

The importance of a board skills matrix.

There is a mounting body of evidence¹ that suggests diverse boards and senior executive teams deliver better outcomes for shareholders and stakeholders, as well as greater innovation and improved bottom lines. Being able to clearly set out the diverse array of skills and experiences that a board has or is looking to achieve is crucial to satisfying investors and other stakeholders that the board and senior executives are well-placed to deliver on the organisation's strategy now and in the future.

A board skills matrix enables the board to form a view as to its effectiveness and to inform board renewal and succession planning. Larger listed companies have been using a board skills matrix of some description for several years to assess the current skills, background and experience of those on the board and identify any gaps that may exist.

The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations,² functioning on an if not, why not basis, recommends that companies should have and disclose a board skills matrix that sets out the mix of skills that the board currently has or is looking to achieve in its membership.³

Disclosing the board skills matrix has the incentive of increasing the accountability of the board in ensuring it has the skills to add value and meet its obligations. Disclosure requires careful consideration to ensure that, on the one hand, the disclosures are meaningful for investors and, on the other hand, do not include commercially sensitive information.

Putting more rigorous and transparent processes in place to assess board composition is good practice not only for listed companies but also for unlisted organisations with boards, including both for-profit and not-for-profit organisations.

To assist boards and senior executive teams that are looking to introduce such processes, the AICD's Board Advance™ offers a comprehensive assessment process that utilises proprietary diagnostic tools and meaningful dialogue to accurately chart a board's performance against modern benchmarks of best-practice governance. The output generated by this analysis helps inform the approach towards achieving structured, strategic improvements for the board.

Having been a trusted third-party to leading Australian boards for decades, the AICD is the perfect independent partner to assist boards in conducting a structured, anonymous, and confidential assessment.

However, assessment is not simply a 'set and forget' process. To meet contemporary governance requirements - and stay ahead of the curve - board performance must be assessed meaningfully and at regular intervals.

A clear and systematic approach, combined with a focus on the right key performance drivers, is fundamental to keeping your board sharp on governance matters: understanding strengths and weaknesses, identifying blind spots and providing insight into performance improvement opportunities.

1. <https://corpgov.law.harvard.edu/2020/10/11/board-diversity-no-longer-optional/> (accessed 18 December 2022)

2. ASX Corporate Governance Council, 2019, Corporate Governance Principles and Recommendations, 4th Edition, February, <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf>, (accessed 7 August 2019).

3. Ibid, Recommendation 2.2.

For example, the *Board Advance* Guided Self-Assessment tool provides a baseline for benchmarking performance. It is a structured, confidential view of governance arrangements and individual director performance or skill contributions using online, survey-based tools from the AICD Board Diagnostic Suite™. These include the Governance Analysis Tool™, Director Peer-to-Peer Review™ and Board Review™.

For boards that have already identified their desired skills mix, the AICD's Skills and Capabilities Review™ is an anonymous and confidential online survey that prompts board members to reflect on their skills and capabilities and those of their colleagues in the context of their sector, industry and operating environment.

Guidance for preparing a board skills matrix

THINGS TO DO	THINGS NOT TO DO	THINGS TO CONSIDER
Identify desired skills, experience and backgrounds of the board as a whole under relevant headings, and in the form of a matrix, map these against the skills and experience of each individual board member.	Include basic competencies that are expected of all directors (for example knowledge of director duties).	Whether changes are likely to occur in the short to medium term (for example changes to strategy, changes in the external environment) that impact on the desired skills/ experience/backgrounds mix of the board.
Tie desired board composition to the organisation's strategy and the key issues facing the organisation.	Include vague or overly general sets of skills or experience. ³	The extent to which the board's composition takes account of different scenarios, which might call for a different mix of skills, experience and/or backgrounds.
Differentiate between the skills and experience expected for the board and for the chair.		How defensible the board's existing or planned future composition is, for example, if there are unsolicited approaches for board appointments.
Separately prepare a skills/ experience/background matrix for each board committee, where they exist.		Whether is it necessary to have specialist skills, experience or backgrounds on the board, or whether it might be better to draw upon these from within management or from external advisors (this will depend, in large part, on the size of the company and the board).
Include term expiry dates (where relevant) for each board member in the matrix to assist with succession planning.		When it might be appropriate to engage an external expert to undertake a review of board and board committee compositional attributes and needs.
Use a rating scale when assessing the extent to which desired skills, experience and backgrounds exist on the board rather than a simple yes or no response.		The extent which any gaps identified in the matrix could be addressed through professional development of current board members. Whether any self-assessment process by board members adopted ensures a consistent approach and outcome. The company secretary or company representative may wish to audit this component to ensure accuracy and fairness across all directors.
Have the board, or a designated committee (for example, the nominations committee) critically examine the matrix at appropriate intervals (for example, annually).		What is disclosed to external stakeholders, such as a statement of existing skills, experience and backgrounds that reside on the board. The board could consider developing an internal skills matrix that is easy to adapt for regular use and an external matrix that can be communicated to stakeholders.

4. <https://www.aicd.com.au/board-of-directors/performance/skills-matrix/guidance-preparing-board-skills-matrix.html>. While the Australian Institute of Company Directors would recommend against the inclusion of vague or overly general sets of skills or experience in the matrix itself, it should be acknowledged that a director who has broad, generalist skills and/or expertise is likely to be of significant value to a board, particularly where the board size is small.



Board Advance: further education and resources for boards and senior executive teams

The AICD's *Board Advance* specialises in equipping organisations with the understanding, insight and guidance required for boards to unlock their performance. When boards invest in their performance with a program of structured, strategic improvement through *Board Advance*, they gain an independent perspective and targeted insights into unlocking their board's performance potential.

You can see the full suite of *Board Advance* offerings at aicd.com.au/boardadvance - including tools and courses frequently used by boards to assess and improve their risk and governance performance.

Utilising the AICD's proprietary diagnostic tools, an experienced member of the *Board Advance* Team will guide you through a fully consultative process, working with specialist AICD facilitators and subject matter experts.

Improving board performance begins with a strictly confidential conversation between you and an experienced member of the Board Advance Team.

Call: 1300 739 119

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About us

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