SpencerStuart

Becoming a non-executive director

FOURTH EUROPEAN EDITION

Contents

Becoming a non-executive director

This booklet throws light on what board work entails and the steps involved in getting a suitable non-executive directorship for the first time.

With board composition continuing to be the subject of much debate throughout the world, the role of the non-executive or independent director is becoming more onerous. Boards are seeking greater diversity among directors and are considering a broader pool of candidates to ensure they have the right range of skills and experience around the table.

The expectations of non-executive directors continue to rise as businesses grapple with ever-increasing complexity. Geopolitical uncertainty, environmental, social and governance (ESG) reporting, the net zero imperative, growing stakeholder demands, corporate purpose and employee engagement are just a few of the challenges appearing on the board agenda.

Whether you are a sitting executive wanting to expand your experience or someone who is retiring and looking to develop a portfolio career, we hope you will find this booklet both practical and inspiring.

Different board structures

In these pages we try to identify those aspects of being a director which are common to all types of boards (both unitary and supervisory), but especially the boards of listed companies. However, we recognise that different governance systems have created different types of board structure. It is important to remember that the dynamics of the board and the responsibilities of the non-executive director will vary according to the board structure in operation. The role may also be slightly different in a state-owned or family-controlled business. Here are some of the more common types of board structure:

US-style unitary board — independent non-executive directors plus the CEO, who may also chair the board.

UK-style unitary board — a majority of independent directors with a non-executive chair and two or more executive directors.

Nordic-style supervisory board — non-executive directors only.

German, Benelux and French-style supervisory board — a mixture of non-executive directors and employee representatives elected by employees.

In some countries, such as France, Italy and the Netherlands, company law permits companies to choose between two or even three alternative board structures. In some cases, a two-tier board is mandatory if a company is a certain size or has a certain number of employees.

Family-controlled businesses and state-owned enterprises often have board structures that reflect their unique circumstances, while conforming to listed company governance requirements where relevant. This is also the case for private equity-owned businesses, which might have just one or a small number of non-executive directors until preparation for a listing which will involve building an independent board.

The role of the non-executive director in an organisation where there is a majority shareholder may be quite different from that of a director in a listed company with a broad shareholder base, particularly if the majority shareholder has a seat on the board. The role is more advisory: decision-making is unlikely to be by consensus since the majority owner will always have the final say.

As a prospective director, it is important to familiarise yourself with the local governance code and to fully understand the nuances of the governance system that prevails in your country. Similarly, if you are considering a directorship of a foreign company, be sure to prepare yourself and become knowledgeable about the specific governance requirements and practices in that jurisdiction.

If you are joining the board of a foreign-based company, be careful that you will not be at a disadvantage if you are not fluent in the local language, even if board meetings take place in English.

A note on terminology

Any references to boards apply to both unitary and supervisory (two-tier) boards. We recognise that each board structure gives rise to certain practices which are unique to that system. However, in this booklet we focus on best practices common to both systems.

Any references to the chair apply equally to the chair of a unitary board and a supervisory (two-tier) board.

Governance resources

The European Corporate Governance Institute (ECGI) makes available on its website (www.ecgi.global) the latest version of every country's corporate governance code. Its easily accessible archive contains a historical record of governance codes of every description produced in each jurisdiction.

Why become a non-executive director?

Before joining a board it helps to be clear about your motivation.

Why now, and why this organisation? Being a non-executive director is a significant commitment and you have to be sure that both you and the board consider it a worthwhile investment. We have found that most prospective directors are motivated by three things:

» the desire to make a contribution;

» personal development;

» the chance to enrich their executive role with new ideas and experiences acquired as a director.

Many successful executives view serving as a non-executive director as a logical next step in the progression of their careers. Benefits include exposure to different leadership styles, corporate cultures and business environments. For those who have served only on an executive committee, it is a chance to see issues from a board-level perspective.

Board positions also extend individuals' professional and personal networks, introducing them to senior executives from other industries, some of whom may serve as sounding boards or even mentors. Board service can prove an excellent transition into a post-retirement career, providing an outlet for experienced executives to continue to use their business experience.

Money should never be the principal reason behind the decision to become a non-executive director; the risk/reward ratio in most countries is uncommercial. Instead, people serve as non-executives because they want to broaden their horizons and they enjoy the intellectual challenge of being on a board. It is an opportunity to put their expertise to use, working with interesting and stimulating people. It is also a way to give something back to corporate life.

The main reason for becoming a non-executive director is because you have something of value to contribute to the board which will in turn benefit the company and its stakeholders. The company intends to benefit from your experience, wisdom and guidance, and expects you to be fully committed to ensuring the long-term health of the business.

“I wanted to broaden my perspective, gain different experiences and see a company from a different vantage point. I felt that it would ultimately make me a better, more effective leader.”

“I could see I would be amongst inspirational people and that I would be exposed to not just a different sector but a different culture and way of doing business.”

“Joining a board was one of the more purposeful things I have done in my life.”

The responsibilities of a board

Specific board responsibilities vary according to jurisdiction and the prevailing board structure. The key responsibility of all boards, regardless of their governance structure, is to balance the interests of the company, shareholders and other stakeholders by ensuring long-term growth that is profitable and sustainable. This involves oversight of the executive through active monitoring, constructive challenge and ongoing support.

Board responsibilities can be divided into six core categories:

Performance — to support the CEO and management in establishing the optimal strategy for the business for long-term value creation, to monitor the implementation of that strategy and to challenge and support the executive in the discharge of their duties.

Succession — to take full responsibility for the board's own succession including that of the chair and the CEO, and to ensure that the company has appropriate systems in place for effective succession at senior-executive level.

Compliance — to ensure that the business meets all its regulatory obligations, whether structural, behavioural or financial, and to secure the confidence of investors by upholding the highest standards of corporate governance.

Risk management — to set the right balance between risk and opportunity and establish the organisation's risk appetite; to understand the financial, operational, cultural and reputational risks faced by the company and the sector in which it operates, ensuring that all necessary measures are taken to mitigate and control those risks.

Reputation management — to have an understanding of and explanation for all decisions and actions taken by the company, ensuring these are properly communicated, whether the company is in crisis or not; to have an awareness of and sensitivity to the perception of the company by different stakeholders, including investors, customers and employees.

Purpose — to understand the company's role and impact in society, set the tone at the top of the company, and provide the executive with the external perspective — "bringing the outside in." To think long term, address ESG issues and recognise that regulatory compliance may not be enough to satisfy evolving stakeholder expectations.

This is not an exhaustive list. However, we believe that non-executive directors cannot properly fulfil their many responsibilities without deep knowledge of what the company does and an emotional commitment to how it does it. The most effective director is both a representative of all the stakeholders and an ambassador for the business.

Board composition

Board composition is at the heart of board effectiveness. Progressive boards continually consider whether they have the optimum composition. Their effectiveness is rooted in directors who reflect the strategic priorities and challenges of the business, understand future opportunities and relevant areas of risk, and mirror the diversity of stakeholders.

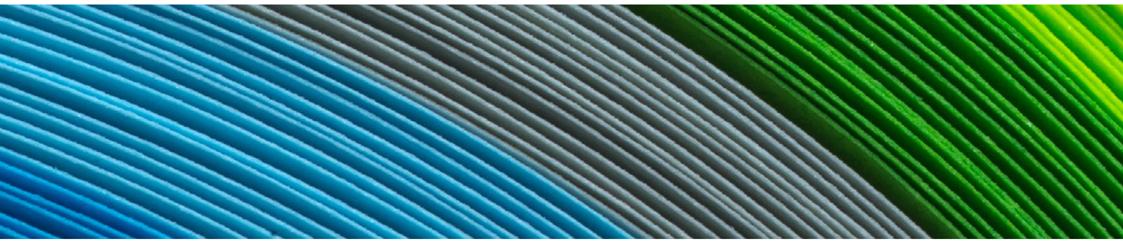
Boards need a mix of skill sets, but since they are most likely to operate effectively if they are kept small (between eight to twelve members), directors who can bring more than one of the desired set of capabilities are particularly valuable. Boards always need someone to chair the audit and remuneration committees, for example. So a CFO who can combine deep financial expertise with domain or sector experience, or a CHRO with experience advising the board on executive and company-wide reward schemes, may be particularly valuable. Directors with experience in digital or sustainability transformation and those from a particular sector or geography may also be sought.

It is increasingly the case that investors expect non-executive appointments to be facilitated by professional advisors. There are various reasons for this. First, investors expect a transparent and justifiable appointment. Second, objectivity should govern the choice of candidates and how the finalist is selected. Third, bias — real or imagined — is more likely avoided if the process is in the hands of an independent consultant. Fourth, an executive search firm will bring a broader perspective and make it easier to meet the board's specialist requirements. And fifth, a search firm will have access to a wide array of talent and know their availability.

In some sectors, regulators have made rules about who can be appointed and how they are vetted. This is principally found in the financial services sector where the financial regulator is responsible for setting the criteria regarding the relevant experience of board candidates and for checking their career history and credentials.

Board composition — some rules of the road

- The board's collective expertise should reflect the strategic priorities of the business.
- The ideal board size is eight to twelve members, except in the case of supervisory boards, which may need to be larger.
- Independent external directors should always comprise a majority on the board.
- Annual re-election and maximum recommended terms are desirable to guarantee refreshment, monitor performance and promote transparency.
- All boards should have sufficient diversity to avoid the risks of groupthink and a plan to comply with local regulations. Diversity should not be limited to gender, ethnicity, age, sexual orientation and socio-economic background but encompass different experiences and cognitive approaches.



» To be effective, boards should meet at least six times a year (the average number of scheduled meetings among the top 150 FTSE companies is eight) and outside directors should be prepared to devote 20–30 days to the business, including committee work.

» Outside directors should not be appointed to cover an executive weakness — that should be addressed at executive level.

» Directors should exhibit genuine interest in and commitment to the company and its purpose.

As the steward of corporate behaviour, the board should ensure that its own culture is beyond reproach.

The non-executive environment today

The sheer complexity of today's business landscape means that more is demanded of non-executive directors than ever before. Boards are now having to deal with political and economic uncertainty, market volatility, regulatory changes, ESG issues, and rapid changes in technology, as well as increased transparency, investor activism and media scrutiny.

The non-executive director's role is more visible than ever and involves greater responsibility and time commitment. On the whole, though, remuneration has not kept pace with these changes.

In many countries, boards have been getting smaller and this has added to the rising demands on directors. Boards tend to meet six to nine times per year, but this figure varies widely and does not include committee meetings, conference calls to discuss urgent items that need to be dealt with between meetings, visits to company locations, and other business activities or ad hoc meetings. Non-executives today have to be more engaged than ever to fulfil the eclectic demands of the role.

The existence of term limits for directors means that boards can be refreshed to reflect the current and future needs of the business. Term limits vary by market, but generally amount to three terms of three or four years (e.g. nine years in the case of the UK), after which a director ceases to be considered independent. Most directors will serve more than one term providing they are making an effective contribution.

Diversity continues to be a priority for boards everywhere and there are multiple dimensions to consider, including gender, ethnicity, age, sexual orientation and socio-economic background. However, chairs increasingly recognise the role that cognitive diversity plays in fostering better debate and decision making — and reducing groupthink.

The number of committees has grown beyond audit, remuneration and nominations, with more boards creating committees to cover topics relevant to the business such as safety; ethics; innovation; science; and technology. The rapid rise of ESG up the agenda has resulted in more boards across a range of sectors establishing a committee covering topics such as sustainability, climate change, decarbonisation, human rights, labour standards, good citizenship, workforce engagement, and diversity, equity and inclusion. These tend to be called sustainability, ESG or CSR committees.

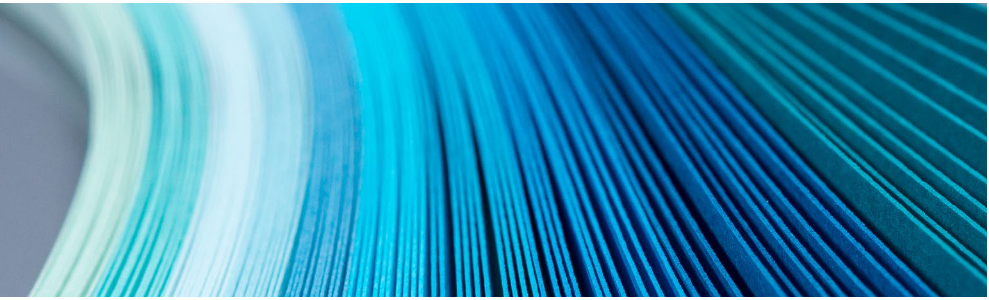
In the UK, Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) rules state that banks and insurance firms to have a separate board risk committee. Outside of financial services, few companies have a separate risk committee, although it is interesting to note that a growing number of audit committees have been renamed audit and risk committees in recent years.

The work of the remuneration committee has become particularly sensitive and subject to intense scrutiny in most listed companies, in part due to increased transparency around pay ratios and widening inequality in society.

What the boards of listed companies are looking for in non-executive directors

Traditionally, chairs tended to choose people with prior board experience or those who already sit as executive directors. But boards are casting a wider net in order to find more diverse expertise and experience. As a result, they are appointing executives from below board level, people from advisory backgrounds and, in some circumstances, from the public sector and academia.

There has been an upsurge in first-time board appointments as companies look to introduce more diversity and bring in people with specific areas of expertise (e.g. technology, sustainability, regional markets). Other companies may be seeking people with first-hand experience of digital transformation, organisational design, and customer insight.



Regardless of the specialist expertise being sought by a board in a given business context, there are certain characteristics that define an ideal non-executive director. They should be:

- commercially aware and financially literate, with a good appreciation of risk;
- internationally minded and, potentially, multi-lingual (depending on the business);
- interested in the business, committed and well prepared;
- well-versed in dealing with complexity;
- objective and independently minded, prepared both to challenge and support management yet still be a team player;
- a relationship-builder and an ambassador;
- intellectually flexible with a sharp mind, able to think laterally and beyond their area of expertise;
- conversant with the prevailing governance practice and fiduciary duties;
- fair-minded, having absolute integrity and wisdom and above all courage and common sense;
- articulate and persuasive whilst being a good listener and a good communicator;
- and — perhaps most importantly — low in ego yet high in self-confidence.

The role of the non-executive director

Non-executives need to gain a rapid understanding of the business in order to identify the questions that really matter, contribute insight and help reach sound decisions.

Being outside the mainstream of the company, non-executives have to work with partial information and get to the heart of an issue rapidly. They are required to be at arm's length and fully accountable at the same time. Non-executives are also expected to think strategically about the business, often looking five or 10 years ahead.

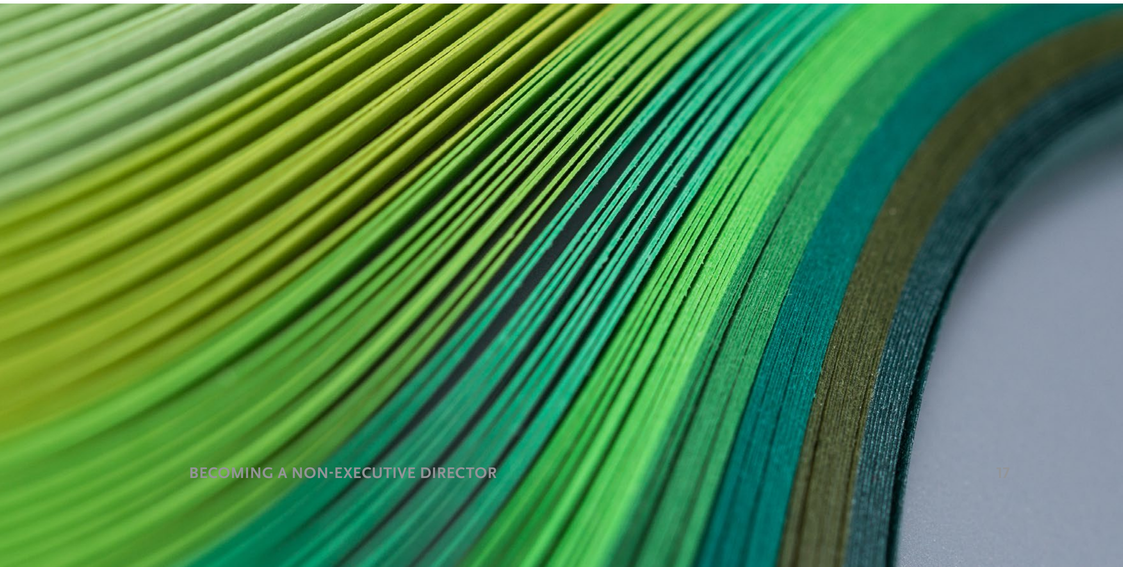
> **The director needs an openness, a desire to learn and diplomacy; to make the effort to integrate into an existing team; and the courage and tenacity to ask the tough questions and get answers, pursuing what is best for shareholders.**

Several factors influence the role of the non-executive director, including cultural considerations, the prevailing governance system and the structure of the board. While it varies from country to country and from company to company, the role of the board — and therefore the non-executives on that board — is to:

» help facilitate development, constructively challenge and monitor delivery of strategy;

» contribute outside-in perspectives on key trends, risks and opportunities;

- set standards and targets for the management team;
- scrutinise management performance and monitor reporting;
- confirm the integrity of internal controls and financial reporting;
- determine how risk will be evaluated, calibrated and managed;
- determine senior executive remuneration (through the remuneration committee);
- appoint and remove senior management;
- help develop long-term succession plans;
- monitor and maintain good corporate governance; and
- act in the best interests of all stakeholders, not just shareholders.



Director recruitment and the nomination committee

Board composition and succession involve much more planning than in the past, as boards recognise that the company's strategy and direction should inform the range of skills most needed around the table. A good mix of expertise aligned to the strategy will ensure that a board can fulfil its responsibility to advise, supervise and challenge management. According to our research on board tenure across Europe, directors generally rotate off boards after serving a minimum of six years. Assembling the right board is therefore a constantly evolving process and doesn't happen overnight. As a result, director recruitments are often planned well in advance.

Board succession is most often the responsibility of the nomination (or nomination and governance) committee, although director appointments are formally made by the whole board, generally on the committee's recommendation. In some countries, the board chair will also chair the nomination committee. It is interesting to note that in Norway and Sweden board nominations are the responsibility of a shareholder-elected committee which may or may not include members of the board.

How to get a non-executive directorship

If you are a serving executive it is important to get full buy-in and support from your own company's board and senior management and to think about how being a non-executive director fits into your overall career plans. You should remind your employers that you will bring your learning back; they aren't losing an executive, but gaining additional insights from outside the business. Once you have secured a directorship, make a point of sitting down occasionally with your CEO or chair (if you happen to be a CEO) to discuss what you have learned and how you are incorporating this into your work for the benefit of the company.

You cannot rely on others to seek you out; you must put in a concerted effort to find the right directorship. So network: "wear out the shoe leather, and be prepared to drink a lot of coffee." Every meeting with people outside your organisation is potentially of value. You never know who talks to whom on your behalf. Therefore, consider those colleagues, friends and people you have worked with who could be valuable advocates for you and who are well connected with the companies or sectors you are interested in.

Make sure you are well known in the community of executive search firms operating at board level. It helps to approach them with a recommendation from someone influential, so think about who might act as your sponsor for such introductions. Equally, if you have been responsible for hiring people via executive search firms, ask your contacts to introduce you to their board practice colleagues.

Get yourself up to speed with markets, corporate governance and the regulatory environment of the sector(s) that interest you.

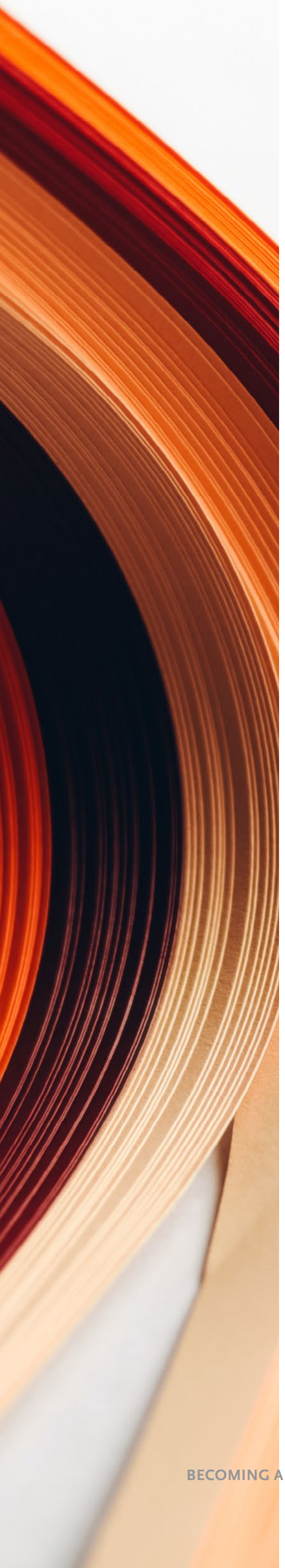
Consider any relevant experience you may have

You first need to know yourself. Be honest about your strengths and weaknesses and the level at which you work. Consider the role you could play and those areas where you could make the best contribution.

Before signalling your intention to become a non-executive director, it is important to think carefully and honestly about what you could offer. What knowledge, skills and experiences have you acquired during your executive career that might be of value? What kind of company or organisation would derive the greatest benefit from having you as a member of its board?

Non-executives are normally appointed because they have specific sector, geographic, financial, commercial, marketing or other expertise that is relevant to the company's business. Technical expertise may be highly valued, but candidates with expertise in AI or data and analytics, for example, must also demonstrate an interest and competence in other areas.

Role specifications tend to be quite specific, but non-executive directors need to be good all-round contributors, albeit with spikes in certain areas. There are three essential requirements in director selection: financial literacy, commercial acumen and an appreciation of risk.



Bearing in mind that every board appointment has its own particular context, here are some of the areas of expertise that boards may be looking for:

Commercial/operational experience: Full P&L/balance sheet accountability; strategy development; restructuring; M&A; integration; divestitures; turnaround; growth; innovation.

Functional responsibility: Finance; HR and remuneration; digital technology; manufacturing; marketing; supply chain.

Additional skills & experience: Capital markets, financing and investor relations; crisis management; media relations; regulation and compliance; specific international or regional exposure; expertise in climate change and broader sustainability and DE&I issues.

Your CV

It is good practice and generally necessary to prepare a CV with a non-executive orientation.

It is remarkable how many candidates have not refreshed or even looked at their CVs for many years. Regardless of whether you are being considered for a position, preparing a CV is a helpful discipline; it forces you to identify which aspects of your career are most worth highlighting.

If you are approached about a non-executive directorship that interests you, ask to see the role specification before submitting your CV. You should aim to tailor your CV to emphasise those aspects of your expertise and experience that are relevant to that specific opportunity.

Above all, put yourself in the reader's shoes. The reader needs to feel that he or she wants the experience that you offer.

Here are some tips for working on your CV:

- Think about what a good non-executive brings to the table. Use words and phrases from the job specification.
- Highlight any board-relevant experience, for example:
  - entering new markets
  - developing new products
  - devising new channels to market or marketing strategies
  - exploring new digital opportunities
  - business and/or technology transformation

– M&A, including JVs and divestitures

– capital raising and refinancing

– turnarounds

– crisis management

– talent management

– championing sustainability and/or DE&I

» Summarise specific challenges and achievements in each role; put them in context and quantify them as far as possible.

» If you have remained in one company for much or all of your career, show evidence of all the different roles you have fulfilled.

» If your entire career has played out in one sector or function, demonstrate how your experience is applicable to other sectors.

» Use numbers to demonstrate scale and context.

» Aim to differentiate yourself, to make your profile memorable.

» Be concise as well as comprehensive; two pages should be the maximum.

» Organise your CV in reverse chronological order.

» Stick to facts; emphasise your strengths but don't exaggerate.

» Never lie; be honest about less successful activities and do not leave any gaps.

» Use plain language; avoid jargon.

» Include some personal details — but keep them brief and relevant.

Spencer Stuart Board Intrinsics™

> **In defining briefs, search firms should work to ensure that significant weight is given to relevant skills, underlying competencies and personal capabilities and not just proven career experience, in order to extend the pool of candidates beyond those with existing board roles or conventional corporate careers.**
>
> *Excerpt From The Standard Voluntary Code of Conduct for Executive Search Firms, 2019*

By focusing on the intrinsic qualities of first-time director candidates, Spencer Stuart has developed a set of objective measures to help chairs and nomination committees determine whether candidates without board experience have the capacity to be high-performing non-executive directors. Establishing these qualities is particularly important when considering people from outside the business world for whom the learning curve involved in joining a board is extremely steep.

Spencer Stuart's Board Intrinsics™ assessment approach focuses on intrinsic, underlying talents and competencies, assessing potential non-executive directors against five key attributes:

» Intellectual approach

» Independent-mindedness

» Interpersonal skills

» Integrity

» Inclination to engage (motivation).

Those candidates who score well in all five areas are most likely to be capable of contributing as ‘all-round’ directors, in addition to the specific knowledge, skill or set of experiences that makes them of interest to boards. They also understand that as a non-executive, the spotlight is not on them and that their focus should be on others, on working as part of a team to lift the performance of the company.

Why are these qualities so important? Certain elements of the board director’s role, such as understanding and applying corporate governance best practices, can be acquired through training and directed reading. Other aspects, such as developing a deep understanding of the company’s strategy, require judgment which is a critical component of business leadership. This is less easy to learn. Board directors need to be comfortable dealing with complexity, able to bring analysis and logical reasoning to bear on new, ambiguous or fast-changing situations in order to reach a sound decision. Prospective directors who can work with complexity in an unfamiliar environment are the ones most likely to learn and adapt to the challenges faced in the boardroom.

Intellectual agility is vital for non-executives, especially those new to the sector and anyone who has not had the luxury of decades of gradual learning to build up their knowledge of the company’s situation. Directors need to have the capacity to make quick assessments and identify key issues.

Working with search firms

Boards are expected to demonstrate that each non-executive director appointment is the result of a thorough, impartial and transparent selection process. Most appointment processes today are managed by search firms specialising in board-level appointments.

It is worth developing relationships with several firms to make sure that they know that you are interested in a non-executive directorship. This means not only staying in touch regarding your own aspirations, but also being prepared to share your knowledge and views of others and offering to help on searches where you may not be a candidate by suggesting suitable people that the search firm might contact.

Search firms are keen to know about talented people who may not yet be on their radar, people who are ready and willing to join an outside board. They conduct interviews with a diverse range of people just to get to know them and to increase the pool of prospective non-executives. They don't just talk to board-level people, but to executive team members and the layer below that.

The search process

In the spirit of good governance, non-executive director searches are becoming increasingly competitive for executive search firms. Companies will often ask several firms to pitch for the mandate to find a new director.

A typical search process is described below, from the perspective of the executive search firm and the client/company:

» The search consultant works with the client to understand the requirement and define the brief. This process is usually led by the chair.

» The search consultant meets directors of the company to understand the board culture and style and to work out what type of individual will succeed.

» The search firm conducts structured research alongside brainstorms, considering anything from 20–100 potential candidates, eventually whittling the list down to, say, 12–16 names.

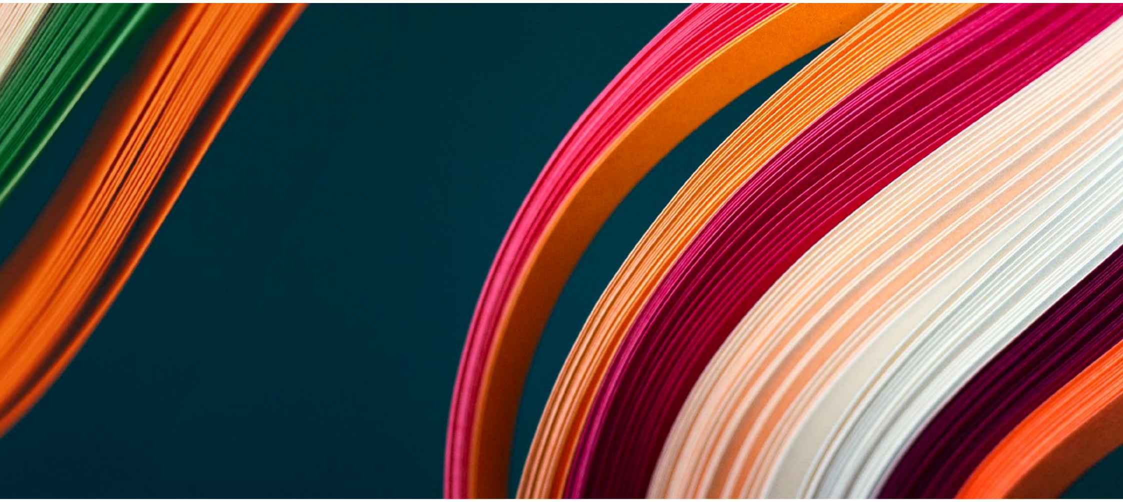
» A short list of six to eight names to approach is agreed with the nomination committee — or a sub-committee usually led by the chair; some early referencing takes place.

» Interested candidates are interviewed by the search firm.

» Detailed, written candidate presentations are sent to the client.

- The client interviews three to five final candidates. Generally, candidates will meet the chair first, then one or two non-executive directors. A smaller number will go on to meet the CEO (and CFO), together with other members of the board.
- An offer is made, formal references are taken, education verification and other checks (e.g. media) are made, and a contract signed.
- The search consultant follows up with the client and the successful candidate, then notifies the unsuccessful candidates.

The search process for a non-executive director can take three to four months, sometimes longer. In the case of regulated businesses, appointments cannot be announced until they have been approved by the regulator, which may take some months.



Choosing the right company

Your first directorship is very important and can be career-defining. It is also the hardest to get and will often take the longest; other opportunities will usually follow more quickly once you are a non-executive director and have gained some experience.

A serving executive is generally allowed only one, or very occasionally two, non-executive roles, so it is vital to choose the right company. Your options may be limited by your own board or by local corporate governance rules. You have to be realistic and pragmatic. Organisation size and status aren't everything; you should consider the options most suitable to your background and experience.

Similarly, if you are about to retire from executive life the first non-executive directorship you choose is critical — it will signal the scale and type of company you are interested in and position you for future opportunities.

Identify sectors you are familiar with or that are contiguous with the day job. Look for companies that need your particular expertise or where your functional expertise is readily applicable. Consider companies you can learn from as well as contribute to, avoiding any that pose a commercial conflict.

Bear in mind the following:

- » Will the role sustain your interest? Sitting on a board for several years feels like a long time if you're not enjoying it. Consider whether the role is likely to be as interesting to you in, say, six years' time. Think about how the board agenda is likely to evolve over the next several years.
- » Mistakes will be on your CV forever.
- » Do not underestimate the time commitment, generally 20–30 days per annum for non-regulated businesses, barring crises or deals. Regulated businesses, especially those in financial services, take up much more time. It is not just a question of preparing thoroughly for meetings (reading all the board papers is essential), but also making time for site visits, meetings with management, and additional ad hoc conversations.
- » Aim high, but be realistic.
- » Don't be hasty: the right opportunity is unlikely to become available immediately. Don't be surprised if you go to many interviews before you find a board that is both willing to hire you and a good fit. This is normal, so be patient.
- » Think through any potential conflicts of interest.
- » Be prepared for rejection. You won't get every directorship you go for. Try to find out why you were turned down and learn from it.

Due diligence

If you are an active executive joining a board, especially a listed company board, you will be making a significant commitment in terms of time and reputation, so you need to be confident you are making the right decision. Thorough due diligence not only provides that security, but helps accelerate your preparation for the role. It will also reveal whether your expectations are aligned with the board's and enable you to proceed with confidence.

Below is a to-do list. The more you can cover before meeting the company (usually the chair first), the better.

- Understand the company as well as an outsider can: the operations, the business model, the people, the challenges and opportunities. A brief surf of the website is not enough. Read analysts' reports and media coverage in addition to the annual report and other background information on the company.
- Get to grips with the sector, the competitors and the market: issues, trends, macro factors, disruption, etc.
- Learn what you can about the company culture. Review the company's social media activity as well as third-party platforms such as Glassdoor; this will give you a sense of the company culture, style and tone.
- Spend time with the designated non-executive director for workforce engagement (if such an appointment has been made); employee engagement has become a regular agenda item for many boards.
- Look carefully at who else sits on the board. Learn what you can about them and, if possible, about the board dynamics.

- » Visit company sites where possible; sample and get to know the product or service; speak to customers and consumers.
- » If not already set out in the role specification, ask for board dates for the next two years to ensure that you will not have timetabling conflicts. Do this before you commit yourself.
- » Understand the likely time commitment, bearing in mind the additional time that might be required in a crisis.
- » Talk to as many people as possible, including those who have worked in the organisation and those who know directors on the board. Search firms can also be a useful source of information.

The quality of the chair should be a key part of your decision making. This is because it is the chair who runs the board and is responsible for its composition, overall style, culture and effectiveness, as well as setting the board agenda. It is vital that the chair has your respect. Of equal importance is the relationship between the chair and CEO as this will have a significant effect on the board's dynamics and how it operates.

Try to meet the rest of the board as well, both executive and non-executive directors, and work out the key relationships, style and values. Above all, make sure the cultural fit is good and that you are confident your voice will be heard.

> **During the course of my interviews I read an enormous amount about the company. I looked up the analyst calls, read filings and asked a lot of questions, specifically about the dynamics of the board. They had me meet every member of the board so I got to see how they spoke about each other.**

You should also be clear about why the board is interested in you and how your presence would complement the existing directors. If you have no apparent role you will be frustrated and lose confidence. Work out where you can deliver differentiated value and gain a thorough understanding of the business model. Bear in mind that there is always more to a business than meets the eye. A good chair and CEO will give you time to learn the ropes, but you must be absolutely committed to this.

It is also important to ask yourself, "Will it be enjoyable?" This will depend to a large degree on having a clear sense of purpose about your role, the cohesion and unity of the board and the chair's leadership style. Directors who derive the greatest enjoyment from their board roles choose wisely, have good cultural alignment and strive to make a positive contribution.

Once you are close to accepting an offer, ask to talk to the company's advisors such as accountants, brokers, bankers and lawyers.

Familiarise yourself with the company's directors' and officers' liability insurance policy.

Find out if the company has a history of investor activism. Are any activists on the register and represented on the board?

Be prepared to say no to the opportunity if you have doubts.

So, as you explore how a new board opportunity might fit with your interests, skills and style, consider the following questions as part of your due diligence:

- Do I really understand the business model? How does the company make its money?
- What do I have to offer this company?
- What will be expected of me as a director?
- Do I feel comfortable with the chair? Will he/she support me and provide me with the space to contribute?
- What is the reputation of the company, the board and the management?
- How effective is the board I am about to join?
- What is the relationship between the board and management?
- What is the likely agenda for the next five to six years? How might I be able to contribute?
- Will I have the credibility to influence boardroom discussion?

Preparing for the interview

An interview for a non-executive directorship may seem more like a conversation, but it would be sensible to prepare answers to a range of questions along the following lines:

» Why do you want to be a non-executive director?

» Why are you interested in us?

» What can you add to the board?

» When have your actions had a significant and lasting effect on a business?

» Do you have any examples of re-inventing or re-orientating a business?

» When have you challenged the conventional wisdom?

» How have you resolved situations of conflict?

» What has been your experience with diversity, equity & inclusion?

» What has been your experience of dealing with climate change and broader sustainability issues?

» When have you had to set an example of upholding strong principles/ethics?

» How would your peers describe you? What are your strengths and weaknesses?

» What are the three things in your career of which you are most proud?

The interview process

You are likely to have a series of interviews before receiving an offer. These will usually follow the following sequence:

1. Executive search firm;
2. Board chair;
3. Other non-executives;
4. CEO, CFO and any other executive directors.

> **A lot of due diligence is done during the interview process — checking the chemistry, finding out how board meetings are run.**

The following guidance may be helpful

» Show that you have done your homework on the company and its strategy.

» Show genuine interest, curiosity and enthusiasm for the company (and the sector).

» Be yourself — be open and engaged.

» Answer questions properly but succinctly, using relevant examples from your own experience.

- Be clear about why you want to be a non-executive director and what you can offer.
- Prepare questions to ask on:
  - the company and its strategy
  - recent events/news stories
  - the style of the board and meetings
- Don't be afraid to ask challenging questions about potential issues in the company.
- Don't do all the talking; listening is as important.

Onboarding

Chairs and boards have a responsibility to ensure that new directors are given proper support in learning their role so that they can get up to speed as quickly as possible.

One of the most common things we hear from new directors is that they would have liked a more thorough onboarding process ahead of their first meeting.

Board inductions are usually overseen by the company secretary, although we recommend that new directors take the initiative and help to shape a programme that will get them inside the business. Don't be afraid to ask for the process to be tailored to your needs if you feel you want to explore certain areas of the business in greater depth. Expect your induction to take up additional time during the first year.

Time spent with the CEO to learn about the business is critical. Most CEOs will be happy to arrange for a new director to see key projects first-hand and meet the people running them, as well as spend time with other members of the senior management team.

> **They were completely open to me meeting other people, but it wasn't part of the formal induction programme. I found those conversations to be the most enlightening because I simply got closer to the business and to the work.**

A proper programme will involve:

- a review of the previous 12 months' board (and committee) papers/minutes to understand key and current issues;
- presentations from management on the business model, profitability and performance, and relevant ESG issues;
- meetings with heads of finance, marketing, IT, HR, and other key business functions;
- reviewing investor and analyst perspectives with the head of
- investor relations;
- site visits to understand how the business works on the ground and to meet people in charge of operations;
- meetings with all key advisors: bankers, brokers, lawyers, accountants, remuneration advisors, PR advisors.

Make sure that from the outset you have a good working knowledge of current corporate governance codes and guidelines. Also be fully aware of your legal responsibilities as a director.

It can be a good idea to participate in one of the many new director training programmes. Such events offer the opportunity to become more familiar with boardroom debates and governance issues. You may meet well-connected individuals who can offer unique insight into the role of the non-executive director and the director selection process or who will be in a position to recommend you at some point in the future. Expanding your own network through these types of events can be one of the most powerful ways to enter the community of board directors.

Acting as a non-executive

The one thing I had to understand was the difference between being an executive and being on the board.

One of the most common difficulties for first-time directors, especially senior executives, is adjusting to a more detached, supervisory role. This means focusing on the strategic rather than the operational agenda and understanding the difference between governance and management.

Being a non-executive director is different from being an executive director and some first-time directors take longer than others to make the switch between executive and non-executive ways of thinking and behaving. Most understand at an intellectual level that they will need to approach their board responsibilities in a different way from their executive role, yet underestimate how difficult this transition is in practice. As a non-executive director you exercise power through influence.

It takes time to learn how to add value to board discussions without stepping on the toes of management. Taking time to listen and learn is a crucial aspect of gaining the respect and credibility of the rest of the board. How you ask the question is as important as the question itself.

As a non-executive I try to frame questions carefully to show that I'm not yet sure about something but want to give management the opportunity to explain and convince me.

In the role of non-executive director you are expected to engage at a higher level and in a more detached manner than you will be used to in your executive role. With meetings taking place monthly or bimonthly it can be difficult to work out whether you are adding value, or even what value looks like, especially when your day job involves taking responsibility for high-quality execution. You may see things that need to be taken care of and want to get more actively involved, but as a non-executive director you have to trust that the executive team will get it done.

In your first year, if there is something that you do not understand, always ask. You don't have to wait until the next board meeting to do so. If you disagree with a proposal outlined in the board papers, raise your concerns with the chair in advance; try to avoid dropping a bombshell during a board meeting.

You have to be keenly aware of when to interject, when to push something very hard and when to step back. The skill lies in asking the right question in the right way — not to disempower or create a disincentive for management, but to encourage them to think about things a little differently.

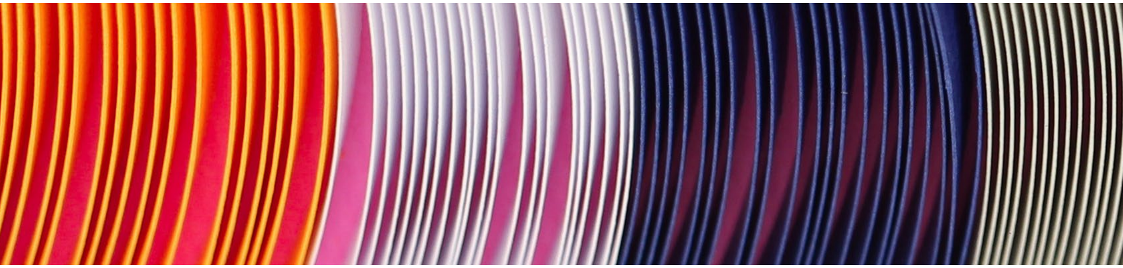
There are new conventions and protocols to learn. You are:

- Acting as an advisor (part-time) vs. an executive (full-time).
- Being provided with detail vs. issuing the information.
- Challenging the story vs. presenting and delivering it.

First-time directors often need guidance on how to behave around the boardroom table because acting as both sparring partner and supervisor can create difficulties. Be prepared to ask for help. First-time directors used to receiving feedback in their executive capacity can find it difficult to adjust to a role where it is less readily available.

Having a mentor on the board, at least for the first year, is highly recommended. A mentor can help you prepare for board meetings and have a de-brief conversation with you following each meeting. As a mentee, you should take this relationship seriously and prepare questions before each conversation with your mentor.

Regular check-ins with the board chair (and CEO) will help you gauge your performance and learn how you can offer more helpful input.



Beyond informal individual feedback, the board may have a process for providing feedback to each director as part of the board's annual self-evaluation. Where this practice is in place, first-time directors tend to be quite comfortable with it and welcome the feedback. If there is no process for individual director feedback in place, the new director can serve as a catalyst for establishing this healthy practice by asking about it directly.

How much you learn as a non-executive director will have a great deal to do with the level of intellectual curiosity and open-mindedness that you take into the role. Your choice of board should be determined by how much you stand to learn, as well as how much you have to offer.

Remember:

» It is a team sport.
» Pick your battles.
» Don't get too granular!

Beware overboarding

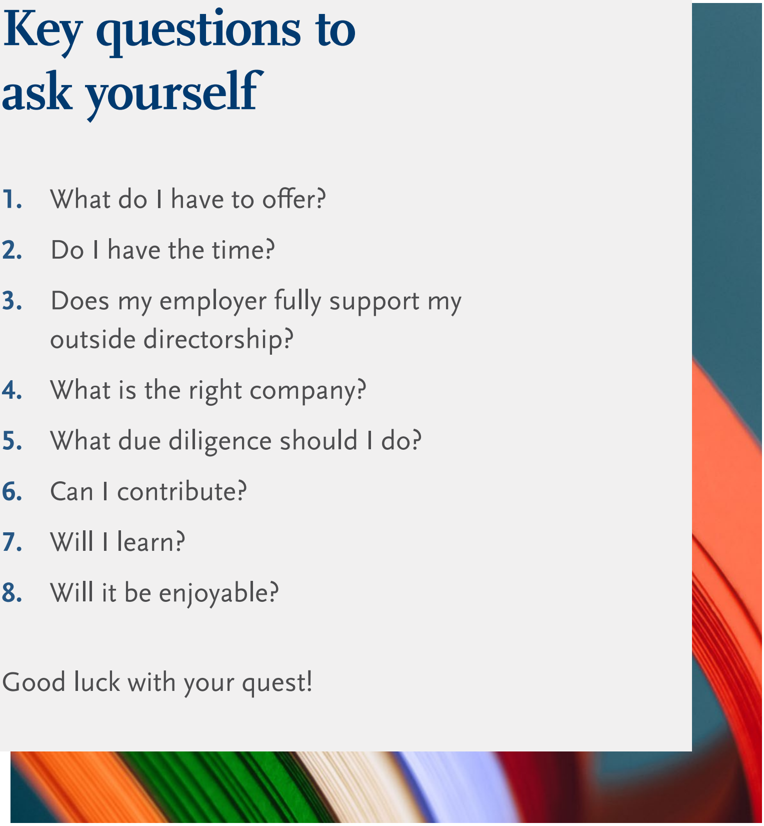
Investment organisations, proxy advisors and institutional investors such as ISS, LGIM, Glass Lewis, Vanguard and BlackRock are toughening their stance on 'overboarding' and several European countries impose restrictions on the number of listed company directorships an individual can have via a system that allocating points depending on whether a director is the board chair, a plural non-executive or a serving executive. If you are not limited to a single non-executive directorship, it can be tempting to try and do too many.

Don't take on too much — especially if you already have additional commitments such as trusteeships or non-profit boards. Your time is finite and managing a portfolio of roles can be demanding. You have to be able to commit enough time to discharge your duties properly. Less is more, since there may be crises or deals at one of the companies you're involved in which will necessitate spending more time than you had anticipated.

Key questions to ask yourself

1. What do I have to offer?
2. Do I have the time?
3. Does my employer fully support my outside directorship?
4. What is the right company?
5. What due diligence should I do?
6. Can I contribute?
7. Will I learn?
8. Will it be enjoyable?

Good luck with your quest!



About Spencer Stuart's Board Practice

Spencer Stuart has been helping companies around the world to strengthen their boards and improve their effectiveness by sharing governance best practices for over 50 years.

Our global Board Practice has a strong presence in local markets, a deep knowledge of governance issues and an international network of experienced consultants.

We work together seamlessly to identify high-quality independent chairs and directors who add value to the strategic direction of our clients' companies.

Our clients include publicly quoted, private equity-backed, major private and family-owned businesses, as well as start-ups and non-profit organisations.

We contribute to the understanding of effective governance through our many board-related publications, including our annual Board Index series.

Our global team of board specialists has unrivalled knowledge of the director candidate pool and the judgment and experience to help clients make wise decisions about board composition and succession. We have conducted more than 1,200 board director searches world-wide in the past year alone.

We are committed to all aspects of diversity in the boardroom. Over 3,400 of our global corporate board director placements have been women and more than 1,100 of our board director placements have been from underrepresented racial and ethnic groups.

Our board services include:

Board advisory

We advise board and committee chairs on governance best practices and counsel them on succession planning, director orientation and ongoing education.

Board assessment

Using a methodology refined over many years, we conduct board assessments for clients around the world that result in high-performing, more effective boards.

Director recruitment

With our unparalleled access to and knowledge of the candidate pool, we place outstanding non-executive chairs and directors who add value to the boards they join.

Director education

Since 1995 Spencer Stuart has been running its highly acclaimed UK Directors' Forum role-playing programme for prospective non-executive directors.

Since 2019 we have hosted the twice-yearly Spencer Stuart UK Chair Forum. It is designed for recently appointed and aspiring listed company chairs. See also: Becoming a non-executive chair.

In 2017 we launched an annual German Directors' Forum programme at Mannheim Business School. Other prestigious events for board members are held in numerous countries around the world.

*Visit **www.spencerstuart.com** for details on how to contact your nearest Board Practice consultant.*

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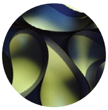
Further reading

A wide range of articles relating to the role of the board and that of the non-executive director can be found on the Spencer Stuart website, www.spencerstuart.com. Here is a selection:



Spencer Stuart Board Indexes

Our series of Spencer Stuart Board Indexes provide a comprehensive view of board composition and governance practices among leading listed companies across the world.

Boards Around the World

An interactive exploration showing how boards around the world compare on a range of measures, such as diversity, composition, compensation and more.

Sustainability in the Spotlight: Board ESG Oversight and Strategy

Spencer Stuart and Diligent Institute surveyed 590 corporate directors on how their boards are structuring ESG oversight and how they are preparing directors to fulfil their responsibilities.

Cybersecurity and the Board

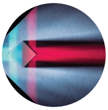
Cybersecurity has become a board-level issue — especially as regulators are pushing for more oversight. That's why more boards are seeking directors with cybersecurity backgrounds.

Adding the Customer's Voice to Your Board

In the tech and product services sector, more companies are seeking independent directors who represent the client perspective. We spoke with some industry leaders to learn more about this trend.

New Director Onboarding: 5 Recommendations for Enhancing Your Program

All too often, onboarding programs fall short. We offer some ways to close the gaps.



How Next-Generation Board Directors Are Having an Impact

Board chairs and next-gen directors weigh in on how the growing number of younger members are changing the dynamics of the boardroom.

The Five Most Common New Director Questions: Advice for first-time board directors on getting a strong start

Directors from around the world share what they learned from their first board experience.

Boardroom Best Practice

What makes an effective board? Best practices from Spencer Stuart, based on extensive board advisory and director recruitment work with many of Europe's leading listed companies.

Board governance

Spencer Stuart has long played an active role in corporate governance by exploring key concerns of boards and innovative solutions to the challenges they face.

Visit the *Board Governance* page on our website to view the full suite of Spencer Stuart Board Indexes as well as numerous other board-level publications and articles.

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