

How to choose a non-executive director

A Guest Article by Ken McCracken
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A valuable role in private and public companies

Non-executive directors (NEDs) can add value to a family enterprise by:

- bringing outside experience and independent judgement to bear in major matters requiring board decisions
- acting as a link between the board and the shareholders
- providing the benefit of their personal contacts, and
- helping to ensure that the overall governance of the family enterprise operates effectively.

The role of NEDs in the governance of public companies has increased in prominence in response to investors' concerns about:

- excessive executive remuneration
- control over board appointments
- evaluation of board performance, and
- the relationship between the board and the company's auditors.

To address these concerns, in UK plc, the governance functions of audit, executive pay and the nomination of directors are referred to permanent board committees in which the majority – and sometimes all – of the members are NEDs.

Independent mindset

In order to strengthen the autonomy of these NEDs, the corporate governance codes and guidelines advocate that NEDs should be "independent", free of any commercial or personal ties that could impair their ability to probe and challenge the board.

In privately owned family enterprises the requirements on independence can be difficult to apply, since the choice of NED is often influenced by a prior relationship that helps to increase the levels of trust and respect (always important ingredients in family enterprise governance) between the controlling family and the NED.

This does not mean that NEDs in a family enterprise should not be "independent"; it just emphasises the importance of NEDs having an independent mindset and the courage to base decision making on the merits of the decision rather than extraneous influences or considerations such as relationships with family members.

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Questions to consider

In addition to reviewing the criteria on independence found in the conventional corporate governance codes, family business owners might want to ask the following questions of their NED candidates:

- What is your experience of working with family enterprises?
- What type of family enterprise have you worked with: first generation or multigenerational; single business or diversified enterprise?
- By way of example, what type of non-financial performance measurements could be included for the NED of a family business (and do these fit with the controlling family's values)?
- What are some of the advantages and disadvantages of a family-owned business compared with other businesses?
- Why would you recommend working for a family enterprise?
- In what areas would you expect the governance of a family enterprise to differ from that of other types of business?
- Will you be willing to stand up to the different interests in our family enterprise, and act with uncompromising independence when that's needed, in a way that helps us to balance the best interests of everyone with a stake in our enterprise?

Owners should also consider the following questions:

- Will this potential NED be a safe custodian of our values and our wealth?
- Will we get on with them? How adaptable are they to our ways?
- Will they seek too much independence from the family?
- Will they be approachable?
- Are they comfortable communicating with family members (including different generations)?

Maybe it sounds a difficult job, but if you find an NED candidate who impresses with the answers to these questions, they're probably worth hiring.

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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.