Building the board: Matrix thinking

Your board is an important source of oversight, advice, experience, and insight. In this edition of Privately Speaking, we explain how a board composition matrix can help privately held and VC-backed companies build the right board for the future.

Composition matters

For young and growing companies, particularly those backed by venture capital (VC) funds, board building is often more informal and less strategic. Yet a long-term approach to building a strong board as the company grows can make a difference.

Your directors are expected to provide oversight of strategy, risk management, controls, and capital allocation; approve executive compensation and incentives; and hire the auditors. A thoughtfully constructed board can bring a mix of skills and perspectives that serves as a competitive advantage.

Adopting matrix thinking

The use of a board composition matrix is a common practice among public companies and disclosure of the matrix is increasingly expected by institutional investors.

By highlighting the qualifications and skills of each director and identifying gaps in skill sets needed to move the company forward, a matrix model can help boards reflect on their overall composition and serve as a foundation for development of a thoughtfully constructed board.

Considerations for VCs and portfolio companies

VC-led boards certainly have their strengths. Executive and director compensation is often closely aligned with strategy. There is often industry knowledge in the boardroom beyond the executive team. Communication with management is constant. And the time horizons and relative illiquidity of the investment tends to drive a focus on value creation.

Yet these boards are not without their challenges. Investment firms tend to dominate the board; limited partners have return expectations; investors have different liquidity preferences; related-party transactions are prevalent; accountability is blurred.

While venture firms tend to play different roles in building portfolio company boards, they should at least start a conversation collectively about the process. The KPMG Board Leadership Center recently led a group of VC investors in an exercise to future cast a board matrix. While some of the participants said they had previously worked with a similar framework, most said that their firms did not have specific processes and considerations for board building.

Getting value from diversity

Numerous studies have shown that more diverse boards and leadership groups can bring about higher valuations and greater return on equity. Yet, based on a recent survey by the National Association of Corporate Directors, only 13 percent of private-equity and VC-owned companies have adopted formal diversity targets for their boards.
A board composition matrix can help privately held companies ensure they are getting the best oversight and advice at each stage of the company’s journey. Young companies should use their board matrix as an aspirational tool; more mature companies should use it to help ensure their board composition is evolving along with the company.

— Conor Moore, National Venture Capital Coleader, KPMG LLP

### Constructing your board composition matrix

Our experience working with public and private companies suggests there are three basic steps to developing a robust board composition matrix for a VC-backed company.

1. **Establish the endgame.** How far is the company from a potential outcome? What is the range of those outcomes? What would a buyer or a public investor expect from the board?

2. **Work backward to current state.** What would the company or CEO need from the board to achieve that outcome? When? How would the company source directors or advice?

3. **Build the roadmap.** How are those future board seats and capabilities being “filled” today? What skills and insights are being contributed by investment firms or independent directors? What about educational activity and formal/informal networks?

The development of a board composition matrix requires company leaders to think very strategically about where they are, where they want to go and how they want to get there. It’s not a simple tick-the-box exercise; it’s about being very focused on what skills and capabilities your board will need to help the company succeed in the future.

— Brian Hughes, National Private Markets Group Leader and National Venture Capital Coleader, KPMG LLP

### Qualifications

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<th>Director 1</th>
<th>Director 2</th>
<th>Director 3</th>
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<td>Executive leadership</td>
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<tr>
<td>Diversity</td>
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<td>Public company governance</td>
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<td>Sustainability</td>
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<td>Independence</td>
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<td>Financial expertise</td>
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### Skills/expertise

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<td>X</td>
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<td>Scaling/growth hacking</td>
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<tr>
<td>Branding/marketing/customer focus</td>
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<tr>
<td>Strategic planning</td>
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<tr>
<td>Talent strategy/human resources</td>
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<td>Sales/sales management</td>
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<td>Supply chain/operations</td>
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<tr>
<td>Technology</td>
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Privately Speaking: Building the board: Matrix thinking
Privately Speaking focuses on the issues that matter most to privately held entities, including PE- and VC-backed companies.

KPMG LLP’s (KPMG) Private Markets Group understands what it takes to drive private company growth. In each edition of Privately Speaking, we share our insights—along with practical and actionable tips—to help boards, executives, and management grow, strengthen, and transition their privately held businesses.

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