



Matrix thinking, regardless of size or stage

Private company perspective



The use of a board composition matrix is a common practice among public companies, and disclosure of the matrix is increasingly expected by institutional investors. Highlighting the qualifications and skills of each director and identifying gaps in skill sets needed to move the company forward, a matrix model can help boards reflect on their overall composition and serve as a foundation for development of a thoughtfully constructed board.

For young and growing companies, particularly those backed by venture capital funds, board building is often more informal and less strategic. Yet a long-term approach to building a strong board as the company grows can make a difference. Whether founder, executive, major investor, or independent, the role of the corporate director as fiduciary does not change. Directors are expected to provide oversight of strategy, risk management, controls and capital allocation, approve executive compensation and incentives, and hire the auditors. A thoughtfully constructed board can bring a mix of skills and perspectives that serves as a competitive advantage.

Of course, venture capital-led boards have their strengths. Executive and director compensation is closely aligned with strategy. There is often industry knowledge in the boardroom beyond the executive team. Communication with management is constant. The time horizon and relative illiquidity of the investment should drive a focus on value creation.

Yet these boards are not without their challenges. Investment firms dominate the board. Their limited partners have return expectations. Investors may have different liquidation preferences. Related-party transactions are prevalent. And accountability is blurred.

From a corporate governance perspective, these factors may also lead to risk oversight challenges. Governance systems and processes are often

immature. Audit committees are more informal. Nonfinancial controls may not be fully developed, and the corporate culture is still emerging. Lastly, overboarding of investment professionals has become an issue as money rushes into private investments.

Moving toward a matrix: Why it matters

Young companies can use a matrix as an aspirational tool to help target skills to add over a period of time as the company matures and the board grows. Boards should be developed with reference to the question: what does the company need? Might it benefit from a director who can provide strategic insight on sustainability? What about global operating experience or public company board governance? How is the company currently accessing insight on product development, strategic planning, or rapid scaling? What about oversight of regulatory compliance or guidance of talent strategy? In recruiting for new skills, which should take priority and which can wait?

Consideration of diversity is a critical aspect of board-building and an enabler to improve innovation, insight, and decision making. According to the 2017-2018 NACD Private Company Governance Survey, only 13 percent of private-equity (and venture capital) owned companies adopted formal diversity targets for their boards, yet numerous studies have shown that more diverse boards and leadership groups can bring about higher valuations and greater return on equity.

Constructing a matrix

The KPMG Board Leadership Center recently led a group of venture capital investors in an exercise to future cast a board matrix. While some of the participants said they had previously worked with a similar framework, most said that their firms did not have specific processes and considerations for board building. Using the example matrices here, we asked them to consider the following:

- **Establish the endgame.** How far is the company from a potential outcome? What is the range of those outcomes? What would a buyer or a public investor expect from the board?
- **Work backward to current state.** What would the company or CEO need from the board to achieve that outcome? When? How would the company source directors or advice?
- **Build the road map.** How are those future board seats and capabilities “filled” today? What skills and insight are being contributed by investment firms or independent directors? What about educational activity and formal/informal networks? Are professional service firms being relied on for support that might otherwise come from a fiduciary board?

While venture firms have different roles in building portfolio company boards, they should at least start a conversation collectively about the process. What have they found works well and what lessons have they learned? How would they benefit from more diverse early-stage boards? And how would a board that matures ahead of the company offer feedback on strategy, help to oversee culture and controls, and guide the company to growth?

Process can be an enabler when you build a board with intention.

Qualifications

	Director 1	Director 2	Director 3
Industry knowledge			X
Executive leadership	X		X
Global experience		X	
Diversity	X	X	X
Public company governance	X		
Sustainability	X	X	
Independence		X	X
Financial expertise		X	

Skills/expertise

Corporate management	Director 1	Director 2	Director 3
New product development			X
Scaling/growth hacking	X	X	
Branding/marketing/customer focus			X
Strategic planning	X		
Talent strategy/human resources		X	
Sales/sales management		X	X
External relations/communications	X	X	X
Regulatory compliance	X		
Supply chain/operations		X	
Strategic alliances/M&A		X	
Technology	X		
Risk/crisis management			X

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG’s Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance specialists worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/us/blc.

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