A role for thinkers

THE LATEST IN THE ACT’S SERIES OF MEETINGS FOR NON-EXECUTIVE DIRECTORS TOOK PLACE IN OCTOBER, ONCE AGAIN IN THE OFFICES OF LAWYER BERWIN LEIGHTON PAISNER. PETER WILLIAMS WAS THERE.

At this event, which again was well attended by a wide range of non-executive directors (NEDs), two experts gave a brief talk which was followed a lively discussion that continued over lunch.

This time the experts were Graham Durgan, the chairman of NEDA, the non-executive directors association, and Stuart Siddall, the chief executive of the ACT and a former FTSE 100 finance director.

Momentum for change is building up in the non-exec world. NEDA has recently proposed changes to improve the effectiveness of NEDs. Three problems have been identified: lack of diversity; need for better induction and knowledge; and a better knowledge and understanding of corporate governance.

Those who argue for greater diversity – and in particular more women in the boardroom – say a more diverse management team helps avoid identikit thinking and encourages a dynamic mix of experience, perspectives, attitudes and approaches which lead to better leadership. Research suggests homogenous groups make less effective strategic decisions.

Some are addressing this issue. For instance, Norway’s corporate governance code states that 30% of directors should be women and NEDA is suggesting a similar move could be adopted here within three years. It also wants to see all plc director roles advertised to encourage a greater variety of people to be considered for the role and is suggesting that over 50% of AIM-listed company directors should be independent NEDs.

To increase NEDs’ knowledge of the business, a system of independent assessment by a third party could be introduced. NEDs often acknowledge that it takes time to build up a good understanding of a company and the risks and challenges it faces.

Individuals who take on a number of roles – NEDA is suggesting five plc directorships or one chairman and two other NED plc roles – should be licensed and tested.

The meeting went on to discuss how even without proposed changes, those in NED roles today could improve their own performance and the culture and performance of the organisation. Durgan, who has experience of both executive and non-executive roles in a variety of businesses, offered seven tips: focussing on people; using a mentor; travelling; updating the company’s strategy; thinking the unthinkable; checking the organisation’s governance; and not running out of cash.

In any role continuing professional development should be on the agenda to try and improve performance. Working as a NED can be isolating and it is easy to start to operate in silos. To deal with risk NEDs should develop the habit of using and mentors and becoming a mentor. Get an external adviser to help you shape your own actions and thinking and at the same time work towards introducing a coaching culture among the senior managers.

THE CHALLENGE OF GLOBALISATION All organisations face challenges as a result of increasing globalisation, even if they are not directly trading overseas. One of the ideas that emerged from the discussion was the need to travel to really see and understand what is happening in the global economy. As a minimum NEDs should take every opportunity to travel and should visit the much talked-about BRIC countries (Brazil, Russia, India and China). Without that first hand knowledge and experience it is difficult to judge how the company will fare in rapidly changing conditions.

And that is one of the key jobs of the NED to lift their eye to the horizon to see what is confronting the company. For that reason a key task of the NED is to enable the company keeps its strategy up to date, regularly using tools such as SWOT and PEST analysis (see box).
While these tools are well accepted and understood in all types of organisations, NEDs need to go further offering innovative and creative ideas. To borrow a well known phrase they should be able to think the unthinkable.

More prosaically, NEDs should ensure the company is well run, checking that its governance procedures are in line with best practice. One way to do this is to join NEDA and to use its checklists. The last tip offered to the meeting was simple and to the point: don’t let your organisation run out of cash, a piece of advice which led into a fuller discussion of the interaction of NEDs and of treasury.

While the financial crisis may be past its worst and the economy is limping towards recovery, NEDs have no room for complacency over financial and treasury matters. It would still be wise to anticipate the unexpected. NEDs should understand and influence the financial risk appetite of the company and be involved with rigorous reviews of the major risks and corresponding risk mitigation plans. In particular NEDs need assurance that the company can fund its strategy.

Crisis planning is another task which should be shared between a group of executives and non-executives. And it is important that those NEDs who take on the role of senior independent director have a focus that extends beyond the shareholders, taking account of those with a strong interest in the company such as debt holders.

In the past NEDs could have been forgiven for not being over-aware of the role of treasury for a company, when funding and liquidity weren’t the top issues they are today. But those days are over and treasury concerns need to be firmly on NEDs’ agenda. That means ensuring key issues are regularly reported to the board. In addition NEDs should satisfy themselves that treasury management is under control. Perform a treasury health check and have a clear understanding of which directors and senior executives have overall responsibility for treasury matters. Clear lines of ownership are key if a lot of people have some ownership that may cause problems in a crisis. The meeting had heard earlier that it was essential to recruit the best people and that includes those in charge of treasury. In particular it is important that are they ACT qualified and any unqualified members of the team are working towards gaining the most appropriate qualification. Some companies have traditionally relied on external advisors to provide much treasury expertise and while the advice may be required – few companies can be self sufficient in all areas of treasury management – it is important to check that the advisors understand the company, and that the advice is independent and fits its risk appetite.

Finally, NEDs should be aware of the issues of most concern to treasurers such as volatility (and the received wisdom that it is here to stay), pensions, accounting changes caused by international financial reporting standards (IFRS), risk management – in particular currency, interest rate and commodity risk – and the funding challenges – especially the need to diversify away from bank funding to other sources such as supply chain finance, asset-based lending and the private placement market.

And just as the overall strategy needs to be kept up to date, so does the treasury strategy, especially if the company faces or experiences a game changing event. Ensure plans are up to date and still relevant.

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