



**NEXT GENERATION AUDIT
COMMITTEE CHAIRS:
MEETING THE CHALLENGE OF
INCREASED COMPLEXITY**

INTRODUCTION

In today's volatile business environment, executive leadership teams and their Boards are navigating an unprecedented array of challenges. Rapid technological advancements, market disruptions, and uneven growth patterns have created a landscape where the threats are new and multifaceted. Against this backdrop, Savannah Group's Next Generation Leadership Institute (NGLI) is investigating how non-executive Board roles, are evolving to meet these demands. Our research involves a series of Next Generation Board lunches with senior executives and current non-executive directors to debate the increasing challenges facing leaders at Board level and the skills and experience required to address those issues in the future.





THE EVOLVING BUSINESS LANDSCAPE

The modern business environment, often described by the acronym VUCA (volatile, uncertain, complex, and ambiguous), has profound implications for Boards. The workload and complexity of issues they face have escalated significantly. Artificial Intelligence (AI) is transforming business operations across industries, while the Environmental, Social, and Governance (ESG) agenda is reshaping Board priorities. The rise of stakeholder capitalism means that Boards are now accountable not just to shareholders, but to a broader range of stakeholders including local communities and environmental agencies. As a result, issues such as corporate purpose, culture, and employee wellbeing have surged in importance.

IMPACT ON THE ROLE OF AUDIT COMMITTEE CHAIR

The role of the Audit Committee Chair has been particularly affected by these changes. Prior to the 2008 economic crisis, this position was relatively straightforward. However, the introduction of new minimum standards by the Financial Reporting Council (FRC) for premium listed companies on the London Stock Exchange, including the FTSE 350, has significantly increased the responsibilities of Audit Committee Chairs. These standards, part of the UK's Corporate Governance Code, encompass rigorous requirements for the tendering of external auditors, oversight of their work, and detailed reporting in annual reports.



SKILLS FOR THE FUTURE

The Audit Committee Chair of the future must possess a diverse and robust skillset. The role's risk profile has expanded, necessitating stronger relationship management skills with both the executive Board and external auditors. This has substantially increased the time demands of the position. Savannah Group's study of FTSE 350 companies reveals a trend towards appointing highly experienced former prominent company CFOs who have recently retired from executive life. In this way the incoming Audit Chair will have strong stakeholder management skills and understand current issues affecting listed companies.

The technical and compliance aspects of the role require careful selection. A CFO background can be advantageous due to their comprehensive understanding of financial management and business transformation. However, the unique needs of each company and its Board composition will dictate the specific focus for the incoming Audit Committee Chair. If a company Chair has a strong financial background, it may allow for greater flexibility in the financial expertise required of the new Audit Chair.

Regardless of their specific background, future Audit Committee Chairs will need to be versatile, combining financial acumen with leadership and communication skills. They must be capable of setting the tone for the finance function and explaining complex issues in accessible terms to the CEO and other stakeholders. They should be decisive, yet low ego, and adept at building relationships.

GREATER COMPLEXITY MEANS GREATER INFLUENCE

The increasing demands and scrutiny associated with the role of Audit Committee Chair underscore its growing importance within an organisation. The extensive external oversight, including compliance with intricate ESG regulations and heightened investor scrutiny, makes the role more challenging but also more critical. The time commitment has also increased, with some organisations requiring up to 40 days per year, almost double the typical expectation for a non-executive director.

Savannah Group's research indicates that only 10% of Audit Committee Chairs in FTSE 350 companies are current Executive CFOs, highlighting the growing pressures of the role. However, rather than deterring candidates, these increased responsibilities underscore the importance and influence of the position. To attract top talent, companies should provide clear and consistent information about the role's requirements and streamline the interview process. Transparency regarding the strategic direction of the business and the candidate's fit for the role is crucial.

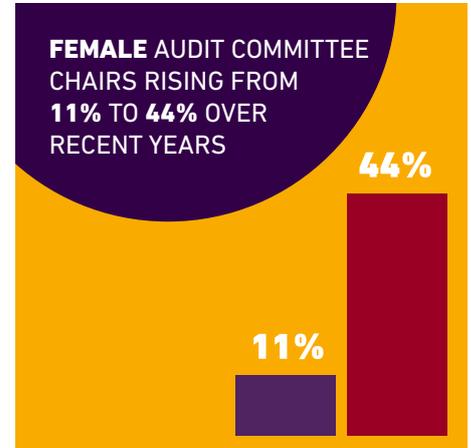


FUTURE PROSPECTS

Despite the challenges, there remains a robust pool of candidates for Audit Committee Chair positions. The role offers a fulfilling route for building a plural career and adding significant value, especially for those passionate about the company's mission. Savannah Group's findings show an encouraging trend towards diversity, with the proportion of female Audit Committee Chairs rising from 11% to 44% over recent years.

Moreover, the role can serve as a stepping stone to more senior Board positions, with many Audit Committee Chairs moving on to become Chairs or Senior Independent Directors (SIDs). The average tenure of an Audit Committee member is almost eight years, and the role's complexity underscores its potential as a pathway to success.

In conclusion, the next generation of Audit Committee Chairs will need to navigate a landscape marked by increased complexity and scrutiny. However, for those equipped with the right skills, experience and personal attributes, the role offers significant opportunities for portfolio career development.



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