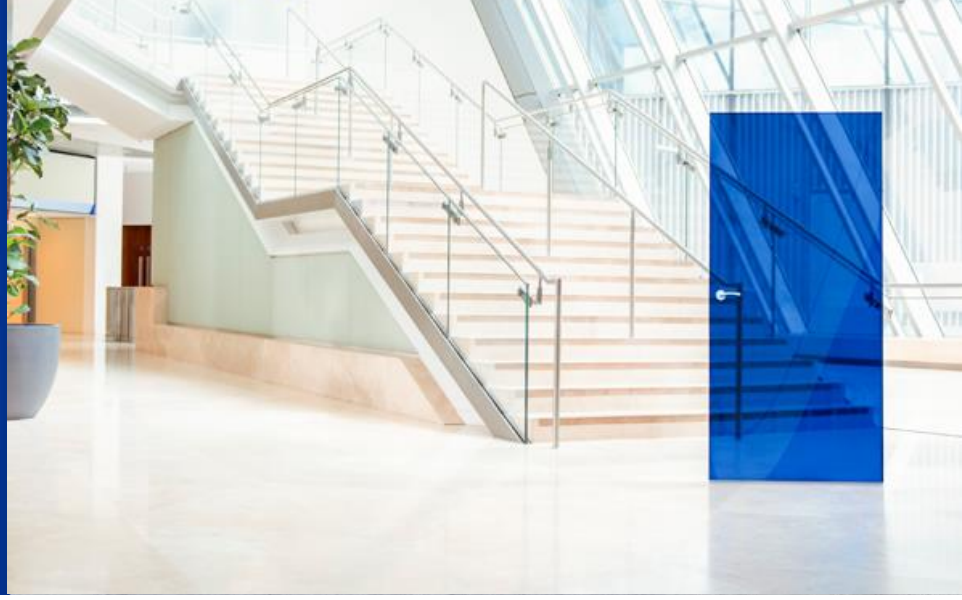
On the 2021 nomination committee agenda

KPMG Board Leadership Centre



The current crises and after affects have tested the skills and experience of board members and provided time to reflect on how well organisations have responded and their preparedness. The new reality presents a unique opportunity to reshape the board composition by a mixture of 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 did not match the needs of a business in crisis. Whilst the continuing priority is to ensure that talent is still aligned to strategy, it is highly likely 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 judgement and therefore impact their advice.

The appointment of advisory boards should also be considered to enable leadership to continue to work on their core responsibilities and fill any skills gaps, however clarity on their strategic objectives and how they will be measured, will be key to success.

Courage and emotional intelligence to provide a balance of perspectives should not be underestimated as key requirements to help the CEO and organisation 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 organisations. 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 organisation 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.

Take action on race

The need to act on racism has quite rightly become a critical business imperative. The Black Lives Matter movement and the accompanying social disquiet has only served to emphasize the importance of stamping out racism and inequality in business.

Sir John Parker has publicly decried the slow progress on ethnic minority board representation and many board members we talk to acknowledge the painful reality that not enough progress has been made and that there is still much work to be done.

Consider appointing a Chief Diversity Officer, with a good track record, who is tasked with developing and implementing an inclusion and diversity strategy for the board and the organisation as a whole. Seek to make long term commitments that create lasting change.

The way boards communicate, engage and report on racial diversity will be critical going forward. Businesses that create frameworks that are transparent on the steps being taken to understand the issue within an organisation, deliver a plan and regularly report on the outcome will signal to employees and customers, their commitment to change and improve.

Some frameworks and suggested reading include:

— 'Race at work Charter' from Business in the Community, helping businesses take practical steps to ensure workplaces are tacking barriers ethnic minority people face in recruitment and progression

— The launch of the 'Charter for Black Talent in Finance and Professions' is designed with an emphasis on measurable data to assess progress to drive board accountability to take action and independently monitored

— Change the Race Ratio – This CBI campaign is calling for businesses to set and publish clear targets for greater racial and ethnic diversity at the Board, ExCo and ExCo minus one

— Richard Iferenta Chair of BITC Race Leadership Team and Partner, KPMG outlines six steps to stamp out racism and inequality in business.

Succession planning

The UK Corporate Governance Code 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 little information on how they have sought the right mix of skills and perspectives to drive their long-term success.

The FRC's 2020 Annual Review of the UK Corporate Governance Code reported that most companies simply note that the role of the nomination committee was to keep appointments under consideration. Detail on succession planning was scarce with many companies focussing more on their appointment process (including usage of external recruitment agencies) rather than providing useful information on how they plan for the various types of succession that exist. Very few companies set out development plans for current board members and progression plans for those looking to move to board level.

Similarly, the FRC have reported that many AGM notices relating to the re-election of directors simply cross-refer to the biographies included within the annual report and said nothing about how they contribute to the long-term success of the business. The more informative notices had detailed biographies and briefly explained why each director should be re-elected. The best clearly outlined the reasons for an individual's re-election, specifically linking their contributions to company strategy and risks.

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 – and 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.

Hampton-Alexander Review

Gender balance in the executive pipeline, and indeed on boards, is making steady but slow progress. In 2019 the Hampton-Alexander Review showed that women's representation on executive committees and their direct reports were reaching the 33 per cent target they set at a slower rate than on boards, with the FTSE 100 reaching 28.6 per cent, and the FTSE 250 fairing slightly lower at 27.9 per cent. Clearly a collective effort has been required of many stakeholders to reach this stage, however especially in the current environment, nomination committees have an important role to play in examining the progress of women through the organisation.

"..strengthening the number of women in executive positions is critical to achieving long-term gender balance. We are still a long way from reaching the target for women in senior leadership roles below board level."

Sir Philip Hampton
Chair of the Hampton-Alexander Review

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. Psychometric profiling can be a useful tool in assessing the emotional intelligence of existing and incoming board members.

Think about the breadth of the talent pool from which new board members are sought. Has sufficient attention has 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 FTSE350 company directors face annual election, institutional investors are increasingly using targeted voting practices to register their displeasure at the board, voting 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; and further reinforcement of the general principle that executives should have no more than one external role.

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; 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.

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 licence to operate, the board's knowledge and understanding of the interests of those stakeholders is vital.

Cementing the value of workforce stakeholder opinion, the Code mandates their place in the board room. The Code requires that in order to engage effectively with the workforce the board should employ one or a combination of:

— a director appointed from the workforce;

— a formal workforce advisory panel; or

— a designated non-executive director, or explain why an alternative arrangement is considered by the board to be effective.

Each of the three suggested methods for engaging with the workforce have their merits and challenges and our publications Workforce directors, Designated non-executive directors and Workforce advisory panels explore some of these.

The FRC's 2020 Annual Review of the UK Corporate Governance Code encourages businesses to do more to increase engagement and notes that whilst staff surveys are a useful tool to gather insights on employee engagement and culture, 'companies must be able to demonstrate that the engagement methods used are effective in identifying issues that can be elevated to the board and how this affects company decisions'.

For many, workforce directors still sit uncomfortably with the traditional UK Corporate Governance framework. Nevertheless, they can provide tangible benefits to companies – particularly in an environment impacted by the ongoing effects of the pandemic, an imminent global recession and an undercurrent of social unrest.

To find out why Capita Plc decided to appoint employee non-executive directors – one of only a handful of UK companies to do so – read the notes of our meeting with Capita Plc chair, Sir Ian Powell, and Capita's two employee non-executive directors, Lyndsay Browne and Joseph Murphy.

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, '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. 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

KPMG's Board Leadership Centre's nomination committees web page

Diversity among nomination committees members

Board composition: ten questions for non-executive directors

Succession planning and the nomination committee

2019 Hampton-Alexander Review

KPMG Connect On Board

Find non-executives to meet your requirements.

Today's boards face many complex challenges, not least the economic uncertainty presented by the COVID-19 pandemic, BREXIT, complex regulatory change and technological innovation.

There are high expectations when trying to find the right non-executive director to meet your board requirements and help you address your organisations toughest challenges.

Connect On Board provides a free, easy route to access a rich pool of talented individuals with a diverse range of experiences and skills.

If you are looking for a non-executive director contact our membership team to find out more.

Contact us

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 www.kpmg.com/uk/blc.

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