Changing the board's mindset
The case for youth

KPMG Board Leadership Centre

We are living through a time of huge uncertainty, technological advances, and existential threats, yet the typical board composition employed by our largest and most systemically important organisations remains largely unchanged over the past 50, maybe 100 years.

Is it time to challenge the conventional wisdom around board composition? Is the 20th century paradigm of filling boards with directors with 'big company' experience still relevant in an age where an understanding of the risks and opportunities afforded by new technology and the emerging definitions of value (and perhaps new working norms) are vital to long-term sustainable success? Are today's boards lacking the youth, IT literacy, and concern for the planet to ask the hard questions necessary to shape today's strategies for tomorrow's success?

Aging boards and a lack of diversity

Of the largest corporate Greenhouse Gas (GHG) emitters, just one third have a median board age of less than 60 years old. However, despite the potential advantages of a more youthful perspective when factoring 'non financial' considerations in to decision making, and stretching planning horizons beyond the historic one year focus, the trend appears to be moving in the opposite direction with the average age of FTSE150 directors having risen over the last ten years. According to Spencer Stuart's UK Board Index, the average age of NEDs has crept back up to around sixty years old whilst the average age of executive directors rising by 5% to nearly fifty-five.

Only 43 FTSE100 companies have chairs and/or non-executive directors under 50 (55 individuals). And for the S&P100, the statistics are even more bleak with only 25 companies having chairs and/or non-executive directors under 50 (37 individuals).

Some progress has been made in terms of women on boards, largely thanks to initiatives like the FTSE Women Leaders Review.

However, corporate Britain has not made enough progress in other areas to take a more holistic and intersectional approach to diversity and inclusion including women in executive positions, sexual orientation, disability and geographical heritage, as well as 'invisible' diversity traits such as socio-economic background.

Cognitive diversity around the boardroom table is an issue too. Whilst it is a much understudied area, our own brief research suggests a worrying imbalance in the boardroom with 81 percent of directors responding to our survey categorising themselves as 'risk cautious' rather than 'risk adventurous'.

Excessive risk aversion leads to a lack of innovation and ultimately stagnation and failure - taking no risk is perhaps the greatest risk businesses face today.

Challenging the conventional wisdom

The Greek philosopher, Heraclitus, is quoted as saying "*change is the only constant in life*". But the fear of change is also a constant.

Traditionalists would argue that it is desirable to source board members 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? Is there a role in the board room for younger people – perhaps employees – who have a different mindset on ESG issues, corporate purpose and culture, and how companies should contribute to wider society?

This idea is perhaps not a new one. A key aspect of the 2018 UK Corporate Governance Code was that boards should consider appointing a director from the workforce – a side-effect of which would most likely be to lower the average age of the non-executive director cadre. However, notwithstanding the many tangible benefits workforce directors could bring to a company (see, Workforce directors, BLC, 2018), there has been a marked reluctance to change the existing paradigm with only two or three FTSE350 companies being willing to embrace the idea.

There are certainly challenges associated with bringing young people into the boardroom – whether or not they are employees – not least their potential lack of board experience. But, with appropriate induction, mentoring (perhaps internal and external) and bespoke professional development, bright young people – who are after all our future – should be able to adapt reasonably quickly.

> *"The level of support has been a key success factor. It was very thoughtful from the outset, but also on an ongoing basis. The mentor on the board has been hugely valuable in helping me become more comfortable in sharing my views and in terms of behaviours and how best to contribute."* **Joseph Murphy, Former employee non-executive director, Capita Plc**

By contrast, there are many potential benefits to having younger directors in the boardroom:

— **Diverse and different skills**: Diverse representation on boards helps to ensure that a wider variety of innovative and creative solutions are explored, and that the broader implications of business strategies for minority group and future generations are considered during decision making.

  Younger employee directors would contribute to diversity in the boardroom and should help combat groupthink and unconscious bias. They might also provide a catalyst for bringing fresh – sometimes difficult to find – skills to the board.

  Employee directors would bring the voice of the workforce into the boardroom, but younger directors more generally might bring a different experience of technology, innovation and disruption, and potentially a different mindset on ESG issues.

— **Different perspectives**: Young people are a rich source of ideas and knowhow and are arguably more in tune with, or sympathetic to, existential threats like climate change . A younger director might also have a different perspective to traditionally sourced directors as to both the opportunities and risks facing the business, and how board decisions translate into operational behaviour and long-term sustainable success.

> *"It feels like you have had the blinkers taken off when it comes to thinking about how things might land with the workforce. To have someone sitting inside the business receiving communications from the CEO and CFO, and who can put that into context for the board, is really valuable"* **Sir Ian Powell, Former Chair, Capita Plc**

  Younger directors might also provide an alternative perspective on the company's relationships with other stakeholders. Think about who your customers and suppliers are? Who relies on the company's products? Who lives in the same locations the company operates in?

— **Trusted advocates**: Younger directors could be powerful advocates for the business – whether that be by providing a stronger bridge between the board and the workforce and society more generally; or by providing a different perspective in response to media and wider societal concerns.

— **A chance to reflect**: Younger directors can be a catalyst for self-reflection – whether that be about the board's professional development needs, the effectiveness of board processes or behaviour around the boardroom table. Tangible outcomes might include greater clarity around individual (and collective) training needs, the use of 'plain English' and 'better' board papers.

— **Backing up the rhetoric**: "Our young people are our greatest asset" rings hollow unless it is backed-up with action. Appointing one (or more) younger employees to the board can be a demonstrable statement to the whole workforce of their importance to long-term sustainable success.

— **Building trust**: Younger directors and particularly employee directors can facilitate the buy-in of the wider workforce (and other stakeholders). Those who are able to articulate the complexity of the boardroom back to the workforce may be a catalyst for increasing trust in both the board, management and business at large, and thus supporting talent retention within the business. An engaged workforce – aligned with the company's values, strategy and plans – will most likely be a happier and more productive workforce.

> *"Planning one's time carefully is important, but interactions with colleagues has been trouble-free. They are interested, but not intrusive."* **Lyndsay Browne, Former employee non-executive director, Capita Plc**

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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