DISCLOSURE OF BOARD SKILLS AND EXPERIENCE — EMERGING BEST PRACTICE

COVERING NORTH AMERICA, EUROPE AND AUSTRALIA

GLASS LEWIS

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Introduction

One of the key focal points for shareholders when analysing the corporate governance of their investee companies is the composition of the board; after all, board members are direct representatives of shareholders who are responsible for corporate oversight, the appointment of management, and the ultimate approval of large-scale transactions.

The topic of gender representation has been at the centre of most diversity discussions in recent years, but investors are increasingly viewing diversity more broadly. It has become a mainstream belief among market participants that having an appropriate mix of certain attributes and areas of expertise on the board — in particular skills, experience, diversity, and independence — is essential to ensure that the board as a whole can satisfactorily perform its oversight duty, have informed opinions on all topics relevant to the company, and effectively advise management on important strategic decisions. A largely homogenous board with skills and experience gaps represents a significant risk; the reduced oversight and increased groupthink that can result from a non-diverse board lacking the requisite skills has been posited as a major cause of recent corporate scandals[1] and could become a source of competitive disadvantage.

In addition to the increasing legal requirements for directors in most markets, investor expectations for boards have never been higher, with their perceived role evolving from primarily being one of watchdogs, to an increasing focus on directors taking a more strategic, dynamic and responsive role in the organisation.[2]

In this paper, we will consider why information on board skills is important to investors and how best practice is evolving in different jurisdictions, outline ways in which companies can address board skills disclosure as well as Glass Lewis' approach, and recommend ways in which shareholders can usefully utilise this information.

1 e.g. Devine, A. and Shrives, P. (2017) "Insights into corporate governance and risk: Exploring systems from Germany, the United States and the United Kingdom". In: The Routledge Companion to Accounting and Risk. Routledge Companions in Business, Management and Accounting. *Taylor & Francis, Abingdon*, pp. 28-46.

2 2016 Global Board of Directors Survey. *Spencer Stuart and WomenCorporateDirectors Foundation*, 2016.

Why Investors Care

With a few notable exceptions (e.g. Italy and Russia), it is common practice in most developed capital markets for nominees to the board to stand in an uncontested election, with a simple majority of votes cast needed for the election to be approved. With substantial clout usually being required to suggest alternative candidates or to petition the board to propose a particular individual for election, most investors simply have a 'take it or leave it' decision to make on the board's composition and succession plans. As such, there is increasing interest from market participants in understanding the context of board elections – How was this candidate chosen? What in particular does (s)he bring to the board? How would the appointment fit into the company's strategic planning?

Until recently, prevailing practice across most markets has been the provision of biographical information on directors and board nominees in a format largely limited to a brief career history and list of current mandates, with disclosure on board skills rarely extending far beyond legal requirements (e.g. identification of the board's financial experts). While such information is usually sufficient to assess whether an individual is suitably qualified to serve as a director, the board refreshment and candidate nomination process has generally been a black box for company outsiders. When provided with information on which skills, experience, and other attributes the board considers to be indispensable, and how and to what extent the board possesses or has access to these, shareholders are better able to assess potential skills gaps against board refreshment activities, understand the context of director elections, and are better equipped to engage on the topic of board composition with their investee companies.[3]

In short: investors generally feel more confident that a company's long-term interests will be better served by a board with the requisite skills and expertise to understand the business and environment in which it operates and which has a diversity of experience to guide its decision making.[4]

3 Annual reporting in 2016/17: broad perspective, clear focus. *EY*, September 2017.

4 The Stakeholder Voice in Board Decision Making. *ICSA*, September 2017.

Move Toward Best Practice

Regulators and influencers, as well as corporate governance early adopters, in certain markets have been responding to investors' demands. The following is an overview of emerging best practice from a number of markets that are actively answering the call for increased board skills disclosure.

AUSTRALIA

In updates to its Corporate Governance Principles and Recommendations by the ASX Corporate Governance Council in March 2014, disclosure recommendations to Australian companies regarding board skills were bolstered. The previous version of the best practice recommendations had called on issuers to consider identifying competencies to increase board effectiveness as part of the nomination process, and to provide disclosure on whether the board has a formal process to identify any skills and experience gaps; the renewed code went further, introducing a requirement for companies to "disclose a board skills matrix setting out the mix of skills and diversity the board currently has or is looking to achieve in its membership".[5]

Interestingly, this best practice recommendation appears to have resulted from the feedback of market participants. The amendments initially proposed by the Council had called for a statement from companies as to the mix of skills and diversity on the board, but this was further strengthened following an open consultation process.

Although the Council has provided no formal guidance to companies on how to format this information, the clarity of the recommendation and rationale led to broad improvements that has seen Australia become the global leader in board composition information disclosure.

UNITED KINGDOM

Considerations on composition of the board were pushed to the forefront in the UK in 2010 with the UK Corporate Governance Code including a recommendation that boards "should have the appropriate balance of skills, experience, independence, and knowledge of the company" as one of its main principles.[6]

In line with other areas of corporate governance, UK companies have become forerunners of board skills and refreshment disclosure in Europe, and best practice on the issue continues to evolve. In November 2016, the UK government initiated a green paper consultation process seeking to drive corporate governance reform, which sought views from market participants on corporate governance in large organisations. This followed a discussion paper issued by the UK Financial Reporting Council ("FRC") a year earlier that solicited feedback from market participants on issues surrounding board succession planning. The responses to both of these initiatives highlighted the desire from institutional investors for heightened disclosure on the skills and experience of directors to inform voting on board appointments[7] and the belief that boards must be clear about the particular skills needed and address these objectively.[8] In February 2017, the FRC announced plans for a fundamental review of the UK Corporate Governance Code that would take into account issues raised in the government's green paper and of work on corporate culture and succession planning.

In December 2017, the FRC initiated a consultation process for proposed revisions to the Code. The initial draft includes an increased emphasis on the regular evaluation of the balance of skills, experience, independence, and knowledge on the board. In addition, there is a focus on explaining these

5 Recommendation 2.2 in Corporate Governance Principles and Recommendations. *ASX Corporate Governance Council*, 2014.

6 Principle B.1 in The UK Corporate Governance Code. *Financial Reporting Council*, June 2010.

7 Corporate Governance Reform: The Government response to the green paper consultation. *UK Department for Business, Energy & Industrial Strategy*, August 2017.

8 Feedback Statement: UK Board Succession Planning Discussion Paper. *Financial Reporting Council*, May 2016.

processes to shareholders, with recommendations to disclose the board's approach to succession planning as well as the outcomes of its evaluation and how this has influenced the board's composition.[9]

EUROPEAN UNION

While efforts from the European Commission, including legislative proposals, to improve board gender diversity have gained a high level of media attention, the Commission has also highlighted the importance of diversity of competences and views at board level.

In its 2011 green paper[10] on the EU corporate governance framework, the Commission highlighted its belief that board refreshment policies which identify the precise skills required could help to improve the board's monitoring ability and raised the question as to how and at what level this could be promoted. The topic was subsequently addressed in further detail in the EU directive on non-financial reporting,[11] which will require further disclosure from large EU companies in their annual reports from 2018 onwards. In particular, large publicly-listed companies will be obligated to disclose diversity policies for their administrative, management and supervisory bodies in their corporate governance statements, with the Commission recommending that the chosen policies cover the educational and professional backgrounds of individuals, ensure a sufficient diversity of views and expertise on the board, and that board refreshment activities be based on these defined criteria.[12]

GERMANY

Following the February 2017 update to the German Corporate Governance Code, the non-executive supervisory boards of German companies have been recommended to develop a profile of skills and experience, which should be outlined in the corporate governance report and which should be taken into account when proposing new directors to serve on the board.[13]

In proposing the amendments to the Code, the responsible government commission noted that the recommendation was based on its discussions with domestic and international shareholders[14] and expressed its belief that the creation and disclosure of a board skills profile follows international best practice and will allow market participants to better understand which competencies the board holds to be indispensable.[15]

This new provision, coupled with strengthened recommendations regarding the disclosure of biographical and independence information of incumbent and proposed supervisory board members, is likely to lead to a significant improvement in the board skills information provided by German companies in 2018.

UNITED STATES

Following an amendment to Regulation S-K of the Securities Act of 1933, U.S. public companies have been required to disclose the consideration taken of diversity in the board candidate nomination process as well as the "particular experience, qualifications, attributes or skills that qualified that person to serve as a director of the company".[16]

Although this provision, as well as related requirements to disclose the current commitments of directors, served to significantly increase the biographical information of directors provided by companies, many U.S. institutional investors were of the opinion that companies often failed to provide a compelling rationale for why certain candidates were chosen and what each individual would bring to the boardroom table.[17] There is however a discernible upward trend in the disclosure provided to the market; a recent study indicated that 40% of the S&P 500 included graphics to highlight different aspects of diversity on the board of directors and 16% went as far as disclosing a director skills matrix in their most recent proxy statements, more than doubling the amount of companies providing this information just three years earlier.[18]

9 Principle K and Provision 23 in Proposed Revisions to the UK Corporate Governance Code; Appendix A – Revised UK Corporate Governance Code. *Financial Reporting Council*, December 2017.
10 The EU corporate governance framework. COM(2011) 164 final. *European Commission*, 2011.
11 Directive 2014/95/EU. OJ L 330. *European Parliament and Council*, October 2014.
12 Guidelines on non-financial reporting (methodology for reporting non-financial information). 2017/C 215/01. *European Commission*, July 2017.
13 Recommendation 5.4.1 in German Corporate Governance Code. *Regierungskommission Deutscher Corporate Governance Kodex*, February 2017.
14 Proposals for Code amendments 2017 published [Press Release]. *Regierungskommission Deutscher Corporate Governance Kodex*, November 2, 2016.
15 Erläuterungen der Änderungsvorschläge der Regierungskommission Deutscher Corporate Governance Kodex aus der Plenarsitzung vom 13. Oktober 2016 [Press Release]. *Regierungskommission Deutscher Corporate Governance Kodex*, November 2, 2016.
16 Final Rule: Proxy Disclosure Enhancements. *U.S. Securities and Exchange Commission*, December 16, 2009.
17 Best Disclosure: Director Qualifications & Skills. *Council of Institutional Investors*, February 2014.
18 Board Matters Quarterly June 2017. *EY Center for Board Matters*, June 2017.

While there is some way to go before meaningful disclosure on the skills and experiences represented on the board becomes common market practice, disclosure laggards are likely to face increasing pressure from shareholders in coming years. A recent letter from New York City Comptroller Scott Stringer sent on behalf of the New York City Pension Fund to 151 companies calling for the disclosure of a matrix covering the key skills, experience, and attributes of board members[19] is indicative of increasing shareholder expectations. Companies that do not respond are likely to also feel pressure through the ballot box as U.S. institutional investors are increasingly supporting board diversity-related shareholder proposals and strengthening their voting policies in this regard.[20]

19 Comptroller Stringer, NYC Pension Funds Launch National Boardroom Accountability Project Campaign — Version 2.0 [Press Release]. *New York City Comptroller*, September 8, 2017.
20 Raising the Stakes on Board Gender Diversity. *Glass Lewis; Brianna Castro & Starlar Burns*. December 19, 2017.

Common Market Practice (Three Common Approaches)

Through our analysis of companies listed in markets for which there are already requirements, recommendations or evolving best practice in board skills disclosure, in particular in the aforementioned markets, we have identified three common approaches that have been taken.

Under each of these approaches, the skills, experience, and other attributes considered were unique to each company, largely dependent on an individual company's industry group and business strategy, and generally ranged between seven and 15 in number.

THE BOARD SKILLS MATRIX

Director	Independence	Skill A	Skill B	Experience A	Experience B
Director A	✔	✔		✔	
Director B		✔		✔	✔
Director C			✔		✔
Director D	✔			✔	
Director E	✔	✔			✔

Figure 1

Examples of companies using this method: *Antofagasta plc*;[21] *Coca-Cola Company*;[22] *Ceconomy AG*.[23]

The board skills matrix is the most comprehensive of the three common approaches. Under this method, the names of incumbent directors are plotted against certain skills, and commonly also sectoral experience and other attributes, that are considered key for the overall composition of the board. Currently, this approach is only widely seen in the disclosure of companies domiciled in Australia following a 2014 recommendation from the ASX Corporate Governance Council (ASX CGC), but is becoming increasingly common in other jurisdictions, particularly in the United States. Companies following this method often also incorporate further information on the skills and experience chosen to give market participants a better understanding of how these were attributed to directors.

Glass Lewis generally considers this approach to be the most informative for market participants, given that it helps to increase the accountability of the board on the matters listed, helps to justify the presence of directors on the board, and allows for an easy assessment of collective skills gaps. However, we also accept that public disclosure from the board that indicates a director is missing certain skills could potentially be a cause of conflict.

In fact, the ASX CGC states that disclosure need only be made collectively across the board as a whole without identifying the presence or absence of particular skills by a particular director.[24]

21 2016 Annual Report; pp. 73-75.

22 2017 Proxy Statement; pp. 17-24. Coca-Cola's disclosure incorporates elements of the board skills matrix and 'half matrix' by giving shareholders an overview of skills and experience coverage at board level and clearly indicating which director nominees are considered to represent these.

23 2016/17 Annual Report; p. 37. While not disclosed in the form of a matrix, Ceconomy's chosen method communicates the same level of information and allows a quick assessment of the allocation of responsibilities on the board.

24 Recommendation 2.2 in Corporate Governance Principles and Recommendations. *ASX Corporate Governance Council*, 2014.

THE 'HALF MATRIX'

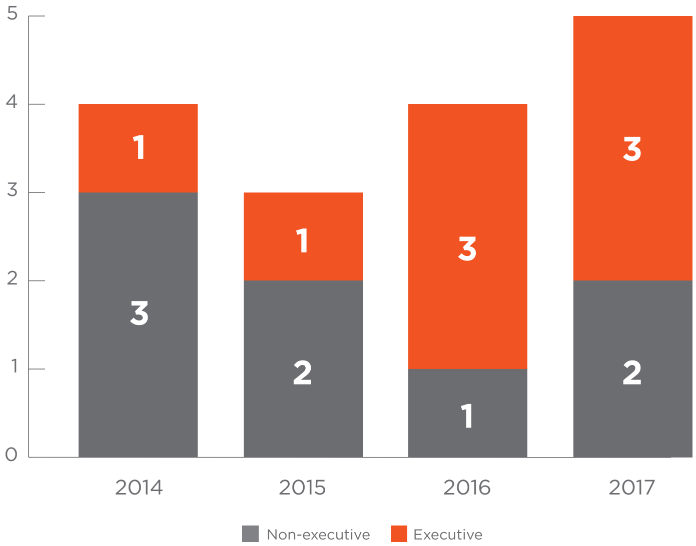

Figure 2

Examples of companies using this method:
Aviva plc;[25] *Hammerson plc;*[26] *Commonwealth Bank of Australia.*[27]

This method of portraying board skills and experience is more common than the full board skills matrix; it is also widely seen in the disclosure of Australian companies and is becoming increasingly prominent in other markets, particularly the UK. Here, the board clearly outlines which skills and experience are considered of particular importance for its composition and to what level the board has assessed these as being represented, without explicitly disclosing which directors it believes possess each area of expertise. In many examples that we have seen, the assessment is broken down further to depict the overall profile of executive and non-executive directors.

While a key disadvantage of this method in comparison with the full board skills matrix is the potential reduced accountability of individual directors for their areas of expertise in the board's activities, it nevertheless provides useful insights into the board's considerations in an easy-to-view format, which can be utilised as the basis for engagement on board composition or to better understand which skills the board may be seeking to bolster through board refreshment.

25 2016 Annual Report; pp. 75-80; 89. Aviva's disclosure also highlights how the board's skills and experience profile was utilised as part of board refreshment activities.
26 2016 Annual Report; p. 72.
27 2017 Annual Report; pp. 55-56.

KEY SKILLS AND ASSESSMENT METHODOLOGY

Cyber Security	Former or current senior executive role in IT and/or demonstrable experience with cyber security issues for international businesses
Skill B	Methodology for Skill B
Experience A	Methodology for Experience A
Experience B	Methodology for Experience A

Figure 3

Examples of companies using this method:
Rio Tinto plc;[28] *Macquarie Group Ltd.;*[29] *Aurubis AG.*[30]

In the third common variant, the board neither provides the names nor the numbers of directors that are judged to possess each area of expertise. However, the description provided generally contains information on the method in which directors are assessed which, if provided in conjunction with detailed biographies, allows market participants to gain a better understanding of the board's overall profile.

We have observed a large range in the information provided by companies that follow this method. A detailed explanation of the skill or experience, such as that provided in the example above, allows shareholders to conduct their own assessment of the board and candidates following the board's own methodology. Where companies provide vague descriptions or only name the relevant skills or experience for the board's composition, it may prove difficult to understand the level of importance the board places on these areas of expertise, or the extent to which the board considers them to be represented. Nevertheless, provision of this information is a useful starting point for board composition discussions between the company and interested parties.

28 2016 Annual Report; p. 62.
29 2017 Corporate Governance Statement; p. 5. Macquarie's disclosure is a hybrid of the 'half matrix' and methodology approaches, providing information on how directors are assessed and the number of directors considered to fufill each attribute.
30 Aurubis AG's supervisory board targets regarding its composition.

Considerations for Users

From the emerging best practice that we have been following over recent years, it has become apparent to us that board skills disclosure only has limited added value to market participants if it is principally treated as a compliance exercise and is not sufficiently linked to the board refreshment and candidate nomination process. Especially for companies that choose not to disclose a full board skills matrix, the inclusion of an assessment from the board of its current composition, clearly outlining competencies that are particularly well represented and areas that the board is seeking to further strengthen, as well as highlighting the key skills and experience that the board gains from its current members and is hoping to leverage from new candidates, provides investors with a much clearer picture of how and on what basis the board is shaping itself for the future. This is not a one-way street; issuers that are able to meaningfully clarify the board's composition and succession planning considerations will likely be rewarded with increased investor confidence and support for the board's proposals in this regard.

First and foremost, the skills and experience that are chosen for the assessment are particularly meaningful when closely linked to company strategy and industry environment; the list should be comprehensive enough to include all themes that are of relevance to the company in the short and medium term, but there is limited added value in including attributes that are expected of all directors (such as lack of material conflicts of interest or knowledge of director duties). For any relevant areas of expertise that are not represented at board level, it is also useful for shareholders to understand how the board has access to these skills or in which way and how regularly the board is kept informed of company developments. For example, if oversight of environmental and sustainability issues is performed by a management committee, how often does this committee report to the board? Or, if there are no individuals with cybersecurity or IT expertise present on the board, are there any internal or external experts in this field to which the board has access?

Secondly, a key consideration will be the way in which, and extent to which, the board discloses any skills or experience gaps that have been identified. Boards that do identify a gap will need to ensure that disclosing this will not undermine investor confidence in the current composition of the board. To avoid this, boards should consider proactively disclosing how the board nevertheless currently serves its purpose and how this gap is being addressed, for example through board refreshment, a director training programme, or additional support for the board from other sources. Even for boards that believe that all key skills and experiences are adequately represented, linking composition disclosure to director nominations helps shareholders to understand exactly why a particular candidate was chosen for election and how this individual will complement the current skills mix.

Finally, the assessment of the skills profile of the board and its members should not be viewed as a once-off activity; regular reassessment, particularly when new strategic plans are announced by the company, ensures that the information provided and skills and experience considered maintain relevance. Increased board skills and experience disclosure is likely to also lead to higher level discussions on this topic in engagement with shareholders, common themes or concerns from which can be fed back to the board to consider as part of their assessment.

Glass Lewis Approach

With growing investor focus on the composition of the board of directors, Glass Lewis has been developing its approach to assessing and communicating information on the skills and experience represented on the board to its clients. Considerations on areas of expertise represented on the board and its committees has always formed part of our director election analysis, particularly in the context of contested elections or board/committee performance concerns; for 2018, we are introducing a board skills matrix into our analysis across a number of markets in order to have a more structured approach to assessing board diversity.

AUSTRALIA

Following the introduction of a recommendation for boards to develop and disclose a skills matrix in a 2014 update to the Corporate Governance Principles and Recommendations by the ASX Corporate Governance Council,[31] Glass Lewis has closely monitored the disclosure provided in this regard from Australian companies from the 2015 AGM season.

Initially, a list of eleven key skills and experiences were developed against which all incumbent non-executive directors at ASX 100 companies were assessed, on the basis of biographical information provided by the company and other publicly available sources. This analysis was then compared with the board skills disclosure provided by the company itself, to draw attention to any perceived inconsistencies or areas where company disclosure could be bolstered,[32] and displayed in a tabular format in the director election analysis to highlight potential skills gaps.

For the 2017 AGM season, Glass Lewis expanded its analysis to cover ASX 300 companies and adapted its methodology in order to focus on skills and experiences that are likely to be particularly applicable for each individual board. Two core skills — "M&A and/or Capital Markets" and "Audit and/or Corporate Finance" — were considered for all boards, whereas all further areas of expertise considered were based on the GICS sector in which the company operates as well as the specific situation of the company, in particular its business strategy and scope of its operations.

An exhaustive list of areas of expertise considered, as well as the criteria on which the Glass Lewis analysis was based, is included in the appendices to the CGI Glass Lewis 2017/2018 Australia Proxy Paper Guidelines.[33]

EUROPE

Based on our experience with the Australian market and feedback received from clients, an in-depth analysis of board diversity is being expanded to major European markets.

During the 2017 AGM season, a board skills matrix was included in the analysis of a handful of the largest FTSE 100 companies in industries in which we believed skills and experience disclosure would be particularly useful to clients — namely the pharmaceutical, resources, and banking sectors.

For the 2018 AGM season, a board skills matrix will be included in the director election analysis for all UK FTSE 100 companies, all German DAX 30 companies, and approximately 100 further select bluechip companies with board elections at their 2018 annual meetings across several European markets.[34]

Across European markets, companies will be classified into five broad industry groups: financial, industrial, consumer, pharmaceutical/healthcare, and resources. Five core areas of expertise will be considered for all boards: core industry experience, senior executive experience, financial/audit & risk, public

31 Recommendation 2.2 in Corporate Governance Principles and Recommendations. *ASX Corporate Governance Council*, 2014.

32 In particular, we have highlighted skills and experiences that the company states are represented at board level, but where it is unclear from available disclosure which directors have been assessed to possess these attributes.

33 2017/2018 Australia Proxy Paper Guidelines; CGI Glass Lewis.

34 Decisions on the coverage list were primarily based on common market disclosure practice, as well as the market capitalisation and free float of companies. Markets with a significant level of participation for the 2018 AGM season include the United Kingdom, Germany, France, Spain, Italy, Netherlands, and Switzerland.

policy/regulatory, and legal; a further three areas of expertise will be considered on the basis of the industry group to which the company has been assigned.

Further information on the methodology for board skills analysis for European companies can be found here.[35]

GENERAL POLICY

While the primary intention of the Glass Lewis board skills matrix is to provide clients with a further insight into the skills and experience represented on the board, analysts may also provide an additional discussion in cases where we believe that our assessment in this regard has raised pertinent questions.

In particular, we would generally consider expanding our analysis in the following situations:

- Glass Lewis has identified a skill or experience that we believe is important to the company but which we were unable to attribute to any of the non-executive directors on the board through our analysis.

- A specific company situation may indicate that a certain skill or experience is underrepresented on the board.[36]

- There are significant discrepancies between a company's own skills and experience analysis and the analysis conducted by Glass Lewis, which may suggest that the company's disclosures in this regard could be bolstered.[37]

Furthermore, we have clarified more explicitly in our guidelines that we may recommend against the reelection of the nomination committee chair (or equivalent) in cases where the board has failed to address material concerns regarding the mix of skills and experience of its non-executive directors.

35 http://www.glasslewis.com/wp-content/uploads/2018/03/BoardSkillsAppendixEurope.pdf.

36 For example, in the case of a company that is involved in a number of ongoing investigations and proceedings and which appears to have limited legal and regulatory experience on the board.

37 For example, a company discloses that a certain area of expertise should be represented at board level, but the analyst was unable to clearly attribute this to any of the non-executive directors on the board.

How Shareholders Can Use This Information

First and foremost, particularly given that prevailing best practice in most markets is in a period of evolution, we believe that the board skills matrix provided by Glass Lewis, and the additional disclosure provided by companies in this regard, should primarily be viewed as a means to initiate a more open, two-way conversation between shareholders and their investee companies. From our engagement discussions with European issuers, we have identified that a formal approach is in place to assess the key skills and experience of the board in the vast majority of companies, but that the value of disclosing this information to the market had often not been fully considered. Further, from conversations with clients, we have identified that there is considerable appetite from institutional investors to enter into more meaningful discussions with companies on board composition and refreshment topics.

It is our belief that the Glass Lewis board skills matrix and information provided from companies on board composition can form the basis of a more structured dialogue by providing shareholders with a means to assess potential skills gaps, better understand the areas of expertise that the board holds to be of particular importance, and gain an insight into whether a company's disclosure allows for a meaningful assessment of these by a third party. Armed with this information, shareholders will be able to ask more specific questions about how certain areas of expertise are represented on the board, question any areas that haven't been explicitly considered, and provide feedback on how they would like to see the company's disclosure develop.

We also believe there is scope to utilise the board skills matrix as a tool to better understand board refreshment and make more informed decisions on director election proposals. By highlighting the key skills and experience of new nominees to the board in the context of the overall board profile, shareholders will be able to better understand why these individuals were chosen by the board for nomination. Further, when making a case-by-case assessment on whether to support the election or reelection of a director, we believe that shareholders may be more inclined to overlook relatively minor concerns with a nominee if the individual has a desirable skillset – especially in cases where the nominee appears to possess areas of expertise that are considered to be underrepresented at board level and/or may be difficult to replace.

The utility to shareholders of the board skills matrix and a company's board composition disclosure in making case-by-case decisions on board election proposals is likely to further increase over time. As companies become better informed as to the level and format of board composition disclosure that would be useful to their shareholder base and adapt this accordingly, shareholders will be able to draw more clear conclusions from this information.

Conclusion

The increasingly circumspect investing environment and evolution of the role of the non-executive director has led to an international investor-led drive for increased disclosure. Enhanced biographical information, detailed explanations of refreshment processes and specific appointment decisions, graphic illustrations of the holistic make-up of the board — as we've seen across a range of markets, there are many ways of communicating the board's approach to skills and diversity. A move toward better practice should be viewed as a two-way street, and investors can contribute to this process by providing explicit feedback and clear expectations in their engagement discussions. However, absent regulatory requirements, boards will have to balance the interests of multiple stakeholders in deciding the method and extent of their disclosure.

Regardless of the methodology employed, meaningful disclosure should avoid boilerplate and provide insight into board composition and succession planning considerations. When shareholders can assess the mix of skills, experience, diversity, and independence – and are provided with information on how each director and nominee fits into the bigger picture — they can better understand how the board is shaping itself for the future. In turn, institutions are more likely to give management the benefit of the doubt on contentious proposals and transactions when they are confident that the board is appropriately structured.

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