

# Hiring principles for independent board members

Board Leadership Centre



The Capital Market Authority (CMA) of Saudi Arabia requires boards of directors to diligently discharge its duties in a responsible, serious manner, and in good faith. Article 16 of the Corporate Governance Regulations, issued by the board of directors of CMA, states that the number of independent directors shall not be less than two members or one-third of the board members, whichever is greater. Based on this statutory requirement – and overall principles of good governance – this document provides considerations for nomination committees and boards to support their hiring agendas.

Independent directors are like lighthouses; they may not be at the helm of a vessel, but they do act as a guiding light and help find safe passage in and out of harbors. Independent directors are an incredible asset as they bring deep and diverse experience and can help enable major operational transformations.

While some may understate the presence of independent directors as a metric to strengthen corporate governance, the importance of their role goes way beyond filling in the knowledge and skill gaps through their expertise.

Finding the right board member can be a daunting task. Keeping in mind the increasing roles and responsibilities, the decision-making powers vested in them, the considerable length of their tenures, finding the right person for the job and ensuring the right mix and composition of board members is fundamental.

Article 18 of these regulations, while not mandatory, states a board member should be professionally capable with required experience, knowledge, skills and independence to enable him/her to perform the duties efficiently. Article 18 sets out the recommended qualifications for board members as follows:

- **Ability to lead and guide**
- **Competency**, including academic and professional qualifications, practical experience and personal skills
- **Financial knowledge**
- **Physical fitness**

So, the key question is, how do you build and maintain a strong and effective board with members who are aligned with the culture and vision of your company? While there is no *one-size-fits-all* answer, this document aims to provide considerations for nomination committees and boards to leverage on, help define their needs, onboard the right people, and plan for succession.



Consider the right mix of influencing factors



Don't underestimate the power of research



Tighten the hiring process



Plan for succession



Don't undervalue the importance of behavioral traits

# 1

## Consider the right mix of influencing factors

The process of selecting the best independent director for the board should be a thoughtful one that weighs both business priorities and governance expectations equally. Some of the key points for the nomination and remuneration committee (NRC) to consider include:

### Understand your requirements

Have a job description or prospectus in place that defines what you prefer and what you are looking for. Discuss it amongst the board members and seek input from the executive ranks. Where appropriate, seek counsel and buy-in from your strategic investors. Such consensus-building helps bring everyone on the same page and scout for the right talent.

### Plug-in the gaps

While recruiting and appointing board members, it is imperative to do an in-depth analysis of existing skillset, knowledge, and diversity. Hire individuals who have the experience and abilities which are currently missing in the current board. While looking at the skills matrix, it is also important to go through the committee charters in detail and check potential candidates' fitment with committee requirements. Candidates with skills that correspond with the committee charters can help in solidifying the company's performance in critical board agendas such as growth, ESG, risk, and compliance. Avoid the trap of inducting those you might personally know, or professionals who are just visible in the marketplace – the familiarity bias should best be avoided.

### Gauge accessibility

Before embarking on a hunt for a great board member, the NRC must always gauge the accessibility of prospective directors. Article 17 of the regulations states that a board member shall not be a member of the boards of directors of more than five listed joint stock companies at the same time. It is also crucial to understand their bandwidth and current commitments to know how much time they will be able to devote to your organization.

### Evaluate independence

Good governance practices always suggest that boards with too many insiders are not recommended. Article 19 of the mentioned regulations set out in detail the issues affecting the independence. It also requires that the board shall annually evaluate the extent of the member's independence and ensure that there are no relationships or circumstances that affect or may affect their independence.

### Look for experience

#### Operating experience

Look for someone who has hands-on and in-depth experience in a specific area so that the prospective director can share real-life experiences and industry's best practices.

#### Market experience

Keep expertise under the lens. Regardless of the size or industry, all organizations face challenges such as market fluctuations, competition, technology disruption and at times media scrutiny. Boards that embrace diverse skill sets and expertise are better equipped to face challenges. Diversification allows you to leverage the depth and breadth of experience across key functions of a company and can help in bridging the gaps or tapping the opportunities.

#### Emerging topics

With themes such as digital disruption, ESG reporting, supply chain risks, and compliance, becoming more and more pertinent, one must look for individuals who can understand the impact of these issues and work towards furthering the organisation's growth.

#### Functional experience

Consider whether there is a need to bring in a functional expert (like an ex-CFO or VP of international sales) who can share their expert views on specific business segments.

#### Strategic thinkers

Independent directors offer inputs on the most strategic decisions. Look for someone with strong strategic thinking abilities and who can take a robust outsider perspective on the company to take decisions.

## 2

## Don't underestimate the power of research



While hiring an independent director, one must leverage public sources and gather all possible information about the candidate. Independent directors ensure that processes of sound corporate governance are implemented, hence it becomes vital to conduct a thorough and discreet background check.

The process of due diligence should include a candidate's business background, domain expertise, knowledge, experience, and reputation apart from tracking red flags like legal or regulatory action and conflict of interest situations.

## 3

## Tighten the hiring process



Finding a prospective candidate might prove to be a lot less difficult if the need is appropriately defined. A recruiting agenda that simply seeks to satisfy governance requirements and shareholder representation can be straightforward, but with limited benefits. In today's competitive and dynamic environment, organisations are looking for specific skills and expertise in board members that can help them achieve a goal.

Having a well-defined hiring process can ensure that companies don't get overwhelmed with the procedural part and focus more on finding the right candidate.

### Consider the following recommendations:

- **Identify the needs of the board**, specifically in areas that need expertise and skill.
- **Create a job description** for the director to highlight the role and define the company's expectations.
- **Establish a hiring committee** that can collect, and review candidates' resumes to create a pool aligned with the prospectus.
- **Conduct interviews** to identify interpersonal traits needed for a successful director.
- **Perform reference checks** to confirm the candidate's potential for expertise and the added value that they may bring.



## 4 Plan for succession



Choosing the right leader at the right time is a crucial decision that one makes to secure continued success. Succession planning is a strategy for identifying and nurturing future leaders in an organisation to prepare the business for varied contingencies.

A well-defined talent pool can be a great tool for succession planning as it enables organisations to customize opportunities, and train individuals for prospective board roles. This pool may provide

greater opportunities for diverse candidates. In case of a sudden exit, the time to recruit is significantly reduced as one can quickly identify potential candidates from within a talent pool and start the recruitment process.

Board succession planning should ideally start with creating a formal document which underlines specific duties and characteristics a board member should possess. This may be used for evaluating the board member from time to time.

## 5 Don't undervalue the importance of behavioural traits



The current business environment faces a plethora of risks and challenges, including continued post-pandemic changes, macro-economic volatility, and changing business models. In addition, there are other factors that put pressure on businesses and bring corporate governance mechanism under the microscope. While pressure on boards comes from varied sources, technological disruptions are further adding to the flux while creating both opportunities and areas of risks.

It is ultimately the stewardship of the boards to navigate companies through these challenges. As the nature and complexity of issues shift, the roles of independent directors are bound to evolve along with it. Future-ready board members need to engage with the tools, resources, and opportunities available to broaden their understanding of critical governance themes and know how to address them through a deep rooted sense of curiosity and willingness to learn. Obtaining the knowledge, skills, and confidence to act will be a critical indicator for a prospective board member.

While board members are expected to bring in newer competencies and attributes to the board table, it is the strength of character and behavioral traits which distinguishes a leader, as their inner value system influences their decision-making. Being courageous, empathetic, and persuasive in the boardroom will help in enabling compelling and open dialogues.

This also points to the intrinsic factors which promote personal outlook and behaviour in the boardroom. To better serve the communities in which the organisation operates, it is important to have a board of directors who bring fresh and real-life perspectives and experiences and help in making the boards more diverse not just structurally but in thought process as well.

It is paramount that each board seat is held with a set of shared values, and by someone with a global mindset and who is committed to strengthen diversity, equity, and inclusion.

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## Board Leadership Centre

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