



IoDSA NED NOMINATION PROCESS RESEARCH REPORT

Insights into the recruitment, selection and
appointment process of non-executive directors

June 2020

Contributors to this Research Report:

- [Dr. Ven Pillay](#) (Main Author)
- Vikeshni Vandayar (IoDSA)
- Julie Dixon (IoDSA)
- Bonga Dlamini (IoDSA)
- The survey respondents listed below.

The IoDSA would like to extend their gratitude to the companies/organisations listed below (and those who have chosen not to be listed by name) for their participation in this research project and sharing of valuable information that will support the goals of our members.

• Council for Medical Schemes • AA • About Survival Consulting Agency • Adv O A Moosa SC • African Reinsurance Corporation (South Africa) Limited • ARB Holdings • Bungane Development Consultants • CalgroM3 Holdings Ltd • DRDGold • GEMS Property • Gunston Strandvik Attorneys • International Corporate Governance Network (ICGN) • Institute of Directors in South Africa • Korn Ferry • Lasserre & Associates (Pty) Ltd • Lesotho Petroleum Fund	• Marsh • MTO Forestry (Pty) Ltd • Nedbank • Raubex • Reunert • SAIPA • Santova Limited • Sasol Limited • Sentech • Sibaya Coastal Precinct Conservation Trust • Sihold • The Ethics Institute • Third Sector Insights NPT • VKB Beleggings (Pty) Ltd • Wirtgen Group • ZSS Projects Resources (Pty) Ltd
--	---

Disclaimer

The information contained in this research paper is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although every endeavour is made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. The view and opinions contained in this research paper are merely guidelines for information purposes only, and as such no action should be taken without first obtaining appropriate professional advice. The IoDSA shall not be liable for any loss or damage whether direct, indirect, and consequential or otherwise which may be suffered, arising from any cause in connection with anything done or not done pursuant to the information presented herein. All copyright in this paper subsists with the IoDSA, and extracts of this paper may only be reproduced with acknowledgement to the Institute of Directors in South Africa.

Table of Contents

A. INTRODUCTION	4
B. FINDINGS: NOMINATION COMMITTEE PROCESSES.....	5
1. BEFORE THE INTERVIEW	5
1.1 What prompts a company to search for new NEDs?	5
1.2 What governance guides are used to define candidate criteria?	6
1.3 How are potential NEDs identified?	7
2. DURING THE INTERVIEW	11
2.2 What attributes are most sought-after by companies?	12
2.3 Do organisations attempt to assess a candidate's motive for applying for the post?	15
2.4 Who approves the appointment of the recommended candidate?	15
3. AFTER THE INTERVIEW	17
3.1 How is the NED inducted into the company?.....	17
3.2 What strategy is used to retain valuable NEDs?	18
C. Overview of advice for potential NEDs	20
D. Overview of advice for Nomination Committees	24
E. Conclusion.....	25

A. INTRODUCTION

A pertinent question for many IoDSA members is how does one successfully secure opportunities for appointment as non-executive directors (NEDs). In response to the concern expressed by our members about perceived barriers to appointment, the IoDSA embarked on a project to obtain clearer insight into the processes deployed by companies in the recruitment and appointment of NEDs.

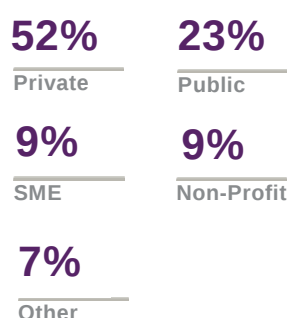
Nomination Committee Chairs and/or members of the Nomination Committee of private and public sector companies, trusts, NGOs, and other institutions with governance structures in place,¹ were asked to participate in an online survey. The questions in the survey contained both structured and open-ended questions, all of which were designed to illicit a description of the processes involved in identifying, nominating, appointing, and retaining NEDs.

Nine executive placement companies were also directly contacted for participation; however, all chose not to participate. In total, 44 companies responded to the survey (Figure 1); of which 34% (15) were Johannesburg Stock Exchange (JSE) listed companies. (Note: The percentages used throughout this report reflect the percentage of companies that responded to the research)

RESPONDENT PROFILE

A total of **44** companies replied to the request for information

BUSINESS SECTOR



JSE LISTED OR NOT



ECONOMIC PROFILE

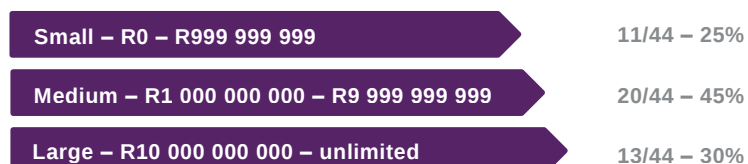
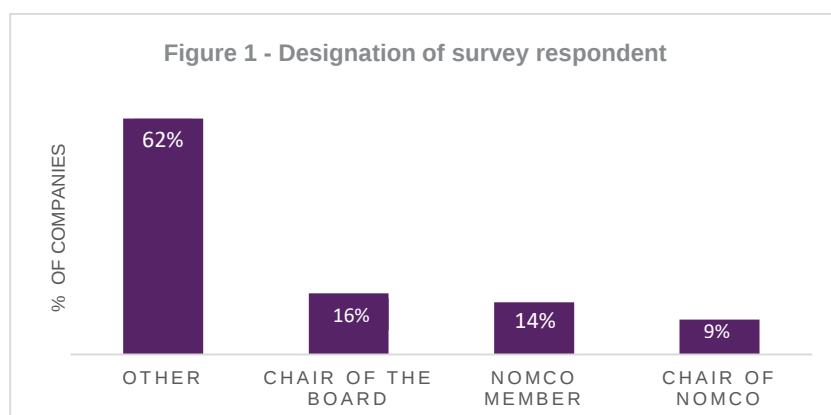


Figure 1 – A detailed breakdown of the 44 respondent companies

Of the individuals responding to the survey, only 23% indicated that they were directly involved in the Nomination Committee. The designation of the individuals responding to the survey on behalf of the companies were as follows:



¹ Hereafter reference to companies includes all types of organisations unless otherwise stated.

The results of the survey are presented in section B of this report and describes the Nomination Committee processes in the following sequence:

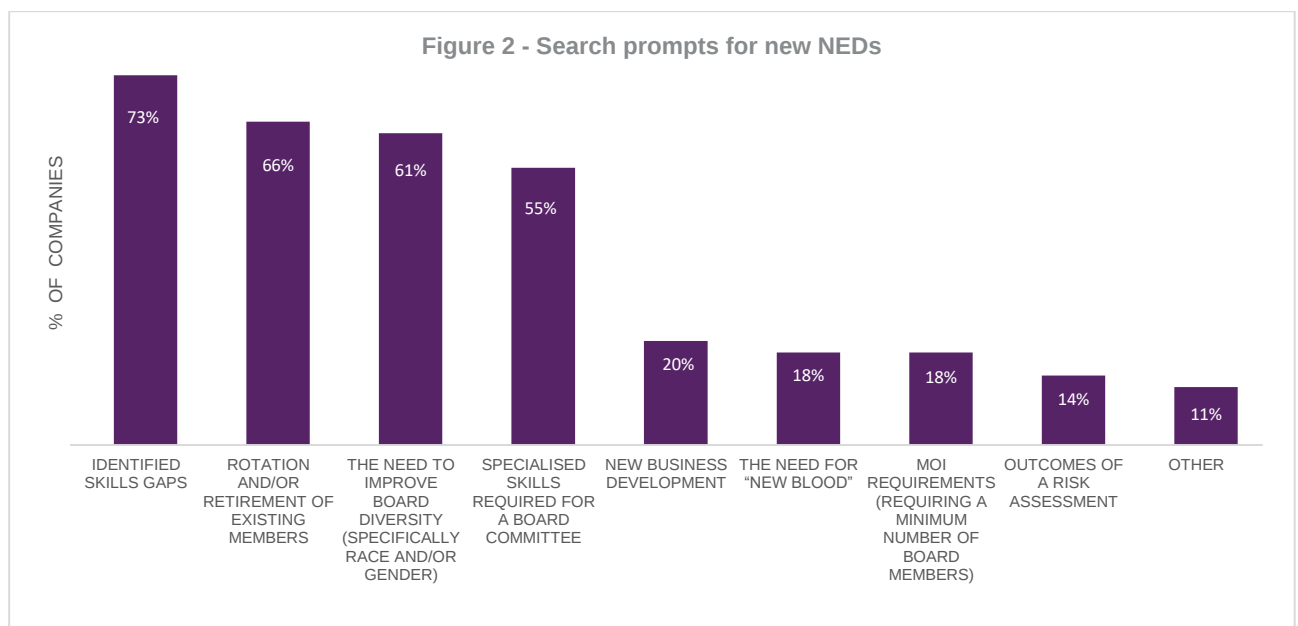
- Before the interview
- During the interview
- After the interview

B. FINDINGS: NOMINATION COMMITTEE PROCESSES

1. BEFORE THE INTERVIEW

1.1 What prompts a company to search for new NEDs?

The most prominent reason given by companies to search for new NEDs is the skills gap identified in the current board (chosen by 73% of survey participants). Rotation and/or retirement of current members, the need to improve board diversity (specifically race and/or gender), and/or the need for specialised skills required for a board committee was selected by 55 – 64% of companies. The least likely reasons for searching for new NEDs are based on a new business development, the need for 'new blood', meeting MOI requirements to constitute a minimum number of board members, or the outcomes from a risk assessment.



Some companies revealed that they are not prompted to seek new NEDs for a particular reason, but are continuously in search of talented NEDs as part of their succession planning for the board. This is in line with good governance practices².

² King IV Principle 7 Recommended Practice 13 recommends that the governing body should establish a succession plan which will include the identification, mentorship and development of future candidates. See IoDSA Paper on [Succession planning for the governing body](#) for further guidance on this topic.

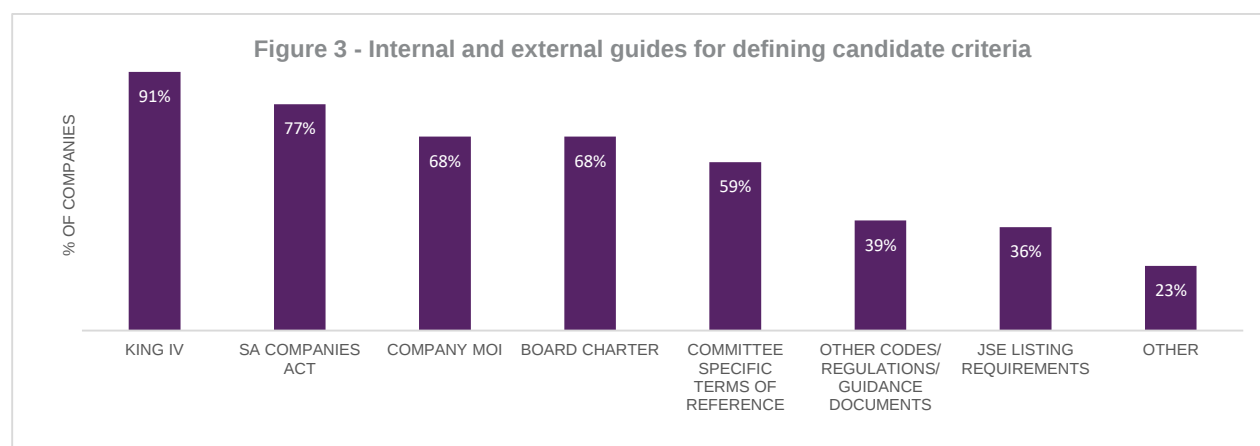
Insight for NEDs

Companies seeking to address skill gaps clearly specify the skills requirement for new appointees. Therefore, candidates need to ensure that they meet those requirements before submitting their applications to avoid overwhelming the company with unsuitable CVs, and consequently dissuading companies from advertising widely. Candidates should not be despondent if they are unsuccessful, even if they have relevant directorship experience, as companies will select those candidates who exhibit the skills they are specifically looking for on the board. In light of the fact that companies are continuously in search of talented NEDs as part of their succession planning, candidates are encouraged to keep their online profiles updated and participate in spontaneous networking where possible.

1.2 What governance guides are used to define candidate criteria?

An assessment of the internal and external governance frameworks used by companies to formulate candidate criteria indicates a strong tendency to be guided by King IV³ (chosen by 91% of respondents) and the South African Companies Act No 71 of 2008 (the Act) (selected by 80% of respondents) with 71% of companies choosing to combine the guidance provided by both the Act and King IV. Both the company's Memorandum of Incorporation (MOI) and board charter (68% of respondents) formulated the strongest internal guidance criteria alongside sub-committee terms of reference (59% of respondents).

JSE listing requirements featured as a guidance document for the locally listed companies, whilst listing requirements specific to international stock exchanges were also cited. Various internal company policies, such as a diversity policy or employment equity policy, guide the candidate criteria together with sector specific codes (chosen by 17% or less). Public companies referenced the Public Finance Management Act (PFMA), Department of Trade and Industry (DTI) codes, and other sector specific requirements.



King IV and the Companies Act are the primary governance reference documents and they are jointly adhered to by the majority of companies.

Insight for NEDs

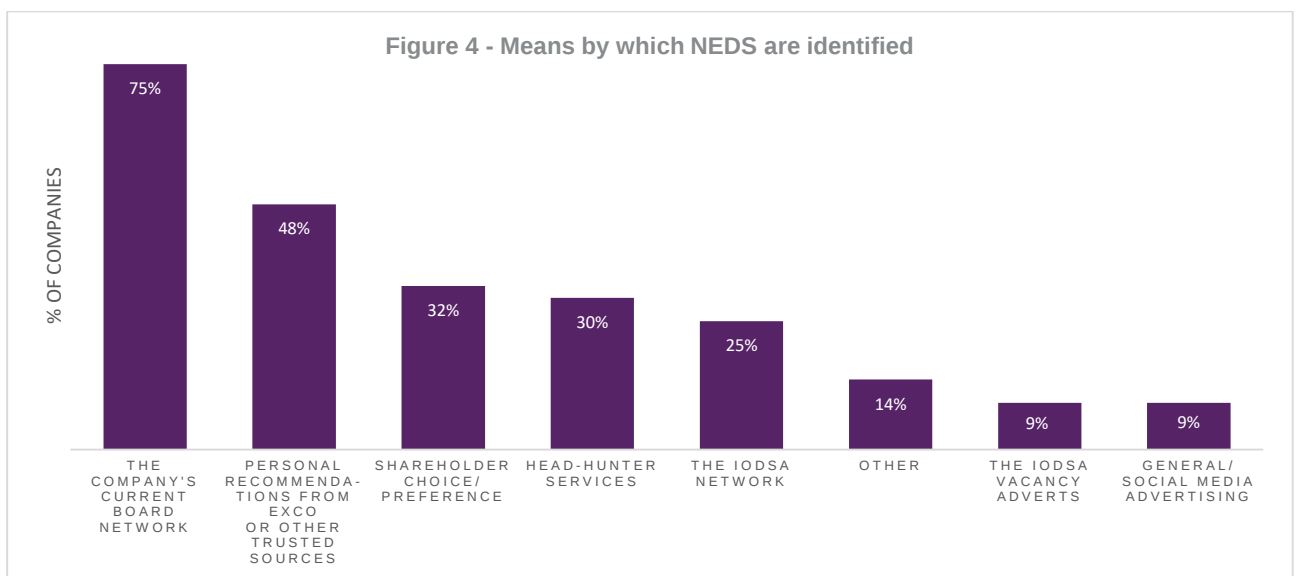
For proficiency in their chosen profession as company directors, candidates need to understand the requirements of King IV, the Companies Act, stock exchange listing requirements, and other external governance acts and codes that govern the companies they submit their applications to.

³ King IV Report on Corporate Governance for South Africa (2016)

Once appointed, candidates must familiarise themselves with the company's MOI, board charter, sub-committee terms of reference, and policies, at a minimum.

1.3 How are potential NEDs identified?

Many companies (75% of respondents) use their current board network and personal recommendations from EXCO and trusted sources (48%) to identify new NEDs. Shareholder choice/preference, or the use of head-hunter services is cited by approximately 30% of companies for the identification of NEDs. The IoDSA network is used by 25% of companies to source candidates, of which approximately 10% advertise on the IoDSA website, or use general or social media advertising to find new candidates.



With a high propensity of companies using their internal networks to source NEDs and the prevalence of the 'old boys' network (as specifically mentioned by respondents), a barrier to entry is created for new NEDs, regardless of their skills and potential to add value to governance structures. Furthermore, by continuing to recruit NEDs from internal networks, not only does it result in the closed network of NEDs being overcommitted to the number of boards that they are appointed to, but there is also a risk that companies may perpetuate a stagnant, inward-looking, composition of NEDs in the boardroom. This is exacerbated by companies that do not advertise NED posts widely either through the IoDSA or other general/social media.

A reason cited for recruiting candidates from existing networks is the need for a personal recommendation that will ensure board 'fit', and provide cultural comfort and reassurance about the candidate's abilities. Companies do not want to be saddled with a 'jerk'⁴ or expose themselves to the unpleasant task of having to remove a director from the board.

⁴ Clune R., Hermanson D.R., Tompkins J.G., & Shelly Ye Z., (2014) 'The nominating committee process: A qualitative examination of board independence and formalization', *Contemporary Accounting Research*, 31(3), 748–786.

Nomination Committees may act symbolically to rationalise decisions already taken by other key players⁵. In addition, formal nomination and appointment processes are not always followed; and in some cases the committee does not exist at all⁶.

“

Formal processes are seldom followed. It seems to be more ad hoc engagements and relationships and fit”

– Survey respondent.

However, for companies striving for good governance, there is a need to reassess their sourcing strategies to maximize board diversification through the incorporation of untapped skills, knowledge and experience amongst the new NEDs who may not be discernible through existing internal social or professional networks.

Companies are aware that the closed network of candidates are also over committed in the number of boards they are appointed to, and some companies are willing to mentor and develop new candidates if they already possess the relevant skills required for the position.

The shortage of black female candidates was also raised; however, one needs to consider the likelihood of finding such candidates if the search pool is limited to the ‘old boys’ network.

“

There is a shortage of truly experienced and appropriately skilled non-executives and companies are usually reluctant to search beyond a certain comfort point rather relying on recommendations from trusted sources. Head-hunters are still seen to be exorbitantly expensive and lacking the knowledge to ensure that important aspect of cultural fit.”

– Survey respondent

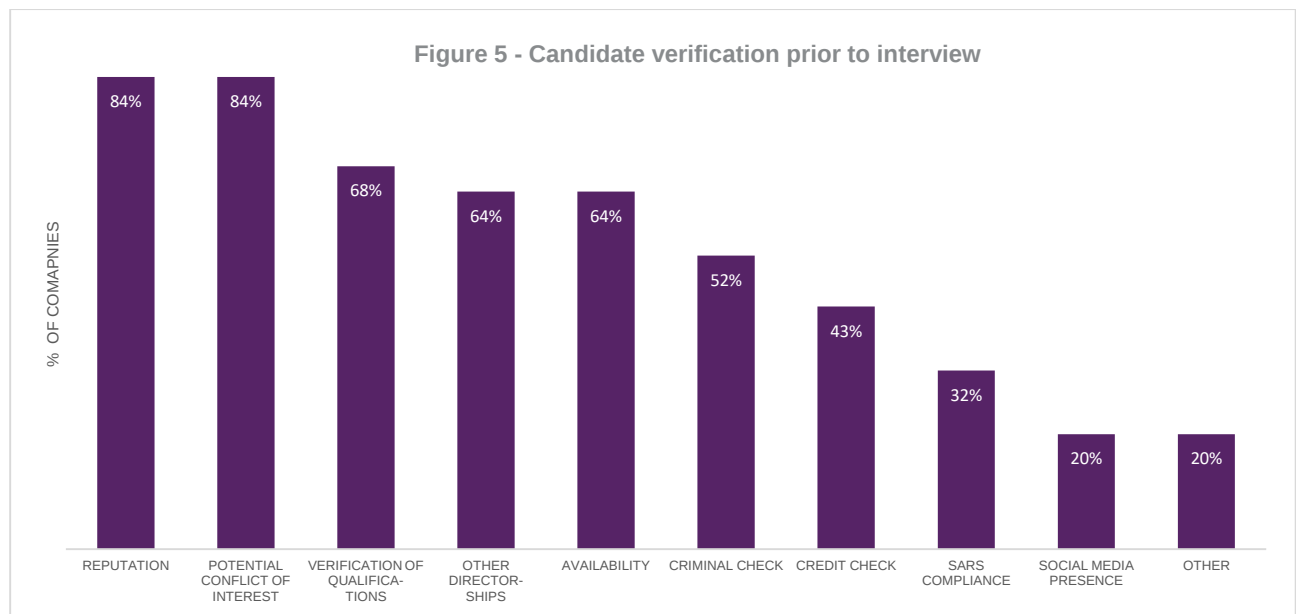
⁵ Agyemang-Mintah, P., (2015) ‘The nomination committee and firm performance: An empirical investigation of UK financial institutions during the pre/post financial crisis’, *Corporate Board: Role, Duties and Composition*, 11(3), 176–190.

Walther, A., & Morner, M., (2014) ‘Opening the black box of nomination committees: A case study of non-executive director selections in German supervisory boards’, *International Journal of Business Governance and Ethics*, 9(2), 136–154.

⁶ King IV Principle 7 Recommended Practice 15 recommends that the processes for nomination, election and appointment of members to the governing body should be formal and transparent.

1.4 What screening criteria are used prior to the interview?

High on the agenda in the screening of potential NEDs is the individual's reputation and potential conflict of interest (both criteria chosen by 84% of companies). Verification of qualifications, availability for active participation, and other directorships being held are also assessed prior to the interview process by at least 64% of companies. Criminal record checks, credit checks, and SARS compliance are not prioritised at this stage in the process by at least half the respondents; whilst the type of social media presence exhibited by the candidate is not assessed by at least 80% the companies.



Insight for NEDs

Candidates are very rarely informed of the reasons for their disqualification; hence the onus is on the individual to look into each category within the screening process and the related criteria and determine their status. Generally, candidates who do not meet the skills or other criteria listed in a vacancy advert are automatically disqualified, hence candidates should ensure they meet the listed criteria before applying. It should be noted that it is at the discretion of the Nominations Committee and/or Board to select the best candidates for shortlisting and/or nomination based on the applications received.

Screening on all the listed areas may not necessarily take place before the interview but rather during the shortlisting and/or approval process.

For this reason, candidates should address matters that may adversely affect their short-listing and retention post-appointment, prior to their application submission.⁷

Appointing an individual with a questionable reputation (inclusive of prior criminal activity, insolvency, falsification of qualifications, and SARS non-compliance), potential conflicts of interest, and negative social media presence will pose risks to a company's reputation.

⁷ King IV Principle 7 Recommended Practice 19 recommends that candidates' backgrounds should be independently investigated and their qualifications independently verified prior to nomination. Importantly, the Companies Act explicitly indicates in Section 69(3) "A company must not knowingly permit an ineligible or disqualified person to serve as a director". See IODSA Guidance Note on [Director Due Diligence](#) and on [Director Misconduct](#) for more guidance.

In the 2020 Directors' Sentiment Index™ Report⁸ survey, respondents were asked to rate the effectiveness of the nomination and selection process carried out by their board to appoint the most suitable NED on a scale from 1 to 10. An 88% response was received for this question (399 of 454 respondents) and the results are as follows:

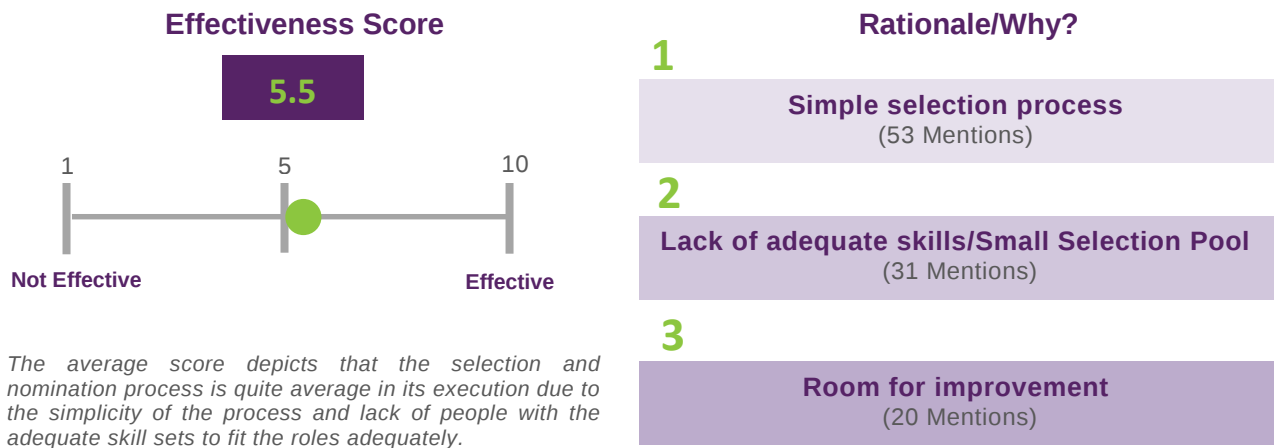


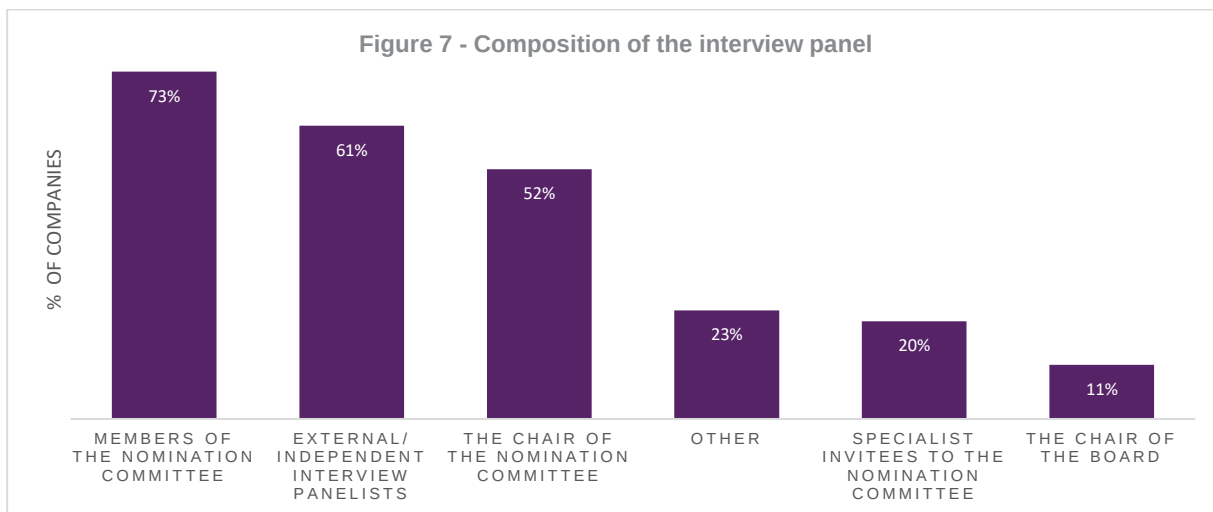
Figure 6 – Snapshot of results from the 2020 Directors' Sentiment Index™ Report survey

⁸ Access the IoDSA Director Sentiment Index Reports on the IoDSA website via this [link](#).

2. DURING THE INTERVIEW

2.1 What is the profile of the interview panel?

The interview panel is comprised mostly of members of the Nomination Committee⁹ (73% of companies), external/independent interviewers (61%) and the Chair of the Nomination Committee (52%). Specialist invitees and the Chair of the board¹⁰ feature to a lesser extent. Public sector institutions however have indicated that this process is negated since the appointment is made by the Ministry having oversight for the state-owned enterprise.



The majority of NED interview panels are comprised of board members, and hence potential peers to the candidate. Knowing this, the candidate should consider him/herself as an equal member in the interview discussion and his/her department should reflect the confidence and ability to 'fit' accordingly.

Interestingly, the results indicate that the Chair of the Nomination Committee does not always form part of the interview panel; the reason for this is unsubstantiated, and should be a matter for consideration by companies. Including external, independent panelists on the interview panel adds independence and expertise to the process; this approach is recommended where the board does not have sufficient independent NEDs and/or where there is a number of stakeholder constituencies that need to be managed.

Insight for NEDs

Candidates should prepare for multiple rounds of interviews, especially if the Chair of the Nomination Committee and/or the board is not part of the initial interview panel, and may require separate interview sessions.

Candidates may request a list of panel members prior to the interview, and familiarise themselves with the role of the panelists at the company; this will assist in easing and adapting the candidate to the interview process, and support a robust and informed discussion at the interview.

⁹ King IV Principle 8 Practice Recommendation 61, recommends that all the members of the Nominating Committee should be non-executive members and the majority independent.

¹⁰ King IV Principle 7 Practice Recommendation 36c, recommends that the Chair of the Board should be a member of the Nomination Committee and may also be the Chair of the Committee.

2.2 What attributes are most sought-after by companies?

Companies were asked to rank 17 attributes that are sought-after in potential NED candidates on a scale of 1 (most important) to 17 (least important). The results indicate that the most important personal attribute required of a candidate is independence, followed by board cultural fit, and critical thinking. Included in the top five is emotional maturity and interpersonal skills, and traditional skills, knowledge and experience.¹¹ Personality/attitude, board experience, availability for active participation, leadership and communication skills were included within the top ten requirements.

The following table illustrates the ranking of NED attributes most sought after by companies:

Candidate attributes	Rank
Independence	1
Board cultural fit	2
Critical thinking	3
Emotional maturity and interpersonal skills	4
Traditional corporate skills, knowledge and experience	5
Personality/attitude	6
Board experience	7
Availability for active participation	8
Leadership skills	9
Communication skills	10
Gender	11
Non-traditional corporate skills, knowledge and experience (such as social scientists, engineers, environmentalists etc.)	12
Race	13
Physical appearance	14
IoDSA Directorship designation	15
High business/social profile	16
Political connection	17
Other	18

¹¹ The 2020 Directors' Sentiment Index™ Report: 5th Edition survey results strongly favoured experience, value-add, skills, knowledge and ethics as the Top 5 NED attributes.

Insight for NEDs

In order to secure the independence of the board, companies are often in search of independent NEDs as opposed to non-independent NEDs who may have a conflict of interest. The purpose of an independent NED is to provide unbiased oversight of management and decision-making that does not promote self-interest. King IV defines independence (when used as the measure by which to judge the appearance of independence, or to categorise a non-executive member of the governing body or its committees as independent) as having no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making. Candidates must maintain their independence by being aware of, and avoiding where possible, potential conflicts of interest; or, when unavoidable, ensure immediate declaration of the conflict of interest to the board for discussion, resolution and continued oversight if necessary.

Independence however goes beyond lacking conflicts of interest, and includes independence of thought and the ability to consider matters from different perspectives¹². Creative, innovative, and solution driven mindsets are key to adding value to the board. In support of critical thinking, candidates must take responsibility for their continued professional development and maintenance of expertise. Traditional and/or non-traditional corporate skills, knowledge and experience, which needs to translate into a candidate's competence, is an essential prerequisite for all nominees; and a lack of skills and experience is cited by survey participants as a barrier to new appointments.

Board cultural fit is also clearly illustrated as an important criterion for candidate selection; implying that either the ability to work constructively towards a common goal is an important attribute for a candidate, or that the status quo of the board needs to be maintained with as little disruption as possible. The latter scenario may be interpreted either positively (as a well-functioning and successful board wanting to maintain an effective board culture) or negatively (as a malfunctioning board with autocratic leadership that is resisting change). Where an effective board culture is prevalent, the interpersonal skills (exhibited by emotional maturity, personality, attitude and communication skills) will be assessed alongside the intellectual abilities of candidates (exhibited by critical thinking, and the demonstration of skills, knowledge and experience).

Board experience presents a 'catch-22' scenario. However, the best opportunity for members to obtain experience is to volunteer on the boards of non-profit organisations in order to build a profile. These organisations often experience difficulties in attracting suitable candidates for unremunerated positions, and are welcoming of candidates with value to add. NEDs, however, need to ensure that they are just as diligent in their unremunerated roles as they would be for their remunerated roles. Some directors do not invest sufficient time to their board responsibilities unless they are incentivised by remuneration¹³.

Active board participation does not refer only to the attendance of board meetings¹⁴, but includes the preparedness of the board member to contribute intelligently and constructively. This includes

¹² Zattoni, A. & Cuomo F., (2010) 'How independent, competent and incentivized should non-executive directors be? An empirical investigation of good governance codes', *British Journal of Management*, 21 (1).

¹³ Zattoni, A. & Cuomo F., 2010 'How independent, competent and incentivized should non-executive directors be? An empirical investigation of good governance codes' *British Journal of Management*, 21 (1).

¹⁴ King IV Principle 7 Practice Recommendation 18, recommends that the candidate should provide the governing body with details of professional commitments and a statement that confirms that the candidate has sufficient time to fulfil the responsibilities as a member of the governing body.

the reading of board packs, peripheral reading on subject matter, and active contribution during board meetings on matters being discussed.

NEDs must also exhibit sufficient courage to raise highly contentious issues and participate in difficult debates that seek the best outcome for the company and stakeholders.

Although race and gender specifications¹⁵ are intended to address the diversity requirements of the board, the board should ensure that the selected individuals also meet the skills requirements and other critical value adding stipulations¹⁶. For listed companies, the JSE listing requirements includes a policy on the promotion of gender and race diversity at board level, and the reporting thereof at the annual shareholders meeting. Finding suitable candidates however, will require a broader and more diversified network search.

The ranking of IoDSA Director designations is indicative of a possible misunderstanding of the value a director, who has been assessed and deemed suitable to serve as a director by the relevant professional body, would bring to an organisation. IoDSA Director designations, whilst ranked low in this survey, are gaining traction as an indicator of a NEDs governance expertise. Organisations need to consider the value of the directorship designation within the context of the directors' proved ability to contribute to the needs of a company.

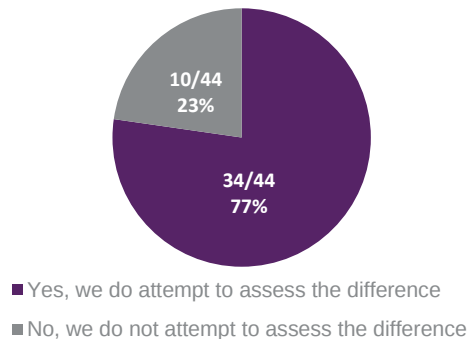
Although political connections and high business/social profiles are rated amongst the lowest requirements with this sample of participants, this may not be a reality for a broader sample, especially amongst state owned enterprises, and companies with a heavy reliance on state tenders who may actively seek influential individuals to serve on their boards.

¹⁵ Kaczmarek, S., Kimino, S., & Pye, A. (2012). 'Antecedents of Board Composition: The Role of Nomination Committees', *Corporate Governance: An International Review*, 20(5), 474–489.

¹⁶ King IV Principle 7 recommends that the governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

2.3 Do organisations attempt to assess a candidate's motive for applying for the post?

Figure 8 - Assessing a candidates motive for applying for a post



During the interview, the majority of companies (77%) actively try to assess an individual's reason for applying for the NED post. Determining in advance whether a candidate is primarily seeking remuneration and/or prestige through the board appointment, or is highly committed to fulfilling a governance leadership role is crucial for the successful functioning of the board.

Insight for NEDs

Candidates should bear in mind that the purpose of attaining a NED post is to add value to the governance of a company¹⁷ which will have a significant impact on numerous stakeholders, inclusive of the economy, the environment, and broader society; hence a leadership position that should not be taken lightly.

Remuneration, although important for the contribution of skills, knowledge, experience and leadership provided by the NED, should not be the sole driver for the application and acceptance of a NED post, especially if reliance on remuneration becomes a hindrance to the NEDs ability to think and act independently¹⁸.

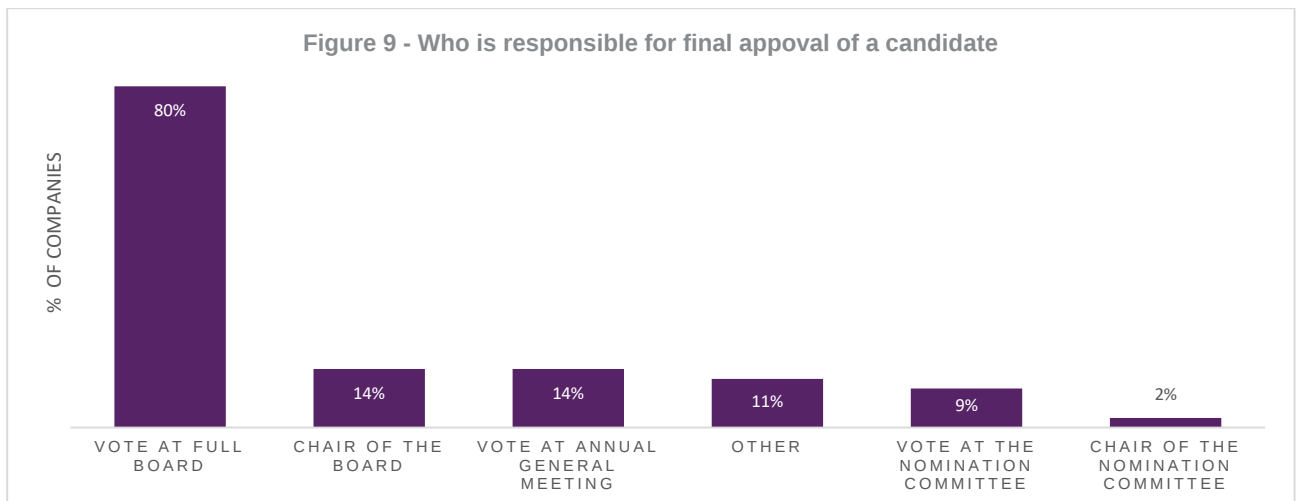
Likewise, prestige should not be the sole driver for the application and acceptance of a NED post, as this could lead to non-attendance of meetings or passive participation in meetings which are counterproductive, and at worst destructive, to good governance.

2.4 Who approves the appointment of the recommended candidate?

Final approval of the recommended candidate occurs at a meeting of the full board in 80% of the companies participating in this survey, usually upon the recommendation of the Nomination Committee. A vote at the AGM or approval by the Chair of the board occurs in 14% of the companies. Other approval processes deployed by companies (less than 10% of companies) include the vote of the Nomination Committee, or approval by the Chair of the Nomination Committee. In the case of public sector companies, approval by the Minister with oversight of the entity is required.

¹⁷ Egan, A., Maughan, R., & Coughlan, J. (2009). The Nomination and Motivations of Irish Non-Executive Directors of Listed Companies. *Conference Papers*.

¹⁸ Zattoni, A. & Cuomo F., 2010 'How independent, competent and incentivized should non-executive directors be? An empirical investigation of good governance codes' *British Journal of Management*, 21 (1).



Insight for NEDs

King IV Principle 7 Practice Recommendation 7 recommends that the nomination of candidates for election as members of the governing body should be approved by the governing body as a whole. Therefore, the finding that 80% of the participating companies are abiding by this recommendation is encouraging.

Some companies indicated that a Nomination Committee was not in place¹⁹. King IV recommends the establishment of a committee responsible for nominations²⁰ (with flexibility for municipalities, NGOs, government Ministry based appointments, and SMEs, but still subject to the principles of integrity, competence, responsibility, accountability, fairness and transparency). Organisations do not need to have a standalone Nomination Committee, the responsibilities of this committee can be delegated to another sub-committee of the Board.

The survey revealed that there is a need for greater transparency during the nomination and approval process.



The committee needs to have greater protection from interference by the Executive and needs to be alert to those scenarios where the Chair and the CEO work in unison to ensure a 'nodding dog' Board."

– Survey respondent

¹⁹ King IV Principle 7 Practice Recommendation 60 and 61 recommends that the governing body should consider allocating oversight of the process of nominating, electing and appointing members of the governing body; succession planning in respect of governing body members; and evaluation of performance of the governing body to a dedicated committee or adding it to the responsibilities of another committee as is appropriate for the organisation. All the members of the Nomination Committee should be non-executive members and the majority independent.

²⁰ King IV Principle 7 Practice Recommendation 60

3. AFTER THE INTERVIEW

3.1 How is the NED inducted into the company?

Once appointed, the new NED is usually inducted into the company through a formal structured process (89%) whilst a smaller percentage of companies (11%) deploy an *ad-hoc* 'learning on the job' methodology.

The structured process may include one or more of the following methods: board induction training, the use of an induction manual, site/operational visits and/or input from existing board members and EXCO.

Figure 10 – An indication of the degree of formal vs ad hoc inductions conducted by companies

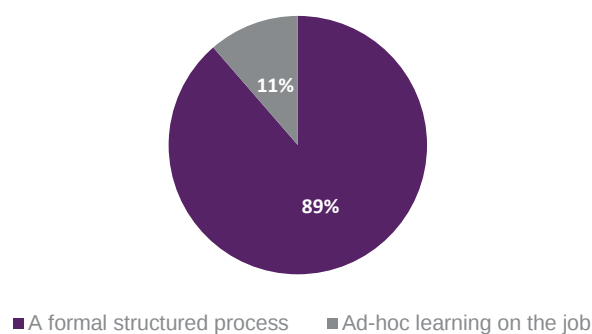
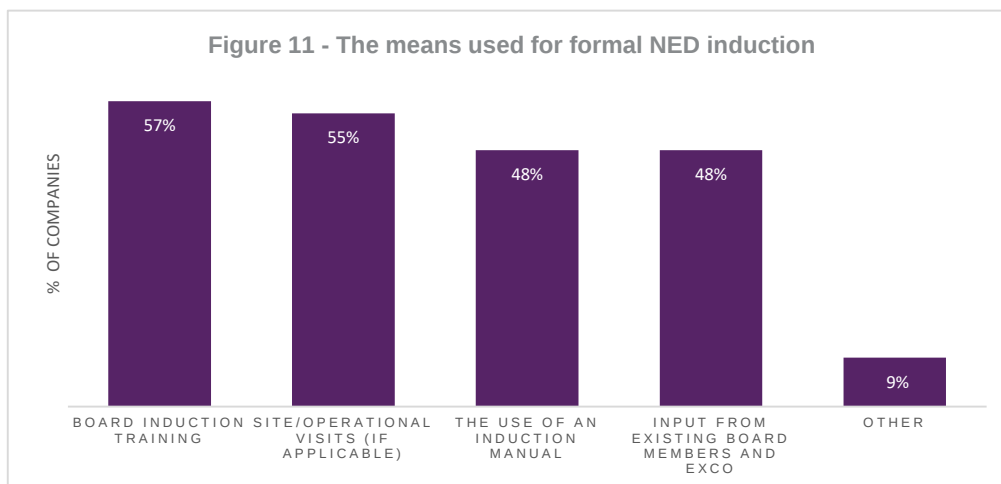


Figure 11 - The means used for formal NED induction



Insight for NEDs

NED induction is a crucial aspect of on-boarding for any new board member²¹ to ensure immediate active participation in company matters²². NEDs must ensure that they follow through with the entire induction process, and support the refinement of the process for future NEDs.

²¹ Agyemang-Mintah, P. (2015) 'The nomination committee and firm performance: An empirical investigation of UK financial institutions during the pre/post financial crisis', *Corporate Board: Role, Duties and Composition*, 11(3), 176–190

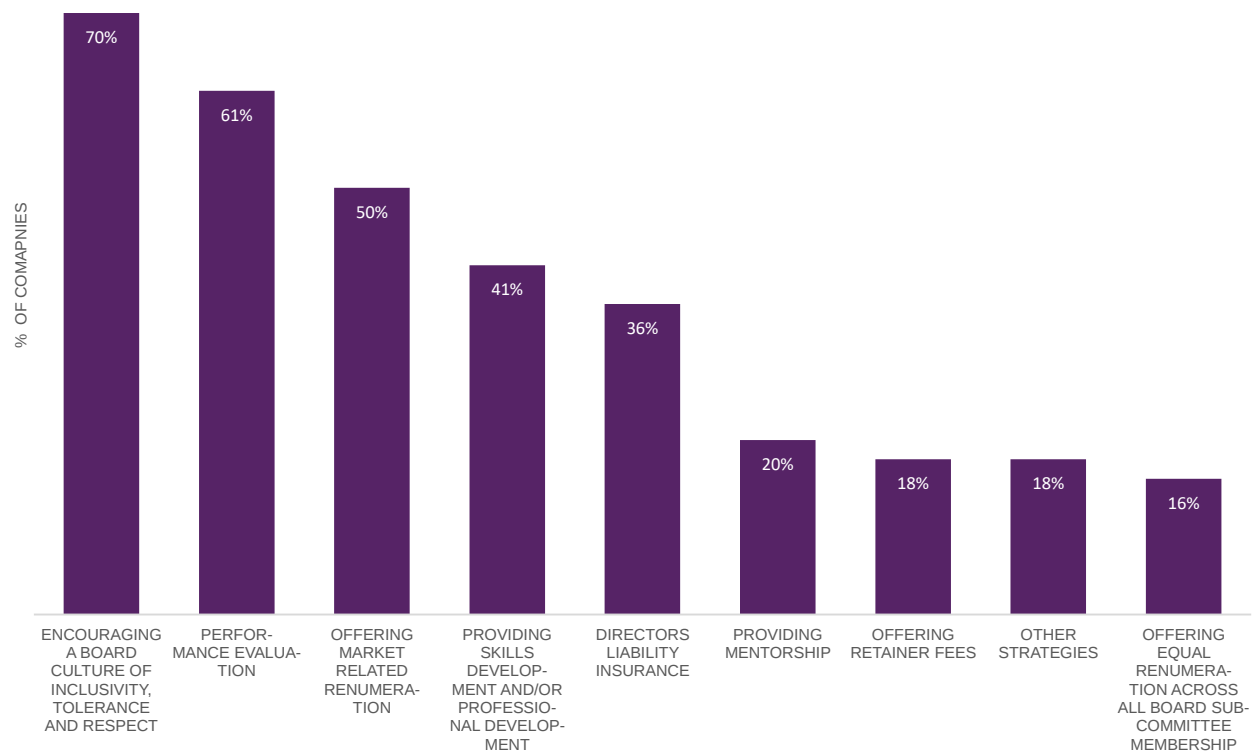
²² King IV Principle 7 Practice Recommendation 22 recommends that the governing body should ensure that incoming members are inducted to enable them to make the maximum contribution within the shortest time possible.

Companies without induction processes need to support a culture of productivity (to fast track the NED's contribution to the company), and inclusivity (by not isolating the new NED in an unfamiliar work environment) through a structured introduction to the key aspects of the company pertaining to the governance, strategy, stakeholder engagement, impact, sustainability, operations and management, amongst others.

3.2 What strategy is used to retain valuable NEDs?

Companies cite a board culture of inclusivity, tolerance and respect as the key NED retention strategy (70%). Performance evaluation (61%), market related remuneration (50%), skills and/or professional development (41%), and the provision of directors' liability insurance (36%) also feature as strategies of choice. Lesser options (below 20%) include offerings of mentorship, retainer fees and equal remuneration across all board sub-committee membership.

Figure 12 - Strategies used to retain valuable NEDs



Insight for NEDs

NEDs, like any other service provider (remunerated or not) need to be valued in return for the value provided, hence a culture of inclusivity, tolerance and respect is essential to secure stability within the governing structure. New NEDs should expect to be recipients of, and contributors to, this culture which in turn increases the value and productivity of the board.

Individual evaluation of a NED's performance is essential for good governance²³, thereby ensuring that the board is not only balanced in terms of skills and knowledge for constructive oversight and direction of the company, but also in individual contribution²⁴.

Market related remuneration secures knowledgeable and experienced directors who commit their skills and time to their duties²⁵; and bear considerable risk to provide a crucial role.

Whilst the onus is upon the NED to secure ongoing professional development; company and/or industry specific information sessions on various issues should be provided to the board as a whole²⁶. These may include changes in the regulatory environment, legal requirements, risk, and other pertinent matters as they arise.

The provision of directors' liability insurance is an optional company obligation; therefore, candidates must consider the consequences of the unavailability of insurance prior to accepting board positions.

Mentorship at the board level is not prevalent; the reason for which is unknown. Possible reasons could be that directors who are suitable mentors have time constraints.

When mentorship is available, caution needs to be taken with intra-board mentorship, where a mentor-mentee relationship may inadvertently hinder robust debate when opinions on board matters differ between the two individuals. Inter-board mentor-mentee relationships raise a different concern related to the breach of confidentiality when advice is sought.

Nonetheless, mentor-mentee relationships are highly recommended since they provide valuable support, advice and insight into complex problems, however careful thought needs to be given to the nature of the relationship and individual responsibilities within the context. See IoDSA Paper on [Mentorship for Governing Body Members](#) for further guidance.

²³ King IV Principle 7 Practice Recommendation 17 recommends that re-election of candidates should be considered on the basis of a member's performance, including attendance of governing body and committee meetings.

²⁴ Maharaj, R. (2009), 'Corporate governance decision-making model: How to nominate skilled board members, by addressing the formal and informal systems', *International Journal of Disclosure and Governance*, 6(2), 106–126.

²⁵ Zattoni, A. & Cuomo F., 2010 'How independent, competent and incentivized should non-executive directors be? An empirical investigation of good governance codes' *British Journal of Management*, 21 (1)

²⁶ King IV Principle 7 Practice Recommendations 23 and 24 recommend that members with no or limited governance experience should be provided with mentorship and encouraged to undergo training; whilst professional development and regular briefings on legal and corporate governance developments, risks and changes to the external environment of the company should be provided for all members of the governing body.

C. Overview of advice for potential NEDs

“

Board membership is “not for sissies.”

– Survey respondent

What are boards looking for?

In the 2020 Directors' Sentiment Index™ Report, 454 respondents were asked an open-ended question of what was the top motivation factor when considering a NED appointment. The results of this question are as follows:

1 Relevant Experience (91 Mentions)	2 Value- Add (83 Mentions)	3 Skillset (57 Mentions)	4 Industry Knowledge (48 Mentions)	5 Ethical Behaviour (44 Mentions)
Knowledge and varied skills prospective candidates can contribute to the business	Positive influence in the business	Varied skillset to contribute to the effective running of the business	Extensive knowledge in specific industries	Value driven leadership, candidates must have a track record of ethical behaviour
“Experience and knowledge to add value to my organisation's decision making.” – IoDSA Member, KZN, Executive Director, Private Sector – Business Services	“The value that person adds to the board and overall company values.” – Non-IoDSA Member, WC, Executive Director, Private Sector - Manufacturing	“Skills aligned to the long-term strategy of the business combined with predicted advancements in the industry.” – IoDSA Member, GP, Executive Director, SMME Sector – Business Services	“They need to be someone who can contribute beyond governance issues, i.e. they understand the industries we operate in...” – IoDSA Member, WC, Executive Director, SMME Sector – Business Services	“For me it is doing business ethically, understanding our ethos, what we are all about, and to always keep the best interest of the company, and not enriching personal few selected individuals.” – Non-IoDSA Member, WC, Executive Director, SMME Sector - Manufacturing

The findings from this survey, and content of academic literature, clearly indicate that the general criteria being sought for board membership are as follows:

- Critical independent thinkers.
- Intellectually agile, well informed and value-adding/value-creating individuals.
- Sound pre-existing skills and knowledge.
- Courageous challengers willing to voice their opinions constructively.
- Strong morals and ethics.
- Board cultural ‘fit’ that supports an effective Board but not ‘yes’ men/women.
- Not overly aggressive or defensive, but effective leaders and communicators.
- No conflict of interest.
- Supportive of a culture of diversity and inclusivity.
- The ability to work constructively in the best interest of the company and to address legitimate stakeholder concerns.

“

You need to build your skills and experience, either alongside a development NED role or before you become a NED. Being a specialist is not enough - you need to understand business and environment context and have the experience to recognise issues and the ability to resolve or advise on them.”

– Survey respondent

Preparing your CV

1. Prepare a concise biography, that can be supported by your full CV available on an online platform such as LinkedIn.
2. If you have many achievements, sift through and emphasise the skills and expertise pertinent for meeting the needs of the company you are applying to.
3. Emphasise your experience at board level, as opposed to managerial or C-suite roles.
4. Be honest.
5. The format should be presented as an easy read that allows a quick scan to pick up pertinent information.
6. In the cover letter, pinpoint how you can add value to the company you are applying to and how you meet their search criteria; include any additional information that may be requested such as contactable references, citizenship, etcetera.

“

Candidates need to understand that a board is not a training facility and they are expected to already have the requisite knowledge and experience to serve as a board member.”

– Survey respondent

Your social media profile and activity

1. Your social media activity should exhibit what you would like to be known for publicly and privately; bearing in mind that seemingly harmless comments or banter may be misconstrued; hence caution is advised for all postings.
2. Your general media presence may be used to assess your reputation and standing in society, which in turn will affect the values and reputation of the company appointing you.

“

Only consider yourself suitable if you have the requisite maturity, skill and level of commitment.”

– Survey respondent

Preparing for the interview

1. Know who will be on the interview panel and look into their profiles/portfolios; this will provide some recognition and comfort when meeting for the first time.
2. Research the company and understand what is material to their business.
3. Research the industry and/or company specific challenges; then consider your own experience and how this may contribute to addressing these challenges.
4. Approach the interview as a discussion amongst professionals and potential peers rather than a job interview.
5. Prepare for that first question, which is usually ‘tell us about yourself’. Avoid listing what is already in your CV, and be concise in your answer. Focus on your experience in the company’s sector, or link the research you have done on the company to the value you can add based on your previous experience; in other words, find a pertinent angle that tells the company about you, but is focused on your ability to add value to them specifically. Share insights and ideas that will highlight your ability to fulfil the leadership role.
6. Prepare to ask a few interesting or thought-provoking questions that are key to the company’s strategy or performance, or any other matter that came to your attention during the research into the company.
7. Be honest; be prepared to say ‘I do not know, but I will look into that’.
8. Communication, interpersonal skills and attitude are key attributes that are inadvertently revealed during the interview, and the interview panel will be considering these aspects as part of the Board ‘fit’ criterion.
9. Remember, the interview panel are your potential colleagues, so enjoy the interaction.

“

“Focus on experience and not just academic or other qualifications. It’s the practical not the theory. You need scars and to have been to war.”

– Survey respondent

Congratulations, you are on a “board”!

1. When offered a board appointment, consider the offer carefully to ensure that the company is the right ‘fit’ for you and the reputation you wish to develop/protect.
See IoDSA Paper on [Director Due Diligence](#) for further guidance.
2. When you are appointed as a NED you will be required to use your experience, knowledge and skills immediately in order to be a fully functioning member of the Board
3. Understand your accountabilities and responsibilities to the company, as well as your personal liability and risk posed by accepting the position.
4. Keep updated on your skills and knowledge²⁷
5. Learn as much as possible about the company and the relevant industry.
6. Think critically.
7. Contribute constructively at the board discussions; always prepare extensively.
8. If you are unable to attend a Board meeting, ensure that you contribute by sending written comments/contributions to the Chair or Secretariat in advance of the meeting. In your absence, you are still liable for decisions taken at Board meetings.
9. Be available to attend meetings and address urgent matters in a timely fashion.
10. Find a suitable mentor if possible.
11. Remain independent.
12. Act with integrity and ethics.
13. Be courageous; challenge the status quo and/or the domineering members of the Board.
14. Do not get caught up in ‘groupthink’²⁸
15. Ask as many questions as you feel is necessary.
16. Do not get involved or interfere in the day-to-day management of the company.

²⁷ Maharaj, R. (2009), ‘Corporate governance decision-making model: How to nominate skilled board members, by addressing the formal and informal systems.’ *International Journal of Disclosure and Governance*, 6(2), 106–126.

²⁸ Maharaj, R. (2009), ‘Corporate governance decision-making model: How to nominate skilled board members, by addressing the formal and informal systems.’ *International Journal of Disclosure and Governance*, 6(2), 106–126.

D. Overview of advice for Nomination Committees

The Nomination Committee plays an essential role in the success or failure of a company²⁹ through the proposal of relevant, skilled and ethical board candidates for election; hence continuous improvement in the processes employed to fulfil their role should be sought³⁰.

1. Nomination Committees should be established by the board³¹ to improve the quality of new director appointments; and their mandate and implementation processes must be formalised and adhered to.³²
2. Processes deployed by the Nomination Committee must be transparent and free from undue interference by the Chair of the board³³, CEO³⁴, and other executives.
3. The Nomination Committee must actively seek out new pools of suitable candidates rather than relying on personal recommendations from internal sources only.³⁵
4. Members of the Nomination Committee need to be assessed for their suitability to serve on the committee, with due consideration to the behavioural dynamics within the committee³⁶, and social dynamics of the board.
5. Nomination Committees with clear selection criteria and decision-making procedures will not be influenced by their own behavioural limitations, which may otherwise result in the selection of individuals with characteristics similar to existing members of the committee³⁷, or the board.³⁸
6. Committee members need to debate and understand the company's stance on matters of diversity, inclusion and tolerance.

²⁹ Agyemang-Mintah, P. (2015) 'The nomination committee and firm performance: An empirical investigation of UK financial institutions during the pre/post financial crisis', *Corporate Board: Role, Duties and Composition*, 11(3), 176–190

³⁰ The 2020 Directors' Sentiment Index Report, 5th ed, indicates an average efficacy in the function of the Nomination Committee.

³¹ Vafeas, N. (1999), The nature of board nominating committees and their role in corporate governance. *Journal of Business Finance and Accounting*, 26(1–2), 199–225.

Main, B. G. M. (1994), The Nominations Process and Corporate Governance - A Missing Link? *Corporate Governance: An International Review*, 2(3), 161–161.

³² Walther, A., & Morner, M. (2014), 'Opening the black box of nomination committees: A case study of non-executive director selections in German supervisory boards.' *International Journal of Business Governance and Ethics*, 9(2), 136–154.

³³ Main, B. G. M. (1994), 'The Nominations Process and Corporate Governance - A Missing Link?' *Corporate Governance: An International Review*, 2(3), 161–161.

³⁴ Shivdasani, A., & Yermack, D. (1999), 'CEO Involvement in the Selection of New Board Members', *The Journal of Finance*, 54(5), 1829–1853.

Walther, A., Morner, M., & Calabrò, A. (2017), 'The role of behaviorally integrated nominating committees in non-executive director selection processes', *European Management Journal*, 35(3), 351–361

³⁵ Main, B. G. M. (1994), 'The Nominations Process and Corporate Governance - A Missing Link?' *Corporate Governance: An International Review*, 2(3), 161–161

³⁶ Walther, A., & Morner, M. (2014), 'Opening the black box of nomination committees: A case study of non-executive director selections in German supervisory boards.' *International Journal of Business Governance and Ethics*, 9(2), 136–154

³⁷ Ruigrok, W., Peck, S., Tacheva, S., Greve, P., & Hu, Y. (2006), 'The determinants and effects of board nomination committees'. *Journal of Management and Governance*, 10(2), 119–148.

³⁸ Westphal, J. D., & Zajac, E. J. (1995), 'Who Shall Govern? CEO/Board Power, Demographic Similarity, and New Director Selection' *Administrative Science Quarterly*, 40(1), 60.

7. Innovative ways or methods need to be sought to assess a candidate's potential to add value.
8. Contact candidates' references directly before making a recommendation to the board.
9. Committee performance needs to be evaluated to assess the impact of the committee on the performance of the Board as a whole.
10. Good practice guidelines, such as King IV and relevant guidance notes, and outcomes of surveys such as this, should be utilised to improve Committee performance.

E. Conclusion

King IV recommends that the governing body should individually and collectively cultivate and conduct themselves with integrity, competence, responsibility, accountability, fairness and transparency; thereby defining the criteria for the recruitment and election of NEDs; and hence formulating the basis from which Nomination Committees should begin their search for new talent. The governance failures of major corporations that have had severe repercussions for numerous South Africans, and the economy as a whole, justifies a rigorous screening process for NEDs and a thorough evaluation of their abilities to serve on a governing body. Nomination Committees (that are responsible for the credible composition of a company board) and NEDs (by accepting their board roles) have a collective responsibility in ensuring that governance structures are well capacitated to provide stewardship for our societies, economy, and natural environment.

[illegible]



HOW CAN WE HELP YOU?

Individual Services	Corporate Services	Thought Leadership
- IoDSA Membership - NED Vacancies - Director Certifications - Individual Director Development Programmes	- Customised Board Development Programmes - Board Performance Evaluations - Governance Advisory Services	- King Reports and Practice Notes - General Board Guidance - Board Committee Guidance - Research Projects
www.iodsa.co.za	info@iodsa.co.za	+27 11 035 3000