

Independent Non-Executive Directors: Assessing Candidates and Opportunities

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What should one consider when assessing candidates for a board appointment or when contemplating an initial or further directorship? What questions should nomination committees and potential appointees ask? What areas should they reflect upon? In particular, how should suitability for an independent non-executive director (NED) role be assessed, whether from the perspective of those seeking to strengthen a board or that of the candidate?

Directorial requirements and priorities can change as a company develops. A start up or MSME might benefit from non-executives who can open doors, advise on how to deal with growing pains, and maybe even invest in a venture as well as reassure other investors. All directors need to be aware of their legal duties and responsibilities and distinguish between their roles as directors, shareholders and, in the case of executive directors, managers.

Whether an entrepreneur might benefit from the wisdom of an older mentor can depend on the relevance of the latter's experience to the former's ambitions. People vary in the extent to which they can advise, monitor or support and how they balance involvement with objectivity. Ultimately NEDs may need to be sufficiently detached to be able to initiate difficult discussions and the grasping of nettles such as the removal of a CEO if required.

Rationale for an Appointment

Clarity about why a one or more NEDs are being sought helps the matching of candidates to opportunities. Independent directors can be especially important at particular stages in the development of an enterprise. Examples could be when a founder retires, there is a change of direction, or when a listing

sought. Thought may need to be given to the implications of a term of appointment that is longer than the expected duration of a particular requirement.

How long is an identified need likely to last? In the past, rough timescales might have been attached to transformation journeys from one state, form or model to another. Restructuring and reorganisations often occurred periodically. Increasingly, companies have to continually adapt to changing requirements, multiple challenges and new possibilities.

Over time NEDs can lose their independence and objectivity. Some boards replace retiring directors as their terms of office come to an end without discussing the optimum number of directors and mix of executive and non-executive directors that would best enable a board to more effectively challenge, support and monitor management, and discharge responsibilities such as providing strategic oversight and direction.

Prioritising Director Candidate Requirements

Before searching themselves or briefing a search firm, a nomination committee should discuss, agree and prioritise the profile being sought in terms of candidate experience, capabilities, personal qualities and ambitions. Other than in the case of a start-up, a new board member will join an existing group of directors and should hopefully complement and strengthen an existing mix of people and personalities and be able to work productively with them.

Experience obtained in one context may or may not be appropriate or relevant in another. Where a candidate has been might or might not relate to where a board feels a company should endeavour to go. Personal qualities such as integrity are

often more important than particular knowledge and skills. People sometimes derive the wrong lessons from their experiences, or focus so much on endeavouring to fit a development into what they might have experienced that they overlook the unique or different aspects of a particular situation.

Legitimacy and trust are particularly important. Those who have a choice tend to favour board colleagues, business associates, partners and suppliers who understand their aspirations and are competent, honest and can be depended upon. Evidence of immoral or irresponsible conduct can be quickly captured on a mobile device and uploaded with the potential to go viral. Candidates for board appointments should assume that those advising nomination committees might check their history and presence on social media.

Establishing Future Requirements

Understanding changing stakeholder aspirations, concerns and priorities and what is happening in the business and market context is particularly important if NEDs are to provide strategic guidance. While complementing the contributions of other directors, it might also be expected that certain NEDs should be able to offer specialist advice when required.

NEDs need to balance sufficient involvement to know what is going on and identify issues with the requirement to stand back in order to see the 'big picture' and retain a strategic oversight and overview perspective. They should be properly supported and they should also commit to learning from their directorial experience and staying current.

Experience of negotiating public-private collaborations could be helpful where collective action is needed to address climate change and sustainability concerns and achieve Sustainable Development Goals (SDGs). Directors should be particularly sensitive to how customers view the consequences and sustainability of corporate activities and how issues like the net carbon impact of supply chains used to produce offerings impact their purchases and consumption.

Directorial Independence

Past experiences and personal loyalties can limit the independence of some directors. Nomination committees should review what independence means and whether candidates for NED appointments would have and exhibit the independence considered desirable. Would they be prepared to speak up and challenge a CEO and executive director colleagues? Will their existing commitments allow them to give their directorial duties the time required?

Independent thought cannot be assumed, even if a candidate's background, connections and past involvement satisfies 'independence' criteria. Some people are thought followers rather than leaders. They tend to absorb, react to and accept the

views of others rather than think for themselves. Nodding donkeys or rubber stamp directors who 'follow the herd' and 'go with the flow' may provide little challenge and might amplify rather than counter-balance the mood swings of more opinionated colleagues.

Candidate activities and lifestyle can sometimes give useful additional clues, such as evidence of curiosity and capacity for independent thought, openness and connectedness, or flexibility, pragmatism and resilience in challenging situations. It can be helpful to explore how candidates have dealt with adversity or would handle awkward situations.

Providing Challenge

Can one have too many NEDs? With a board composed largely of independent directors there may be too few executive voices around a boardroom table to give a different perspective to that of a CEO or CEO and financial director duo. Challenging a CEO on sector specific and complex issues can be difficult for NEDs from different backgrounds. To better question specialist internal expertise NEDs might need to commission external support.

While desirable, independence alone is not a sufficient requirement for potential NEDs. Individually and collectively, directors should be able to constructively challenge and hold management to account, which could involve asking questions in areas that might appear opaque to a non-specialist. Access to relevant counsel, expertise and guidance as and when required in a dynamic and uncertain context may be more important for a board than securing a longer-term relationship with a particular adviser or additional NED.

Being forced by necessity to keep in with others can breed accommodation, flattery and groupthink. Being dependent upon others or under obligation to them can limit independence of thought. It can prejudice the giving of objective and honest advice. Following the crowd can sometimes be fatal. Aims and outcomes are often improved by questioning and challenge. Encourage fellow directors and others to discuss, critique and refine. Exercise independent judgement. Take and provide balanced and relevant counsel.

Responsible Corporate Direction

The biggest contribution some boards might make to CSR and ESG could be to run down, withdraw from and cease damaging corporate activities such as those that harm the environment, reduce biodiversity and contribute to global warming. Re-purposing can affect what and who might be thought to be relevant to a board's NED requirements. Are there candidates with experience of discontinuing operations and re-using related capabilities?

In some countries, multiple store closures have occurred and retail chains have collapsed as customers switch to buying on-line. In certain cases, arguably the whole board should be held

accountable. The prospects of some companies might have been very different had directors the foresight and competence to challenge perspectives, assumptions and practices. NEDs should be appointed who read the road ahead and have the courage to ask tough questions.

Some executive directors might prefer to ignore negative externalities or certain impacts of corporate activities in order that areas for which they are responsible appear more profitable. Such externalities, including those which executives may suggest are difficult to quantify, should be taken into account in board decision making. Not doing so might alienate ESG investors, harm a corporate reputation, or trigger legal actions that could result in significant damages.

Directorial Opportunities

Disruptive technologies, digital developments and greater connectivity break down barriers and open up new possibilities. NED roles may not be the only opportunities open to sought-after candidates. Talented people sometimes have many options in terms of how, where, when and with whom to use their time and work, learn, share, acquire and consume. They are spoiled for choice. Certain candidates may be able to select and rank possible next steps according to their aspirations and values, and the activities, roles and projects concerned.

Potential directorial appointments are often less evident than other roles. In some jurisdictions there has been a trend towards smaller boards. NED opportunities usually arise as and when vacancies occur and particular needs arise. Existing directors are sometimes slow and reluctant to recognise their own deficiencies. Their inertia may be because they are missing something or lack ambition. By the time they wake up the appointment of a liquidator rather than NED may be required.

Assessing Possible Directorial Roles

NED candidates should do their due diligence. Many companies have an uncertain future. They could be vulnerable. Their activities and business models may not be sustainable. They might be bureaucratic, inflexible and defensive. Corporate structures and practices sometimes stifle creativity, inhibit innovation and deter entrepreneurship. It might take a critical mass of new and like-minded directors to change direction and save them. This can require time and liaison outside of board meetings but persistence and success can be very satisfying.

Directors should avoid conflicts of interest and declare them as and when they occur. Recruiters and NED candidates should be alert to potential conflicts of interest and other commitments when considering board roles. Will there be the time and depth of engagement to provide the attention, care, skills, diligence and judgement likely to be required to fulfil a director's duties and obligations in the situation and context of the appointment in question?

Establishing Focus and Aligning Perspectives

The focus of the directors of a company should be upon its success, rather than on their own interests. Motivated individuals can and do build global brands with large numbers of followers on social media and/or follow other paths to personal enrichment and fulfilment. Possible NEDs may be able to decide whether their priority in life is to be themselves or an organisation or cause. Where might a person's loyalties lie when the going gets hard?

Ideally, relationships between parties should be mutually beneficial if they are to last. A person might be talented, but what proportion of their potential, ambition and attention is likely to be on the future prospects of a company compared with that on their own priorities? Confronted with a good idea or great opportunity, would someone's first thought be how it might benefit a company, or would they be quickly looking for personal advantage?

The perspectives of some executive directors are narrowed by their focus upon internal issues of direct concern to their functional or business unit responsibilities. Independent NEDs can help to ensure a board collectively looks ahead and remains alert to external developments. Ideally, the perspectives of directors should match the purpose they set, the vision, goals and objectives they establish and the strategic direction and priorities they provide.

Entrepreneurial Directors

Boards of large companies as well as start-up entrepreneurs can be driven to confront challenges, seize opportunities and create a better tomorrow. In many areas, from the utilities, healthcare, supporting aging populations, waste disposal, cleaning up the environment and increasing inclusion to re-wilding, sustainability, decarbonisation and dealing with climate change, more than incremental change is required. There are unprecedented opportunities for creativity, innovation and business and social entrepreneurship.

A board and its members should be entrepreneurial as well as effective. Many boards and entrepreneurs are looking for people who are potential business partners and co-creators rather than dependent employees and agreeable colleagues. They seek NEDs who are open-minded, curious, flexible, and who can think for themselves, while at the same time able to collaborate with others who have complementary capabilities and shared aims and values.

Directors should encourage innovation and corporate entrepreneurship. They need the courage to inspire others to discover, explore and pioneer and imagine and invent. They should help people to adapt, challenge and learn in order to remain current and relevant. NEDs should use their time and

that of others wisely and to address shared challenges and create outcomes, offerings and solutions that are better, unique, special or different.

Establishing Realistic Search Objectives

Before seeking directorial opportunities think about what is important to you and what you would like to do with your life. Do you want to accumulate trappings and possessions or make a difference? Motivations can range from extra income to the challenge of rescuing and turning around or re-inventing an ailing company. As people get older and more established, their attention often switches from personal advancement and 'getting on' to 'giving back'.

Are there particular sectors, types of company, stages of business development and situations which interest you and in which you feel especially able to make a contribution? Experience of working with others on a professional, voluntary or public sector committee or board can be sought and gained ahead of seeking a first corporate board appointment.

Is there a hobby, interest or passion that you feel could be turned into a business? If so, maybe the role of start-up entrepreneur would be an appropriate one. Alternatively, could an existing business be turned into a cause? Joining a board and working with board colleagues to re-purpose a company might enable it to become an opportunity and a cause that many people could share and/or support.

Being Patient and Persistent

One does not have to be first at everything to become a NED. The IOD and its events, publications and services exist to help and


support you. Who you are and who you associate and collaborate with, your aspirations, your focus and motivations, and your activities and roles will determine your impact in and upon this world. Look for opportunities to contribute and add value. Some directors are anxious, insecure and experience stress. Others burn out. Remain grounded and try to maintain a mutually supporting work-life balance.

Remember that it is other people, our clients, colleagues, customers, users, collaborators, supporters and followers, who decide whether or not what we do and the offerings and services we provide represents value. One does not need to be super human to be a competent director and contribute. It is often a question of horses for courses and/or whether or not a board chair is able to recognise and realise the potential of individual board members and orchestrate their contributions to form an effective boardroom team.

People from a variety of backgrounds can make good independent NEDs, but when new appointments need to complement existing board members and fill particular gaps patience and persistence may be required to secure the right opportunity. Many companies still look among the 'usual suspects' rather than widen the gene pool and consider a greater diversity of candidates that might bring new perspectives to the boardroom. Good luck to all of you in your search for opportunities to have an impact and make a difference.

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