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The strategic imperative of an age balanced board

KPMG Board Leadership Centre

At a time when companies face unprecedented disruption and uncertainty – wars in Ukraine and the Middle East, trade and geopolitical tensions, economic volatility, persistent inflation and higher interest rates, technology and business model disruption, elevated cybersecurity risk, climate risk, and more – the importance of diversity in the boardroom can not be overlooked. While gender, ethnicity and geographical representation have rightfully garnered attention, there is an open question as to whether the transformative power of age diversity has been overlooked.

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).

The need for an age diverse boardroom?

There are challenges associated with bringing young people into the boardroom – 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.

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 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. Particularly 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.

"Only 42% felt confident that the leaders in their organisation have or are rapidly acquiring the leadership skills and attributes to be an effective leader in today's business environment"

The changing skills and attributes in leadership survey, FTSE Women Leaders, 2024

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 that 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 employees, customers, 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.

— **Succession**: Introducing younger members to the board can also be a useful succession planning mechanism or a mentoring / coaching exercise for business heirs / successors in the case of family-owned businesses.

An age-balanced board can offer unique advantages by striking the right balance between:

Innovative and creative thinking versus experiential wisdom

New ways of working versus tried-and-tested leading practices

Technological prowess versus an experience-based sense of judgement

Adventurous versus measured conservatism

Agility versus stability

Enabling factors for a more balanced board

There is no 'one-size fits all' when it comes to the ideal board strategy. Each company operates in a unique environment with many variables at play.

Each company should look to find its own unique board-mix that is balanced and most importantly, fit for the challenges facing the company.

Companies / boards may face integration challenges such as resistance to change; balance of power issues; and generational divides. But with the right integration and communication plans, boards can harness the boundless potential of having diverse and balanced boards. Based on our discussions with the boards of some major organisations, activities to consider include:

— **Shadow boards**: Companies can look at building a shadow board, composed of young professionals, which can enable them to observe, engage, and contribute to boardroom discussions, thereby, bridging the experience gap and allowing them to gain insights into the decision-making process

— **Cultivating a board talent pipeline**: Companies may look at developing a process for identifying and developing future leaders and ensure robust succession planning. This could involve creating a directory of qualified young people, offering board internships, and providing tailored trainings to prepare them for board roles

— **Innovative task forces**: Establishing specialised task forces led by young professionals to tackle specific challenges or initiatives. Allowing them to showcase their expertise and contribute meaningfully to board objectives can prove to be useful

— **Cross-generational collaboration platforms**: Mentorship programmes, pairing young talents with seasoned board members, facilitating knowledge transfer, and preparing them for leadership roles

— **Strategic integration assessment for boardroom**: Assessing and addressing specific deficiencies in the boardroom composition, followed by a robust integration and communication plan is crucial for effective integration

— **Empowering voices**: Creating a system for regular feedback from all board members would allow them to express their ideas, concerns, and recommendations for improving the integration process

— **Clear governance framework**: To help strike the appropriate balance between experienced and younger board members – and other diversity characteristics – ultimately harmonising diverse individuals for boardroom success

— **External stakeholder communication**: Addressing any reservations or concerns, and communicating the strategic benefits of boardroom inclusion can play a vital role in maintaining stakeholder trust.

Questions for the board to ask

- What specific skill gaps can be filled by adding younger members to the board?
- What plans are in place to mentor and support any younger or less experienced board members?
- Can younger board members be leveraged through engagement engagement / alignment with a potentially young customer base and executive team?
- How does the inclusion of younger members align with the organisation's succession planning goals and future leadership needs?
- How will we communicate and shape the positive perception of the new members inclusion to stakeholders, including investors, employees, and the public?
- Is it possible to create a mentorship programme, pairing young talent with seasoned board members, to facilitate knowledge transfer and reap the best of both worlds?
- Is there a case for creating a shadow board, comprising young professionals, enabling them to observe, engage, and contribute to boardroom discussions?
- Are we addressing softer issues like communication styles and expectations through team building initiatives and conscious communication strategies?
- How will we create a board culture that is inclusive and supportive to ensure that all board members have a meaningful voice in the board?
- Do we have a clear governance framework that can help strike the appropriate balance between experienced and younger board members – and other diversity characteristics too?

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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