



# Facilitating the board's engagement in strategy

**KPMG Board Leadership Centre**

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External interest in board activities is on the rise as directors are increasingly held to account as the ultimate protectors of corporate value. While regulators and investors are increasingly seeking greater transparency and accountability, as the most senior board members, the Chair and Senior Independent Director (SID) should be taking the lead in setting the agenda and the tone of the board.

In this paper, the KPMG Board Leadership Centre have tapped into the experiences and insights of seasoned non-executives on what it takes to lead an effective board.

When it comes to balancing the responsibilities of each non-executive board member there is no 'one size fits all' solution. Some chairs will regularly lean on the SID and other non-executives for opinion and insight, in other cases the SID may only be a safety valve in the event of crisis at the top. There is, however, broad agreement on the importance of board leadership in harnessing the skills and experience of each director such that the value of the whole board exceeds the value of the individual members. Our research has surfaced some practical techniques and approaches that all senior board members can apply.

Over a number of papers we will cover a series of timely topics, including piloting the board through crises, CEO succession and performance, shareholder communications, and helping the senior board members 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.



# Facilitation

## 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 simply reviewing and concurring with management's strategy is giving way to deeper board engagement. Increasingly complex and disruptive business conditions demand it, and investors and other stakeholders expect it. The chair of the board is uniquely positioned to create the 'right' level of engagement and facilitate quality boardroom discussions on strategy.

The board needs to evaluate the strategy and 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.

The extent of the board's engagement in strategy, and the role of the chair and senior board members in driving that, will vary by company depending on the style of the board chair as well as the CEO's approach. Stressing the importance of working with both the CEO and the board to find the right depth and dynamics, the directors we spoke with emphasised three key areas of focus for the senior board members, as well as an additional five practices that are pivotal to quality boardroom discussions about strategy.

This paper covers each of these areas, offering tools and guidance for board chairs as they facilitate their board's engagement in the strategy process:

- Setting expectations with the CEO and directors for the board's engagement in strategy
- Planning the preparation and execution 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 'ten thousand feet view'
- Encouraging the board, CEO, and management to develop a rich picture of the future – where the industry and competition are headed – and its impact on strategy
- Insisting on diverse-and dissenting-points of view, including third-party input
- Assessing whether the company's strategy process enables the company to recalibrate strategy as and when needed while maintaining critical alignments
- Working with committee chairs to maintain the alignment committee structures and governance processes with strategy
- Assessing, as part of the board evaluation, whether the board has the right composition and leadership to effectively engage in strategy



Senior non-executive directors are uniquely positioned to create the 'right' level of engagement and facilitate quality boardroom discussions on strategy.



# Setting expectations



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



## **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 value adding as the company's strategy evolves to address new risks, opportunities, and disruption?

The senior directors we spoke to emphasised the importance of setting clear expectations, including:

### **Evaluating management's proposed strategy is the real endgame for the board**

The board will need time to pause, reflect and challenge management's assumptions and the thinking around the changing risk 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 recommendations?

### **The goal is for the board to reach consensus on the overall strategic direction**

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. Recognise 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 management play a role in educating the board about the competitive environment and the implications for strategy, all directors need to be proactive about their own professional development - reading, visiting facilities, experiencing the business first hand – to make sure that they understand the strategy, the context and the risks.

### **Strategy done well is an ongoing process; a journey, not a destination**

It's not about 'getting the answer right' once a year – 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 deliver it and the board helps shape it.

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

# Setup and staging

## **Planning the preparation and execution 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 preparation and execution, i.e. the number of meetings; the agenda; the format; the physical setting; etc., are all key to avoiding meetings that are presentation heavy and discussion light.

## **While each director has to take responsibility for their own professional development, management have a role to play in educating the board about future risks and developments and their impact on strategy**

The board chair should help the management 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 background sessions**

For instance, hold a series of sessions, perhaps inviting members of both executive and operational management to give their perspectives. Topics to consider could include:

- Disruptive forces impacting the industry (thinking broadly about issues arising in other sectors too)
- Competitors
- Alternative approaches to addressing strategic issues, and
- how to tie it all together and a discussion of management's recommendations.

Other background 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 strategy away day should be just one element of an ongoing process. 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**

Create the right physical conditions to foster a better board dynamic. For example, a cavernous, formal boardroom requiring microphones to be heard, might be switched out for a smaller sunlit space with fewer staff and no microphones.



We make a conscious effort to link every agenda item to the strategy.



# Building consensus



Moving toward consensus often happens outside of the boardroom.



## **Building consensus about the proposed direction of the strategy – the ‘ten thousand feet view’**

It's important for the chair to set the expectation that the board's goal is to reach consensus 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 should not prevent the board from reaching a consensus.

If there isn't consensus on the general direction, it suggests there are some very different views about the future. Having one or more directors who disagree with the planned strategy can create a counterproductive – and probably unsustainable - 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 company ‘direction’. If you go too narrow too quickly, you risk running 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 each director's view on the proposed strategy to be understood in advance of board meetings**

Where does each director stand on the key matters? 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. This can also help in eliciting the information individual directors may need to resolve any concerns about the strategy.

### **Know when to move from debate to decision**

While it's essential that all directors participate in a robust dialogue, the [chair] needs to be strong enough to cut off debate at the right time and in the right way. That requires trust in both 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’ between board meetings.

Indeed, moving toward consensus often happens outside of the boardroom. Think about how to bring the ‘water cooler conversations’ back to the boardroom table.

# Focus on the future

## **Encourage the board, CEO, and management to develop a rich picture of the future. Where is industry and competition headed? What is the 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?

Our discussions with senior 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. Does your company have key people 'working on 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 players 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 – rather they get blindsided from outside the industry.

## **Watch what's happening in other industries**

What are the megatrends, and what does the landscape look like? Always question the company's core strategic assumptions.

## **Focus on the future customer**

How are customer behaviours 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 the new generation of savvy digital users who expect to find products or services with a few clicks – or no clicks?



Every company should have a few key people 'working in the future'.



# Points of view



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.



## **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. 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**

Recognise 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 board chair (or senior independent director or even the executive team) to reach out to a director one on one.

Understanding directors' styles and watching body language is vital.

Follow up on any negative body language to find out what's troubling the individual.

## **Hear from a range of third parties**

Seek out the opinions of buy-side analysts, policy makers, industry experts, customers, futurists, and others. Think about bringing in technologists to talk about what the future might look like. Also, don't surround the board with sycophants - there's nothing more valuable than hearing from your harshest critics.

## **Ask the CEO how the organisation creates the right environment to foster candid conversations about the company's strategy**

A culture of trust and openness is essential. Does the CEO welcome and encourage pushback and questions? Constructive challenge should make the CEO and the strategy even stronger. Devote time and candid discussion to the downside as well as the upside.

Boards need a good understanding of what could go wrong and game-plan any course corrections. Ask the board and management to imagine the worst things that could happen. What scenarios would take the company down.



# Strategic planning

## **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's pursuit of its strategic objectives. Plans need to be adjusted as conditions change.

### **Regular, robust updates**

Insist on regular, robust updates on strategy execution and performance at every board meeting and between board meetings when necessary. In order to 'properly' monitor progress, the board need to set clear expectations for management about their information requirements (dashboard reporting, KPIs, etc.).

### **Consider whether the monitoring process provides timely indications**

The need for a strategic adjustment needs to be flagged in real time and should address the magnitude of the adjustment required. How robust is the scenario planning process? 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?

## **Considering the attributes of a senior director**

The senior directors who shared their insights for this paper described the attributes of an effective board chair.

### **Leadership qualities**

- Does not endeavour to be seen as the most important person in the room
- Servant leadership mentality
- Collaborative – a consensus builder
- Sets the culture and leads by example
- Helps others perform to their best potential
- Strategic thinker
- Trusted, discreet and objective

### **Communication skills**

- Good listener with the ability to interpret and synthesise various points of view
- Master of group dynamics, including non verbal messaging, e.g. body language in the boardroom



A orchestral conductor; someone who doesn't play an instrument but brings out the best in each director and the board as a whole



# Boardroom leaders



Do we have the talent around the boardroom table to effectively evaluate the strategy?



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

As boardroom leaders, board 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.

## **Nomination committees should be focused squarely on board composition and talent**

Look to answer tough questions such as – 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?

Working with the remuneration committee, consider whether the company has the right talent to implement the strategy across the business – and whether reward structures are appropriately synchronised with the strategy. As strategies change in light of industry transformation and disruption. Old metrics and incentives may no longer relate to the new strategy.

Is the organisation attracting and retaining the talent required to execute its strategy? Both at the operational and the board level?

## **Audit committees may need to sharpen their focus**

Particular attention to capital investment and capital allocation as well as the overall culture and control environment can be invaluable, particularly as the strategy changes.

## **Is a new committee needed?**

As the operating environment gets more complex, an additional committee, to oversee technology, risk, or public policy for example, might make sense. But does the board have 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 stay coordinated, aligned, and informed on strategy and risk.

# Boardroom talent

## **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 shaping the board's composition.

### **Developing and maintaining a high performing board requires leadership**

There needs to be coordination between the board chair and the chair of the nomination committee (if they are different people).

### **Recognise the broad range of board composition issues that require coordination**

An effective board needs to have credentials on a variety of topics 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.

## **Relationships which bring out the best in the board**

The seasoned non-executives who shared their insights for this paper offered up their thoughts on what makes for a great relationship with the CEO

### **To optimise their relationship with the CEO, board chairs should:**

- Foster a relationship which balances mutual trust and respect with independence
- Act as an advisor to the CEO and their alter ego
- Ensure that the CEO is reading the board accurately – and vice versa
- Optimise the boards effectiveness and ensure the CEO is leveraging it effectively



While former CEOs don't always make the non-executive 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 that the current CEO can say 'You've been in this seat – how did you handle this scenario?'





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The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

Learn more at [www.kpmg.com/uk/blc](http://www.kpmg.com/uk/blc).

### Contact us

Timothy Copnell  
Board Leadership Centre  
**T:** +44 (0)20 7694 8082  
**E:** [tim.copnell@kpmg.co.uk](mailto:tim.copnell@kpmg.co.uk)



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