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Mind the Gap: Expectations on the Role of UK Non-Executive Directors.

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Abstract: Notwithstanding the important role non-executive directors' play in corporate governance and the increasing attention they receive from regulators, research on non-executives is still in its infancy. UK Corporate Governance Code does not specify how the roles of non-executive directors should be carried out, but yet the importance of such roles is crucial to the notion of governance. In conjunction with the gap of knowledge of what non-executives actually do, and the absence of a conducive environment for non-executives to fulfil their responsibilities, this may result in unrealistic expectations of their role. However, no study has previously examined the existence of possible expectations gaps regarding the role of non-executive directors. This study fills the void and reports the results of a survey of non-executive directors, executive directors and institutional investors from the UK. Whilst previous research has indicated the existence of an expectations gap regarding non-executive directors in the context of China and the Netherlands, a possible gap concerning non-executives in the UK has remained unexamined so far. This study fills the void and complements and extends previous studies of McNulty and Pettigrew (1999), Stiles and Taylor (2001) and Long et al., (2005) by considering the views of stakeholders on non-executives and providing evidence of the existence of an expectations gap. The paper reports the findings of an online survey conducted in the summer of 2012 to ascertain the opinions of British non-executive directors, executive directors and institutional investors regarding the role and effectiveness of non-executives. It complements and extends previous research on non-executive directors in the UK by considering the views of various stakeholder groups and providing evidence of the existence of an expectations gap.

Keywords: Non-Executive Directors, Executive Directors, Corporate Governance, Code of Practice.

Word count: 7,763.

1. Introduction

Over the past two decades, the UK government has been sponsoring committees to advise on specific issues of corporate governance. This has resulted in the publication of numerous reports in an attempt to improve governance practice in the country by recommending codes for best practice (Cadbury, 1992; 1995; Hampel, 1998; Turnbull, 1999; Higgs, 2003; Walker, 2009). Initially, the reports were concerned with internal financial controls and disclosure of information (Cadbury, 1992; 1995). Later, committees focused on the broadening of internal control of information beyond simply financial controls and looked at the role and effectiveness of the non-executive director (Hampel, 1998; Turnbull, 1999; Higgs, 2003; Walker, 2009). As a consequence, more emphasis is placed on non-executive directors to scrutinise the behaviour of organisations in order to safeguard the interests of shareholders. However, in spite of the fact that the reports have resulted in non-executives having more demanding and influential roles, they fail to specifically outline what the roles of non-executives actually are. Consequently, the UK Corporate Governance Code offers no guidance on the roles of non-executive directors (Financial Reporting Council, 2012).

With recent high-profile corporate scandals, the board of directors is under more scrutiny and this has impacted public confidence in governance. Corporate failures and scandals such as BCCI, Robert Maxwell and the collapse of the banking sector have highlighted the need for better control mechanisms to reduce abuse and self-interest within corporate management. As a consequence, the role of independent non-executive directors has been emphasized and attracted much of the attention of regulators. Governance reforms have progressively increased the number of non-executives on UK boards and insisted that they should dominate on audit and executive remuneration and nomination committees in order to safeguard corporate accountability (Financial Reporting Council, 2003). However, in spite of the important role non-executive directors have come to play in corporate governance, research on the impact they have on corporate affairs and how they can ensure effective board operations is still in its infancy. UK Corporate Governance Code does not specify how the roles of non-executive directors should be carried out (Financial Reporting Council, 2012). In conjunction with the gap of knowledge of what non-executives actually do, and the absence of a conducive environment for non-executives to fulfil their responsibilities, this may result in unrealistic expectations of their role. As a result, non-executive directors may be facing an 'expectations gap'. That is, a gap between what is expected of them and their actual performance. Whilst previous research has found an audit expectations gap (e.g. Porter, 1993; Humphrey et al., 1993; McEnroe and Martens, 2001), there is a paucity of evidence identifying and analysing possible expectations gaps on the role of non-executive directors. Only a very limited number of studies can be identified. Hooghiemstra and Van Manen (2004a) undertook a survey of over 1000 non-executive directors, employee representatives and institutional investors in the Netherlands. Although they did not find an expectations gap regarding non-executives' main function, gaps were found with regard to stakeholders' satisfaction with the functioning of non-executives, non-executives' roles concerning directors' remuneration and the interests non-executives should serve.

In a more recent study, Li et al., (2011) explored the existence of an expectations gap in the control, strategic and resource provision roles of non-executive directors in Chinese listed companies. Having interviewed Chinese non-executive directors, executive directors, institutional investors and stock exchange regulators, they found gaps relating to the perceived effectiveness of non-executives' control and strategic roles. Whilst these two studies provide pioneering evidence of the existence of an expectations gap on the role and effectiveness of non-executives in the context of China and the Netherlands, a possible expectations gap regarding non-executive directors in the UK has remained unexamined so far. Against this background, the purpose of the study was to investigate whether non-executive directors in the UK are facing an expectations gap in their effectiveness.

2. Literature Review on Corporate Governance

According to the Cadbury committee, corporate governance is 'the system by which companies are directed and controlled' (Cadbury, 1992, para, 2.5). Basically, it is concerned with the distribution of power between different participants in the corporation, mainly between executive and non-

executive directors and shareholders. The legal framework shapes much of the power arrangement between these actors in the UK. Shareholders appoint directors whose responsibility is to run the company on their behalf. Every public company is required to have at least two directors, however, no distinction is made between classes of directors; for instance, between executive and non-executive directors (Great Britain, 2006a). There is no requirement for companies to have a board of directors, although directors tend to meet in committees known as 'board of directors' (Charkham 1994).

In contrast to the European system of corporate governance which typically separates the responsibility for running the company between a management and a supervisory board, the UK board structure is unitary, which means that directors have a collective responsibility for both the running and the control of the company (Higgs, 2003). However, being based upon common law, the legal framework does not regulate the roles and structures of boards in detail. Nevertheless, over the past two decades it has been supplemented by 'Codes of Best Practices', which has resulted in a combined regulatory 'Corporate Governance Code' to help boards to discharge their duties in the best interests of their companies (Financial Reporting Council, 2012). The Code sets out good practices covering issues such as board composition and effectiveness, the role of board committees, risk management, remuneration and relations with shareholders (Financial Reporting Council, 2012). The emphasis lies on guidelines rather than directives to reduce the cost to global businesses of introducing procedures to comply with detailed regulations, which is considered to constrain business practice and innovation (Financial Reporting Council, 2010a). According to the Code, the board's role is to set the company's strategic aims, provide the leadership to put them into effect and supervise the running of the company. The primary responsibility of executive directors is to set these aims and take care of their implementation, whereas the role of non-executives is to supervise the executives.

The role of non-executive directors

The role of non-executive directors is only described in the most general terms in the Codes of Best Practices (Cadbury, 1992; 1995; Hampel, 1998; Turnbull, 1999; Higgs, 2003; Walker, 2009). It is described as having two key functions; the first function, the importance of which has been highlighted as a result of recent corporate turbulence, is to supervise and monitor executive activity in order to combat abuse and self-interest; the second function is to contribute to strategy development, which is allegedly achieved by bringing a broader perspective, more background and a wider range of skills into the boardroom (Higgs, 2003; Tyson, 2003). The UK Corporate Governance Code lays down the role as follows:

"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 of 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, and in succession planning." (Financial Reporting Council, 2012, para. A.4)

From this paragraph, it is clear that the role of non-executive directors is both to support executives in the leadership of the company and to monitor and supervise their conduct. However, it is unclear how they should perform this role. Neither the paragraph nor any other provision of the Code outlines specifically how the role is supposed to be carried out (Financial Reporting Council, 2012). Furthermore, neither does the guidance notes to the Code provide any assistance (Financial Reporting Council, 2011).

Limitations of non-executive directors

Academic literature on corporate boards indicates that there are several barriers which stand in the way for non-executive directors to fulfil their role effectively. First, a number of studies emphasize the information asymmetry between executive and non-executive directors and the fact that non-

executives are forced to rely on information prepared by executive management to fulfil their monitoring and supervisory function (Leighton and Thain, 1997; McNulty and Pettigrew, 1999; Stiles and Taylor, 2001; Hooghiemstra and Van Manen 2004b). A survey of non-executives in the Netherlands, for example, found that 'although non-executive directors are expected to perform their duties independently from the executives they supervise, in practice they are unable to do so because they are dependent on the information those same executives provide' (Hooghiemstra and Van Manen, 2004b, p. 321).

Another issue of concern is non-executive directors' time commitment to their role. Non-executive board membership is a part-time function. According to a recent survey, non-executives commit 15 to 30 days a year to their role (Higgs, 2003). Given their limited commitment, a number of studies question whether they devote enough attention to their board responsibilities (Lorsch and MacIver, 1989; Carter and Lorsch, 2004; Price Waterhouse Coopers, 2011). A recent survey of non-executive directors in FTSE 350 companies, for example, found that lack of time to debate issues hinders non-executives significantly from performing their role effectively (Price Waterhouse Coopers, 2011).

Limited time commitment to their role raises the question of their competence. The literature indicates that in order to be effective, non-executive directors need to invest time and effort to gain knowledge about the company's business strategy (Charan, 1998; Higgs, 2003; Buchanan et al., 2003; Carter and Lorsch, 2004; Steele, 2008). However, a number of studies question whether they have this knowledge (Carter and Lorsch, 2004; Brennan, 2006; Steele, 2008; Stiles and Taylor, 2001). Non-executives have been described as 'part-timers who lack expertise, knowledge and information about the firm's business' (Brennan, 2006, p. 586); views which have been confirmed by empirical evidence (Carter and Lorsch, 2004; Long, et al., 2004; Li et al., 2011). For example, a recent survey of American CEOs found that board members need a clear understanding of the firm's strategy in order to be effective. However, it shows that non-executive directors do not spend sufficient time to gain this knowledge (Carter and Lorsch, 2004).

Insufficient time commitment to their role raises the question whether they are appropriately incentivised to commit themselves fully to perform their duties. Shen (2005) emphasizes the lack of appropriate incentives for non-executive directors to commit themselves truly to improving board effectiveness. He suggests that stronger incentives are needed for non-executives to become fully engaged in corporate governance and remain independent of executive influences. On the other hand, advocates of agency theory argue that the more non-executives are paid, the more closely their interests are aligned with executive management, and consequently they become less independent (Fama and Jensen, 1983). Zattoni and Cuomo, for example, note that 'if non-executive directors are well paid, they have little incentive to oppose the policies of the CEO and top management because in some way they are dependent on management' (2009, p. 66). Nevertheless, a recent survey of non-executive directors in FTSE 350 companies shows that nearly half of the respondents considered their remuneration to be too low given their time commitment and reputational risk (Price Waterhouse Coopers, 2010). Indeed, with their monitoring role in mind, and the huge potential for personal liability, it seems reasonable to conclude that the financial rewards for non-executive directors do not match the risks and liability associated with their position (Steele, 2008).

Finally, non-executive directors' appointment process has been criticized for being inadequate (Higgs; 2003; Tricker, 2009). According to Tricker (2009), nomination is often based on close personal relationships with board members. In a recent survey of non-executives on UK listed boards, nearly half of the respondents were recruited through personal contacts or friendships (Higgs, 2003). Whilst it is arguable whether this undermines their independence, it seems reasonable to conclude that it does undermine meritocracy in the boardroom, which in turn may weaken board performance.

Despite the recent developments in the regulatory codes of best practice, the role of non-executive directors remains unclear. The description of their role in the Corporate Governance Code is surprisingly vague. Whilst their two key functions are clearly defined, they are only described in the

most general terms. The lack of clarity of their role raises the question whether there are different expectations of how they should carry out their responsibilities. It has been noted that their work is 'almost completely invisible to all but fellow board members and as a result poorly understood' (McNulty et al., 2005, p. 11). Furthermore, it has been recently observed that there is still little known about what non-executives actually do (McNulty and Pettigrew, 1999; Stiles and Taylor, 2001), which further aggravates the problem. In an era of corporate collapses and failures where high expectations are being placed upon non-executives, these expectations and assumptions may not match their actual conduct and effectiveness. Indeed, many barriers stand in the way for non-executives to perform their role effectively: they are forced to rely on information prepared by executive management; they have limited time to spend on their directorship; limited time to gain knowledge and understanding of the firm; and their appointment process is often inadequate. This raises the question whether there are realistic expectations of what non-executive directors can actually achieve. Much of the focus of governance reforms in the UK has been on non-executive directors' control function and there is a great risk that their strategic function could suffer as a result. It is apparent that the development has resulted in increased pressure on non-executive directors to live up to the high expectations placed upon them to monitor directors and at the same time contribute to corporate strategy. Given the high barriers faced by them to fulfil their role effectively, it is questionable whether they can meet these expectations within the current corporate governance framework. As a result, they may be facing an 'expectations gap'. That is, a gap between what is expected of them and their actual performance.

3. Research Methodology

The concept of an expectations gap concerns differences in opinion. To examine differences between various stakeholder groups, the research needs to be conducted in a structured manner: each group needs to answer the same specific questions, and the answers need to be recorded numerically in order to determine the extent to which opinions differ amongst the groups. Whilst a qualitative survey could explore opinions in greater depth, it would not provide the comparative data needed to examine the existence of an expectations gap. Therefore, a quantitative survey is used in this study. Self-completion questionnaire is used as the main data collection instrument. Furthermore, questionnaires can be filled out anonymously, ensuring fairness of the answers provided. Various studies have also shown that the characteristics of interviewers (such as gender or social background) may affect the answers of respondents (e.g. Robson, 2002). By using self-administered questionnaires, the potential of bias due to the observer effect is eliminated. Online questionnaires are used to collect the data in this study.

A questionnaire using questions from a prior study was developed as the research instrument. Hooghiemstra and Van Manen (2004a) had examined the existence of an expectations gap regarding non-executive directors in the Netherlands. As the authors gave permission for their questions to be used and the functions of non-executive directors in the Netherlands are largely the same as in the UK, the questions were used. The questionnaire included two main sections. The first section contained a series of questions about respondents' position and background. In order to differentiate the responses between non-executive directors, executive directors and institutional investors, respondents were first asked to state their profession. Non-executive directors were asked, for example, to indicate the number of years of their experience and the number of directorships they held. The purpose of these questions was to test whether various factors such as if they served on the board of a listed or an unlisted company influenced their responses. The second section of the questionnaire consisted of a series of questions to elicit respondents' opinions on the role and effectiveness of non-executive directors. In order to identify a possible expectations gap, respondents were asked to rate their answers. They were asked to indicate how strongly they agree or disagree with a series of assertions on a five point Likert scale, ranging from 5= strongly agree, 3=neutral (neither agree nor disagree), to 1=strongly disagree.

Four main areas were addressed in the questionnaire: the performance of non-executive directors, their roles and responsibilities, the importance they attach to employees and the circumstances under which they resign. These were considered the most important areas in exploring the presence

of an expectations gap. The first area concerned respondents' opinions on the performance of non-executive directors. Whilst academic research shows that non-executive directors are limited in what they can achieve (McNulty and Pettigrew, 1999; Hooghiemstra and Van Manen, 2004b; Price Waterhouse Coopers, 2011), stakeholders may not be aware of these limitations. Consequently, they may have different perceptions of non-executives' performance. Therefore, respondents were asked a series of questions designed to elicit their satisfaction with the quality of non-executives' practices. The second area comprised of a series of questions regarding non-executive directors' roles and responsibilities. As previously discussed, non-executives' roles are only described in the most general terms in the Corporate Governance Code and little is known about what they actually do, which may lead to different expectations.

Survey sample

The survey was set up on a website and three stakeholder groups were chosen for the purpose of this research: executive directors, non-executive directors and institutional investors. Executive directors were chosen because they have the most direct experience with non-executive directors and are therefore in the best position to evaluate their effectiveness. Furthermore, they are key players in the UK corporate governance arena and together with non-executive directors are responsible for promoting the success of the company, which makes their views highly significant in improving board effectiveness (Great Britain, 2006a; Financial Reporting Council, 2012). Institutional investors – including pension funds, insurance companies, pooled investment vehicles (for example investment and unit trusts) and other financial institutions such as charities and endowments – are also important players in corporate governance. It is estimated that domestic institutional ownership comprises more than half the equity capital in UK listed companies (Office for National Statistics, 2010), making institutional investors very powerful stakeholders of corporate governance. Furthermore, institutional investors are becoming more influential. The UK government has been trying to promote a culture where institutional investors are more actively involved in corporate governance (Higgs, 2003; Financial Reporting Council, 2010b). As a result, the Institutional Investor Committee has now a set of obligatory 'comply or explain' principles for institutional investors to follow, strengthening their responsibilities to promote the interests of their beneficiaries (Institutional Investor Committee, 2009). Similarly, the Financial Reporting Council has also recognised the importance of institutional investors' governance responsibilities and published a 'Stewardship Code' for institutional investors to follow to further strengthen their responsibilities in the engagement with investee companies (Financial Reporting Council, 2010b).

Details of the distribution of the questionnaire among the three groups and the responses obtained are provided in table 1.

Table 1. Survey distribution and response

	Distributed	Responses	Response Rate (%)
Non-executive Directors	400	168	42.0
Executive Directors	200	40	20.0
Institutional Investors	20	5	25.0
Total	620	213	34.4

The survey was distributed to some 600 members of a British executive placement firm. This resulted in 208 responses, 168 of them were from non-executive directors and 40 from executive directors. The non-executive directors participating in the research had a considerable number of years of experience: 75% of them had served for 6 or more years as a non-executive director. They were also well experienced in terms of the number of boards they served on: 50% of them served on 2-5 boards, while 25% served on 6-9 boards. Also the variety in types of companies was considerable: two thirds served on the board of a listed company, while one third served on the board of an unlisted company. The executive directors participating in the research had a considerable number of years of experience as well: 80% of them had served for 6 or more years as an executive director. The variety in types of companies was also considerable: 80% served on the board of a listed company, while 20% served on the board of an unlisted company. To obtain opinions from institutional investors, the survey was distributed through personal and professional

contacts to 20 fund managers in the UK. This resulted in 5 responses. The participating fund managers were quite experienced: 80% of them had been active in their position for 6 or more years. Their funds can be considered relatively small with invested capital up to £250m.

4. Findings and Discussion

In dealing with non-interval data – responses were provided on a 5 point Likert scale – all statistical analysis was undertaken using non-parametric tests. More specifically, the Kruskal–Wallis one-way analysis of variance by ranks was used as the primary statistical test of significance. This test is regarded as particularly powerful for analysing non-parametric data, such as that collected in this survey, to decide whether a number of independent samples (in this case three samples) are different from populations (Siegel and Castellan, 1988). As many of the survey questions produced significant differences at the 5% (and even 1%) level of significance, the value of chi-square was included which serves as an indication of the relative scale of the differences across the groups. The results are presented and discussed in the following sections.

Non-executives' performance

In order to obtain a first indication of a possible expectations gap regarding non-executive directors, respondents were asked about their opinions on non-executives' performance. The results are presented in table 2 and discussed below.

Table 2. Non-executives' performance

	NEDs	EDs	IIs	X^2
Generally speaking, I am satisfied with the way non-executive directors in the UK are currently functioning.	3.50	2.90	2.80	3.70
Within the current corporate governance structure supervision of executive directors is of adequate quality.	3.25	3.20	2.80	1.44
Within the current corporate governance structure independence of non-executive directors vis-à-vis executive directors is adequately ensured.	3.25	3.00	3.00	11.01***
Non-executive directors are given sufficient time to perform their role effectively.	3.00	2.00	3.80	7.86**
Non-executive directors have adequate knowledge and understanding of the company's business to perform their role effectively.	3.00	2.20	3.40	14.41***
Non-executive directors are recruited through an informal recruitment process based on personal and professional networks.	3.75	3.70	3.80	1.16

Average scores on a five point scale: 5 = strongly agree, 3 neutral, and 1= strongly disagree.
*,**,***: significant at the 0.1, 0.05, and 0.01 level, respectively.

Three major expectations gaps were found when non-executive directors on one hand and executive directors and institutional investors on the other hand differed in their views regarding the effectiveness of non-executives. First, non-executive directors have a stronger belief in their own functioning than both executive directors and institutional investors: 75% of them said they were satisfied with the way non-executive directors currently function, while only 30% of the executive directors and a mere 20% of the institutional investors shared that satisfaction. Second, non-executive directors have more confidence in the quality of supervision: 50% of them claimed that supervision of executive management is of adequate quality, while only 20% of the executive directors and 20% of the institutional investors shared that view. They are also more confident in their independence from management: 75% of them considered their independence vis-à-vis management to be adequately ensured, while neither the executive directors nor the institutional investors shared that opinion. Institutional investors' doubts regarding non-executives' independence seem to be in line with previous research in the Netherlands. Hooghiemstra and Van Manen (2004a) found that a mere 15% of the institutional investors they approached believe that non-executives' independence from management is adequately ensured in the Netherlands.

The results suggest that executive directors' and institutional investors' doubts regarding non-executives' effectiveness are related to two factors. The first concerns non-executives' independence vis-à-vis management. Indeed, independence from management is strongly emphasised in the Corporate Governance Code. According to the Code, non-executive directors should comprise at least half of boards and dominate audit, remuneration and nomination committees (Financial Reporting Council, 2012). However, the results suggest that, notwithstanding these recommendations, non-executives' independence is not adequately ensured in the eyes of executive directors and institutional investors. The second factor concerns non-executives' appointment process. According to the Code, there should be a formal and rigorous process for the appointment of directors to boards (Financial Reporting Council, 2012). However, the results suggest that, notwithstanding this recommendation, executive directors and institutional investors perceive non-executive directors as being recruited informally through personal contacts (70% of the executive directors and 80% of the institutional investors had this view). Their perception confirms the findings of Higgs (2003), who found in a survey of non-executives on UK listed board that nearly half of the respondents were recruited through personal contacts or friendships.

The results further suggest that executive directors' doubts regarding non-executives effectiveness are related to additional factors. The first factor concerns non-executives' time commitment. In the opinion of many executive directors, non-executives do spend sufficient time on their role (60% of the executive directors claimed that non-executives do not have sufficient time to perform their role effectively). This perception supports the research of Price Waterhouse Coopers (2011), who found that lack of time to debate issues hinders non-executives from performing their role effectively. The second factor concerns non-executives' understanding of the company's business. Executive directors seem to think that non-executives lack knowledge and understanding of the firms' business (80% of them claimed that non-executives do not have adequate knowledge and understanding of the business). This perception is in line with previous research in the US. Carter and Lorsch (2004) found in a survey of American CEOs that non-executives were perceived as not spending sufficient time to gain knowledge of the company's strategy.

Overall, the results suggest that non-executive directors have greater confidence in their own performance than both executive directors and institutional investors. Although most non-executive directors share executive directors' and institutional investor' view that non-executives are recruited informally through personal networks (75% of the non-executive directors shared this opinion), they do not seem to think that it undermines their independence. Furthermore, most non-executives do not share executive directors' doubts about non-executives' time commitment (only about 33% of the non-executives felt that they do not commit sufficient time to their role), which is a possible explanation for their higher level of confidence in their effectiveness.

Non-executives' roles

After having obtained respondents' opinions on the performance of non-executive directors, their views on non-executives' specific roles and responsibilities were surveyed. First, respondents' views on non-executives involvement in strategy were examined. The results are presented in table 3 and discussed below.

Table 3. Non-executives' involvement in strategy

	NEDs	EDs	IIs	X^2
Non-executive directors leave initiation of new plans to executive directors.	3.50	3.60	3.80	0.25
Non-executive directors leave execution of plans to executive directors.	4.75	4.60	3.80	8.42

Average scores on a five point scale: 5 = strongly agree, 3 neutral, and 1= strongly disagree.
*,**,***: significant at the 0.1, 0.05, and 0.01 level, respectively.

No expectations gap was found with regard to non-executive director's involvement in strategy. There was a strong agreement between the groups that initiation of new plans is a task of executive

directors: 75% of non-executive directors claimed that they left initiation of plans to executive directors, while 70% of executive directors and 80% of institutional investors shared that view. Regarding the implementation of plans, the agreement was even stronger: all non-executive directors agreed that they were not involved in the execution of plans, while 80% of the executive directors and 80% of the institutional investor shared that view.

Overall, the results suggest that non-executive directors have a limited role in strategy development and execution. The results are in line with the findings of McNulty and Pettigrew (1999), which suggest that initiation and generation of strategy is mainly a task of executive directors.

After having obtained respondents' opinions on non-executive directors' involvement in strategy, their views on non-executives' monitoring role were examined. The results are presented in Table 4 and discussed below.

There was a strong agreement between the groups that non-executive directors prevent executive directors from misusing corporate funds (nearly 82% of the total sample agreed, while about 18% were neutral). There was also a strong agreement that non-executive directors monitor that executive directors' remuneration is not excessive (85% of the total sample agreed, while 15% were neutral). However, two expectations gaps came to light with regard to non-executives' roles in dealing with inefficiency. The first concerned discovery of inefficiency: whereas 75% of the non-executive directors claimed that it is not their responsibility to ensure that inefficiently is discovered in a timely fashion, 80% of the institutional investors perceived that is. The second concerned elimination of inefficiency: whereas 75% of the non-executive directors claimed that it is not their responsibility to ensure that inefficiently is brought to an end in time, 60% of the institutional investor had the opposing view.

Table 4. Non-executives' monitoring tasks

	NEDs	EDs	IIs	X^2
Non-executive directors ensure that executive directors do not abuse their position of power (e.g. do not make improper use of corporate funds).	4.25	4.10	4.00	0.66
Non-executive directors monitor that executive remuneration (including share options) is not higher than necessary.	4.25	4.00	4.00	1.10
Non-executive directors ensure that inefficiency is discovered in a timely fashion.	2.25	3.00	3.80	19.00***
Non-executive directors ensure that once inefficiency has been discovered it is brought to an end in time.	2.25	2.50	3.40	7.37**

Average scores on a five point scale: 5 = strongly agree, 3 neutral, and 1= strongly disagree.
*,**,***: significant at the 0.1, 0.05, and 0.01 level, respectively.

Importance of employees' interests

After having obtained respondents' opinions on non-executives directors' roles and responsibilities, their views on the importance non-executives attach to employees were surveyed. As previously discussed, non-executive directors are legally obligated to take the interests of employees into account in their decision-making process. However, the law is unclear as to what extent these interests are supposed to be considered, which may result in different expectations. Therefore, respondents were asked to rate a number of statements on the importance non-executives attach to the interests of employees. The results are presented in table 5 and discussed below.

No large differences in opinion were detected regarding the importance non-executive directors' attach to the interests of employees. All three groups agreed, more or less, that non-executives approve of dismissal of personnel to substantially improve earnings (about 92% of the total sample agreed, while 8% were neutral). There was also a strong agreement that non-executives approve of dismissals even if there is no redundancy scheme for the personnel involved (85% of the total sample

agreed, while 15% were neutral). However, the agreement between the groups somewhat disappeared in case of dismissals aimed at maintaining earnings-per-share above a certain minimum level. While 40% of institutional investors agreed that non-executive directors approve of dismissal of personnel in order to prevent earnings-per-share dropping below a certain minimum level, the number of non-executive and executive directors agreeing was somewhat lower (25% and 20% respectively). With regard to wage policy, there was a fairly strong agreement between the groups that it is not the responsibility of non-executive directors to ensure a fair wage policy for all levels (about 68% of the total sample agreed, while about 32% were neutral).

Table 5. Importance of employees' interests

	NEDs	EDs	IIs	X^2
Non-executive directors agree with forced lay-offs if these are necessary to substantially improve earnings.	4.00	4.80	4.00	9.70***
Non-executive directors only agree with forced lay-offs if there is a redundancy scheme for the personnel involved.	2.25	2.20	2.00	1.43
Non-executive directors agree with forced lay-offs if these are necessary to prevent earnings-per-share dropping below a certain minimum level.	3.00	2.70	3.00	0.09
Non-executive directors assure that there is a fair corporate wage policy for all levels.	2.25	2.30	2.40	1.95

Average scores on a five point scale: 5 = strongly agree, 3 neutral, and 1= strongly disagree.
*,**,***: significant at the 0.1, 0.05, and 0.01 level, respectively.

Overall, the results suggest that non-executive directors attach little importance to the interests of employees. This finding is of importance in view of recent discussions about whether there is a move in the UK towards a stakeholder approach to corporate governance. As mentioned in the introduction, the traditional business objective in the UK is shareholder value maximisation. However, it has been suggested that there has been a move in recent years towards a more pluralistic approach where the interests of stakeholders are taken into account (Keay, 2011). This view has been fuelled by the introduction of a provision in company law (Section 172.1 in the Companies Act 2006) which requires directors to have regard to a range of stakeholder interests in their decision-making process (Keay, 2013). However, in his recent examination of the legislative development, Keay (2011, p.1) found that legislation only appears to provide greater stakeholder focus but in reality 'add little in a drive towards stakeholderism'. The results from this survey confirm Keay's findings, showing that the legislative development has not led to directors attaching any significant importance to the interests of employees.

Reasons for resignation

Lastly, respondents' opinions on the circumstances under which non-executive directors resign were surveyed. The results are presented in table 6 and discussed below.

Table 6. Reasons for resignation

	NEDs	EDs	IIs	X^2
Non-executive directors resign if the company has violated company law in the UK.	2.33	2.20	4.00	15.43***
Non-executive directors resign if the company has violated company law in the UK and executive directors will take no action to avoid recurrence.	3.00	3.00	3.80	1.65
Non-executive directors resign if measures which need to be taken to ensure the continuity of the company are not being undertaken.	3.00	2.90	3.00	0.35
Non-executive directors resign if measures which need to be taken to ensure the continuity of the company are not being undertaken, and they have no confidence in executive directors taking adequate actions in the future.	3.67	3.10	4.60	10.46***

Average scores on a five point scale: 5 = strongly agree, 3 neutral, and 1= strongly disagree.
*,**,***: significant at the 0.1, 0.05, and 0.01 level, respectively.

A number of expectations gaps were detected regarding non-executive directors' reasons for resignation. The first concerned whether non-executives resign if the company has violated company law: whereas about 67% of the non-executive directors and 80% of the executive directors claimed that non-executives maintain their position on the board even if the company has violated company law, all of the institutional investors disagreed with that view. The second concerned non-executive directors resigning in case the company has violated company law and management takes no action to avoid recurrence: whereas about 33% of the non-executive directors and 40% of the executive directors agreed that non-executive directors resign if the company has violated company law and management takes no action to prevent reoccurrence, the percentage institutional investors agreeing was significantly higher (80%). With regard to whether non-executives resign if measures which need to be taken to ensure the continuity of the company are not being undertaken, no major differences in opinion were detected as the three groups were more or less neutral in their opinions.

The results suggest large differences in opinion between non-executive directors and institutional investors regarding the circumstances under which non-executives resign from their position. This is unsurprising considering that the Corporate Governance Code does not give any guidance on the circumstances under which non-executive directors should resign. The major gaps were between the opinions of non-executive directors and institutional investors. Institutional investors seem to think that non-executive directors resign from the board more easily than they do in reality. A possible explanation is that non-executive directors feel constrained from resigning too easily by their fiducially duty to act in the company's best interest.

5. Conclusion

Whilst previous research has indicated the existence of an expectations gap regarding non-executive directors in the context of China and the Netherlands, a possible gap regarding non-executives in the UK has remained unexamined so far. This study fills the void and complements and extends previous studies of McNulty and Pettigrew (1999), Stiles and Taylor (2001) and Long et al., (2005) by considering the views of stakeholders on non-executives as well.

The results reveal a wealth of information of how non-executive directors on one hand and executive directors and institutional investors on the other hand differ in their views regarding the responsibilities of non-executives. The large number of statistically significant differences indicates the existence of an expectations gap regarding non-executive directors in the UK.
Notwithstanding the fact that non-executives' roles are described in the most general terms in the Corporate Governance Code and little is still known about what non-executives actually do (e.g. McNulty and Pettigrew, 1999; Stiles and Taylor, 2001), executive directors and institutional investors were quite able to assess non-executives' roles. This may have to do partly with the direct experience they are said to have with non-executive directors (Hooghiemstra and Van Manen 2004a). However, a significant gap was found regarding non-executive directors' monitoring role. Institutional investors seem to believe that it is the responsibility of non-executive directors to see to that inefficiency is discovered and brought to an end in time, whilst in reality non-executive directors do not seem to assume this responsibility. A possible explanation for this gap is that institutional investors are not fully aware of non-executives' inherent limitations. As previously discussed, non-executives are limited in what they can achieve because of, for example, their limited time and exposure to information asymmetry.

Although it seems that executive directors and institutional investors are fairly aware of non-executives' main duties, they are not very satisfied with the way non-executives function. Doubts about non-executives' time commitment and independence from management seem to be major causes of this dissatisfaction. Furthermore, it seems that institutional investors do not have any idea of the circumstances under which non-executives resign from their position. This is unsurprising

given that the Corporate Governance Code does not give any guidance on the circumstances under which non-executive directors should resign.

In conclusion, it seems that notwithstanding regulatory initiatives such as Cadbury (1995) and Higgs (2003), which were aimed at improving corporate governance, executive directors and institutional investors still place question marks over the effectiveness of non-executive directors. Furthermore, it seems that despite that the role of non-executive directors has become clearer as a result of these initiatives, there is still a wide divergence of opinion on many aspects of their role. More specific guidance in the Corporate Governance Code on non-executives' monitoring role and reasons for resignation would help bridge this gap.

Somewhat surprisingly, no gap was found regarding non-executives' involvement in strategy. However, only a few questions were posed on the subject. It would be interesting to obtain more in-depth responses on non-executives' involvement in strategy to see whether divergent expectations occur.

Whilst this study has helped remedy a significant void in the literature, it is explorative in nature and was carried out with a very small sample, which makes it difficult to generalize the results. A replication using a larger and more comprehensive sample would help confirm the research findings and overcome the limitations of this small convenience sample.

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