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# Briefing

## Improving the Effectiveness of the Nomination Committee



INSTITUTE OF DIRECTORS  
IN IRELAND

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One of the directors' crucial functions is to decide on new appointments to the board, sometimes to other senior positions in the company and, more broadly, to link succession planning to the company's strategic objectives.

In many cases this is done within a committee of the board composed of executive and non-executive directors (the latter being the majority on the committee). Typically, the selection process of directors is carried out by the nomination committee, which then makes recommendations to the full board.

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### Good corporate governance

Nomination committees are not expressly provided for in the Companies Act 2014 but are mentioned in the UK Corporate Governance Code<sup>1</sup>. This Code, which puts diversity at the heart of good governance<sup>2</sup>, comprises of a set of principles of good corporate governance aimed at companies listed on the London Stock Exchange but widely followed or adapted by other companies as reflecting best corporate governance practice generally. Just as diversity on a board is an important feature of best corporate governance practice, so too is the composition of the nomination committee so that those primarily responsible for finding suitable candidates (from which the board selects) do not all look and think the same. For further information on diversity and inclusion see [here](#).

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<sup>1</sup> [UK Corporate Governance Code 2018](#)

<sup>2</sup> As stated in the latest 2020 Hampton-Alexander Review (published in February 2021). This Review is an independent, business-led initiative supported by the UK Government, building on the work of the Davies Review to increase the number of women on the FTSE 350 boards

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## KPMG and Ridgeway Partners Study

In 2020 KPMG and Ridgeway Partners<sup>3</sup> looked at the composition of every nomination committee within the FTSE100 (as of October 2019) to get a sense of their levels of diversity across gender, age and nationality. Some key findings of the study include:

- 60% of companies used a nomination committee rather than involving the full board and senior executives;
- nomination committee size varied from three members to eleven members;
- 37% of nomination committee members were female (24 companies had female representation of 50% or more on the committee but 9 companies had no female representation on the committee). Overall, nomination committees had higher levels of gender diversity than boards in the same group and the extent of female representation varied greatly by sector;
- 22 of the 100 companies had no non-UK nationals on the committee. The prevalent nationalities on the committees were North American, French, Irish, German, Dutch Australian, Spanish and Canadian; very few were from Asia, Africa and South America; and
- only 7 companies had an average age of nomination committee members of 55 or less.

The study suggests that to achieve a best in class nomination committee (and therefore improve the quality of the candidates shortlisted for the board to select from) a company should ensure that the committee is regularly refreshed with board members who have different perspectives on the strength of the board. The study concludes that a truly diverse nomination committee will be able to judge effectively, fit with the company and the role in question, as well as grasp how technology and society are changing and therefore what the leaders and boards of the future look like.

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## Diversity considerations

Diversity of the committee ought to be considered not just by reference to race, gender, culture, LGBT+ or disability but also in terms of people with different global perspectives, institutional knowledge, experiences and skills in the increasingly vital areas such as environmental sustainability, socially-related impacts and risks and, cybersecurity.

Investors and their advisors and representatives are increasingly calling out lack of diversity on boards, with a heightened scrutiny of nomination committees. Beginning with shareholder meetings held after 1 January 2022, for boards with more than six members, Glass Lewis & Co, the proxy advisory services provider, will generally

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3 [KPMG Ridgeway Partners Nomination Committee Study](#)

recommend voting against the nominating committee chair of a board with less than two women directors. From 1 February 2021, ISS Inc, the world’s largest proxy advisory firm, will recommend votes “against” the chair of the nominating committee, or other directors, at any meeting of a company with no women on its board (except in cases where there was at least one woman on the board at the previous annual meeting and the board commits to return to a gender-diverse status by the next annual meeting).

As noted by the Government-supported and business-led initiative, *Balance for Better Business*<sup>4</sup> in its 2020 report, in order to drive and accelerate progress, key influencers such as investors, regulators and responsible organisations should engage directly with, among others, nomination committee chairs and, that nomination criteria and processes should be reviewed “..to broaden search for potential directors and to identify and address systemic deficits in selection procedures”.

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## Conclusion

Companies reviewing their existing nomination committee or those considering the establishment of such a committee will benefit from a review of the (relatively short) Study and consideration of the suggestions made. Companies should also consider the focus placed by investors and regulators on the decisions of this increasingly key committee. According to the 2020 Hampton-Alexander Review on FTSE Women Leaders and improving gender balance:

*“Getting women into senior positions can be vital for a company’s success, and we want to see more of it as part of the UK’s COVID-19 recovery. It also makes good business sense, with companies in the top 25% for gender diversity on their executive teams, also 25% more likely to have above-average profitability than companies in the lowest 25%.”*

The impact of the current pandemic, and the constantly changing challenges arising, reinforces the need for a company to have sufficient diversity on its board to improve decision-making and thereby adopt more effective responses to meet those challenges and preserve the viability of the business of the company for the benefit of all stakeholders.

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## Further Information

Publications that address some of the areas referred to in this factsheet are available on the Institute of Directors [website](#) and include the Directors’ Handbook.

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3 Balance for Better Business is an independent business-led Review Group established by the Government to improve gender balance in senior leadership in Ireland.

*Further information is available from*



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