

The Effective Nomination Committee

By [Paul Johnston](#)

In this article, we look at stakeholder expectations around the role of the Nomination Committee (**NomCo**) in the context of smaller publicly listed companies and set out hopefully useful questions for Nomination Committee Chairs and members to consider in gauging whether their NomCo is effective.

The role of the Nomination Committee

The role of the Nomination Committee has historically focused on succession at Board level. This role however is continuing to evolve, and this evolution is being driven by two key factors. The first is the potentially high organisational cost of poor succession planning and the need to ensure that **management has appropriate 'bench strength'**. A deeper pipeline of potential future senior managers reduces so-called 'key person risk' and assists with efforts to retain key talent. This is a particularly prominent risk for high growth companies, where founders may still be closely involved with the day to day running of the business.

The second is that the **equality, diversity, and inclusion (EDI) agenda at Board and senior management level** continues to attract greater focus from stakeholders, not to mention the evidence that diversity supports more effective decision-making. Against the backdrop of the Hampton-Alexander and Parker Reviews, which have looked at Board-level representation of women and those from an ethnic minority background respectively, and recent changes to the UK Listing Rules for main market companies, the spotlight is ever more firmly on Boards to do more on ensuring more diverse representation. Smaller companies should not assume that they are exempt from this – pressure to improve diversity and inclusion from investors and regulators, alongside customers and the company's own employees, is relevant to all companies.

Meeting these evolving expectations will require clarity on the NomCo's remit and effective forward planning. We set out below key considerations and questions for this Committee.

Be clear on the NomCo's remit

NomCo members should seek to clearly delineate between where it will be directly involved in appointments and where it will seek assurance on the wider appointments process. While this will most likely be set out in the NomCo's terms of reference, the effective NomCo will work alongside the Executive team to establish how deep into the organisation the NomCo should delve in terms of talent management and succession planning processes, alongside any metrics it wishes to see in order to demonstrate the efficacy of such processes.

Questions for the NomCo:

- *Is there clarity on the NomCo's role in appointments versus assurance on the appointment process?*
- *What assurance does the NomCo need on the quality of talent management programmes and succession planning processes, and does this remain appropriate given the company's size and scale?*
- *What data and metrics does the NomCo need in order to secure this assurance?*

Forward planning

As part of this clarity on remit, the effective NomCo will have a **forward plan of agenda items to consider across the reporting year**. As with all Board and Committee meetings, it will be important to ensure that an appropriate balance is struck in terms of meeting frequency and meeting length. Overly frequent, overly long meetings are as likely to be an indicator of ineffective NomCo meetings as infrequent, cursory meetings would be.

In respect of Board succession, many Board / NomCo's will have put together a form of **skills matrix**. The most effective matrices will consider the full range of skills and competencies currently represented on the Board, alongside the range of skills and competencies that will be needed in future to deliver on the company's long-term strategy. As the size and scale of a business increases, so will the likely required mix of skills become increasingly diverse. We see, for example, that companies of all sizes are increasingly in need of **cyber and digital expertise** and **climate-related expertise** on their Boards to meet these specific strategic challenges.

An effective skills and competencies matrix will allow the NomCo to answer these key questions:

- *What skills does the Board need to deliver the company's strategy now and in the future?*
- *If the Board needs new skills, how soon will they be needed and what is the plan for acquiring them?*

Cast the net wide

The effective NomCo will be thinking creatively in terms of Board composition and the company's talent management processes. If your company has not yet adopted a **Board diversity policy**, now might well be the time. Investors increasingly expect demonstrable progress on gender and ethnic diversity on Boards and senior management teams, and a diversity policy is useful in securing agreement and buy-in on the Board's collective aims and targets in this space.

NomCo's should also be mindful of the need to regularly review Board-level and company-wide appointment processes to remove bias wherever possible. Consider working with external agencies to advertise for both executive and non-executive director roles rather than relying solely on existing networks. Consider the extent to which the company has networks across the business that aim to promote equality, diversity and inclusion; this will help in supporting the next generation of talent.

Questions for the NomCo:

- *Are the processes for Board succession as free from bias as they can be? Do such processes inadvertently prevent the Board from accessing the best available talent?*
- *Likewise, are the Company's processes for identifying and managing talent as free from bias as they can be?*

Securing the employees' view

It may be useful for the NomCo to periodically **take the temperature of the wider workforce**. Board-level engagement with the wider workforce is an important contemporary corporate governance theme, and there are different ways in which the NomCo can have access to the views of the workforce, including through employee surveys and other data sources. Similarly, if there are EDI networks in the company, it may be beneficial for the NomCo to have access to the chairs of such networks.

As part of the talent pipeline, the NomCo may wish to think about ways in which those identified as high potential can gain access to **mentoring opportunities and / or opportunities to meet with and engage with the Board**. This could take different formats, but this is beneficial for both sides – for allowing the Board a more balanced view of the workforce, and for giving high-potential individuals opportunities for greater engagement and ‘air-time’ with the Board.

Questions for the NomCo:

- *How visible is the next generation of talent (in particular, those sitting one level beneath the Executive team) and what further steps can be taken to improve such visibility?*

Be transparent in your reporting

The NomCo should report to shareholders and wider stakeholders on their activities over the reporting year in the Annual Report, and the Chair of the NomCo should attend the AGM to meet with shareholders.

We would encourage all **reporting to be balanced and authentic**. If the company is not meeting ‘good practice’ in terms of diversity on the Board or senior management, for example, we would encourage companies to acknowledge this and set out the efforts that are being made to respond to this. NomCo’s should also set out their ambitions on EDI and reflect critically on the efficacy of past actions.

While accepting that there are a range of pressures on companies that can result in ‘boilerplate’ reporting, there is an opportunity to tell the company’s unique story in the annual report – an opportunity which is frustrated if companies are not willing to be bolder in their disclosure.

Questions for the NomCo:

- *Does your NomCo report provide genuine insight? Is it reflective and balanced?*

Use your Company Secretary!

The role of the company secretary in achieving engaging meetings – and high standards of governance as a whole – is vital. As the Board’s key governance advisor, a company secretary ensures that Chairs, NEDs and management are supported in fulfilling their Board responsibilities and ultimately delivering on outcomes.

If you would like assistance with Board or Committee effectiveness, please get in touch with us using the details below. Our Company Secretarial, Governance & Compliance team’s expertise and knowledge of best practise in small and mid-cap companies can ensure that your Board receives the advice and support needed to facilitate good corporate governance.