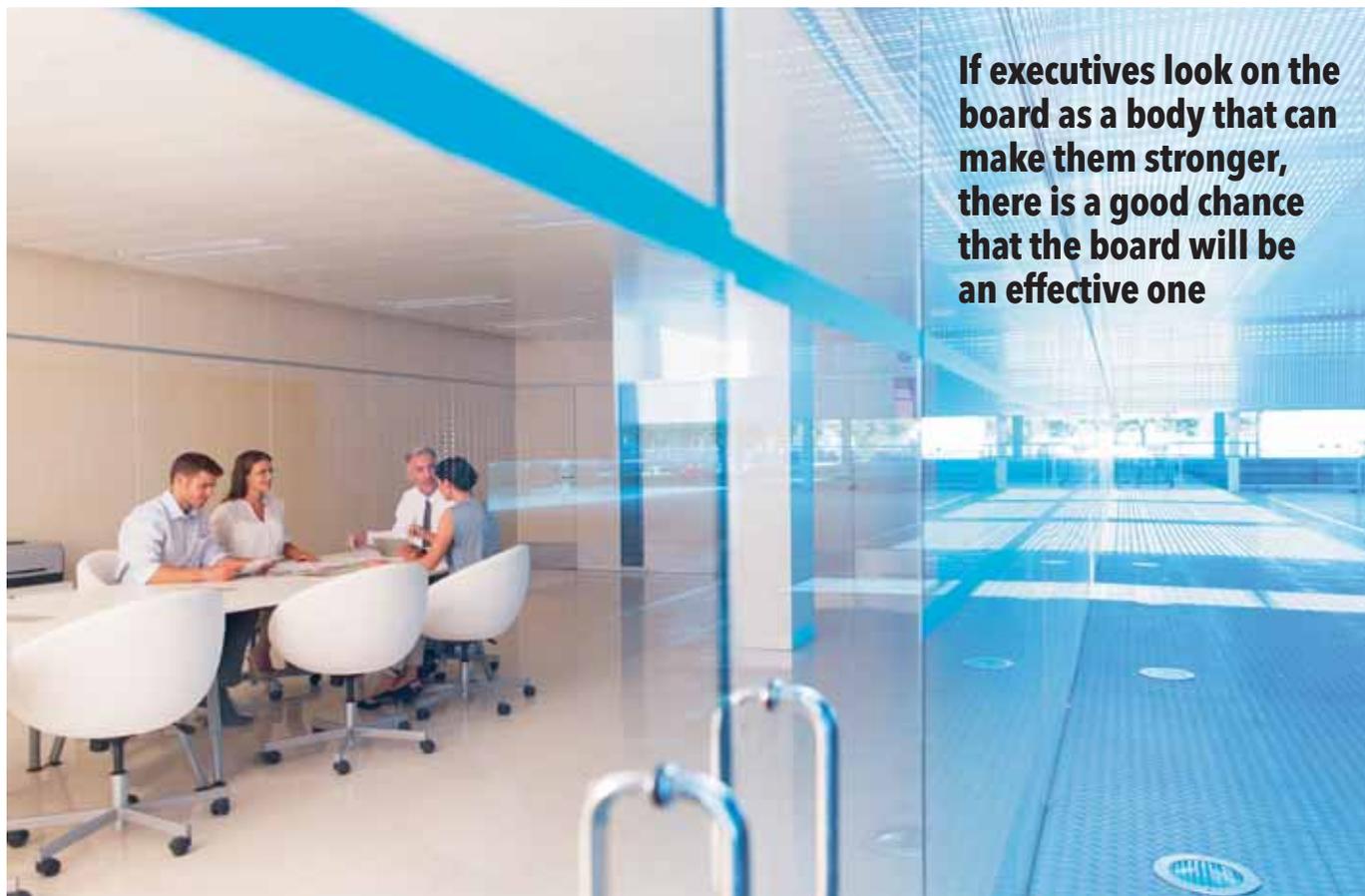
But not all boards work well. Some executives consider their boards to be a minor irritation, a real pain or even a complete waste of time, getting in the way of the serious business of running things. It's not infrequent for them to pin problems firmly onto the NEDs. "They don't understand our business," is a common refrain, or "they have nothing to add."

Selecting the right NEDs is the first element to get right. The board will never become a well-functioning machine if the cogs do not fit in the first place. NEDs

require relevant experience and knowledge, but interpersonal skills are important too, as is chemistry with the executives as well as the other NEDs.

A word of caution: not all NEDs need to be industry experts. Executives have a tendency to hold in highest regard NEDs who are as steeped in their sector as they are, and as a result they can be inclined to prefer those who have run a very similar business in the past.

While it is extremely useful to have a couple of NEDs who fit that description, the trouble with a preponderance of specialists on a board is that they all share the same assumptions. The danger is that groupthink will emerge as a result. Therefore many boards seek a mix, diluting the specialists with generalists who know enough to understand the essentials but are distant enough to ask the proverbial naïve questions.



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EQUIPPING NEDs TO ADD VALUE

Although the composition of the board is not in their gift, executives still have a major role - at least as important as the role of NEDs - in helping make the board work. The machine needs to be well oiled, and it's the executives who are the maintenance engineers. Rather than moaning that "the NEDs don't get us", executives can help them to understand with clear, structured materials tailored to their needs.

NEDs aren't involved in the day-to-day, so they need a brief reminder of the story so far, a crisp summary and a clear indication of what management wants: a decision, a steer or just a thorough early-stage debate. They don't need as much detail as management, but they do need a high-level view of the important issues.

Executives should also ensure new NEDs are provided with a thorough introduction to the business. Besides giving them a big pack of reading, find time to meet them one-to-one and make them feel welcome. Encouraging them to come in and "walk the floors" can go a long way towards building confidence and establishing positive working relationships from the outset.

If NEDs have nothing to add, it could be that they are not being given the chance to contribute. Some executive teams polish proposals to a gleaming shine before letting the board have a look, presenting them with body language that clearly shows they are firmly wedded to one outcome and will resent any attempt to prove otherwise. In these cases, even the best NEDs will struggle to contribute.

EVERY ACTION HAS A REACTION

NEDs have to tread a careful line. They need to be supportive, but also challenging. They need to encourage the executives, but also hold them to account. They need to be insistent when they feel strongly, but ready to support the consensus when their arguments have been refuted. However, it is often the behaviour of the executives in the boardroom that has the biggest impact.

It's true that some NEDs can be aggressive and picky, but by the same token there are more than a few executives who quickly become defensive and dismissive, or who try too hard to control the information going to the board. If NEDs find it hard to get at the real issues, they will be forced to dig harder and challenge ever more

insistently. The behaviours feed off one another. Rather than just blaming NEDs, executives can help reset the tone. It can help for executives to become NEDs themselves elsewhere, so they understand what it's like (see the box on page 29).

A range of complex, interconnected factors affect boards, and this article has only touched on a few, albeit important ones. The vital role of chairman, for example, or the importance of informal discussions between meetings has not been mentioned. But if executives look on the board positively as a body that can make them stronger, if they put effort into equipping NEDs to have a good discussion and watch the messages they're sending with their tone and body language, there is a good chance that the board will be an effective one - and a useful and enjoyable experience for all. ●



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