AltoPartners
EXECUTIVE SEARCH WORLDWIDE

The AltoPartners White Paper Series

March 2016

BOARD PRACTICE – GLOBAL TRENDS, OUR LOCAL INSIGHTS

This paper presents commentary and insights from leading executive search and leadership consultants from across the AltoPartners alliance, specialising in Board placements and assessments. The AltoPartners alliance spans the Americas, Europe, Middle East, Africa and Asia Pacific www.altopartners.com

GLOBAL TRENDS, OUR LOCAL INSIGHTS

Established in 2006, the AltoPartners alliance has always had at its foundation the practice of Board Placements and Advisory Services. Our global reach and local presence provide innovative solutions for the top talent needs of today's complex world. In the decade since the AltoPartners formation, we have seen a number of events and trends impact boardrooms across the globe and cause board members to evaluate the changes needed to remain relevant. Here is what some of our global partners have to say about the key trends impacting their countries.

Over the past decade, one of the most significant trends impacting boards is the focus on board structure and composition, with diversity being a cornerstone of that governance focus. While diversity continues to be a key focus area in 2016, boards are increasingly grappling with issues relating to shareholder activism, accountability and transparency, enhanced regulations, and importantly, the impact of digital disruption and technology on organisations.

In these times of change, it is critical for all boards to adapt and evolve to ensure the organisations they represent remain relevant to today's customers, consumers, employees and shareholders.

Boards in general, while they accept and recognise the need to change to remain relevant, are often slow in doing so. As external factors increasingly impact the boardroom, boards must regularly assess their composition, operating procedures and strategic intent.

In our fast-changing world, boards should be able to play a catalyst role of excellence while shaping the agenda of the future contexts to allow them to outperform their peers in sustainable value creation.

While these have been identified as the general top global trends impacting boards, we take an in-depth look at what boards in countries like Belgium, Canada, France, India, South Africa, the United Kingdom and the United States of America are actually dealing with, with particular focus on the local regulatory codes of compliance impacting each country.

Our experts in each country provide insights into how they, as leadership advisors, can work with companies to shape effective boards.

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OUR GLOBAL INSIGHTS

Big Issues… Key Trends

While boards around the world continue to focus on creating companies that are fully representative of the global population when it comes to gender diversity and inclusion (including ethnic representation and disabilities), there a number of equally prominent disruptive issues, namely globalisation, acceleration, deregulation and digitisation, arising that are impacting decision making processes.

Top Three Global Issues Facing Boards

- Diversity & Inclusion
- Cyber Security & Risk Management
- Technology & Digital Disruption

To adapt to the rapidly changing business environment, global issues are giving rise to a re-thinking of the "functioning" and "composition" of the board, with well-thought through succession planning now recognised as key board activity.

As business markets are becoming more international and globalisation continues, boards in Belgium, the UK and France are increasingly looking for their board members to have had international exposure, with more strategists and foreign Directors joining local boards.

The impact of technology and digital disruption sees boards across Europe (Belgium, France, UK), the Americas (Canada and the USA) and Asia-Pacific (India) all moving **cyber security and risk management** higher up on the board agenda as they try to keep up with the changing landscape and ensure that they have the right skills to protect and grow their businesses. Increasingly, boards are thinking about bringing on non-executive directors (NEDs) with digital/technology backgrounds and are contemplating bringing CIOs and CTOs on to boards but with the understanding that they may not be board-ready and may not yet have the P&L responsibility and experience. Importantly, the need for Audit Committees to include more risk appraisals has been recognised.

Since the global economic meltdown, issues around **financial information transparency** and **accountability**, along with good corporate citizenship practices, have given rise to increased shareholder activism and criticism against companies. In France, levels of compensation and pensions for executives, particularly incentive plans and the payment processes have come under increased scrutiny, with growing pressure for "say on pay" by the General Assembly of shareholders. While in the USA, compliance with the Foreign Corrupt Practices Act and the pressure to provide clarity on how CEO salaries are determined is critical. And, in India and in South Africa, while the strategic focus is on organisational growth and expansion, both local and international, doing the right thing through targeted **corporate social responsibility** and **corporate citizenship** endeavours ensures that boards are aware of the sustainability and environmental impact of their businesses. In Canada, there is the link between good governance to improved corporate performance or accountability.

While there are the common global issues that boards in the USA are actively working on, these boards have increasingly added terrorism (both at a domestic and an international level) and the safety of their employees as key issues they need to deal with.

Board Diversity – The Changing Face of the Boardroom

While boards around the world continue to ensure that they are representative (gender diversity) and inclusive (race and ethnicity), many are looking beyond the traditional roles and members in a bid to ensure their companies stay relevant, profitable and sustainable.

It is important to note that the discussion on diversity is now going beyond just gender and race; instead it is now including members with disabilities, those from different nationalities – to accurately understand local/regional market trends – and those that bring so-called **"non-traditional" skills** to the table. The inclusion of "non-traditional" board members can affect the long term strategic view of a board. Indeed, business acumen, preferably of the sector or adjacent sectors and complementary competences, not only functional (e.g. Finance, Strategy, Technology, Legal), but also mental capability (e.g. root cause analysis vs. solution mind, prudent vs. bold) are now sought-after.

Corporate Governance Statistics: UK

- 73% of businesses in the UK provide incisive, high-quality accounts of their business models, up from 61% last year.
- 54% of UK businesses make passing reference to culture and values in their annual reports.
- 13% of chairmen personally discuss culture in their primary statements of their annual reports, up from 5% last year.
- Quality shareholder engagement fell to 55% from 64% last year.
- 57% of businesses fully comply with UK Corporate Governance Code, down 4%.
- 24% of businesses give the same risk disclosures as last year despite continuing volatility.

In India, the UK and USA, we find that younger board members who understand millennials and those who are conversant with the digital economy are joining boards. The last few years have seen a rise of not only non-executive directors with this background or

"A diverse board composition ensures you have an understanding of the market and diverse consumers of the company. Focus is now not only on financial and people management skills, but also on industry related skills. This leads to innovation of thought and proper representativeness."

Mpho Nkeli, Search Partners International/AltoPartners South Africa

expertise, but also the addition of roles such as Chief Information Officer and Chief Technology Officer to the board. The hope is that these board members will be able to offer advice and help protect the business from cyber-attacks and other potential cyber threats.

Ethnic diversity at a board level is crucial to organisations truly understanding the complex markets in which they operate. The UK is falling short of its targets to see more ethnically diverse board members. 62 FTSE 100 companies had all-white main boards. And, those from ethnic minority backgrounds are disproportionately in non-executive roles. As a result 70 FTSE 100 'leadership boards' (made up of board and other top-level executive directors) are also all-white.

When the economy was relatively closed, public boards in India were traditionally dominated by family and friends of the "promoter" family. With the economic liberalisation and opening up of competition, companies have increasingly looked for board members who add strategic heft to the management, including those who are truly independent. Since many listed companies in India are family run, or part of family controlled conglomerates, board members often play a mentoring role for next generation family members. While, in a country like South Africa, where racial and political tensions run high, there has been a continuous improvement focus on all areas of transformation (economic, political, societal) since the early 2000s and the issue of transformation at every level is continuing to be paramount for all companies.

Getting In On The Act

Boards across the Americas, Europe, Middle East, Africa and Asia-Pacific have all cited the importance of understanding the changing, often onerous, regulatory and compliance requirements in their markets. As a result of the trending issues, many are facing increasing legal pressure or more stringent compliance of code recommendations, instead of the current *"comply or explain"* situation. In many territories, the assessments of boards' efficacy are becoming legal requirements, or at the very least are increasingly recognised as a "best practice behaviour" that must be done on a regular basis. These assessments are usually run internally, via the company secretary, or increasingly through independent 3rd party experts.

Some global compliance targets… Women on Boards

33% in **Belgium** by 2018

30% target over next 5 years in **Canada**

40% target by 2017 in **France**… 20% achieved by 2014

30% current target of black females in **South Africa**…17.4% achieved by 2013

Looking at **South Africa**, the Broad-Based Black Economic Empowerment ("BBBEE") Act, passed in 2003 and revised in 2013, provides a door to the inclusion of women in corporate leadership. This Act gives points to companies with black directors and extra points for black female directors. At the senior management level, the revised Act sets a compliance target for senior management at 60% black and 30% black female. Additionally, the Women Empowerment and Gender Equality Bill (WEGE Bill) calls for equal representation (50%) on boards of all public and private corporations. If passed as currently written, all companies – listed, private, and state-owned – would have to provide a plan for increasing the percentage of women board directors toward 50%. But, there is a move on the part of women's groups to lessen the scope of the legislation in order to improve its chances to be ratified.

All South African businesses comply with the King 3 Governance Code, which states that the board should regularly assess that the size and diversity of the board is effective – qualification, experience, technical expertise, nationality, race, gender, industry knowledge must all be considered; and while not a legal requirement, the King 3 governance code states that boards should perform annual evaluations. The Johannesburg Stock Exchange (JSE) reporting regulation for listed entities requires companies to report on progress of transformation of the boards regarding race and gender.

By legislation, companies in **India** must now have at least one-third of the Board as independent directors and according to the Companies Act, 2013, at least one female director is mandatory for public and private firms with an annual turnover of at least three billion rupees (approximately US$50 million). The Board of every listed company and other public companies with paid-up capital of US$ 4 million and above shall report the annual performance evaluation of individual directors, the Board and its committees. Independent directors to have at least one meeting a year without the attendance of non-independent directors and members of management where the performance evaluation of the non-

independent directors will be made. However, regulators have not provided guidance on how to undertake the evaluation process, giving companies significant flexibility in defining effectiveness.

> *"The concept of board effectiveness assessment as it known in the West, while it is growing, has had only limited traction in India."*
> Sonal Agrawal, Accord India/AltoPartners India

Canadian boards aspire to have 30% female representation over the next 5 years, with board assessments set as a regulatory requirement. These annual board assessments can be self-assessments or conducted by an independent 3rd party expert. Outsourcing is growing due to some of the challenges faced by Boards/Governance Committees in conducting their own assessments. These challenges include, keeping current with evolving national and international best practices, time commitment to prepare for the evaluation process and then analyse the data and compile the report, and the risk of omissions, misreporting, or lack of emphasis on key issues. While in the **USA**, there are currently no Acts or Codes regulating women on boards, however these compliance codes are being discussed. Board assessments are also not a legal requirement, but many boards do the assessments on an annual basis.

Key Outcomes from Board Assessments

- Succession Planning
- Risk Mitigation
- Compliance with best practices
- Facilitate better board effectiveness & member relationships

Looking to Europe, **Belgium** passed a law requiring 33% female directorship by 2018 (new article 518bis of the Company Code). Failure to comply with these schedules will result in voided nominations and suspended remuneration of board members. Board assessments in Belgium are not a legal requirement, but assessments are growing as an accepted practice. Interestingly, Peer Review is not well regarded in Belgium.

According to **French** law, companies are legally required to have women on boards, with a target of 40% by 2017. In 2014, 20% representation was achieved. Since 1995, board assessments have been a strong recommendation of the French corporate governance code and increasingly scrutinised by independent authorities like The High Committee for Corporate Governance (created in 2013) and the AMF (*Autorité des Marchés Financiers*; similar to the American Securities Exchange Commission). Now, almost 100% of the CAC 40 (Top 40 listed groups on Paris stock exchange) are implementing board assessments. Between 1/3 and 40% are handled by external consultants. The code states an in-depth board assessment every three years (with or without the assistance of an external consultant); with yearly "light" assessments noted as an item on the Board agenda.

In the **UK**, there are no specific acts or codes mandating women on boards, but there are a number of campaigns and lobbying groups to encourage companies to have more women on their boards. In October 2015, Lord Mervyn Davies' *'Women on Boards Davies Review Five Year Summary'* announced that the UK had met its 25% target in FTSE100 companies. This was a significant achievement and major milestone in the journey to improving the gender balance at the top of British business. There is also the 30% Club, which launched in the UK in 2010 with a goal of achieving a minimum of 30% women on FTSE-100 boards. The 30% Club runs a number of very specific and targeted initiatives that look to broaden the pipeline of women at all levels, from "schoolroom to boardroom".

"There are now more women on FTSE 350 boards than ever before, with representation of women more than doubling since 2011 - now at 26.1% on FTSE 100 boards and 19.6% on FTSE 250 boards. There has been a dramatic reduction in the number of all-male boards. There were 152 in 2011. Today there are no all-male boards in the FTSE 100 and only 15 in the FTSE 250."

Carol Leonard, The Inzito Partnership/AltoPartners UK

Board assessments are not a legal requirement in the UK, but they are encompassed in the UK Corporate Governance Code, produced by the Financial Reporting Council.

"As leadership advisors, the global AltoPartners member firms establish trusted relationships with their clients and engage in regular conversations with chairmen of blue chip listed businesses. Understanding the business, the board dynamics and the strategic direction of the company allows us to act as their eyes and ears in the market, spotting relevant individuals for opportunistic search and hiring. Developing these trusted relationships with our clients is a key success factor"

Stephen Dallamore
AltoPartners Global Chairman

OUR GLOBAL EXPERTS

The AltoPartners Board Practice brings together our most Senior Partners globally, who work with Boards to appoint Non-Executive Directors and evaluate Board effectiveness. We offer the following services to support our clients:

- Non-Executive Director Search
- Board Effectiveness

For deeper insights into our Board Practice area of expertise from the experts cited in this article, please contact one of our practice leaders.

The Americas

Kevin N. Hall

Bluestone Leadership /
AltoPartners Canada
Managing Partner

k.hall@altopartners.com

J. Veronica Biggins

Diversified Search /
AltoPartners USA
Managing Director

v.biggins@altopartners.com

Europe

Carol Leonard

The Inzito Partnership /
AltoPartners United Kingdom
Managing Partner

c.leonard@altopartners.com

Jean-Philippe Saint-Geours

Leaders Trust/AltoPartners France
Managing Partner

j.saint-geours@altopartners.com

Jean-Charles Uyttenhove

Accord Group Belgium
/AltoPartners Belgium
Partner

j.uyttenhove@altopartners.com

Africa

Mpho Nkeli

Search Partners
International /AltoPartners
South Africa
Director

m.nkeli@altopartners.com

Asia-Pacific

Sonal Agrawal

Accord India /
AltoPartners India
Managing Partner

s.agrawal@altopartners.com

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March 2016