



Why your Board needs an Edmund Dantès

**KPMG Board
Leadership Centre**



A lot has been said about diversity in the boardroom, but what does it really mean and what has it to do with Edmund Dantès? Certainly gender diversity is part of the issue – intuitively it can't be right that despite the good example set by Lord Davies and the 30% club, only 21% of FTSE350 directors are women. And then there are other groups – such as ethnic minorities – that are seemingly underrepresented in UK boardrooms.

But in my view, diversity is not just about gender or ethnicity, important though they are. It's also about the richness of the board as a whole and the combined contribution of a group of people with different skills and perspectives to offer. 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.

In its annual Global Survey, the Audit Committee Institute (ACI) recently asked audit committee members what would most improve the effectiveness of their audit committees. Fifty-eight percent of UK respondents said 'diversity of thinking' – this statistic was considerably higher than the global average (38%) and the views of US respondents (29%).

So, if more diversity of thinking is required, then what exactly is it that's missing? The UK ACI dug deeper by asking 165 audit committee members to categorise their own style of thinking in the hope of identifying those elements of diversity that are likely to be absent around the audit committee table – and by extension, around the board room table.

In some respects, the findings show that audit committee members already exhibit diversity of thinking styles with respondents showing a roughly equal propensity for being idea initiators and idea generators; diplomatic and forthright; and task-orientated and people-orientated. But in other respects the findings were startling! I believe, somewhat unexpectedly, that the diversity missing from around the audit committee table might be embodied in one man – Edmund Dantès, Alexander Dumas' legendary Count of Monte Cristo.

Risk

Contrary to the usual post financial crisis mantra, the study tells us that audit committees may benefit from more people who are 'risk adventurous' rather than those who are 'risk cautious'. I think this makes sense – perhaps one of the greatest risk businesses face today is the risk of taking no risk. Excessive risk aversion leads to a lack of innovation and ultimately stagnation and failure. Just as Edmund Dantès pursues his revenge after escaping the prison Château d'If, audit committee members (and other non-executive directors) should be prepared to encourage executives to knowingly take calculated risks in pursuit of corporate objectives – but, of course, not be unwittingly exposed to risk. A robust risk management framework with reliable information flowing to the board is key if a more risk adventurous, entrepreneurial approach is to flourish.

81%	Cautious with risk / Adventurous with risk	19%
83%	Focus on the bigger picture / Focus on detail	17%
11%	Ruled by the heart / Ruled by the head	89%
10%	Autonomous / Collaborative	90%

Perspective

The second attribute the ACI found most often absent around audit committee tables is 'detailed thinking'.

Not unsurprisingly, the vast majority of audit committee members are those with a tendency to focus on the bigger picture. There is nothing wrong with this. Non-executive directors, including audit committee members, are expected to take a broad perspective – they need to see the wood not just the trees. One might even argue that to expect anything else from essentially part-time directors is unrealistic.

But non-executive directors do need to know when to dig beneath the surface and they must be willing and able to do so. This can require courage, tenacity and sometimes a certain amount of charm – like our infamous Count plotting the downfall of his enemies in meticulous detail. I'm not suggesting that audit committee members should spend all their time in this mode, but they must be prepared to go as deep as is necessary to ensure the financial statements fairly represent the business – sometimes a tough ask in an environment where non-executive directors have a serious information deficit relative to executive management. Audit committee members need to understand the rules and, more importantly, the principles that underpin the preparation of financial statements. They must be prepared to invest the time necessary to understand why critical accounting policies are chosen, how they are applied, and satisfy themselves that the end result fairly reflects their understanding.

Autonomy

Audit committees, like boards, can up to a point be thought of as teams. Collaborative thinking is therefore an important trait – and as the survey shows, a mode of thinking frequently found in UK audit committee members. However, autonomous thinking is also an important trait and one that appears to be in short supply. Autonomous thinking – free from any external control, constraint or influence – is the bedrock of the independent non-executive director. Audit committee members must have the ability to view issues through different lenses than executive management and be both willing and able to hold management to account even in successful companies – perhaps especially in apparently successful companies. The single mindedness exhibited by Edmund Dantès in pursuing the three men responsible for his unjust imprisonment again provides a useful analogy. Sometimes non-executive directors have to show similar unwavering resolve when overseeing the integrity of the financial statements, audit and risk management framework.

Head or heart?

The final mode of thinking in short supply around the audit committee table is that of being 'ruled by the heart'. Of course, both thinking through the head and through the heart are necessary in combination – it is rarely a case of simply one or the other. Head thinking is concerned with logic, facts, analysis and data – all essential tools for the audit committee member. But creativity, horizon scanning and the inclination to follow a hunch are based on heart-thinking, not head thinking. It would be hard to argue that Dantès doesn't follow his heart, but how many audit committee members have the 'nose' to 'smell out' the key issues and the courage to back their instincts when something just doesn't feel right.

So, are UK boards missing autonomous, risk adventurous, detail thinkers who are ruled by their hearts? Would the dashing Edmund Dantès be in demand in today's boardrooms? Perhaps, perhaps not. But if diverse boards are the way forward – which I believe they are – then I think more work needs to be done to identify the way board members actually think and operate; and whether there is the right balance on any one board.

Such information should play a vital role in succession planning, but awareness alone might well encourage boards to approach issues in ways that might ordinarily be overlooked by their usual combination of thinking.

Gender, ethnicity and other 'observable' elements of diversity will always be very important, but if we are really serious about having truly diverse boards then I believe diversity of thinking must be the number one consideration.

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Contact us

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