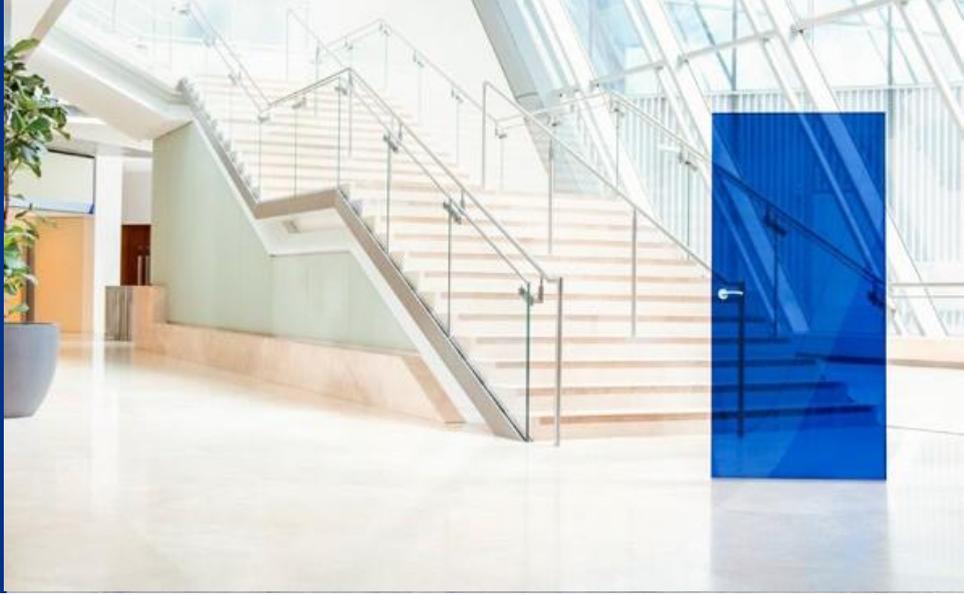




# On the 2022 nomination committee agenda

KPMG Board Leadership Centre



Business recovery and growth, the long-term effects of the pandemic and ESG commitments are likely to continue to test the skills and experience of board members. Has the board taken the opportunity to review and potentially reshape board composition in line with any new strategic imperatives, review succession planning, and shift the dial in relation to fairness, equality and opportunity for talented people to succeed?

Drawing on insight from our interactions with directors and business leaders, we highlight the following six areas for nomination committees to keep in mind as they consider and carry out their 2022 agendas:

1. Skillsets to expand and enhance ESG oversight
2. Enriching board decision making through visible and invisible diversity
3. Board skills required to support growth
4. Succession planning
5. Planning for increasingly active investors
6. The voice of the workforce and wider stakeholder perspectives

Oversight of ESG related risks – and equally importantly, the opportunities – starts with an ESG competent board. Not every board member needs to have deep-dive ESG expertise, but the board, as a whole, needs to have ESG risk and its impact on long-term value creation, top of mind. They need to understand which issues are of greatest risk or strategic significance to the company, how they are embedded into the company's core business activities, and whether there is strong executive leadership behind the company's response to the climate crisis.

Oversight of these risks and opportunities is a significant challenge, involving the full board and potentially multiple board committees. For example, elements of climate, ESG, and Diversity, Equality and Inclusion (DEI) oversight likely reside with the audit and remuneration committees – and other committees, like an ESG or sustainability committee, may have responsibilities as well. Overlap is to be expected, but this puts a premium on information sharing and communication and coordination among committees. It also requires that committees have the expertise to oversee the issues delegated to them.

It is important for nomination committees to ask themselves the following key questions:

- What role is the nomination committee playing in ensuring the board has the right skills and the governance structures are fit for purpose?
- Is this addressed head-on as part of the annual board evaluation exercise?
- Do the company's succession plans explicitly address ESG competency?



## **Skillsets to expand and enhance ESG oversight**

Environmental, Social and Governance (ESG) has become a critical consideration for businesses, investors and shareholders across all sectors. Climate change is front and center and social factors have gained greater attention over the past year as Covid-19 forced working and living practices to change, highlighting the social issues that were already there. ESG is increasingly gaining importance in the UAE where we have witnessed the Chairman of SCA's Board of Directors Decision No. (3/Chairman) of 2020<sup>1</sup> requiring all listed public joint stock companies to issue annual sustainability reports.



### **Enriching board decision making through visible and invisible diversity**

Core to the nomination committee’s role is ensuring that the board has the right combination of skills, backgrounds, experiences, and perspectives to probe and challenge management’s strategic assumptions and to support management in navigating the company through an increasingly volatile and fast-paced global environment.

Thanks to regulations like the Chairman of SCA’s Board of Directors Decision No. (3/Chairman) of 2020, great progress has been made in terms of diversity within boards and the workforce. These requirements include the following to be complied by company’s shareholders, board and its committees:

- Representation of at least one female member in the formation of the board of directors;
- Setting policies to apply for membership of the board and executive administration, taking into account gender diversity within the formation and encouraging women through incentive and training; and
- Majority of board members are required to be non-executive independent members for ensuring independence and objectivity in boardroom discussions.

Age and gender diversity requirements are also evidenced at a federal government level in the UAE. The Guide to Board Governance in the UAE Federal Government 2020 requires that board members include at least one young member under the age of 30 and one female member.

Diversity of international experience is also important for businesses operating across many different markets.

Organizations would do well to consider the strengths that ‘invisible’ diversity traits such as socio-economic backgrounds and cognitive diversity of board members could bring into board discussions. Results of global research highlights that individual differences (personal/neuro/personality) are seen by directors as the most significant and important source of diversity in the boardroom, compared to demographic differences including gender, ethnicity and nationality – yet cognitive diversity appears to be an area that at present is both understudied and under tested.

Does the nomination committee use personality testing or cognitive profiling to assess whether the board has a mix of personalities and decision-making styles that best contribute to effective oversight and decision making?

Organizations should be cognizant of the increased level of investor engagement on this issue – perhaps highlighting investor frustration over the relatively slow pace of change in boardrooms and pointing to the central challenge with board composition: a changing business and risk landscape. Addressing competitive threats and business model disruption, technological innovation and digital changes, climate and ESG risks, cyber risk, and global volatility requires a proactive approach to board-building and board diversity – of skills, experience, thinking, gender, ethnicity, etc. – is central to that.

Lastly, stakeholders should think about the breadth of the talent pool from which new board members are sought. Has sufficient attention been given to recruiting directors with backgrounds in the third sector, academia and government, as well as entrepreneurs and those from family businesses? Challenge recruitment firms to provide a more diverse list of candidates and be specific about the skills and attributes required.



### **Board skills required to support growth**

Whilst the pandemic may have highlighted those skills sets that come to the fore in a crisis, the continuing priority is to ensure that talent, in the boardroom and in the pipeline, is aligned to strategy – even where that strategy has changed significantly in reaction to the events of the last 18 months.

Demand for experience in business transformation, recovery, technology and restructuring is likely to continue. Leadership styles have pivoted towards empathetic leadership and wellbeing issues have risen up the agenda.

What steps is the nomination committee taking to ensure the board, leadership and senior management team are fit for purpose and well placed to support recovery and growth? What development plans are in place to support both senior managers and those in the pipeline?

There has been increasing emphasis on development plans, for instance via regulations such as the Chairman of SCA's Board of Directors Decision No. (3/Chairman) of 2020<sup>i</sup> which requires that boards establish appropriate development programs for all board members to develop and update their knowledge and skills, ensure effective involvement in the board and ensure implementing any training or qualification programs as determined by SCA.

This emphasis also extends at a Federal level in the UAE, where the Guide to Board Governance in the UAE Federal Government 2020<sup>ii</sup> requires that the Chairperson should ensure that board members undergo the appropriate professional development programs, especially in the fields of governance, strategy and financial analysis.

Alternatively, advisory boards might be considered as a mechanism to fill any skills gaps and support the board in the execution of its duties. However clarity over their role, authority and place within the organization's governance framework will be key to success.

Equally, the use of third-party advisors to support the board in areas where specific expertise is needed will likely continue, but regulators and investors are increasingly seeking greater transparency around who such advisors are and any affiliations, financial interests or ties that might bias their judgement and therefore impact their advice.

Digitalization, robotics and Artificial Intelligence (AI) are increasingly important components of many corporate strategies. Individuals with deep technological expertise can be hired at an executive level but board members still need to be able to 'ask the right questions' and just as important, 'understand the answers', in order to be capable of contributing across the range of issues the board faces – but have the risks around inexperience been historically overstated? And even if not, have they now been surpassed by the potentially higher risks associated with a board lacking in technology literacy?

Consider looking beyond the 'usual suspects' to find people with different experiences and backgrounds - including those who have not served on a listed company board before. Different leadership styles may unlock organizational success, and with appropriate induction, mentoring and coaching, new directors should be able to adapt reasonably quickly.

Courage, integrity and the emotional intelligence to provide a balance of perspectives should not be underestimated as key requirements to help the CEO and organization recover and support growth once again.



## Succession planning

Leading governance practices puts diversity at the heart of good governance, requiring nomination committees to link their policies on diversity and inclusion firmly to their business strategy and to promote diversity in terms of new appointments and in their succession planning. However, many companies are providing very little information on how they have sought the right mix of skills and perspectives to drive their long-term success.

Globally, the majority of companies simply note that the role of the nomination committee is to keep appointments under consideration. Detail on succession planning is still scarce whilst many premium listed companies provide good detail on their appointment process (including the use of external recruitment agencies), very few articulate the deeper considerations around succession planning, or the progression plans for those looking to move to board level.

If recent times have taught us anything it is that having robust succession plans for times of stress as well as more benign times is critical.

Successors may be identified from 'rising stars' who have dealt with the impacts of the crisis and those that sit on multiple boards who can share insights from other organizations. The trend for boards to identify talented individuals to become 'board apprentices' to observe the boardroom and provide independent feedback, as well as gain valuable training to reach board level is increasing.

The continued use of online recruitment tools and practices such as video interviewing could help to widen the talent pool as physical meetings become less of a logistical barrier.

On a related note, nomination committees should, as far as possible, seek to preserve stability at the top of the organization by avoiding appointing the Chair and CEO in quick succession. Similarly, nomination committees should, as far as possible, manage the retirement of board members so as to avoid losing too much 'corporate memory' in one go.



### **Planning for increasingly active investors**

In an environment where SCA requires election of board members every three years, institutional investors could use targeted voting practices to register their feedback at the board such as voting against re-election of directors.

Globally, ESG has now become a factor too with major investment houses going on record to say they would utilize voting at companies to improve their ESG metrics.

The nomination committee chair in particular should be wary of non-adherence to best practice and regulatory requirements, and can expect to be voted against if: the roles of the chief executive and chair have not been split; a senior independent director has not been appointed; the board has not conducted an externally facilitated evaluation of its effectiveness within the past three years; or an individual who has a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests is nominated (or re-nominated) to the board.



### **The voice of the workforce and wider stakeholder perspectives**

Stakeholder perspectives are relevant for all board appointments and should be considered as part of succession planning and throughout the selection process. Given the significant influence that a company's key stakeholders have on an organization's prospects and license to operate, the board's knowledge and understanding of the interests of those stakeholders is vital.

In order to engage effectively with the workforce, international practices recommend one or a combination of:

- a director appointed from the workforce;
- a formal workforce advisory panel; or
- a designated non-executive director.

What is the nomination committee's role in appointing a non-executive with designated responsibility for getting the voice of the workforce into the boardroom? Is there a formal process? Are specific characteristics and skill sets sought? Has consideration been given to tenure and rotation issues? Is more than one designated non-executive director necessary if the company has a large geographical footprint?

Workforce directors can provide tangible benefits to companies – particularly in an environment impacted by the ongoing effects of the pandemic.

## The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

Learn more at [Board Leadership Centre](#)







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