

Checklist for assessing board composition

Board composition

The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations 3e (2014)*, introduced a number of substantive changes, including a number of governance practices that were previously noted only in the publication's commentary being elevated to recommendations, meaning that they must now be reported against on an if not, why not basis.

One such change, under Recommendation 2.2, is the need to disclose the company's board skills matrix which shows the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

Many of the larger listed companies have been using a board skills matrix of some description for a number of years to assess the current skills, background and experience of those on the board and to identify any gaps that may exist. Until recently, however, most companies have chosen not to disclose this matrix and have instead limited their disclosures to a broad statement of the mix that the board has determined it requires and confirming that the composition currently satisfies this mix. Disclosing the company's board skills matrix will require 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.

Other boards, particularly of smaller listed companies, may not have formal processes in place by which they assess their composition.

However, 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 organisations that are looking to introduce such processes, the AICD has prepared the following pair of Director Tool documents

- Checklist for assessing board composition;
- Guidance for preparing a board skills matrix.

Checklist for assessing board composition

Following are some key questions to assist boards when assessing whether their composition, and their approach to determining composition, is appropriate in their organisation's circumstances. These questions are applicable to both for-profit and not-for-profit organisations.

Board size

Is the board of an appropriate size, such that it:

Discharges its workload effectively?

Has productive discussions?

Is able to plan for orderly succession?

Mix of skills, experience and backgrounds

Does the board comprise an appropriate mix of skills, experience and backgrounds that aids decision-making and enhances board effectiveness, particularly having regard to the organisation's needs?

Is the mix of skills, experience and backgrounds on the board aligned with the overarching strategy of the company?

Do all current board members bring skills and experience that are relevant and useful to the board? While there can be a tendency to focus on having technical or other specific skills on the board, it is important to have a good cross-section and generality of skills present on the board?

Policies and practices

Does the board have appropriate policies and practices to enable orderly board succession?

Is the board, at appropriate intervals, undertaking regular and rigorous assessments of the skills, experience and backgrounds that are desirable on the board, with a view to identifying and addressing potential gaps?

Does the board employ a skills/experience/background matrix as part of its assessment of its composition?

Has the board adequately considered its approach to gender diversity including, where appropriate, formulation of relevant policies?

Other considerations

Has the board properly considered and taken account of changes that are likely to occur in the short to medium term (for example changes to strategy, changes in the external environment) when determining its desired size and mix of skills/experience/backgrounds?

To the extent there are gaps in desired skills and experience that reside on the board, has the board adequately considered whether and how the board might benefit from the professional development of current board members?

Beyond having the right mix of skills, experience and background present on the board, does the composition compliment the culture, engagement and style of the board?

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