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BETTER BOARDS:

NON-EXECUTIVE DIRECTORS 'OF LITTLE OR NO VALUE TO THE BUSINESS'

By Dina Medland

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Non-executive director posts in the UK have become "status roles" of little or no value to the business, with research showing that management teams around the world "don't respect their boards and don't feel they are getting value".
These are the hard-hitting conclusions of Professor Andrew Kakabadse, professor of international management development at Cranfield University's School of Management.

Findings from both his formal research and confidential conversations during his coaching and counselling work with board directors lead him to express deep concern about the state of global boardrooms. He is particularly scathing about the UK.

"They say it in private but would never say it in public – board directors are turning a blind eye [in the UK]," he says. "We have a culture where we don't ask questions."
Non-executives operating in certain sectors – food, pharmaceuticals and natural resources, for example – can find themselves in "difficult circumstances", he says.

"There is no respect given to governance in some countries with which we do business. And governments will do anything to 'get the deal'. We are caught in an awful cycle – and how are boards dealing with it? They're not."
He says he has never before seen such deliberate misuse of governance: "It is being used to make sure that some people who go to jail are the managers, and not the directors at board level."

In a world where there is "such an inequality of distribution of resources, there is a huge amount of bribery and corruption", he adds.

Prof Kakabadse's comments are echoed by veteran non-executives in the oil and gas sector to whom I spoke at a meeting of the Natural Resources Forum in London. "Bribes are paid all the time," said one. "Sometimes it's called CSR – schools are built, buildings are provided."

Governance has become “what you shouldn’t do – and adds no value”, says Prof Kakabadse. Boards have both a risk management role and a mentoring one, but the former has become so “defensive” it is now “an irrelevant function”, he suggests.

It is the mentoring side of the boardroom – support, stewardship and leadership – that can work well, but when it comes to this role, the UK is “negligent”.

“Most non-executives accept the figures and what they are told far too readily, and they don’t have the knowledge to challenge them,” he says.

Cranfield research, based on 500 interviews with global boards over five years, found that 85 per cent of non-executives in the UK could not identify the comparative advantage of the company on whose board they sat.

With the caveat that board dynamics are unique in every boardroom, he suggests that the selection criteria for non-executives is unclear, their approach to governance and corporate reputation varies, they show “some inhibition”, and the role of the senior independent director can be “opaque” or “irrelevant”.

“Directors are terrified of going to prison,” he says. “Their risk-taking capacities are minimal and the penalties are high, so they are pushed into supporting the chief executive. They ‘rubber stamp’ to justify their existence.”

He says part of the problem in the UK is the system of appointments, and the “clubbiness” surrounding boards – but he also finds “excessive clubbiness” in the US. His conversations, including some with headhunters, suggest that about 96 per cent of searches in the US are there for the headhunter to look good and to make an appointment that is a foregone conclusion – while the equivalent figure in the UK is about 80 per cent.

“American managers are becoming far more vocal about their boards out of sheer frustration – and a sense that unless you speak up, nothing is going to change,” he says. The loss of independence in boardrooms worldwide has some exceptions, notably in the two-tier structures of Scandinavia and, to a lesser extent, Germany, he suggests. “Independence is not coming from the supervisory board but the management board, which has the insight into what is happening in the organisation and is playing more of a strategic function.”

Australian boardrooms also offer lessons: “They have gone out of their way in creating culture at management level and have also tried to restrict the number of positions non-executives can hold. Beyond three or four you just cannot make a contribution.”

Looking forward, his analysis suggests that the answer lies not in a greater focus on strategy, but on engagement.

Prof Kakabadse says: “Strategy is important but not the most important thing for the boardroom. If you have ‘engaged’ management and workforce and board you can compensate for it. We have treated alignment and engagement as separate, instead of together."

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