

CHAPTER

3

BOARD COMPOSITION, COMMITTEES, RENEWAL AND REMUNERATION

How to build a balanced and competent Board with effective committees, and how to renew, induct and fairly remunerate its members.

IN THIS CHAPTER

3.1	Balanced Board, its diversity and dynamics	33
3.2	Hard and soft competencies	35
3.3	Board competence matrix	36
3.4	Board committees	38
3.5	Board renewal – succession planning, rotation and induction	40
3.6	Remuneration of Board and committee members and chairs	44

The creation of the Board should be treated as a structured governance process rather than only a formal election of individuals. It should begin with a clear understanding of the company's ownership structure, strategy, scale, risk profile, regulatory environment and future development needs. Based on this assessment, shareholders should define the expected role of the Board, its mandate, composition, required competencies, independence expectations, diversity considerations, time commitment and working principles.

A Board competence matrix can be used to identify the knowledge, experience and behavioural qualities needed collectively by the Board, including sector expertise, finance, strategy, risk, legal, sustainability, digital transformation, people leadership and stakeholder understanding, among others.

The nomination and selection process should be transparent, objective and merit-based, with candidates assessed not only for their professional qualifications, but also for integrity, independence of judgement, ability to challenge constructively and willingness to act in the best interests of the company.

Once elected or appointed, Board members should receive a proper induction, including information on the company's business model, governance structure, strategy, risks, financial position, legal duties and key stakeholders. The first meetings of the newly created Board should focus on appointing the Chair, agreeing Board working procedures (developing and approving the Board Charter), confirming the annual calendar, establishing committees where appropriate, clarifying information flows with management and setting expectations for Board conduct and effectiveness.

3.1

BALANCED BOARD, ITS DIVERSITY AND DYNAMICS

A **Balanced Board** is crucial because it enables the Board to fulfil its core governance role effectively: providing strategic guidance, overseeing management, exercising independent judgement and safeguarding the long-term interests of the company. When the Board has the right combination of skills, experience, independence, diversity, size, continuity, renewal and constructive dynamics, it is better equipped to challenge assumptions, avoid groupthink, assess risks and opportunities from different perspectives, and make well-informed decisions. In this sense, Board balance is not only a formal composition issue; it is a key condition for Board effectiveness, responsible oversight and sustainable long-term value creation.

Balanced Board characteristics:

CHARACTERISTIC	WHAT IT MEANS
Board size	A Board should be large enough to provide the necessary skills, experience, independence, committee capacity and diversity of perspectives, but small enough to enable effective discussion, individual accountability and timely decision-making.
Independence and objectivity	A sufficient number of directors are able to exercise judgement free from undue influence by management, controlling shareholders or other interests. It is recommended to have a majority of independent directors on the Board.
Skills and expertise	The Board collectively has the knowledge needed for strategy, finance, risk, sustainability, digital transformation, people, regulation and the company's sector.
Experience and renewal	The Board should include both experienced members who understand the company well and new members who bring fresh ideas, while avoiding too much change or too little renewal.
Executive and non-executive roles	There is a clear balance between those responsible for management and those responsible for oversight, where applicable.
Constructive Board dynamics	The Board is able to debate openly, challenge respectfully, avoid groupthink and reach well-considered decisions.

There are two further characteristics of a Balanced Board that require particular attention.

Board diversity is an essential component of a Balanced Board. A Balanced Board is not achieved only by having diverse directors, but by ensuring the right combination of independence, skills, experience, continuity, renewal and diversity of perspectives needed for effective Board decision-making.

Board diversity explains *what kind of differences* the Board needs in order to avoid narrow thinking and improve decision-making. This may include:

- gender diversity;
- professional background;
- age and generational perspective;
- international experience;
- sector knowledge;
- functional expertise;
- stakeholder understanding;
- cognitive and behavioural diversity.

Board dynamics are an essential element of a Balanced Board, but they describe the quality of how the Board works, not only who is on the Board. A Board is not balanced only by its formal composition; it must also operate in a way that enables constructive challenge, open discussion, mutual respect, effective use of different perspectives and collective decision-making.

3.2
HARD AND SOFT COMPETENCIES

A Board with the **right and complete mix of competencies, skills and knowledge** is more effective in governing and guiding a company. Not every Board member needs to have all of them, but the Board as a whole should have a balanced mix of these competencies. This leads to better decision-making, risk management, strategic planning and overall performance. The Board's composition should align with the company's needs, challenges and strategic goals at a given period, and it should be reviewed during the annual (self-)assessment. If any changes are needed, the Board should take appropriate measures to address them (develop or improve skills, or suggest to the shareholders the replacement of a particular Board member or the enlargement of the Board).

In addition to hard competencies, an effective Board also needs strong **soft competencies** and behavioural qualities. These are essential because Board effectiveness depends not only on what directors know, but also on how they work together and how each of them behaves.

The objective is not for every Board member to be an expert in every area, but for the Board as a whole to have the collective capability, diversity of perspectives and behavioural quality needed to provide effective oversight, challenge management and support sustainable long-term value creation. It is advisable that **at least two Board members have sufficient understanding of the same key hard competence**, especially where that competence is critical for the company. This does not necessarily mean two full experts, but the Board should avoid a situation where only one person is able to understand, challenge or explain an important area. Such an arrangement avoids overdependence on one individual, improves the quality of challenge, supports the continuity of Board work (if one member leaves) and supports Board committee work, where several members should be able to contribute meaningfully.

An indicative list of hard and soft competencies is provided in Annex 1.

3.3
BOARD COMPETENCE MATRIX

A Board competence matrix is a tool that assists a company, its Board and shareholders in assessing and planning the composition of the Board, to ensure that it has the correct combination of skills, experience and knowledge to govern and steer the company efficiently and successfully. The main benefits of a Board competence matrix include:

- Strategic alignment. Ensuring that Board members have the right set of skills and knowledge helps them to understand and contribute to the strategic direction of the company, in better alignment with the company's strategic objectives.
- Increased confidence among shareholders and investors. A well-balanced and professional Board may boost shareholder trust.
- More competent decision-making. With the right set of competencies, the Board can make informed decisions more efficiently, which directly contributes to more professional and faster Board work and more effective governance, both crucial for the company's success.
- Improved risk management. A varied set of skills on the Board can help with risk management. Board members with financial, legal, industry-specific and other knowledge can help to identify and manage risks.
- Enhanced innovation, adaptability and resilience. A Board with diverse competencies can bring fresh perspectives and innovative ideas. Board members with various backgrounds and experience are more likely to challenge the status quo and help the company adapt to changing market conditions and withstand uncertainties and disruptions.

Table 3.1 **Example of a Board competence matrix (illustrative)**

		BOARD MEMBERS				
NO.	COMPETENCY / EXPERTISE	#1	#2	#3	#4	#5
1	Financial management, accounting	X				
2	Industry expertise, including knowledge of the sector		X	X		
3	Leadership	X				
4	Global experience					
5	International business development	X				

		BOARD MEMBERS				
NO.	**COMPETENCY / EXPERTISE**	**#1**	**#2**	**#3**	**#4**	**#5**
6	CEO or senior management experience					
7	Strategy development	**X**	**X**	**X**		
8	Strategic thinking, analysis of information					
9	Corporate governance					
10	Compliance					
11	IT and technological expertise	**X**	**X**			
12	Marketing experience	**X**				
13	Risk governance, experience in developing and implementing risk management systems	**X**		**X**		
14	Legal expertise			**X**		
15	HR management		**X**			
16	Change management	**X**	**X**	**X**		
17	Experience on other Boards	**X**				
18	Public relations, communications					
...	…	…	…	…	…	…

It is good practice to define the key competencies and the additional competencies required on the Board.

Ideally, more than one Board member should possess a specific skill or competence, so that they can challenge and ask questions.

The Board competence matrix is part of the succession planning and Board assessment processes, and responsibility for these processes lies with the Board and its nomination committee (where such a committee exists).

It is good practice to review and update (if needed) the Board competence matrix, including the full list of competencies, at each annual Board performance assessment.

3.4
BOARD COMMITTEES

Purpose of the Board committees

Boards should consider setting up specialised committees to support the full Board in performing its functions, particularly in respect of audit and, depending on the company's size and risk profile, also in respect of risk management, nomination and remuneration. Where justified by the size of the company and its Board, the use of committees may improve the work of the Board.

In addition to enhancing the Board's effectiveness, committees usually allow for a division of labour and a more efficient allocation of tasks among members. They also help to make better use of members' time and expertise, which contributes to specialisation of knowledge and more precise advice to the Board.

Board committees may be tasked with considering emerging trends, including ESG, diversity, increased stakeholder activism, and risks and opportunities related to evolving digital technologies (e.g. artificial intelligence). It is important that stakeholders receive a full and clear picture of the committees' purpose, duties, composition and activities (e.g. on the corporate website).

Establishment of committees

Three types of Board committee – audit, nomination and remuneration – are most commonly required by law or listing rules, or recommended by corporate governance codes, in most jurisdictions. The Board may establish other committees, such as a risk committee, strategy committee, sustainability committee, innovation committee, social and ethics committee, policy committee, finance committee, negotiations committee or facilities committee. A Board committee may have two or more roles. The Board may also form a task force to deal with a specific, time-bound issue.

When Board committees are established, their mandate, clear accountability rules, access to information, budget and external advice, composition and working procedures should be well defined by the Board (e.g. in a committee charter). While committee charters differ across committees and companies, they have some common features. They usually comprise the following elements:

- mission statement;
- role, purpose and responsibilities;
- delegation of authority, extent of power and decision-making abilities;
- composition and structure;

- membership requirements and procedure for meeting attendance by non-committee members;
- frequency of meetings;
- terms of access to internal and external resources and information;
- accountability requirements to the Board and formalities;
- special duties and powers of the committee chair, and tenure.

The authority of each committee should be determined by the Board itself. Committees should perform their duties according to the authority delegated to them. The composition of committees influences their effectiveness and performance. Members of each committee should be selected on the basis of their competencies.

It is suggested that all Board committees should comprise Board **members only** (i.e. no external persons) and should have a majority of independent Board members. If a Board committee needs specific expertise, it can engage outside experts; where this expertise is needed permanently, however, the person should become a member of the Board and then be delegated to that committee. Committees should be chaired by independent Board members.

Committee size usually depends on the needs of the Board and the way it is organised, the size of the company, and an assessment of the number of members needed to carry out the specific work. There is no optimal number of members, though committees are expected to remain efficient, not overburdened and not too costly. Most jurisdictions require or recommend that at least the audit, nomination and remuneration committees have three members and that all or a majority of them are independent.

For information on the working methods of Board committees, see sub-chapter 6.4.

3.5

BOARD RENEWAL – SUCCESSION PLANNING, ROTATION AND INDUCTION

The Board has a duty to ensure that its composition, competencies, knowledge, experience, diversity and dynamics fit the needs of the Board and the company over the long term, in order to maximise value for the shareholders and all relevant stakeholders. Board members who serve for too long often become too comfortable in their position, establish too close a relationship with top management, do not exercise effective control and do not challenge management enough, and thus contribute less to long-term value creation.

One of the main questions to ask about the performance of each Board member is whether they **deliver enough value** to the work and performance of the Board and to the company.

It is very important for the Board to ensure **continuity** and institutional knowledge. Long-tenured directors have experience of, and insight into, the company's strategy, operations and culture that can prove indispensable. It is not good practice to replace most of the Board members where there are no special reasons (such as underperformance or negligence), and it is recommended to retain at least some members.

Board member succession planning

Board succession means planning how future Board members will be identified, selected and appointed to ensure that the Board continues to have the right mix of skills, independence, diversity and experience.

Board member succession is the planned and structured process of identifying, preparing and appointing new Board members when existing members complete their term, resign, retire or when the company's strategic needs change. It is an important element of Board effectiveness because the Board must remain capable of providing proper oversight, constructive challenge and strategic guidance over time.

Board member succession is needed to ensure continuity, renewal and the right mix of competencies. Without proper succession planning, the company may face sudden gaps in expertise, loss of institutional memory, weak committee composition or overdependence on individual directors. A well-planned succession process helps the Board remain balanced, independent and fit for purpose as the company

evolves, its risks change and new regulatory, technological, sustainability or market challenges emerge.

The benefits of Board succession planning are significant. It supports a more stable and predictable renewal of the Board, reduces the risk of rushed or politically driven appointments, strengthens diversity and independence, and helps align Board composition with the company's long-term strategy. It also improves shareholders', investors' and stakeholders' confidence, as it shows that the company treats Board composition as a strategic governance matter.

To carry out Board succession properly, the Board should regularly assess its current and future composition needs. This can be done through a Board competence matrix, Board evaluation, review of committee needs, analysis of upcoming term expiries and discussion of the company's future strategic priorities. The nomination committee (where established) should lead this process and prepare clear criteria for new Board members, including required skills, experience, independence, diversity and behavioural qualities. Succession should be planned early, transparent in process, based on merit and aligned with the company's governance framework. The objective is not only to replace departing directors, but to continuously ensure that the Board has the right people, capabilities and dynamics to support sustainable long-term value creation.

Board member rotation

Board rotation means the regular and orderly renewal of Board members over time, usually through term limits, staggered appointments, re-election cycles or maximum tenure rules. Rotation helps avoid stagnation, excessive entrenchment and overdependence on long-serving individuals.

There are several steps that the Board should take on a regular basis to ensure that its composition fits the needs of the company and that there is a smooth plan for Board member rotation:

1. Review the company strategy at least annually and (re)identify the key strategic objectives.
2. Based on the key strategic objectives and the current and expected business environment, define what competencies are needed on the Board to govern and oversee the company efficiently. Individual traits should not be discounted either. It is highly recommended to use the Board competence matrix for this purpose.
3. Perform an annual self-assessment (see sub-chapter 6.6) of the Board as a whole, of each Board member and of the Chair of the Board, to identify what backgrounds, competencies and skills are present and what is missing, and

what the performance and contribution of each member and of the whole Board are. The self-assessment will give insights into what should be changed on the Board, what new backgrounds, competencies and skills are needed and what knowledge should be acquired.

As a result, the Board should define how these gaps will be covered. If any member needs to be replaced, the shareholders should be informed and the search for a new candidate should start, involving the nomination committee and (recommended) an executive search company.

4. Since any change in the Board's composition can be made only by the shareholders, the planning of the replacement process should take into account the timing of shareholders' meetings.

It is important to note that any Board member may be replaced regardless of their tenure if the Board and/or the shareholders see the need for it. A Board member who is to be replaced should place the interests of the company above their own; otherwise, they risk damaging their reputation.

If the Board finds that, with its current number of members, it cannot ensure efficient and professional Board work, it must propose to the shareholders (with supporting arguments) that the Board be enlarged. For example, the company may be acquiring another entity, undergoing a major transformation or planning a significant expansion into other markets, and may need all its current competencies plus an additional set of competencies and experience. A similar reason may arise when the Board decides to establish Board committee(s) and finds that there are not enough members with the desired competencies. Since members of Board committees must be Board members only, the Board should propose to the shareholders that the number of Board members be increased.

The process of Board renewal should be defined in a Board renewal policy or a similar document approved by the shareholders, and should be publicly available. This allows for better engagement with shareholders and all other stakeholders.

All changes in the Board's composition (including the reasoning) should be communicated by the company to all stakeholders.

Induction of the newly appointed Board members

Newly appointed Board members should receive a structured induction organised under a Board-approved induction policy and/or procedure. It should define the purpose, scope, timing, content, responsibilities and documents to be provided to each new Board member. The Chair should be responsible for ensuring that the induction is properly planned and aligned with the Board's expectations, while the

corporate secretary should coordinate the practical process, prepare the induction pack, arrange meetings and maintain records. The CEO and senior management should provide briefings on the company's strategy, business model, financial position, operations, key risks, internal controls, regulatory environment and main stakeholders. The induction should also cover the company's governance framework, Board and committee working practices, annual calendar, reporting lines, decision-making procedures, information flows and expectations regarding preparation, attendance, confidentiality, conflicts of interest and collective responsibility. It should include meetings with the Chair, CEO, key executives and, where relevant, major shareholders, as well as access to core corporate documents. A well-organised induction helps new Board members understand the company quickly, contribute effectively from the beginning and exercise independent judgement in the best interests of the company.

3.6

REMUNERATION OF BOARD AND COMMITTEE MEMBERS AND CHAIRS

Shareholders should establish a clear and transparent remuneration policy for Board members, based on a proposal made by the Board. This policy should set out the principles, components and procedures for determining Board member remuneration.

As defining Board remuneration is a critical aspect of corporate governance, it should be done taking into account several key factors that help to ensure transparency, fairness, alignment with the company's objectives and compliance with regulatory requirements. The main considerations are:

Company size and complexity. The size, industry and complexity of the company should be a fundamental consideration. Larger and more complex organisations usually require more time and expertise from their Board members. A group of companies is usually more complex than a single company.

Industry practices. Benchmarking against peer companies within the same industry or sector is a common practice. Understanding what other companies of similar size and complexity pay their Board members can help to ensure that remuneration is adequate.

Market conditions. Economic conditions, market trends and the competitive landscape can influence Board member remuneration. A company may need to adjust Board members' remuneration to attract and retain top talent in a highly competitive market.

Risk and liability. It is recommended to consider the level of risk and potential liability associated with the role of a Board member, especially in industries with higher regulatory scrutiny or complex legal environments.

Legal, regulatory and ethical considerations. Shareholders should ensure that Board members' remuneration is not only legally compliant but also ethically defensible. Unjustified, excessive or unduly low remuneration could draw negative attention or criticism.

Board roles and responsibilities. All Board members should be remunerated equally for the performance of their duties as Board members. Members of Board

committees should receive additional remuneration for committee work, equal for all members of the same committee. The Chair of the Board and the chairs of Board committees receive higher remuneration because of their additional duties.

General practice in defining the level of Board member remuneration is to use the total remuneration (fixed and variable) of the CEO as a benchmark. Depending on the time commitment, this could be in the range of 10–20 per cent of the CEO's total remuneration. For instance, if the Board holds 4–6 meetings rather than 10–12 meetings per year, remuneration should be aligned accordingly.

It is good practice to define fixed (monthly or quarterly) remuneration, because a Board member is involved in the company's matters not only during Board meetings but also between meetings. It is not good practice to set performance-based remuneration for Board members, because it could increase risk-taking among Board members and create potential risks for the company. This is even more relevant in the case of the Chair of the Board or the chairs of Board committees.

Members of Board committees should also receive additional remuneration, but at a lower level than Board member remuneration, taking into consideration that committees do not take decisions and do not bear legal responsibility. The level of time commitment should also be considered. If a committee works the same or a similar amount of time as the Board, the additional remuneration of a committee member should be in the range of 50–70 per cent of a Board member's remuneration. If the time commitment is lower, the remuneration should be lower too.

Because of their higher engagement, the remuneration of the Chair of the Board should be 2–3 times higher than the remuneration of Board members. Similar guidance applies to the chairs of committees, with a lower multiplier (i.e. 1.5–2.0 times the remuneration of a member of the respective committee).

A company should also reimburse all travel, accommodation and other expenses of Board members related to the performance of their duties. In addition, the company should pay for (and budget for) the development of Board member competencies, in order to keep them up to date on industry trends and related topics.

It is good practice to disclose all elements of Board members' remuneration in annual reports and other relevant documents. This is usually mandatory for listed and state-controlled companies. Transparency builds trust among shareholders and the broader stakeholder community.

It is important for companies to continually review and update their remuneration practices to remain competitive and aligned with evolving governance standards and market conditions.

Defining board member remuneration is a complex process that requires careful consideration of all of these aspects, balancing the need to attract and retain top talent with the responsibility to protect the interests of the company, its shareholders and stakeholders.

KEY TAKEAWAYS

A. Creating a Board is a structured governance process, not merely a formal election. It starts from the company's ownership, strategy, scale and risk profile, and from a clear definition by the shareholders of the Board's role, mandate, composition, required competencies and independence expectations.

B. A Balanced Board combines the right size, independence, skills, experience, a clear division between executive and non-executive roles, and constructive dynamics. Diversity of perspectives and the way the Board works together matter as much as who serves on it.

C. The Board as a whole, not each member, must hold the necessary hard and soft competencies. At least two members should understand each key competence, so that no important area depends on one person.

D. A Board competence matrix is the practical tool for assessing and planning Board composition. It supports strategic alignment, better decision-making and risk management, and should be reviewed at each annual Board assessment.

E. Board committees (audit, nomination, remuneration, strategy, etc.) improve Board work through specialisation. They should consist of Board members only, have a majority of independent members, be chaired by an independent member and operate under a clear charter. Committees do not make decisions, Board does.

F. Board renewal requires planned succession, orderly rotation and structured induction. Overly long tenure erodes independence, while replacing most members at once destroys continuity; the balance is managed through annual review of strategy, competencies and performance, and a publicly available Board renewal policy.

G. Board remuneration should be set by the shareholders under a clear policy: fixed rather than performance-based; equal for all members, with additional remuneration for committee work; higher for the Chair and committee chairs; benchmarked against the CEO's total remuneration; and fully disclosed.

QUESTIONS FOR THE BOARD

1. *Have the shareholders clearly defined the Board's role, mandate, required competencies and independence expectations, and does our current composition match them?*
2. *Is our Board balanced in size, independence, skills, experience and diversity, and does it work through open debate and constructive challenge rather than groupthink?*
3. *Do we maintain a Board competence matrix, and when was it last reviewed against the company's strategy and the results of the Board assessment?*
4. *Is any critical competence held by only one Board member, and what is our plan to address that dependence?*
5. *Do our committees have clear charters, an appropriate size, a majority of independent members and independent chairs, and do stakeholders have a clear picture of their work?*
6. *Do we have a succession plan and a rotation approach that ensure renewal without losing continuity, and is our Board renewal policy publicly available?*
7. *Do newly appointed members receive a structured induction under an approved policy, with the Chair accountable for it and the corporate secretary coordinating it?*
8. *Is our remuneration policy for Board and committee members and chairs clear, fixed rather than performance-based, benchmarked, ethically defensible and fully disclosed?*