

BREAKING BARRIERS: THE PATH TO CREATING INCLUSIVE BOARDS PANEL DISCUSSION

Diverse representation on Boards is both the right thing to do and good for business. But what does Board diversity mean in reality today and how can founders/CEOs create more inclusive Boards?

Diverse representation on Boards has, until relatively recently, been something of a misnomer. In truth, it has been largely non-existent. Whether from a gender, ethnicity or social mobility/age perspective, Board appointments simply haven't been acknowledging the need for (and benefit of) diversity.

In its role helping investor-backed companies build out their Boards for different stages of growth, Erevena has been monitoring this lack of inclusivity over the past few years. Encouragingly, its most recent survey found that the percentage of female Chairs grew from 2% of its survey population in 2019 to 8% this year. Yet 31% of Boards still have no women and 59% of Boards have no ethnic diversity. Having said that, early-stage Boards are bucking the trend, with business that are seed or pre-seed showing much greater improvement than those at other stages, particularly with regards to ethnicity. To explore this topic further, Erevena invited three current Board members to offer practical insights into why it is important to create more inclusive Boards and how to go about it.

EXPERT PANEILLISTS:



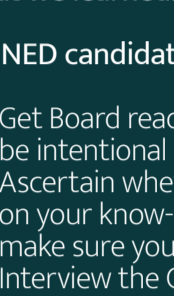
ELIZABETH CHAMBERS
SERVES ON THE BOARDS OF WISE PLC, TSB BANK PLC, VANQUIS BANKING GROUP & EVELYN PARTNERS

Elizabeth (Libby) Chambers is a Board director and advisor, with experience as a senior financial services executive, strategist, and marketing leader. She is currently an operating partner with Searchlight Capital Partners and its portfolio companies. Libby also serves on the Boards of several fintech and financial services companies, including Wise plc, TSB Bank plc, Evelyn Partners, Vanquis Banking Group and other ventures and a non-profit academic health organisation. She has previously served on/chaired the Boards of Barclays Bank's joint ventures with Argos, Thomas Cook and Littlewoods.



FAISAL GALARIA
NED, STARLING BANK

Faisal Galaria is a CEO with over 25 years' experience of leading and growing teams in some of the world's most disruptive consumer technology companies, including Spotify, Kayak, Skype and Blippar. He is passionate about building great products, driven teams and strong relationships. Faisal has created significant value by "getting stuff done", leading transformational change, building game changing partnerships and rapid international expansion. He sits on the Board of Starling Bank and Imperial College Business School.



SARAH DRINKWATER
NED, MIND FOUNDRY & CHAIR, NEW PUBLIC

Sarah Drinkwater is the sole general partner (GP) of pre-seed/seed fund Common Magic and has been building communities in tech for more than 15 years. From advising protocols Filecoin and Gitcoin on their ecosystem building to growing Campus, Google's East London space for start-ups, and growing an angel investing portfolio of 36 start-ups, she has built platforms and networks that can help founders build powerful communities right from the start. She sits on the Board of Mind Foundry.

YOUR EREVENA HOST:



MARIA JOSIFE
PARTNER, EREVENA

What we learned:

For NED candidates:

- Get Board ready. Take opportunities to understand how Boards work, observe, advise and attend and be intentional around this preparation.
- Ascertain whether diversity is purely a tick-box exercise or whether you can make a contribution based on your know-how and expertise, rather than on your gender or ethnicity. Do your homework and make sure you are right for the board you are joining and they are right for you.
- Interview the CEO and executive team to understand whether they truly value the Board or whether it's seen as a necessary evil. Reference behaviours with past Executives or Board Members.
- Preparing for your first Board role is essential so that you can make an immediate impact and don't feel that you're only there as a token representative of a particular group. Contribute across the topics and not just in your "field of expertise".

For Boards looking to diversify:

- Create the space. Trying to hire for diversity plus all the skills you need in one independent seat, puts too much pressure on the hire. Make more room for different independent perspectives around the Board table. If diversity is important – make the space for it.
- Be intentional about diversity hiring – don't make it an add on to a search or hiring project and expect the outcome to land in the right place.
- Board appointments don't have to be made solely from people who have been CEOs or CFOs – other functional experience can be additive and also offer more opportunity to recruit diverse candidates.
- Support your diverse Executives in becoming Board ready and recognise the impact on diversity throughout your business that having diverse Executives and Board members can have.

IN YOUR EXPERIENCE, HAS IMPROVING DIVERSITY WHEN MAKING BOARD APPOINTMENTS BECOME LESS OF A TICK-BOX EXERCISE?

Libby: There is definitely recognition that you need to represent your employee base and have an understanding of your consumer or business customer. There are also areas that have become more important for Boards, for example requiring people who understand branding or specific areas of technology, or people who understand that if you're in healthcare two thirds of the workforce is female. So, the commercial rationale has become clearer as people think through their stakeholders. And the quality of the debate is stronger with new perspectives added in. I think this is fully accepted at this point.

Sarah: There has been increased sophistication in terms of start-up/scale-up Boards. As a personal example, I brought the age of the Board down in one company quite significantly and it was flattering to be the youngest person in the room! There is also something interesting around the shape of Boards today and each Board wants you to play a slightly different role depending on its constellation and focus – you may have been appointed to play a particular role depending on the personalities in the room and the needs of the business at that point in time.

Libby: To add to Sarah's point, you may feel you've been hired as the NED who knows about a specific topic and that you have a point of view every time the topic is raised, but it's better to realise that you're there for your wider commercial expertise and broad shoulders, not just the depth of your knowledge on this one aspect.

WHAT ARE YOUR THOUGHTS ON PRIVATE COMPANIES OFTEN HAVING FEWER INDEPENDENT SEATS ON THE BOARD AND A RESISTANCE TO BRINGING ON LOTS OF NEDS?

Faisal: When I look at the route to being a non executive, typically people have been a CEO, a CFO or sometimes a CTO. That in itself is exclusionary because if you look at people in these roles the vast majority are male. There are other executive roles, such as legal, HR, marketing, etc. that could really add value to a Board. If the Board is to be about more than simply ratifying decisions, it needs to think about widening the representation beyond CFOs, CTOs and CEOs because companies are about more than just these roles.

Libby: I recently had to explain to an audience of around 3,000 employees what the Board does. I realised that 'governance' and 'oversight' didn't make much sense to 30-year-olds, so I framed it in terms of the things that the Board spends time on, which is strategy, talent, performance, delivering for shareholders and stakeholders. Governance and oversight became 'winning and retaining the right to serve customers', which means operating and control, safeguarding people's money, being trustworthy, etc. – in other words, if we don't do all this, we won't get to serve customers any more or even have a business to run. By breaking down the Board's function into topics like this, it is easier to see that you don't have to appoint only a CEO or CFO because there are lots of other subject matter experts who can add value versus simply someone who knows how to run a P&L.

Sarah: Ultimately the accountability aspect of Boards is procedural – it's critically important but it's very much just part of what Boards do. But there are so many other aspects that go into running a company well and all of the work I've enjoyed most has been more active, such as looking at the macro and micro conditions and asking how we're going to thrive this year. These are living and breathing conversations where there is no right answer but we're making decisions as a group based on the best information we have to hand so that we can guide the CEO. When you're going through the process of matching candidates and Boards, it's always helpful to have that open dialogue about what the current challenges are and how the Board's make-up can help address them.

HOW CAN CANDIDATES FROM A MORE DIVERSE EXECUTIVE BASE GET BOARD-READY?

Faisal: It's interesting that in the past few years the UK political scene has become more diverse, for example with Rishi Sunak as Prime Minister, Humza Yousaf as First Minister in Scotland and Sadiq Khan as Mayor of London. I am intrigued by how we have suddenly got a cadre of ethnically diverse political leaders. This can't just have happened by itself so there must have been some triggers or impulse to make it happen. There have been proactive decisions 5 or 10 years ago to promote ethnic diversity – active choices made by the political parties that gave opportunities to people who may have been younger and perhaps didn't have the necessary experience at the time, so might have been overlooked. This has been super successful in politics and I believe the same is possible in the commercial world where we can learn lessons and apply them in how we build our Boards. Currently, however, without a similar mandate to change in the commercial world, there is less scrutiny on private company Boards and their inclusivity.

Libby: I think this can begin even earlier with advantages in education, and advantages in access to professions, such as medicine, law or accountancy, or IT. All those doors have been opening to people who might otherwise be overlooked and this creates a pipeline of people sitting on the bench ready to step up. After a time, it becomes natural to look at these younger candidates when building out your team and some of this comes from mandating diversity.

Sarah: This is a complicated area for me because I have mixed feelings about mandates and quotas and the fact that data has proven they do well. I am more passionate about stories and what these different leaders tell us. And it's important to have different versions of political leadership, some of whom you'll feel more aligned to than others. How great must it be for kids at school to look up and be able to say that a political leader or business leader looks like them. I believe there's an incredible knock-on effect from this.

HOW IS THE TECH SECTOR'S APPROACH CHANGING?

Faisal: Yes, I think it does. I used to be on the Board of a retailer. The shop floor representation was diverse and reflected the diversity of the UK population. However, none of the independent NEDs or C-level officers was ethnically diverse. Then, when the first ethnically diverse person joined the Board, it became OK for senior managers to aspire to executive management and think beyond purely a shop manager position.

Sarah: If you are the only diverse person on the Board, you naturally look at the leadership and think that there is more work to be done. It can be frustrating if you're the only diverse person on the leadership team because it falls to you to push for greater diversity. I'd love for that not to be me sometimes and for someone else to say "this is really important!"

HAVE ANY OF THE COMPANIES YOU WORK WITH STARTED TO EQUIP PEOPLE FOR A MORE DIVERSE FUTURE?

Faisal: It is hard, especially for small companies. But my experience with Starling Bank shows that diversity comes from the top. Its prominent female CEO advocates heavily for gender representation. It is part and parcel of the bank's culture to identify and promote diverse talent and give early experience. And because it comes from the top, it is authentic.

Libby: There's a lot of academic research saying that the biggest point of divergence in women and men and their ability to rise up the ladder happens at manager and senior manager level. So, one of the most important things a Board director can do is to look down into the organisation at that manager/senior manager cohort and make sure the processes are really working for bringing diverse talent up the ladder. A director can ask to see the data and talk about what it reveals in Board meetings. These conversations make a difference, and also serve to support the leaders the next time they have to navigate tricky promotion or pay decisions.

Sarah: It varies so much. Some of the investors I work with are incredible Board members. Others might have a lot of Board seats so perhaps have less time to prepare for Board meetings or perhaps have never worked as an operator so have a very different take on their role.

Libby: From a practical perspective, a lot of people in the private equity and venture capital world have never been executives day-to-day. So, in their minds eye, they have an idea that all Board members are just like them, with a largely 'finance/ROI' view of the world. But we're also seeing more sophisticated and seasoned firms who recognise that they need people on the Board who are not like them but rather are experienced at running things or know how to build a team, or bring specific industry or regulatory experience. I think this is becoming more the norm, but slowly.

Faisal: US investors behave quite differently to European investment companies. If you're looking for outsized returns as opposed to 10x return, you're going to be looking for companies and investments with a radically different way of doing things and solving their customer's problems. And if you're seeking out this different way of doing things, cognitive and demographic diversity can be a key enabler. So we're definitely seeing investors looking to bring plurality of thought and experience to the Board but more so in the US than in Europe at the moment.

WHAT ONE PIECE OF ADVICE WOULD YOU GIVE TO PRIVATE COMPANIES ABOUT THE WAY THEY APPROACH BOARD DIVERSITY?

Libby: Especially for young companies who must focus on capital raising, don't just see your Board as some kind of redolox or fundraising arm. Think about the Board in the round and get it up and running before you are in a position where you are fighting for survival, running out of money and making rather panic appointments. A good board can help a founder team think about their runway from an operational perspective too, not just financial.

Sarah: Think about the shape of the group on the Board. How does it work together? This is especially important because you are rarely hiring the full Board at one time.

Faisal: While thinking about the process of creating diversity in Board is nice, that's not the role of the business. Rather it is to create value, so you need to ask how a diverse Board will improve your commercial outcomes.

Q&A SESSION WITH THE AUDIENCE

WHAT ADVICE DO YOU HAVE FOR A FIRST TIME NED WHO MIGHT FEEL THEY'RE ONLY THERE AS PART OF A DIVERSITY BOX-TICKING EXERCISE?

Libby: First, if you've been put on a Board to be representative of a specific area of expertise or functional knowledge, make sure that when you arrive in the Board setting you do BOTH breadth and depth. By which I mean, for example, if there's a conversation about risk and that's your area of expertise, don't just pipe up when your subject is raised. Rather, make sure you are contributing across the Board, so that you don't feel like you're the 'box tick'. Second, be prepared. Spend time learning the business and understanding the sector so that you can be the person in the room who surprised at the number of times someone in the board turns up without preparing, or asks questions that betray lack of understanding of the company's business model or customers. Questioning is great, but be sure that it comes across to the management team as constructive, building on information they have shared. Third, focus in the early days on contributing, not moving directly to challenging. Many NEDs think that when they turn up their job is to challenge, which is, of course, really important but probably not in the first instance because you need time to build the knowledge and credibility to challenge effectively, which is the point.

Sarah: The NED role is incredibly proactive – it's what you've been tasked with doing. It's about understanding the dynamics of the group as well as the individuals. I would never start a new NED role without going on some kind of listening tour to understand not just the business but the various stakeholders you'll be working with. You'll hear from the Chair and the CEO and about the needs of the business and the challenges, but you might hear different things from the rest of the group and that will help you understand your own role and how you contribute beyond that which you've been hired for. Also, if the hiring process has been thorough enough, you hopefully should go in feeling you can contribute immediately and the first couple of Board meetings will be about getting into a rhythm and cadence.

Faisal: It is important for someone embarking on their NED career to understand whether there is a desire on the part of the CEO and the executive team to really engage with the Board, or whether they see it as a necessary evil. NEDs are typically hired from outside the business because of their vertical or industry expertise and it's important to look for a company that engages with the Board and values this expertise. Your engagement may extend beyond six Board meetings a year to embrace meeting people and mentoring the exec team so that you add further value. If your contribution as a NED isn't valued, you're more likely to feel that you're making up the numbers.

Faisal: As a candidate, you need to interview the CEO and executive team as much as they need to interview you. You must also remember that being a company director comes with personal financial liability, so you must be clear about what you will be doing, how you can contribute and how success will be measured.

Sarah: It's an ongoing conversation and you need to look out for how much thought they have put into the process of hiring a new Board member. If you're offered the role after just two conversations, is that really enough? I'd want to get to know the investors and certain members of the exec team better first. One thing I've also learned is that I have a preference for fast and transparent communication and was wanted to be in the position to challenge if the moment calls for it.

Libby: There are all kinds of ways to do your homework. For example, it's important to spend time reading about the company's history and how they've made difficult decisions during that time. You can divine a lot from the outside-in, learning about the key leaders of a company. How do they make decisions. Do they seem like they are on the front-foot or back? In the end, you are interviewing them, as well.