

Reinvigorating boards amidst fueling expectations



Someone once quipped that craft and graft must go beyond the stage of draft for one to join the board raft. Indeed, board skill sets have become a high stakes requirement because directors are increasingly expected to diversify their ranks and have a pulse on all facets of a company's affairs amidst escalating stakeholder expectations.



Zooming in further, it would be no exaggeration to state that the “perfect concoction” for a board skill mix is still a mirage, or at the very least, it is very hard to achieve. Further, the right board skills matrix often is interwoven with ever-changing business landscape, pivoting of corporate strategies and indeed is highly contingent on the availability of corporate talent.

However, there may be light at the end of the “war on talent” tunnel. As a starting point, companies need to realise that skill set diversity and a well-balanced skill mix is one of the core criteria for board effectiveness. This may be analogous to an individual achieving a fit physique through the golden trivariate ratio of protein synthesis which is equivalent to 2:1:1. Hence, much like individual fitness, the board skills matrix must be highly tailored, strategic and is unique to the entity's conditions and appetite.

Board composition: The essence of what makes great boards

Board composition lies at the heart of an effective board and well-functioning corporate governance. One of the key facets of board composition is the board skill set mix or now better known as the board skills matrix. Contemporary narrative on directors' skills and experience has shifted from “having more than accountants, lawyers and “former CEOs” to a more “future-ready board”. These developments are part and parcel of the regulatory impetus, particularly with the **current Malaysian Code on Corporate Governance (“MCCG”)**, which was updated on 28 April 2021¹. To reiterate, Principle A (II) Board Composition of the MCCG succinctly describes the importance of having a right-sized board composition:

1. Note: See also Practice 5.1 (New), Practice 5.5 (Updated), Practice 4.3 (New), Guidance to Practice 5.1 (New), Guidance to Practice 5.5 (Updated) and Guidance to Practice 4.3 (New). 2021. Securities Commission Malaysia.

MCCG Principle A (II); Board Composition

Board composition influences the ability of the board to fulfil its oversight responsibilities. An effective board should include the right group of people, with an appropriate mix of skills, knowledge, experience and independent elements that fit the company's objectives and strategic goals. The right board composition will ensure sufficient diversity and independence to avert 'groupthink' or 'blind spots' in the decision-making process. It also enables the board to be better equipped to respond to challenges that may arise and deliver value.

The need to be holistic in terms of board composition is also driven by the Environmental, Social and Governance ("ESG") agenda. As stated in the Public Listed Companies ("PLCs") Transformation Programme Guidebook: Sustainable, Socially Responsible and Ethical PLCs, boards are increasingly expected to play a more proactive role in driving the ESG agenda of the company and ensuring that they are cognisant of the various ESG risks and opportunities that may impact the long-term value of the company.

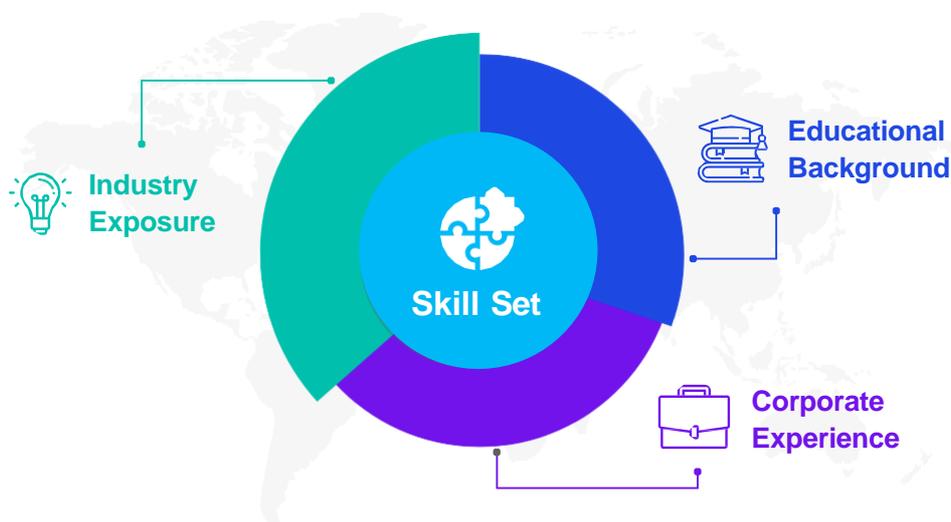
Board refreshments and the importance of having the right board skills matrix are rightly under heavy scrutiny from stakeholders. Key investors are watching skill matrices "under the microscope". Meanwhile, activist institutional investors are even looking to shape the board skills matrix and succession planning to a tee -

aligning board skills and capabilities with the organisation's strategy and being critical over skill gaps or overlaps amongst directors.

To illustrate, in 2021, small hedge fund firm, Engine No.1, went toe-to-toe with Exxon Mobil Corporation in a successful proxy contest on board composition by securing three board seats on one of the world's largest oil & gas companies. Looking further down the line, it is also worth mentioning that the building of a successful business by visionary leaders often hinges on their ability to create and develop a highly skilled set of leaders in their organisations, particularly the board members. For example, Ratan Tata of Tata Group in India is known for developing a leadership thread that runs through and across different Tata enterprises with a strong link to the Group's values and purpose.

Uncovering the relationship between skill set mix and board effectiveness

In exploring the way forward for practical reinforcements to board composition and effectiveness across corporate Malaysia, KPMG Management and Risk Consulting Sdn Bhd has undertaken an analysis of the board skills matrix for the top 50 public listed companies (PLC) by market capitalisation to gain an understanding of the current state of play of the skill set mix of boards in Malaysia. This translates to a review of a total of 400+ individual director profiles, educational and professional backgrounds, career trajectories and achievements. Recognising that director skills are not one-dimensional, the board skill set was further stratified based on the trifecta dimensions of education, experience, industry exposure, as illustrated below:



Some key findings and nuanced observations of the top 50 PLCs based on the analyses across the trifecta dimensions can be summarised as below:



Educational Background

The top five (5) sought-after skill sets in terms of educational background for directors are Accounting, Economics, Business Administration, Law and Engineering. It is no surprise that Accounting or holding a Chartered Accountant qualification is the “most wanted” certification due to the regulatory push as well as the importance of having board members who can interpret the financials of a company. The mandatory requirement for an audit committee of a PLC to have a qualified accountant also pushes this narrative further.



Corporate Experience

The most common skill set in terms of Corporate Experience for directors are Financial Services, Public Sector or Government Body, Energy as well as Consumer Products & Services. Based on the findings, there are several structural factors and inferences here that may be posited:

- **Financial Services experience is most common amongst directors** because of their capacity to be highly versatile in terms of occupational and organisational mobility. A report by Bank Negara Malaysia² observed that workers in the financial sector are found to be one of the most agile, highly skilled and attractive talents. Diving deeper, directors who are equipped with Financial Services experience tend to have C-suite level experience in the segments of Banking, Insurance, Asset Management, and Investment.
- The **high concentration of directors with Public Sector or Governmental Body experience** is due to the fact that in the Malaysian context, particularly in government-linked companies (GLCs), the presence of directors with Public Sector or Governmental Body experience is a highly prized asset on grounds of their policymaking background and rich network of contacts³. Notwithstanding, it is worth mentioning that such enlisting should be undertaken with caution given the need for a cooling-off period safeguard as advocated in the National Anti-Corruption Plan.

2. Financial Sector: Employment Conditions and Preparing the Workforce for the Future. 2018. Bank Negara Malaysia.

3. The National Anti-Corruption Plan (NACP) 2019-2023. 2019. Prime Minister's Office.

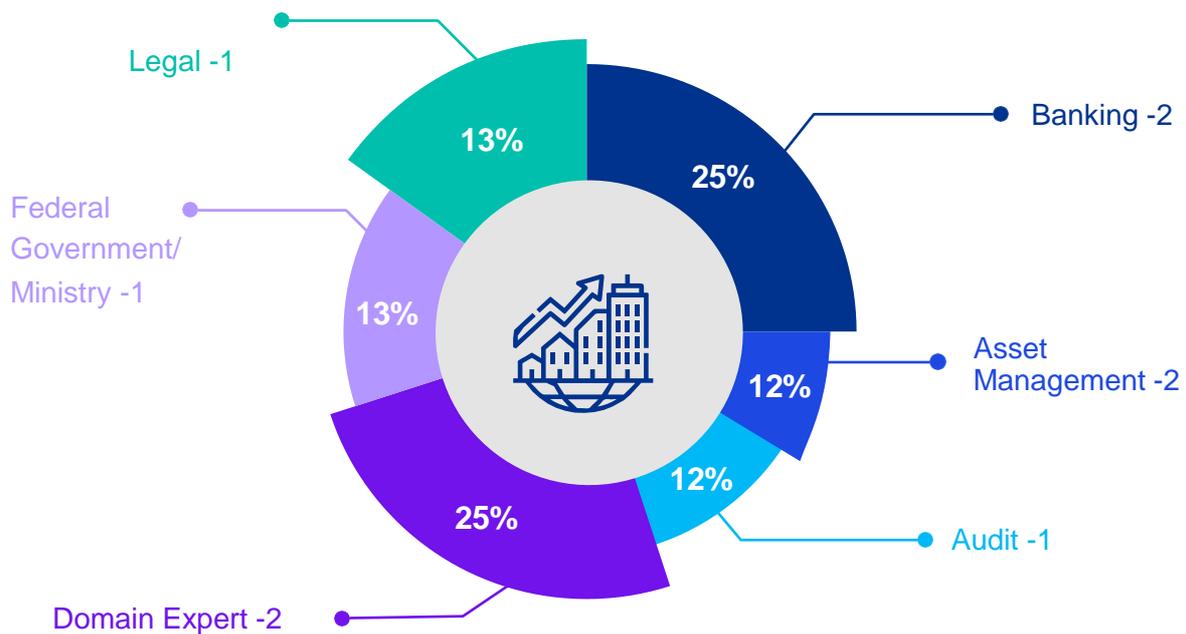


Industry Exposure

As gleaned from the data analysis, the most in demand skill sets in terms of Industry Exposure for Directors are Banking, Public Sector/Government, Oil & Gas Producers, Asset Management, professional services of Audit & Legal as well as directors who are Polymaths⁴ (individuals who were exposed to multifaceted sectors and industries).

- It is interesting to note that there is a **high interest for former partners of professional audit and legal firms** (i.e., when combined, accounting for approximately 10% of the overall population).
- **Polymaths and Information Technology/Digital skill set is “in hot demand”**. The rise of these rare skill sets coincides with the rise of ESG and digital imperatives. These “rare gems” are seen as a positive marker in terms of adding heft to diversity of thought within the boardroom and drive contemporary agendas.
- There is an interesting observation when the data is analysed from a “domain expertise” lens. As stated in a Harvard Business Review article⁵, **“domain experts” on the board are members that know the ins and outs of an industry** and are highly skilled at assessing risks and opportunities. Based on the collected data and analysis, below is an illustration of a typical Top 50 PLC model board in the industry exposure context:

A typical Top 50 PLC Model Board's Industry Exposure



4. Note: For the purposes of this White Paper, we have classified Polymaths as those Directors with high-level, executive exposure to three (3) or more different industries/sub-sectors.

5. When Having Too Many Experts on the Board Backfires. 2016. Harvard Business Review..

Building an effective board skills matrix

As evidenced from the pointers and findings made throughout this thought piece, the board skills matrix is a highly nuanced realm. Whilst companies may address the matter of board composition through established models and better practices, tinkering with the skill set mix of the board requires a highly customised approach and true commitment to diversity and better governance. Even further deep dives into the selection rationale for the appointment of new directors will shed some more interesting observations.

For instance, a large, local banking conglomerate will fully appointed a property development expert onto one of its subsidiary's board due to the presence of large transactions of property and mega-project loans at the said entity. While "at first glance" this may appear to be counterintuitive, the board skills matrix of the bank seamlessly justifies the appointment.

To recap, the "perfect concoction" is highly desirable and ultimate in abstraction. Companies should therefore strive to find their own algorithms in terms of board skill set. There are some key takeaways and action plans moving forward for companies who are determined to reinvigorate their board effectiveness through the board skills matrix:

- As a "fire starter", identify and visualise the current board skills matrix. Institute policies surrounding board composition parameters and have them overseen by the nominating committee.
- To add "fuel to the fire", companies should undertake a board skills matrix analysis with market, industry and peer comparator benchmarking to identify the lacunae and improvement opportunities.
- To "keep the fire burning", companies should have an annual board refreshment discussion to identify if the board skills matrix is still the right fit for business strategies and outlook. Boards should be subject to annual evaluation with external experts enlisted periodically to lend credibility to the exercise.
- To "have a lasting fire and light", companies should establish linkages of the board skills matrix to the annual board evaluations, board succession planning policies and nomination processes and procedures. Sourcing of board talent should also be democratised to more independent sources which have a wider and more diversified talent pool.

For more information, please contact:



Mohd Khaidzir bin Shahari

Partner - Head of Risk Consulting
KPMG in Malaysia
T: +603 7721 7093
E: mshahari@kpmg.com.my



Darren Lee

Executive Director - Internal Audit Risk and
Compliance Services
KPMG in Malaysia
T: +603 7721 7087
E: darrenlee@kpmg.com.my



Cheryl Leong

Manager - Board Advisory Services
KPMG in Malaysia
T: +603 7721 7780
E: cherylleong1@kpmg.com.my

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