



# On the 2020 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, independence, tenure and disclosure.

Drawing on insights from our conversations with directors over the past twelve months, we have highlighted these issues that nominating committees should keep in mind as they approach and execute their 2020 agendas.

## 1. Aligning board talent to the strategy

Core to the responsibilities of the nominating committee is ensuring that their board has the right combination of skills, backgrounds, experiences, and perspectives – to probe management's strategic assumptions; to enable management to navigate the company through an increasingly volatile and fast-paced global environment.

Identifying the business requirements and how they need to develop over time allows for a detailed examination of the skills required to deliver on them. Use skills matrices to identify current and future skills gaps and identify opportunities for ongoing professional development when developing long term succession plans.

Nomination committees also need to look ahead in order to understand when individuals are due to (or likely to) leave the board. Scenarios where a number of directors are planning to leave at the same time, or are required to rotate off the board, need handling carefully both in terms of disruption and corporate memory, but also in terms of managing investor expectations.

## 2. Enriching through diversity

Board diversity is a critical focus for the nominating committee. The 2018 Singapore Corporate Governance Code (revised CG Code) highlights that diversity is not just about skills, experience and gender – it now also includes age. It recommends a board diversity policy be established, including qualitative and measurable quantitative objectives. Companies should disclose the link to corporate strategy, how it has been implemented, and progress on achieving the objectives.

Think about the breadth of the talent pool from which new board members are sought. Challenge recruitment firms to provide a more diverse list of candidates and be specific about the skills and attributes required. Nomination committees that are themselves diverse, are likely to be more open to bringing in others from more diverse backgrounds.

## 3. Increased focus on director independence

The nominating committee needs to consider the impact of the amendments to SGX's listing rules on the board composition as these will take effect from 1<sup>st</sup> January 2022 onwards.

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 rules also 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 at any time on or after 1 January 2022. Where the Chairman is not independent, the board should comprise majority non-executive directors, with a majority being independent. All directors must also submit themselves for re-nomination and re-election at least once every three years.

## 4. Developing the executive pipeline

The revised CG Code now recommends the nominating committee review succession plans for key management personnel as well as for directors, Chairman and CEO.

Developing executives so that they are 'board ready' is a challenge for all companies, not least because the nomination committee typically struggles to get adequate visibility over the executive pipeline.

Once potential candidates for board positions have been identified current members should be challenged on how they can help with their development needs, such as mentoring. Board-level skills can be developed through roles on subsidiary boards or as non-executive directors elsewhere.

## 5. Challenging conventional wisdom

Rapid technological change and new disruptive business models challenge the more traditional approaches of many established businesses. Companies need to consider the impact of this on their board and look at a wider pool of candidates in order to identify people with the skills needed for them to meet the challenges they face in this new environment.

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.

Even without technological expertise, board members still need to be able to 'ask the right questions' and just as important, 'understand the answers', in order to be capable of contributing across the range of issues the board faces.

## 6. Setting the tone from the top.

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. Does the nominating committee explicitly consider culture and values when developing its succession plans and whether potential candidates exhibit the desired culture? Any new director or senior executive 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.

## 7. Managing the 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).

For boards which do not have nominating committees comprising majority independent directors, steps should be taken to ensure appropriate coordination and dialog 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.

## 8. Increasing transparency for investors

The CG Code recommends disclosing the process for the selection, appointment and reappointment of directors, including the criteria to identify and evaluate potential new directors and channels used in searching for appropriate candidates. It also recommends disclosing how the board, board committee and director evaluations have been conducted and the identity of any external facilitator that has been involved.

Investors are increasingly interested in the activities of the nominating committee as greater transparency around succession planning and board evaluations can help build trust and confidence that the board has a structured approach and addresses underperforming directors.

## 9. Building board capabilities

Board development is a vital component that keeps the board well-informed, engaged and energized, so that directors can effectively discharge their fiduciary duties. To ensure that directors have ongoing opportunities to develop their skills and knowledge, the Board should develop a policy and criteria for directors' development.

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 director has prior relevant experience and training is viewed as not required, the nominating committee must disclose the basis of its assessment.

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