



# Raising the bar higher on the level and quality of contribution from your non-executive board directors

*In our board best practices workshop, one of the interesting exercises we set for the board team is to imagine a scenario where the next few board meetings are streamed live to all the shareholders, employees and stakeholders providing them with a very unique opportunity to see their board directors and executives in action, both at an individual level and as a collective board team. In this scenario, the shareholders, employees and stakeholders are asked to closely observe each board director in action, how well prepared they seem for the board meeting, the nature of their engagement but most importantly as they watch that board director in action, the level and quality of their contribution to the board. We then indicate to the board members that at the end of the series of board meetings being streamed and observed, the shareholders, employees and stakeholders would take a vote to either retain or replace each individual board director or to retain or replace the entire board team!*

**This exercise has an incredibly focusing effect for board members in terms of bringing home to them that irrespective of all their previous board experience, executive experience and their previous contribution and performance on this board, what matters right here and now is are you as a non-executive board member making a very significant high-quality contribution to your board?**

Could you stand up today in front of your shareholders, employees and stakeholders and hand on heart say that you can genuinely justify your place in this board team, that you bring your A-game consistently to this board, make a strong contribution both in oversight and strategically and that you represent a vital component of this board team with a deep commitment to excel on behalf of your shareholders, employees and stakeholders?

When we help board chairs with implementing genuine robust annual performance reviews for non-executive directors (NED), we provide them with an assessment template and best practices guide utilising our "NED Contribution Matrix" outlined below to help them have a very honest thoughtful balanced and rigorous discussion with each NED to understand the level and quality of their contribution over the last year, the current level of their contribution, the positives, the areas needing improvement and agreeing a very clear roadmap for the NED to drive sustained improvement in their effectiveness and the level and quality of their contribution to the board team. We find that optimising each individual board director's contribution, effectiveness and performance is the key to driving strong improvement in the overall board team effectiveness and performance.

# Non-Executive Director (NED) Contribution matrix



I will now walk through what each of these represent in practice;

## Performance Oversight

At the core of every NED's role and responsibility is to hold the CEO and Executive team's feet to the fire on their own performance and the performance of the organisation. When done properly this involves significant hard work by the NED to;

- prepare properly for board meetings in terms of high-quality review of the board packs, particularly the performance information
- see past the immediate numbers and KPIs to understand the key trends and underlying factors
- provide the CEO and executive team the opportunity to explain the performance, key factors driving under-performance and mitigation plans to address this
- intelligently engage in robust challenge and debate, not being afraid to ask the very hard questions where needed

## Governance Oversight

The shareholders, employees and stakeholders of the organisation have entrusted a critical responsibility to each NED to act as a critical line of defence to protect the organisation in terms of comprehensive governance oversight of

- Compliance with national law, national/sectoral governance codes and regulations
- Internal/External Controls
- Protection of and duty of care to shareholders, employees, customers, stakeholders
- Organisation's ethics and "commitment to do the right thing"
- Cyber-security

## Board Dynamics

Each NED has a critical role and contribution to enabling a very health board dynamic which underpins a high-performing board. In particular their contribution to

- A virtuous cycle of high-quality challenge, debate, respect and trust
- Quality of major board decision-making
- Prioritisation of where the board is focusing its time on
- Overall effectiveness and performance culture of the board team

## Support to the CEO and Executive team

The litmus test for me in terms of how a NED provides support to a CEO and Executive team is that the CEO/Executive team would pick up the phone to the NED in between board meetings to seek their advice and guidance on key areas that they are struggling with or to get the NEDs thoughts on a potential new strategic move.

In my experience, when a CEO/Executive team genuinely respect the contribution and value that a NED brings to the table, this is where the magic happens in terms of an outstanding partnership between the NEDs and CEO/Executive team balancing outstanding levels of oversight, debate and challenge with the NEDs contributing significantly in the strategy area and providing high-value support to the CEO/Executive team.

## Strategy

The Covid-19 crisis cast an interesting spotlight on the “strategic firepower in the ranks of a board’s NEDs” as CEOs and executive teams grappled with and continue to grapple with incredibly challenging conditions requiring in some cases radical shifts in business model and strategic thinking. At a time where the CEO/Executive team could have really benefited from some sharp left-field strategic thinking and “independence of mind”, it simply wasn’t there in many cases. In a number of these cases, this was actually the CEO’s fault as many CEOs over the years have skewed the composition of the board’s NEDs to be primarily “safe generalist finance-oriented NEDs” who would not rock the boat and have the heavyweight sector expertise to threaten his/her “strategic primacy” in the organisation. In other cases, the strategic capability was there in the NEDs but a bit rusty as the CEO and executive team typically didn’t partner with the NEDs in the strategy area. *There is now a far greater acceptance within progressive boards that NEDs should be making a contribution to the strategy area. Clearly more will be expected of sector-specialist NEDs but I have seen some incredibly sharp generalist NEDs who would add value to any strategy process.*



## Culture, Values and Environment Social and Governance (ESG)

I asked a board chair recently for his thoughts on how did he feel about the individual contribution of his NEDs to these “softer areas”. He honestly admitted that he had never taken these into account in his annual review of the NEDs but would do so going forward. There is a growing emphasis within boards on how the organisation’s culture, behaviours, diversity/inclusion, value-system, commitment to ESG and “doing the right thing” are nurtured and how the board in close co-operation with the CEO/Executive team is demonstrating genuine leadership in these increasingly important areas. Each NED has a critical contribution to make in these areas and where required demonstrate the courage to stand up and be counted when the board as a whole may be losing its way in these key areas.

One of the questions I get most asked by boards, individual directors, executives and institutional investors is what sets apart the very best high-performing boards from the rest. Apart from the key components of outstanding individual calibre in

the board members, great board chair leadership, an incredible work-ethic, commitment to the organisation and diversity of thinking styles, **one common denominator I have noticed in every high-performing board team I have either evaluated or supported is a genuine performance culture where the bar is set extremely high for each board member individually and collectively.**

In addition to a rigorous comprehensive annual internal/external board evaluation, there is a very structured evaluation of each board member’s contribution, effectiveness and performance over the last 12 months with the board chair’s annual review being led by the senior independent non-executive director. This evaluation looks closely at the NED’s contribution in all of the key categories above and where there are “elephants in the room” that need to be faced up to, they are highlighted by the board chair, discussed and appropriate action plans agreed to address these issues. When conducted properly and embraced by the board members, this is a very healthy exercise that enables the board chair and NED to look in a very open honest and constructive way where their level and quality of contribution is at, the positives but even more importantly, where the NED needs to improve.

It’s also important to say that it is very rare that you will get a NED who contributes extremely well in each of the six categories above. This is precisely why board diversity is so important as you want to have a vibrant mix of skills, expertise, experience, sector-background, thinking styles and strengths in the six contribution categories that cumulatively results in a highly effective high-performing board team with every board director optimally contributing across their key strength areas.

I often see too many boards with finance-background generalist NEDs who are over-focused on Performance/Governance Oversight which is clearly important but have very little to contribute strategically. What I am also noticing right now is progressive strong board teams setting the bar higher for their NEDs to contribute on the categories of “Support to the CEO/Exec team”, Strategy and “Culture/Values and ESG”.



I have had many one-to-one discussions with board chairs over the years who simply cannot grasp the nettle and replace an under-performing NED. They would be very honest and admit that they realise that is what they should do as board chair but at a human level, they take the easy way out and end up carrying a board member who is not making a genuine contribution to the board and organisation. I have seen this happen regularly on every type of board from publicly listed company boards to charity/non-profit boards, from private-equity backed company boards to family businesses and membership organisations to public sector boards. They would often outline reasons such as;

- A long-serving board member who has been very loyal to the organisation and in some cases had been making over a number of years a significant contribution to the board
- The board chair and/or CEO are close to the NED personally and can't bring themselves to ask the NED to stand down
- The NED has a high-profile in the sector or community/country
- The NED is close to a major shareholder/ investor and/or stakeholder
- "We don't do things like replace NEDs in our board and organisation"

In these cases, I would very much empathise with the board chair on their dilemma but would remind them of the critical responsibility entrusted to them by the shareholders, employees and stakeholders that every board seat has to be occupied by a board member who is making and will continue to make a significant level of high-quality contribution to the board. I would very much encourage the board chair to have the difficult conversation with the board member, work hard to develop a plan to address the issues but ensure that the board member is crystal clear that if there isn't a significant improvement that the board chair would have absolutely no option but to replace the board member.

*I would also point out to board chairs that leaving under-contributing board directors in place for years on a board is one of the major factors behind poor board diversity as this robs the boards of the opportunity to re-fresh the board, strengthen its diversity, increase the proportion of heavyweight sector strategic NEDs, add new skills and expertise in areas such as technology and ESG.*

## Summary

We are now at a pivotal moment for the boards of so many companies and organisations across the world immersed in a public health and economic crisis of un-precedented proportions. **There has never been a greater responsibility entrusted by the shareholders, employees and stakeholders to each and every board member in terms of the level and quality of their contribution to the organisation.**

It's a bit analogous to the health warning that comes with many financial investment products "Past performance is no guarantee of future performance ...". Every single board member needs to continually justify their presence at the board table, no matter how impressive their previous board and executive roles are, what matters is here and now, are you consistently bringing your A-Game to this board team, making a very strong impactful contribution and contributing to the overall board team performance?

**Ensuring that there is a genuine performance culture within the board team and that every single board seat is occupied by a board member contributing strongly and replacing those who are not, is a fundamental component of modern board chair leadership. To do anything other than this, is doing a disservice to the shareholders, employees and stakeholders who have entrusted such a high degree of responsibility to the board chair and board directors.**

**Kieran Moynihan** is the managing partner of **Board Excellence** ([www.board-excellence.com](http://www.board-excellence.com)) – supporting boards & directors in Ireland, the UK and internationally excel in effectiveness, performance and corporate governance.

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