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The effective board Chair – Part 2

'The best Chairs see their role fundamentally as one of a facilitator. The description by one non-exec on his Chair in a Board Review one of us undertook was "Our Chair is a skilful conductor" and that is perhaps a very apt description of how a really effective Chair should work.'

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Unlocking sustainability value

'The EY analysis of the 2023 results found that a small group of high-performing sustainability governance "Experts" are driving both financial value and progress towards targets, compared with a long tail of "Beginners" who still have much more to do.'

Andrew Hobbs

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News

Diversity of board expertise

The number of women on FTSE All-Share boards has continued to rise, but a new Report published by Women on Boards UK, in partnership with global consulting firm, Protiviti, highlights deep concerns about the lack of skills and diversity of expertise among FTSE All-Share executive board members – both male and female. The Report, *Hidden Talent: Diversity & Inclusion in the FTSE All-Share*, looks at the mix of skills and expertise of executives joining the board.

Total executive board seats

Boards' remits and responsibilities are broader than ever and meeting these challenges requires boards to draw on a broader range of executive expertise. However, the research shows a very narrow range of executive expertise at board level. Of the almost 4,800 board seats across the 585 FTSE All-Share companies analysed, 25% were held by executive leaders. There were no significant variations between the FTSE 100, FTSE 250 and FTSE All-Share below the 350. For AIM listed companies 49% of board members were executives.

Diversity of expertise

Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the registered board Company Secretary were the most frequent executive positions to hold board seats. The percentage of executive board members who hold positions other than CEO, CFO or Company Secretary was 2.3% for FTSE All-Share operating companies and 12% for AIM listed companies.

'Even boards which are bringing in wider executive expertise in FTSE All-Share firms are narrowly focused on finance, governance and efficiency.'

FTSE All-Share companies

There are only 81 executive board members, out of 4,800 executive board seats, across the FTSE All-Share who are not CEO, CFO or Company Secretary. The majority of those (55) hold positions focused on operational efficiency, either Chief Operating Officer (COO) or Chief Technology Officer (CTO). The remainder of roles (fewer than 30 across almost 600 companies) include Employee Representative; General Counsel (senior legal adviser); Chief Information Officer; Chief Strategy Officer; or Chief People Officer.

Even boards which are bringing in wider executive expertise in FTSE All-Share firms are narrowly focused on finance, governance and efficiency. Employee representative board members are largely found in companies which, although listed in the UK, have significant operational activity in other European countries where this type of representation is commonplace or mandated by regulators.

AIM listed companies

The group of executive board members who are not CEO, CFO or Company Secretary is larger in AIM listed companies: 29% are COO or CTO and 59% are 'other'. Of the remaining 60 individuals outside these categories, positions held include: Chief Strategy Officer; Chief Marketing Officer; Chief Information Officer; and Chief Risk Officer.

People and culture

Although boards have begun prioritising people and culture, there is still a gap in achieving the quality of board engagement needed to drive action. Of those surveyed, 82% said people and culture was a 'top level' or 'significant' issue and 50% were Remuneration Committee (RemCo) members. Non-executives from smaller organisations were slightly less likely to agree that people and culture is an important issue (71%).

Ninety-three per cent of board members in larger organisations said that people and culture was discussed regularly at committee level, dropping to 76% for smaller organisations. Sixty-four per cent said that people and culture was regularly discussed at board level and 70% that they were satisfied with the information they receive on people and culture topics.

Eighty-two per cent of board members felt pressure from employees to address people and culture issues. However, just 51% agreed that pressure from regulators and investors is driving an increased focus on people and culture issues.

A significant proportion of RemCo now have a broad scope, encompassing organisation-wide people and culture issues. Issues most commonly covered were: CEO/C-suite reward; reward across the whole organisation; equity, diversity and inclusion issues; broader topics (eg talent retention/hybrid working); gender and/or ethnicity pay gap. Other topics included staff training, ESG 'social' issues, succession planning, performance management and grievance/disciplinary monitoring.

The CEO most commonly leads discussions on people and culture topics. Only 27% indicated a Chief People Officer or similar was brought in. Twenty per cent said non-execs led the conversations. The majority of other responses indicated broad contributions from a range of executive leaders, such as the Chief Operating Officer. Quality of the conversation around people and culture was a key concern according to respondents, as was the drive to act.

Overall, boards have begun prioritising people and culture – but there remains a gap in achieving the quality of board engagement needed to really drive action.

For the full Report go to: https://bit.ly/3JLcatq

News

Developing an ethical business culture

The importance of establishing an ethical culture is now widely recognised across organisations in the private, public and third sectors, but there is little guidance available on how boards should promote and monitor culture. The Institute of Business Ethics (IBE) has issued draft guidance for developing an ethical business culture. The draft guidance is intended to provide practical recommendations for boards as they seek to promote an ethical business culture within their organisations.

Leading by example: Board members and senior management should lead by example, acting with integrity and treating all stakeholders with decency and respect. The board should be alert to any mismatch between words and deeds, particularly when things go wrong.

When recruiting board members and senior managers, the board and management should look for evidence that successful candidates understand the importance of being role models and should act decisively when senior leaders fail to uphold the standards of behaviour and values expected. Ethical behaviour may be adopted as a specific criterion when evaluating performance and considering promotions.

Purpose and values: Management and the board may produce a statement of company purpose and values, in consultation with employees and other stakeholders. Company purpose and values should be reflected in the company strategy. Multiple touchpoints should be used to check that the purpose and values are understood and embraced by employees and consistent with stakeholder experience.

Ethical risks: When reviewing the business model or making strategic or operational decisions, boards and management should seek to identify, mitigate and monitor ethical risks that have the potential to:
- cause harm or offence to others,
- undermine trust, or
- damage the reputation or otherwise impair the ability of the company to achieve its objectives.

Benchmarking: The board should monitor both leading and lagging indicators of ethical risks. Leading indicators might measure stakeholder satisfaction; weak signals or proxies; or implementation of mitigation measures. Lagging indicators might track actual or potential breaches. Where possible, both internal and external benchmarking should be used to recognise best practice and identify areas requiring remedy.

Code of conduct: Companies may choose to adopt a formal code of conduct or ethics that defines how the company purpose and values are implemented and the standards of behaviour expected of employees and leaders. Such codes should provide practical guidance to assist decision-making at all organisational levels and be regularly updated, taking into account regulatory requirements and societal expectations. Codes of conduct may also be required for contractors, suppliers, vendors or other stakeholders.

Communication: Openness and effective communication are essential to identify, monitor and mitigate ethical risks. The board should promote an inclusive culture that empowers employees and other stakeholders to raise questions or concerns without fear of retaliation. The board should ensure that appropriate, easily-accessible ‘speak-up’ channels exist for stakeholders to raise and, if necessary, escalate concerns and grievances, and that these are investigated, remedial action taken as required, and feedback provided to the complainant.

Training: Appropriate induction programmes for new employees and training for existing employees should be in place to ensure familiarity with company purpose, values and code of conduct. Employees performing roles with a high exposure to particular ethical risks might require bespoke training.

Remuneration: The board should be satisfied that the company’s remuneration policies and practices, including performance-related pay, are consistent with its purpose and values and do not inadvertently create incentives for unethical behaviour. Similar considerations may apply to the incentivisation of contractors, vendors and other business partners.

Learning opportunities: When material lapses occur, the board should ensure that:
- they are investigated,
- the root causes identified, and
- measures put in place to prevent a recurrence.

Failures should be treated as opportunities to strengthen systems, processes and training.

Consequence management: All misconduct should result in appropriate consequence management. While disciplinary action can indicate the importance of an ethical business culture, the board should be aware of the potential impact of punitive measures on the company’s future ability to share information, understand root causes and learn from mistakes. An ethical business culture is best sustained by recognising, rewarding and promoting those who consistently display integrity, respect and moral decency in their behaviour and business judgement.

Resources: The board should ensure that management have the necessary resources and that those responsible for monitoring and overseeing business ethics are independent and objective. The senior manager(s) should report regularly to the board, or board sub-committee, and have regular informal contact with the Chair or designated non-exec.

The guidance is open for consultation till 13 August. For more information go to: https://bit.ly/3Dpv1q5

International

CEO succession planning

Whilst the number of areas involving board oversight has increased dramatically over recent years, Chief Executive Officer (CEO) succession remains one of the most important director responsibilities, according to a Report from Deloitte. The CEO is usually the most visible and prominent position in a company. An effective succession planning strategy can result in a CEO with transformative leadership potential who can execute the company's long-term vision and can add value for shareholders and other stakeholders.

Board role

The board's role in succession planning is unique and one of its highest-priority activities. Boards need to think about the rest of the management team and consider whether an incoming CEO, when combined with other key members of the executive team, has the set of qualities that are most valued by the company's stakeholders.

Qualities and characteristics

There has been a shift in what boards look for in CEO candidates. In the past, boards often looked for a strong leader with a fixed, specific point of view, nurturing a specific candidate for the CEO role. This approach has its merits and evidence links this type of succession with improved company performance.

Now when selecting a new CEO, factors to consider include:

- external factors – geopolitical forces and the macroeconomic climate;
- company needs – current long-term strategy and industry-specific concerns; and
- candidate qualities – appropriate leadership style and internal v external candidates.

Talent plays a huge role, but it is important to consider: fit with the company strategy and vision; what is happening at the company; and company needs given company industry, history, maturity, and other unique characteristics. However, with a shifting geopolitical and economic operating environment, different qualities are now prioritised, such as openness to innovation, humility and agility. As both board members and companies have become more flexible, so too has the candidate selection process. As a result, some boards might consider casting a wider net and designing a selection process around multiple candidates.

Process

In terms of the process, the structure will, and should, vary based on a company's culture, norms and industry. The following things should be borne in mind:

- use of third parties: boards want to be as objective as possible in selecting a new CEO and many engage search firms or other outside consultants. In some cases, adding a third party can create distance between the candidates and the board. Ideally, the search process should be flexible enough to adjust for this if it becomes a concern.
- timing: companies start working on succession planning on average about two years before the current CEO's planned departure. Starting earlier or later than that depends on circumstances. Consideration should be given as to how an extended succession planning process may be perceived by the incumbent CEO and the company's stakeholders.
- existing management roles: some boards deliberately talk with C-suite executives not in contention for the CEO role. Incorporating perspectives from other levels of management can give a more holistic sense of the leadership qualities of internal candidates.
- balancing internal versus external candidates: boards often want to consider both types of candidates. Some companies have a culture and preference for internal candidates, but sometimes there are no qualified candidates available.

> 'Failure to be transparent could be seen by candidates as an indictment of their leadership or work quality.'

Communication

Communication with candidates who are not selected is key. Boards want to see a combination of qualities, agility, resilience, team leadership and vision, that can be hard to find in one person. Sometimes an individual may be highly qualified but just not a good fit for the CEO role at the time.

While communication and transparency are important for everyone in the process, they are especially key for internal candidates. Failure to be transparent could be seen by candidates as an indictment of their leadership or work quality. It could also prompt high potential internal candidates to seek opportunities with other companies.

Prospective candidates

Many prospective candidates are starting to work with coaches and mentors who specialise in CEO-level roles. Sometimes serving on another company's board can provide future candidates with a valuable perspective on the link between governance and succession planning. CEO selection involves many parties with varying influence in the decision-making process. In most cases the outgoing CEO will have an influential voice in the selection of their successor. Even if a candidate seems otherwise qualified, without a strong vote of confidence from the current CEO they are unlikely to be selected. Even more so when retiring CEOs often stay on as executive Chair or in a similar capacity.

For the full Report go to: https://bit.ly/3PJi6qn

Global News

Corporate sustainability due diligence

The EU Parliament has adopted a groundbreaking Directive that lays down comprehensive rules for corporate sustainability due diligence. The new Directive sets out a regulatory framework that redefines corporate responsibilities and outlines explicit due diligence requirements concerning business practices, environmental impact and human rights. The rules apply not just to the companies, but also extend to their value chain partners, including suppliers, distribution, transport, storage and waste management entities.

Companies must formulate, implement and comply with a transition plan aimed at ensuring that their business model and strategy are aligned with the objectives of:

- transition to a sustainable economy;
- limiting global warming to 1.5 degrees C in line with the Paris Agreement; and
- achieving climate neutrality for its EU operations, including its 2050 climate neutrality target and the 2030 climate target.

Companies that recognise climate change as a significant risk to their operations must also incorporate well-defined emission reduction targets and goals into their business plans.

The Directive mandates that companies identify, prevent and, if necessary, mitigate any adverse effects their activities may have on human rights and the environment. This includes issues such as child labour, slavery, labour exploitation, pollution, environmental degradation and biodiversity loss. Companies will be required to engage with those affected by their actions, including human rights and environmental activists.

Directors will still have a duty of care to systematically integrate sustainability matters in their decisions. Directors working for companies with more than 1,000 employees will have their bonuses proportionally linked to sustainability obligations and part of their remuneration would be explicitly linked to the achievement of company transition plan targets.

Non-compliance with the Directive will result in substantial sanctions, enforceable by national supervisory authorities. Penalties can include fines amounting to a minimum of 5% of the company's net worldwide turnover, public exposure and, in certain circumstances, a ban on public procurement within the EU.

The Directive is likely to come into force by early 2024 and a staggered introduction is envisaged over a period of three or four years, depending on the size of the company. Smaller companies will be allowed to postpone the implementation of the new Directive for a further year.

Whistleblower protection in Spain

A new law has been introduced protecting whistleblowers in Spanish companies. The mandatory requirement to establish a whistleblowing channel applies to a wide range of companies operating in Spain. This includes both public and private entities, as well as subsidiaries or branches of foreign companies operating there.

Companies must establish a secure and confidential reporting mechanism that guarantees the anonymity of whistleblowers and protects them from retaliation. The reporting channel should be easily accessible to all employees, stakeholders and third parties associated with the company. It should be user-friendly and provide clear instructions on how to file a report. Companies must also promote awareness of the whistleblowing channel to their employees.

The governing body is required to comply with all the provisions of data protection legislation relating to the whistleblowing system and can be fined up to €20m for privacy breaches resulting from its role as controller of the whistleblowing system.

The whistleblowing system must be compatible with the right to defence of the organisation in the event of a criminal proceeding being brought. Moreover, the criminal compliance aspect of the whistleblowing system is essential, both in companies that already have a system in place and where companies already have a criminal compliance standard and compliance function.

For corporates, the new law offers some flexibility, allowing for a single whistleblower system (one system manager) for the entire group or for each subsidiary to have its own system in place (its own manager). Companies must design the most suitable model from the standpoint of adequately locating and isolating its risks and complying with the requirements of the new law. Whether to choose one or the other will depend on several factors, such as the corporate structure and governance of each group of companies and the level of decentralisation to be adopted in each case.

The new legislation came into force on 13 June 2023 and applies to companies with over 250 employees with immediate effect. Companies with between 50 and 249 workers have until 1 December 2023 to comply. Non-compliance will lead to fines of up to €1m. Whilst not a legal requirement for companies with fewer than 50 employees, they are encouraged to implement a whistleblowing channel.

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Unlocking sustainability value

Andrew Hobbs outlines the key drivers that boards can use to successfully integrate sustainability into their business.

Corporate action on decarbonisation is essential if Europe is to meet ambitious sustainability targets, and the business value-proposition for change is clear.

Yet there is widespread agreement that not enough is being done, and a tension between short-term profits and long-term value.

A new EY survey of 200 European corporate senior leaders found that those who were 'Experts' in sustainability governance had found ways to successfully unlock value and that better governance can lead to better results.

Back in 2015, the Paris Agreement, the legally binding international treaty on climate change, was adopted at COP21 and set targets to limit global warming to 1.5 degrees C. It was followed by the European Union's Green Deal, providing a legislative framework and roadmap for a climate neutral Europe. Its mix of new and revised laws demand and support reduced emissions, sustainable food production systems, the repair, reuse and recycle of products and the reduction of reliance on raw materials.

Impact on business is significant. While there are new rules and targets to be met that are essential to maintaining the health of the planet, the transition to a low carbon, more sustainable economy is a major business opportunity, as companies supply the finance, goods and services to enable the global Net-Zero transition.

With a spotlight on sustainability, governance, as a vital part of the ESG framework, has an important role to play. In 2021 we launched the annual EY Long-Term Value and Corporate Governance Survey to explore how companies across Europe were strengthening their governance in response; challenging, supporting, driving and incentivising change.

The EY analysis of the 2023 results found that a small group of high-performing sustainability governance 'Experts' are driving both financial value and progress towards targets, compared with a long tail of 'Beginners' who still have much more to do:

- Seventy-six per cent of 'Experts' are optimistic about their company's revenue growth prospects over the next 12 months, compared with less than half (45%) of 'Beginners'.
- Over half of 'Experts' (52%) are 'very satisfied' with the progress they have made to date in achieving the climate targets that are part of their approach to environmental sustainability. That number drops to 13% for 'Beginners'.

In summary the 2023 survey found:

1. Better governance supports better outcomes.
2. Further sustainability governance requirements are needed.
3. Systematic, accountable and authentic governance can unlock value from sustainability.

EY Long-Term Value and Corporate Governance Survey

The annual EY Long-Term Value and Corporate Governance Survey questions leaders from companies representing 26 industry segments across 15 countries. Twenty per cent are Chairs or non-execs of the board, 20% are CEOs, and the remainder are drawn from across the C-suite. Fifty per cent of respondents come from companies with revenue of more than €1bn, with the other half between €100m and €999m.

This year's survey draws on the views of these 200 senior leaders to examine how corporate governance is evolving to embed sustainability into their companies' strategies and approach to long-term value.

We created a sustainability governance score based on respondents' assessment of how effective their governance was in six key areas ranging from harder issues (such as 'incentivising ESG performance through executive compensation mechanisms') to softer issues (such as 'encouraging open and honest debate to ensure all board members are aligned on the company's ESG priorities and approach'). Using these scores, we split respondents into those with more effective 'Experts' or less effective 'Beginners' sustainability governance and evaluated the approaches, benefits and challenges each group reported.

In the context of this article, we focus particularly on the climate change aspects of sustainability. While the majority of companies (72%) have made explicit commitments to support the UN's Sustainable Development Goals most relevant to their business, climate change has been on the agenda for the longest, and there are greater expectations around companies having a mature approach.

1. Better governance supports better outcomes

Effective governance is instrumental in driving value-led sustainability, but short- versus long-term tensions persist

Businesses have a critical role to play in driving the urgent change needed to meet sustainability targets and there are financial benefits:

'Companies that execute on their sustainability strategy (whether in operating model, products, support functions, or talent) do not just create more value for our planet and society,'

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says Julie Linn Teigland, EY EMEIA Area Managing Partner and EY Global Leader – Women. Fast Forward. 'They are also more likely to capture more financial value for the company and their shareholders' – an approach that the global EY organisation calls 'value-led sustainability'.

It's clear from the latest survey that when a company is 'Expert' in integrating sustainability into its governance, it is not only more optimistic about revenue growth, but also more satisfied with progress against climate targets.

Success, however, does depend on the ability to manage the continued tension between short-term priorities and long-term value. The need to drive the sustainability agenda has added a new layer of complexity when it comes to balancing short- and long-term business pressures.

This is particularly apparent when it comes to the critical dynamic between companies and shareholders. The survey found that 74% say their 'company should address ESG issues relevant to their business, even if doing so reduces short-term financial performance and profitability'.

This aligns with the views of investors – 78% of those surveyed in the EY Global Corporate Reporting and Institutional Investor Survey believe the companies they invest in should address sustainability issues relevant to their business, even if it reduces profits in the short term.

Both camps, therefore, need to be aligned on the need to make the difficult decisions and trade-offs needed to protect and grow long-term value. At the same time, however, 64% of the respondents to this survey say, 'We face short-term earnings pressure from investors, which impedes our longer-term investments in sustainability'.

The quality of engagement between boards, management and investors is a critical factor in addressing this tension, particularly in terms of reporting.

2. Further sustainability governance requirements are needed

Leading companies drive better outcomes, but recognise that the sustainability governance journey has further to go

There is increasing disquiet among stakeholders that companies are not injecting enough urgency into addressing climate priorities. This growing impatience reflects a growing concern that a company's statements about its intentions do not translate into action.

'Experts' are making greater progress than 'Beginners', but they also acknowledge that they still need to sharpen up the role of their board in meeting climate change targets.

3. Moving forward with sustainability governance

Focusing on board dynamics, remuneration and reporting can deliver a systematic, accountable and authentic approach

This third theme is where some practical recommendations for readers to translate into their own situations can be found. Although many companies have put in place a wide range of structures to integrate sustainability into the board's decision-making, many respondents questioned whether sustainability is a systematic, intrinsic way of how it operates.

Only 7% of respondents felt that sustainability is integrated into board structures and decision-making.

EY recommendations based on the current survey

Sustainability needs both dedicated time, and dedicated experts

The 'Experts' are those that go beyond putting good structures in place; they also devote enough time to sustainability and ensure that boards are diverse enough to bring new perspectives to the debate.

- Eighty-three per cent of 'Experts' are effective at 'managing the board agenda to ensure long-term ESG risks and opportunities are always discussed, not just near-term business issues,' but this drops to 52% for 'Beginners'.
- Eighty-six per cent of 'Experts' are effective when it comes to 'increasing boardroom diversity and ensuring new voices are given equitable speaking time to provide fresh perspectives on ESG topics,' but this drops to 36% for 'Beginners'.

Quality time spent by willing boards who have experience and skills in ESG topics is more important to progressing against sustainability objectives than formal structures such as sustainability committees. That means making sure that meetings are regularly scheduled, and that the people sitting around the table are those with expertise in the subject matter.

Remuneration policies must link to sustainability targets

It's also critical for boards to find ways to make their companies accountable for delivering on sustainability objectives, with KPIs that link to remuneration.

It is challenging to define 'remuneration-grade' KPIs for sustainability objectives – which constitute a meaningful proportion of total reward and help to hold management teams accountable. But there is a compelling case for doing so, and our survey found that 'Experts' are already doing this:

- 'Experts': 61% include ESG metrics as a significant element when setting the compensation of senior executives (with 34% as a limited element).

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- Beginners': 29% make it a significant element (with 59% as a limited element).

Making a real impact requires a shift in mindset. C-suites, boards and remuneration committees need to be pragmatic and agile when establishing ESG-based KPIs that continue to evolve. They can also benefit from being more open and transparent with their stakeholders – ensuring they engage with them fully on this critical topic and share details of their sustainability journey.

An authentic and accountable approach to reporting

Finally, it is critical for boards to take an authentic approach to reporting, with measuring systems that are easy to follow and KPIs that everyone understands. If delivering on climate targets is integral to the success of day-to-day operations, then ongoing education and simple, clear KPIs are essential. Creating good information and reporting systems, with dashboards, can enable boards to track progress and be accountable to stakeholders. This clarity of purpose could explain why the sustainability-governance 'Experts' are better prepared for the changing regulatory environment that will come into force with the EU's Corporate Sustainability Reporting Directive (CSRD).

The constantly moving sustainability agenda is a challenge for European CEOs and board members. The risk is that a fluid and complex agenda causes some companies to become too reactive rather than strategic, or even to become paralysed with uncertainty about where to focus their efforts.

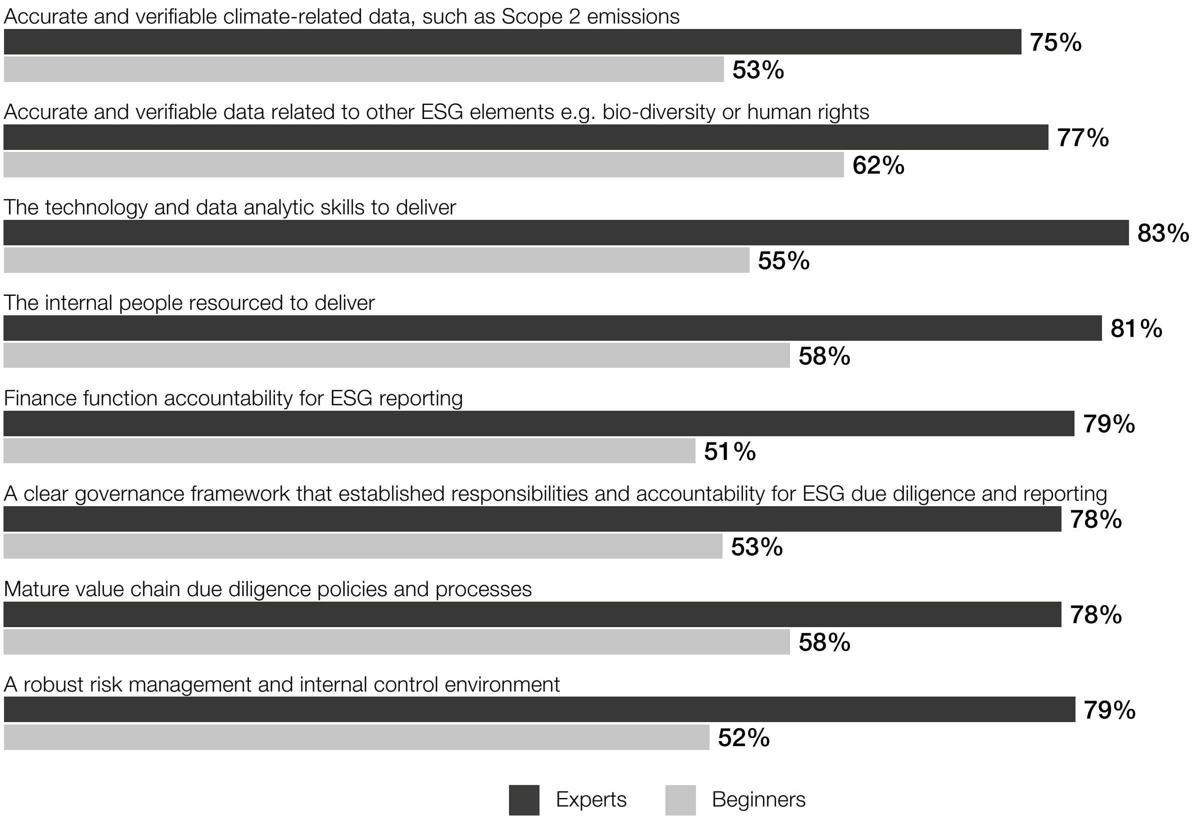
With the right governance, however, companies can zero in on the sustainability topics that matter most to the creation of long-term value: securing a successful future for their organisations while also safeguarding the future of the planet and its people.

Andrew Hobbs is EY EMEIA Public Policy Leader. This article is a summary of his longer article which can be found here: How can effective governance unlock value from sustainability? | EY - Global

The full Survey can be accessed here pdf (3 MB)

Experts are better prepared for mandatory sustainability reporting than Beginners

How prepared is your organisation in the following areas to respond to the EU's impending regulation on corporate sustainability reporting and due diligence?



Source: EY Europe Long-Term Value and Corporate Governance Survey March 2023 (total respondents: 200).

Feature

The effective board Chair – Part 2

Alison Gill and **Ian White** take a further look at what makes an effective board Chair based on lessons learnt from carrying out board effectiveness reviews.

As Chris Stamp and Alex Cameron explored in last month's *Governance* the role of the Chair is a critical but frequently underrated element of the value-creating board and therefore an important area of focus in Board Effectiveness Reviews. Chris and Alex looked at the Chair's role in managing key board and stakeholder relationships from their observations during Board Reviews. In this second article Ian White and Ali Gill look at the key components of chairing the board and the Chair's role in succession planning, again as observed from their work as Board Effectiveness Reviewers.

Chairing boards and committees

How does the Chair effectively create the right culture and manage the dynamics so that the board can be truly value-creating?

While we often talk about high performing boards, a more accurate description might be to describe them as *value creating*[1] focusing on providing value for all of their stakeholders. The most effective Chairs are value creating ones ensuring that in their work chairing the board they are taking into account the objectives of a wide range of stakeholders. But, as a Chair, how do you best achieve this?

Constantly build and adapt your board

The concept of having to build a board is not a new one: it was highlighted in David Nadler's seminal 2004 article on *Building Better Boards* when he wrote: 'The high-performance Board, like the high-performance team, is competent, co-ordinated, collegial, and focused on an unambiguous goal. *Such entities do not simply evolve.'*[2] We look at succession planning in more detail below but it is worth noting here that the effective Chair has to constantly think about the make-up of the board – skills and more importantly behaviours – if they are to establish and lead a value creating and learning board to successfully lead the organisation. The task is not to be underestimated and requires both thought and insight to create the right dynamic.

Be an effective facilitator

The best Chairs see their role fundamentally as one of a facilitator. The description by one non-exec on his Chair in a Board Review one of us undertook was 'Our Chair is a skilful conductor' and that is perhaps a very apt description of how a really effective Chair should work. That means framing well a matter that the board must discuss but then letting the board – non-execs but also executives – discuss the matter without giving their opinion first as this will inevitably influence the discussion. Afterwards a good summary of the discussion by the Chair and perhaps their view then but only if it will add to the debate is what is required. As Peter Drucker said in respect of effective managers 'Listen first and speak last' and that is one for Chairs to follow too.

Partner with the CEO but give others airtime

Many boards we see exhibit an effective partnering between the Chair and the CEO. And that is how it should be. However, we have seen boards where this can lead to too much dialogue between the Chair and the CEO in board meetings. If their relationship works well, they will have discussed most board matters before the meeting and the real value of the meeting itself is to get the views, challenge and guidance of the other non-execs. Again, it comes back to the Chair's role as a facilitator and listener.

Know the board well

When we conduct interviews for Board Effectiveness Reviews, we still come up with comments that the Chair does not really know the non-execs very well. This has, of course, been impacted by the pandemic but really effective Chairs get to know the non-execs well because that helps them know when to draw a particular person into the discussion. It also helps with building the board dynamic. One Chair we know does this by having board dinners where they insist no business is discussed as the meal is meant as an opportunity for board members to get to know each other better and to build the team dynamic.

Factor in the time commitment

Finally, to be a really effective Chair you need to ensure you don't underestimate the time commitment. This is likely to be particularly high new into role and if the sector is unfamiliar territory. However, major projects or issues will increase the time commitment and much of this will fall upon the Chair. We have seen examples of where the Chair is not seen by the other members – both non-execs and executives – to be making the required level of commitment and this can make the board an unhappy and dysfunctional place.

Succession planning

What is the Chair's role in one of the board's most important tasks: succession planning? How does the Chair recruit for a diverse board while ensuring the right skills and best dynamics are maintained?

One of the most important jobs of the Chair is to build their board with people who have sufficiently diverse skills and experiences and, attitudes and mindsets to oversee the success and sustainability of the organisation. As with building

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any high performing team, this doesn't just happen by chance it takes skill, thoughtfulness and, time.

The role of the Nomination Committee

A key part of the Chair's role is to lead the Nomination Committee (NomCo) helping to ensure that there is an effective succession planning system for the board and for the principal executive, roles. To do this well requires curiosity and knowledge about leadership capability and adult human development.

A key decision for any Chair, is whether to chair the NomCo or whether to ask another board member to do so. Today, the majority of NomCo's are chaired by the Chair of the board. Some Chairs appoint a non-exec to lead the NomCo, most typically someone on the board with extensive experience in the Human Resources space.

The NomCo needs to lead on systemising succession planning. This involves normalising transparent, thorough and regular discussions about succession and maintaining accurate data about people to aid discussions and decision-making about people.

Understanding adult development – or why there are so many power battles, tantrums, bullying and other activities we might expect in the playground found in corporate boardrooms?

Most 14-year-olds can function in an adult world and after reaching this level of capability there is little imperative for them to develop further. This means that whilst 14-year-olds definitely grow older and will inevitably learn new skills and acquire further knowledge, they don't necessarily or automatically develop as adult human beings. As a result, many executives may be extremely knowledgeable about all manner of commercial activity but may not develop and, remain effectively a 14-year-old on the inside. Sometimes this lack of development manifests as egocentric narcissism or hubris and, this is why we see so many battles of power, tantrums, bullying and all manner of other activities that belong in the playground rather than in a corporate boardroom. It is the advancement of it, or the lack of development within the leadership of an organisation which is a key determinant of the success or failure of an organisation. Research suggests that the more sophisticated a leader the greater ability to deliver organisational transformation (Dr A Watkins, 2016)[3]. When building boards and overseeing executive succession Chairs will do well to ensure that they develop a comprehensive understanding of how to select for maturity and the ability to adapt and develop as adults.

So, what data does the Chair and Nomination Committee need?

Effective succession planning is both a qualitative and quantitative process aided by high quality dialogue, deep data and insights. As a minimum a board should have a skills and experiences matrix mapping the strategic needs of the business to the strengths and qualities of the board and the executive pipeline. However, this alone is insufficient, a sophisticated board will do much more, drawing on rich scientific literature and a suite of psychometric and other profiling tools to develop a deeper and more discerning view of individual strengths and development needs and how they map to the organisational needs.

Despite the complexity and ambiguity of the world today, we all have the potential to develop as leaders. Boards that plan succession with sophistication will utilise data and insights to help the board develop a deeper view of themselves physically, emotionally, cognitively and behaviourally using this information to help with their own performance and to think in a more complete way about selecting and developing board directors and executives.

Discuss career, development and performance at the annual Board Performance Review

Directors of high-performing boards should expect an annual discussion with the Chair about what they are valued for and what they might do better or differently to improve effectiveness. Really good Chairs extend that conversation to include personal (career) objectives, 'where are you headed' and succession 'what do you think the organisation needs now'. In other words, what is right for you and what is right for the organisation and, is there still a good match. Normalising these conversations and ensuring they happen regularly and are thorough and well documented is an important component of success.

Given the pace of change, normalising director turnover is an important ingredient of handling succession planning well. No director should expect to stay on a board for nine years, which was the norm. Rather, it may be that either the board or the individual realise a need for earlier change. Regular conversation about succession ensures that both the board and individual non-execs can adapt with the agility needed in today's volatile, uncertain and rapidly changing world.

Succession planning for the CEO

The same rule applies to succession planning for the CEO, it is never too early to start! A considered succession plan for the CEO will take time to evolve, indeed effective Chairs know that it begins on the first day of a new CEO's executive tenure. One measure of success for an incoming CEO will be that when she or he leaves, there is at least one (preferably more) credible successor(s). A confident CEO will recognise this as one of their key responsibilities that requires their engagement and input.

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A systemic approach to succession is more than a plan

The key to effective succession planning is not to focus on the plan but rather to focus on developing an understanding of the leadership cadre within the organisation and within the organisational and external networks. The depth and richness of data about the leadership cadre in both the board and the executive and the regularity and discernment with which this is discussed in relation to the needs of the organisation will deliver effective boards and executive leaders.

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They are both founder members of The Board Effectiveness Guild, a group of experienced and independent board evaluators who have come together to enhance the value of board effectiveness reviews by sharing best practice with each other and contributing to the wider debate on excellence in corporate governance. Find out more at www.boardeffectivenessguild.co.uk

1. See Leadership Team Coaching (Fourth Edition) by Peter Hawkins, Kogan Page 2021.
2. *Building Better Boards* by David Nadler *Harvard Business Review* May 2004.
3. 4 D Leadership – Competitive Advantage Through Vertical Development by Dr Alan Watkins, Kogan Page 2016.

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