

Board Diversity is not just about “sex”

Studies about boards

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Different studies related to factual information on Boards in France have recently been published (mainly for CAC40 companies but also for SBF120 on some indicators). They also give some insight on executive committees.

Some of the indicators used relate to legal requirements (gender balance, employee board-level representatives, independent directors, say on pay...), others simply report facts (number of committees, maximum age, presence of foreign directors, expertise of the directors...).

A number of publications have been issued about diversity in boards. The gender balance has attracted many of these, and it is a well-known fact that Boards of companies comprising a larger proportion of women perform better. Some studies have put forward the role of influential people, like politicians, in terms of corporate reputation.

In this brief article we would like to address other aspects of diversity in terms of competencies / skills.

The Board's role

First, let us remind ourselves what the role of the board is:

The board's key purpose "is to ensure the company's prosperity by collectively directing the company's affairs, while meeting the appropriate interests of its shareholders and relevant stakeholders¹".

Several terms draw one's attention: "collectively directing", "shareholders" and "relevant stakeholders' interests", leading to reflect the fact that board members should also focus on broader issues that impact financial performance.

Observation

Among the CAC 40 companies, Board Members with a finance background are far better represented and, in most cases, head the audit committee. Approximately 50% of the Board Members' sectorial expertise is similar to the companies' sectors they joined.

Companies and their finance teams have very elaborate accounting and reporting tools. Strong legal obligations impose specific auditing procedures, international standards and selection of Auditors.

All Board Members need of course to have a very clear understanding of annual reports, their content, the risks, financial obligations and impact on the share price. On the other hand, is it necessary to have so many finance experts outside the Audit Committee?

The Board's skills and competencies should not duplicate existing skills in the companies they serve, since the CEO is supported by an executive committee highly competent in finance, IT, marketing, HR etc.

A Board with a high number of C Suite Executives may seem to be a reassuring

¹ Standards for the Board, Institute of Directors

factor, but in an increasingly diverse, data-digital-driven environment does not necessarily fit with the company's priorities. Leading a company also requires defending it, fending off blows, anticipating major social and economic trends, adapting the business model, and meeting the expectations of professional and individual investors which have changed significantly in the past couple of years.

Boards will be challenged on ESG issues by Investors. Are they prepared?

In an age of heightened regulations and public scrutiny, CEO's and Boards have only recently started to take more into account ESG factors which will mitigate exposure to governance, environmental and social risks: in the coming years, 2/3 of institutional investors believe these factors will be fully integrated in their investment decisions. In turn companies will have to incorporate ESG KPI's in the value chain as an opportunity for growth and improved financial performance.

Increasing Board diversity, why and how

In a rapidly changing and complex environment Board Members should be more collectively responsible with other Board Members, challenge and support the implementation of the strategy led by the CEO through a 360° perspective and risk analysis.

Greater diversity in terms of geography, ethnicity and gender, as well as more expertise for example in human resources, professional services, marketing, risk management, or coming from different areas of government, economics, academia are essential to bring broader perspectives, promote innovation that will affect the companies and bring added value to the Board.

CEO's are constantly under pressure from different internal and external stakeholders and will appreciate building closer interaction and a constructive dialogue with the board members to address important issues.

Our Solution

What we propose at Alexander Hughes is not only to select individual Board members with the appropriate Job Intelligence & Business Intelligence (hard skills) and the appropriate Emotional Intelligence & Self Intelligence (soft skills) but also to assess the Board's effectiveness as a team (Dynamic, cohesion and alignment on business and cultural strategy).

In this process, a global executive search firm carrying out a detailed assessment of the board and working closely with the nomination committee will help companies to improve their standards in terms of corporate governance.

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