How part-time directors can create exceptional value

New evidence from the non-executive director awards

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Theory suggests that non-executive directors (NEDs) can add significant value to the governance of companies, yet many empirical studies have failed to find evidence for this. One reason is that research has focused on studying issues that are easy to measure, such as the number of NEDs on a board and their relative proportion to the executive, rather than studying what really happens in the boardroom. This study fills the gap by analysing 75 in-depth case study of NED performance. It identifies that NEDs can contribute significantly to the performance of the board. In particular the dynamic role of the NED is highlighted, in which the NED can play different roles dependent upon the lifecycle of the company.

Introduction

Recent reforms in Corporate Governance, e.g. the British Combined Code and the Sarbanes-Oxley Act, have focused on extending the role of non-executive directors (NEDs) or outside directors in the USA in monitoring and controlling the chief executive and the executive team, to prevent corruption and malpractice. This article shines a spotlight on the NEDs' potential for creating shareholder value. The article is based on the 75 case studies put forward by nominators for the 2006 Non-Executive Director Awards. This unique database describes in detail the achievements of an elite group of exceptional NEDs who were appointed by boards, banks and major investors often to deal with a crisis e.g. the death of a chief executive, the turnaround of a major company and to perform a specific task – to turn a technological breakthrough into a viable business, or to float a new venture on the stock market. This article analyses the achievements of these exceptional British part-time

directors who were nominated for the KBC Peel Hunt Non-Executive Awards in 2006.

The changing role of the non-executive director

In recent years the role and responsibilities of non-executive directors on British and US boards and others in former Commonwealth countries (particularly Australia and Canada) have been the subject of much debate, numerous public enquiries, new laws and Codes of Best Practice in Corporate Governance. At the centre of the debate is the dilemma: what kind of performance can be expected from part-time board members, however intelligent and experienced they are, if they are retained for say 20 to 30 days and they meet six to twelve times a year? They have to rely on information provided by senior management and they usually have very demanding full-time jobs, for example as chief executive of other similar businesses. Historically, business commentators have taken three distinct and different views of the role of non-executive or 'outside' directors:

- They are seen as the friends and 'cronies' of management.
- They are expected to act as 'policemen', monitoring and controlling the executives.
- They are supposed to be 'strategy partners', taking a substantial responsibility for corporate strategy and creating value for the shareholders.

Friends and supporters of management

In the past i.e. before Enron, many commentators on business and management suggested that the NEDs were usually friends and cronies of the chairman or the chief executive, and they were likely to have neither the time nor the intimate knowledge of the business to be able to act as an independent force on the board. Peter Drucker put this argument well in his book *The Concept of the Corporation*: "The control of a large corporation is such a complex job and the outside board member, who has his own affairs to look after, can know very little about the business – too little on the whole to be useful as an outsider, he must remain a figurehead". Another comment along the same lines was: "The pleasant but vacuous director need never worry about job security" made by Warren Buffet, Chief Executive Officer of Berkshire Hathaway (Fortune, 1994). Some years ago, Anne Simpson, who was then Director of Pensions Investment Research Consultants (PIRC) was asked: "Where do British companies find their outside directors?". She answered "On the Chairman's Christmas card list" (Financial Times, 1997). Robert Townsend, chief executive of Avis, in his book *Up the Organisation* wrote: "In the years that I have spent on various boards I've never heard a suggestion from a director (made as a director at the board meeting) that produced any result at all" (Townsend, 1970).

Policing the executives

Following the scandals at Enron (December 2001), WorldCom (June 2002), the bursting of the dotcom bubble (March 2001) and the stock market crash (2002), public confidence in big business in the USA collapsed (Taylor, 2003). Resulting pressure from the New York Stock Exchange (NYSE), and the Securities & Exchange Commission (SEC) combined with demands from major shareholders, required that boards of Fortune 500 Companies should have a "substantial majority" of outside directors and that these directors should be truly "independent" of management, also that these non-executives should occasionally meet separately from the executives in an 'executive session' (Taylor, 2004). Recent surveys show that, in large US public companies, outside directors are now taking over functions which were previously in the hands of the chairman or chief executive, for example the powers to recruit directors, to determine policy on executive pay and to liaise with external auditors. A study of large US companies by Korn/Ferry (2003) showed that the independent directors' total workload had increased by half, and the extra time was being spent on revising company accounts, improving governance practices and monitoring financial performance (Taylor, 2004).

The redesign of British Boards

Britain has also had its scandals, and demands for the reform of boards of directors. The misdemeanours of Robert Maxwell, BCCI bank and others led to the development of the Cadbury Code. Then the British stock market crash between 2000 and 2002 wiped out half of the investors' savings and reduced the value of employees' pensions. In the past decade Britain has had several corporate governance public enquiries, one of which, led by Sir Derek Higgs resulted in a new Combined Code which took effect in 2003. The Code was intended to make boards more effective in controlling the chief executive and the executive team. One of the Code's requirements is that FTSE 350 companies should have a majority of independent directors on the board, and 1500 smaller quoted companies should have at least two. The Code did have an impact – large British companies now tend to have a majority of independent directors, and increasingly they are recruited and selected by the Nominations Committee, which has a majority of NEDs. The independent directors also dominate the Remuneration Committee, and the Audit Committee and they enjoy 'alternative contact' with major institutional investors via the Senior Independent Director. To the outside observer it appears that in both the US and the UK, the chief executive has been forced to share power with the independent directors and these outside directors can now exercise direct control over three vital areas of policy:

- Auditing of company accounts.
- Appointment of top executives and directors.
- Remuneration of senior executives.

Increased workloads and rewards

One consequence of these reforms has been to increase the workloads of NEDs. A Korn/Ferry study (2003) of large US public companies found that on average the independent directors' total workload including preparation, meetings and travel had increased by 58% from 13 hours per month in 2001 to 19 hours per month in 2003. Remuneration Solutions, a British consultancy which makes annual surveys of independent directors' pay and conditions found that in recent years NEDs in large and mid-sized companies had received "a third more pay for a third more work". In 2003, chairmen of large and medium-sized companies (over £100 million turnover) worked 50–60 days per year and their independent directors worked 20–30 days per year. The daily rates for chairmen were around £2000 and for independent directors around £1500. There was however, a big variation in chairmen's pay from the largest companies, some of which pay over £500,000, to medium-size firms which often pay £50,000 to £100,000.

A strategic partner in value creation

As we have seen, two major benefits of the new reforms are:

- Board independence – i.e. outside directors are expected to have no personal relationships with the chairman/chief executive and no established relationships with the company. They are supposed to be truly 'independent'.
- Better monitoring and control – the outside directors are required to spend more time in committees, dealing with audit, nomination and remuneration.

However, with these benefits come some dangers; in particular, the outside directors may not be so well-equipped as they were previously to deal with the company's strategic decisions. To quote Professor Jay Lorsch of Harvard Business School: "the demand for 'more independent directors' means that 'public companies are increasingly governed by people chosen because they know nothing about the business" (The Economist, 2004). In recent years there has been a spate of publications emphasising the need for boards of directors to see their main role as 'creating value for shareholders'. Carter and Lorsch (2004) say that their research shows that in delivering 'total return to shareholders', "what really counts is the dedication, energy, time commitment and skills of the directors, the leadership of the board discussions, and the level of openness, transparency and trust in the relationships among directors and with top managers." Carlsson's (2001) study of the Wallenberg sphere in Sweden describes in detail how the owners and the boards of directors work together to add value. In particular, he emphasises the active ownership and long-term commitment of the shareholders and the need to combine financial and industrial competences into a form of 'meta-management'.

The balanced scorecard and the stakeholder approach

Huber, Scharioth and Pallas (2004) stress that long-term value for stakeholders in reality is created through building strong relationships. Therefore, it is vital to develop and measure employee commitments, customer retention and internal process quality.

Entrepreneurship and corporate renewal

Parker (1990) describes the board's key role as a responsibility for "corporate renewal", thereby ensuring that the company has a future: "creating tomorrow's company out of today's". In their book, McGrath and MacMillan (2000), called this "entrepreneurial leadership".

What is the value that boards create?

Carver (2002) starts by asking "why do boards exist?". His answer is that "most boards in most parts of the world consider the shareholders their company's owners . . . . But some argue that whatever their legal situation, boards are morally obliged to include many other groups of stakeholders as owners – groups such as employees, customers, creditors, suppliers and the community at large." Whatever owners are included, he defines the value that boards should create as 'translating owners' wishes into company performance."

Shareholder value

In his classic text *Creating Shareholder Value: The New Standard for Business Performance* (1986), Alfred Rappaport explained the Shareholder Value Approach as follows: "The shareholder value approach estimates the economic value of an investment by discounting forecasted cash flows by the cost of capital. These cash flows, in turn, serve as the foundation for shareholder returns from dividends and share-price appreciation." On this straightforward definition companies large and small have been able to measure the value created by their operations, and to predict what value would flow from their future strategies. The concept has introduced a new rigour into Corporate Strategic Planning. In recent research by McKinsey & Co. and the Anderson Governance Group based at the Rotman School of Management, University of Toronto, there is new evidence that boards of directors in the USA, Canada, Australia and New Zealand are becoming increasingly involved in strategic decision-making. The authors of this study argue that as institutional shareholders have taken on the role of holding management accountable, this is allowing boards to spend more time acting as a "strategic partner" to management (Anderson *et al.*, 2006). Based on this research David Anderson and his fellow authors are aiming to construct an 'Evolutionary Model for Governance Change'.

The non-executive director awards

The KBC Peel Hunt NED Awards were publicised in the spring of 2006, when letters and nomination forms were sent to 2000 publicly quoted companies, 2000 private firms, comprehensive lists of board advisors, and city analysts. Nominators were asked to submit evidence of the NEDs' exceptional performance in the form of statements by the chairmen, chief executives and other board advisors, financial results, press comments, and brokers' reports. The nominations had to be submitted by 31st May 2006. As companies differ in size and ownership the nominations for the awards were divided into three groups:

- Unquoted/private equity.
- Middle markets (AIM and OFEX).
- Official List (London Stock Exchange).

There were 23 nominees from unquoted/private equity companies, 30 from AIM/OFEX and 22 from the Official List, making 75 in total. Brokers at KBC Peel Hunt then assessed these nominations, and 75 substantial case studies were sent to the research team at Henley Management College for further analysis. From these case studies' the Henley team selected eight NEDs from each of the three categories. Nominators were asked to access their candidate's contribution against eight criteria:

- Ability and willingness to challenge and probe.
- Influencing skills.
- Sound judgment.
- Good corporate governance guidance.
- Integrity and high ethical standards.
- Advice on strategy.
- Impact on financial success e.g. increased company value, attracting directors, raising funds.
- Other exceptional qualities.

These criteria were based on those outlined in the report by Sir Derek Higgs called 'Review of the Role and Effectiveness of Non Executive Directors' (2003; pp. 27–29).

The final selection

The judges assessed the eight directors short-listed in each category on:

- The completed nomination forms.
- Additional information from fellow directors.
- Financial information on company performance.
- Brokers' reports and recent press comments.

Each judge allocated 50 points across the eight nominees in each category. Finally, they produced a ranking based on the total points awarded to each director. The winners were as follows:

Unquoted/Private equity: Dr Mike Carter, Non-Executive Director of Kudos Pharmaceuticals Ltd.

Middle markets (AIM and OFEX): Mr John Barnes, Non-Executive Chairman of La Tasca Group Plc.

Official List (London Stock Exchange): Mr Paul Myners, Non-Executive Chairman of Marks & Spencer Group Plc.

The Judging Panel [1] met in early June, and the Awards ceremony was held at the City Club on 28th June. The awards were presented by the Chairman of the Judging Panel, Baroness Hogg, Chairman of 3i Plc. An article entitled 'What makes an outstanding chairman?' by Dulewicz, Taylor and Gay (2007) provides an analysis of the key competences of successful Chairmen.

How do independent directors add value?

This section is based on an analysis of the evidence provided by the nominators who recommended the 24 NEDs which the Henley research team put forward to the judges as a short-list from which they selected the three award winners. The brief was "to identify the NED who judged against a number of criteria (from the Higgs report mentioned earlier) has created the most value for their company and its shareholders".

Each of the nominators provided a completed nomination form, statements by the chairman, chief executive, the finance director and other non-executive directors with commentaries by board advisors, financial results, press comments, and brokers' reports. The average nomination ran to 10–20 pages – essentially a case study describing the NED's contribution, usually over a period of five to ten years. The 24 NEDs were assessed in three categories of company: Unquoted/private equity, Middle markets (AIM and OFEX) and the Official List (London Stock Exchange). In each category of company we found two types of NEDs:

- **Non-executive chairmen:** These were often former chairmen or chief executives and they took on a general management role.
- **Specialist non-executives:** These were usually functional specialists, appointed for their expertise or talent in a specific area which the company needed at that time.

The results of our analysis are presented below.

Unquoted/private equity companies

In this category there were four venture capital chairmen who were regarded as a tour de force. They had previously been members of a top management team in a large international company. They were invited to become the chairman

[1] The 12 judges were from the sponsoring organisations: KBC Peel Hunt, Henley Management College, 3i (Chairman), Sunday Times (The Business Editor), and from major City institutions, Institute of Directors, HSBC, INVESCO, London Stock Exchange, Better Regulation Commission and BDO Stoy Hayward.

of one or more new ventures in the same technology-based industry e.g. pharmaceuticals, computer software or the internet and they acted as leaders and mentors to the senior management teams of these new ventures. Over a period of three to five years they prepared the companies for sale to an international company. This usually involved:

- Developing a viable strategy and a prospectus which would attract investors.
- Building a balanced team of technologists and entrepreneurial managers.
- Convincing shareholders to invest.
- Negotiating a sale to an international company.

These companies often had a small turnover – of say £1 million to £10 million. But each company was bought for its growth potential. Soon the revenues would be growing at up to 50% per annum, and the investors might achieve an internal rate of return of 30%. These chairmen were working on a part-time basis – sometimes for a portfolio of three or four companies and they were providing leadership to the top management teams. It is evident that without their reputation with investors, their experience in developing new technology-based businesses, and their skills in negotiating deals, some of these businesses would never have been brought to market.

Four specialist NEDs

The other four high performers were not non-executive chairmen but non-executive directors who had each been invited to join a company board to deliver a specialist service.

- One utility appointed an environmental specialist to deal with a pollution problem.
- A mutual organisation in financial services needed a marketing specialist.
- A family-based business called in a 'company doctor' to replace a managing director who had died, and to organise a turnaround.

All of these NEDs provided a service which was crucial to the company's short-term survival and long-term success.

Middle Markets (AIM and OFEX)

In this category all eight NEDs on the shortlist were chairmen who had led their companies to an Initial Public Offering (IPO) on the Alternative Investment Market (AIM). Before this chairmanship they had each made their name as an entrepreneur, by creating or developing a company and they had made money for themselves, their colleagues and their shareholders in the process. They brought to the IPO a number of exceptional talents and capabilities:

- Profound knowledge of a specific sector.
- A track record of successful company management
- A reputation with investors for increasing company values, skills in valuation and negotiation for buying and selling companies.

They tended to operate in mature markets, which were in need of consolidation, like retailing, restaurants, leisure and advertising, and by a combination of organic growth and acquisitions they managed to achieve exceptional levels of growth. They aimed to increase the value of the businesses by the original value of the company year on year. One NED chairman had increased the value of his business ten-fold in ten years.

Official list (London Stock Exchange)

Of the eight high-performing NEDs in the publicly listed companies, five had been appointed to lead a major restructuring. They had been appointed to deal with a crisis – a corporate collapse, a hostile bid or a public scandal. The new NED chairman was there to lead a turnaround in a very public situation. In essence he was 'putting his reputation on the line'. In each case the new chairman was a top businessman with a national reputation. His tasks were:

- To re-establish the confidence of investors.
- To attract an exceptional new chief executive and help to build a new senior management team.
- To restructure the portfolio of businesses and to cut out the marginal activities and the loss-makers.
- To invest in the core business and to sponsor new developments, then to return the business to profit and to drive up the share price.

Paul Myners, the winner of this category provides an outstanding example of this kind of non-executive chairman, and the company he chaired, Marks & Spencer Plc, demonstrates the huge value that can be created by appointing the right non-executive director at the right time. The other three high performing NEDs in the Main Stock Market companies were also interesting. Other examples include the following:

- One new venture chairman created a £2 billion company in six years and floated it successfully on the main market.
- Two specialist NEDs both made major contributions to their companies.
- A top strategy consultant helped a company to move into new sectors and new territories. As a result the company's share price increased six-fold in five years.
- A corporate responsibility expert with an established reputation, introduced new initiatives and new ventures which promoted innovation and improved morale in a company whose reputation was reaching a plateau.

The corporate governance life cycle

A new school of thought is emerging in the field of corporate governance which builds on research into the concept of an 'organisational life cycle'. These writers argue that "corporate governance parameters may be linked to strategic 'thresholds' or transitions in the firm's life cycle" (Filatotchev, Toms and Wright, 2006). In this new literature various stages of company development are identified, and these are separated by a number of 'thresholds' or

periods of transition. Interpretations of the corporate governance life cycle vary but there seems to be a convergence around the following broad stages and thresholds:

Stage	**Threshold**
1. Start-up	Public Offering on Middle Market or Buyout
2. Growth firm	Public Offering Main Market
3. Mature/listed firm	Signs of decline
4. Declining firm	Private Buyout or Turnaround
5. Rejuvenated firm	

The corporate governance life cycle is clearly more complex than this simple model (see Figure 1 below). It was found that turnaround and restructuring can occur even in the start-up phase (Filatotchev and Wright, 2005).

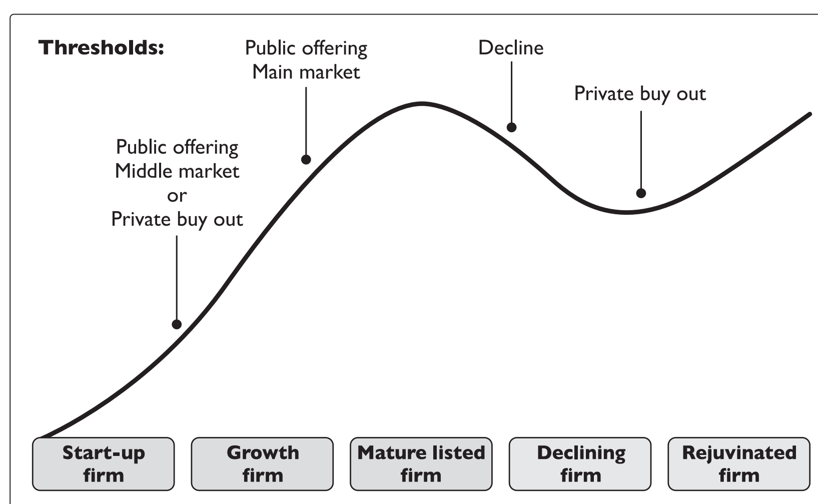

Figure 1: The corporate governance life cycle

Figure 1 above represents the corporate governance life cycle in a simplified form. Figure 2 (below) shows how the NED Awards relate to the corporate governance life cycle. The evidence for a life cycle is indicated above the life cycle curve in two ways:

- After the Start-up phase, we see four buyouts and eight IPOs on the middle markets.
- After the Growth phase – we see one IPO on the Main Market.
- After the Mature phase – we see there is a period of decline.
- After the Decline phase – there are five restructurings.

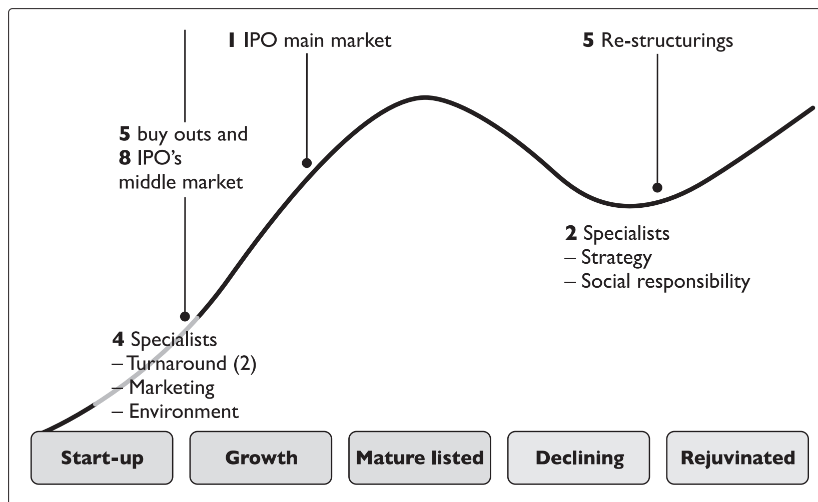

Figure 2: How independent directors add value: the corporate governance life-cycle

A commentary

Under the corporate governance life cycle curve we have added the six specialists. Our research suggests that there are two kinds of high-performing NEDs:

- NED chairmen: these are general managers who provide overall leadership in times of transition, i.e. to arrange a buyout or an IPO on the middle market or on the main market, and to organise a major restructuring for a large company in decline.
- Specialist NEDs: These are senior executives, government officials, management consultants or 'company doctors' whom banks, investors or board chairmen invite to join a company board to deal with a problem in a specific area e.g. environmental management, marketing, strategy, 'social responsibility' or turnaround.

These specific problems can arise at any stage of the 'organisational life cycle'. They may be connected with growth and decline and also with events which occur in the business environment, or within the company – such as a death in the family.

Eight outstanding NEDs

Case 1: Paul Myners, non-executive chairman of Marks & Spencer Plc

The majority of the NEDs who were nominated for the British NED Awards were put forward by a board member, a board advisor or a private equity group. Only one, Paul Myners, non-executive chairman of Marks & Spencer

Plc was initially nominated by representatives of individual shareholders. The shareholders argued as follows:

Paul Myners, in conjunction with Stuart Rose had increased the value of their shares in 2006 by 70%. Paul Myners led the board to reject Revival Acquisitions' implied offer of 400p per share. The current share price (in July 2006) was 600p. To address underperformance at Marks & Spencer the decision was taken on Paul Myners' watch to acquire the Per Una brand, to dispose of the non-core M&S Money and to return £2.3 billion to the shareholders. As a consequence of these and other decisions M&S increased like for like sales by 6.8% in 13 weeks to April 1, 2006, beating even the most optimistic forecasts by City analysts. With Stuart Rose, the CEO, Paul Myners embarked on a plan to re-organise the board. They also put in place a timely programme of board succession. This included the appointment of Lord Burns as deputy chairman, to succeed Paul Myners when he stepped down at the AGM in July. The overall effect of this programme of action has been to return the business to M&S's traditional values of quality, value, service, innovation and trust. From their experience, the shareholders concluded that Paul Myners had developed a unique relationship with the private shareholders.

Case 2: Sir John Craven, non-executive chairman of Lonrho Plc

Sir John Craven was appointed non-executive chairman of Lonmin Plc (formerly Lonrho Plc) in early 1997. The nominators argued that, since this date he had been the architect of the transformation of the company, and he had substantially increased its value.

> *"At the end of 1996 Lonrho was a company in crisis with no strategic focus. The market capitalisation was around £300 million and the company was forced to borrow money to cover its dividend. Lonmin has a clear strategic focus and is the third largest and lowest primary cost platinum producer in the world. The company's market capitalisation has increased ten-fold to £3.5 billion. In the six months to 31 March 2006, the company delivered record earnings and cashflow results. It has returned £470 million in dividends to shareholders since his appointment."*

Sir John Craven had made his name arranging City mergers. "In 1981 he founded Phoenix Securities, a boutique firm whose 80 deals during the decade included almost all of the 'Big Bang' financial mergers." (The Times, 2005). "He rose to prominence at SG Warburg which later merged with UBS. In 1987 he became chief executive of Morgan Grenfell, where he later became Chairman, and oversaw its sale to Deutsche Bank." (The Times, 2006).

The scale of the problem

When Sir John became chairman in 1996, Lonrho was "a sprawling and heavily indebted conglomerate". Its business included a portfolio of 130 businesses in around 20 countries. These included:

- Mining – coal, gold, platinum, oil and gas.

- Distribution – agriculture and heavy-duty vehicles, and luxury cars.
- Agriculture – tea and sugar plantations.
- Services – hotels, security, printing and insurance broking.

The main businesses were in South, East and West Africa. Others were based in the UK, Germany, Central America and the West Indies.

Winning back the investors

An immediate crisis arose because the institutional shareholders had largely abandoned Lonrho because of the feud between Tiny Rowland, the Chairman of Lonrho and Mohammed al Fayed over the ownership of Harrods department store (which Lonrho eventually lost). In 1997 the company had yet to recover from a two-year feud between Mr Rowland and Dieter Bock who had taken a role as joint chief executive two years earlier, acquiring two-thirds of Rowland's stake in the business. They fell out within a few months and Bock sold his stake to Anglo-American Group who thus had a 16% holding. They had been ordered by the European Commission to divest this holding because of overlapping interests in the platinum business. Sir John's major task with the chief executive Nick Morrell, was to analyse the Lonrho portfolio of businesses, to identify the most valuable parts of the businesses and try to retain their value, whilst divesting the less valuable businesses for the best prices he could get. At the same time he had to work to build a strong board and executive team, and to win back the confidence of the institutional investors who had sold their Lonrho shares.

In 1997 Sir John and Nick Morrell decided to focus the company entirely on mining. A number of asset disposals culminated in 1998 with the de-merger of the African assets in the form of Lonrho Africa. This deal involved the distribution of new shares in Lonrho Africa to existing Lonrho shareholders. The mining company which remained was called Lonmin. The next step was to dispose of Ashanti Goldfields, through arranging a merger between Ashanti and Anglo Gold. This involved financing Ashanti when they had a crisis in 2002 – but the merger eventually yielded $205 million. Sir John also arranged the purchase of 17% on Lonrho shares from Anglo American following the injunction by the European Commission. Having resolved the historical and regulatory issues, Sir John led the board through a thorough analysis of various future strategies for diversification within the metal mining industry; they eventually decided to focus on platinum which offers one of the best growth prospects in the metals industry. Under Sir John's guidance, Lonmin's executives have now completely overhauled the performance and the safety culture of the Southern Platinum's Messina mine and in September 2005 the mine delivered an EBIT profit some months ahead of the plan.

Case 3: Sir John Parker, non-executive chairman of National Grid Plc

This is the electricity and gas transmission system provider for England and Wales. Sir John is a business leader with an engineering background who has had wide experience in a range of industries based on traditional technologies

– shipbuilding, heavy engineering and more recently gas and electricity distribution. He is also known for his skill in negotiating mergers and demergers. Before he became non-executive chairman of National Grid Plc, he was chairman of Lattice Group, the British Gas pipeline business and he oversaw the merger of National Grid and the Lattice Group to form National Grid Transco. He was also involved in the merger of P&O Cruises with Carnival Corporation. During 2006 Sir John was involved in two major negotiations. In February he oversaw National Grid's $11.8 billion (£6.7 million) acquisition of Key Span – a New York based energy business (The Times, 2006) and in the same month, as the Chairman of The Peninsular & Oriental Steam Navigation Co (P&O) he helped to add an extra £580 million to the bid price of the shipping and ports company which was sold to Dubai Ports (The Times, 2006). To quote a senior director:

> "*It was not easy to bring together a gas and an electric company. Sir John had the vision for the large organisation it was to become. I believe his position really adds shareholder value as this company's management know where they are going, because of Sir John and his individual way of managing the board. Sir John is a very strong individual and he has clear ideas as to where the company is going. He gets everyone on the board working together. He develops ideas, concepts and strategies well ahead of board meetings so everyone can focus better, at the meetings when there are many issues to discuss. When the gas and electric companies merged Sir John saw it as a merger of equals and was determined to get the best staff in place for the new company. Sir John has personally developed all the senior executives to become better people. He always seems to get the best out of people but is happy and eager to work with the weaker members of staff to develop them and bring them on. Recently we completed a $7 billion acquisition in the US. This was largely because of the work which Sir John had done in the US, and by speaking to the key players and bringing them together. This acquisition is now a huge catalyst for developing potential in the US market.*"

When Sir John Parker was appointed non-executive chairman of National Grid Plc in October 2002, the company share price was around 425p. In February 2007 the share price had risen to 750–800p. This represents a growth of around 80% in less than five years. Many factors will have affected the share price but one major influence seems to have been the board leadership provided by Sir John Parker. However, he would point to the careful selection of quality, experienced non-executive directors, blending their skills with a group of exceptional executive directors.

Case 4: John Barnes, non-executive chairman of La Tasca Group Plc, of Bolton

John Barnes led the management buy-in of La Tasca Restaurants Ltd, in September 2001 with James Horler, the chief executive. They have grown the company from a market value of £28m in 2001 to £80m in 2006, an increase of £52m in five years. John Barnes brought to the group:

- Experience at a senior level in consumer branding and the leisure industry. He had led the development of Harry Ramsden's Plc as executive chairman.
- Wide experience on Plc company boards with Cafe Nero, Hardy & Hanson, Interior Services Group and Zoo Digital.
- Experience in raising finance – contacts with banks and investors and an understanding of the process of floating a company on AIM.
- Experience in creating local ownership. In La Tasca, each restaurant manager is a managing partner with a share in the company.

Case 5: Sir Rodney Walker, non-executive chairman of Spice Holdings Plc, of Leeds

This is a business concerned with outsourcing the maintenance of infrastructure for electricity, telecommunications and water companies. Sir Rodney became chairman of the company in August 2002. He helped to develop a focused growth strategy. He led the negotiations with investors and promoted the floatation of the company on the AIM market in 2004. The value of the company's shares has increased from 125p in 2004 to 507p in January 2007. Under his leadership from 2002 to 2005 the turnover doubled from £43m to £85m and will be £280m for 2006/7. In the same period EBIT quadrupled from £2m to £8m and the broker's profit forecast for 2006/7 is £15m. The company has averaged an acquisition a month for the last 18 months at the time of writing. Sir Rodney's reputation and contacts in government and financial institutions have been vital to the company's development. His judgement and advice have been essential in growing the company through acquisitions. His chairmanship of the board, and his leadership of the company have helped to keep the business on course during a very hectic period of growth.

Case 6: Bob Morton, non-executive chairman of MacLennan Group Plc, of Worcester

This is a support services provider (e.g. cleaning and security) for businesses and public services. Bob Morton and the executive team raised the market capitalisation of the company from £10m to £110m in ten years. He has been chairman since 1996 and has worked with the management to build an integrated management, support and security services business with a turnover of £230m and profits of £8m. Bob Morton emphasised three points to the board:

- To operate at the right strategic level.
- To monitor performance against the plan and budget, and look for growth opportunities.
- To discuss openly all relevant issues and to avoid "political" and "non-business issues".

In the past seven years the company had made ten acquisitions and three disposals and refused a number of bids for their own company. Bob Morton's latest contribution was to sell the company to Interserve for a good price.

Case 7: Rodney Baker-Bates non-executive chairman of egsolutions Plc.

This is an IT and software support services business. Rodney Baker-Bates first became involved with egsolutions in 2001; the turnover was then £2.1 million, employing 26 people. It was a lifestyle business (owned 100% by the founder of the company) selling three or four main products and services. He initiated a strategic review by an external consultant to identify the market potential and encouraged the owner to define an ultimate objective. The top team then produced a four-year plan to transform it from an owner-managed business into a business which could be floated on the stock market. There was an informal board and management team when he became involved. His first priority was to implement plans to transform the business. Forming the board came second. He brought high quality NEDs to the board and ensured they had substantial contributions to make. He also introduced good corporate governance – as for a fully listed public company. During the period 2001 to the floatation in 2005, Rodney Baker-Bates led the business through some significant changes. Turnover doubled from £2.1m to £4.2m and adjusted operating profit grew from a loss of £45,000 to a profit of £1.1m. The company strategy involved a focus on one solution and two vertical markets. The development of the brand and brand values and continuous focus on excellent customer service. The company floated at 85p per share and the share price doubled to 160p. A client survey revealed that 100% would recommend egsolutions to a third party.

Case 8: Lowry Maclean, non-executive chairman of the Wesleyan Assurance Society

This is a mutual society which is based in Birmingham. As a long-term member of the board he has played a major role in establishing the Society as a leading organisation in the life assurance industry. In recent years the sector has had problems in, for example Equitable Life, Standard Life, the mis-selling of private pensions and endowment mortgages. Against this background Lowry Maclean and the management team set out to establish Wesleyan Assurance as an industry leader, and they appear to have achieved their goal. According to the nominators Lowry Maclean has made a major impact in four main areas.

Strong financial performance

As chairman of a mutual life insurer, he has been convinced that the organisation's financial objectives must be to increase payouts to members and policyholders, and to increase policyholder value as measured by the Society's financial strength. The Society was 1st out of 31 in the Ernst & Young 2004 Solvency Review and bonus payments achieved through investment returns have been the best in the industry in five of the last six years. Wesleyan was awarded a Money Management Five star Award for the fifth year running in its latest Individual Pension Fund survey in March 2006. On a more general

basis Wesleyan was runner up behind Legal & General in the BIFA Life Insurer of the Year award 2005.

Promoting the society to affinity groups

Lowry Maclean has played a leading role in promoting the Society to doctors and dentists through advisory boards, conferences, and individual meetings. Wesleyan is a market leader in life and sickness insurance for doctors and dentists and the society's Advisory Boards involve people with a high reputation in the professions.

Establishing high standards of corporate governance and business ethics

The board appoints non-executive directors who have successful track records in areas, like investment policy, which are important to policyholders. The board has also brought in a Business Controls director, and has introduced a high-level controls manual which was praised by the Financial services Authority (FSA). For business ethics the board has adopted a formal approach. The Wesleyan Ethical Code was published for all staff in 1996, signed and endorsed by the Chairman. One feature of the Field Sales element is that "we will not sell to you what you don't want, cannot afford, or don't need".

Staff pensions

Lowry Maclean is chairman of two staff pension trustee meetings. Both schemes are well over 100% funded on an ongoing basis. Lowry Maclean attributes this to the professional behaviour of the Trustees, their adoption of a sound investment policy and the presence of the pension fund advisors during trustee meetings. Lowry Maclean has been intimately involved in the development and implementation of a consistent strategy aimed at achieving market leadership in the medical, dental and teaching sectors. This has involved two successful acquisitions and a decision to exit the Industrial Branch Business.

Conclusion

The NED Awards have provided a unique research opportunity to identify and examine how outstanding non-executive directors can create a huge amount of value. Of the 24 NEDs who appeared on the shortlist, 13 were non-executive chairmen who were brought in, usually by venture capital organisations, institutional shareholders or banks, with a specific mission e.g. to take the company to market or to arrange a private buyout. An additional five were recruited by the board and the financial institutions connected to a large company with problems. The potential for wealth creation was probably the greatest in these situations. Marks & Spencer was a case in point. Six of the NEDs which created value were specialists – typically experts in strategy, marketing, turnaround and social or environmental affairs. As companies grow and mature, they pass through 'thresholds' or areas of transition. At

these points it is necessary for investors and chairmen to ask "does the board need to change to meet the demands of the next phase of growth?".

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