On the 2025 nomination committee agenda

KPMG Board Leadership Centre

Companies continue to face interrelated challenges and uncertainty – a turbulent economic and geopolitical environment, wars in Ukraine and the Middle East, new UK and US governments, ESG commitments, talent management and advances in AI and its regulation will continue to test the skills and experience of board members. Has the board reviewed board composition in line with new strategic imperatives, prepared succession plans, and shifted the dial in relation to equality and opportunity for talented people to succeed? Drawing on insights from our latest survey work and interactions with boards and business leaders, we highlight seven considerations for nomination committees 2025 agendas.

Skillsets to enhance ESG oversight and maintain competitiveness

Environmental, Social and Governance (ESG) continues to be a critical consideration for businesses, investors and shareholders across all sectors. The 'S' in ESG, or the social pillar, is a concept that is evolving across the regulatory and macro-economic environment. Heightened focus on disclosure and transparency in reporting, driven by the regulators, is prompting organisations to reassess their social impact.

Oversight of ESG related risks, opportunities and reporting - including regulatory requirements, new metrics and stakeholder pressure - starts with an ESG competent board. Our KPMG 2024 CEO Outlook UK survey found that less than half (47%) of UK CEOs are ready to withstand scrutiny from shareholders or other stakeholders when it comes to ESG, furthermore respondents said that failing to meet stakeholder expectations on ESG could see competitors gain an edge.

Boards need to have ESG risk and its impact on long-term value creation, top of mind. This will include an understanding of 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 ESG matters.

Some organisations may organise their oversight through multiple committees. For example, oversight over (say) climate risk will likely sit across several board committees. The audit committee may be best suited to issues around systems data and reporting, whereas the remuneration committee will be concerned with the reward mechanisms that drive the right behaviours. For the nomination committee, the focus is on ensuring the board and senior executive team have the appropriate skill sets and development mechanisms in place.

Overlap is to be expected, but coordination, information sharing and communication among committees is key.

Wellbeing and Inclusion, Diversity & Equity (IDE) issues are firmly mainstream and remain high on the nomination committee's agenda. IDE remains a key pillar within any ESG framework and given the expected scrutiny from stakeholders boards should continue to drive progress. Stakeholders will also look beyond what's needed to comply with legislative changes – they want to invest in, or work with businesses that demonstrate greater authenticity in their actions and performance.

Oversight of these risks and opportunities is a significant challenge, involving the full board and potentially multiple board committees. How is the nomination committee ensuring that the board and senior executive team have the appropriate skills? Is this addressed head-on as part of the annual board evaluation exercise? Do the succession plans explicitly address ESG competency?

Embracing inclusion & diversity

Core to the nomination committee 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.

Whilst the updates to the Corporate Governance code (effective January 2025) no longer include specific diversity characteristics, boards taking a proactive approach in supporting inclusion and diversity in board recruitment and composition are building strong foundations for the future.

Initiatives like the FTSE Women Leaders Review have shown how progress can be been made with sustained focus.

However, the same level of commitment and action is required in other areas to take a more holistic and intersectional approach to equality including women in executive positions, sexual orientation, disability and geographical heritage, and 'invisible diversity' traits such as socio-economic background, neurodiversity and cognitive diversity. Diversity of international experience is also important for businesses operating across many different markets.

Consider the strengths that 'invisible' diversity traits such as socio-economic backgrounds and cognitive diversity of amongst board members, could bring into board discussions. Our survey 'Uncovering social mobility in the boardroom' found over 70% of respondents came from a professional background versus just 15% who come from working class backgrounds - suggesting a lack of socio-economic diversity in the boardroom, and 69% of respondents stated that nomination committees were not addressing diversity of socio-economic background during board appointment and succession activities. This theme continued in our 2024 report which found that even though over half (53%) of FTSE100 companies stated socio-economic background was a key consideration in recruiting new board members, nearly all (99%) of FTSE100 companies didn't publish socio-economic background data of their board members in their annual reports. Board members can play a vital role in improving socio-economic diversity by examining the barriers to equality and improving access to opportunities to reach board positions.

Does the nomination committee use personality testing or cognitive profiling to assess whether the board has a mix of skills sets, experiences and decision-making styles that best contribute to effective oversight and decision making?

Expect continued legislative and regulatory action on board composition and diversity. Recent consultation papers from the FCA and PRA propose to boost disclosures on diversity and inclusion with the intention of creating healthier work cultures, unlocking talent and reducing groupthink. The FRC has also published 'good practice' guidance for nomination committees providing a strong steer on its role in improving inclusion and diversity and creating robust succession planning at the top of organisations.

Also, be cognisant of the increased level of investor engagement. Some investors and proxy voting agencies are monitoring whether companies are meeting the 'Listing Rule' requirements on diversity targets and are equally interested in whether the drive for diversity extends to the wider workforce - focusing on gender pay gap data and voluntary reporting on ethnicity pay gaps.

Lastly, 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, government and 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 to attract candidates from a wider talent pool. Also review the style of language used in role descriptions.

Maintain focus on race

The focus on greater ethnic diversity on boards continues but more needs to be done to maintain momentum.

The latest Parker Review continued to call for business to ensure people from minority ethnic backgrounds are given equal opportunities to reach senior positions. FTSE350 companies are requested to set their own targets for ethnic representation at executive committee level and their direct reports. In addition the UK's top 50 private companies are within the scope of the review – showing a move to nurturing racial equity across UK businesses.

Is the nomination committee:

- working with the board and CEO to demonstrate leadership from the top? Employees should see the commitment to building the company's pipeline of diverse employees and board members in culture, actions and conduct.
- providing guidance for board members who might be unsure of using the 'right terminology' to help them become more confident and foster meaningful communication
- seeing for itself what things are really like on the ground?
- opening their networks and networking with people from ethnic minority backgrounds to understand the challenges and support any allyship, mentoring and development programmes?
- working with the board to set aggressive goals at all levels, including leadership and senior management, business unit heads, middle ranks, and internships? As with other KPIs, diversity metrics should be a matter of business performance to track sustainable progress, not a nice to have.
- sufficiently sceptical when told that lack of progress is due to a "lack of qualified candidates?" The phrase is often misused and an excuse for insufficient recruitment efforts.

Understand the extent to which recruitment functions are connected to diverse communities and their ability to tap into a wide pool of diverse candidates; and create challenging targets for recruiters and head-hunters.

Tell the company's diversity and inclusion story in detail. An honest picture of the company's goals and progress towards achieving them is important in terms of credibility and confidence.

The way boards communicate, engage and report on racial diversity will be critical going forward, and also signals to employees and wider stakeholders, their commitment to change and improve.

Strategic talent planning to support growth

The continuing priority is to ensure that talent, in the boardroom and in the pipeline, is aligned to strategy – even where that strategy has changed significantly in reaction to recent events.

Demand for experience in business transformation, growth, technology and restructuring is likely to continue. Leadership styles have pivoted towards empathetic leadership, a broader understanding of issues affecting the workforce and wellbeing issues 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 sustainable growth?

What development plans are in place to support both senior managers and those in the pipeline? Is there regular communication between the nomination committee Chair and the CEO to prevent conflicts and create alignment of vision?

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 organisation's 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.

Digitalisation, robotics and AI, and its governance, continue to be important components of many corporate strategies. Whilst individuals with deep technological expertise can be hired at an executive level, board members need to be able to 'ask the right questions' and just as important, 'understand the answers', to be capable of contributing across the range of issues the board faces. Have the risks around inexperience in this area been historically overstated? If not, have they now been surpassed by the potentially higher risk 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.

Finally, courage, integrity and the emotional intelligence to provide a balance of perspectives should not be underestimated as key requirements to help the CEO support growth.

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 inclusion, diversity and equal opportunity in terms of new appointments and in their succession planning. However, many companies are providing very little information on the outcomes of the initiatives they have put in place to affect change and how they have sought the right mix of skills and perspectives to drive their long-term success.

Extending the Chair’s tenure (beyond nine years) is still a potential risk, and while some companies may provide reasons for not complying with the Code on this area, nomination committees should be mindful that long-term tenure can lead to higher risk of complacency and groupthink.

If re-electing directors, is the nomination committee ensuring that AGM notices go for further than simply cross-referring to biographies included within the annual report? Is there an explanation of how the directors proposed for re-election contribute to the long-term success of the business that also specifically links their contributions to company strategy and risks?

If recent times have taught us anything it is that having robust succession plans for times of stress as well as less turbulent times is critical. Is there a plan for an emergency CEO succession?

Successors may be identified from ‘rising stars’ who have dealt with crises or inter-related challenges, those that sit on multiple boards who can share insights from other organisations or have expertise in tech innovation. 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. Consider the benefits of intergenerational board members bringing multiple perspectives and experiences to the table. Are you providing candidates in the pipeline with exposure to the benefits of a non-executive director role at key stages of their careers, so they are ‘board ready’ when a role comes up?

Potential candidates should be assessed to provide reassurance that they have demonstrated ethical behaviours – the frequency of stories related to bullying, sexual harassment and personal relationships are increasing. As well as being aware of the organisations code of conduct and policy on ethical behaviours, boards should also review their due diligence requirements when recruiting new members.

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.

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.

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/or those that cannot articulate how they plan to improve their ESG metrics.

Also, institutional investors (and proxy voting agencies) have shown a degree of disquiet around 'over-boarding' - a practice where individual directors are deemed to hold 'too many' roles.

Nomination committees should carefully consider whether individuals will be able to discharge their duties diligently and effectively when appointing new board members or when existing board members seek additional board mandates.

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.

The voice of the workforce and wider stakeholder perspectives

Stakeholder perspectives are relevant for all board appointments and should be a considered as part of succession planning and the selection process. Given the significant influence that a company's key stakeholders have on an organisation’s success, the board's knowledge and understanding of the interests of stakeholders is vital.

To engage effectively with the workforce, the UK Corporate Governance Code recommends one or combination of:

- a director appointed from the workforce; or
- a formal workforce advisory panel; or
- a designated non-executive director.

If the board doesn’t choose one or more of these methods then an explanation as to why an alternative arrangement is considered by the board to be effective should be offered.

Is the nomination committee considering appointing a non-executive responsible for getting the voice of the workforce into the boardroom, if not should this be revisited? 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 NED necessary if the company has a large geographical footprint?

Workforce directors are still rare within the FTSE350. Nevertheless, they can provide tangible benefits to companies – particularly when talent development strategies are being adjusted to meet the challenge of finding, developing, and retaining talent amid a labour-constrained market. Does the decision to not have a workforce director need revisiting? What can be learned from those who have appointed workforce directors?

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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