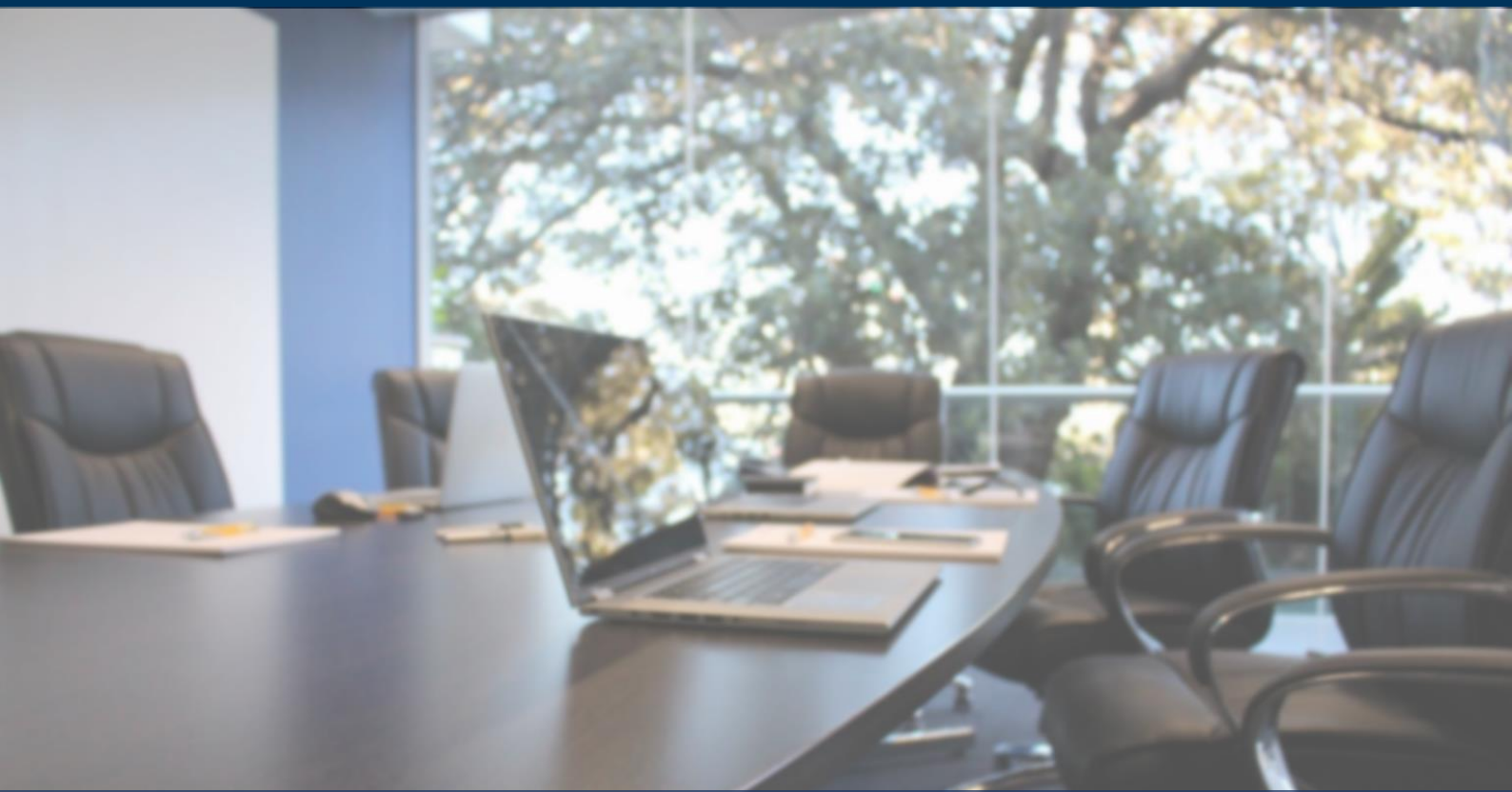




A Practical Guide for NEDs

Sam Allen Associates





Advice for Non-Executive Directors

The role of the Non-Executive Director has never been more vital: to advise; support; challenge; and guide organisations. Not only this, but Boards are also changing and are increasingly keen to recruit Non-Executive Directors with an ever-widening variety of skills and backgrounds, offering a multitude of opportunities for Executives.

SAA recognise that at any point in your career it is important to have access to the right information and guidance. Whether you are looking to secure your first Non-Executive Director role along with your Executive career, or you are aiming to build a portfolio, we thought it may be helpful to outline some key steps that could aid you on this journey. SAA has an extensive network and we have taken the opportunity to speak to current Chairs and Non-Executive Directors to get their advice on how to build a successful Non-Executive career.

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The role of the Non-Executive Director

Above all, Non-Executive Directors exist to represent the best interests of shareholders. Whilst all stakeholders' views are acknowledged, everything a Non-Executive Director does leads back to ensuring the best outcome for shareholders. Non-Executive Directors are there to challenge, support and provide insight into strategy, rather than lead on the forming of it.

As a Non-Executive Director it is essential to gain the necessary governance knowledge, and maintain it. Boards are coming under increasing scrutiny, both from regulators and institutions, so it is crucial that all Non-Executive Directors understand their legal responsibilities as a director of an entity and are also well versed in the latest corporate governance requirements.

The Functions of Non-Executive Directors

Non-Executive Directors are expected to focus on Board matters and not stray into an 'Executive direction', thus providing an independent view of the company that is removed from its day-to-day running. They are appointed to the Board to bring:

- independence
- impartiality
- wide experience
- special knowledge
- personal qualities

The Key Responsibilities of Non-Executive Directors

Chairs and Chief Executives should use their Non-Executive Directors to provide general counsel – and a different perspective – on matters of concern. They should also seek their guidance on particular issues before they are raised at Board meetings. Indeed, some of the main specialist roles of a Non-Executive Directors will be carried out in a Board sub-committee (particularly the remuneration and audit & risk committees), especially in listed companies.

The key responsibilities of Non-Executive Directors include the following:

Strategic Direction

As 'an outsider', the Non-Executive Director may have a clearer or wider view of external factors affecting the company and its business environment than the executive directors. The role of the Non-Executive Director in strategy formation is therefore to provide a creative and informed contribution and to act as a constructive critic in looking at the objectives and plans devised by the Chief Executive and the Executive team.

Monitoring Performance

Non-Executive Directors should take responsibility for monitoring the performance of Executive management, especially with regard to the progress made towards achieving the determined company strategy and objectives. They have a prime role in appointing, and where necessary removing, Executive Directors and in succession planning.

Remuneration

Non-Executive Directors are also responsible for determining appropriate levels of remuneration of Executive directors. This is carried out by a Remuneration Committee, the objective of which is to ensure there is an independent process for setting the remuneration of Executive directors.

Communication

The company and its Board can benefit from outside contacts and opinions. An important function for Non-Executive Directors, therefore, can be to help connect the business and Board with networks of potentially useful people and organisations. In some cases, Non-Executive Directors will be called upon to represent the company externally.

Risk

Non-Executive Directors should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management across all areas including safety are robust and defensible.

Audit

It is the duty of the whole Board to ensure that the company presents a true and fair reflection of its actions and financial performance to its shareholders and that the necessary internal control systems are put into place and monitored regularly and rigorously. A Non-Executive Director has an important part to play in fulfilling this responsibility.

The key areas that all Non-Executive Directors need to be confident in are:

- Knowledge and understanding of the **latest Corporate Governance Code and requirements**. Understanding the responsibilities and functions of the Board and its committees. We have attached a link to the Code in the Appendix.
- It is important to **keep current in your specialist knowledge and skills**, as this is likely to have been the key reason for your appointment to the Board and will be your key contribution.
- All Non-Executive Directors are required to thoroughly **understand the business and contribute to reviewing and giving feedback on its strategy, as well as overseeing its performance**. To help with this, every Non-Executive Director, regardless of their specific areas of specialism, would benefit from being fluent in all areas of financial reporting (if this is not their discipline), as well as gaining deep knowledge and understanding of the business, the industry, its competitor landscape and the regulatory environment (if appropriate).

What Committees are required for corporate governance?

In the context of corporate governance, it refers to committees made up of members of the Board with specified sets of duties. The four committees most often appointed by public companies are the audit committee, the remuneration committee, the nominations committee and the risk committee. Recently some organisations have extended this to include an ESG committee. For each of these committees one Non-Executive Director will be the Committee Chair. In addition, Boards are required to have a Designated Director whose role is to help ensure the views and concerns of the workforce are brought to the Board and taken into account. They will need to ensure a mechanism is in place to understand the concerns of the workforce and articulate those views and concerns in Board meetings.

We have put together a list of links containing some key reading for Non-Executive Directors (see Appendix I). There are also a number of Non-Executive Director courses that will provide you with the necessary theoretical knowledge (see Appendix II).

Ways of Working – Acknowledging the difference between Executive and Non-Executive

There are key differences in how Non-Executive Directors operate compared to their counterparts on the Executive team, and a number of the characteristics of effective Non-Executive Directors differ from effective Executives. The pattern does not naturally follow that great Executive directors make great Non-Executive Directors and it is worth reflecting on how this may impact on how you operate:

Personal style: Non-Executive Directors are appointed to offer insight and share their experience with the Board. They need to advise and support the Executives and constructively challenge where necessary. Non-Executive Directors advise rather than direct; ask questions rather than set out action plans. The ability to gain credibility quickly, as well as form strong and open relationships with the other Board members will be key to success. It is the quality (rather than quantity) of the Non-Executive Director's contribution that matters, so good listening skills are a must have for successful Non-Executive Directors. It is important to remember that you are there as independent shareholder representatives.



Time commitment: Non-Executive Directors should be willing and able to put in the time and effort necessary to review and understand the information provided prior to Board meetings, ensuring they understand the key issues and ask the right questions. It is important to keep in mind that time commitments may increase significantly due to a variety of circumstances (M&A activity, IPO, hostile takeover, macroeconomic disruption etc.) and be prepared to accommodate the increase in time commitments. They should also assign time to understand the competitor landscape in which the business operates.

Factors to consider in building a successful Non-Executive career

Choose a business with a well-regarded Chair and a collegiate Board with a CEO who seeks and encourages Non-Executive Directors to add value. You should be:

- **Mindful of conflict** – every Non-Executive Director role you accept is likely to rule out or severely restrict the possibility of accepting further roles in the same sector, so it is important to choose carefully.
- **Board dates** – clashes on Board dates should also be a factor to consider when seeking a suitable Non-Executive appointment.
- **Approval** – if you are currently a serving executive, it is often helpful to get formal approval from the CEO/Chair to undertake a Non-Executive Directorship before you embark upon seeking one.
- **Benefits** – ensure there is a balance of benefits – you should get as much from the Board in terms of experience and learnings as you give to the Board by sharing your own expertise.

Although there are governance guidelines on the number of Non-Executive and Chair positions that can be held at any given time, many people choose not to operate to the maximum number as some Boards require more time than others. Time commitment may also vary due to corporate activity around the organisation and of course personal choice!

Due diligence of any organisation you are considering joining is crucial. As well as understanding the journey, ambitions, and strategy and future challenges. You may want to ask for a call with the company's auditors before formally signing the contract. Asking to meet ALL Board members during the hiring process is also key. If your role will involve sitting on or Chairing a committee, make sure you have a thorough understanding of the challenges and history.

Securing your first Non-Executive Director appointment can be challenging and can take time but the following ideas may help with this process:

- **Build and maintain your network.** Some Non-Executive Director roles are secured through recommendations, so make sure you have a broad and current professional network. It would also be useful to make sure you build and maintain relationships with regulators, banks and auditors. Having a 'mentor' who has a successful plural Non Executive career can be very helpful.
- **Identify and contact the Executive Search professionals** that handle Non-Executive Director roles which you would be interested in and make sure you are on their radar (for a list of headhunters specialising in Non-Executive Director appointments, see Appendix.
- **Invest the time to prepare in advance** – taking a course or participating in a seminar will allow you to gain crucial knowledge. It will also demonstrate your commitment to succeeding as a Non-Executive Director (for a list of seminars and courses, see Appendix II).
- **Maintain outstanding knowledge** and performance in your specific field or Executive role. Be able to demonstrate your ability to deliver, as well as continuously learn and improve.
- **Create a visible profile where appropriate** – engage in conferences, give speeches and write articles.



Diversity and Inclusion

The FCA has introduced new Listing Rules, as an ongoing listing obligation. Organisations that are in scope are to include a statement in their annual financial report setting out whether they have met specific board diversity targets on a 'comply or explain' basis. This allows companies flexibility to provide relevant context on their approach to board diversity, whether or not these targets are met.

The targets are:

- At least 40% of the Board are women.
- At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman.
- At least one member of the Board is from a minority ethnic background (which is defined by reference to categories recommended by the Office for National Statistics (ONS)) excluding those listed, by the ONS, as coming from a White ethnic background).

Creating a Non-Executive Director CV – showcasing your skills in the best way

The role of a Non-Executive Director is different to any Executive role, so you may want to re-think your CV and bring out the skills that would make you a valuable contributor to a Board. Some principles to keep in mind:

- Think about your **competencies**, rather than just focussing on your achievements. What would be your unique contribution to the Board?
- If you are targeting a particular business, is the Board in need of competencies and experience that you can provide? The required competencies will differ by business, but some common areas are experience in:
 - Sector
 - Ownership model e.g. Listed, Private Equity or Private
 - International markets
 - Regulated businesses
 - Required function e.g., Finance, Marketing, HR
 - Digital Transformation
 - M&A, divestment, refinancing

- Chairs are required to form Boards that are not only made up of a diverse range of people but where all required competencies to deliver the strategy are represented and there is limited duplication. If your core competencies overlap with many other people on the Board, it may be challenging to secure an appointment on that particular Board.
- Keep the **over boarding guidelines** in mind. The 5-points system is commonly used to prevent over-boarding. Ordinarily, an individual in an Executive role (four points) can only hold one Non-Executive Board role (one point) at the same time. A plural Non-Executive Director should limit the number of board appointments so that they add up to a maximum of five points, with a Non-Executive Chair role counting as two points.

There are calls by some institutions to reduce the number of points allowed to four. Although this system was initially introduced for UK listed businesses it is becoming more common that organisations will treat companies whether public or private in the same way.

- Due to the over-boarding guidelines, it is important to think about how many charity/pro bono/volunteer Non-Executive/Trustee roles you choose to undertake and include in your CV. It can be beneficial to include these on the CV to showcase your non-Executive experience, however, it is important to ensure that you do not come across as being over boarded.



Sir Roger Carr: What makes a good Non-Executive?

[Board Agenda](#) was at the Non-Executive Director Awards in London to see Sir Roger Carr—Chair of BAE Systems and the English National Ballet, former chair of Cadbury and Centrica—receive the Lifetime Achievement Award. In his acceptance speech Sir Roger explored the qualities that make a good non-executive:

“A lifetime achievement award has the thrill of a corporate Oscar—tinged with a slight sense of concern as a business obituary. Nonetheless—having chaired these awards in the past and seen previous winners—I receive this award with a mix of enormous gratitude and considerable humility. So, thank you very much. In these turbulent times, the need for non-executives has never been greater. Having had the privilege of sitting on many boards, in good times and the not so good (of which there have been a few) I am often asked what I think makes for a good non-executive. So, I felt I would take this moment to share with you my top five:

- **First:** *Make sure you have the right motives when joining a board. The risk reward ratio is rarely favourable. The standard five principles of life: “What’s in it for me?”, must be outweighed by, “What can I contribute to it?” To contribute you must have a genuine interest in the business, a desire to add value, a willingness to give advice, but the tolerance to be ignored. And where you add value is critical: independent judgement on people; clarity of mind on risk management; vision for the future on strategy; focus on succession planning and help in the day to day. In summary, rule one, you need the skillset to contribute as an individual, but the mindset of a team player.*
- **Rule two:** *Don’t confuse helping with meddling. This is one of the greatest challenges, particularly for those used to executive roles. To help, you have to understand the business. Read the papers, visit the sites, engage with management, listening more than transmitting, thinking more than doing, advising more than telling. So, remember, board members challenge, advise, and encourage. Executives execute; non-executives execute the executive if they continually fail. Role confusion is dangerous for everyone.*
- **Rule three:** *Have the humility to believe that others have something to offer and the patience to judge if you are right. Weighing the evidence is vital, listening and learning. Rushing to judgement is risky, just as delay in acting on poor performance is dangerous. The best boards comprise individuals who are sure of themselves, but respect colleagues for their*

contribution, who are measured in forming opinions, but swift in implementing conclusions. A good principle—action this day—having slept on it overnight.

- **Rule four:** *Remember that you may have been hired for your experience, but you will be valued most for your character. As a chairman I look for those who are authentic in manner: who look to the mirror for judgement not the gallery for applause, who have the courage to speak truth to power and the resilience to be rebuffed. Most importantly the integrity to know—whatever the pressure from shareholders, competitors, customers or peers—a board must do the right thing simply because it is the right thing to do.*

- **Finally, rule five:** *Remember shareholders, employees, prospective employees and customers increasingly focus on how you make money, not simply how much money you make. Honesty, integrity and diversity are the hallmarks of a good board. And diversity is not box ticking. It provides the healthiest environment for collective decision making, it is a combination of merit and gender. We have made good progress in the boardroom, it is work in progress in executive management, and we have a long way to go to see more women in the role of chair. Let's not forget this is not simply a gender issue, it's about making business better. Plus, respect for the environment, concern for all stakeholders. These are not optional extras. They are at the heart of the business and the key to social acceptability. If capitalism is to thrive, the reputation of business must improve and in this, the role of the non-executive is key; how we conduct ourselves, present ourselves, govern ourselves and pay ourselves.*

In short business and business leaders must be performance driven, value led. Being a non-executive is not simply a job, it is a privilege and vital if business is to be of value to society and valued by the community in which we live. Thank you.” (March 29, 2019, Source: Board Agenda)

Example Interview Questions for a first time Non-Executive Director

Key themes that will be covered in an interview for a Non-Executive Directorship may include:

The Company

- What do you know about the existing strategy – opportunities, challenges, and risks?
- What is it about this opportunity that appeals to you? Where does it fit into your forward career plan?
- What do you see as the two or three most important strategic challenges and opportunities the business and its Board should be focused on?
- What experience and skills do you have that could provide value to the business team as it seeks to propel its organic and inorganic growth? Please give examples.

Demonstrate your research into the organisation – Who are the shareholders? Which other organisations do the shareholders back? Have you experienced the customer journey, the competitors' customer journey, undertaken site visits etc (if appropriate).

- What is the external landscape in which the company operates? Who are its competitors? What impact have recent economic or geopolitical events had?
Be prepared to make observations about the business.

The Role of a Non-Executive Director

- What do you consider to be the role of a Non-Executive Director?
- Why do you believe you would make an effective Non-Executive Director at this point in your career?
- What do you believe are the criteria that make an effective Non-Executive Director?
- What is the change in behaviour and style of operating you believe you may have to make from being an Executive to being a Non-Executive Director?
- Are you well versed with the corporate governance code and are you clear on your responsibilities/obligations? Do you have a view on forthcoming changes / additions to the code that are being proposed by the FRC? What are the key themes?
- What do you think our key stakeholders, investors and clients expect from the Board?
- What do you believe are the characteristics of an effective Board?

- How would you describe your strengths as a leader and colleague? How would your Board describe you and how do/did you interface with them? How would your leadership team describe you?
- What do you value most in a corporate culture? Please give examples of how you promoted it?
- In your view, what constitutes a diverse Board of Directors? And what are the benefits of ensuring this?
- What role do you feel Non-Executive Directors should have in relation to business strategy? (*i.e., oversight rather than content creation*). Examples of working at a strategic level (*your experience in being able to stop yourself from being drawn into the day-to-day management*).
- How do you feel you could build an effective relationship that would add value to Executive Directors?
- What is your expectation of the Chair and other Board members?
- In your opinion, what conditions are absolutely necessary to ensure good governance?
- Having been an executive and a Board member, what is your philosophy for how a Board should govern a company?
- Can you describe a particularly challenging situation you were involved in. What role did you play in handling that challenge?
- What/who has been the most effective Non-Executive Director you have seen in action and why? What/who has been the least effective Non-Executive Director you have witnessed and why?
- Do you have any reservations about becoming a Non-Executive Director?
- Is there any personal development you think you may need to become an effective Non-Executive Director?

What Can You Bring?

- What key experiences and qualities, both professional and personal, do you believe will add value to our Board?
- Any specific experiences or skills that are pertinent to the business at present? e.g., M&A, IPO, dealing with activist shareholder etc.
- How have you influenced change or challenged Executives & Non-Executives in the past in a constructive and value-add way?

Key areas of due diligence as part of the process

- Accessing recent trading updates and obtaining a range of analyst reports.
- Prior to signing – ask to talk to external auditors to understand any concerns or issues.
- Ensure that you meet the CFO as part of the hiring process.
- Ensure that you receive an induction when starting in the role.
- Offer to sign a Non-Disclosure Agreement prior to signing your contract if the company believes there are any material factors that you should be aware of.

SAA Track Record in Appointing Non-Executive Directors

SAA is a leading independent boutique Board search and Board services firm with a track record in appointing Non-Executive Directors across PLC, private and private equity-backed environments. Managing Partner, Samantha Allen, has a Diploma in Corporate Governance and runs our Board Effectiveness practice.



Appendix I

Key Reading

- [Corporate Governance Code](#)
- [The Chartered Governance Institute – Director's Duties](#)
- [The Institute of Directors – Good Governance Publications](#)
- [Corporate Governance and Reporting – EY's guidance and thought](#)
- [KPMG – Hitting the Ground Running – Becoming a Non-Executive](#)
- [The Chartered Governance Institute Report: A View at the Top: Boardroom Trends in Britain's Top 100 Companies](#)

Key Reports on Board Diversity

- [Hampton Alexander Review](#)
- [Parker Review](#)
- [The Institute of Chartered Accountants in England and Wales – The Higgs Report: Review of the role and effectiveness of Non-Executive Directors](#)

Other

- [The role of the Chair](#)
- [The role of the Senior Independent Director](#)
- [The role of the Non-Executive Director](#)



Appendix II

Non-Executive Director Programmes, Networks and Seminars

Organisation	Programs / Events
<u>The Financial Times</u>	The Financial Times Non-Executive Director Diploma, a formally accredited six-month course delivered through a combination of tutor-led workshops and online learning.
<u>Cranfield Business School</u>	The Non-Executive Directors' Seminar: a guide to a comprehensive understanding of the role of a non-executive director, current governance responsibilities, and how to secure a non-executive position.
<u>NED on Board</u>	The professional body for Board members, including training, networking and 'New to NED' guides.
<u>The Non-Executive Directors' Association ('NEDA')</u>	Individual Training and Courses; Remuneration Committee Training, Non-Executive Director Training and Certification Programme, The Essential Training Course of Non-Executive Directors.
<u>Institute of Directors (IoD)</u>	Open Courses; Role of the Non-Executive Director, Role of the Chair.
<u>ICSA: The Governance Institute</u>	Non-Executive Directors' Programme, one day course covering all aspects of the modern Non-Executive Directors role.
<u>Institute of Chartered Accountants in England and Wales (ICAEW)</u>	Non-Executive Director training and certification programme; covers the role of a Non-Executive Director, Non-Executive Directors and the Board, director duties and responsibilities, role of Chair, updates on corporate governance, business strategy and risk.
<u>IMD Business School</u>	High Performance Boards (HPB); Board member training for issue related to supervisory board performance and effectiveness.
INSEAD, Chair INSEAD, Owners	Leading from the Chair; focuses on key role of the Chair in leading and relies on exchange of ideas among participants with relevant experience. Value Creation for Owners and Directors; designed to develop the skills and knowledge for highly effective ownership and Board membership.
<u>KPMG Connect on Board</u>	Connect-on-Board is a platform designed for current and aspiring Non-Executive Directors.
<u>Women on Boards</u>	Women on Boards is a global membership organisation and community of women corporate directors, which spans in the UK and other international locations.
<u>Chapter Zero</u>	Chapter Zero is the Directors' Climate Forum. It is a network of company chairs, and Non-Executive Directors, committed to developing knowledge of the implications of climate change for UK business.
<u>WIG</u>	The Whitehall & Industry Group is a charity working with businesses, government and the not-for-profit sectors offering Events, Masterclasses and Mentoring.
<u>350 Club / Non-executive Directorships Consulting</u>	One of the UK's leading dedicated non-executive career transition service groups. The 350 Club is the closed online community for FTSE 350 board members and FTSE 100 senior leaders.

Appendix III

Other leading Consultants within UK Executive Search firms for Non-Executive Director Appointments.

Confidential: No reference to information contained in this list without prior discussion with Sam Allen Associates

Firm	Contact	Title
Egon Zehnder	Ashley Summerfield	Partner
Heidrick & Struggles	Kit Bingham Claire Skinner	Partner, Head of UK Board Practice Partner, Europe Region
Inzito	Carole Leonard	Head of Board Practice
Korn Ferry	Richard Emerton Doug McAllister Oliver Pawle Dominic Schofield	Managing Partner Senior Client Partner Chairman, Board Managing Partner
Lygon	Patricia Tehan	Managing Partner
MWM	Michael Reyner	Partner
NUROLE	Susie Cummings	Managing Director
Odgers	Virginia Bottomley Susanne Thorning-Lund	Chair of Board Practice Partner, Chair & NED
Russell Reynolds	Patrick Johnson Jim Hinds Rae Sedel Hetty Pye Julia Budd Laura Sanderson	MD, Board Services MD Consumer Boards MD TMT Boards MD Industrial Board Consultant Consultant
Spencer Stuart	Katherine Moos Tessa Bamford Catherine Bright	Co-lead Board Practice Consultant Consultant
Teneo	Louise Angel	Head of Board Practice

[Gov.uk Public Appointments](#) – appointments for Public Bodies or Advisory Committees

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