

Skill Evaluations on Boards

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Talentonic HR Solutions*

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BACKGROUND

In 2019, The Securities and Exchange Board of India (SEBI) revised its Listing Obligations and Disclosure Requirements (LODR) regulations aimed at better corporate governance and transparency. One of the changes it made was the requirement to disclose the Expertise/Skills of Board Members.

SEBI advised that a group of individuals with varied skill-sets and experience is critical for providing comprehensive guidance and direction to a company. Typically, these skill-sets would comprise technical/academic skills, general management, global business, technology, manufacturing/operations, risk management, etc. Recognizing this, Board members should collectively have a wide set of skill-sets appropriate for the relevant business.

“The Board of Directors to list core skills/expertise/competencies required in the context of its business(es) and sector(s) for it to function effectively and those actually available with the Board and also name the directors possessing such skills.”- SEBI 2019 Guidelines

This change stirred a discussion in the world of Corporate Governance in India and raised some fundamental questions.

- 1. **Skills Identification.** What skills are appropriate to be used and what are some of the skills identified by other players in the industry?*
- 2. **Skills Assessment & Reporting.** How would we assess the skills, and how should the skills evaluation be reported?*

PURPOSE OF THE SKILL MATRIX

1. Board Development

Skill assessment can contribute to making Boards more accountable for the performance of the Firm. The Board could consider these questions from a development standpoint: What skills are most relevant for our firm? What skills will we need in the future? What current skills do Board members bring to the table?

2. Board Induction

The skill matrix can provide rich insights into areas of skill deficit and steer new membership decisions. It gives Chairpersons the opportunity to say, “*We need to look for someone that understands manufacturing outside India*”. The ability to recruit the right directors and integrate them successfully is an indicator of a high-functioning, effective Board.

3. Compliance

While this is a SEBI requirement, it should be the least important reason for pursuing this path. There continue to be companies, for whom this is a tick the box exercise. Like so many other practices of good corporate governance, we believe this will gradually pick up in terms of its relevance and importance.

PROCESS OF SKILL EVALUATION

[Talentonic](#) has facilitated the Board Evaluation process for multiple clients across industries in the past 5 years. Even though the SEBI LODR requirement is not strictly a part of the actual Board Evaluation, many of our clients saw merit in understanding what skills their Boards were lacking, and how they could better strengthen their capabilities.

“A good starting point of skills evaluation is the understanding that every director is not required to be an expert in every skill area. The diversity of skills that Directors bring to the table is what adds value to the strength of the Board as a whole”

- Deepak Dhawan, Founder and CEO, Talentonic

There are 3 ways skills of Directors can be evaluated:

1. Self-Evaluation by Directors

This method sees higher buy in of results among Directors. However, lack of objective and comprehensive evaluation process can breed complacency and subpar evaluation of Board performance.

2. Peer Evaluation by Directors

This is a more unbiased process and increases the commitment and engagement of the Directors. Results may need to be calibrated and realism in certain cases could be missing.

3. Evaluation by Board Leadership

Either the Chairperson of the Board or the NRC Chair is made responsible for the process. This may help in setting the right expectations about the process and its benefits and is likely to be unbiased and effective. We recommend this as a best practice to our clients.

REPORTING BOARD SKILLS

The SEBI LODR guidelines do not prescribe any format for reporting skills in the Annual Report of Companies, as a result, a variety of reporting styles are used. In our internal research of Indian companies we found three styles of reporting Board Skills

1. Outline the identified skills for effective functioning of the company without attributing them to individual directors.

Skills Identified by the Board of Directors, <Company Name>, 2019

The board has identified the following skills/expertise/competencies fundamental for effective functioning of the company which are currently available with the Board

- **Strategic Leadership Skills:** Appreciation of long-term trends, strategic choices and experience in guiding and leading management teams.
- **Financial and Risk Management:** Wide ranging financial skills, accounting and reporting, corporate finance and internal controls, including assessing quality of financial controls, identify the key risks to the company and monitor the effectiveness of the risk management framework and practices.
- **Technology and Digital Expertise:** Background in technology, anticipation of technological trends, suggestions and creation of emerging business ideas.

2. List the identified skills and attributed details of Board members who display the skills.

Skills Matrix, <Company Name>, 2019

Director Name	Director Type	Skills/Expertise
Mathew	Independent Director	Banking, Credit & Risk
Pamela	Independent Director	Finance, IT and Risk
David	Non-Exec Chairperson	Mergers and Acquisitions
Bryan	Managing Director	HR & Finance

Source: Annual report with masked Director's name, for illustration purpose

3. Create a skill matrix detailing the skills which each Board member possesses. This comprehensive depiction is what we recommend to our clients as best practice

Skills Matrix, <Company Name>, 2019

Skill/Expertise	Mathew	Pamela	David	Bryan	Total
CEO Experience	Yes	Yes			2
Industry Experience		Yes	Yes	Yes	3
Financial Reporting	Yes		Yes		2
Mergers & Acquisitions				Yes	1
CTO Experience		Yes		Yes	2
Risk Management	Yes		Yes		2
Legal and Regulatory		Yes			1
Investments			Yes	Yes	2
Technology	Yes	Yes			2
HR and Talent	Yes		Yes	Yes	3
Strategy		Yes			1
Governance	Yes	Yes		Yes	3

Source: Annual report with masked Director's name, for illustration purpose

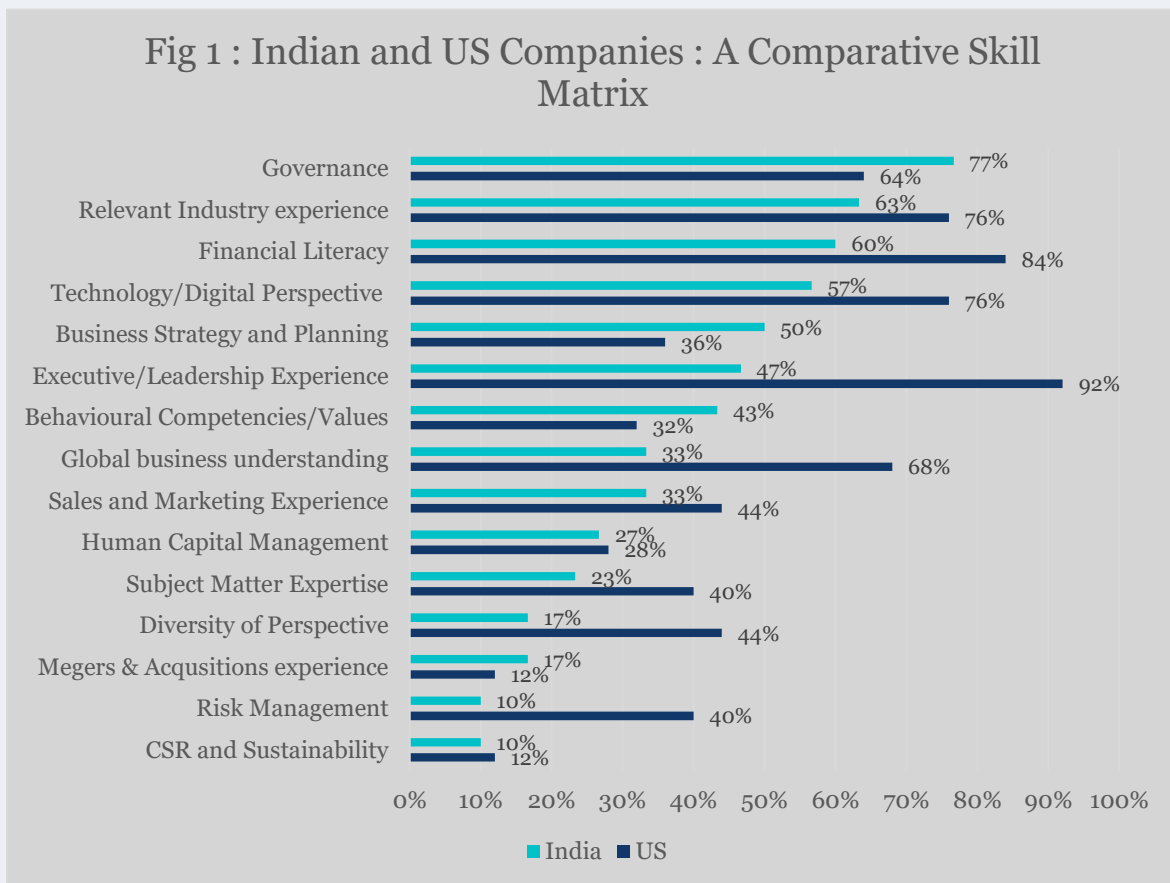
COMPARISONS WITH US MARKETS

The process of Board's skill evaluation in Indian companies is at a very nascent stage. To understand this process in a more evolved market, we conducted a comparison of the skill matrixes of 30 Indian companies and compared it with the skill matrix of 25 US companies (Figure 1). A set of meaningful insights emerged and are summarized below.

1. Indian Boards lag significantly in Technology and Digital perspective when compared to the US Boards. Particularly in the current environment, Board oversight of digital transformation is considered crucial as organisations fast track their initiatives and programs to deal with the current crises.
2. Human Capital Management (HCM) is given low importance by both Indian (27%) and the US (28%) Boards. In both these markets, the Boards will need to become cognizant of the huge innovation in people management practices which is the mainstay of robust business continuity at least for the next few years if not more. WFH, GIG Workforce, reimagining the pillars of culture

and leadership, organisation restructuring will all require the Board members to be more skilled, engaged and involved in the conversation.

3. Diversity of perspectives is an area that Indian Boards must consider as they continue to neutralise the impact of gender bias, hierarchy and conflict avoidance that hinders open Board room conversations. For example, the number of women on Indian Boards still form a small proportion (14%, Source=Bloomberg) of total Board members whereas Norway, Spain, France, and Iceland all have laws requiring that women comprise at least 40% of Boards of publicly listed companies.



Source: Talentonic Internal Research, August 2020.

Top 100 Indian Companies (N=30) on BSE. US Fortune 500 Companies (N=25)

Summary

A [recent study](#) by the Centre for Creative Leadership found that corporate Boards in Asia still lack adequate leadership, supervision and oversight, despite the fact that analysts predict that Asia could become the world's largest by GDP contribution, contributing roughly 60% of the global growth by 2030.

The skill matrix for the Board is a recent adoption in India and there remains a distance to go before it moves from being a pure compliance exercise to one that is valued for its insights on Board composition.

From a Board Development perspective, there is room for deeper discussions on the skills relevant to the Board. The skill matrix is an effective and transparent way of reporting to the shareholder the adequacy of skills which the Board of Directors possess and using those to re-shape Boards with fresh skills and perspectives. In post COVID times, as Organizations pivot and reimagine their businesses, they will look for their Boards to be re-skilled to provide stewardship in these choppy times.

ABOUT US

[Talentonic](#) has helped many clients evaluate their Boards. We have provided advice to Board Chairpersons, Nomination and Governance committees and helped structure and design Board Evaluation processes. We serve a range of organizations across geographies and scale, from leading multinationals to smaller organizations. Email us at admin@talentonic.com if you would like to engage with us on this topic.

Our website carries details of our work portfolio at www.talentonic.com

