On the 2021 nomination committee agenda

KPMG Board Leadership Center

The current crises and after-affects have tested the skills and experience of board members and provided time to reflect on how well organizations have responded. The new reality presents a unique opportunity to reshape the board composition by engaging in introspection, redesigning recruitment processes, and working towards providing truly equal opportunity for talented people to reach a boardroom that is fit for the future. We present some of the key considerations for a nomination committee to explore as they plan for 2021.

Board skills required to support recovery

COVID-19 may well have uncovered some board members with skillsets that no longer match the needs of a business in crisis. Whilst the continuing priority is to ensure that talent is aligned to strategy, it is highly likely that strategy has shifted significantly with the focus on recruiting board members with the necessary skillset and bandwidth to aid recovery.

Skills in business transformation, business continuity or restructuring will likely be in demand. Future candidates may even include those with public health expertise to deal with effects from the pandemic that could hang over business and its employees for some time.

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 judgment and therefore impact their advice.

Courage and emotional intelligence to provide a balanced perspective should not be underestimated as key requirements to help the CEO and organization recover from the COVID-19 aftershocks and support growth once again.

Emergency situations

Whilst many companies had existing plans for CEO succession, boards are also considering emergency successors for other key executive roles.

If the current crisis has 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 use of online recruitment tools and practices such as video interviewing could contribute to a widening of 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.

Enriching through diversity

Core to the responsibilities of the nomination committee is ensuring that their board has the right combination of skills, backgrounds, experiences, and perspectives – to probe management's strategic assumptions; to enable management to navigate the company through an increasingly volatile and fast-paced global environment. Diversity is one of the most penetrative tools for achieving this.

Diversity is about the richness of the board as a whole, and the combined contribution of a group of people with different skills and perspectives – people with different experiences, backgrounds and life-styles who together are more able to consider issues in a rounded, holistic way and offer an attention to detail that might not be present on less diverse boards.

Diversity can be measured in so many ways: from race and gender, sexual orientation and disability, to geographical heritage. International diversity is especially important for businesses operating across many different markets.

A diverse board will, by definition, have a number of diverse personalities and getting the most out of them is what sets great chair persons apart: a chair who understands the differences between board members and how they approach any given situation will be better placed to harness their skills and attributes and ensure that the board as a whole is greater than the sum of its parts.

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. Nomination committees that are themselves diverse, are likely to be more open to bringing in others from more diverse backgrounds.

Planning for increasingly active investors

In an environment where directors face annual election, institutional investors are increasingly using targeted voting practices to register their displeasure at the board, voting for example against re-election of directors from the remuneration committee chair who displays an unwillingness to change executive pay arrangements to the audit committee chair who presides over a period of accounting irregularities. ESG has now become a factor too, with major investment houses going on record to say they would take voting action against directors at companies that were laggards based on their ESG scores and that could not articulate how they planned to improve their ESG metrics.

Furthermore, large institutional investors have for some years been using their voting powers to reduce the number of over-boarded directors on boards, often through specific policy choices. The trend seems to be towards a recommendation of four or, at the very most, five mandates, with chair counting as two. Moreover, the general principle that executives should have no more than one external role should be reinforced.

The nomination committee chair in particular should be wary of non-adherence to best practice, and can expect to be voted against if:

- the roles of the chief executive and chair have not been split;
- no independent senior director has been appointed;
- the board has not evaluated its effectiveness with external help within the past three years;
- 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.

Incorporating wider stakeholder perspectives

Stakeholder perspectives are relevant for all board appointments and should be considered throughout the recruitment and selection process for every new director appointment. Given the significant influence that a company's key stakeholders have on its future prospects and its license to operate, the board's knowledge and understanding of the interests of those stakeholders is vital.

Challenging conventional wisdom

Rapid technological change and new disruptive business models challenge the more traditional approaches of many established businesses. Companies need to consider the impact of this on their board and look at a wider pool of candidates in order to identify people with the skills needed for them to meet the challenges they face in this new environment.

Traditionally, boards sought out directors with 'big company' experience, but in this new age the ability to understand and leverage technology at speed are vital to success and so a different sort of experience is needed. Nomination committees who don't evolve risk creating boards which are found lacking in the most valuable executive currencies of youth and IT literacy.

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 and 'understand the answers' in order to be capable of contributing across the range of issues the board faces. Or 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. With appropriate induction, mentoring and coaching, new directors should be able to adapt reasonably quickly.

Alternatively, consider the use of an advisory body – composed of independent individuals with expertise in specific fields – to advise the board on areas such as technology and innovation. Being less onerous in terms of time commitment and legal responsibilities, such roles might be more attractive to younger, less experienced individuals.

Further reading

On the 2021
Board agenda

On the 2021
Audit Committee agenda

On the 2021
Remuneration agenda

About the KPMG Board Leadership Center

The KPMG Board Leadership Center offers support and guidance to board members. We equip you with the tools and insights you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business. In addition, we help you to connect with peers and exchange experiences.

Learn more at kpmg.ch/blc

Contacts

KPMG AG
Räffelstrasse 28
PO Box
8036 Zurich

kpmg.ch

Rolf Hauenstein
Partner, Head of the Board Leadership Center
KPMG Switzerland

+41 58 249 42 57
rhauenstein@kpmg.com

Hélène Béguin
Partner, Chairwoman of the Board of Directors
KPMG Switzerland

+41 58 249 45 74
hbeguin@kpmg.com