



A guide to the role of the non-executive director

As the landscape of board member responsibilities has shifted, our collective understanding of a non-executive director's required skills needs updating.

A perception of the 'ideal' board member often defaults to a list of antiquated attributes. In the latest board practices report from Deloitte Consultancy, both cybersecurity and digital/technological strategy feature in the top five expertise areas for boards' recruitment priorities in the next two years. It's clear that the non-executive director of the future will have to be markedly different from the directors of the past. The difficulty for boards therefore comes down to two areas: recruitment and responsibilities. This guide is intended to provide some support for boards in navigating the changing requirements and shareholder expectations.

Who's on the list?

When recruiting new non-executive directors, there are two key talent pools which boards look to beyond all others: search firms and existing board member networks. These have traditionally been beneficial for boards as the due diligence burden is reduced. Previous personal experience with a nominee can be invaluable in assessing their suite of skills and search consultancies can be briefed with the exact list of requirements for the board's new directors. However, when preparing for the governance needs of the future, these two areas have some distinct drawbacks which can hinder a board's success.

Networks: Old girl's club?

The traditional 'tap on the shoulder' is still the preferred method of non-executive recruitment for small and mid-sized companies.¹ This approach often feels more comfortable given the previous interaction existing members may have had with the nominee. However, the issue is that this method often promotes people to the board who have the skills that companies required previously, but perhaps not the ones that are in the best interest of the firm in the future. Similar to the investment adage, past performance is not necessarily a guide to future performance. We have also found that existing male and female board member networks are quite distinct, due perhaps to the need for professional women to form their own networks to counter the 'old boy's club' mentality when they were in such a minority. There is also an issue that recruitment from networks also predisposes nomination committees against so-called 'wild card' candidates. In this instance, wild-card is simply a euphemism for different and can lead to the exclusion of a candidate who might bring genuine diversity of thought or skills to a board as the phrase is linked with a candidate being 'risky'.

1. Deloitte, Board Practices Report: Common threads across boardrooms, 2018

Is it me you're searching for?

The second main avenue for recruitment – and the one most preferred by larger firms – is professional search consultancies. Nomination committees often feel that this route helps remove some of their own, recognised recruitment biases as they can task a consultancy with delivering a shortlist of more diverse candidates who meet their required list of skills. However, this is not necessarily the recruitment panacea that it first appears. First, consultancy shortlists are only as good as their brief – an area discussed further below. If committees brief agencies to deliver on only a narrow set of skills or conversely ask them to deliver someone who has each and every skill imaginable, then the shortlist will naturally fall back on those familiar candidates of the past. We have found that the search technology has not caught up quickly enough with how committees are looking to find new candidates. Lastly, each consultancy has recruitment biases which must be addressed and managed in advance of selection by the committee. Search firms can play an important role in surfacing non-executive director candidates – our advice to boards is that to approach the process with caution and due diligence and be prepared to challenge.

Beware pay to play

Many boards are now accepting direct applications after having posted the notice on dedicated recruitment websites. While the intention to publically advertise for non-executive director roles is certainly positive, many of these notice boards require would-be applicants to pay a monthly fee. This can have an unintended side-effect of limiting the pool of direct candidates to those who can afford to spend sometimes hundreds of pounds every month in subscription charges. If nomination committees are looking to increase the diversity of their directors, unintentionally restricting the opportunity to those with means can create a recruitment pool that hinders this objective.

A very particular set of skills?

A non-executive director is a unique job, requiring an inquisitive nature, strategic ability and a strong dose of courage to stand up for their own views and challenges. In other words, we need to widen our collective definition of 'merit' if boards or chairs are to successfully recruit for this all-important role. In a speech from Sir Roger Carr, Chairman of BAE Systems, he highlighted that being a non-executive director is more than a job, it is a privilege and vital to making a business valuable to society and the community. Directors may be hired for their expertise, but they are valued for their character.

If we were to construct an idea of the perfect non-executive director, we would likely conclude with a highly skilled all-rounder. Their most important responsibilities are to appoint the Chief Executive Officer, renew the board and above all, provide constructive challenge to the CEO and management team. Constructive challenge already offers some indication of the qualities a nomination committee might look for. Expertise in the company's main trade is naturally high on the list so as to challenge management from an equal understanding of the firm's place in the market. In addition, directors need an all-round ability to have clarity of mind on risk management, a vision for future strategy as well as a focus on succession planning.

But where boards often default to accountancy or finance background for future directors, we have often seen those who have spent their careers asking penetrating questions of those in power overlooked – examples might include lawyers, journalists or academics. We recommend that nomination committees look not just at whether candidates can fulfil the individual requirements of the role but also help meet the challenge responsibilities of the board collectively. Similarly, there is a need for committees to consider the context of both the role and the company which a director would be joining. A recommended candidate may be particularly well qualified in some fields but a committee might have to recognise that those would not be necessarily qualifications required for their board.

In their 2019 survey on successful board culture, search consultancy Russell Reynolds Associates found that there were some clear director behaviours which significantly contributed to a strong culture. This included when non-executive directors build and demonstrate trust among fellow directors, the board is 28% more likely to display a more engaging, effective and productive board culture – showing the importance of team mind-set in future directors.² Another key advantage was where non-executive directors were careful not to confuse helping with meddling – a major challenge in particular for those directors more familiar with executive roles. Where non-executive directors are hired from executive backgrounds, committees should be clear about how the advisory and challenge role of a director is distinctly different.

Our final quality we might look for in future non-executive directors is humility. Weighing evidence is vital and this requires a patient approach to listening and learning about the management of the business. Emotional intelligence is still an undervalued asset. In our experience, the best boards consist of individuals who are sure of themselves and their own expertise but respect colleagues for their contributions as they believe that others have equally important information to offer.

2. Russell Reynolds Associates, *Going for Gold: The 2019 Global Board Culture and Directors Behaviour Study*, 2019

Prepared for success

As boards increasingly look for the qualities and attributes of successful directors, as described above, over perhaps the more traditional background criteria, this opens the recruitment pool wider to include those who have not yet served on a board at all. According to research from executive search firm Spencer Stuart, approximately a third of all 2018 board appointments in the S&P 500 and FTSE 150 were new directors, serving on their first corporate boards.³ This is a trend we have encouraged for boards as the need for new skills such as cybersecurity has only increased and is more likely to be found at this time outside of traditional recruitment avenues. Boards can test first-time board member applicants by looking for examples of leadership and

integrity, among others, to ensure that they can bring the skills and attitude that is required to make a board all the more successful, regardless of a lack of prior director experience.

As the demands of directors have risen over the years, so have shareholders' expectations of those nominated to this all-important position. Boards which look to materially change their pool of available candidates face a number of hurdles from an over-reliance on networks to outdated recruitment agency briefs. We have outlined some of the ways nomination committees can look for the successful directors of the future, the characteristics and experience found to be most applicable, and why those with the skills most in demand need not necessarily have prior board experience.

3. Spencer Stuart, *Finding the right fit: assessing first-time candidates for non-executive directors*, 2019

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