# Facilitating the board's engagement in strategy

## Lead Director Insights

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## About the Lead Director Initiative

Our sincere thanks to the directors and business leaders who generously shared their time and insights, which form the basis of this paper.

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**As sophisticated, challenging, and high-profile as the role of lead director is today, there is surprisingly little by way of a playbook or how-tos to guide lead directors. In many ways, this relatively new role is "still trying to define and refine itself." To that end, the KPMG Board Leadership Center launched the *Lead Director Initiative* to tap into the experiences and insights of seasoned lead directors (and independent chairs) on what makes a lead director effective.**

Of course, no one size fits all. There is a wide range of views and interpretations of the lead director role. Some see it as similar to (nearly interchangeable with) the independent chair, except that the lead director does not preside at board or shareholder meetings. Others take a lighter approach, with the lead director chairing executive sessions, helping the CEO "read the board," and stepping up in the event of a crisis. There is, however, broad agreement on the *importance of board leadership* to get the most value from the directors around the table and from the board collectively, and our in-depth conversations have surfaced very practical techniques and approaches that all lead directors can apply.

Our white paper series will focus on a number of timely topics on the lead director agenda, including piloting the board through crises, CEO succession and performance, shareholder communications, and helping the CEO/board chair facilitate the board's engagement in strategy—perhaps the top challenge for boards today and the topic of this first paper. Devoting quality time to strategy and thinking about the future have never been more challenging or important as technology, innovation, and other forces disrupt and undermine business models and strategic assumptions with startling speed and impact.

We hope you find this paper and the forthcoming series helpful and invite you to share your views regarding the lead director role at us-kpmgmktblc@kpmg.com.

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# Facilitating the board’s engagement in strategy

At the end of the day, it’s the company’s strategy. But the long-held view that the board’s role is limited to reviewing and concurring with the strategy is giving way to deeper engagement by the board. Increasingly complex and disruptive business conditions demand it, and investors and other stakeholders expect it. Lead directors are uniquely positioned to create the “right” level of engagement and facilitate quality boardroom discussions on strategy.

“The real end point for the board is to *evaluate* the strategy,” noted one lead director. “That requires thinking about the future and understanding the forces impacting the business and the industry—today and tomorrow. Properly positioned, boards can add tremendous value to strategy discussions—helping to shape and challenge the strategy and its underlying assumptions as conditions change.” They can also help monitor whether critical alignments are maintained—e.g., strategy, risk management, key performance indicators (KPIs), controls, incentives, and talent—as strategy is recalibrated.

Lead directors are uniquely positioned to create the “right” level of engagement and facilitate quality boardroom discussions on strategy.

As our interviews made clear, the extent of the board’s engagement in strategy—and the lead director’s role—will vary by company and the lead director’s style (from a light touch to more active leadership), as well as the CEO or chair’s approach to leading the strategy effort. Stressing the importance of working with the CEO and board to find the right depth and dynamics, the lead directors we spoke with emphasized three key areas of focus for lead directors as they facilitate their board’s engagement in the strategy process, from strategy development and evaluation to monitoring strategic execution and recalibrating strategy as necessary:

— **Setting expectations** with the CEO and directors for the board’s engagement in strategy

— **Planning the setup** and staging of board strategy discussions and providing the backdrop to drive the right focus and dynamics

— **Building consensus** about the proposed direction of the strategy—the fifty-thousand-foot view

The lead directors also emphasized a number of specific elements and practices that are pivotal to quality boardroom discussions about strategy, e.g., diverse and dissenting views, having a vivid picture of the future, and focusing on critical alignments:

— Encourage the board, CEO, and management to develop a vivid picture of the future—where the industry and competition are headed—and its impact on strategy

— Insist on diverse—and dissenting—points of view, including third-party input

— Assess whether the company’s strategy process enables the company to recalibrate strategy as needed while maintaining critical alignments

— Work with committee chairs to maintain the alignment of board and committee structure and governance processes with strategy

— As part of the board evaluation, assess whether the board has the right composition and leadership to effectively engage in strategy

# Leader of leaders: Considering the attributes of lead directors

Here's how the lead directors in KPMG's Lead Director Initiative described the attributes of effective lead directors they've seen in action:

**Leadership qualities**

- Highly sophisticated type of leadership
- A leader of leaders, who should not be seen as the most important person in the room
- Servant leadership mentality
- A symphony conductor, someone who doesn't play an instrument, but brings out the best in each director and the board as a whole
- Collaborative, consensus builder
- Sets the board culture by example
- Focused on getting other directors and the board to perform at their highest potential
- Trusted, discrete, and viewed as independent and objective—not allied with the CEO or board, but always working toward consensus
- Strategic thinker, always keeping the big picture in view

**Communication skills**

- Good listener, with the ability to interpret and synthesize various points of view
- Master of group dynamics, including body language in the boardroom

**Relationship with the CEO**

- Requires the delicate balance of being trusted by the CEO, but not so close that you lose objectivity
- "Mentor" is too strong—more of an adviser to the CEO or the CEO's alter ego
- Helps to make sure the CEO is reading the board correctly—and vice versa—as well as leveraging the board fully and effectively

**Background and tenure**

- "While former CEOs don't always make the best lead directors as they often bring that CEO mind-set of being decisive and selling you on their particular point of view, it can also help to have been a CEO, so the current CEO can say, 'You've been in this seat. How did you handle this scenario?'"
- Need to have sufficient time to devote to the lead director role
- May have a general term limit for the lead director role—with flexibility—to help keep things fresh and avoid falling into a routine and risking groupthink

## Setting expectations with the CEO and directors for the board's engagement in strategy

How does the board want to engage in strategy? What does it need from management and from individual board members to be effectively engaged and adding value as the company's strategy evolves to address new risks, opportunities, and disruptions? As a starting point, the lead directors we spoke to emphasized the importance of setting clear expectations, including the following:

**Evaluating management's proposed strategy is the real endgame for the board,** and that requires thinking about the future and understanding the forces affecting the industry. "The board will need time to pause and reflect and to spend ample time with the assumptions and the environment. What other strategic options did management consider, and what was the reasoning behind the option management recommended? Good strategy discussions require the right board culture and unconstrained discussions, and that takes time, leadership and discipline to develop." Does the board have the right people around the table to evaluate the strategy beyond simply reviewing and concurring with management's recommendation?

**The goal is for the board to reach consensus on the overall strategic direction,** with the lead director playing a key role. "Each director has an obligation to share his or her view about the direction of the company's strategy. And if there's disagreement at the fifty-thousand-foot level about whether the company should go east or west, that needs to be aired and resolved up front. You can debate the details along the way."

**Describe to management what the board wants in terms of the strategy process and the board's information needs.** "Don't be led by management. Be explicit about what information the board wants from management and others, and when. Recognize that getting to the right process and the right information will require time and iterations. Don't expect to get it right on the first or second try."

**Each director must become a student of the company and its strategy.** While it is management's role to educate the board about the competitive environment and the implications for strategy, directors also need to be proactive about their own education—reading, visiting facilities, experiencing the business firsthand—to make sure that they understand the strategy and its risks.

**Strategy done well is an ongoing process—a journey and not a destination.** "It's not about 'getting the answer right' once a year. It's not a one and done." There should be a clear plan with specific milestones. Expecting adjustments or course corrections along the way is the sign of a healthy strategy process.

**At the end of the day, it's the company's strategy.** Management owns it, and the board influences and helps shape it, including the strategic direction.

It is particularly important that management and the board understand the expectations of one another and that new directors understand the board's role in strategy.

Good strategy discussions require the right board culture and unconstrained discussions, and that takes time, leadership and discipline to develop.

## Planning the setup and staging of board strategy discussions and providing the backdrop to drive the right focus and dynamics

Good strategy conversations require good preparation and quality information. The setup and staging—number of meetings, agenda, format, quality of meetings, and physical setting—are all key to avoiding meetings that are presentation heavy with little discussion.

**In addition to each director's own learning, it is management's job to help educate the board about *the future* and its impact on strategy.** The lead director should help the C-suite understand the board's expectations for the process, the timeline, and the board's information needs. "This education process will also shed light on how effective management is at thinking about the company's future."

**Consider breaking down the strategy development process into backdrop sessions.** For instance, hold a series of backdrop sessions dedicated to discussing (1) disruptive forces impacting the industry (not just forces inside the industry), (2) competitors, (3) alternatives to address strategic issues, and (4) how to tie it all together—discussion of management's recommendation. Other backdrop sessions might address information technology, talent development, regulation, or key industry issues.

**Strategy discussions should be ongoing and woven into every board meeting and agenda.** "A two-day retreat for the board to evaluate strategy is fine, but it should be just one element of an ongoing process and conversation." "We make a conscious effort to link every agenda item to the strategy."

**Create the right environment for effective board discussions, including the physical setting and dynamics.** "Reducing the theater is a good goal. Our board moved from a cavernous, formal boardroom requiring microphones to be heard, to a smaller, sunlit space with fewer staff and no microphones, and the whole dynamic changed for the better."

## Building consensus about the proposed direction of the strategy—the fifty-thousand-foot view

It's important for the CEO and board to set the expectation that the board's goal is to reach consensus, at a high level, on the strategic *direction*. Questions or concerns about detailed elements of the strategy will naturally arise and should be followed up on and not left unresolved, but the details shouldn't prevent the board from reaching a consensus. "Nonconsensus on the direction of strategy—at the fifty-thousand-foot level—should not be acceptable. If there isn't consensus on the general direction, it suggests there are some very different views about the future, and you need to resolve that right away. Having one or more directors who disagree with the strategic direction can create a counterproductive environment in the boardroom."

**Keep the initial strategy deliberations at a very high level.** "Are we going east or west? The key is to get true alignment on the overall strategy—the 'bet the company' direction. If you go too narrow too quickly, you're likely to run into gridlock right out of the starting gate." At the same time, be mindful that board consensus out of the gate could be an indicator of groupthink.

**Don't assume everyone is on the same page.** "Unless the board engages and reconciles and reaches consensus, you can quickly go down the wrong path. Make sure every director voices their opinion about the proposed direction of strategy."

**It's helpful for the lead director to understand each director's view on the proposed strategy in advance of board meetings.** Where does each director stand on the issue? "The goal is not to steer the conversation, but to better manage the dynamics and work toward consensus by understanding where the starting point will be." Additionally, the lead director can help elicit the information individual directors may need to resolve concerns about strategy.

**Know when to move from debate to decision.** While it's essential that all directors participate in a robust dialogue, "the lead director needs to be strong enough to cut off debate at the right time and in the right way. That requires a good culture and trust in the people and the process."

**Critical work and communication should be happening outside the boardroom.** Whether it's regular email updates from the CEO, check-ins with management, follow-ups on open issues, or monitoring industry developments, "There should not be radio silence or zero activity between board meetings." Indeed, moving toward consensus often happens outside of the boardroom. "A good lead director will bring the hallway, coffee room, and dinner discussions back into the boardroom dialogue."

Moving toward consensus often happens outside of the boardroom.

## Encourage the board, CEO, and management to develop a vivid picture of the future—where the industry and competition are headed—and its impact on strategy

What's happening in the world, and how does that impact the company's strategic assumptions? What's changed in the operating and competitive environment? What disruptive forces are on the horizon? Perhaps not surprisingly, our discussions with lead directors suggest a general lack of board focus on the future of the business, the industry, and the board. "Thinking about the future is not easy, or it's done in a perfunctory way. It requires the right balance of theoretical and practical, and it needs to connect to the strategy." "Every company should have a few key people 'working in the future.'"

**Continue to focus on current and potential competitors.** Is our traditional competition changing? Do we understand our competitors' business models? Where are they investing versus where is our company investing?

**Think peripherally.** "Who are the small guys on the periphery, and what are they doing? Competition often comes from outside the industry, particularly in the form of disintermediation by other forces in the marketplace. Most companies don't fail because their direct competitors eat them—it's because they got blind-sided from outside the industry."

**Watch what's happening in other industries.** "What are the megatrends, and what does the landscape look like? You should always be questioning the company's core strategic assumptions."

**Focus on the future customer.** How are customer behaviors changing and how will the company engage with customers as their habits and preferences change—particularly in the digital economy? "Think about how you currently engage with customers; there's still very little regulation in the digital space. How might that change? Will the company be able to keep up with digital natives who expect to find products or services with a few clicks—or no clicks?"

## Insist on diverse—and dissenting—points of view, including third-party input

Is management truly challenging its own strategy and strategic assumptions? It's important to have honest conversations about the strategy to bring in the full mix of views from directors, management, and third parties—particularly when the company is doing well. As one lead director noted, it's about thinking "bigger, farther, and wider"—and that requires hard conversations. "Bring in views of people who don't have a dog in the fight. Let them throw some bombs and challenge the conventional wisdom."

**Ensure that all directors are heard—particularly those with counterviews.** Recognize the different communication styles and personalities at play. "One size doesn't fill all. You may need a blend of large and small meetings. Some directors are more comfortable and articulate with smaller groups, and you want those voices to be heard." It may be necessary for the lead director, CEO, or CFO (depending on personalities) to reach out to a director one on one. Understanding directors' styles and watching body language is vital. "When I see negative body language, I'll follow up with the director during a break to find out what's on their mind."

**Hear from a range of third parties—buy-side analysts, policy makers, industry experts, customers, futurists, and others.** "We regularly bring in technologists to talk about what the tech frontier looks like." "There's nothing more valuable than to hear from your harshest critics."

**Ask the CEO how the organization creates the right environment to foster candid conversations about the company's strategy.** "A culture of trust and openness is essential—particularly for the CEO to be comfortable coming to the board early on, with a strategy that's not fully baked." Does the CEO welcome and encourage pushback and questions? "Constructive challenge should make the CEO and the strategy even stronger." (See "*How to Have an Honest Conversation About Your Business Strategy*".[1])

**Devote time and candid discussion to the downside.** "Boards should have a pretty good understanding of what could go wrong so it's not a complete surprise and they can help with the pivot and make course corrections more easily." Ask directors and management to imagine the worst things that could happen. "Our company goes through a 'kill the company' exercise where we ask management teams to come up with scenarios that would take the company down." Lead directors emphasized that, in tandem with thinking about what could go wrong, risk management activities should factor in the downside(s) to the strategy.

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1. Russell Eisenstat and Michael Beer, "How to Have an Honest Conversation About Your Business Strategy," Harvard Business Review, February 2004

## Assess whether the company's strategy process enables the company to recalibrate strategy as needed while maintaining critical alignments

No strategic plan can anticipate every event that might help or hinder a company trying to achieve its strategic objectives, and plans need to be adjusted as conditions change. "Such real-time adjustments require firms to be agile. Yet, lack of agility is a major obstacle to effective execution."[2]

**Insist on regular, robust updates**—at every board meeting and between board meetings when necessary—on strategy execution and performance. "The lead director and board need to set clear expectations for management about the board's information requirements—dashboard reporting, KPIs, etc.—so that the board can monitor performance."

**Consider whether the monitoring process provides timely indications** of when a strategic adjustment may be necessary as well as the scope of the adjustment. "How robust is our scenario planning process, so that we're prepared? Do we have the operational flexibility to adjust, including people, resources, financing, partners, and vendors?"

**When strategy is recalibrated, how does the company ensure critical alignments are maintained,** e.g., risk management, KPIs, controls, incentives, and talent?

The lead director and board need to set clear expectations for management about the board's information requirements so that the board can monitor performance.

## Work with committee chairs to maintain the alignment of board and committee structure and governance processes with strategy

As boardroom leaders, committee chairs can offer a unique perspective on strategy. At least annually, consider the company's strategy through the committee lens; revisit committee responsibilities, work plans, and evaluations to help ensure alignment with the company's strategy and its drivers.

**Nominating and governance committees** should be focused squarely on board composition and talent. "Do we have the talent around the boardroom table to effectively evaluate the strategy? Is the board fit for purpose and able to help guide the company into the future?" More broadly, consider with the compensation committee whether the company has the right talent to implement the strategy.

**Compensation committees** should ensure that compensation plans are synchronized with strategy, "particularly as strategies change in light of industry transformation and disruption. Old metrics and incentives may no longer relate to the new strategy." Is the organization attracting and retaining the talent required to execute its strategy?

2. Donald Sull, Rebecca Homkes, and Charles Sull, "Why Strategy Execution Unravels—and What to Do About It," Harvard Business Review, March 2015

**Audit committees** may need to sharpen their focus on capital investments and capital allocation as well as the overall culture and control environment, particularly as the strategy changes.

**Is a new committee needed?** As the operating environment gets more complex, an additional committee—for example, to oversee technology, risk, or public policy—might make sense. "Make sure to consider whether the board has the bandwidth and necessary skill sets for an additional committee."

**Consider having committee chairs meet regularly.** Bringing the chairs together is a powerful way to help stay coordinated, aligned, and informed on strategy and risk.

Make sure to consider whether the board has the bandwidth and necessary skill sets for an additional committee.

## As part of the board evaluation, assess whether the board has the right composition and leadership to effectively engage in strategy

Is the talent in the boardroom diverse (in terms of skills, experience, and other attributes) and aligned with the company's strategy and future needs? Determining the company's current and future needs is the starting point for board composition.

**Developing and maintaining a high-performing board requires leadership,** including close coordination between the lead director and the nominating governance committee chair, whose responsibilities for board and committee composition may be similar or perhaps overlap.

**Recognize the broad range of board composition issues that require coordination,** including succession planning, director recruitment, age limits, tenure, diversity, board and individual director evaluations, removal of underperforming directors, need for board refreshment, and disclosures regarding these issues.

We hope that, taken together, the practices highlighted in this paper will help your board enhance its engagement in the strategy process and position the company for the future. Again, our sincere thanks to the lead directors who helped make this paper possible by generously sharing their time and insights.

## About KPMG's Lead Director Initiative

Convened by KPMG's Board Leadership Center, the Lead Director Initiative explores critical boardroom challenges and priorities through the lead director/independent chair lens. Conducted under the Chatham House Rule, these candid conversations are designed to share experiences and spark boardroom conversations that help elevate board leadership and effectiveness.

To learn more or share your views, visit read.kpmg.us/LeadDirectorInitiative or contact us at us-kpmgmktblc@kpmg.com.

## 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 experts 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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