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Brian Lenihan's plan to outlaw cross-directorships will have little effect if headhunters continue to fish in the same pool, writes **Gerald Flynn**

THEY USED to be just the "grunt a month" mob found loitering around the United Services or Kildare Street gentlemen's clubs perusing what they fondly called "*The Irish Times*'s Stock Exchange page" with a certain proprietorial air. Now, non-executive directors from Royal Bank of Scotland to Irish Nationwide are in the spotlight after their apparent failure to question the adventurous lending and remuneration policies of the larger financial institutions.

But the questions about non-executive directors go much deeper than a few inner-circles in bank boardrooms. Non-executive directors are frequently seen as "outsiders" by senior, salaried executives who often work hand-in-glove with the chief executive and sometimes the chairman (especially if he is a former senior executive) to keep the non-executive directors at bay or in the dark.

On his St Patrick's Day visit to London, Minister for Finance Brian Lenihan intimated to the *Financial Times*'s editor Lionel Barber that he plans to outlaw cross-directorships and ban chief executives from becoming chairmen of the companies where they have ruled the roost for many years.

He also intended creating some sort of central banking commission to incorporate some of the discredited functions of our financial regulation which was restructured just a few years ago to comply with EU desired practices.

Nonetheless, in another 10 years the cadre of non-executive directors is still as likely to come from the senior ranks of the Irish Management Institute, former departmental secretaries general, a sprinkling of political nominees and the first-division social partners.

A fine body of men and women, certainly, but few noted for clear, independent thinking or personal risk taking.

The shenanigans at Fás highlighted how even having a collection of non conventional, non-executive board members may not prevent executive-level exuberance. It seems odd that trade union leaders, who so frequently refer to the plight of those earning under €400 a week, could see nothing odd about all-expense-paid jollies to Florida at a cost of over €7,500 for their flight and then luxury hotel suites on top.

Likewise, former senior public servants retiring on gold-plated pensions seem to delude themselves that their talents are needed in commercial boardrooms because of their innate commercial skills and not the career contacts they have acquired in government and European Commission circles.

Last month, a seminar organised in the wake of the banking scandals looked at the issue of "Neds" (non-executive directors) in Britain and there may well be lessons for us in our more intimate pool of potential Neds.

The Royal Society of the Arts (RSA) hosted a review of non-executive directors and invited various human resource and recruitment experts to assess the type of characters who helped get us into such a financial and economic policy mess.

Just like in Ireland, they concluded that "a challenge from within is lacking". In other words the "grunts a month" barely even grunted as they appeared very gruntled with their non-executive remuneration which is usually in the €50,000-€80,000 range and up to €500,000 for the chairmen.

HR research director Linda Holbeche spoke of the recruitment of Neds and referred to research she had undertaken into appointments to 50 boardrooms in the UK.

"We found that nothing was changing: directors recruited people like themselves and all the headhunters fished in the same pool. No one was asking 'What does a really effective non-exec need to do?'" she explained.

Now we sometimes laugh at the British preoccupation with having at least one Lord and a sprinkling of OBEs as a requirement on most boards, but we are as bad in Ireland where, since the 1960s, becoming a Ned in CRH or a bank has been the launch pad for a myriad of directorships and a harvest of non-exec fees and perks.

If you failed to go to a reasonably good school or make it as an accountant, there were the options of ministerial appointments to semi-State companies and, more recently, social-partner positions on up to 60 State agencies and advisory bodies.

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Recently a survey by Grant Thornton highlighted the failure of so many Irish quoted companies to abide by best boardroom practice with chief executives becoming chairmen and "old mates" staying in boardroom positions for much longer than necessary or desirable.

The London seminar highlighted a core weakness and identified a key factor in the global banking crisis – non-executive directors' perceived failure to question the actions of their executive colleagues on the board.

They also queried the ethics of hiring politicians as Neds and even more so the cross-over between regulators and Neds.

Open and assertive recruitment of non-execs could be of benefit to many organisations but Lenihan's approach looks unlikely to achieve that. When he bailed out the banks with taxpayer guarantees the first people he turned to appoint as Neds were former politicians and senior public servants.

The net needs to be cast much wider than that to ensure effective boardroom supervision.

After all, what is the point of recruiting talented and capable young lions and tigers in an organisation and then leaving the strategic decisions to people with little or no track record of strategic innovation in a commercial setting?

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