

How independent directors can add value to private company boards

KPMG Board Leadership Centre

In any boardroom conversation, independent voices are vital to the quality of the discussion and the rigor of thinking and decision making. For private companies it can be game-changing, with the potential for taking the thinking on strategy, risk, talent, and the future of the business to a different level.

Our conversations with business leaders highlight a number of factors that both private company directors and CEOs view as essential to successfully tapping into the value of independent directors.

Identifying the background, skills, and experiences desired in independent directors

A key consideration is the background, skills, and experiences the company should be looking for in an independent director, given the company's unique circumstances and needs, including its size, stage, and ownership structure. For example, family-owned companies may be looking for an independent director to help professionalise the board and formalise governance structures and processes, whereas institutional owners such as private equity and venture capital investors may be homing in on a director's industry-specific experience or preparing for an initial public offering (IPO) by building a public company-ready board.

Other considerations might include:

- Can an independent director help provide new direction – e.g., fresh thinking, new energy, strategy, or leadership?
- Digital transformation might be key to strategic growth, so it might be critical that the board have a “technology evangelist” to help cascade technology ownership across the company.
- Independent directors may bring specific expertise that the company needs – e.g., M&A, international markets, or emerging technologies, risk management, legal/ regulatory compliance..
- Family-owned businesses face unique challenges. Investor-backed companies often follow a well-worn path – i.e., an IPO or sale to a strategic or financial buyer; however, family-owned businesses may face tension both between and among generations.

- For a family-owned business, consider where it is on its journey – e.g., first, second, third, or fourth generation. An independent director can play an important role in balancing the diverse interests and backgrounds of the family shareholders and considering their role in the management of the business.

Serving in board leadership

Would independent board leadership (e.g., board or committee chair) help the board's governance structure and processes mature and thus improve the board's effectiveness? It is not unusual for an independent director to serve as board chair and reasonably common for independent directors to chair audit and/or remuneration committees.

Using an advisory board as a first step

Particularly for a family-owned business exploring adding independent perspectives and experience, an advisory board may be an important interim step. The advisory board – as distinct from the fiduciary board – can serve as a consultant to the CEO and senior management, providing advice and guidance on issues including the development and execution of strategy, operations, financial performance, risk management and mitigation, key business initiatives, senior management succession plans, capital projects and transactions, and corporate culture.

An advisory board can also provide additional business acumen, as well as an unbiased view of company performance and the management team.

Companies that do not utilise an advisory board can still access outside thinking at the board level by bringing in board observers (who are often already investors in the company).

Bringing objectivity, challenging the status quo, and focusing on performance

Our conversations highlight the value of the objective perspective and unbiased viewpoint independent directors can provide, as well as their willingness to challenge the status quo. Other ways independent directors can add value include:

- Insisting on forward-looking, strategic board agendas and fewer management-led discussions. Focus on the future of the business by discussing culture, investment in the business, and key strategic initiatives, and spend less time on quarterly results and lookbacks.
- Focusing on a performance culture, not just loyalty. In a family-owned business, talent can be a difficult discussion, and independent directors can provide important insights.
- Helping the CEO understand blind spots on the leadership team and develop maturity models to solve for those blind spots – including robust leadership succession planning.

Think in terms of a window of three to seven years. How will the company diversify its business and where should roles and skills be upgraded? Consider the board's skill sets and capabilities, as well as future needs. A sharp focus on performance is essential for both CEO and board succession planning.

Formally onboarding new directors

Orientation and onboarding is critical and can help new directors understand the business and the CEO's expectations (including skill set gaps to be filled and where the company is headed) and be more effective from day one. New directors joining a private company board should consider asking for a board buddy as well as thorough orientation and onboarding – and then attend every meeting for every board committee, if possible.

It is clear from our ongoing conversations that private company boards continue to improve their effectiveness in areas including overseeing strategy and agenda-setting, communicating with management, conducting board meetings, and communicating among directors. Independent directors can be pivotal in helping private companies navigate the challenges ahead – from AI to geopolitical uncertainty to CEO succession.

At a time when CEOs and boards need to be challenging assumptions and widening their company's aperture on strategy, risk, and talent, having independent voices in the boardroom can be game-changing. That said, simply adding an independent director to the board is not enough. Adding real value requires planning, work, and close collaboration among the members of the board, the CEO, and other company executives.

The KPMG Board Leadership Centre

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.

Contact us

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

www.kpmg.com/uk/blc



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