

MALAYSIAN BOARD PRACTICES REVIEW 2020

Insights into the board nomination, selection,
appointment, and evaluation practices in Malaysia



ICDM
Institute of Corporate
Directors Malaysia

In Collaboration With

R Russell
Reynolds
ASSOCIATES





Foreword

One year on and we are still trying to manage and cope with the wrath of the Covid-19 pandemic - the impact is far from over. There are now surges of third waves across the globe, intensifying the challenges for boards to lead effectively in an environment of recurring outbreaks that has created an unprecedented stop-and-start economy. This has forced companies and organisations to rethink what skillsets, qualities and experience their boards and executives should have if the business is to succeed.

On the local front, the 2021 updates to the Malaysian Code on Corporate Governance (MCCG) elevated the emphasis on the practices and guidance for selection, appointment, and evaluation of directors. As businesses get more complex, the architecture of the board becomes more vital than ever. Appointing the right members serves as a crucial first step in building a sufficiently diverse board.

Evidently, the profile mix of directors on public-listed boards today is likely a direct result of the state of practices in sourcing and appointment or reappointment of directors. The pandemic has certainly prompted companies to re-examine their board composition, addressing shortages and forecasting future needs towards building an effective board of modern times that can respond to today's imperatives. A well-designed nominating process is key to getting the right people in place.

With board structure best practices in mind, the Institute of Corporate Directors Malaysia (ICDM) in collaboration with Russell Reynolds Associates (RRA) and Bursa Malaysia (Bursa) embarked on this study to review the board practices of PLCs listed on Bursa Malaysia in the third quarter of 2020. The study is intended to deepen our understanding of prevailing industry practices related to board selection, the nomination and appointment processes and board evaluation.

As Malaysia continues to move towards strengthening our corporate governance ecosystem through the adoption of codes of conduct and guidelines, the establishment of a holistic and structured approach for board selection, nomination, appointment, evaluation, and development is integral in ensuring that there is greater transparency and integrity in one of the fundamental elements of a functioning corporate governance system. With that, it will also help contribute towards a more sustainable, resilient, responsible, Corporate Malaysia over the long-term.

Michele Kythe Lim

President & Chief Executive Officer
Institute of Corporate Directors Malaysia

Stephen Langton

Managing Director
Russell Reynolds Associates

Datuk Muhamad Umar Swift

Chief Executive Officer
Bursa Malaysia Berhad

Contents

- 03** Foreword
- 05** Glossary of Terms
- 07** About the Study
- 08** Executive Summary
- 12** Section A - Practices for Selection, Nomination, Appointment & Reappointment of Independent Directors
- 24** Section B - Practices in Board Evaluation
- 34** Section C - Practices in Board Training and Development
- 38** Section D - Moving Forward: Seven Actionable Steps for Malaysian Boards

Glossary of Terms

ED	Executive Director	MCCG	Malaysian Code on Corporate Governance
NED	Non-Executive Director	LR	Bursa Malaysia Listing Requirements
INED	Independent Non-Executive Director	KPI	Key performance indicator
NINED	Non-Independent Non-Executive Director	KBI	Key behavioural indicator
NC	Nomination Committee	CG	Corporate governance
NRC	Nomination and Remuneration Committee (or its equivalent)	ESG	Environmental, Social & Governance
PLC	Public-listed company		

As Malaysia moves towards strengthening of corporate governance through adoption of codes of conduct and guidelines, **establishing a holistic and structured approach for board selection, nomination, appointment, evaluation, and development** is integral in ensuring we continue to be aligned to the set goals of Corporate Malaysia.

About The Study

In the third quarter of 2020, ICDM in collaboration with RRA and Bursa embarked on a study on board practices of PLCs listed on Bursa to sketch out an overview of prevailing industry practices relating to board selection, nomination, appointment and evaluation processes.

104 PLCs

By market capitalisation

39%

Large cap
RM2 billion or more

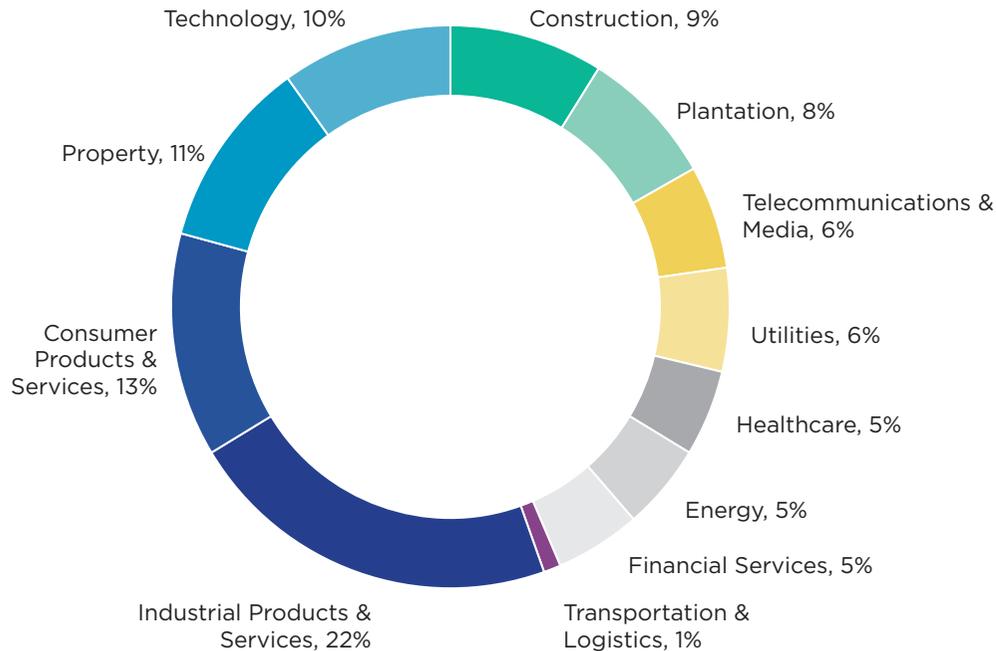
9%

Mid cap
RM1 billion or more but less than RM2 billion

52%

Small cap
Less than RM1 billion

By sector



799 directors

INED
54%

ED
27%

NINED
19%

Average board size,
8 members

Average tenure on board,
8 years

Note: All data in this Reports were based on the 104 responses covering 799 directors in total. The percentage numbers in the graphs/charts may be +/- 100% due to rounding-error.

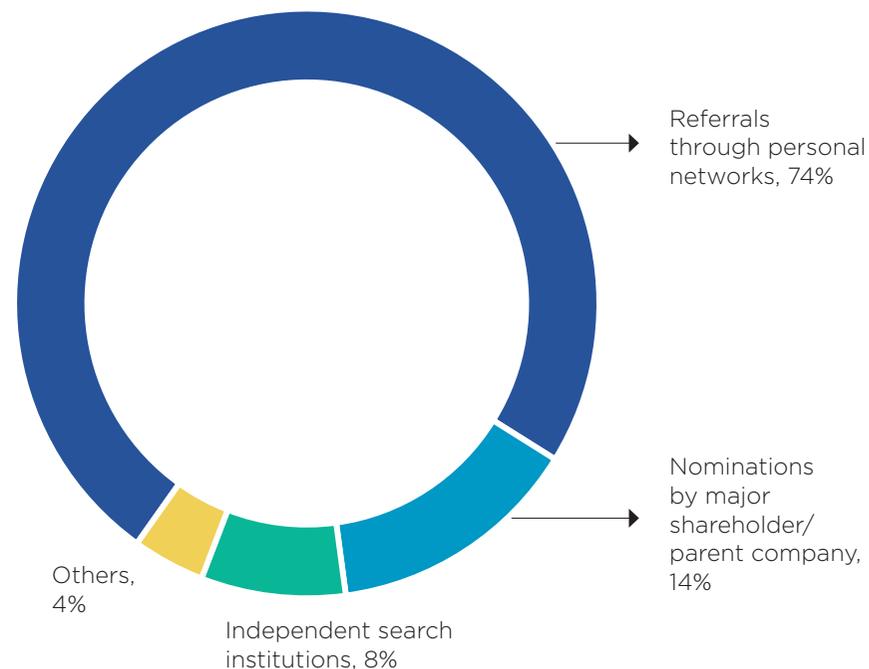
Executive Summary

Based on 104 PLCs

The study was undertaken primarily with the objective of using the insights to help drive the development of appropriate measures to best support and strengthen board practices in relation to board selection, nomination, appointment and evaluation processes. The findings will contribute to appropriate recommendations towards continual training and development.

Practices for Selection, Nomination, Appointment & Reappointment of Independent Directors

Sourcing for Board Candidates



An expanded search process is recommended - incorporate independent and alternative sources, consider first-time directors, look beyond the usual talents. [More on page 14](#)

Considerations Taken Before Actual Board Appointment & Reappointment

3 main shortlisting criteria



Identified skills least present & needed

Digital, technology, innovation, ESG, human resource, communications & public relations, marketing & branding



An effective board skills matrix can identify current board competencies and potential gaps, so that new board members can be appointed based on the outcome of the analysis. [More on page 16](#)

Independence & tenure checks

72% of the PLCs' have at least half of their boards comprising of INEDs

However,



The NC should ensure that the composition of the board is refreshed periodically. More vigilance needed for reappointments of long serving directors with MCCG 2021 Step Up Practice recommending 9 years tenure limit for INEDs. [More on page 20](#)

Practices in Board Evaluation

Main Objectives, Types and Scope of Board Evaluations

Scope of evaluation



- Board as a whole
- Board committees
- Individual directors

98% had annual internal board evaluations

25% had independent external board evaluations

3 main objectives of board evaluations



43%

Once every
4-5 years

38%

Once every
2-3 years



Boards are encouraged to leverage on insights gained from board evaluations to also improve board-management relationships, support or decline the nomination of a director for reappointment, or to determine board/director remuneration and compensation as it provides a more structured and objective avenue of inputs for decision making.

A board evaluation which is periodically facilitated by a professional, experienced, and independent party will also lend greater objectivity to the assessment by providing an unbiased perspective on a director's performance and his ability to contribute effectively to the board. [More on page 26](#)

Board Evaluation Criteria

Most commonly used criteria



- Board leadership
- Board duties & responsibilities
- Participation & commitment
- Board composition
- Board policies & procedures

Useful but less commonly used



- Board peer & senior management rating of board oversight, leadership qualities & effectiveness
- Board performance against pre-set KPIs/KBIs
- Board culture

There is great potential value to be gained by including peer/board and senior management ratings, performance against pre-set KPIs/KBIs, and board culture assessment as a criteria in board evaluation. These could offer additional insights on the softer aspects of board effectiveness, painting a better view of board's perceived and actual impact. Based on our experience, most board issues are due to soft skill or behavioural aspects rather than technical competencies. [More on page 28](#)

Key Facilitators, Methods of Evaluation & Challenges

3 main issues encountered



Company secretary

plays a key role in facilitating internal board evaluations currently

More straightforward and less complex methods of evaluation for a quick overview of the boards were the most common practice



Board-level survey



Director peer evaluation



Committee-level survey



Board skills matrix/
composition analysis

For a more meaningful and effective board evaluation exercise, the NC should retain oversight of the entire process and methodology of the board evaluation although it may be facilitated by the company secretary. Bringing in an external facilitator for methods that require more time for execution, coordination and analysis such as interviews with board and/or senior management, board observation/simulation, peer benchmarking and desktop review of board policies and processes as part of the board evaluation exercise could unveil a different or new perspective on the actual board effectiveness. **More on page 30**

Practices in Board Training and Development

90 %
Based on individual director requests

Directors' training and development appear to be unstructured and often undertaken on an ad-hoc basis. A structured development pathway for directors based on specific competency frameworks could help promote a more deliberate and targeted knowledge and skills acquisition for directors. Insights from board evaluations or a forward-looking skills matrix analysis could also provide valuable inputs to identifying key areas that require training or development. **More on page 35**

SECTION A

Practices for Selection, Nomination, Appointment & Reappointment of Independent Directors

As businesses get more complex, the architecture of the board becomes more vital than ever. Appointing the right members serves as a crucial first step in building a capable and effective board.

The profile mix of directors on PLC boards today is likely a direct result of the state of practices in sourcing and appointment or reappointment of directors¹. An effective board should include the right group of people, with an appropriate mix of skills, knowledge, experience and independent elements that fit the company's objectives and strategic goals. The right board composition will ensure sufficient diversity and independence to avert 'groupthink' or 'blind spots' in the decision-making process, and better equips the board to respond to challenges that may arise and deliver value².

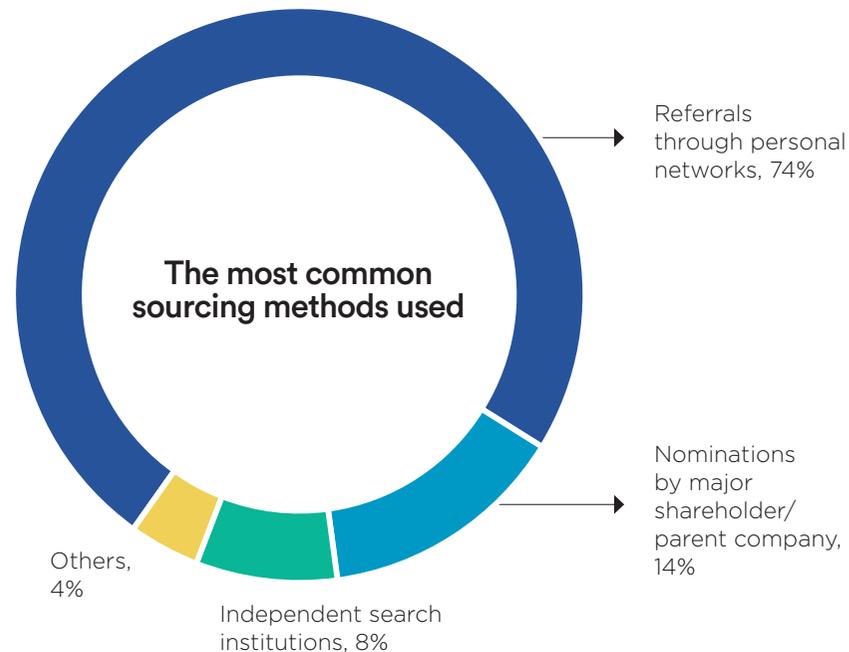
In this section, we look at how respondent companies source for board candidates and considerations taken for the appointment as well as reappointment of their independent directors.

1. Listed companies are required under the LR to disclose in its annual report its board composition policy having regard to the mix of skills, independence and diversity, as well as its board nomination and selection process of directors and criteria used by the NC in the selection process.
2. As iterated in MCCG 2021.

Sourcing for Board Candidates

On sourcing practices for independent directors, a significant majority of the recently appointed INEDs were still identified via referrals from existing directors or senior management through their personal contacts or network, or through nominations from a major shareholder or parent company.

To bring about transformative change, businesses must embrace a new NED profile and a new optimum board composition. An expanded search process is recommended to access and tap on a much more diverse and larger pool of potential candidates. This may include incorporating independent and alternative sources, considering first-time directors and looking beyond the established selection of non-executive talent. However, only 8% of respondent companies used independent search institutions.



Guidance per MCGG 2021

- 01 In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing directors, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates. This may include sourcing from a directors' registry and open advertisements or the use of independent search firms.
- 02 If the selection of candidates was based on recommendations made by existing directors, management or major shareholders, the NC should explain why these source(s) suffice and other sources were not used.

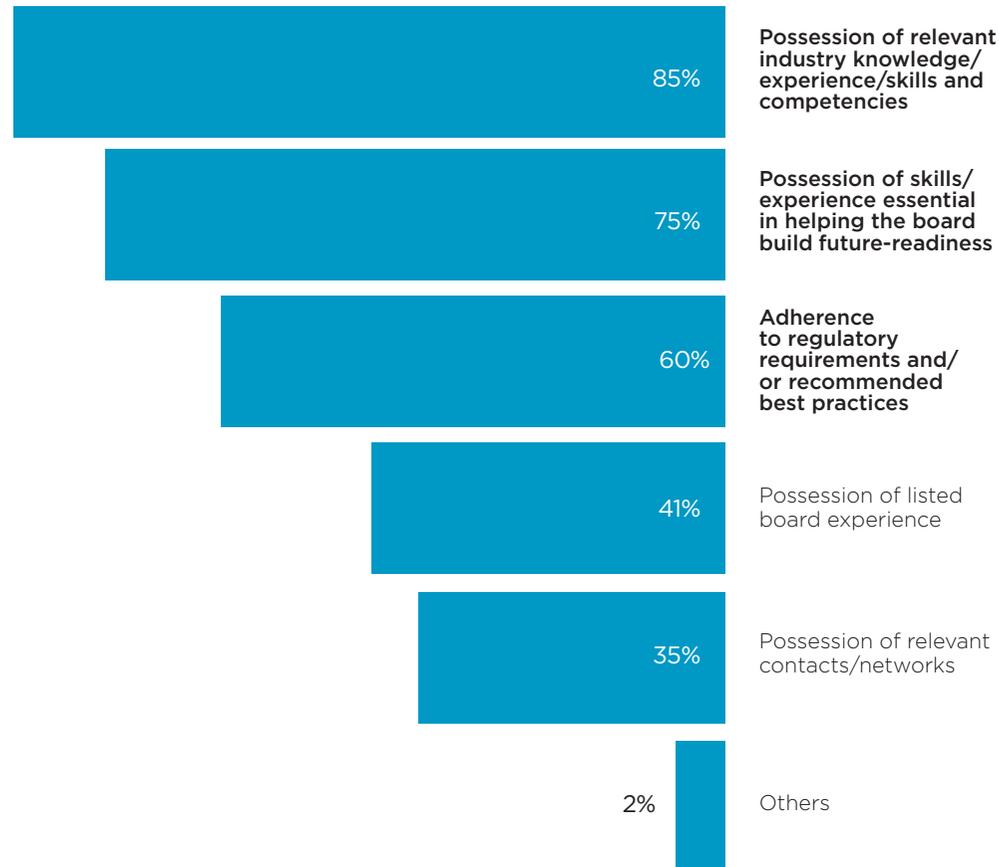


Considerations Taken Before Board Appointment/Reappointment

A) Shortlisting of board candidates based on objective criteria

In defining criteria considered for the selection and appointment of INEDs, respondents indicated a strong first inclination towards director capabilities around relevant industry knowledge, experience, and a set of identified skills and competencies. Less commonly considered however, were criteria relating to a director's experience on listed boards and network/access.

Main selection criteria of board candidates



Guidance per MCCG 2021

- 01 Appointment of board and senior management is based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background, and gender.

Per LR

- 02 Ensure that each of the company directors has the character, experience, integrity, competence and time to discharge their roles effectively.

Skills and competencies considerations

Board skills and competencies	Currently present, %	To supplement further to improve the overall board effectiveness and future-readiness, %
Digital, social media & technology, innovation	44	56
Environmental, Social & Governance (ESG)	44	39
Human resources, culture, succession	55	31
Communications & public relations	42	30
Marketing & sales, branding & reputation	63	27
Strategic thinking, planning & business development	91	26
Governance, regulatory, risk & compliance	92	25
Industry experience	83	24
Business, e-commerce, treasury, actuarial	54	24
C-suite/entrepreneurial leadership experience	58	21
Board leadership experience	88	14
Audit, accounting & finance	92	8
Others: Global perspective & experience	1	2

In analysing skills and competencies across PLC boards, there is substantial, comprehensive coverage in areas such as audit, accounting & finance (92%) governance, regulatory, risk & compliance (92%), and strategic thinking, planning & business development (91%). This was unsurprising, given the prevalence of these criteria as a foundational base for board selection in the past.

With the constantly evolving business landscape, coupled with a multitude of new challenges (most recently the Covid-19 pandemic), **boards today require a fundamental rethink of what skills and competencies are vital to a board's effectiveness in future context.**

Respondents acknowledged these following skills and competencies to be among those currently least present and appropriately, those to be supplemented further into their board selection criteria. These include digital, social media & technology; ESG; and human resources, culture and succession.

The new skills and competencies echo calls for greater and more effective adoption and understanding of digitalisation, technology and innovation, as well as a paradigm shift towards the stakeholder primacy model where boards are increasingly held accountable for appropriate involvement in managing stakeholder relations.

A board skills matrix can serve as a blueprint of the current board competencies, as well as highlight potential gaps, so that new board members can be appointed based on the outcome of the analysis.

Boards can consider appointing experts with the specific skillsets needed as board advisor without having to join the board as a member.

The ICDM and Willis Towers Watson (WTW) Study on Board Diversity in Malaysia suggests considering board diversity across eight key dimensions: gender³, age, tenure, culture, independence, international expertise, domain/functional expertise and industry expertise.

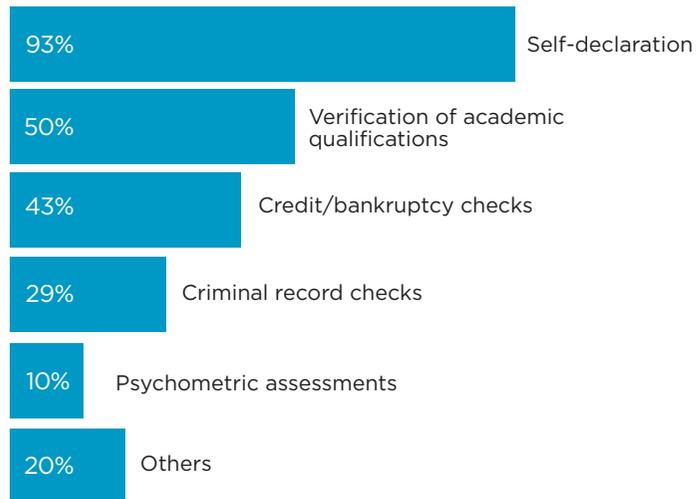
3. MCGG 2021 recommended that all boards should comprise at least 30% women directors.

Considerations Taken Before Board Appointment/Reappointment

B) Due diligence undertaken post-shortlisting before the actual appointments and reappointments

Respondent companies are generally in compliance with the LR and MCCG 2021 recommendations.

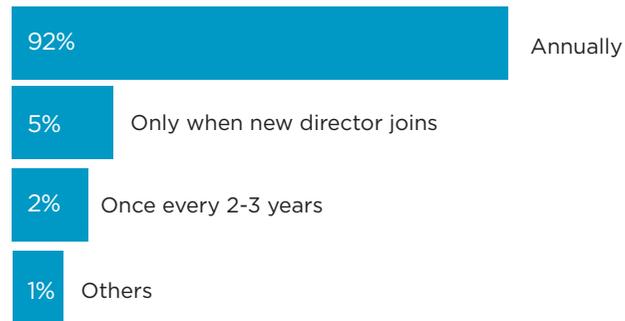
Due diligence checks before appointment of INEDs



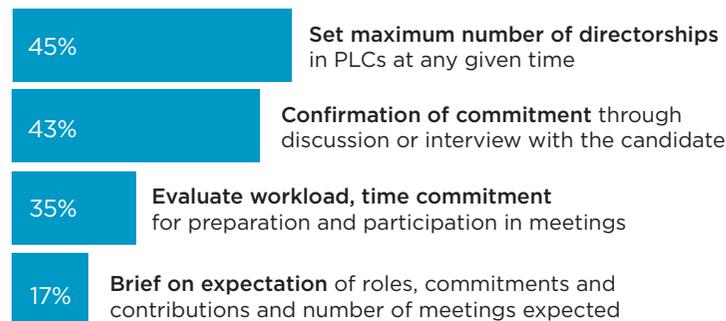
62% said same practices applied for reappointments of INEDs

84% said same practices applied for appointments of EDs

Frequency of fit-and-proper and independence checks



Methods used to ensure candidates with multiple directorship will be able to devote sufficient time



Guidance per MCCG 2021

01 The annual assessment of individual directors should include an evaluation of their commitment to serve the company, due diligence and integrity.⁴

Per LR

02 Listed companies to carry out due diligence on directors and key officers prior to their appointment and reappointment to ensure that each of its directors, chief executive or chief financial officer has the character, experience, integrity, competence, and time to effectively discharge his/her role accordingly.

03 To ensure directors have the capacity to reasonably devote sufficient time to effectively discharge his/her role as a director, the LR requires that directors sit on no more than 5 listed company boards at any given time.⁵

4. Individuals standing for election should also be transparent and make the necessary declaration to the board and shareholders on any existing or potential conflict of interest including whether they have a business, family or other special relationship within or outside of the company that could affect the execution of their role as directors on the board.

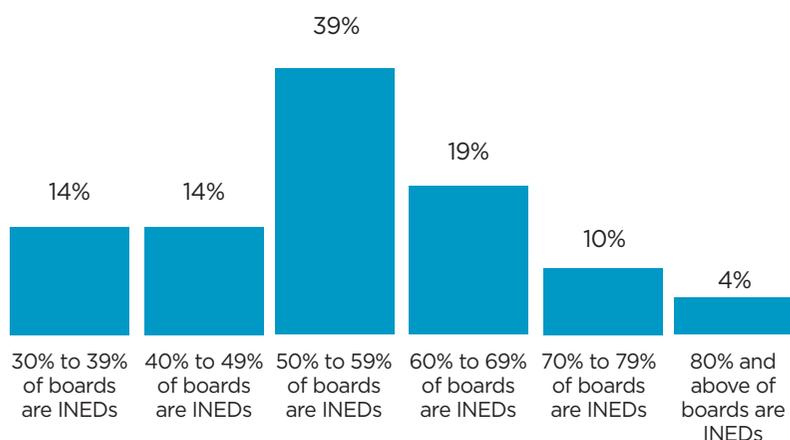
5. MCCG 2021 recommends that the board should consider the existing board positions held by a director, including on boards of non-listed companies. Any appointment that may cast doubt on the integrity and governance of the company should be avoided.



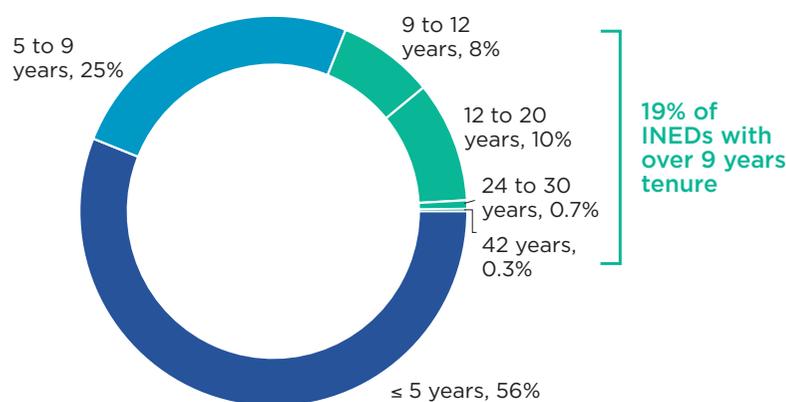
A deeper look into our respondent companies.

From the results of the Study, 72% of the companies have at least half of their board comprising of INEDs. However, 19% of these INEDs have been on their respective boards for over 9 years.⁶

Percentage of INEDs on respondent boards currently



Tenure of those INEDs on boards



Independence is of paramount importance for a well-functioning board, and is an integral factor to driving long-term value creation. The NC should ensure that the composition of the board is refreshed periodically.⁷

More vigilance to independent director tenure for board reappointments and awareness of avenues supporting board refreshment are consequently of great importance to maintaining adequate independent oversight by the board and its directors.

Guidance per MCCG 2021

- 01 At least half of the board comprises independent directors⁸. For Large Companies, the board comprises a majority of independent directors.
- 02 The tenure of an INED does not exceed a term limit of nine years. Upon completion of the nine years, an INED may continue to serve on the board as a NINED. If the board intends to retain an INED beyond nine years, it should provide justification and seek annual shareholders' approval through a two-tier voting process.⁹

Per LR

- 03 A listed issuer to ensure that at least 2 directors or 1/3 of their board of directors, whichever is higher, are independent.

6. MCCG 2021 also highlighted the issue of long serving directors.

7. MCCG 2021 recommends that the tenure of each director should be reviewed by the NC and annual re-election of a director should be contingent on satisfactory evaluation of the director's performance and contribution to the board.

8. There are heightened concerns amongst stakeholders that extended tenure may give rise to independent directors having a close relationship with board and management and thus, becoming too sympathetic to their interests or too accepting of their work. There could also be occasions where an independent director may become a 'dependent' director due to prolonged insular recruitment processes and attractive remuneration packages and material benefits.

9. Step Up Practice: The board has a policy which limits the tenure of its independent directors to nine years without further extension.

A recent Malaysian Board Diversity Study by ICDM and WTW observed a correlation between boards with 33% - 50% independence and better financial performance with 29% higher ROE and 28% higher revenue growth compared to boards with 0% - 33% independence, supporting the hypothesis that **boards with an optimal balance between independent and non-independent representation are likely to outperform others.**

The study advocates that boards benefit from the fresh ideas and experiences of newly appointed directors, balanced with the institutional knowledge and continuity provided by long-serving directors. A healthy balance between the two allows for more measured decision making, and consequently stronger company performance.

The study also showed that **boards with a tenure spread averaging more than nine years exhibited 43% lower revenue growth and 18% lower P/E multiple** as compared to companies with smaller tenure spread.

There is also growing pressure and scrutiny from investors on the importance of board independence¹⁰. For example, the 2021 investment principles published by BlackRock expressly lays out their expectations for director independence and director capacity to serve, reflecting their reliance on strong, engaged, and effective boards to look after investors' long term economic interests.



A well-constituted board is better placed to achieve sustainable financial performance



Note: The financial indicators and board diversity attributes here were based on the median of the top 312 Bursa-listed companies sampled in the Malaysian Board Diversity Study, over the performance period of 2017 to 2019.

Scan QR code to read the Malaysian Board Diversity Study Report.



10. In considering independence, it is necessary to focus not only on whether a director's background and current activities qualify him or her as independent but also whether the director can act independently of management.

Extracted from BlackRock Investment Stewardship: Global Principles

Effective as of January 2021

Ways in which boards and directors can demonstrate a commitment to acting in the best interests of long-term shareholders as highlighted in BlackRock Investment Stewardship Principles 2021.



Scan QR code to read the full Guide.

We set out below ways in which boards and directors can demonstrate a commitment to acting in the best interests of long-term shareholders.

Regular accountability

BlackRock believes that directors should stand for re-election on a regular basis, ideally annually. In our experience, annual re-elections allow shareholders to reaffirm their support for board members or hold them accountable for their decisions in a timely manner. When board members are not re-elected annually, we believe it is good practice for boards to have a rotation policy to ensure that, through a board cycle, all directors have had their appointment re-confirmed, with a proportion of directors being put forward for re-election at each annual general meeting.

Effective board composition

Regular director elections also give boards the opportunity to adjust their composition in an orderly way to reflect the evolution of the company's strategy and the market environment. BlackRock believes it is beneficial for new directors to be brought onto the board periodically to refresh the group's thinking and in a manner that supports both continuity and appropriate succession planning. We expect companies to keep under regular review the effectiveness of its board (including its size), and assess directors nominated for election or re-election in the context of the composition of the board as a whole. This assessment should consider a number of factors, including the potential need to address gaps in skills or experience, the diversity of the board, and the balance of independent and non-independent directors. We also consider the average tenure of the overall board, where we are seeking

a balance between the knowledge and experience of longer-serving members and the fresh perspectives of newer members.

When nominating new directors to the board, there should be detailed information on the individual candidates in order for shareholders to assess the suitability of an individual nominee and the overall board composition. These disclosures should give a clear sense of how the collective experience and expertise of the board aligns with the company's long-term strategy and business model. We also expect disclosures to demonstrate how diversity is accounted for within the proposed board composition, including demographic factors such as gender, ethnicity, and age; as well as professional characteristics, such as a director's industry experience, specialist areas of expertise, and geographic location.

There should be a sufficient number of independent directors, free from conflicts of interest or undue influence from connected parties, to ensure objectivity in the decision-making of the board and its ability to oversee management. Common impediments to independence may include but are not limited to:

- Current or recent employment at the company or a subsidiary
- Being, or representing, a shareholder with a substantial shareholding in the company
- Interlocking directorships
- Having any other interest, business, or other relationship which could, or could reasonably be perceived to, materially interfere with a director's ability to act in the best interests of the company

BlackRock believes that the board is able to fulfil its fiduciary duty when there is a clearly independent, senior non-executive

director to chair it or, where the chairman is also the CEO (or is otherwise not independent), a lead independent director. The role of this director is to enhance the effectiveness of the independent members of the board through shaping the agenda, ensuring adequate information is provided to the board and encouraging independent participation in board deliberations. The lead independent director or another appropriate director should be available to shareholders in those situations where an independent director is best placed to explain and justify a company's approach.

There are matters for which the board has responsibility that may involve a conflict of interest for executives or for affiliated directors. BlackRock believes that objective oversight of such matters is best achieved when the board forms committees comprised entirely of independent directors. In many markets, these committees of the board specialize in audit, director nominations and compensation matters. An ad hoc committee might also be formed to decide on a special transaction, particularly one involving a related party, or to investigate a significant adverse event.

Sufficient capacity

As the role of a director is demanding, directors must be able to commit an appropriate amount of time to board and committee matters. It is important that every director has the capacity to meet all of his/her responsibilities – including when there are unforeseen events – and therefore, he/she should not take on an excessive number of roles that would impair his/her ability to fulfill his/her duties.



Questions for Boards

When was the last time you updated your board selection, appointment and reappointment policies and processes? Are the criteria for selection catering to the current landscape?

Is there sufficient diversity in your board in terms of gender, age, tenure, independence, culture, skills and experience?

Have you developed a board skill matrix to identify potential skills that might be missing but essential in future-proofing your organisation?

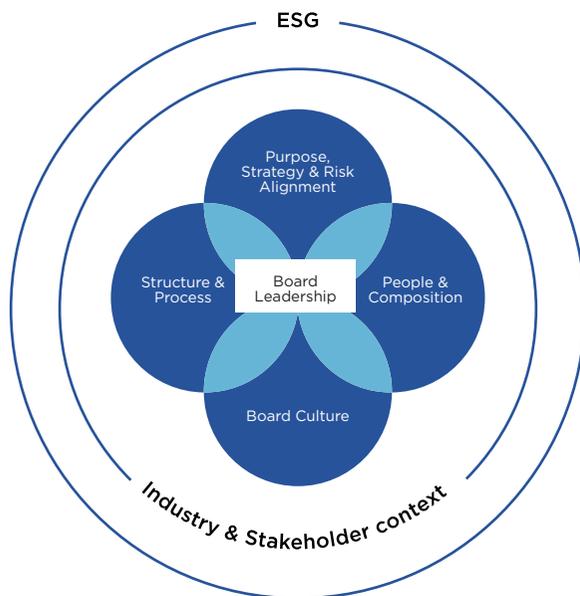
Is it time to refresh your board? Have you considered candidates from independent sources?

Is there a robust succession planning in place for independent directors nearing a 9-year tenure?

SECTION B

Practices in Evaluating Boards

An objective and well-managed board evaluation process can lead to substantial improvement in board effectiveness, bringing significant benefits to the company.



Key elements of a well-structured board evaluation framework

Board Leadership roles and behaviour of chair/lead director and committee chairs

Purpose, Strategy & Risk Alignment clarity, alignment, contribution, time horizon

People & Composition competencies, diversity, individual/collective board performance

Structure & Process committees, meeting mechanics, agenda, information flow

Board Culture behaviours, relationship dynamics, working together

Source: Russell Reynolds Associates

An effective and holistic 360° assessment framework and methodology is needed for a balanced view of the board's performance, identifying positive aspects and areas for improvements, supporting the board in forward-looking development and growth.¹¹ It should provide a holistic structure comprising the key elements mentioned on this page, together with consideration for the industry and stakeholder context relevant to the organisation, and increasingly, the implications of ESG expectations of and concerns for a board.

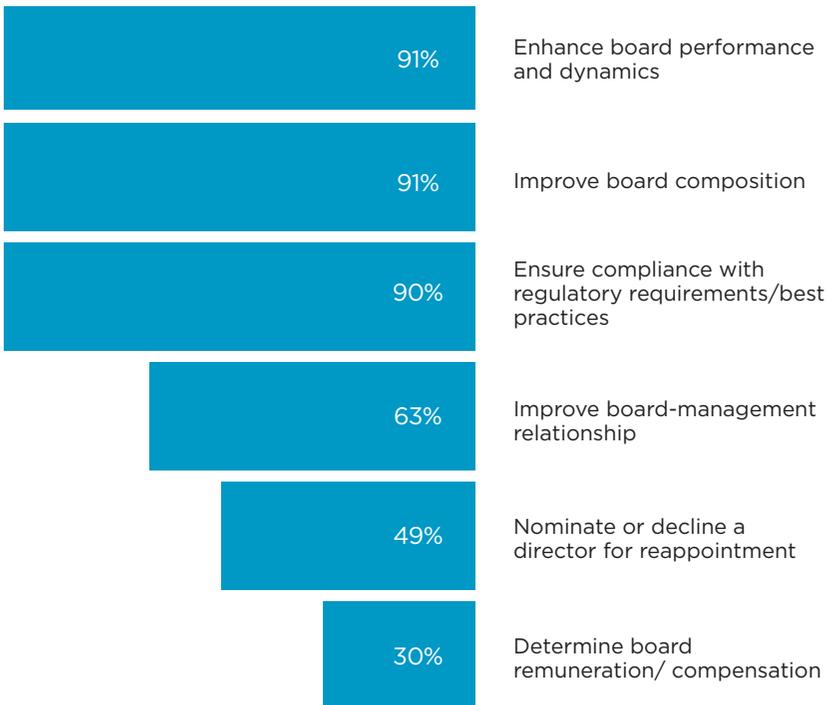
In this section, we look at the types of board evaluations undertaken by the respondent companies, the objective of evaluations, how the evaluations were conducted, and the common issues and challenges faced.

11. As mentioned in MCG 2021, board evaluations should not focus entirely on historical assessment of directors' performance but also include forward looking considerations, such as mapping current board competencies against those required, to drive the company's future strategies.

The main objectives, types and scope of board evaluations

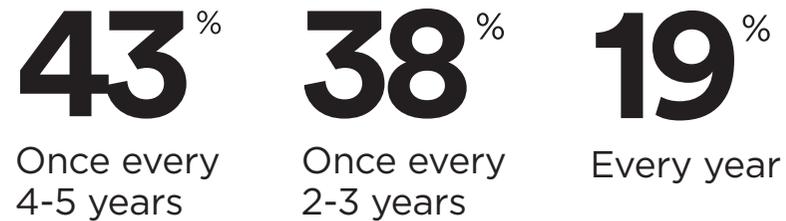
Main objectives of board evaluations

We would encourage more boards to leverage on insights gained from board evaluations to improve board-management relationships, support or decline the nomination of a director for re-appointment, or to determine board/director remuneration and compensation as it provides a more structured and objective avenue of inputs for decision making.

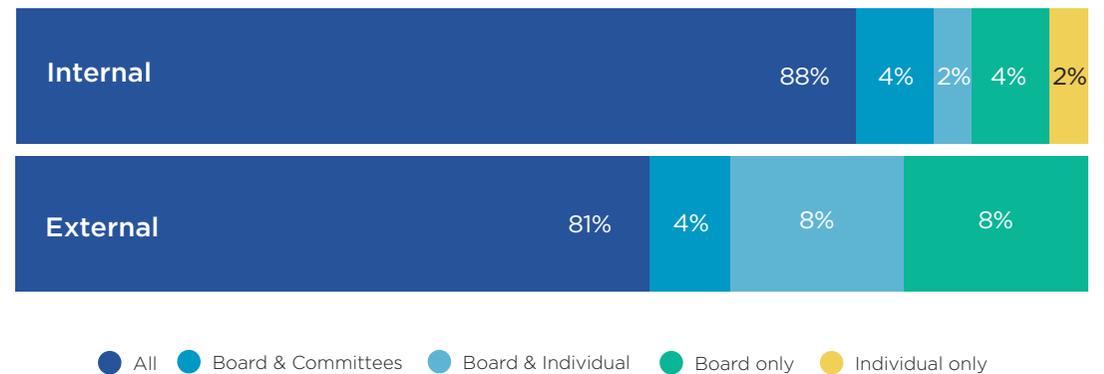


98% had annual internal board evaluations¹²

25% had independent external board evaluations



Scope of evaluation mostly covered board as a whole, board committees and individual directors



12. Not 100% because two of the respondent companies did not conduct internal evaluations; one was newly listed in 2019 while the other conducts external evaluation annually, hence internal evaluation is not required.

The natural default remains for board evaluations to be facilitated internally, typically by one or a combination of the NC/NRC and company secretary.

A board evaluation which is periodically facilitated by a professional, experienced, and independent external party also lends greater objectivity to the assessment by providing an unbiased perspective to the whole board evaluation exercise.

The perspective of external consultants can be particularly helpful in the complex task of identifying the collective strengths and skills, examining them against the company's long-term business goals and the shifting competitive landscape. External or independent facilitators also help to draw out more candid, impactful and meaningful board evaluation outcomes.



**Guidance
per MCCG 2021**

- 01 The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees, and each individual director. The board should disclose how the assessment was carried out, its outcome, actions taken and how it has or will influence board composition.
- 02 For Large Companies, the board engages independent experts at least every three years, to facilitate objective and candid board evaluations.

The main board evaluation criteria

Results from the study provide the following outline of criteria most considered in respondents' two most recent board evaluations:

BOARD AS A WHOLE		BOARD COMMITTEE	
Effectiveness of overall board leadership in terms of leadership style & tone, impact & influence as well as being forward-looking	93%	Effectiveness of board committee leadership in terms of leadership style & tone, impact & influence as well as being forward-looking	89%
Effective execution of board duties & responsibilities including oversight & guidance on business strategy & risk management, appropriate follow-up actions, etc	93%	Effective execution of board committee duties & responsibilities including oversight & guidance on respective committee function, ability to challenge & probe, appropriate follow-up actions and reporting to board	97%
Collective degree of participation & commitment e.g., frequency of meetings, attendance levels, diversity of thoughts & depth of discussions, interactions amongst directors and ability to challenge & probe	93%	Collective degree of participation & commitment e.g., frequency of meetings, attendance levels, diversity of thoughts & depth of discussion, interactions amongst committee members & respective stakeholders	92%
Alignment to desired board composition e.g., board size & mix such as competencies, skills, experience, independence, and the mix of board committees	88%	Alignment to desired board committee composition e.g., committee size & mix such as competencies, skills, experience, diversity & independence	85%
Robustness of board policies & procedures e.g., board terms of reference/charter, board meetings, decision-making process, meeting minutes, onboarding, succession planning, etc	87%	Robustness of board committee policies & procedures e.g., committee charter, terms of reference, decision-making process, & meeting minutes	87%
Adherence to regulatory requirements e.g., MCGG & LR		Adherence to regulatory requirements e.g., MCGG & LR	
Senior management ratings of board oversight, leadership qualities & effectiveness	22%	Board & senior management ratings of board committee oversight, leadership qualities & effectiveness	34%
Performance of the board against pre-set key performance indicators (KPIs)	17%	Performance of the board committee against pre-set KPIs	16%
Alignment to the desired board culture	38%		
Others	1%	Others	1%

INDIVIDUAL DIRECTORS¹³

-

Effective execution of board duties & responsibilities as a director
including possessing sound character, exercising sound judgement, strategic thinking, common sense, and upholding integrity at all times **98%**

Degree of participation & commitment
e.g., attendance and participation/contribution at meetings, responsiveness to key matters, relationship with other directors **94%**

Alignment of the individual characteristics against those desired by the board
in terms of competencies, skills, experience & diversity **88%**

-

Board peer & senior management ratings of the director's leadership qualities & effectiveness **65%**

Performance of the individual directors against **pre-set KPI & key behavioural indicators (KBIs)** **26%**

-

Across all levels of evaluation (board as a whole, board committees, individual directors), the criteria that were least used include peer ratings (board and senior management ratings of board oversight, leadership qualities and effectiveness), and performance against pre-set KPIs/KBIs.

There is however much potential value to be gained in involving shareholders or other stakeholders (including peers and senior management) within the board evaluation process. It could, for one, serve as a simple way of providing a backdrop for contrast or corroboration against self-reflection ratings – valuable for identifying gaps between a director, committee or board's perceived and

actual impact. Based on our experience, most board issues are due to soft skill or behavioural aspects rather than technical competencies.

Criteria such as a board, committee or director's performance against pre-set KPIs/KBIs, if accessible and appropriately leveraged, could also serve as an additional objective angle towards evaluating performance and effectiveness.

Notably, amongst criteria used to evaluate the board as a whole, alignment to the desired board culture was also only taken into account by a relatively low proportion of respondents (38%).

Board culture, however, is growing increasingly important in influencing

overall board effectiveness, as evidenced in the Global Board Culture and Director Behaviours Survey conducted by RRA in 2019.

Key findings from the survey revealed a strong link between critical director behaviours and higher company performance. Including board culture as a criterion in evaluations could therefore support and elevate the comprehensiveness of insights to further drive overall board effectiveness.



Scan QR code to read the RRA's Survey Report.

Per LR

01 Listed companies must include information on the assessment undertaken by the NC in respect of its board, committees and individual directors together with the criteria used for such assessment in their annual report.

Guidance per Bursa CG Guide

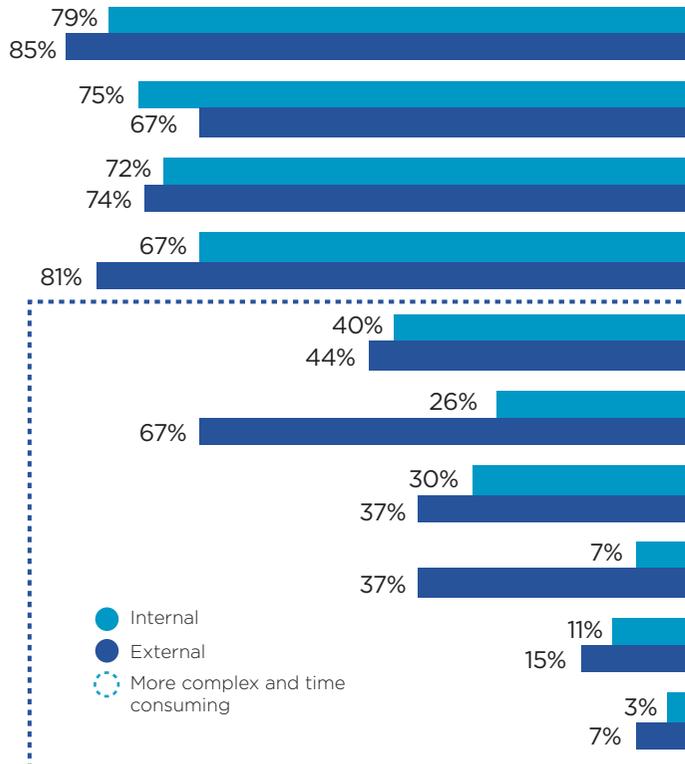
02 To avoid falling into a perfunctory and box-ticking exercise, boards should actively work towards improving their evaluation approach and methodology. Pull-out I: Guidance on Board Leadership and Effectiveness of Bursa CG Guide (3rd edition) includes guidance around suggested criteria and sample templates for evaluation of the board, board committees and individual directors.

13. As per MCGG 2021, the annual assessment on individual directors should include an evaluation of their will and ability to critically challenge and ask the right questions; character and integrity in dealing with potential conflict of interest situations; commitment to serve the company, due diligence, and integrity; and confidence to stand up for a point of view.

The commonly used methods of evaluation, the key facilitators and the issues and challenges faced

The more straightforward and less complex methods of evaluation for a quick overview of the boards were the most commonly practiced, such as board-level surveys, director peer evaluation, committee-level surveys and board skills matrix analysis.

A sizeable proportion indicated that internal board evaluations were typically conducted by company secretaries. A smaller percentage named collective board directors, the NC/NRC or NC/NRC chairman, and board chairman as those responsible for driving and leading internal board evaluations.¹⁴



Method used	Board Chair	NC/NRC Chair	Committee Chair	Directors	CEO/ED	Corporate Secretary	External Consultant
Board-level survey	14%	15%	0%	21%	0%	49%	1%
Director peer evaluation	11%	16%	1%	29%	1%	41%	0%
Committee-level survey	8%	20%	5%	18%	0%	47%	1%
Board skills matrix/composition analysis	10%	23%	1%	24%	1%	41%	0%
Desktop review of board policies & processes	7%	9%	5%	18%	2%	50%	2%
Interviews with board and/or senior management	23%	31%	4%	12%	15%	12%	4%
Board observation/simulation	20%	20%	0%	37%	0%	23%	0%
Peer organisation benchmarking	11%	33%	0%	0%	11%	44%	0%
Culture assessment & analysis	8%	42%	0%	25%	0%	25%	0%
Psychometric assessment	0%	0%	0%	33%	0%	67%	0%

14. MCCG 2021 acknowledges that there are many ways in which board evaluations can be carried out such as through self-assessment, peer review, facilitated by the company secretary or an external facilitated independent board evaluation, with oversight of the entire process and methodology by the Nominating Committee. However, a box-ticking approach to evaluation is ineffective and unacceptable.

Company secretaries continue to take on bigger roles and greater responsibilities in ensuring good governance. The role of the modern-day company secretary has evolved from merely advising on administrative matters to now advising boards on governance matters, including playing a key role in internal board evaluations.

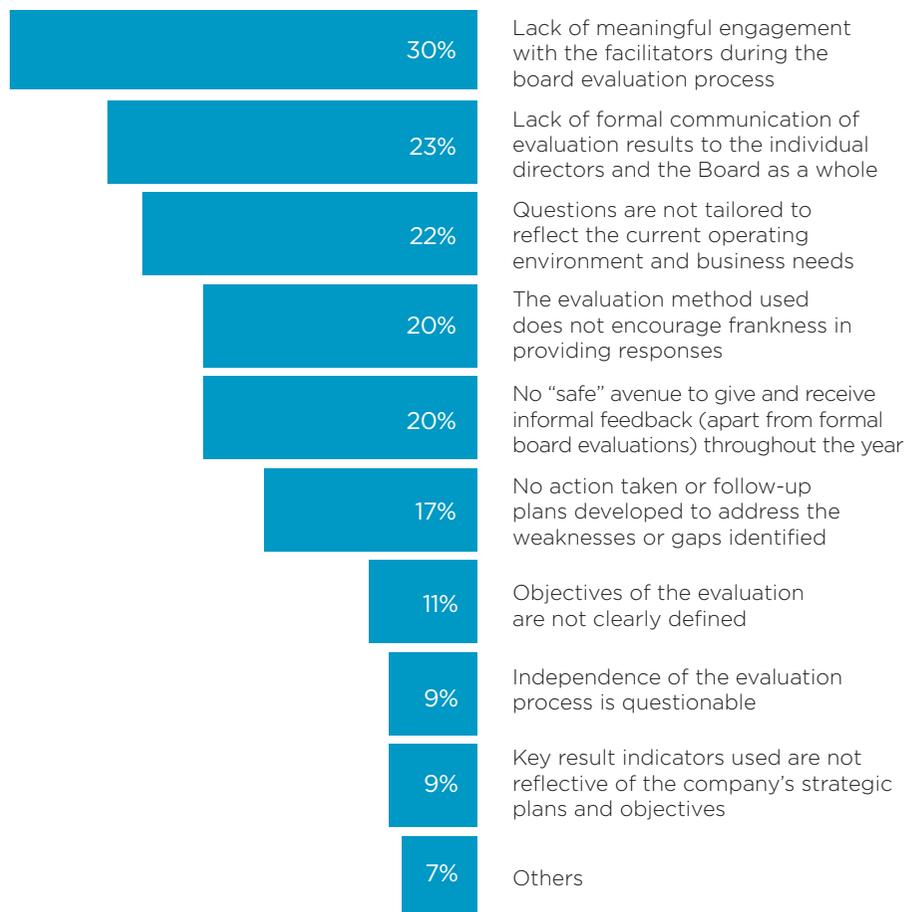
Board-level surveys, director peer evaluation, committee-level surveys and board skills matrix analysis are more straightforward and less complex and can be easily facilitated by company secretaries to provide a quick overview of the board. It is therefore crucial that avenues for resources and adequate and timely training are made available and accessible to them.

The more complex methods of evaluations were less commonly practiced though they tend to give deeper insights and unveil a different or new perspective on the actual board effectiveness. Bringing in an external facilitator well-versed in facilitating these methods could therefore add meaningful value and insights to a board evaluation.

Engaging an external third-party consultant could also bring objectivity to a board evaluation and provide a fresh pair of eyes for independent analysis into how the board functions as a whole. An independent assessment would also elicit more candid responses and give a more impactful and meaningful outcome.



Issues and challenges encountered for board evaluations indicated that more can be done in the set-up and follow-through of board evaluations to drive a more meaningful impact from a board evaluation exercise



Respondents mostly identified the lack of meaningful engagement with facilitators, the lack of formal communication of evaluation results, and that the questions not being tailored to reflect current operating environments and business needs, as the challenges they experienced in conducting board evaluations.

For a more meaningful and effective board evaluation exercise, the NC should have an oversight of the entire process and methodology of the board evaluation although it may be facilitated by the

company secretary or an external independent consultant.¹⁵

It is also clear that more can be done in the set-up (connection with facilitators, design of questions) and follow-through of the board evaluation exercise. The outcome of the evaluation, for instance, needs to be sufficiently communicated and tangible action plans set out to address the results of the board evaluation, plus a follow through on the implementation of the action plan.

Per LR and Guidance per MCCG 2021¹⁶

01 In disclosing the evaluation carried out on effectiveness of the board, its committees and individual directors, the following information needs to be included in the company's CG Report and annual report:

- How the evaluation was conducted, the criteria used such as the assessment of fit and properness, contribution and performance, calibre and personality of directors;
- Whether an independent expert was engaged, or was it internally facilitated;
- Key strengths and/or weaknesses that were identified from the evaluation;
- Steps or enhancements proposed to be undertaken to mitigate or address the weaknesses identified; and
- Impact of the evaluation on board composition (if any).

Sparse and/or vague disclosures on the evaluation methodology and outcomes should be avoided.

15. MCCG 2021 states that as the NC chair, the independent director or a Senior Independent Director shall lead the succession planning and appointment of directors and oversee the development of a diverse pipeline for board and management succession, including the future Chairman, Executive Directors and CEO; and lead the annual review of board effectiveness, ensuring that the performance of each individual director and Chairman of the board are independently assessed.

16. LR requires listed companies to disclose the information on the assessment undertaken by the NC in respect of its board, committees and individual directors together with the criteria used for such assessment in its annual report.



Questions for Boards

Who is leading the evaluation exercise? Has the lead/sponsor for the board evaluation exercise discussed the matter thoroughly with the facilitators on the overall framework, the objectives, methodology and evaluation criteria that will be used?

Have you leveraged findings from your board evaluation to support your organisation's long-term strategy and board training and development needs?

In line with the latest MCGG 2021, has the board incorporated additional criteria to assess the role of the board and senior management in addressing sustainability risk and opportunities of the company?

Are there tangible action steps identified and committed to be acted upon based on the observations and recommendations from your board evaluation exercises?

Are the objectives of your board evaluation well-defined?

Do the evaluation methodologies encourage frankness and provide a safe avenue for board directors and other stakeholders to give honest input?

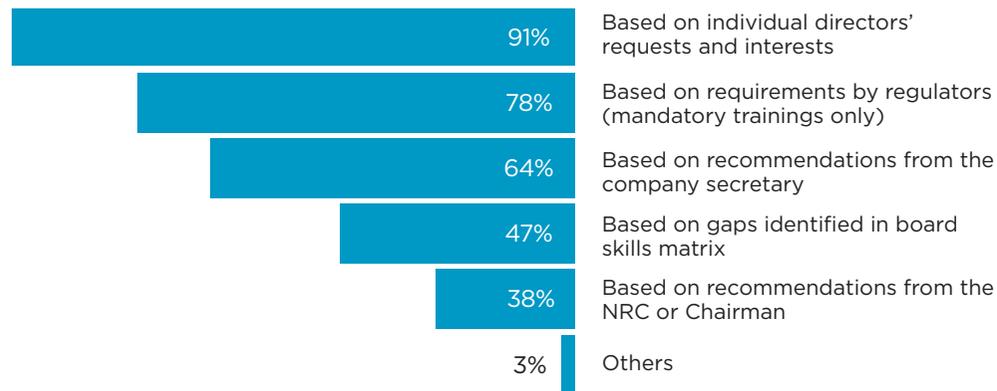
Are company secretaries trained and equipped with the latest knowledge and best practices in conducting a meaningful board evaluation?

SECTION C

Practices in Board Training and Development

We understand that competent directors do not simply evolve. They are most often the products of methodical training programmes, years of experience being at the forefront of business, and a strong commitment for life-long learning.

Considered inputs in determining training and development



Based on this Study's findings, **directors' training and development appear to lack adequate structure or planning currently** and are often determined on an ad-hoc basis or driven by regulatory requirements.

80%

Prefer technical training

Topics preferred

- Regulatory updates & director duties
- Governance, risk & compliance

Insights from board evaluations or a forward-looking skills matrix analysis or trainings needs gap analysis could provide valuable inputs to identifying key areas that require training or development.¹⁷

A structured development pathway for directors based on specific competency frameworks could help promote more deliberate and targeted knowledge and skills acquisition for directors.¹⁸

Evidently, most boards are still very much focused on compliance-based training, so there is a need to increase focus on performance-based training as well to meet the changing needs of the business landscape.

17. MCGG 2021 states that board evaluation should also help determine the upskilling or development needs of individual directors or the board, collectively.

18. MCGG 2021 recommends that the board and management should play their part by, among others, attending continuous professional development programmes to keep abreast with corporate governance developments.

ICDM's Director Competency Framework

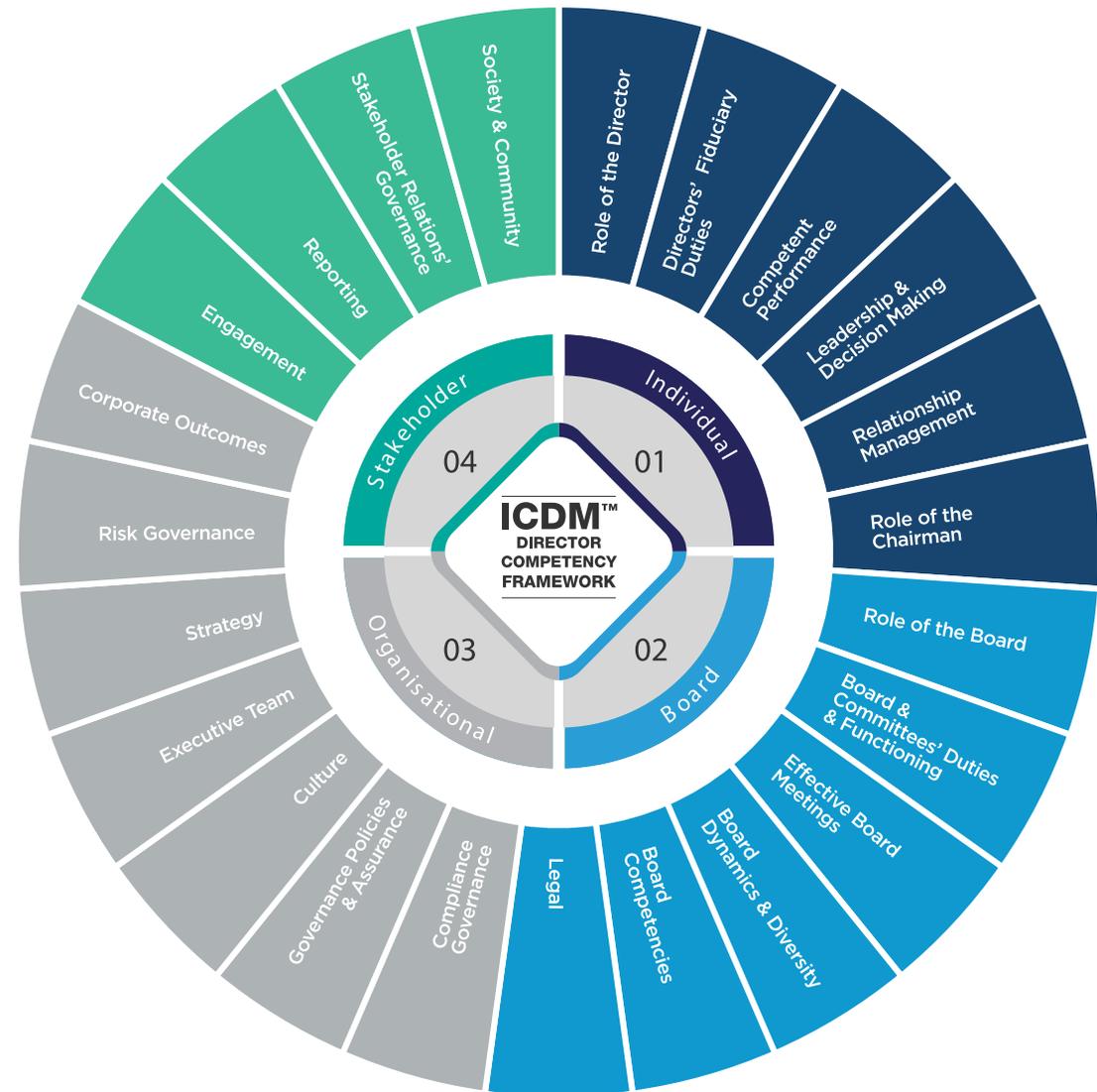
The ICDM Director Competency Framework promotes effective knowledge, skills and mindset required by directors to perform at consistently high standards of professional competence in upholding good corporate governance practices. The Framework prescribes the required competencies of a director into 4 quadrants:

- the capacity of an individual director
- the individual director with the board
- the organisation
- the stakeholders

Each competency features essential elements that are supported by prescribed programmes to help directors to perform effectively as an individual as well as collectively as a board irrespective of industry.

ICDM's programmes are designed based on the Framework, enabling participants to stretch their imagination, adapt quickly and juggle plural needs to keep up with new business requirements and demands, and help them deal with specific technical and non-technical issues that require specialised areas of expertise and experience, giving them the right level of oversight.

Recognising the need to balance performance vs conformance, ICDM is a strong proponent of the continuous upgrading of knowledge on emerging issues so boards are equipped to stay ahead to address evolving business, societal, economic and other developments that can have an organisational impact.





Questions for Boards

Do you know where the competency or skill gaps are within the board? Does your development plan for the board address these gaps?

Are you aware of the current issues and trends impacting your organisation and how they should be integrated onto the overall strategic plan to meet emerging challenges whilst optimising your competitive advantage?

Do you have a good understanding of the corporate governance codes and other regulatory requirements to execute your oversight role over management?

Are you applying your knowledge effectively to the decision-making process and strategic discussions of the organisation?

Is there a proper knowledge management plan and framework for the entire organisation and a set budget for consistent and regular training and development of boards, management and employees?

SECTION D

Moving Forward: Seven Actionable Steps For Malaysian Boards

Towards building a robust and effective board selection, nomination, appointment, and evaluation process

- 1 Design the right board architecture and strategy**
Determine the current and long term skills mix, align board composition with organisational future growth strategy, define clear roles, responsibilities and commitment.
- 2 NC/NRC to champion board's selection, nomination, appointment, evaluation and training & development**
The NC/NRC should lead discussions around strategic board succession and development and drive change together with the chairman or senior independent director.
- 3 Reevaluate your board composition at regular intervals**
Board refreshment may be necessary, particularly for long-tenured independent directors. Start utilising independent and non-traditional sources to identify suitably qualified candidates.
- 4 Design a robust and useful board and directors' effectiveness evaluation framework**
An ongoing process that encourages open and honest feedback via both formal and informal channels. Set the right evaluation criteria and metrics that are aligned with the organisational strategy. Including 360° feedback or conducting an external evaluation will support a more objective evaluation and suggestions on moving forward.
- 5 Communicate the results, take action to close the gaps and carry out periodical reviews**
It is very important to set aside sufficient time for debrief and discussion with individual directors, board committees and the board as a whole on the results and action plans moving forward. Training and development should be provided where necessary. Disclosures on the board evaluation process and results will also enhance stakeholders' confidence.
- 6 Focus on continual training and development for board and directors**
A more structured director competency framework and development pathway is needed for boards to ensure necessary skills and competencies acquisition, growth and professionalism. This should be a life long goal.
- 7 Company secretaries as strategic advisors and partners for boards**
Company secretaries should actively stay up to date with the latest corporate governance trends, methodologies and resources available internally and externally to be able to execute their strategic role effectively.

About ICDM

Institute of Corporate Directors Malaysia (ICDM) is the one-stop centre for all board and director needs, dedicated to empowering boards and directors with the right skills, knowledge and mindset to enhance their professionalism and effectiveness. Spearheaded by the Securities Commission Malaysia and supported by Bank Negara Malaysia, Bursa Malaysia and the Capital Market Development Fund, ICDM serves as the national institute of directors and aims to be the leading influence of excellence in governance.

#TalktoUs

- Tailor a Bespoke Programme that drives specific results. jackie@icdm.com.my
- Meet your MCGG needs with a candid and objective-driven Board & Director Effectiveness Evaluation. haniza@icdm.com.my
- Sourcing of your Independent Non-Executive Directors stops here. dianaseow@icdm.com.my
- ICDM membership supports your directorship journey and board needs. zafril@icdm.com.my
- Voice your burning issues and key challenges faced by boards. vivian@icdm.com.my

www.icdm.com.my

About RRA

Russell Reynolds Associates is a global leadership advisory and search firm. Our 470+ consultants in 46 offices work with public, private and non-profit organisations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organisations, our teams bring decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

Contact Us

Stephen Langton
stephen.langton@russellreynolds.com

Alvin Chiang
alvin.chiang@russellreynolds.com

www.russellreynolds.com

About Bursa Malaysia

One of the largest bourses in ASEAN, Bursa Malaysia helps over 900 companies raise capital across 50 economic activities – whether through the Main Market for established large-cap companies, the ACE Market for emerging companies of all sizes, or the LEAP Market for up-and-coming SME companies. As an inclusive marketplace, we provide easy access to many investment products and services, connecting domestic and foreign market participants to all types of opportunities to help them to expand or invest with impact. Our diverse product range includes equities, derivatives, offshore and Islamic assets. Today, we are globally-recognised as the best and most innovative exchange in Shariah investment with Bursa Malaysia-*i* – the world's first end-to-end Shariah investing platform and Bursa Suq-Al-Sila' – the world's first end-to-end Shariah-compliant commodity-trading platform. Bursa Malaysia is also the world's biggest palm oil futures trading hub.

Contact Us

Dr Yeoh Ken Kyid
yeohken@bursamalaysia.com

Michelle Tog
Michelle@bursamalaysia.com

www.bursamalaysia.com



Homepage www.icdm.com.my

LinkedIn www.linkedin.com/company/icdm-malaysia

Twitter www.twitter.com/icdmalaysia

Others info@icdm.com.my

Institute of Corporate Directors Malaysia (1239276-V)

Unit 9-01 & 9-02, Level 9, Mercu 2, No 3, Jalan Bangsar
KL Eco City, 59200 Kuala Lumpur, Malaysia

T: +603 2202 2022 F: +603 2202 2023