On the 2023 nomination committee agenda

KPMG Board Leadership Centre

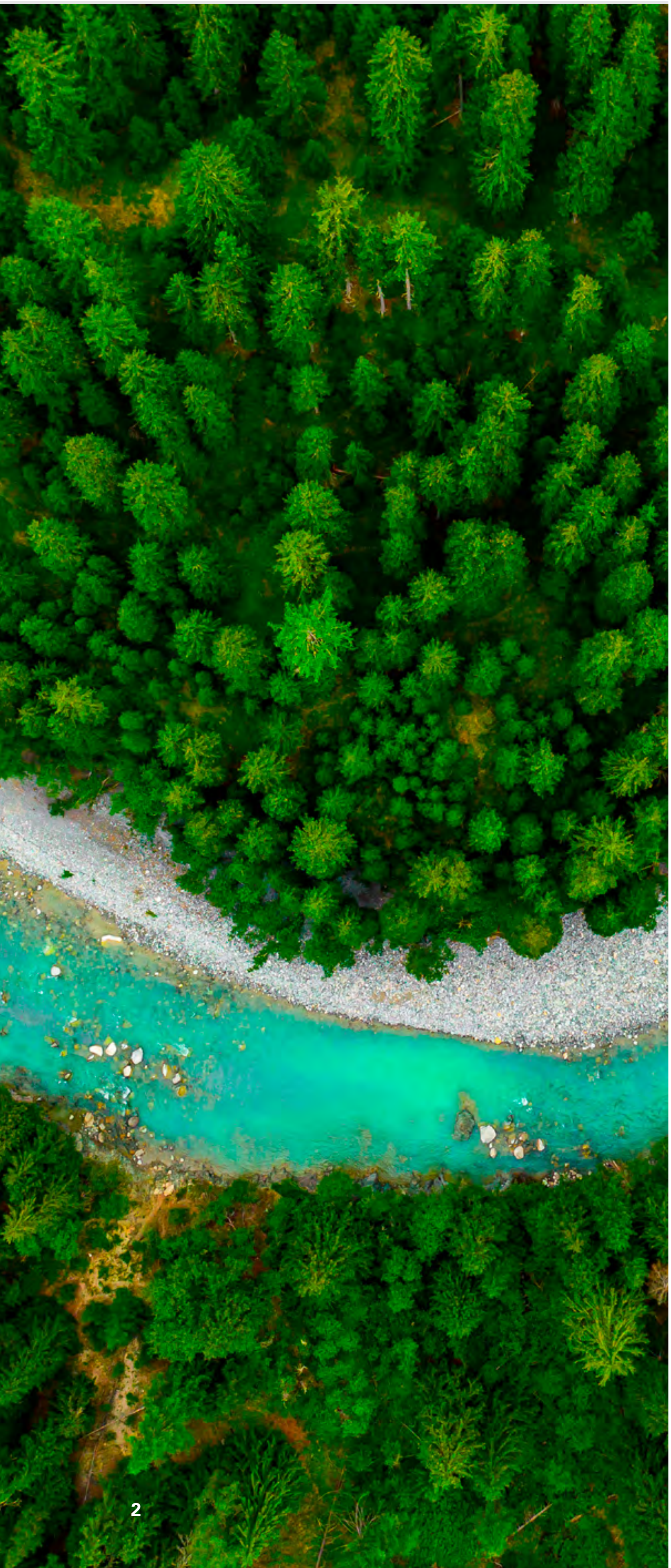
KPMG Lower Gulf Limited

Business growth, ESG commitments and the long term effects of the pandemic 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 to support new strategic imperatives, review succession planning, and created an environment for fairness, equality and opportunity allowing talented people to succeed?

In this publication, we highlight six issues for nomination committees to keep in mind as they consider and carry out their 2023 agendas:

1. Skillsets to expand and enhance ESG oversight
2. Quicken the pace on 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

1 Skillsets to expand and enhance ESG oversight



Environmental, Social and Governance (ESG) has gained significant momentum 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 changes in working and living practices due to the pandemic continue to change.

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 committee, may have responsibilities as well. Overlap is to be expected, so information sharing and coordination among committees is vital, along with the expertise to oversee the issues delegated to them.

How is the nomination committee ensuring the board has the right skills and governance structures? Is this addressed as part of the annual board evaluation exercise? Do the company's succession plans explicitly address ESG competency?

2 Quicken the pace on visible and invisible diversity

Critical 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.

We have recently noticed a rising trend globally where companies aim to achieve higher diversity targets. Locally, the Central Bank of the UAE and Securities and Commodities Authority governance regulations already require female representation in boards. Additionally, age and gender diversity requirements are also evidenced at the federal government level in the UAE.

In the UAE, we have seen that 50% of companies listed in the Dubai Financial Market and 65% of companies listed on Abu Dhabi Securities Exchange have women on their boards.

Globally, this progress is yet to translate into senior management roles, for example CEO and CFO roles where progress appears slow. They highlight that policies should include objectives and targets, and link to company strategy with actions taken to implement the policy and progress on achieving objectives.

When assessing board diversity, nomination committees should 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.

Also, they need to be cognizant of the increased level of investor engagement, 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, and race/ethnicity, etc. – is central to that.

Lastly, they should think about the breadth of the talent pool from which new board members are sought. They should challenge recruitment firms to provide a more diverse list of candidates and be specific about the skills and attributes required.

3 Board skills required to support growth

Talent is a top operational priority for CEOs over the next three years alongside advancing digitization and adapting to geopolitical issues.

Demand for experience in business transformation, recovery, technology and restructuring is likely to continue. Leadership styles have pivoted towards empathetic leadership and wellbeing issues, including a greater focus on women's health, remain high on 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 growth? What development plans are in place to support both senior managers and those in the pipeline?

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 organizations 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 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'.

It is desirable to find individuals with specific skills who are also capable of contributing across the range of issues the board faces – not least because the board as a whole is responsible for all decisions, regardless of the expertise or knowledge of an individual director in that area – but have the risks around inexperience been 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.

4 Succession planning

Globally, diversity is 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.

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 impact of the crisis and those that sit on multiple boards who can share insights from other organizations. Globally, 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.

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.

5 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 share their feedback on the board such as voting against re-election of specific directors.

Furthermore, globally, 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 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.

6 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 best practice tends to be 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 at a time when talent development strategies are being adjusted to meet the challenge of finding, developing, and retaining talent.

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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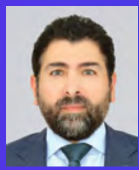

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