



Unlocking the board's potential

KPMG Board Leadership Centre



How do some boards achieve their full collective potential as a group in actively shaping the strategic direction of the company and others don't? How do boards become more influential in their value creation roles?

Dr. Meena Thuraisingham, Author of "Identity, Power and Influence in the boardroom" (Routledge, 2019)

Setting strategy is a core board responsibility. Boards must be able to not only review and endorse strategy but to co-create it with management. This is a given, yet how non-executive directors (NEDs) exercise this accountability is far from uniform.

NED involvement in strategy can range from largely endorsing strategy at one end, to active involvement in developing both the direction and content of strategy at the other end. This is because while NEDs might share similar beliefs about their accountability for strategy, they differ behaviourally in how they go about exercising this accountability. New research shows that such variations occur regardless of lifecycle-related events such as those that generate financial stress and which will require a board to step up its oversight of the organisation.

Business literature is littered with examples of strategic persistence shown by the management, notably sticking with a strategy even when it was no longer working. According to Accenture, just over half the names of companies on the Fortune 500 have disappeared since the year 2000, which might signal the extent to which these companies failed to spot (early enough) the market forces that caused their eventual demise. Accountability for these failures can also be attributed to the boards of those companies who may not have been strategically active enough.

That said, the degree of difficulty incumbent companies experience in challenging their business paradigms and legacy thinking cannot be underestimated. It requires fighting fundamental instincts and tendencies about the way big companies work and how their performance is evaluated. With legacy cultures and structures, large companies often have trouble pivoting their business models to take advantage of rapid changes in the needs and expectations of their customers and markets.

In addition to the emotional energy and equity invested in the current strategy by management and in turn by the board, other structural and behavioural factors may also conspire to constrain the potential of a strategically active board:

- A crowded agenda which leaves little room for an ongoing conversation about strategy (most of the board time is spent on reporting, budgeting and compliance matters)
- Management and boards trapped in a once-a-year rhythm/mindset which results in a strategy that may quickly lose its relevance/currency in the face of rapid changes in the competitive landscape and market dynamics
- NED concerns about crossing the red line and drifting into the domain of management, which they fear may have the unintended consequence of denuding the board's oversight role
- A consensus driven board where contention of ideas and proposals may be viewed as non-collaborative or even disloyal
- The varying reactions of NEDs to a CEO perceived to be unwilling to involve the board early enough on matters of strategy or provide the 'room' to shape a given strategy

So how best do boards exercise their involvement in determining strategy? How do boards collectively hone their instincts around strategy in a way that ensures sustainable growth and an enduring future for their strategies? New research points to the four characteristics of strategically active boards:

- Cognitively diverse, experienced and well-networked NEDs with lively discursive and inquiry skills and who are comfortable with robust contention and skilled in constructive dissent

- NEDs who operate collectively as a group with a single view about how they approach the work of the board, and collectively own the process of arriving at the decision (not just owning the decision at the end of the process) to avoid fragmenting the collective influence of the board
- An alert and intuitive chair who is skilled in facilitation, who creates a discursive space for reflection to occur and is alert to unspoken concerns on the way to building a clear consensus
- Boardroom norms and routines that have less procedural rigidity, allowing for open, emergent thinking and collective reflection, and in which the quality of debate is as important as good agenda management.

At its core the exercise of strategy shaping is relational in nature. The very idea of a board is based on the belief that the task of governing a company is beyond the capacity and capability of one person and that the collective capability of a group of highly experienced individuals is better placed to do the task. The implicit assumption then is that the quality of working relationships on the board enables the group to fully leverage its collective potential as a strategic group.

For boards to thrive, it is not enough to have a deep understanding and a feel for the industry the firm operates in. Nor is it sufficient to be curious and committed to continually deepening this knowledge. Nor does it simply require a focus on both the lag and lead measures of sector success. To succeed individually and collectively, NEDs must strike a balance between their skill and propensity in influencing others and their propensity to be influenced by others. This demands a whole new awareness of the processes of influence within the boardroom – the antecedents and moderators of director influence. Ultimately the two attributes that the most influential NEDs possess are humility and courage – the humility to know they don't have all the answers and the courage to take a stand when they need to.

Above all, strategic renewal needs company directors to demonstrate personal courage, especially at a time when we face an unprecedented scale of challenge to current strategies and business models.

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