

NZSA Policy No 17 – Board Composition

Application: This policy applies to all NZX listed companies.

Purpose: NZSA maintains a range of policies to positively influence the behaviour of all participants in the NZX listed company sector. These policies should be read in the context of the NZSA Policy Framework Statement.

Statement No 17:

This policy document replaces the previous NZSA policy document dated July 2018. Key changes in this update include an assessment of stakeholder requirements and their ‘fit’ with the Board and a focus on director diversity.

1.0 Board Composition

- 1.1 The Board comprises members who, collectively, have the appropriate functional and stakeholder relationship capability to effectively govern the company.
- 1.2 NZSA expects Boards to function professionally, balancing a collegial work ethic with appropriate constructive challenge and open-ness of thought.
- 1.3 In terms of functional skill sets, NZSA will look for an appropriate balance of skills, evidenced by:
 - a) Overall, a third of their number with relevant, preferably recent, industry experience. This could include experience in both executive or governance roles.
 - b) The balance of the Boards skill sets should be in appropriate professional or functional disciplines relevant to the company’s needs.
- 1.4 Board appointments should recognise the increasingly broad range of stakeholder requirements associated with company boards. NZSA will look to the following factors to ensure that key matters facing the company can be adequately addressed.
 - a) Appropriate functional skills that are a fit for the organisation’s strategy and operations.
 - b) A ‘match’ of Board skills to key external risks and compliance requirements,

including sustainability requirements.

- 1.5 NZSA will look for evidence of thought and/or social diversity on the Board, as defined by past experiences, social demography, gender, age and ethnicity, as a means of ensuring that the Board can meet an outcome of an effective governance culture.
- 1.6 All Board members should possess a sound understanding of governance principles, be able to read and understand financial statements and be aware of the legislation and regulation that governs Directors and companies.
- 1.7 NZSA expects Director skills to be evidenced to shareholders through the provision of a skills matrix that describes the critical skills required to govern the organisation and the ability of each individual director to fulfil those requirements. NZSA expects disclosure of individual (rather than collective) director skills to demonstrate how directors contribute to the governance of the company within the annual report.
- 1.8 For an NZX50 entity, NZSA would expect that director skill requirements and the extent to which they are fulfilled by existing directors are reviewed periodically; for example, at a time when the Board is working through a recruitment process for new directors.
- 1.9 NZSA expects that the presence of a Future Director should not disrupt the day-to-day business of the Board or restrict open conversation.
- 1.10 NZSA expects that a Nominations Committee will consider new Board Appointments. The CEO should not have undue influence over the Nominations Committee, evidenced by the voting structure expressed within the Board or Nominations Committee Charter.
- 1.11 We expect nominations for the Board to be supported by a thorough recruitment process. Where applicable, the Nominations Committee should be supported by independent advice from a suitable recruitment specialist.
- 1.12 As per NZSA Policy #6 (Independent Directors), NZSA expects a majority of independent directors on the Board, even if the company is majority-owned by a major shareholder.

2.0 Commentary

- 2.1 The composition of a Board is perhaps the most significant factor in the success or failure of a company.
- 2.2 NZSA recognises that an appropriate level of Director Fees is important to ensure that a Board can attract and retain appropriate members.
- 2.3 NZSA believes that a board culture encouraging diversity of thought, the willingness of board members to constructively challenge each other and board members maintaining an open mind contributes significantly to long-term organisational performance.
- 2.4 NZSA encourages both social diversity within Boards and disclosure of key social diversity

measures, as this provides an *objective* approach towards understanding diversity around the board table.

- a) Regardless, NZSA believes that (collectively) the Board must maintain its ability to challenge itself and bring the appropriate skills required to govern the company to the Board table.
 - b) NZSA believes that board diversity is an effective means to achieve this outcome.
 - c) Notwithstanding that we will look for evidence of social diversity as per sections 1.5 and 1.7, NZSA believes that Directors should earn their place at the Board table through intellectual rigour, not by appointment on any other grounds.
- 2.5 We do not support a ‘tokenism’ approach to board diversity. We note that most academic commentators are supporters of diversity as a means to enable an organisation to better govern its strategy and risks, while noting that a ‘token’ appointment offers no value in improving organisational outcomes.
- 2.6 A Board needs to balance the need for a ‘collegial culture’ with the requirement for constructive challenge and discussion around the Board table, as reflected in the Institute of Directors ‘4 pillars’ framework.
- 2.7 NZSA believes a dysfunctional Board will have difficulty making effective decisions.
- 2.8 NZSA is conscious of the same groups of individuals appearing on multiple company Boards.
- a) While this may reflect appropriate skills and experience within a specific sector, we’re also conscious of the perception of some investors that Board members simply ‘pick from their network’ for new appointments.
 - b) This highlights the critical role played by the Nominations Committee in the Board appointment process.
- 2.9 The role played by relevant industry experience in a similar business, whether based on governance or executive experience, is a critical factor in ensuring that the Board can effectively question the CEO or other executives in relation to proposals or business operations.
- 2.10 A Board that lacks the ability to be able to internally verify the information it is receiving from its CEO and senior management increases the risk of poor quality decision-making and governance.
- 2.11 NZSA is aware of differing opinions related to the disclosure of individual director skills. While we recognise that the governance of an entity is a collective effort, we note that shareholders in New Zealand vote for ‘individuals’ on a Board, rather than a board slate (as exists in some other jurisdictions). On this basis, NZSA feels that individual skills and

their relationship to the company should be disclosed.

3.0 Key Regulatory Requirements

3.1 NZX Listing Rules

References

Companies Act 1993

NZX Listing Rules

“When and Why Diversity Improves Your Board’s Performance”
Harvard Business Review, March 2019

Definitions

The definition of ‘Director Independence’ is given in the NZX Listing rules under 2.13.3 (f).

Related Policies

1 – Director Fees

6 – Independent Directors

14 – Board Tenure

15 – Future Directors

Document Control

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