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# Skills Matrices Morph into Refreshment Tool

As demand grows, boards adding new members with cyber, ESG and other skills

By Lindsay Frost | September 26, 2022

Once seen as a pesky disclosure responsibility, skills matrices have grown increasingly common in recent years, evolving from a boilerplate exercise to a useful internal tool in the refreshment process, as well as in proxy contests, sources tell Agenda.

More than half (55%) of the S&P 500 now disclose board skills matrices as pressure to refresh the diversity, background and skills of board members hits a boiling point.

This is an 18% increase from last year, according to data from public company intelligence provider **MyLogIQ**. Investor pressure, a new universal proxy mandate and a swarm of disruptive issues for directors to oversee have driven this increase, sources say.

While bread-and-butter skill sets such as finance and corporate strategy remain the most common in matrix disclosures, data and sources show that new skills are cropping up more frequently, including cybersecurity; environmental, social and governance experience; and human resources expertise, as demand for boards to tackle these issues grows.

Ultimately, as boards look to refresh more frequently and in more strategic ways, experts said it's important to use the skills matrix as a tool to improve the refreshment process and show transparency to investors by telling the company's story in an easy-to-digest but clear and detailed manner.

"We are not only starting to see more [skills matrices], but more with a focus on the future and a focus around board succession," said **Lyndon Taylor**, regional managing partner of the Americas CEO and board of directors practice at **Heidrick & Struggles**. "Boards are using these as a review of thinking about, 'What are the skills we should have around the board given where the business is going now and in the future?'"

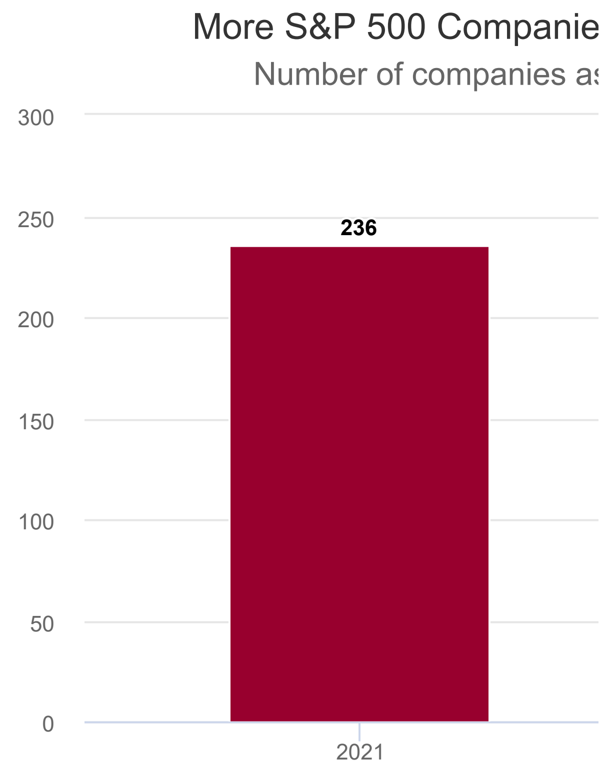
## Skills Matrices 'Living Documents'

Given the current focus on board composition and refreshment, directors, particularly those on the nominating and governance committee, should make sure the matrices, biographies and committee responsibilities are all harmonized and reviewed every year, sources say.

"Nominating committees are using skills matrices as living documents," said **Lisa Blais**, U.S. board practice leader at **Egon Zehnder**. "So, depending on the company's strategy, where they feel they have a gap, that's where the skills matrices come into play. They are constantly looking at where the holes are. It's a more holistic view — not just replacing a financial expert when one steps down."

Indeed, 68% of more than 400 directors surveyed by **Diligent** and Corporate Board Member last year said that background and skill set diversity are the most important attributes in selecting the next board member.

There are typically two types of board skills matrices, according to **Donnelley Financial Solutions** (DFIN). One




attributes specific skills to individual directors, while the other is a summary of the skills represented on the board.

For example, companies including **Accenture**, **AT&T**, **Baker Hughes**, **Dow**, **ExxonMobil**, **General Motors** and **Johnson & Johnson**, among others, use the first type. Meanwhile, companies including **A.O. Smith Corporation**, **Centerpoint Energy**, **Church & Dwight**, **Express, Inc.** and **Goldman Sachs**, among others, use the second type. This is all according to a forthcoming Guide to Effective Proxies from DFIN.

However, **Ron Schneider**, director of corporate governance services at DFIN, said that with the universal proxy now in play and more focus on individual directors, companies should consider a full matrix attributing specific skills to individual directors. For example, he recently worked with one energy company that was facing a proxy contest targeting a long-tenured older white male on the board. DFIN crafted a matrix with the company that showcased that director's unique skill set among the other directors to make a strong case for investors.

"This can be a tactical play," Schneider said.

Meanwhile, **Jennifer Cooney**, advisory director at the **Argyle Company**, an investor communications firm, said, "there is still a benefit to presenting an aggregation, like a board snapshot to help paint a picture of the whole board for investors."

Experts also believe it's important to craft a narrative on the skill sets disclosed in matrices, including how the specific skill fits in with the company's strategy and long-term goals.

"Don't just tell us what the skills are, but why the skills are important to your company," Schneider said. "Some just have the label, while others will have a sentence expanding on what they mean by it. Some may fall short of making the business case because they are reticent to give away what they think are competitive secrets, but it's still important to include more explanation or narrative."

For example, **Boeing**'s skills matrix in its 2022 proxy includes a short paragraph describing how each skill fits in with the board's oversight duties. For the "international leadership" skill, for example, Boeing states, "Experience managing global relationships and engaging with international stakeholders supports the board's oversight of key risks involving our global customer and supply bases and our challenges managing global compliance systems."

Some companies have also chosen to disclose competency levels when it comes to skills, e.g., an expert level or beginner level, Schneider said.

Meanwhile, investors continue to press boards to update and disclose skills.

The New York City Comptroller's office was a big driver for companies to disclose board skills and diversity matrices. Its Boardroom Accountability Project 2.0, launched in 2017, called on 151 companies to disclose a board matrix that includes "the skills, gender, and race/ethnicity of individual directors on the board."

More recently, investors filed a number of proposals in the 2022 proxy season at companies including **3D Systems**, **Proto Labs** and **Veeva Systems** asking for a detailed skills and diversity matrix.

**Vanguard**, according to its 2022 proxy voting guidelines, "expects" to see board composition disclosure in the aggregate at a minimum.

Meanwhile, **Glass Lewis**, starting this year, said it may recommend a vote against the chair of the nominating and governance committee for "particularly poor disclosure" in a number of categories including board skills.

The proxy firm recently said it found "noticeable improvement" in S&P 500 disclosures on diversity and skills. For example, more than 30% of S&P 500 companies received a poor rating on these disclosures in 2020, but fewer than 10% did last year.

Plus, "activists review the board and develop their own skills matrix," which boards should keep in mind, Taylor said.

Skill Sets Evolve

Boards face disruption constantly these days, sources said. Everything from the Covid-19 pandemic to supply chain issues to heightened employee demands have impacted directors' oversight duties.

"It's really fairly evident that we are in a perpetual cycle of going from one big sweeping trend to another," said **Paroon Chadha**, co-founder and CEO of **OnBoard Meetings**. "Crises are coming at us at a much faster pace. This requires you to hear from diverse voices more so than in the past to help you anticipate and deal with the constant cycle we find ourselves in."

As a result, boards are largely adding directors with specialized skill sets in a number of focus areas including cybersecurity, digital technology, ESG and sustainability, human resources, international expansion, supply chain and more.

And some companies might stand out in a negative way if these key skills are "glaringly absent" from disclosures, Schneider said.

"Don't be afraid to go a little deeper and put human capital management or environmental and sustainability experience or public policy experience [in the skills matrix], even if it's a small number of your board members that truly have that expertise," Cooney said. "You're not expected to have 10 out of 10 directors with that skill; you are trying to show the range of skills."

For example, GM's skills matrix in its most recent proxy highlights which directors have environmental, social and/or governance expertise.

Meanwhile, cybersecurity, chief human resource officers and others in the human capital space are also in high demand, sources say.

Some backgrounds, such as those of foreign nationals, are not as common, Blais said. And data shows fewer C-suite executives taking board seats, which used to be a top priority, sources said.

Indeed, a new report from Diligent shows that 46% of new directors appointed in the first half of this year brought a skill set other than CEO, CFO or COO experience to the board. A separate report from Diligent from last year shows that 56% of the directors who joined boards in 2021 came from these roles, down from 59.4% in 2019. Meanwhile, 18.9% of directors who joined boards in 2021 had nontraditional backgrounds, up from 13% in 2019.

The lion's share of new appointments last year came with sales expertise (21%), followed by marketing (17.2%) and technology (15.5%).

Meanwhile, boards are largely adding on new directors with these skills as opposed to replacing people stepping off the board, sources said.

"The core skills of good strategy and good financial oversight never go out of fashion; those are just needed," Chadha said. "But, at the same time, at this point, I would say that's why you see boards expanding instead of replacing."

Given that the "war for talent in the boardroom is very high," Blais said, boards are and should be starting searches earlier and more strategically. "They are less critical around the timing of hires — if someone is available, they are usually willing to go up in size, even temporarily."

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