



# On the 2019 Nominating Committee agenda

KPMG Singapore Board & Governance Institute



Increasingly, nominating committees are being held to account for a wide range of issues including board skills and diversity, performance, succession planning (executive and non-executive), independence, tenure and disclosure.

Drawing on insights from our conversations with board chairs and nominating committee members over the past twelve months, we have highlighted these issues that, in our opinion, nominating committees should keep in mind as they approach and execute their 2019 agendas.

## 1. A diverse board is a better board.

Recent changes to the Singapore Corporate Governance Code (revised CG Code) and Singapore Exchange (SGX) Listing Rules stipulate that the board's policy on diversity should be disclosed, including qualitative and measurable quantitative objectives. It should also disclose the linkage to corporate strategy, how it has been implemented, and progress on achieving the objectives. Note that under the revised CG code, diversity is not just about race, gender, experience and core competencies – it now also includes age.

A high-performing board delivers solid strategic counsel and direction to the CEO by giving input on the challenges and risks that the organization should focus on. The nominating committee needs to ensure alignment of boardroom talent with the corporate strategy, both for the short- and long-term.

Boardroom composition and succession should start with clarity over the corporate strategy and a clear view of the needs of the business over a range of time horizons, closely followed by an examination of the skills gaps in relation to those needs. Skills matrices can be used to identify current and future skills gaps. Consider ongoing professional development and the output from the annual board evaluation exercise. Also consider scenarios where a number of directors are planning to leave at the same time, or are required to rotate off the board.

The nominating committee needs to consider the impact of the amendments to SGX's listing rules on the board composition, including the nine-year tenure

for independent directors and the requirement for independent directors to comprise one-third of the board, which will take effect from January 2022.

Note that first-time appointees on boards of listed companies must undergo training in the roles and responsibilities of a director of a listed issuer as prescribed by the Singapore Exchange. If the nominating committee deems that training is not required because the director has other relevant experience, the basis of its assessment must be disclosed.

## 2. Bridging the technology gap.

Rapid technological change and new disruptive business models challenge the more traditional approaches of many established businesses. To navigate this new landscape, the board will need to identify the right skillsets and look at a wider pool of candidates. Individuals who are capable of contributing across the range of issues the board faces will also be a great addition to the board.

Consider appointing directors with an understanding of 'new' technology who have the agility to manage the related opportunities and risks that are vital to success. Alternatively, consider setting up an advisory body – composed of independent individuals with expertise in specific fields – to advise the board on areas such as technology and innovation. Being less onerous in terms of time commitment and legal responsibilities, such roles might be more attractive to younger individuals aspiring for directorships.

## 3. Pay more attention to board composition and director independence.

Regulators are paying close attention to board composition. The revised CG Code sets out an overarching principle-based definition of director independence. The nominating committee is responsible for determining the director's

independence, bearing in mind the definition of independence and any other salient factors which might impact a director's independence or the perception of his or her independence. The revised CG Code now aligns the definition of director independence with regards to the shareholding threshold with the Securities and Futures Act requirements of 5 percent instead of 10 percent.

Note also that the revised SGX listing rules limit the tenure of independent directors to nine years (unless majority approval is obtained from a 2-tiered shareholder vote). At the same time, at least one-third of the board has to be made up of independent directors from 1<sup>st</sup> January 2022 onwards. The revised CG Code also recommends that the Board comprise majority non-executive directors, with a majority being independent (where the Chairman is not independent). All directors must also submit themselves for re-nomination and re-election at least once every three years.

#### 4. Examine the executive pipeline.

The number one item on the nominating committee agenda is the alignment of talent with the corporate strategy, both for the short- and long-term. The revised Code specifically requires a description of the work of the nominating committee, including the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline.

Plans need to be in place for the orderly succession to both board and senior management positions. How does the committee ensure there is adequate 'bench strength' within executive management. How about the traditional role of ensuring that potential future board members are being identified and developed?

#### 5. Consider the board's effectiveness as a whole.

The revised CG Code specifies that the nominating committee should decide how the Board's performance may be evaluated and to propose objective performance criteria for evaluating board effectiveness as a whole, effectiveness of each board committee, as well as the contribution by the Chairman and each individual director.

A well-designed board assessment can be insightful, uncovering obstacles to better board performance. From the outset, directors need to be aligned on the purpose and objectives of this board evaluation process. An effective board promotes trust and candour, and encourages healthy debates and exchanges. In particular, critically assess the quality of board discussions, the reliability of reports, the degree of board cohesion, and breadth and depth of industry knowledge.

## 6. Nominating Committee composition

The composition of a nominating committee will depend on the particular circumstances of the organization and its future strategy. Where necessary, knowledge and capability gaps can be filled (in part) by expertise from within the company (head of HR, head of talent) and/or external recruitment specialists (head hunters). It is important to understand the CEO's views, particularly on internal talent.

For boards which do not have nominating committees comprising majority independent directors, steps should be taken to ensure appropriate coordination and dialogue takes place between board committees, and in particular between the nominating committee and the remuneration committee – both of which need a grasp of performance and reward.

## 7. The board as a catalyst for culture.

When considering the composition of the board (and senior management team), nominating committees need to be cognizant of the key role played by such individuals in both determining and sustaining the desired corporate culture. Any new director appointed to the board should understand the purpose of the organization. Only then can they ensure that the organization's values, strategy and business model are aligned to it.

### Contact us

#### Irving Low

Partner, Head of Advisory

T: +65 6213 2071

E: [irvinglow@kpmg.com.sg](mailto:irvinglow@kpmg.com.sg)

#### Emilie Williams

Director, Risk Consulting

T: +65 6411 8007

E: [emiliewilliams@kpmg.com.sg](mailto:emiliewilliams@kpmg.com.sg)

#### KPMG Services Pte Ltd

16 Raffles Quay

#22-00 Hong Leong Building

Singapore 048581

T: +65 6213 3388

F: +65 6225 0940

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