All risk, no reward

The role of a NED comes with significant responsibility and risk, raising the question of whether they are being appropriately remunerated for their endeavours.

Bernadette Young FCG

Compared to their full-time executive colleagues, **NEDs** play a limited role within a business and are not required to manage the business on a day-to-day basis. Despite the fact that this leaves them one step removed, they are nevertheless subject to the same directors' duties and are held to the same standards as executive directors. This means that, in times of corporate stress or when a significant transaction such as a takeover is in flight, any ideas they may have about sticking to their 'usual hours' will go completely out of the window, with frequent meetings – potentially even daily – while the situation is dealt with.

While the NED's role is not intended to be full time, it is not realistic to think that it can be effectively discharged in just a handful of hours, even in 'normal' times. NEDs are expected to devote considerable time to preparing for board and committee meetings, making site visits, attending strategy sessions and board dinners, participating in board review exercises, having conversations in between formal boards, keeping themselves up to date on market trends and undertaking personal development. Anyone who joins the board as a NED expecting an easy ride is in for a rude awakening!

The role is not without its risks either. Despite the oft-cited 'information gap' from which NEDs suffer, they are potentially exposed to the same claims as the executive directors for any breach of duty, and reputational damage is as great of a threat for them if things go wrong. Moreover, NEDs are generally expected to risk their own capital by investing directly in the company's shares, in contrast to executive share incentives which tend to award nil-cost shares to **C-suite** directors as part of their overall remuneration.

By comparison with many roles NEDs are, of course, well paid for their troubles. NEDs frequently earn fees in excess of £100,000 per year, potentially significantly more for FTSE companies, complex or regulated business, and for those holding office as the chair, **SID** or as chair of a board committee. But those fees are dwarfed by levels of executive pay. Additionally, NEDs' fees often remain static across two or three years rather than being increased annually as salaries are.

When one weighs up the time that needs to be dedicated to the role of the NED, the personal liabilities that could be incurred and the other risks that go hand in glove with the role, it is arguably surprising that there are so many candidates willing to step up to the plate for relatively limited financial rewards.

For the first time, The Investment Association has addressed the subject of NED fees in its revised Principles of remuneration. It recognises that 'fees have not always reflected the increased complexity and time commitment expected of their role'. While the guidance cautions companies to justify any increases, the addition of the new wording does raise the question of whether the floodgates to increases in NED fees will now be opened.

One upside of increasing non-executive fees might be to curb 'overboarding', whereby NEDs take on an excessive number of appointments. The concern here is, of course, that there is a limit to the number of demanding directorships which one individual can realistically discharge without compromising their contribution. If NED fees were higher and were reviewed and revised more regularly, perhaps directors seeking a particular level of income would be less tempted to take on so many roles. The level of fees may not be the key driver of such behaviour, but it is certainly not unreasonable to think there may be a connection.

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