

## What To Consider Before Taking A Board Position

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*"As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing executive directors, and in succession planning."*

This summary of the role of Non-Executive Directors (**NEDs**) from the UK Corporate Governance Code shows just how much is expected of modern day NEDs and how important they are to the functioning of a strong and effective board. Given this, it is vital that a prospective NED is confident that their skillset and experience will enable them to contribute in a meaningful and constructive way to the development of the company they are considering joining.

So, if you are a prospective NED, what should you think about when deciding whether to accept a board position?

### Why you?

It may sound obvious, but it is very important to be clear from the outset why you are being invited to join a board and what you think you can contribute to it.

A strong board is a balanced board, with diverse but complimentary skillsets. Each member of the board should bring professional expertise, industry experience, financial acumen or other relevant skills to the table. Ascertaining the strengths of the other board members will help you identify what you can offer to compliment those strengths, and whether this is what the company is expecting from you.

Understanding why you are being hired will also enable you to gauge the level of risk associated with taking on the role. Fundamentally, executive and non-executive directors are subject to the same statutory and fiduciary duties but the steps you may be expected to take to satisfy these duties may vary depending on your role on the board. So, if you are being engaged for your financial expertise, for example, you will need to evaluate whether you are experienced enough in that particular field to provide accurate and relevant advice and satisfy the level of care, diligence and skill required of you.

## **Due Diligence**

As well as being clear on the role being offered, you should also find out as much as possible about the company itself. One of the main aims of carrying out due diligence on the company is to ensure you are joining a business that is operating with integrity: adhering to its legal and regulatory obligations, maintaining and operating within the confines of robust corporate governance policies, and taking proactive remedial action if any deficiencies are identified.

Some of the key areas to consider are mentioned below. Much of the information you need will be publicly available; the rest should be obtained from the company, including from meetings with existing board members and senior management.

### *Financial*

The company's annual report and accounts will obviously provide key information about its financial and trading history. Recent management accounts should likewise provide an up-to-date snapshot of the company's current financial position and offer a good indication of the quality of financial information that is routinely made available to the board. A careful review of these reports and accounts should be the starting point for your due diligence exercise.

### *Legal and Regulatory*

It is important to analyse the legal and regulatory environment in which the company is operating and the implications for you and the business. For example, if the company is carrying on a regulated activity such as financial services, are you sufficiently familiar with all applicable legislation, regulations and codes of practice to enable you and the company to meet your respective obligations? You also need to understand the possible consequences if things go wrong and the personal liability that could potentially attach to you as an NED as a result.

### *Governance*

As well as the financials, you should ask to review the statutory books and records of the company and sample board minutes of the company going back a number of years. These will give you important information about the governance of the company, including where and how frequently board meetings are held, the level of attendance and dissent at board

meetings, whether directors are given sufficient time to review the agenda and supporting documentation, and the nature and quality of the directors' deliberations.

The company's records will also enable you to ascertain its shareholder profile, the composition and turnover of the board and any board committees. Perhaps most importantly, the records should also provide you with vital insight into the business and strategy of the company and the directors' perception of the principal opportunities and risks affecting it.

### *Risk management*

Linked to governance and strategy, your due diligence should cover an assessment of the company's risk management policies and procedures. Managing and mitigating risk, particularly in areas such as cyber security and disaster recovery, is key to preserving value for shareholders and, therefore, to your ability to fulfil your duties as an NED. Understanding how well the company currently manages and mitigates risk will be an important factor to bear in mind when deciding whether to join the board.

### *Public statements*

The company's website (in particular, the commercial and investor sections) and any commercial and regulatory announcements it has made will allow you to see what the company is saying about itself in the public forum. Equally importantly, any press, analysts' and ratings agencies' reports will give you an insight into what others are saying about the company and why.

### *Insurance*

As part of the due diligence process, you should ask to see a copy of the company's directors' and officers' insurance and ensure you understand and are happy with the cover that will apply to you.

## **Culture**

Even if everything else stacks up, there is another fundamental question to ask yourself: are you able to support the culture, values and behaviour of the company and the board? This is not just a question of whether you are the right "fit" from the company's perspective; it is also a question of whether you can uphold the culture of the organisation whilst maintaining the high standards of integrity required of an NED. The importance of this question should not be underestimated and can probably be answered only when you have got to know the company and your prospective fellow board members during the due diligence process.

## **Time and motivation**

Having found out about the company and what is expected of you, there is one more question you should ask before signing your NED acceptance letter: *do you have the time to do this, and do you really want to do it?*

There is no hard and fast rule about the amount of time an NED should devote to any particular company, as this will vary from business to business. For example, the 2009 Walker Report, which recommended measures to improve the corporate governance of UK banks, suggested a minimum commitment of 30 to 36 days a year for certain NEDs on a major bank board.

Of course, this level of commitment may not always be expected by companies more generally, but it is important to factor in preparation, continuous education and upskilling (as well as the hours spent sitting around the boardroom table) when deciding whether you genuinely have the time to be an NED. NEDs need to keep themselves well-informed about the company and the environment in which it operates and maintain a strong command of the issues relevant to the business. So, particularly with the advent of the digital age, advancements in regulatory regimes and globalisation, NEDs must be prepared to spend the time to keep pace with, and stay ahead of, change.

In view of this, your level of interest in the company is of critical importance when deciding whether to accept an NED appointment. Motivation is key to being a successful NED; only if the opportunity genuinely excites you are you likely to dedicate the hours it takes to fulfil the role effectively.

## **Conclusion**

Clearly, accepting an NED appointment is not a decision to be taken lightly. It requires thorough research and an honest assessment not only of the risks and opportunities involved, but also of your reasons for wanting to take on the role and what you can bring to the table. If, after this, you sign on the dotted line, your NED experience should hopefully be a rich and rewarding one both for you and the company.

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