

A woman with blonde hair, smiling and looking upwards while talking on a mobile phone. She is wearing a white button-down shirt and a red blazer. The background is a bright, white, draped fabric. There are red vertical bars on the left and bottom edges of the image.

NEW NEEDS,  
NEW NEEDS:

THE STAKES ARE HIGH

IDEAS | PEOPLE | TRUST



# INTRODUCTION



Following from our initial white paper - High Performance Leadership - published in spring 2019, BDO surveyed 50 NEDs and senior executives in order to provide a deeper understanding of the dynamics at play in the current corporate environment.

The central theme of our findings can be summed up in two words: 'missed opportunities'. Boards can do a better job of aligning the role of the NED with organisational strategy, and potential NEDs must ensure they remain relevant by renewing their skillset and knowledge.

Unsurprisingly, there is widespread acknowledgement that NEDs can play an important role in board discussions and that potentially, NEDs are uniquely placed to add established knowledge and experience. Yet despite this broad consensus, our research reveals many NEDs remain partly marginalised within leadership decision-making.

The majority (58%) of respondents agreed that NEDs are too often positioned on the periphery of board discussions and should play a more central and vocal role in advising and holding executive leadership to account.

However, it is important to recognise while the majority of respondents believe NEDs should be at the centre of board decision-making there is no one-size-fits-all model. 42% of our respondents rejected the assertion that NEDs should always be at the centre of decision-making. Some NEDs may be particularly well-placed to contribute in an area of great significance or where the board has existing shortcomings.

From this perspective, a NED will have a critical, but less comprehensive function on the board. Each board needs to consider how best to incorporate the kind of skills and experience a NED can provide. When hiring NEDs, boards must consider how the role will help them achieve their strategic organisational objectives. On the other hand, NEDs themselves must continually refresh their own skillsets and knowledge in order to ensure they can add the most value to their organisation.

*NEDs can often be kept away from the conversations that really matter.*

## OUR FINDINGS

This paper discusses two key findings and provides a key takeaway for each. The first finding focuses on board-level considerations, whereas the second finding is targeted at individuals NEDs:

1. NEDs must be aligned with the organisation's overarching strategy. This is something boards must consider when hiring so the NED being leveraged is positioned appropriately to help achieve these aims.
2. NEDs must ensure they are refreshing their own skillset and knowledge in order to add the most value. NEDs are well placed to help manage corporate reputation, but they must not rely solely on existing experience to be an asset.

The precise role of the NED is still up for debate, both across boards and amongst NEDs, but the stakes could not be higher.

**58%** of respondents agreed NEDs are on the periphery of board discussions



## FINDING

1

WHEN HIRING, BOARDS MUST ENSURE NEDS ARE ALIGNED WITH THE ORGANISATIONAL STRATEGY AND THE POSITION IS BEING APPROPRIATELY LEVERAGED TO HELP ACHIEVE THESE AIMS



As BDO put forward in High Performance Leadership, diversity of perspective helps promote the cross-pollination of ideas and works to complement and challenge prevailing thinking. Over 90% of respondents strongly agreed NEDs must bring a 'diversity of perspective' to critical decision-making (Figure 1).



There needs to be the right level of constructive challenge in the boardroom coming from the team of NEDs with the right skills and experience that enable them to understand the business and challenge accordingly.

One interviewee argued boards should ensure their NEDs cover a core range of capabilities and experience: legal, accountancy, PR and marketing, plus a sector-topic specialist with "on-the-ground experience" of the organisation's work.

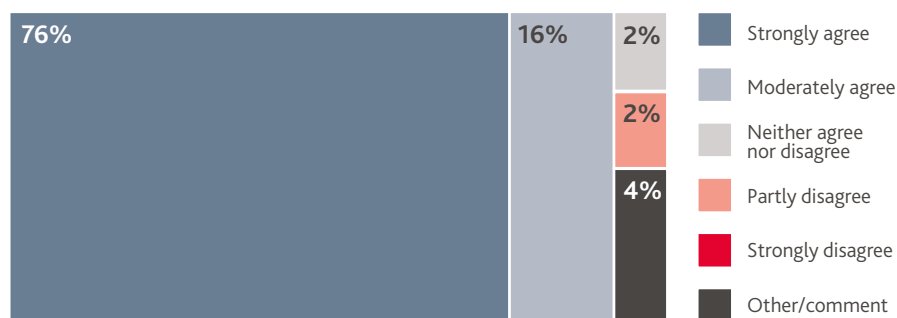
The weighting of capabilities and experience will and should vary depending on the type of business and factors such as size, sector and stage in the business life cycle.

So how do businesses get it right?

#### MEASURING BOARD EFFECTIVENESS IS KEY

Senior executives must undertake an audit assessment and evaluation to gauge whether the board, including its NEDs, comprises the correct blend of skills and experience capable of meeting the needs of the organisation. One interviewee highlighted the role of the chair in ensuring this process is undertaken "faithfully and dispassionately".

**FIGURE 1:** To what extent do you agree NEDs should bring a diversity of perspective to the board; a 'counterpoint' to established thinking (bringing different skills, background, age, experience)?



## BROADENING THE TALENT POOL

Despite the shared understanding around the need for NEDs to bring diverse viewpoints to bear on decision-making, there was nearly equal consensus that boards still do too little to proactively seek and appoint NEDs with precisely the diverse views and skillsets required. 65% of survey respondents either strongly agreed (30%) or moderately agreed (34%) that too many organisations appoint NEDs too 'narrowly, nepotistically or as a tick box exercise' rather than as a way of filling "critical skills gaps at the board table" (Figure 2).

Interviewees shared this view, with one NED agreeing there needs to be a "broadening of the net" in the hiring of NEDs, while another suggesting there remains a continued tendency among many boards to hire, whether intentionally or not, from a narrow pool of talent that shares the board's basic "frame of reference".

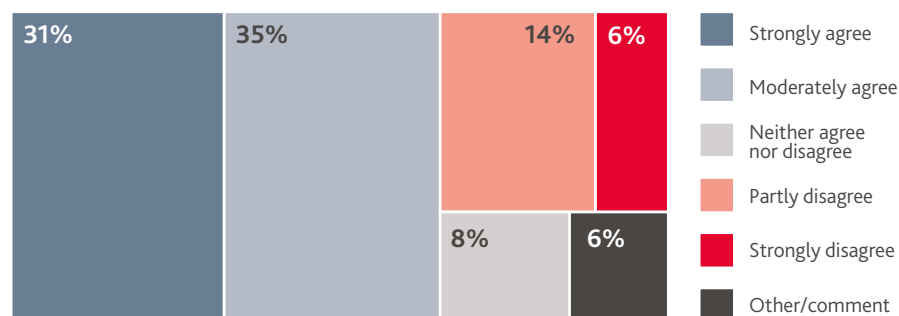
However, interviewees also highlighted a potential roadblock to further progress. While many boards are eager to appoint new individuals from different professional and personal backgrounds into NED

positions, senior executives are under significant pressure to appoint those who are "sufficiently experienced to hit the ground running" and "add value from the word go".

This hints at a vicious cycle being present, whereby newer generations of potential NEDs can find it difficult to find roles within which they can gain the experience they need to be attractive to boards.



**FIGURE 2:** To what extent do you think too many organisations still approach the appointment of NEDs too 'narrowly', nepotistically or as a 'tick box exercise', rather than as means of filling critical skills gaps at the board table?



### GOVERNANCE LENS:

The UK Corporate Governance Code states the 'board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively'.

It is clear to boards of directors and shareholders that non-executive directors bring high performance leadership and 'the outside in'. By introducing truly independent judgement to the board's decision making process, the likelihood of the company acting in the best interests of longevity and success dramatically improves.

All board members must be involved in the decision to appoint NEDs and when doing so, fully assess the quality and competency gaps, required skills, personal attributes, knowledge and experience, and only then begin to identify potential candidates.

## FINDING

2

NEDS MUST ENSURE THEY ARE REFRESHING THEIR OWN SKILLSET AND KNOWLEDGE IN ORDER TO ADD THE MOST VALUE.



NEDs are well placed to help manage corporate reputation, but can lack up-to-date knowledge of corporate governance and digital disruption.



### PAUCITY OF DIGITAL SKILLS

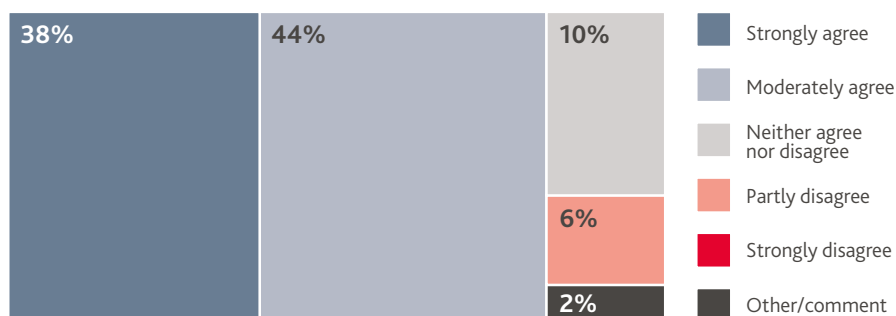
A key area of concern revealed is the ability of contemporary NEDs to understand and advise on issues stemming from the digital economy.

82% of survey respondents either moderately agreed (44%) or strongly agreed (38%) that too few NEDs have 'sufficient knowledge of the digital technology agenda' to help companies navigate the 'tech disruption occurring across virtually all industries'.

One interviewee agreed that NEDs must be appointed "properly, based upon the skills gaps revealed in an annual skills assessment, of which digital skills will almost certainly be part". (Figure 3)

*"I don't think many NEDs have got to grips with digital technology issues yet."*

**FIGURE 3:** To what extent do you feel too few NEDs have sufficient knowledge of the digital technology agenda to help companies navigate the tech disruption affecting virtually all industries?





### DEFENDING CORPORATE REPUTATION

Understanding how daily decision-making can affect corporate reputation and brand value is a critical factor in boardroom success, not least in the current stakeholder landscape in which political, social and ethical debate around the role of corporate organisations in the global economy is under intense scrutiny.

There was strong agreement around the role NEDs can – and must – play in helping boards manage the corporate reputation of the organisation. 92% of survey respondents either strongly agreed (60%) or moderately agreed (32%) that NEDs' external and independent mind-set positions them strongly to advise on 'issues which may threaten corporate reputation and stakeholder relations'.

### VARIATIONS IN CORPORATE GOVERNANCE KNOWLEDGE

The ability of a NED to understand corporate governance and associated risk exposure cuts to the heart of board success and NEDs ability to add value. Nevertheless, 60% of survey respondents either moderately agreed (48%) or strongly agreed (12%) that too many NEDs often 'lack sufficient or up-to-date knowledge of evolving corporate governance rules and the company's compliance record'. Another interviewee stated that a minority of NEDs "pay only lip service" to corporate governance changes.



#### GOVERNANCE LENS:

The UK Corporate Governance Code states the *'board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors'*.

Effective and responsible NEDs recognise their role is more than a broadening of their executive career and will continually think about their skill set and what they might still need to develop. In order to do this effectively, NEDs must have a comprehensive understanding of the company and participate in on-going training to keep up-to-date with developments in the company and the relevant business sector.

In particular, staying well informed of the ramifications of technological advancements within the context in which their company operates is critical.



# CONCLUSION

**The stakes could not be higher. Recent corporate history is littered with examples of leadership decision-making that went awry, often with severe results.**

Echoing this, one interviewee commented, 'Some of the big corporate failings of the last 12 months alone raises obvious questions around the efficacy of board level decision-making. You look back and think: what conversations were happening?'

As the needs of the modern organisation continue to evolve, boards must begin to think differently about how they identify, appoint and utilise NEDs. At the same time, NEDs themselves need to consider carefully how they continually position and educate themselves in order to add maximum value when it matters most.

Our research paints a varied picture of the contemporary NED landscape, as reflected in the two core findings. Each finding contains positive elements, demonstrating the importance and increasing role that NEDs can and must play in the boardroom.

At the same time, each finding also highlights areas of concern where further progress is required.

This white paper report, in conjunction with High Performance Leadership, provides executives and non-executives alike with a framework for thinking afresh about how the role of the NED can – and must – evolve to meet the shifting needs of the global economy.

**MATTHEW WHITE**  
SENIOR PARTNER, BDO LLP



## BACKGROUND AND METHODOLOGY

This second white paper report follows and expands on the initial thesis laid out in [High Performance Leadership](#). The goal was to gather external stakeholder reaction to BDO's four-part framework of NED excellence and gauge the extent to which experienced NEDs and other corporate leaders concurred with the criteria chosen.

BDO conducted an online survey of Non-Executive Directors and held a series of in-depth qualitative interviews with a range of experienced NEDs and senior executives from varied industries across the UK's private and public sectors. A total of 50 survey responses were accumulated (of which 87% of respondents currently occupy NED positions), plus four interviews. The survey and interviews were conducted in August and September 2019.

## ABOUT BDO

Our clients are Britain's economic engine – ambitious, entrepreneurially spirited and high-growth businesses that fuel the economy – and the owners and management teams that lead them. Our clients' challenges do not exist in silos and neither do we. We do not shy away from investing time in a long term relationship so that we can stand in our clients' shoes while helping them. We get behind the numbers and understand our clients' business so that we offer honest, practical advice that is relevant to their own situation. BDO LLP is a key member of the BDO global network of public accounting, tax and advisory firms. The firms have representation in 162 countries, with 80,000 people working out of over 1,500 offices. Being a member of the BDO global network allows us to meet the needs of clients who are growing and trading internationally.





FOR MORE INFORMATION:

**MATTHEW WHITE**

+44 (0) 20 7893 2376  
matthew.white@bdo.co.uk

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP or any of its partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO member firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright © November 2019 BDO LLP. All rights reserved. Published in the UK.

**[www.bdo.co.uk](http://www.bdo.co.uk)**

