It is good governance for a company to create a skills matrix in relation to its board of directors. A skills matrix identifies the skills, knowledge, experience and capabilities desired of a board to enable it to meet both the current and future challenges of the entity. The creation of a board skills matrix is an opportunity for considered reflection and productive discussion on how the board of directors is constituted currently and also how it believes it should best be constituted in the future to align with the strategic objectives of the entity.

The board skills matrix should always be tailored to the unique circumstances and requirements of the company concerned. What is suitable for a small start-up company may be quite different from what is suitable for a large corporate group. The boards of listed versus unlisted entities may have different requirements. What is suitable for a company operating in one industry sector may not be relevant to a company with operations in another industry sector. Similarly, a company that operates across a range of different industries and perhaps countries will have different requirements of its board than a company operating in a single industry and country. These factors underline the importance of not copying another company’s board skills matrix.

Importantly, the creation of a board skills matrix is separate from its disclosure. For listed entities, it is good governance to disclose the skills matrix or a summary of it. Disclosure will also meet the recommendation in the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations for companies to have and disclose a board skills matrix that sets out the mix of skills and diversity that the board has in place or is looking to put in place.

For listed entities, disclosure of a board skills matrix can provide insight to investors as to the board’s thinking on the skills that are needed for the board to supervise the business. However, while unlisted entities will find it useful to create a skills matrix, they may not reap any benefit from disclosing it. Each company will need to consider its own circumstances and decide whether or not, depending on its members, disclosure of the skills matrix will bring benefit to the members.

Ultimately, creation of the board skills matrix is aimed at clarifying board thinking, while disclosure of the skills matrix is aimed at providing confidence to investors/members as to the board’s decision-making in this regard.

This Guide outlines the issues a company and its board need to consider when developing a skills matrix, as well as the issues attached to disclosure of the matrix. It will be for each entity to decide the format of its board skills matrix and whether and how to disclose it to its shareholders and stakeholders.

**Identifying the existing skills on the board**

A skills matrix identifies:
- the current skills, knowledge, experience and capabilities of the board, and
- any gaps in skills or competencies that can be addressed in future director appointments.

A company needs to consider possible approaches it could take to identifying the existing skills and competencies on the board. These may include the following:
- The chair, with the assistance of the company secretary, may review the competencies and experience of each board member, with the chair making an initial assessment of the existing skills for review by the board.
- Each director may be supplied with a questionnaire asking them to self-assess and identify their competencies, skills and experience.
- The nomination committee may review and assess the competencies and skills of each board member, either following completion of a questionnaire by each director or by some other method. The nomination committee could be charged with ongoing oversight of the process of board composition and renewal.
• The board as a whole may review and assess the competencies of board members, either following completion of a questionnaire by each director or as part of an overall collaborative approach to assessing board skills.

Regardless of which approach is taken, the board needs to consider the criteria that will be applied for assessing the existing skills, knowledge, experience and capabilities on the board and the requirements for the future. A number of different lenses can be applied to the assessment process, including identifying:

• executive and non-executive experience
• industry and sector experience or knowledge
• leadership
• governance
• strategic thinking
• desired behavioural competencies
• geographic experience
• subject matter expertise
  - accounting
  - capital management
  - corporate financing
  - industry taxation
  - risk management
  - legal
  - IT expertise
  - HR expertise and/or experience in workplace health and safety
  - marketing
  - environment and sustainability
  - public policy or government relations
  - community relations
• other factors relevant to the particular company.

This list is not exhaustive. Each board will need to decide for itself which lenses are most suitable to apply to the assessment of skills for that company. For example, the lens of industry and sector experience is likely to trigger examination of other competencies related to the particular industry or sector.

When assessing the skills and competencies desired to align with the strategic objectives of the entity, the board can also assess the current and desired diversity that it seeks in its membership, taking into account all aspects of diversity. A board may also wish to take tenure into account when considering its composition.

A board also needs to consider whether it wishes to give a weighting to the skills, experience, knowledge and capabilities of directors, through the use of a ratings system, such as ‘High’, ‘Medium’ and ‘Low’ and/or whether this has been gained in a management or non-executive context. This also gives the benefit of gaining a deeper understanding of skills.

Creation of the skills matrix

A skills matrix is a document created primarily for internal purposes to enable the board to form a view as to the effectiveness of the board and to inform board renewal and succession planning.

It is good governance for the board and company to consider the creation of a skills matrix not as a compliance obligation (if the organisation is a listed entity) or a report card on the competence of individual directors, but as a means of identifying the competencies and skills desired by the board as a whole to fulfil its role and in light of the organisation’s strategic direction. It can also be useful to reflect on any gaps in skills and competencies that may be created by the forthcoming retirement of a director or directors or any change in the company’s strategic direction. This process will inform the appointment of new directors.

When creating the skills matrix, a board needs to consider whether:

• it might list individual directors and their skills and competencies as it seeks to assess the depth of board skills overall
• it might list any gaps in board skills that the assessment process has revealed.
• any gaps that have been revealed are matters that need addressing in the near future. For example, a small company may lack subject matter expertise on the board. However, given it is a small board due to the size of the company, and given that there is the relevant subject matter expertise on management or external subject matter experts could be invited to
provide input, the board may decide that expanding the board to include such subject matter expertise is not of the highest importance at this stage in time

- professional development initiatives can address any technical deficits, for example, external training in particular skills or internal training with executives providing further information
- any gaps that have been revealed need to be addressed through board renewal.

### Review of skills matrix

It is good governance to review the skills matrix annually, to ensure that not only the current needs in relation to supervising the company and its operations are being met, but also so that any skills can be identified that may be sought as the strategy is implemented and the environment in which the company operates changes.

If a nomination committee is charged with board renewal and the process of reviewing and making recommendations to the board on director appointments and reappointments, it should undertake the annual review of the skills matrix.

### Disclosure of the skills matrix

Listed entities will take into account that the ultimate aim of the recommendation in the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations is to provide insight to investors as to the board’s thinking on the skills needed to supervise the business.

Unlisted entities will need to decide if disclosure brings benefits to members.

It is good governance for the board to be actively engaged in the discussion as to how the company will disclose the skills matrix and whether all elements of the skills matrix prepared as an internal document for the board will be disclosed.

The disclosure of the skills matrix is required in the annual report for listed entities. It should be noted that while the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations recommend that listed companies have and disclose a board skills matrix, the form of this skills matrix is not prescribed. The board and company will need to consider if the skills matrix will be disclosed as:

- narrative, or
- a table, or
- a combination of narrative and a table.

A board and company will also need to consider if it will:

- list the current board skills and competencies, according to whichever lens has been applied to the assessment process.

If the company discloses the specific skills it has identified as desirable, it needs to consider if it will specify how many directors hold those skills and whether to identify those directors.

- identify the gaps in skills that may have been revealed.

While disclosure of the skills matrix is intended to provide investors with confidence that the board has turned its collective mind to the skills needed to supervise the business, there can be a tension between the transparency needed to provide insight to board thinking and the need to ensure that any disclosure of gaps in board skills is not seen as detrimental to the company. Identification of inadequate skills or competencies in one area does not of itself indicate a dysfunctional board. It is likely to indicate a board that is actively considering which skills and competencies will add value to meet the strategic objectives of the entity.

It is good governance to consider how best to address this tension in disclosure. For example, if a board skills assessment reveals a gap in skills that the board has identified as important to the supervision of the company and its operations, the disclosure of such gaps may need to be accompanied by narrative explaining why the board is of the view that the current mix of skills is suitable to the needs of the company.

The level of disclosure will depend on the company’s circumstances. For example, a company in a particular life cycle stage or market may need to be very precise in its disclosure of the board skills that are sought, in order to address investor concerns. A board of a broad-based company may not have any gaps in board skills and competencies and may not need to be so detailed in its disclosure.