



Board diversity and succession planning – How are we doing?

The focus on board diversity has been ongoing for several years. Increasing diversity at board and senior management level is now acknowledged as a priority by business, governments and regulators, as well as many shareholders and customers (Equality and Human Rights Commission, 2016). The drive to prevent “groupthink” on boards though greater diversity has moved on from the focus on gender. There is a need to look at wider board diversity indicators to build “**diversity of thinking**”.

However, the work of the Davis Review (2011) cannot be understated, as the percentage of women on boards of the largest listed companies has increased significantly. At the time of the first report women on boards of companies in the FTSE 100 represented only 12.5% of all board members, with the review recommending a minimum of 25% by 2015, through a voluntary approach. By the five year progress review in 2015 women representation had grown to 26.1% on FTSE 100 boards and 19.6% on FTSE 250 board with the voluntary target increasing to a minimum of 33% on FTSE 350 boards by 2020.

The Hampton-Alexander review (established by the Government to build on the Davis Review) in its 2016 report identified progress seemed to have slowed. This had improved by the review’s report in November 2017, detailing a slightly higher figure of 27.7% for FTSE 100 and 22.8% for FTSE 250 companies. The Report recommended the 33% target should be further extended to include women representation on the executive committee and their direct reports. With women on executive committees representing 19.3% in FTSE 100 and 16.6% in FTSE 250 the report commented that “**a step change is needed in “pace” to meet these proposed targets**”.

But gender is only part of the approach to achieve board and executive diversity. Last year two further Government sponsored reviews published their reports, broadening the approach to diversity and the succession pool. The McGregor-Smith Review (May 2017) looked at issues faced by businesses in developing Black and Minority Ethnic (BME) talent in the workplace and made 26 recommendations to increase accessibility at all levels. Later the Parker Review, October 2017, looked at ethnic diversity on the board, recommending voluntary targets of one director of colour on FTSE 100 boards by 2021 & FTSE 350 by 2024.

In addition bringing younger executives onto the board is gaining increased attention. In PwC’s 2017 Annual Corporate Directors Survey over 90% of respondents felt age diversity led to greater diversity of thought. The report also acknowledged that individuals from different nationalities introduced different perspectives and knowledge, working across cultures and geographies. Diversity of board tenure and of socioeconomic background were also highlighted as ways to ensure a more diverse perspective is achieved.

However it’s not just the largest listed companies that need to consider broader diversity. The proposed revisions to the UK Corporate Governance Code recommend extending best practice in diversity beyond the FTSE 350. In addition as part of the government’s package of corporate governance reforms, James Wates CBE leads work with the FRC, the ICASA, the Institute of Directors, the TUC and others to draw up the UK’s first-ever set of “guiding principles” for large private companies. It is likely these principles will be similar to key elements of the Code including best practice in board and executive diversity.

Research suggests a diverse board is more innovative, provides better risk management, develops stronger connections with its stakeholders and delivers better financial performance over the long term (Mallin, C *et al.* 2017). Forward looking companies will review their approach to board effectiveness and embrace diversity to deliver long term value and a sustainable business.

References:

- Davis Review - Women on Boards, 2011 and Women on Boards, Five Year Summary, 2015
- Equality and Human Rights Commission. An enquiry into fairness, transparency and diversity in FTSE 350 board appointments, 2016
- FRC, Proposed Revisions to the UK Corporate Governance Code, December 2017
- Hampton-Alexander Review, FTSE Women Leaders – Improving Gender Balance in FTSE Leadership, 2017
- Mallin, C, & Farag C, Balancing the board: Directors’ skills and diversity, ICAS, 2017
- Parker Review, A report into Ethnic Diversity of UK Boards, 2017
- PwC’s Annual Corporate Directors Survey, The governance divide Boards and investors in a shifting world, 2017

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So what can be done to achieve greater board diversity?

Boards need to mitigate the risk of “groupthink” by selecting directors from across the diversity spectrum, who think independently, challenge and question whilst still working as part of a unitary board. Selecting such directors is not straightforward and our experience shows to achieve this a range of practices need to be leveraged.

Succession planning – A robust succession planning process at both board and executive level through the development of a comprehensive competency and skills framework is the start. It is critical the framework is multi-dimensional and developed around the business strategy. Assessment of current incumbents against the framework informs the board, nominations committee and HR function where diversity and skill areas are weak or where gaps exist that may limit the future strategic direction and the ability to understand stakeholder views. It also highlights which skills are needed over the medium term to maximise board effectiveness and should inform succession planning and development discussions for future executive roles. This approach allows for a broader holistic view to be established by looking at the whole board and leadership tiers, not just individual director hires as vacancies occur.

Recruiting – Ensuring role descriptions and person specifications are clear and detail all the required skills, experience, cognitive and personal strengths, as suggested by the competency framework. This allows the organisation to either advertise the role widely themselves or provide a very clear brief to the executive search firm. Good executive search firms have been extending their networks beyond traditional pools to find candidates from under-represented groups, younger than the traditional board population and from broader social backgrounds.

Providing unconscious bias training, assessing against measurable role requirements and ensuring interview panels include individuals from across the diversity spectrum ensures greater rigour. Enlightened boards are using “blind CV’s” and making use of both situational judgment exercises and psychometric assessments which can play a valuable role to ensure objective and fair selection processes. Boards also use personality profiling for both recruitment and succession planning to ensure the make-up of the board includes a balance of effective styles.

Development – As well as a comprehensive director’s induction programme on joining, it is equally important for ongoing director education and professional development. Many individuals, once on a board, feel they have the knowledge required. However the role of a director is complex and challenging, and not simply an extension of a senior executive role, requiring ongoing knowledge management and personal development.

It is important that organisations develop a pool of ‘board-ready’ individuals, developing the executive team and their direct reports, through:

- Building programmes that are varied and suitable for individuals from a variety of functions, backgrounds and experiences;
- Providing shorter, targeted, on-going interventions rather than a broader “sheep dip” approach across executive levels;
- Using a mix of executive coaching, sponsors, mentoring programmes and cross-organisational networks;
- Encouraging the creation of diverse teams and action learning groups which can operate on and off-line, sharing experiences and providing peer support.

A commitment to change – Most companies report policies to encourage broader diversity but in many cases policy does not reflect practice. Many companies continue to use the same approaches established over many years without recognising the need to do something different. A range of development opportunities, working patterns and practices need to be provided to enable women and under-represented individuals to have a more flexible, agile and less traditional career path.

However from our experience it is not only practices that lead to change but a true commitment from the board. Only when the board appears to actively demonstrate broader diversity through its make-up and actions will senior management feel that diversity and inclusion is truly embraced.

If you would like further information on improving board and senior management diversity and succession planning please call Melissa Kittermaster on 020 3053 8630 or email boardeffectiveness@asesoria-group.com.