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Creating and Using Skills Matrices

A Reference for Fund Directors

Introduction

Skills matrices can be useful tools for both board self-assessment and director recruitment. At a basic level, a skills matrix is a visual mapping of the expertise represented in a group. In a practical sense, a skills matrix can be used to address the questions "what skills/expertise do we have?" and/or "what skills/expertise do we need?" or to compare individuals to one another based on a pre-determined set of criteria.

Skills matrices vary widely in format and variables. This guide is designed to explore some of the questions and considerations that a board may find useful in developing and using a skills matrix. Board Counsel can be an excellent resource in the process of building and reviewing a board's skills matrices due to their exposure to multiple boards' approaches and considerations.

This reference guide has been divided into sections for ease of use:

Initial Considerations

- **Setting the Objective** | understanding what the matrix will do
- **Common Elements** | features that many matrices include

Tailoring Matrices to Use

- **Self-Assessment** | using a matrix to evaluate existing board members
- **Recruitment** | using a matrix to compare/evaluate director candidates
- **Unique Uses** | less frequent processes that may benefit from use of a matrix
- **Format** | considerations on organizing a matrix

Toolkit

- **Process** | a roadmap from drafting to implementation
- **Illustrations** | example matrices

Key Takeaways | a checklist for the process

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Initial Considerations

SETTING THE OBJECTIVE(S)

Mapping information about competencies and experience, as well as retirement/term data, onto a skills matrix serves to simplify processes of comparison or evaluation. Primarily, boards use skills matrices as part of self-assessment and/or recruitment.

Understanding how a matrix will be applied within a board process will help determine what variables to include, whether and how to categorize them, whether to list individuals on the matrix, and whether to rank the strength of variables in addition to marking them simply present or absent. For this reason, it can be useful to begin from what question the matrix will be a tool in answering (e.g. what skills/experience exist around our board table? What skills/expertise are needed for this board to be effective, and are they represented? What skills/experience are missing or soon to leave our board room? What skills/experience are we hoping to add to our board room?)

Anchoring the matrix to existing board practices, expectations, values and culture will ensure that it is a useful addition to the board's governance practices. Factors such as the size of the board, complexity and type of funds overseen, and others may influence the board's priorities about composition and thus play a significant role in defining the variables that might be included on a matrix.

The process of creating and reviewing matrices, and the variables included, gives directors an opportunity to reflect and discuss what areas of expertise, skills, experiences, characteristics, etc. are needed to execute the board's responsibilities most effectively.

A board may set a core matrix which is then modified and adapted for application to specific processes or may opt to create distinct matrices that share variables but are formatted differently to suit separate purposes.

CUSTOMIZING TO THE BOARD

For a skills matrix to be useful and beneficial to fund board practices, the board should tailor the matrix to reflect the board and the funds in the complex. This customization can take into account the values and principles of the board regarding qualifications of board members, as well as requirements from regulators, board charters or other sources. Beginning with simplicity and collaboration and then continuing to evaluate the usefulness of the document and layer on additional depth as needed may help ensure the matrix remains useful.

Some factors that may influence what a board includes on a skills matrix and/or what board processes may be served by the application of a matrix are:

- Board size
- Fund complexity and strategy
- Board committee structure and practices
- Existing recruitment/self-assessment processes
- Regulatory requirements
- Legal considerations

COMMON ELEMENTS

Regardless of how the matrix is to be used, many skills matrices have certain elements in common. For example, most matrices include:

The essential experience, expertise, attributes, and skills for all members of the board, and then for the board as a whole. For example, it may be essential for all directors to have experience with reviewing financial statements, and essential for the board unit to include at least one person with a deep background in the mutual fund industry.

A retirement year for each individual on the matrix. This data can be helpful as boards become more strategic about the timing of turnover. Having the information in the matrix can help in planning for departure and replacement of unique expertise. Some boards also include a variable for having been elected by shareholders.

Individuals' names, though it is not required for a matrix that seeks to evaluate the composition of the whole board (see illustration, page 15).

Current or recent career roles as well as other board engagements to aid in adding knowledge/expertise and for evaluating individuals' availability. Some boards may wish to differentiate different types of other active board commitments (corporate, nonprofit, fund, etc).

Industry- or fund-specific expertise to track the strength and balance of industry knowledge on the board or evaluate candidates against.

Data pertaining to the representation of a diversity of backgrounds and experiences on the board (see diversity considerations, page 4).

Questions to consider in defining categories and variables:
- What types of fund-specific experience or knowledge is necessary to have around our board table?
- What functional areas of fund management experience are relevant or helpful to our board in our oversight role (e.g. operations, investment, legal/compliance, distribution, etc.)?

- Is there knowledge or experience from outside the fund industry that is valuable to understanding and overseeing our fund/complex?
- Does the board want at least one subject matter expert in any area(s)?
- Are there areas in which we expect all or most directors to have some experience/competency?
- Are there leadership or personality attributes that we want to balance on the board?
- In what areas of expertise, roles or responsibilities should there be redundancies?
- What outside requirements, such as listing standards, apply to our board and call for specific expertise (such as an audit committee financial expert)?
- What types of leadership experience do we expect future committee chairs and/or lead independent directors to have?
- What direction(s) do we foresee this fund/complex moving within the next 3-5 years, and what expertise or experience is needed on the board to oversee that?
- In what areas does the board need a variety of different types of experience to avoid singular thinking on issues?
- How does the board ensure that diverse backgrounds and expertise are represented on the board (see page 4)?
- How does the board want to account for experience/expertise based on career background versus past board oversight of an issue?

CONSIDERING DIVERSITY

Following the US Supreme Court's decision in *SFFA v. Harvard* and ensuing litigation, boards may wish to reevaluate their diversity processes.

Boards retain flexibility in how they define diversity and may consider many other factors when it comes to composition. However, boards should not make board membership decisions based on a person's race, gender, nationality or other protected characteristic. Therein lies the benefit of using a skills matrix – to visually lay out the numerous skills, experiences, and characteristics that may benefit the board and its function. For this reason, boards may wish to take the opportunity to define what 'diversity' means to be able to effectively evaluate whether an individual, or the board group as a whole, meets that standard.

As with other considerations in this guide, much of the benefit lies in the discussion among the board. What appears on the matrix cannot fully capture the nuance or depth of many skills, experiences, or attributes and how those come into play in the board's effectiveness. In the context of recruitment, while a board may discuss and consider various aspects of a candidate's qualifications, certain of those may not be represented on a skills matrix due to their qualitative nature.

Similar to the case of "fit" on the board, discussed on page 7 of this guide, boards may opt to use a check box for whether a candidate "adds diversity to the board" to capture a broad array of factors, including diversity of experience and backgrounds. Conversely, it would not be advisable to list or include on the matrix specific demographic information.

Tailoring Matrices to Use

SELF-ASSESSMENT

Objectives

In the self-assessment process, a matrix may look at the board as a whole to evaluate its composition across multiple factors.

A matrix can allow the board to quickly see areas where there may be a lack of breadth in the board across variables or may expose a lack of depth on a particular variable. Gaps on a skills matrix may identify opportunities for director education, either for individual directors or the full board, or may indicate criteria for recruitment.

Representation of a variety of skills, experiences, and backgrounds may be desirable for the board. Laying out skills and experiences visually on a matrix can help boards to see where that variety exists or is lacking. See page 4 for more on considerations with regard to a board's diversity.

Boards may use a self-assessment matrix to determine opportunities or focus areas for continuing director education either for the full board or according to individual director interest.

Boards that practice rotation of committee chairs or the board chair may find a matrix useful to track and plan for those rotations.

Elements

Begin by defining skills and knowledge necessary to fulfill the board's fiduciary duty, reflective of the board's strategy, size, history, goals, etc.

Variables may include current roles and responsibilities of the board members, and expertise that may come from career backgrounds or prior experience.

A leadership category may include:

- Leadership experience
- Leadership skills/qualities
- Capacity/desire for leadership roles on the board
- Any term dates if chairs are rotated as well as any vice chairs in the line of succession

Boards may wish to indicate on the matrix which directors have been elected by shareholders.

Boards may include both interested and independent trustees on the self-assessment or limit it to independents only. If interested trustees are included, a variable for independent/interested may be helpful.

Questions to consider in refining categories and variables for a self-assessment matrix:

- Are there categories or variables where all directors should have some expertise or experience? Which ones?
- Which categories or variables would benefit from a diversity of perspectives and exposure?
- What competencies are needed around this board table to ensure adequate attention to and inquiry about the issues faced by these particular funds?
- How might individual directors' independent pursuit of board-relevant expertise or credentials be recognized on the matrix?
- What is the most relevant metric for a particular board to track when directors will leave the board or their current role? E.g.:
  - Retirement date/year
  - Years on the board
  - Term date for Chair
- What criteria are used to evaluate future board leaders or establish eligibility for leadership roles?
- In what areas would the board want to see an impending gap well in advance?

RECRUITMENT

Objectives

In the director recruitment process, a matrix can help the board define the required and desirable aspects of new directors, evaluate multiple candidates against each other objectively, and compare finalist candidates against initial expectations.

On a recruitment matrix, candidates are being compared to each other, to the broader population of possible candidates, and potentially also to existing board members.

A well-defined skills matrix can assist any partners or outside resources in the recruitment process with identifying candidates that will meet the board's defined criteria.

Mapping a narrative description of required and desirable qualifications and attributes into a matrix format and completing each candidate's relevant details creates a clear and simple comparison across these key factors.

During interviews, board members may use the skills matrix to define questions, or to add detail regarding the candidates' expertise or experience with certain variables. Some boards convene to discuss and come to agreement on whether to check off items on the matrix such as a variable for "fit" that is marked as 'yes' or 'no' based on board members' analysis of the candidate's fit with the board as determined through interviews and other interactions.

At the final stage of the recruitment process, directors may turn again to the matrix to evaluate and compare finalist candidates against the initial criteria.

Elements

If a board already has a skills matrix for self-assessment, that may be a useful place to begin developing a recruitment matrix. Current or anticipated gaps on the self-assessment matrix may become important criteria on the recruitment matrix.

Variables may be pulled from an existing description of required and desirable qualifications for prospective directors.

A recruitment matrix might also include variables such as source, current and former board engagements, location, and current or most recent past employer and title.

Some boards may include a variable to track the board's assessment of a candidate's "fit" with the board's culture (such as values and personality). This can be noted in board discussion following interviews with a check in that box to indicate yes or no.

Some boards may include a variable to track whether a candidate adds diversity to the board (as a yes or no check box) with a thoughtfully constructed definition of diversity that factors in a variety of personal, career, and other experiences. See page 4 for more on considering diversity on a skills matrix.

Questions to consider in refining categories and variables for a recruitment matrix:

- What does the board view as base, or essential, requirements to be considered qualified to serve on this board?
- What expertise, skills, attributes, career experiences, and industry knowledge is missing from, or soon to be leaving, the board?
- Where could a new director add expertise to the board on current or future issues?
- Are there board roles that the new director(s) will be expected to fill? E.g.
  - Audit Committee Financial Expert
  - Chair of a committee
- What information from a candidate's background is relevant to the board's consideration of them as a potential board member? Education, geographic location, and retirement status may or may not be relevant data and can be included or excluded from the matrix accordingly.

UNIQUE USES

Succession Planning

Separating out a pared-down skills matrix for succession planning specifically may be useful to prepare for chair rotation or turnover of key responsibilities and roles, such as the Audit Committee Financial Expert. This matrix may only include key redundancies, tenure, and leadership experience/qualifications, and may only include directors who are leaving the board or their roles within a set period of years, roles whose succession is under consideration, or responsibilities that require redundancies.

Board Combinations

When two boards are combining, having each board complete a skills matrix of the continuing board members and sharing those with each other prior to combining the boards may help the directors gain a better understanding of who will be on the combined board; think about education sessions; and talk about potential upcoming gaps despite a larger board size. Using a skills matrix in a board merger may also help management and boards consider which directors will continue on the combined board. (For more on board consolidation, see Practical Guidance for Fund Directors on Adviser Mergers and Acquisitions.)

FORMAT

The organization and layout are important in maximizing the utility of a skills matrix. Beyond purpose, is the matrix intended to be used for comparison, monitoring, or a holistic view of board composition? Each of these goals might result in different formatting choices. To compare board members or candidates, a matrix would need to have individuals listed along one axis of the matrix. However, for a holistic view of board composition, noting presence or absence of a specific skill or expertise from the board overall may be sufficient, without regard for whom or how many board members bring that skill.

Following are some considerations that may help guide decision-making about format.

Categories

Using categories to divide the matrix into sections can make the matrix more user-friendly and visually accessible. Categories usually have more specific variables grouped underneath them. For example, an Industry Knowledge category might include variables such as Distribution, Risk/Compliance, Experience at an Asset Manager, or other items that are relevant to the board and its composition priorities.

Some common categories include:

- Industry or Technical Knowledge
- Governance or Prior Board Experience
- Diversity of Viewpoints, Backgrounds and Experiences
- Skills
- Intellectual Capital
- Institutional Knowledge
- Behavioral Attributes
- Leadership
- Board Tenure (retirement date, term date)
- Qualifications

Using categories can anonymize the matrix, if desirable, and provide a holistic look at the full board as a unit of consideration rather than looking at individuals. (See illustration on page 15)

Rows/Columns per Individual

With or without categories, formatting the matrix so that each director or candidate has a row or column can allow a visual mapping of the depth and breadth of skills on the board. Especially in combination with details regarding individuals' tenure/retirement dates, the matrix can highlight where gaps may develop due to turnover on the board.

Listing individuals across columns or down rows likely comes down to reader's preference as far as what makes the relevant data easier to grasp at a glance, and which layout is clearer visually for the board.

To use the matrix to evaluate and compare individuals (for example, to make a comparison of candidates against established qualifications) it may be easier to list individuals across columns (see illustrations on pages 17 and 18). To use the matrix to review the depth, breadth, or absence of particular skills, expertise or attributes on the board, it may be preferable to list those variables across column headings and list individuals down the rows (see illustration on page 16)

If using categories and comparing individuals (not evaluating the board as a unit), it may be more readable to organize variables into rows in sections and list individuals across the columns (see illustration on page 17).

Priorities

Particularly for a recruitment skills matrix, ordering variables by priority or grouping them into 'required' and 'desirable' categories can make it easier to evaluate candidates' strengths against the established criteria (see illustration on page 18).

Similarly, for self-assessment purposes, boards may find it helpful to group 'essential' (everyone on the board must have/demonstrate) variables together so that gaps are recognizable.

Toolkit

PROCESS

For a skills matrix to be effective, there must be buy-in from the full board. The process of developing and using a skills matrix on the fund board can be as valuable as the matrix itself due to the conversations that it generates around board composition.

Building and using a skills matrix has the dual benefit of creating a visual representation of board composition or a candidate slate while also getting all members of the board on the same page regarding the skills and knowledge necessary for effective board function. A highly engaged and interactive process is desirable for the best outcome; however, the approach to drafting and review varies based on the size and structure of a particular board.

This section will cover key stages in the process from drafting through implementation.

Where to Begin

Boards may find it useful to have an individual or committee to draft a matrix that the full board can review and edit. A board might:

- Ask independent counsel to provide a template to work from
- Have each committee of the board define the skills and expertise needed for their work and then combine those into a single matrix for further review
- Task the Nominating/Governance Committee chair with drafting a matrix for review
- Ask each board member to define their own skills and expertise, and then work from those to set variables and/or categories
- Pull variables from a position description or search spec for director candidates

Preparing to Present or Review a New Skills Matrix

Once a matrix is drafted, the full board can then provide feedback.

Questions to ask in reviewing a draft matrix:
- Are these variables, as described, clear?
- Are the categories and variables meaningful and relevant in their application to this board and its work?
- Does the format/organization enhance or detract from directors' ability to interpret the data meaningfully?
- Are there variables missing that the board views as critical to its function or efficacy?
- Are there variables listed here that seem irrelevant for this board?

- Are the variables, as described, appropriately focused? (neither too broad nor too narrow to be useful)
- Is it clear how presence of a "skill" or "experience" is assessed? (e.g. does a person need employment experience with the variable or is board oversight of the area sufficient?)

Applying a Self-Assessment Matrix

Once categories and variables are set, the board can fill the matrix in according to the capabilities of the existing board members. Boards may ask counsel or the Governance Chair to fill in the matrix initially. The full board will often then review the matrix to check for accuracy. This exercise provides an opportunity for a conversation about what may constitute expertise or experience with specific variables.

Skills matrices are most effective when reviewed, updated, and modified regularly to add or remove variables according to their relevance, and update directors' information against the matrix. Some boards opt to review the matrix itself annually as part of the self-assessment process.

Changes at the fund complex may prompt the board to add new variables to the matrix to ensure that the board, overall, remains confident in its oversight.

As gaps appear, or are anticipated due to expected retirements, the board can identify the necessity for board training and/or required skills/expertise for recruitment.

Applying a Recruitment Matrix

With matrix variables/categories set, candidate profile data can be mapped onto the matrix for comparison.

In the interview process, board members may make notes on the matrix regarding presence, absence, strength, or recency of experience/skills. Boards also may also discuss following interviews to mark presence or absence of "fit" within the board on a matrix.

As with self-assessment matrices, recruitment matrices are living documents that benefit from being reviewed and refreshed for each use to ensure that the factors being evaluated remain relevant and useful.

ILLUSTRATIONS

Glossary of Terms

This section offers blank formatting templates for skills matrices to illustrate layout options that can support the objectives of the matrix as described on pages 1 and 5-7. What is included on a board's matrix and how it is organized can support the purpose or question that the matrix will serve. Terms used in these blank templates are defined below.

Attribute – a quality or feature regarded as a characteristic or inherent part of someone (often a personality trait or quality, as opposed to a skill or area of experience). Examples: collegiality, detail-orientation, curiosity.

Category – a class or division of variables or attributes having shared characteristics. Examples: board experience, fund industry experience, past roles, leadership skills/experience.

Parameter – a factor relevant for consideration, though not necessarily for purposes of comparison. Examples: source, location, employment status, referrer.

Variable – an element, feature, or factor. Examples: Qualified Financial Expert, compliance background, experience with trading/investments, fund board experience.

Category 1		Category 2		Category 3		Category 4	
Variable 1		Variable 1		Variable 1		Variable 1	
Variable 2		Variable 2		Variable 2		Variable 2	
Variable 3		Variable 3		Variable 3		Variable 3	
Variable 4				Variable 4		Variable 4	
Variable 5				Variable 5		Variable 5	
Variable 6						Variable 6	
Variable 7						Variable 7	
						Variable 8	
						Variable 9	

This is an example of a matrix that will evaluate a full board against composition goals of representation across various measures – check marks beside variables indicate presence of that skill/attribute on the board, without tying it to a specific board member. Numbers could also be entered beside variables to indicate a number of directors with that skill/attribute.

This format also shows one use of categories to group variables. This format would not easily lend itself to clearly understanding the priority of any of these variables, or to comparing individuals against one another.

Name	Variable 1	Variable 2	Variable 3	Variable 4	Variable 5	Variable 6	Variable 7	Variable 8	Variable 9	Variable 10

This matrix shows how variables might be listed across columns and individuals listed down the rows, which might make it easier to view how deep or broad a board's representation is within columns. Numerous checks down a single column would show significant depth on the board in that area.

	Person1	Person2	Person3	Person4	Person5	Person6	Person7	Person8	Person9	Person10	Person11
Category 1											
Variable 1											
Variable 2											
Variable 3											
Variable 4											
Variable 5											
Variable 6											
Variable 7											
Variable 8											
Variable 9											
Variable 10											
Variable 11											
Variable 12											
Variable 13											
Category 2											
Variable 1											
Variable 2											
Variable 3											
Variable 4											
Variable 5											
Variable 6											
Variable 7											
Category 3											
Variable 1											
Variable 2											
Variable 3											
Variable 4											
Category 4											
Variable 1											
Variable 2											
Variable 3											
Variable 4											
Variable 5											
Variable 6											

This matrix shows the combined use of categories to group variables and columns for each director or candidate for comparison on various measures. Relatively few checks across a row might indicate a skills or knowledge gap on the board, while a column with few checks might indicate a candidate or board member lacking skills or requiring additional training.

	Profile 1	Profile 2	Profile 3	Profile 4	Profile 5
Name					
Recruitment Parameter 1 (e.g. Source)					
Recruitment Parameter 2 (e.g. Location)					
Recruitment Parameter 3					
Recruitment Parameter 4					
CATEGORY 1 (ESSENTIAL)					
Variable 1					
Variable 2					
Variable 3					
Variable 4					
Variable 5					
Variable 6					
Variable 7					
CATEGORY 2 (DESIRED)					
Variable 1					
Variable 2					
Variable 3					
Variable 4					
Variable 5					
Variable 6					
Variable 7					
Variable 8					
Variable 9					
Variable 10					
CATEGORY 3 (RELEVANT)					
Variable 1					
Variable 2					
Variable 3					
Variable 4					
Attribute 1					
Attribute 2					
Attribute 3					
Attribute 4					

This matrix shows groupings of variables by their priority in a recruitment process. Gaps within the 'essential' section should be noted carefully. Prioritizing variables can also be applied to matrices for self-assessment or other processes.

Recruitment parameters could be included to aggregate data in one place, even if not for comparison purposes.

Attributes or behavioral items may be included on a matrix for evaluation during and/or following interviews. This could be a place where a check box for "fit" might be placed.

Key Takeaways

- ❑ Define the purpose of the matrix before designing it (or selecting a template to modify)
  - o Will the matrix be used to evaluate a group as a composite or to compare individuals to each other?
- ❑ Involve the full board in defining and refining variables
- ❑ Make formatting choices that serve the purpose of the matrix
  - o Group variables into categories and/or by priority
  - o Consider the use of rows and columns, and if reversing them would improve legibility
- ❑ With a completed matrix, review with the full board to ensure that it is usable for its intended purpose and not confusing or cluttered
- ❑ Treat the matrix as a living, working document – implement procedures for reviewing and modifying it regularly
- ❑ Consider modifying or adapting a skills matrix from one purpose to another