

Board composition: Ten questions to ask

KPMG Board Leadership Centre

Boards, investors, regulators, and other stakeholders are increasingly focused on the alignment of board composition with the company's strategy – with diversity and inclusion front-and-centre. Indeed, the increased level of investor engagement on this issue highlights investor frustration over the relatively slow pace of change in boardrooms, and points to the central challenge with board composition: a changing business and risk landscape. Addressing competitive threats and business model disruption, technological innovation and digital changes, climate and ESG risks, cyber risk, and global economic volatility requires a proactive approach to board-building and board diversity – of skills, experience, thinking, gender, and race/ethnicity.

Aligning skills with strategy

Strategy has to be the number one reason for looking at board composition. The critical priority for boards today should be aligning boardroom talent with company strategy, both for the short and long-term. Whether it's addressing a gap around technology or finding people who have international experience, talent needs to be part of the strategy discussion. So, **Question#1** is what is the company's strategy, and **Question#2** is around where the skills gaps in relation to that strategy are.

Diversity and inclusion

Question#3 is about diversity and inclusion. Does the board have the right combination of skills, backgrounds, experiences, and perspectives to probe management's strategic assumptions and help the company navigate an increasingly volatile and fast paced global environment – and do those individuals contribute fully to the board's deliberations?

Diversity is not just about race, gender, sexual orientation and disability, important though these are. It's also about the richness of the board as a whole and the combined contribution of a group of people with different skills and perspectives to offer. People with different experiences, backgrounds and life-styles who together are more able to consider issues in a rounded, holistic way and offer an attention to detail that might not be present on less diverse boards.

The talent pool

Closely linked with diversity is the breadth of the talent pool from which new board members are sought.

Question#4 is about whether sufficient attention has been given to recruiting directors with backgrounds in academia, government, civil society, as well as entrepreneurs and those from family businesses. [KPMG Connect On-Board](#) is one platform for facilitating access to a broader and deeper pool of talent.

Think the unthinkable

Question#5 is about challenging conventional wisdom. Is the 20th century paradigm of filling boards with directors with 'big company' experience still relevant in an age where an understanding of new technology (and perhaps new working norms) and the agility to manage the consequential opportunities and risks are vital to success? Are today's boards lacking youth and IT literacy? Individuals with deep technological expertise can be hired at an executive level, but boards still need to be able to 'ask the right questions' and just as important, 'understand the answers'.

It is desirable to find individuals with specific skills who are also capable of contributing across the range of issues the board faces – not least because the board as a whole is responsible for all decisions, regardless of the expertise or knowledge of an individual director in that area – but have the risks around inexperience been overstated? Is there a role on the board for the bright young Turks of the technology world - if not for the usual three terms of three years, then perhaps for a shorter term?

Consider looking beyond the 'usual suspects' to find people with different experiences and backgrounds – including those who have not served on a listed company board before. With appropriate induction, mentoring and coaching, new directors should be able to adapt reasonably quickly.

Advisory boards

Another approach might be to use of an advisory body – composed of independent individuals with expertise in specific fields - to advise the board on areas such as technology and innovation. Being less onerous in terms of time commitment and legal responsibilities, such roles might be more attractive to younger, less experienced individuals.

Board evaluation

Getting the board composition right is underpinned by robust board evaluation and formal succession planning. Board evaluation is particularly useful in cases where there are unresolved difficulties around the boardroom table or if the company has changed significantly since the core members of the board were appointed. So, **Question#6** is around whether there is a robust board evaluation process that focuses not only on what the board does, but how it does it, and how it can improve?

Succession planning

Similarly, **Question#7** is about formal succession planning. A recent survey of over 2000 board members by KPMG's Audit Committee Institute found that 77 percent of respondents considered formal succession planning to be a critical factor in achieving the 'right board composition', yet less than a third reported having a robust formal succession plan in place. Boards may be taking an increasingly rigorous approach to the succession of the executive leadership team, but it is clear that for many companies more needs to be done in applying a similar approach to their own composition.

Under-performance

Question#8 is about whether underperforming directors are being removed in an efficient and effective manner. There is no set formula for tackling boardroom change, but every board should have a system by which a director can voluntarily step off, or the board could say, respectfully, "We've really valued your service. It's just time for a change because it's good for the company."

Skills not celebrity

Another pitfall to watch out for is appointing (say) reputable personalities or people 'known to the board' without considering whether their capabilities match the requirements or needs of the company. **Question#9** is about countering this risk. Are matrices identifying any missing knowledge, skills and expertise being applied without fear or favour when recruiting new board members?

Leadership

The final question, **Question#10**, concerns leadership. Meaningful, constructive dialogue is essential for an effective board and this depends heavily on the board chair. The characteristics of a good chair are legion, but at the very least consider whether they are creating the conditions for overall board and individual director effectiveness; demonstrating the highest standards of integrity and probity, and setting clear expectations concerning the company's culture, values and behaviours, and the style and tone of board discussions.

The KPMG Board Leadership Centre

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Learn more at www.kpmg.com/uk/blc.

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