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# Worth their weight in gold

The right team of NEDs on a board can provide added value  
beyond governance and oversight.

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**S**ome time ago, I delivered a workshop on board good practices for the **CEOs** of the portfolio companies of an investment firm. All of the CEOs and their respective

boards were quite experienced, and I was curious to hear their perspectives on the value their **NEDs** added beyond standard governance and oversight. To help stimulate the discussion, I posed the following hypothetical question: 'If you had the opportunity to give a six-month holiday to the NEDs, would you take it, and would it actually make a difference to the company?' I was genuinely surprised to hear that a significant number of the CEOs would have grasped the opportunity as they felt it wouldn't make a difference to the major decision-making of the company and would free up time spent engaging with and supporting the board. One of the CEOs said, 'We have a very solid board with very experienced, committed **NEDs** who are governance-centric and oversee our performance in an effective manner, but they actually don't add any unique value beyond oversight and governance.' Another CEO shared a contrasting perspective, reporting that, 'While they often drive us crazy and stretch us to our limits, we would actually miss our NEDs. They are highly strategic, sharp as a razor in terms of their insightful challenge and debate, set the bar high on our performance as an executive team, individually and collectively and – while we would hate to have to admit it to them – they add serious value in all the big decisions we make and, actually, they make us better.'

In the volatile world in which we live today, shareholders, stakeholders and executive teams should have a genuine expectation that the NEDs will add significant value beyond governance and performance oversight. On many boards, this added value is simply not there. This may be the result of poor board composition or a lack of diversity or board effectiveness but can also be caused by CEOs and executive teams who make

it very difficult for NEDs to contribute in areas like strategy. High-performing boards are characterised by having a chair and CEO who jointly enable a partnership model between the NEDs and executive team, where intelligent and robust challenge and debate flourish, enhancing decision-making. This dynamic should be underpinned by healthy tensions, trust and a deep commitment – individually and collectively – to excel for shareholders, employees and stakeholders.

### Optimising decision-making

While a board has myriad duties and responsibilities, if you strip these right down to the core, the most important responsibility is to make the big decisions – and hopefully they get them right – in areas such as acquisitions, entering and leaving markets, re-structuring and downsizing, major financing, business model shifts and hiring or firing the CEO.

In most cases, the CEO and executive team are the main instigators behind these proposals which are of a scale and importance that they need to be agreed and signed off by the board. This is where high-calibre NEDs and a strong board come into their own by bringing experience, judgement and independence of mind. A strong board can also highlight alternative options and potential ramifications and downsides. In my experience, this is the very definition of value-add, but if it is to be enacted, the CEO and executive team must be honest and open in sharing reporting and proposal materials and engaging with NEDs to listen effectively. This will enable the NEDs to excel in terms of quality and depth of thinking, raising issues that make the executive team say, 'we hadn't even considered that'. I can never help but break into a smile when I see a board and executive team absolutely at the top of their game, stretching the sinews of every member's intellect and judgement to arrive at the best decision.

### Stretching and inspiring the team

A highly successful CEO once said to me that the best boards he had ever served on were the ones where the chair and NEDs purposefully set high

expectations – including progressive **KPIs** – for the performance of the CEO, each executive team member and the collective executive team. In my experience, every CEO and executive team – no matter how strong and battle-hardened – needs their board to set the bar high in terms of performance and to hold them to account to deliver on these expectations.

### Move-the-needle areas

Every experienced executive understands the gulf that exists between poor-quality challenge, micro-managing oversight and scuba-diving unnecessarily in the weeds of operations and finances compared to intelligent challenge focused on critical 'move-the-needle areas' that add value. NEDs should be expected to have prepared for meetings, to understand the complex issues at hand and to add value through informed probing of the logic, decision-making and performance of the executive team.

### Seeing the wood for the trees

In the initial stages of the COVID-19 pandemic, many organisations were faced with challenges that, in some cases, threatened the very survival of the organisation. At that time, many CEOs shared with me the incredible value their NEDs added in the depths of crisis management through their 'independence of mind' and objectivity. While this was an extreme event, it highlights the challenge every CEO and executive team faces in being immersed in driving the organisation operationally – NEDs on boards can bring invaluable objectivity.

Groupthink can happen just as easily in an executive team as it can in a board and sometimes an overly-dominant CEO can bulldoze the executive

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without the necessary debate, with possible disastrous consequences. This goes to the *raison d'être* of NEDs – to assess a situation dispassionately and objectively and help the executive team to look at different perspectives.

### Ensuring proper compliance and focus on governance

CEOs and executives can find it hard to focus on governance and can often gravitate to 'a sufficiently adequate level' that addresses the requirements of the relevant codes and regulations. This is understandable as executives are focused on growing the organisation and delivering day to day; at times, governance can seem a necessary evil to be tolerated. However, we continue to witness a never-ending stream of significant board and governance failures across sectors and the legal and fiduciary responsibilities of directors are mushrooming. NEDs play a vital role in ensuring that governance is properly prioritised within the organisation through their oversight of committees and by remaining up to date with evolving governance and regulatory trends and shareholder or stakeholder expectations. In researching governance scandals across the world, you will see that NEDs losing sight of their critical governance responsibilities is a common contributing factor.

### Ensuring proper risk management

It is always fascinating to observe executive teams discussing risk management at board meetings. Over the years, many CEOs and executives have shared with me how much they struggle with this and, while they understand intuitively that it is important, it is also quite technical and un-glamorous. As such, when it comes to risk management discussions, the majority of executives want to 'get in and out as quickly as possible'. While the COVID-19 pandemic and the current geopolitical and economic headwinds have given a whole new meaning to risk management, I still believe that NEDs – particularly at committee level – play a crucial role in challenging the executive team on the identification, mitigation and active



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management of risks. Sharp NEDs also have the ability to identify unexpected risks and question executives who are un-wisely downplaying risks which could devastate an organisation.

### Acting as a strategic lighthouse

A NED can add value by acting as a 'strategic lighthouse' capable of taking a longer-term view of how customers and the sector are evolving and helping the executive team to incorporate this into their overall thinking. Even executive teams that are strong in terms of strategy can focus too much on the short and medium term. In the last two years in particular, many companies have had to face up to a fundamental change in their business model. As digital transformation continues and customer requirements change, NEDs have a critical role in broadening the strategic thinking of the executive team. This may involve the NEDs illuminating the 'rocks that are lurking ahead in the crashing waves of sector evolution'. This also highlights the critical role that high-calibre, sector-expert NEDs play in looking strategically at a sector and adjacent sectors, nationally and internationally, to provide valuable guidance to the executive team. For me, one of the litmus tests of a strong NED is that the CEO or executive team wouldn't hesitate to pick up the phone to them in between board meetings to ask for help in solving a problem.

### Doing the right thing

One of the most surprising areas where I see NEDs adding value is in championing employees and customers, placing them at the very centre of the organisation. While one might intuitively feel that every CEO and executive team would want to be employee and customer centric, we all know that the reality is often quite different. Whenever I

see scandals where customers or patients have been treated badly, I always wonder what on earth the independent NEDs were doing. If a NED either can't recognise that an executive team is pursuing a course of action that unfairly and seriously impacts employees or customers, or is prepared to stand idly by, in my view, they shouldn't be on a board. I believe that one of the most important aspects of **ESG** is that NEDs speak up in favour of doing the right thing for employees, customers, climate and society while balancing the needs of shareholders and investors.

### Support and encouragement of the executive team

Six months into the pandemic, I was delivering a workshop to a group of chairs and NEDs on the board's role in crisis management. A number of veteran NEDs highlighted the unprecedented levels of stress that many CEOs and executive team members had been under since the COVID-19 outbreak and how they, as NEDs, were providing a lot of quiet support on a one-on-one basis, both inside and outside the boardroom, to help the CEO and executive team members cope. This to me summed up the importance of the chair and NEDs when the CEO and executive team are genuinely struggling in a crisis. It also sums up the value of the NEDs genuinely encouraging the executive team on an ongoing basis.

Governance and performance oversight will always be the bedrock of every board of directors. In the incredibly complex, volatile and fast-changing environment that organisations find themselves today, governance and oversight are simply not enough; both the organisation and the executive team need so much more from the NEDs and the board. The boards that will thrive and excel over the coming years will be those that combine excellence in governance and oversight with incredible added value across key areas. This not only requires a diverse set of high-calibre, generalist and sector-specific NEDs with up-to-date expertise, but it also requires the CEO and executive team to partner progressively with the NEDs and board to enable and inspire them to add exceptional value.