

# Corporate Governance – Directors and officers

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This information is extracted from the Combined Code on Corporate Governance. Listed companies are expected to comply with the Code's provisions but departures from the Code may be justified in particular circumstances.

## **The board**

Every company should be headed by an effective board, which is collectively responsible for the success of the company.

## **Board Balance and Independence**

The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.

The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption.

To ensure that the power and information are not concentrated in one or two individuals, there should be a strong presence on the board of both executive and non-executive directors.

Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors.

## **Role**

The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed.

The board should set:

- the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance
- the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

## **Non-Executive Directors**

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, executive directors in succession planning.

Further guidance on the roles of the chairman and non-executive directors can be found in "The Higgs Report" which provides suggestions for good practice.

## **Meetings**

The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the nomination, audit and remuneration committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.

The chairman should hold meetings with the non-executive directors without the executives present.

## **Chairman and Chief Executive**

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business.

## **Role**

The chairman is responsible for leadership of the board, ensuring its effectiveness on all aspects of its role and setting its agenda. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should also facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors.

The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

## **Appointments to the board**

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

Appointments to the board should be made on merit and against objective criteria. Care should be taken to ensure that appointees have enough time available to devote to the job.

The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board.

## **Re-election**

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board.

Non-executive directors should be appointed for specified terms subject to re-election and to Companies Acts relating to the removal of a director. Any term beyond six years (eg. two three-year terms) for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board. Non-executive directors may serve longer than nine years (eg. three three-year terms), subject to annual reflection. Serving more than nine years could be relevant to the determination of a non-executive director's independence.

### **Information and professional development**

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.

The chairman should ensure that the directors continually update their skills and their knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities.

### **Company Secretary**

Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.

The company secretary should be responsible for advising the board through the chairman on all governance matters.