

The Power and Purpose of the Senior Independent Director

Part of the Boards of the Future series



Contents

Foreword	
By Dr Randall S. Peterson, Academic Director of the Leadership Institute, London Business School	05
<hr/>	
Introduction	
By Moira Benigson, Founder & Chair, The MBS Group	07
<hr/>	
The leadership landscape	08
<hr/>	
What are the key responsibilities of a Senior Independent Director?	10
<hr/>	
What makes a good Senior Independent Director?	12
<hr/>	
What are the key considerations when appointing a Senior Independent Director?	16
<hr/>	
About us	18
<hr/>	

Foreword

The role of the Senior Independent Director rarely receives the attention it deserves. In fact, I am currently teaching a course on corporate governance, and this year a handful of students had never even heard of the SID as a Board position.

This oversight should not be taken lightly. In fact, I'd contend that failing to sufficiently consider, support, or scrutinise the SID could risk the integrity of our system of corporate governance. After all, it is the SID's role to facilitate the ultimate function of the non-executive Board: collective responsibility.

A SID de-risks the Board by holding the Chair to account and acting as an intermediary between the Chair, the NEDs, the executive and the shareholders. In these ways, the SID role has stayed consistent since it was written into the governance code in 2003.

But in other ways, the role has evolved over the past two decades. As the Board becomes more closely tied to organisational culture and its remit extends beyond audit and oversight, so too has the role of the SID become more subtle and nuanced.

Today, it is the SID's responsibility to ensure that the Chair, and indeed the whole Board, is living out the culture of the organisation, and putting the business' values into practice. They must be the sort of person who can listen well, give feedback, exercise good judgement, and draw out good behaviour. Crucially, they must be trusted unequivocally by both the Chair and the other directors.

This trust underpins the role of the SID. For an NED, it's a hugely significant step to speak out against or raise concerns about the Chair. Doing so not only impacts relationships around the Board table, but could risk the future of their non-executive career. The SID must be someone who creates space for

issues to be raised, and if necessary facilitates change in a thoughtful and deliberate way. Unless the SID is perceived as trusted and approachable, the Board will not be able to fulfil its purpose.

It is for this reason that I've always argued for the importance of emotional intelligence when building a Board. These days, nominations committees have a lot to contend with: Boards need industry knowledge, functional expertise, and the right demographic diversity which reflects the outside world. And it's hard to bring together the right mix when directors are appointed one at a time.

But when the inevitable trade-offs occur, emotional intelligence must be seen as a prerequisite. Do they act in way that generates trust? Can they provide challenge without conflict? Are they serious about the organisation's values, and about speaking up when those values are overlooked in decision-making?

This report from The MBS Group asks necessary questions about the role of the SID. It points out the tensions in the way that SIDs are appointed and onboarded, exploring if the accepted framework is damaging Board effectiveness.

This is a critical discussion, but one which might not be necessary if Boards were built with the above questions in mind. If you can't see anyone on your Board that can fulfil the role of SID in a meaningful way, then perhaps you haven't been appointing the right people.



DR RANDALL S. PETERSON

Professor of Organisational Behaviour and Academic Director of the Leadership Institute
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Introduction

The role of the Senior Independent Director is full of contradictions and inconsistencies.

The Board position – only formally established in 2003 – is at once carefully defined and highly ambiguous. A SID must operate independently, but also build strong relationships. They might work behind-the-scenes one day, and act as a mouthpiece for the organisation the next. Their role can vary dramatically depending on the performance of the business, or the leadership style of the Chair.

The role also represents something of a corporate governance conundrum. If the SID is in place to scrutinise the Chair, should it be the Chair leading the selection and onboarding process? Similarly, if the SID is the natural successor to the Chair, could that impede their ability to provide effective support and challenge?

Over the past few months, my colleague Elliott Goldstein and I have spoken with dozens of Senior Independent Directors to discuss these nuances. What follows is the product of those conversations. The third in my Boards of the Future series, this white paper looks in depth at the SID talent landscape, at the different elements of the SID's role, at what it takes to be a good SID, and the considerations that must be made when making a SID appointment.

It is, after all, a position that receives relatively little attention. Unlike Chairs or NEDs, SIDs do not have a peer community or a network of advisors. There are very few courses, and no universal framework established for training or onboarding. Throughout our discussions, many SIDs recalled an expectation to just “turn up and do the job,” while others said they had to actively seek out external guidance, or define their own responsibilities.

This is all despite SIDs having a critically important part to play on the Board. The role of the SID was

formally established in 2003 in the Higgs Review of the UK Combined Code, which made the following recommendation:

The board should appoint one of the independent non-executive directors to be the SID, to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Led by the SID, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary.

The SID's role was designed as an essential layer of accountability, partly in response to two high-profile business failures: Equitable Life and Marconi. Indeed, in the past few years, we've seen the SID role come into its own during times of crisis. In periods of great challenge – scandals relating to poor management or bad behaviour, for example – the SID is often propelled to the forefront of the organisation.

As such, excelling as a SID is not straightforward. It requires a firm grasp on the organisation and its industry, an innate understanding of people, and crystal-clear judgement. I hope this paper will be used as a tool by SIDs to evaluate their own experience and responsibilities, and by Chairs to prompt important reflections on how best to appoint a SID.

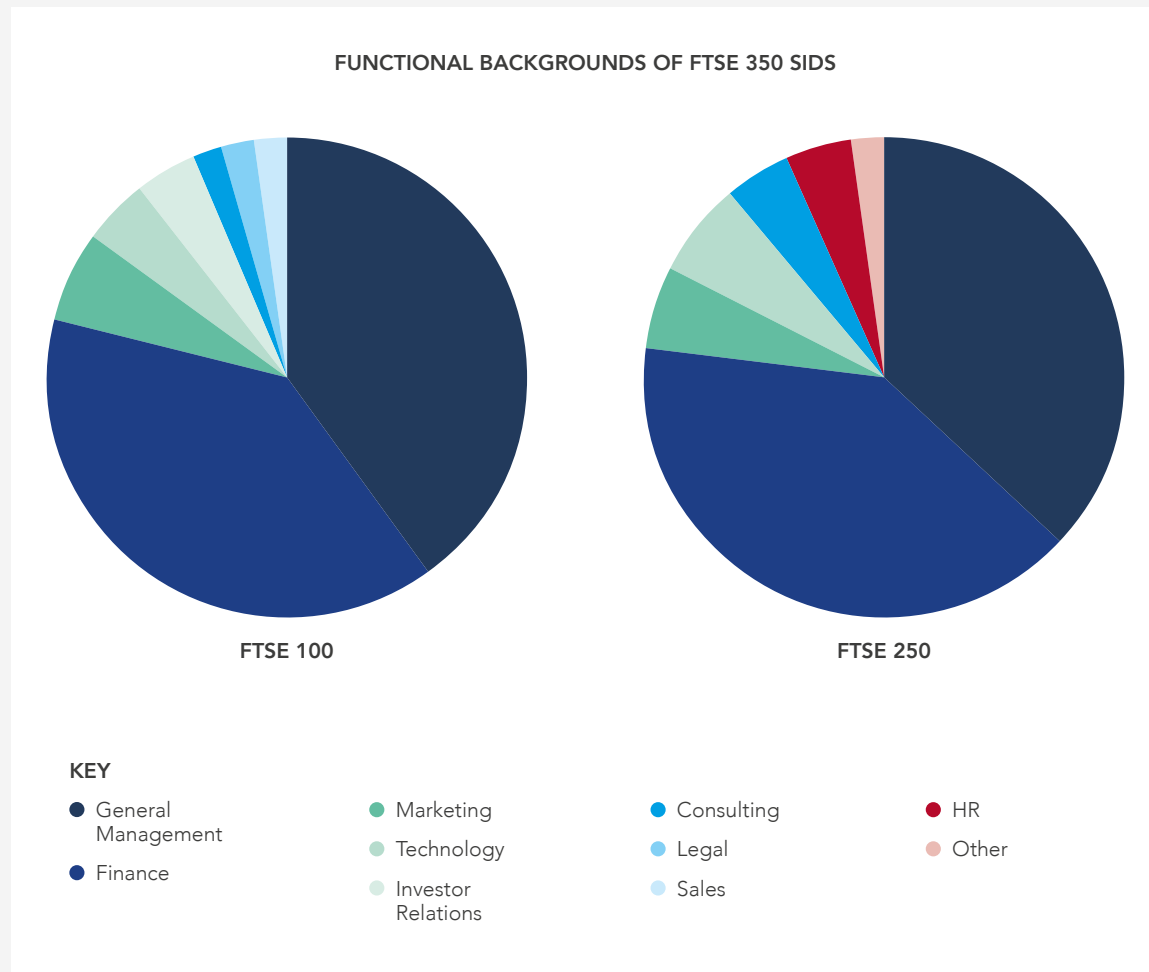
I'd like to extend my sincere thanks to the Chairs and SIDs who so graciously gave up their time to contribute to this report, and to Professor Randall S Peterson for the invaluable insights shared in his foreword.



**MOIRA
BENIGSON**
Founder & Chair
The MBS Group

The leadership landscape

In April 2022, the FCA published a requirement that at least one of the four senior Board roles (Chair, SID, CEO and CFO) should be held by a woman. This rule has made a significant mark on the SID talent landscape in the FTSE 350.



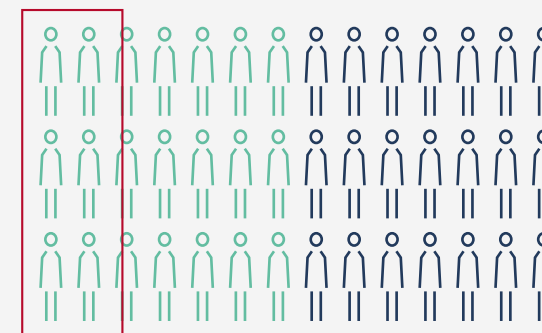
1 Women hold half of all SID roles in the FTSE 350

Today, 49% of SIDs in the FTSE 100 are women, and 47% of SIDs in the FTSE 250 are women.



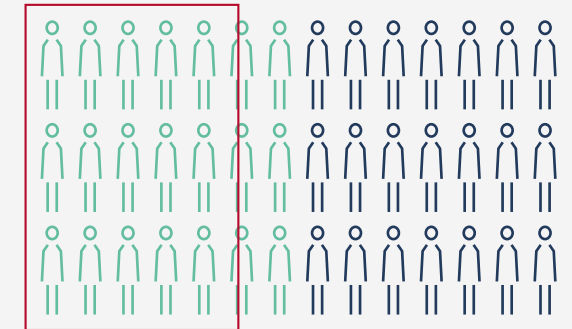
2 More than a third of women SIDs were appointed in 2023

Across the FTSE 350, 35% of women SIDs were appointed in 2023, showing the impact of the FCA requirement.



3 Three-quarters of women SIDs are the only woman at the most senior Board level

In the FTSE 100, 66% of women SIDs are governing alongside a male Chair, CEO and CFO. In the FTSE 250, this is the case for 78% of women SIDs.



4 The vast majority (75%) of SIDs have a background in general management or finance

After this, marketing and technology are the most common functional backgrounds for SIDs.



What are the key responsibilities of a Senior Independent Director?

The SID is an established feature of UK corporate governance. However, a SID's role and responsibilities can in some cases be ambiguous, and vary depending on the individual business and Board. In this section, we look at the part that a SID must play in a successful non-executive Board.

Holding the Chair to account

It is the primary purpose of a SID to act as a check and balance on the Chair. This involves providing appropriate challenge to decision-making, monitoring the relationship between the Chair and the CEO, NEDs and shareholders, and leading an annual formal evaluation of the Chair on behalf of the rest of the Board.

“I suspect formal Board reviews might have felt like a tick-box exercise in the past, but now they're critical to shareholders. It's a SID's job to oversee the review, and really own the recommendations.”

Acting as a sounding board

SIDs provide alternative viewpoints and fresh perspectives on critical issues – for the Chair, but also shareholders, other Board members, the CEO and CFO.

“A SID is another pair of eyes and ears for the Chair. They should offer alternative viewpoints, but also have the emotional intelligence to take the drama out of a situation, and the business intelligence to be crystal clear about what needs to be done next.”

Appointing and transitioning the Chair

The SID typically leads the process of identifying and appointing a new Chair at the end of their tenure. Just as – if not more – crucially, it is the responsibility of the SID to listen to the Board and shareholders, and judge if the Chair is no longer acting in the company's best interests before kicking off a Chair transition process. There may also be instances in which the SID steps up to act as deputy or interim Chair, in the case of sudden illness, for example. However, the role of the SID can become somewhat confused here if they themselves become a candidate for the Chair role.

Mediating conflict

At points of tension in a business – during a sale or periods of financial underperformance, for example – the SID often steps up to manage expectations and relationships; to avoid stress escalating into conflict; and to ensure that the process is being led to benefit all stakeholders.

“In difficult circumstances, a great SID has to be as adept as a great Chair. I was once on the Board of a company that made a major acquisition, and as SID I had to mediate the merged leadership teams. It was my responsibility to make sure the whole thing didn't blow up.”

Leading on crisis communications

In times of crisis – especially if the situation means the Chair is no longer in role – the SID acts as a mouthpiece for the rest of the Board. This includes to shareholders, the executive committee and to the public.

Managing shareholders

Building a relationship with shareholders, and listening to their feedback, is critical. The SID/ shareholder communication channel must be nurtured to allow for proper governance of the Chair and executive committee.

“When we were underperforming, the shareholders wrote to me to tell me they were unhappy. If shareholders have chosen to invest in your business, then it's so important that you listen to them and act accordingly.”

Taking a company public

The SID plays an important role during IPO processes. This is particularly true if the Chair has never been part of an IPO before, or Chaired a publicly-listed company.

Moral voice

The SID is increasingly playing the role of “moral voice” around the Board table – ensuring that the Board upholds the corporate standards and values it has signed up to, and that decisions taken represent the interests of all stakeholders and the business' broader ESG agenda.

“I see my role as setting certain standards. I feel responsible for how the Board operates.”

What makes a good Senior Independent Director?

What are the key attributes of a successful SID? When appointing a new SID, either from the existing NEDs or a new external candidate, what should the Chair be looking for? In this section, we explore the characteristics, experience and capabilities needed to be an impactful SID.

Gravitas and challenge

The SID needs to have enough professional weight and gravitas to effectively hold the Chair to account. A good SID is not afraid to be honest, to have difficult conversations, or to ask direct questions. They must be able to provide challenge without causing conflict.

On top of these people skills, SIDs should have a deep and rounded understanding of the business and the industry it operates within. In order to ask the right questions, SIDs should have a firm grasp on both long-term strategy and operational details.

“A SID has to have a more senior voice, because if there are issues with the Chair, it's the SID that steps in – in front of the shareholders, in front of the executives, and in front of the rest of the Board.”

Relationship building

A great SID is a people person, who acts as a trusted confidante, a sounding board and an advisor. A SID must build strong relationships with the Chair, shareholders, the rest of the Board, and the CEO – gaining trust without forming allegiances. Timing is crucial: SIDs should have strong relationships in place before they're 'needed' in times of crisis.

“You need to have that relationship with the executives. You need to build trust with the team. People must know they can come to you with issues when they don't want to go directly to the Chair.”

How to actively build strong relationships?

- Identify the best style and structure for a consistent communication channel with the Chair. From our discussions, the best Chair/SID relationships include a monthly meeting or call
- Invest time getting to know each individual Board member, and keep relationships warm over the period you are SID
- Hold one-to-one meetings with the CEO and CFO outside of scheduled Board meetings
- Pay attention to NEDs' reactions in Board meetings, and offer to have further conversations on particular issues outside of Board meetings
- Ensure you have an active presence at shareholder meetings
- Attend capital market days
- Attend RemCo consultations with shareholders

Emotional intelligence

To effectively fulfil the role, a SID should have a high level of emotional intelligence. It's critical that a SID can 'read a room', and recognise how fellow directors are feeling and articulate it appropriately. Approachability is also crucial.

“It's about being empathetic to people's concerns, but also being smart enough to influence people to give the answers that will best suit the company.”

Future thinking

A SID should be comfortable looking ahead to new opportunities, as well as predicting and mitigating against future challenges. This is particularly true of issues that might have a reputational impact on the business.

“I don't have as many specific set tasks as the RemCo or NomCo Chair, so I have a responsibility to think a little bit more deeply about the dynamics of the Board, and the opportunities and challenges that the business faces.”

The right professional experience

While there's no 'right' background for a SID, many non-executive leaders we spoke with told us that the most effective SIDs have both CEO and CFO experience, and a firm grasp of all corners of the organisation, from supply chain to marketing.

“It's very useful to have a SID who has been around the block a little bit, who has seen different economic cycles.”

SID experience should also be considered in relation to the Chair's background. If the Chair is a functional expert in a specific area, a generalist SID could be a good counter-balance. Similarly, if a Chair has a gap in their knowledge, a SID could be appointed to provide insight in that area. Moreover, a first-time Chair might require a more seasoned SID to support them – and vice-versa.

“The Chair relied on me a lot in the first eighteen months of their tenure.”

Visibility

A great SID is deliberate about creating a strong profile and presence within their organisation. This involves building relationships, but also ensuring presence at certain meetings – like shareholder meetings or RemCo consultations.

“As a SID, you've got to make sure that you are playing the role in a way that means that if there is a critical situation, nobody's saying, 'And who are you? Where did you come from?' as you try and sort it out.”

Comfortable managing ambiguity

There is very little formal clarity around the role of the SID, and varying degrees of understanding on what the role entails. The role of the SID can also change dramatically depending on the leadership and personality of the Chair. Some of the SIDs we spoke to said that they defined their own role at the beginning of their tenure, sitting down with their Chair to discuss responsibilities and expectations.

“It’s a funny role because it’s undefined in many ways. Sometimes it feels like you’re given the name badge and asked to turn up, with little clarity around what you’re supposed to do beyond the annual Chair Review.”

Agility and flexibility

Crucially, SIDs must be comfortable with sudden shifts in what’s required of them when crisis hits. Some SIDs described their role in business-as-usual as a ‘waiting game’.

“As a SID, it can feel like you’re just waiting for a crisis to unfold. You’ve got to be nimble: aware, ready, knowledgeable, and prepared to step in, as and when an event happens.”

Proactivity

During steady periods, SIDs should be proactive in their role, and not be tempted to ‘sit back’.

“I think the biggest challenge for a SID is the perception that you’ve only got a role in a crisis. It can be tempting to think: the Chair is happy, the CEO is happy, our valuation’s good, so there’s nothing for me to do. But SIDs shouldn’t be seen as a fire extinguisher sitting in the corner, only reached for in a disaster.”

“If I look across my Boards, I have one on which the Chair is very happy to delegate responsibility, and another where I have to keep prodding them to say – hi I’m here to help.”

Low Ego

The role of the SID is very powerful, but generally not very public – reminiscent of backroom diplomacy. The SID must be willing and open to conduct their role without any recognition – sometimes even from within their own Board.

“It’s a funny role. You have to be happy working alone, and self-motivated enough to do the right thing, even when you might not get much credit for the work you’re doing behind-the-scenes.”

Comfortable working alone

The role of the SID can be lonely. Unlike for Chairs and Chairs of Committees, there is not a pre-built community of peers or advisors, so SIDs must be happy to operate alone, or to seek out their own external support network.

What are the key considerations when appointing a Senior Independent Director?

In hiring a SID, there are many factors that may immediately pose, or lead to, governance challenges. In this section, we outline the questions that Chairs should be asking when appointing a new SID.

Should the SID be appointed from the existing Board?

The typical process of appointing the longest-serving NED into the role of SID poses multiple issues. As this white paper has outlined, there are specific characteristics needed to be an effective SID – which may not be held by the NEDs around the table. Indeed, perhaps somewhat foolishly, rarely are NEDs appointed with SID potential and skillset in mind.

Moreover, while the longest-serving member of the Board will have a deep understanding of the business, they may not be best placed to provide alternative viewpoints and sufficient challenge to the Chair, especially if they have served as their NED.

“I was the obvious choice because I’d been the longest serving NED. So it felt inevitable that it would be me.”

Will an external candidate be sufficiently trusted by the rest of the Board?

A SID cannot fulfil their role unless they are implicitly trusted by the Chair and NEDs. While appointing an external SID could bring necessary challenge and alternative viewpoints, it might also make it more difficult to build the trust required for Board members to feel comfortable coming to the SID with concerns.

Is the SID part of Chair succession planning?

In many cases, the SID is seen as the obvious successor to the Chair. This structure could damage the integrity of the SID/Chair relationship, and threaten the SID’s ability to provide appropriate pushback.

There are also issues relating to skillset. The SID and the Chair each play a different role, and require different skills. But at present, the SID and Chair-in-waiting role are often confused. Are businesses better placed to appoint an external director who has the specific skillset required to be a great SID? This could be done six months to two years before an existing SID steps down – allowing the SID-in-waiting to learn the organisation and Board before stepping into their SID role.

Is the candidate for SID actually looking to be Chair?

If a SID is actively interested in becoming Chair, then they may not be the best person to effectively hold the existing Chair to account. Additionally, if the SID wants to be the Chair, this obviously impedes their ability to conduct a fair and open succession process – a critical role of the SID.

“I was once on a Board on which our SID desperately wanted to be Chair. It was very hard to trust what they were saying when they raised issues about the Chair’s performance. In the end the Board put pressure on the SID to step down.”

Who provides the SID induction?

In most businesses, the Chair provides the induction for the SID. Given it’s the SID’s role to hold the Chair to account, this presents an obvious conflict of interests.

“When I first joined, there was no specific induction. I met everyone, I talked to a few people, but that was it. Much more needs to be done to prepare the SID for their role.”

Should the Chair select the SID alone?

Given a core part of the role is to hold the Chair to account, should the SID be selected by the full Board – and not just the Chair?

About us

About The MBS Group

The MBS Group is a leading sector-specialist B Corp executive search firm advising all consumer-facing industries. Clients consider us to be the partner of choice when searching for critical leadership roles that make a difference. We work at Board level and on executive positions across all functions of strategic importance.

For more information, visit www.thembsgroup.co.uk

Our Boards expertise

Our breadth and depth of experience across all consumer-facing sectors and beyond gives us the ability to offer a creative perspective on the strategic leaders of a business. We think businesses thrive on diversity of experience and we are unafraid to think boldly. Clients of all types – be it listed, privately-owned, private equity-backed or not-for-profit – and of varying sizes trust us to deliver the most effective Boards.

Acknowledgements

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