

Six steps towards a board skills matrix

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Jane Stuchberry explains how to develop a board skills matrix that will withstand public scrutiny.

Investors and proxy advisers are showing more interest in board composition and ensuring the companies they invest in have the breadth and depth of board skills to enable adequate oversight of the business now and in the future.

Boards need to retain control of this process. There have been recent examples of companies receiving unsolicited approaches by credible and apparently well-qualified candidates self-nominating for election to the board. For example, we have seen someone with expertise in climate change presenting as a candidate to assist a resource company position itself for global regulation and alternative energy sources.

So how can companies better prepare for this type of scenario? What should they do to guard against unsolicited approaches and convince investors and proxy advisers they have the right mix of skills, experience and diversity for the future, given the company's geographies, customers, investors and strategy?

First, they need to develop a process for identifying the skills they need now and in the future. This process should be robust, defensible, logically determined and tied to strategy.

Investors need to be assured the board has thoroughly and systematically given thought to the future skill and diversity needs of their board and have not overlooked any important areas. Here are some crucial steps to developing a robust board skills matrix that has all of the foreseeable bases covered:

1. Strategy and vision

The first step is to review the company's strategic plan. Write down each strategic priority or objective and think about the knowledge, skills, competencies and alliances or relationships required to achieve these. Don't worry about whether these skills need to be represented at board or executive management level. That will be decided later. Also think about your vision for the future – what kind of board with what kind of directors will be needed to steer the company in the direction of the vision?

2. Current issues

Consider the key issues and challenges facing the business. Write down the top six and then review what skills or experience will be needed to most effectively deal with each of these. Examples of issues could include relocation, downsizing, making an acquisition or getting a new product or service to market.

3. Future scenarios

Contemplate your company's next big strategic "leap" beyond the scope of the present strategic plan. Think about what the most optimistic future scenario could look like. It may include diversification, acquisition and growth. Weigh up what skills, knowledge and competencies will be needed for its success and note these requirements. Also take into account the most negative possible outlook. It may include divestment, contraction, a merger, rationalisation or restructuring. Consider the skills, knowledge and competencies these will require.

4. Prioritise requirements

Your list of skills, experience, knowledge and capabilities developed from steps 1 to 3 is likely to be quite long, so this step involves identifying the most important requirements for the board and organisation. Everything on your list may seem important, so to work out the top priorities, rate each item according to its level of risk and opportunity and strategic importance using a 3-point scale (high = 3, medium = 2, low = 1, and not applicable = 0). Guiding questions that may help you assess priority skill areas include:

- Is this skill set "mission critical" for our business?
- Does this skill help us to mitigate a key risk?
- Will this skill help us move in the direction of our vision?
- Will this skill help us deliver our key strategic objectives?
- Is this skill in short supply, highly specialised or unique (as opposed to being possessed by many on the board or in the organisation)?
- Is this a skill we will need in the short, medium or longer term?

5. Decide on skills needed

It is then important to determine whether each skill or experience needs to be represented on the board, within management, consultancy or some combination of the above. You may decide to conduct this exercise with members of your nominations committee or even as a whole-of-board exercise. This is a useful way to build engagement in the process of board renewal.

6. Current skills vs priorities

Using the 3-point scale above, consider whether the current board possesses the skills identified as high priority. Areas where there are gaps are identified as recruitment opportunities.

7. Review individual directors

You are now in a position to construct the board skills matrix document, using the data gathered from steps 1

to 6. The skill and experience requirements for the board are included in the first column, with remaining columns containing the name of each director. Your matrix can also include the names of any candidates you are considering for board roles.

The advantage of this process is that it is directly tied to the company's strategy and future strategic scenarios. It is developed using a methodical and logical approach. The matrix could be confidently used by a company to guide its future board selection decision-making and succession planning.

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