

If you see SID tell him...

Issues to consider before you agree to become a
Senior Independent Director





Ever since we were founded in 1986 we've always had a passion for issues relating to corporate governance and especially the evolving role of the Non-Executive Director. In the last few years we've commissioned studies with The Judge Business School at The University of Cambridge on 'What makes a CEO succession work' and 'On Becoming Chairman: building the complementary Board', as well as research on the ongoing issue of women in the Board Room in collaboration with Peter York of the Strategic Research Unit (SRU).

This report looks in detail at the vital if sometimes vexed role of the Senior Independent Director or 'SID'.

We hope you find this an interesting read and we welcome any feedback on this fascinating subject. Please contact us at board@saxbam.com.

Stephen Bampfylde
Chairman, Saxton Bampfylde
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Introduction

It sounded like such a great idea. In the wake of a number of conspicuous corporate governance fiascos – Enron and WorldCom come immediately to mind – the 2003 Higgs report recommended that every UK Board should have a designated Senior Independent Director. A sounding board for the Chairman, and an intermediary for both shareholders and the other directors, especially the Non-Executives.

Simple enough, in theory. But is it actually working? Nearly eight years on, what does being a ‘sounding board’ and an ‘intermediary’ really mean in practice? Is that the real experience of SIDs who are doing the job on a day-to-day basis or is the reality rather different from the theory? Are SIDs being given the clarity they need, the support they require or the money they deserve? And just as important has the corporate governance of UK plc improved as a result?

We set out to find answers to these questions. These results come from both our own interviews with FTSE Board Directors as part of our ongoing Board Practice research, alongside the market research we commissioned on this specific matter.

We talked to over half the FTSE100 across sectors as diverse as retail, energy, industrial and financial services. The results are in and they do make rather interesting reading. Not just for those doing the job now but for anyone who is considering taking on this role and those recruiting for it.

We start by looking at what it actually means to be a SID – and what it takes to succeed as one.

The research

Our independent market researcher covered a broad range of questions about the role of the SID which included:

- Were you appointed to the role of SID from outside the organisation or promoted into the position from the Board?
- Do you have a formal agreement regarding expectations of the position?
- What do you understand the key functions / the role of the SID to be?
- How do you view the relationship between the SID and Chair / CEO?
- Do you consider you sit over and above the other Non-Executives?
- How do you manage the relationship with other Non-Executive members of the Board?
- Do you have a role with Investors and how can they reach you?
- Do you feel that the role of the SID should be separately remunerated?
- Do you do anything different at times of crisis?
- What do you find most difficult about the job?

You need to be ready to be the safety valve, to take control and to act. Without exerting authority, you must wield some. You must demonstrate complete integrity, balance and good judgment by subtle demonstration.”

The '3Rs' of being a SID

Referring to the '3Rs' could sound like we're going back to basics but our research suggests that this may not be such a bad idea.

The Higgs report may have recommended that all Boards should have a SID, and that recommendation may now be part of The UK Corporate Governance Code, but there's still very little real guidance about the nuts

and bolts of the job. This even extends to matters as basic as what the SID should actually do, how they should interact with the rest of the Board and what they should be paid. This is why we're calling Role, Relationships and Remuneration the '3Rs' of being a SID, and why we believe that these are the key factors all potential SIDs should consider before they even consider accepting the job.

The role

If in doubt, define your terms

This is the biggest and most intractable challenge in most cases. Only a small number of SIDs we spoke to had anything written down on paper that outlined what they were expected to do. Indeed many seemed almost relieved to discover how many other people we'd spoken to were in the same position.

Having no formal job spec is dangerous territory to tread, even in the most well-organised organisations. However not having one for a sensitive role like the SID seems to us to be a major oversight. Many of the difficulties our respondents faced involved either the issues that could easily have been foreseen or precisely those challenges for which the SID role was created. And yet without an agreed framework for action, the risk is that the SID may end up being either ineffective, or at worst useless.

One reason for the lack of an agreed job spec may be the fact that most SIDs we spoke to had already been on the Board as a Non-Executive for some time before they were asked to take on the role. In fact, most of our respondents stressed that they felt it would be very difficult to be an effective SID without at least three or four years' previous experience. But there's

a downside to this as well: a long-standing Non-Executive may make the best SID, but that very longevity may lead the Chairman and the rest of the Board to assume that there's no need to give them a specific job description when they take on the SID role.

The obvious danger here is that the SID and the Chairman may actually have quite widely diverging views of what the job entails. They may only discover this crucial fact at precisely the moment when "events, dear boy, events" force the SID to take a more active and public role.

While most of our respondents agreed that the SID tends to be an ill-defined job there was rather less consistency in the way they were attempting to deal with this. The more assertive had taken it upon themselves to define their own role. Others were broadly following the precedent set by their predecessor as SID or using the Combined Code as their fallback position.

Some SIDs we spoke to had a wide and comprehensive understanding of their responsibilities, but there were three broad areas of the job that almost all of them agreed on. Firstly, the SID is there to hear any concerns

the other Non-Executives may have about the conduct of the Board, CEO and Chairman. Secondly, they have a responsibility to listen to investors if they have issues with the company's strategy, remuneration, or nomination policies that aren't being addressed through the usual channels. Finally, they are accountable for conducting a formal annual appraisal of the Chairman.

The latter task is often not only the most demanding aspect of the job but the

area that seems to have evolved and expanded the most since the SID role was first established. In some cases it now includes involvement in succession planning for the Chairman, as well as appraisal.

Our advice?

Make sure everyone is clear about what the job entails and get it put in writing.

“I will outline to the Board what I consider the SID duties to be, so executives can relate to me in that role. The SID can determine his or her terms of reference. I think this is becoming more common.”

“Your role is ‘to be consulted, to encourage
and to warn’.”

“Be very careful of being a SID in a domain you don’t know. You need to understand the business and the culture very well.”

When it's good it's very very good, but when it's bad...

This is the Catch-22 aspect of being a SID: in a well-run business in a steady state the job should barely exist at all; but in extremis the SID can suddenly find themselves faced with an overwhelmingly difficult job which has to be carried out in the full glare of public scrutiny.

It was no surprise that so many of our respondents talked about the vast difference of being a SID in 'peacetime' compared to 'wartime'. There was general agreement that no-one considering such a role can afford to be naïve about the potential demands on their time, skills, and mental composure. Even in the good times much of the work done by a SID is carried out 'behind the scenes' and receives precious little credit. However when the company is on a 'full war footing' the ratio between personal risk and reward for the SID can often go off the scale.

The BP oil spill is the most recent and high profile example but every company could face its own equivalent of that crisis. A potential SID needs to be aware of that from the start. They need to do their homework before they accept the role.

Part of the issue here is how personal it can become – and how quickly. Several of our SIDs had never faced that sort of publicity before. It was only in the midst of the media storm that they realised the potential impact this could have on their own reputations and careers. A number said that this alone was enough to dissuade them from ever taking on such a role again.

Our advice?

Do your homework on what could go wrong before you accept the job. If you can't stand the potential heat stay out of the kitchen.

“You may be mostly checking the fire hydrants, but if a fire breaks out, you will be fire fighting; are you fully prepared for that?”

“On a normal basis there is nothing particularly difficult about the role. It’s a contingent liability. But when that liability is activated you have to drop everything and that can be difficult. You have to go into it eyes wide open, with the awareness that if the Chairman drops dead or has to be removed, you will be very involved indeed.”

“If there’s a mess, the SID’s name comes up and it can be quite appalling. My name was in the paper, and I’d never had that. You have to be eyes open in terms of the risk. Really do your own due diligence about the company. Quiz, interrogate, and ask around before you take on that SID role.”

“Being a SID has been one of the toughest emotional experiences of my career. You have to be unemotional, very tough with yourself and independent. The Chair has to respect your independence. You have to set boundaries. When a company is in trouble, it can be very hard to critique the Chair and the Board. You have to pull from your own experience – otherwise you are no help to the rest of the Board.”

It's not about you

We ended the last section looking at how personal the SID role can become in a crisis but in peacetime the very opposite is true.

The best SID is the SID who realises from the outset that the job is not about personal ambition or recognition. This job is a very poor vehicle for either of those.

Anyone taking this role needs to be able to combine mental and emotional toughness with considerable diplomatic skills and a high degree of tact. If things get tough they'll need to act with authority. When it's 'business as usual' they have to be prepared to sit on their hands and resist the temptation to interfere.

The other key thing to realise is that being a SID is not a stepping-stone to being Chairman. In fact that's the last and definitely the worst reason for taking on the job. Indeed a number of our respondents thought it wise to make it clear to your Board colleagues from the start that this is not how you

see your role. Becoming a 'kingmaker' can be just as tempting and is equally perilous. As one SID explained it's crucial not to slip from a 'trust position' to a 'power position'.

Our advice?

Think carefully about your own motives and aspirations before you become a SID. It's a tough job that takes place largely in the shadows and you're not going to end up as Chair.

“You won’t become a Chair from being a SID - unless its death or prison!”

“The SID is a lightning rod not a power base.”

“The SID has to deal with succession and can’t be in line for the succession. They can’t have ambitions for that office.”

The relationships

It may not be the Spanish Inquisition but don't expect a comfy Chair

Clearly the single most important relationship a SID has is with the Chair. This can also be the most difficult one especially when it comes to appraisal time. The Combined Code envisages the SID acting as a sounding board for the Chair. Our respondents were at pains to stress how important it is to remain independent because if things get tough the SID may have to tell the Chair some cold and uncomfortable truths.

The key ideally is openness. A relationship with the Chair that is supportive in private, but remains professionally neutral in public, at least under normal circumstances. That's easy to say but very hard to achieve and requires considerable experience and strong-mindedness. It also needs a willingness to play the long game and build trust slowly.

It's no secret that many Chairmen are wary of the potential scope of the SID role especially when it comes to their own appraisal. Likewise some can resist any efforts by the SID to act as mediator between the Chair and

the CEO (even where that's clearly necessary) or the Chair and the rest of the Board (even though that's part of the official job description).

Our respondents also observed that independence from the CEO is just as important as independence from the Chair. The CEO may have much higher expectations of how interventionist the SID should be, especially where their own relations with the Chairman are problematic and they're looking for a powerful ally.

It's such situations that can make the SID role both time consuming and exhausting. Staying genuinely objective under circumstances like these is very tough. All the more so if the rest of the Board suspect the SID may be taking advantage of their position to build a power base of their own. Yet the SID does need to build a base – if not a power base then a contact base – because if a crisis does develop they need to be able to act quickly. This means knowing who to talk to and how to get things done.

“Maintaining close relations with the Chair but also sufficient distance to be a voice for the rest of the Board - it is in your mind all the time as you deal with the Chairman. It is the ambiguity of the relationship on an ongoing basis that is hard.”

“A SID is someone who understands the company well, not an egotist, a wise counsellor, above all, respected by his Board. Then all things flow from that.”

The ideal SID – according to a Chairman

“The role of the Deputy Chair seems to have disappeared and been replaced by the SID. This is a very different role however.”

“I already feel I have been drawn into the inner triangle of the Chair, CEO and SID – it can be awkward.”

“One must not usurp the overall authority of the Chairman or become an instrument of division in the Board. There must be an openness in relationships, even if it is to the discomfort of the individuals concerned.”

“It’s hugely dependent on the chemistry of the Chairman – if he is prickly and proud he may not want to hear criticism. If he’s relaxed and confident there’s no issue”

“It is genuinely to give the Non-Executives the ability to individually and collectively ask questions of the Chair, to maximise the contributions from the members of the Board; instigating but not influencing the discussion.”

Playing the Board game

Getting this aspect of the role right is as much about the state of play between the Chair and the CEO as it is about the SID's own relationships, both inside and outside the Board.

One of the key aspects of the SID's role is to provide a channel and a conduit for the other Non-Executives should they begin to have concerns about the Chair or the CEO. Having these discussions in private is one thing; raising them in Board meetings is quite another.

Many of our respondents had differing views about how much authority a SID can and should wield in comparison with the other Non-Executives.

The general feeling seemed to be that – in normal circumstances at least – the wiser SIDs would see themselves as 'just another Non-Executive' rather than an official or unofficial *primus inter pares*.

Our advice?

Be clear from the start how you're going to work with the Chairman, the CEO and the rest of the Board. Ensure that you agree some basic terms of reference.

“One of the things I’ve identified is a degree of resentment that builds up if the SID claims a role as Deputy Chair.”

“A SID must feel the pulse regularly
and ask the Board members - how was
that for you?”

Board to the left of me, investors to the right, here I am...

The UK Corporate Governance Code states that the SID should be “available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or other executive directors has failed to resolve”. Straightforward enough in theory but in practice it seems this can be another example of the Catch-22 nature of the SID role.

Investors will only need to approach the SID if ‘normal channels’ fail but they’ll only have the confidence to do that if they already know the SID. This means there have to be relationships in place long before any problems arise. Most of our respondents agreed that it requires considerable sensitivity to manage this in a way that builds trust and familiarity, but leaves the ‘normal channels’ intact, and avoids any appearance of invading the executives’ turf.

Some suggested attending investor road shows. Others recommended writing to investors once a year giving their contact details and offering to meet with them. Several felt it was useful to be chair of the company’s remuneration committee since that provided a natural vehicle for meeting investors and listening to their concerns.

Again this aspect of the SID role is easy enough under normal circumstances. However when problems arose SIDs could experience a high degree of personal pressure both from agitated institutions on the one side and irritable Board members on the other.

Our advice?

You may need ambassadorial-level diplomatic skills to negotiate this aspect of the job well. You should expect it to become very time consuming indeed in a crisis.

“Not all company directors buy into the notion that shareholders actually own the business. If as SID you are the shareholders’ representative in the board room, by definition you will be caught between the shareholders and the board.”

“I’m working on succession as the SID – I’ve been almost full time in the last 18 months. And you don’t get paid much.”

“Just how do you as a SID say to a Chairman
“I’ve just shopped you to Fidelity and now I want more money?”

The remuneration

Overworked and underpaid

If ever there was a job done for love not money the SID is it. Where there is additional remuneration the standard rate seems commonly to be a modest annual sum on top of the Non-Executive remuneration. In many cases this could be seen as barely enough to cover what's required of a SID in peacetime. It rapidly becomes derisory in the midst of a crisis. After all Chairmen can command significant salaries, many times more than the SID, for two days' work a week. However if the company gets into difficulties the SID may end up doing a full-time and very stressful job sometimes for months at a time.

Another issue which we've already touched on is the balance between risk and reward. The SID's personal reputation will be on the line just as much as the Chairman's in these circumstances but at a fraction of the salary. It is no surprise that it's getting ever harder to find good people prepared to take on the role.

Those who are willing to do it tend to cite very similar motivations: an opportunity to add value and do an important job; the chance to be in the thick of things; a way to take on a bigger and more interesting role than a standard Non-Executive, but without the extra commitment of being Chairman.

Our advice?

Don't do this for the money. If you do the role for love ensure you have enough time. You may already have heavy executive commitments at another company or a busy portfolio life and you may not be able to free up the time you could need in a crisis.

“It’s money for old rope when things are going well. When it explodes you will be earning less than your cleaner per hour.”

“I spoke to the CEO every day for 21 days.”

“Perhaps there could be a trigger mechanism for when you go over a certain number of days per month. Or potentially an agreed ceiling with emergency hours compensation?”

Conclusion

We started this report by highlighting that a SID should be a sounding board and an intermediary. The SIDs we spoke to were indeed fulfilling both of these roles. From our research it's clear to us that they do a whole lot more besides. As far as we can see the typical SID is a safety valve and a fire alarm combined.

It's interesting that these are rather mechanical metaphors, because the heaviest demands of the role clearly arise from the personal pressure SIDs can be put under in a crisis. It highlights the need for exceptionally well-developed interpersonal skills even to handle 'business as usual'.

To be a good SID you need to be 'tolerant of ambiguity'. You must be willing to play second fiddle yet strong enough to take charge and act decisively when required.

That's a very difficult balancing act to pull off even at the best of times.

Feedback

We hope you have enjoyed this report and we welcome any comments you would like to share with us at:
board@saxbam.com

“In times of crises experienced people know what to do – it’s the ambiguity of the relationships on an ongoing basis which is hard.”

Appendix

The SID's responsibilities under the UK Corporate Governance Code

A.4.1 The board should appoint one of the independent Non-Executive directors to be the senior independent director to provide a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of Chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate.

A.4.2 The Chairman should hold meetings with the Non-Executive directors without the executives present. Led by the senior independent director, the Non-Executive directors should meet without the Chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate.

B.6.3 The Non-Executive directors, led by the Senior Independent Director, should be responsible for performance evaluation of the Chairman, taking into account the views of executive directors.

E.1.1 The Chairman should ensure that the views of shareholders are communicated to the board as a whole. The Chairman should discuss governance and strategy with major shareholders. Non-Executive directors should be offered the opportunity to attend scheduled meetings with major shareholders and should expect to attend meetings if requested by major shareholders. The Senior Independent Director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

About us

Saxton Bampfylde was founded in 1986 and is one of the leading executive search firms in the UK.

Saxton Bampfylde is a broad-based firm of 50 people, recognised as a specialist in the fields of financial services, professional services, retail, media, consumer goods and technology. It is also a recognised leader in the education, public and not-for-profit sectors.

Within the Board practice, the firm advises clients on chair and non-executive director appointments, as well as on board reviews. Current clients include FTSE 100s, privately owned organisations, private equity backed businesses, arts and cultural organisations through to central government and universities.

Our Board Practice



Stephen Bampfylde

Stephen is co-founder and Chairman of Saxton Bampfylde. He began his career working for IBM

and Whitehall, where he spent nearly 10 years before moving into top level executive search. Stephen brings a track record of over 30 years advising on senior appointments, both Board and executive roles. He has personally completed over 1,000 top level appointments and continues to advise clients across all sectors. Outside executive search, inter alia, he has been involved with the advisory boards of the Business Schools at both Cambridge and City Universities, is a Trustee of the Yvonne Arnaud Theatre, and Chairman of the Guildford Cathedral Council. Stephen read Economics/Social and Political Science at Jesus College, Cambridge and studied corporate finance at London Business School.

“The composition of an organisation’s Board has never been more important in our current troubled economic times. The ability to have a global perspective from your non-executive colleagues is essential and is part of my focus in the global search for talent.”

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Rachel Hubbard

Rachel joined Saxton Bampfylde in 2000. She began her career in research, and managed the

research team before specialising in Board appointments. Prior to joining the company, Rachel ran an event business and also worked as a business manager for a networking events and research company focused on Britain's top private companies. She studied Theology at Oxford.

“Saxton Bampfylde brings its own unique research methodology to the Board Practice giving us access to a wider range of potential candidates and arguably a clearer understanding of them. We are committed to maintaining our 100% success rate in all our work.”

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Fiona Galliers-Pratt

Fiona joined Saxton Bampfylde as a researcher in 2010 and is a member of the Board

practice. Prior to this she spent eight years as a Parliamentary Researcher covering a wide number of areas including incapacity benefit reform and community cohesion. Fiona spent the first 16 years of her career as an equity analyst including three years in Moscow and two in Paris. Outside work, Fiona is treasurer of Age Concern Hereford and Localities. Fiona studied History at Cambridge.

“One of the reasons I joined Saxton Bampfylde was their long track record of attracting diverse candidates to senior appointments. I am pleased that the search for talent and diversity continues to be a key area of interest for all our clients.”

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