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Imperatives of a high-performing Board

KPMG Board Leadership Center

Corporate Boards are constantly under pressure to elevate their performance by expanding both, the areas they oversee and the intensity with which they oversee these areas. Prescriptive regulations, empowered shareholders who challenge corporate decisions, and a competitive environment that has blurred the distinction between an ally and a competitor have added to the pressure. Drawing insights from our surveys and interactions with directors and business leaders, KPMG Board Leadership Center has highlighted four imperatives for Boards to perform under this pressure.

Appoint the right people to achieve a balanced Board

Diverse backgrounds, skill sets, cultures, and gender help Boards infuse new ideas, perspectives and different problem solving approaches that can help ensure more rigorous and holistic decision making. With regard to diversity in corporate Boardrooms in India, it appears that there is definitely a need for improvement. As per 2016 KPMG Board Leadership Center India survey[1], nearly 70 per cent of the respondents indicated that finding Directors with both general business experience and specific expertise is one of the key barriers in building and maintaining a high performing Board. In order to help ensure adequate skill set diversity, it is important to map the Board's existing skills and analyse the required skill sets needed to achieve strategic priorities. Also, it is vital that Boards move out of their personal network to identify and short list candidates in order to access a wider pool of diverse talent. It might be helpful to leverage executive search firms to find the right talent and over a period of time use recognised databases.

Boards could use a couple of enablers to achieve optimal composition. In this regard, respondents to the aforementioned survey overwhelmingly cited robust evaluations (87 per cent) and formal succession plans (77 per cent) as the most effective mechanisms.

> "It takes true leadership in the boardroom to create the right board", said one director. "Leadership must drive robust succession planning that is clearly linked to long-term strategy, and must insist on robust board and director evaluations."

Facilitate a culture of open debate and challenge

The Board Chairman should set the right tone at the top. If the Chairman is dominant, it is harder for Directors to contribute. On the other hand, a good Chairman acts as a facilitator and fosters a cultural environment in which an open and honest debate can take place, even if at times it is contentious. He/she can encourage Directors to challenge ideas put forth in the Board meeting regardless of whether those ideas were conceived by him/her, or the promoters, or the management. Such open discussions help in leveraging collective intellect of the Board. Results of a 2016 KPMG Board Leadership Center India survey[1] underscores the importance of such a conducive culture.

In the survey, nearly 35 per cent of the respondents highlighted '*Board culture that does not encourage questioning and open discussion*' as one of the greatest barriers to build a high performing Board.

A conducive Boardroom culture also requires distribution of power between promoter, executive and independent director groups. Towards this end – through Section 203 of the Companies Act, 2013 – the regulator has expressed its intent to separate the Board chair and CEO roles. In case this is not feasible, companies could appoint a Lead Independent Director to provide a voice for the independent Director group.

Focus on substantive matters

According to the U.K. Financial Reporting Council, "The Board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed."[2] However, given the pressing regulatory/compliance matters and limited oversight time of Directors (especially non-executive Directors), Board agenda and meetings may focus more on routine matters. A high performing Board, while addressing these routine matters, should find time to: (a) review and pressure test core assumptions underlying management's strategic choices, (b) not only discuss noteworthy trends that could cause disruptions, but help the management identify weak signals that could snowball into a major risk, (c) examine the correlation between performance goals and compensation and assess whether it is encouraging the right behaviours,

1. "Building a great board", KPMG in India, May 2016
2. "Guidance on board effectiveness," https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Board-Effectiveness.pdf, Financial Reporting Council, March 2011

(d) establish and periodically review succession plans for the CEO and senior management personnel, and (e) engage with institutional investors, private investors and analysts. Here results of 2016 KPMG Board Leadership Center India survey[3] highlighted that nearly half of the respondents are not entirely satisfied with strategy and risk being effectively linked to boardroom discussions. One of the directors we interviewed had this to say on the board's focus on strategy:

> Investor feedback, the feedback of the marketplace, as evidenced by the stock price, and the view of the customers, vendors, and employees all roll into the board's assessment of whether the board has the right strategy to advance the business.

Their role in strategy becomes important in the light of findings of the CEO Outlook Survey 2016, by KPMG International. As per the survey, nearly 41 per cent CEOs globally expect to be running significant transformed companies in three years' time. In addition, approximately 82 per cent of those surveyed are concerned whether their company's product or services will be relevant to customers three years from now. An effective Board should be quick to recognise changes in the external environment and not only help the company adapt to the 'new normal' but also guide them through the risk while not missing the opportunities.

This focus on strategy and other substantive matters will require directors to get more out of their meetings. Some of the meeting productivity enhancers include: (i) a rolling agenda that changes with the changing priorities (ii) using consent agendas for bulk approval of certain routine matters (iii) apportioned time for discussion on strategic matters at each and every board meeting (for the same reason some companies have started holding Audit Committee and Board meetings on separate days), and (iv) an information portal to share information among Board members and the management in between Board meetings.

One of the directors we interviewed said:

> The time commitment required for board service will vary significantly for a variety of reasons, including the size and complexity of business, as well as the demands of the boards in the event of a crisis, a major transaction etc.

Streamline communication with stakeholders

There is no 'one-size-fits-all' strategy for effective stakeholder management. However, it makes more meaning for companies to connect with the stakeholders early in their lifecycle on a regular basis, as building trust takes time. It also helps if there is an ongoing dialogue with key stakeholders on a regular basis and not only during a crisis situation. The Board should prioritise stakeholders by groups or issues, helping them in better management of their expectations[4]. It is also important to leverage public disclosures as not just a compliance measure but as a channel to engage with stakeholders. At times, this approach might involve going beyond stipulated regulations with regards to disclosures.

Additionally, general meetings with shareholder could be made fairer and engaging by: (a) conducting voting at these meetings by poll, instead of show of hands; (b) engaging an independent scrutiniser to count and audit the vote, and (c) providing a live webcast of the meeting to enable shareholders across the globe to attend it virtually[5].

About KPMG Board Leadership Center

KPMG Board Leadership Center (BLC) champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programmes and perspectives – including KPMG's Audit Committee Institute – the Center engages with directors and business leaders to help articulate their challenges and promote corporate governance. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers actionable thought leadership publications – on risk and strategy, talent and technology, globalisation and compliance, financial reporting, and audit quality, and more – all through a board's lens.

3. "Calibrating strategy and risk: A boards-eye view," KPMG in India, 2016
4. "Stakeholder engagement: A good practice handbook," International Finance Corporation, May 2007
5. "ACGA White Paper on Corporate Governance in India," Asian Corporate Governance Association, January 2010

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