



This document is designed to be practical and to assist Supervisory Boards in deciding whether they wish to appoint an Independent Director and what should be expected from that appointment.

WHAT SHOULD A COMPANY EXPECT FROM AN INDEPENDENT DIRECTOR?

Before deciding to appoint Independent Directors the Supervisory Board should consider carefully whether this would be beneficial. Frequently, lenders or external investors will want an Independent Director on the Supervisory Board to bring an external perspective to represent their interests. An Independent Director can bring additional skills and expertise to a Supervisory Board, but this is more likely to be mutually beneficial, to the company and the Independent Director, if the appointment has been carefully thought through beforehand via an open and constructive recruitment process.

Why consider appointing Independent Directors?

There are a number of reasons why a private company may decide to bring an Independent Director on to the Supervisory Board of Directors, including:

- a company may wish to utilize the knowledge, skills and reputation of an expert within the industry and access his or her contacts as a means of reaching new business opportunities or capital, whilst managing carefully any conflicts of interest which arise
- a company may be too small to employ, or afford to employ, full time executive Directors and therefore the appointment of an Independent Director can widen and compliment the Supervisory Board's experience and skill-set in a relatively cost effective manner
- for a young start-up company an experienced Independent Director may bring objective challenge and strategic advice without becoming too involved in the day-to-day running of the business
- frequently, the price of external funding is that the lenders or external investors will insist on an Independent Director. This is frequently the case in the growing family company where the independent may be instrumental in easing a company towards its next stage.

The Supervisory Board should make a considered decision, minuting its reasoning, and conclude for or against appointing an Independent Director. If the decision is made in principle to appoint one or more Independent Directors, the Supervisory Board should consider what it wants from the appointment(s) and the following points may be relevant.



Contribution to strategic leadership

The company management's role is to run the day-to-day activities of the business in accordance with the Supervisory Board's approved strategy. The benefits that are expected from an independent appointment would include a contribution to the development of that strategy and an effective challenge of management's strategic plans. The company should expect an Independent Director to:

- bring an external, independent perspective
- challenge executive recommendations
- assist in setting and revising strategy and objectives
- ensure that there are proper risk management and internal control frameworks which are implemented concerning all aspects of the business
- consider management's plans on succession planning.

Independence

An Independent Director is expected to be someone from outside of the company, who can bring an external perspective to the Supervisory Board, is not involved in the internal running of the company, and does not have key relationships with the company, for example, as a supplier or customer.

Independence of mind does not mean that a Director has to form his or her judgement in isolation. A Director can obtain advice or information from others but the exercise of the judgement must be independent in the sense of it being his or her own judgement. The independent needs to be a strong enough character to be able to say 'no' and also credible so that he or she commands the respect of the Supervisory Board.

The company should expect the Independent Director to:

- scrutinize the performance of management against the objectives of the company
- seek to ensure there are systems which support the integrity and quality of management information
- help determine appropriate levels of remuneration of executives, and that there is not a culture of excessive reward or 'reward for failure'
- advise the Supervisory Board on the basis of his or her external knowledge and experience.

Skills and experience

An effective Supervisory Board should have a balance of skills and experience that is appropriate for the size and requirements of the business. Independent Directors should add to the skills mix on the Supervisory Board and have suitable experience.



To be a part of the Supervisory Board

The Supervisory Board is collectively responsible for the success of the company and an Independent Director shares in that responsibility. The Independent Director should be expected to understand fully the business of the company, have good attendance at Supervisory Board meetings, be fully briefed, and to devote sufficient time to the role.

How do you find an Independent Director?

Having made a decision to seek an Independent Director, where are suitable candidates found? In general, the following are used:

- Independent Directors Association
- recruitment agencies
- informal business networks
- recruitment advertisements in newspapers or specialist journals as appropriate.

The terms of the appointment

Normally, any staff appointment will follow certain procedures. This should be equally applicable for an independent position. An Independent Director will:

- be on the Supervisory Board and be expected to have significant influence over the company
- be appointed for a specific (renewable) time period
- be remunerated.

Removal of an Independent Director

It may be that despite the rigour of the recruitment process the performance of an Independent Director is not satisfactory. The appointment letter should reflect any notice periods or process for immediate removal.