ASX listed companies with 30 June year ends have made their first board skills matrix disclosures. Here we review the initial disclosures and how they support board performance and effectiveness.

The third edition of the ASX Corporate Governance Principles and Recommendations introduces a new requirement under Recommendation 2.2 for a listed company board to assess the mix of skills and diversity it “currently has, or is looking to achieve in its membership”. This assessment then forms the basis of the company’s board skills matrix disclosed within the Corporate Governance Statement. With 30 June disclosures still fresh in our minds and 31 December fast approaching, now is the time for companies to assess these disclosures and consider opportunities for improvement.

EY has undertaken a review of 2015 Corporate Governance Statements released between 1 July 2015 and 30 September 2015 by companies within the ASX 100 index. Here we provide an overview of our findings in relation to disclosure approach, extent of disclosure, types of skills and capabilities sought and our views on potential improvements for future disclosures.

Board composition and performance are hot topics for investors and external stakeholders. The board skills matrix disclosures help address stakeholder interest in board skills and capability. We are seeing a shift in expectations, with investors and proxy advisors now often requiring traditional skills, such as finance and operations, along with newer skill sets such as digital and innovation when considering director nomination and election resolutions.
How are Boards approaching the new disclosures?

A key objective of the new board skills matrix disclosure is to assist in the identification of skill and capability gaps. There is no prescribed format for the skills matrix or associated disclosures. Based on our review of initial disclosures, companies have adopted different approaches, both in relation to method and level of disclosure.

Within the ASX 100, 57 entities released their results during our review period. We found 88% of these disclosures focused on current skills and diversity.

Of the companies releasing the relevant information, just under 10% of disclosures made were aspirational and provided no commentary regarding the skills or diversity of the current Board. However, we acknowledge gender diversity statistics disclosed under Recommendation 1.5 did provide some gender insights into current board representation.

Current state or aspirational disclosure (% of disclosures reviewed)

For those matrices dealing with current skills, half provided a numerical representation of the skills and capabilities disclosed. Nearly all of these addressed the number of individuals on the full Board holding each skill, with no consideration of whether each committee had individuals with the requisite skills.

Numerical representation of skills held (% of current disclosures)

In terms of format, we found nearly three quarters of the companies reviewed represented tabular, pictorial or both information formats. Ease of disclosing the prevalence of each skill on the board is a likely reason for this preference.

Format of skills matrix disclosure (% of disclosures reviewed)

What are the prevalent Board skills?

Across the disclosures reviewed, there were a number of commonalities. The following graph shows the categories of skills and capabilities either present or considered important to a majority of boards:

- Financial acumen: 98%
- Industry expertise: 89%
- Executive leadership: 85%
- Governance: 76%
- International: 73%
- Strategy and communication: 67%
- Risk management: 65%
- People and remuneration: 58%
- Marketing and customer: 56%
- Finance and accounting: 55%
- Capital management: 51%
- Digital and technology: 51%

In recent years, as the role of the Board has changed, we have seen the emergence of digital, technology, people and remuneration as critical capabilities, to complement the “traditional” requirements of finance, governance and industry experience.

We expect to see continued demand for directors with digital skills, along with innovation and entrepreneurship. These categories are already making their way into several matrices, as companies look to ensure Boards keep pace with the rapidly changing external environment.

The disclosures reveal some industry variations. We found stronger emphasis on health, safety, environment, sustainability, policy and stakeholder management within Metals and Mining, Construction, Chemicals and Industrials companies. These skills are critical to operational and strategic success in these industries.

Given the focus on productivity in annual reporting, this capability was a noticeable absence from disclosures made to date.
How is the Board skills matrix being used?

In addition to achieving the objectives of Recommendation 2.2, when used effectively the matrix is an essential tool for companies to:

- Determine optimal Board structure and composition;
- Address Board performance and effectiveness;
- Educate the collective Board and individual directors based on identified skill gaps.

The ability to undertake these activities relies on having first completed a comprehensive assessment of the types of skills and capabilities required, based on each company’s needs at a particular point in time. There is also an expectation the matrix will be reviewed regularly to ensure it reflects contemporary business requirements.

Board structure and composition

Where a comprehensive skill review has been conducted, Boards can more thoroughly assess whether the current board structure meets the needs of the company and its shareholders. This includes considering Board size, along with the types of committees required.

Assessing the current size of the Board and Committees can help determine the optimal number of directors with reference to expected workload and capacity. Where an increase in Board size is identified, the search process for new members will be informed by the key skill and capability gaps highlighted by the matrix. The types of Committees required, as well as their role and resultant skill needs, can be built upon the broader assessment of skills and capabilities across the Board.

Companies utilising the matrix most effectively are also using it as a basis upon which to consider renewal and rotation policies. With some proxy advisors making their independence assessments based on tenure (for example, carefully considering re-election resolutions for directors who have held their position for three full terms), it is worth considering if tenure has become an implicit dimension of diversity. We note several Boards recognised a need to balance company experience with the need for fresh perspectives.

Board performance and effectiveness

We expect the skills disclosure to be used by investors in assessing board performance and effectiveness. Skills matrices assist investors to understand whether boards have the ability to deal with day-to-day and strategic issues facing the business.

Certain proxy advisors are already conducting their own research to inform their director election recommendations. The research covers skills matrix disclosures along with director biographies, characteristics and connections. Proactive boards can therefore use the matrix to analyse and address potential issues before they arise.

Boards are also expected to undertake regular performance reviews, as per Recommendation 1.6. While companies continue to disclose the use of Chair and/or peer assessments, we are increasingly seeing external firms without vested interests used to provide independent views. The skills matrix is a valuable input to the Board review process.

Beyond disclosure, leading companies are using development of their matrix to drive board effectiveness through informed structural and cultural change. Deeper assessment of board, committee and individual director performance, with reference to skill and diversity requirements, may also highlight how the Board can improve its ongoing performance through continued capability development.

Board education

Many Boards have a formal director induction and ongoing education policy. Recommendation 2.6 requires a listed company board to provide directors with opportunities to develop and maintain the skills and knowledge they need to perform effectively.

While companies may temporarily address skill gaps through the use of management or external advisors, there is an expectation Boards will endeavour to build director capability in critical areas. Targeted training, development and topical briefings are ways to develop desired skills and capabilities with the aim of achieving better decision-making, decreasing risk and increasing Board and Committee efficiency and effectiveness.

How do we compare internationally?

Australia’s new skills matrix disclosure requirements are leading the way globally, reflecting the public’s growing interest in the role of directors, the nature of board composition and company performance.

We are beginning to see jurisdictions such as the United Kingdom more formally discuss the use of skills matrices in the context of board succession planning. Several more progressive UK companies have also begun including skills matrix disclosures within their annual report in varying detail and form.
What does a good disclosure look like?

Of the disclosures we reviewed, many did not incorporate even a basic assessment of the skills and diversity of the current Board. Committee assessments were even less common. The process itself of developing a skills matrix can provide valuable insights into the skills and capabilities of most importance for each company and where there may be gaps. Within any disclosure, we recommend companies:

- Provide an overview and rationale for required skills;
- Include a brief definition or explanation of each skill contained within the matrix;
- Present a numerical representation of skills currently held by the Board and each Committee;
- Articulate how the skills matrix will be used to inform Board performance assessments, ongoing education and succession planning.

It is important companies balance the use of skills matrices for internal development with external disclosure requirements.

We expect less detailed disclosures regarding how Boards develop and use the matrix internally, with Boards not wanting to risk additional investor scrutiny of their internal procedures and processes. The distinct lack of disclosures around how the skills matrix will be applied in practice suggests however, while companies have begun to address the disclosure requirement itself, there is still some work to be done to ensure the internal commercial and company performance benefits are fully realised.

Diversity viewed through several lenses

Specific diversity disclosures within the skills matrices were fairly limited. Less than a quarter of companies provided a numerical representation of current diversity within their matrix. However, we note gender diversity disclosures are generally made elsewhere in the Corporate Governance Statement.

In a positive step, while gender composition continues to find itself at the forefront of diversity conversations, Boards are taking a broader view of diversity.

We expect attention on diversity of thought, experience and background (including ethnicity) to increase as companies seek to ensure a balanced board which maximises returns while minimising risk.