



Resilience: Leading for the long-term

KPMG Board Leadership Centre

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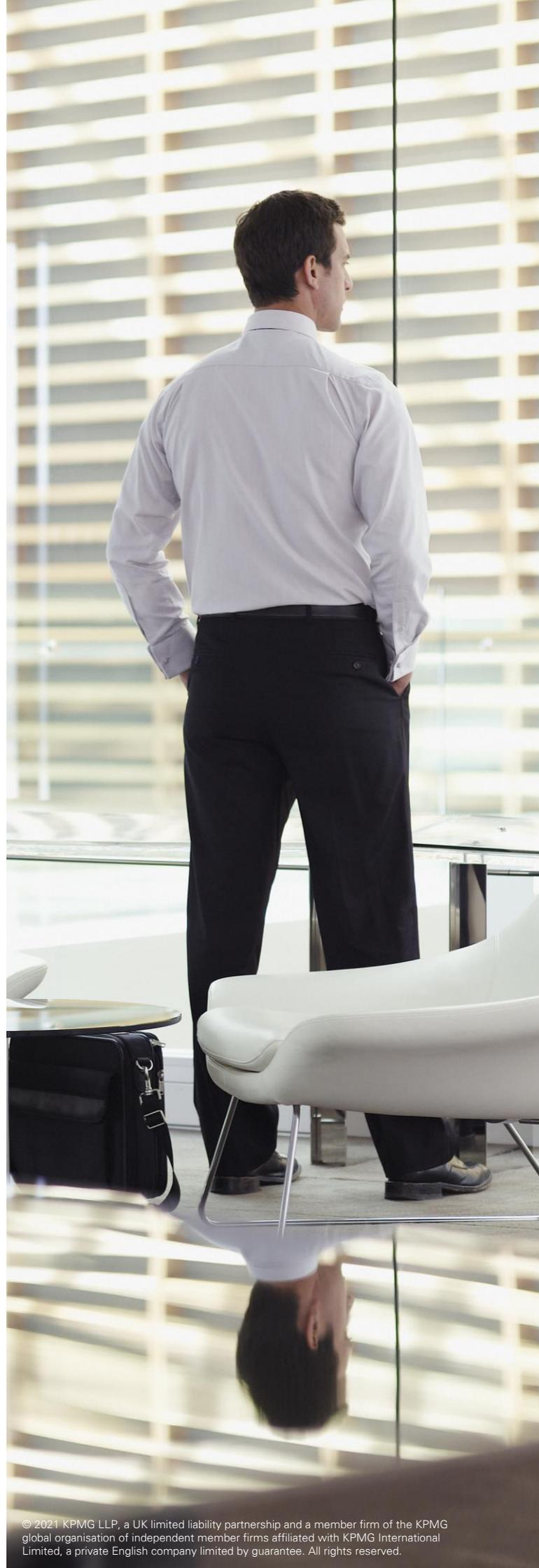


The rare confluence of three seismic events – COVID-19, an imminent global recession and an undercurrent of social injustice – pose unprecedented challenges for companies and boards in the weeks, months and perhaps years ahead. Few companies, if any, will come through these challenges thinking or operating the same as before – and every company’s strategy, resilience and responsiveness to its stakeholders’ expectations will be put to the test.

In this paper, the KPMG Board Leadership Centre have tapped into the experiences and insights of seasoned non-executives to understand how boards are addressing these challenges.

Other papers in this KPMG Board Leadership Centre series include:

- [Crisis prevention and readiness](#)
- [Facilitating the board’s engagement in strategy](#)
- [Maintaining a strong board / CEO relationship](#)
- [Seismic events put strategy, resilience and social responsibility to the test](#)



Resilience: Leading for the long term

It's increasingly clear – as many business and boardroom leaders are now internalising – that resilience is proving to be the great differentiator of the pandemic era. From pivoting to remote everything and focusing on workforce well-being to deepening digital engagement and recalibrating supply chains, the ability to quickly adapt to the dramatic disruptions and dislocations of the past year has defined the thrivers and survivors.

It is also clear that resilience – of strategy, the organisation, and operating muscle – is key to positioning companies for the dynamic challenges and opportunities of the post-pandemic world. Resilience is about having the agility – the optionality – to execute on strategy as conditions change. It's partly about risk, but it's ultimately about strategy.

Indeed, observing that none of the top stocks (by market value) in the world in 1989 are on that list today, Warren Buffet commented during Berkshire Hathaway's annual meeting that "We were just as sure of ourselves, and Wall Street was, in 1989 as we are today. But the world can change in very, very dramatic ways."¹

For many companies, the accelerating speed, complexity, and societal expectations of business over the past several years have sharpened the board's focus on strategy, risk, talent and the workforce, and corporate purpose. These are not new challenges. But COVID-19 and the upending events of 2020 have brought greater urgency and focus to these issues in the boardroom.

"Companies and boards are at a pivotal moment," said one seasoned non-executive director. "The need to reimagine, rethink, and reset is probably a once-in-a-generation opportunity."

To that end, this fifth paper in our series offers insights on the ways boardroom leaders are rethinking four critical areas to help raise the board's game, strengthen the company's resilience, and position the business and the board for the future:

- Deepening the board's engagement in strategy and envisioning the future
- Changing risk profiles and the implications for risk oversight and crisis readiness
- Elevating corporate purpose, ESG, and stakeholder interests
- Having the right individuals in the boardroom and C-suite

As our conversations with board members reflect, there's a different kind of deliberation and decision-making required in the boardroom today – more open discussion, more reflection and judgment, getting beyond the numbers, and bringing directors' broad experiences to bear. It's about putting strategy and risk into context and challenging the company's assumptions and resilience.



The need to reimagine, rethink, and reset is probably a once-in-a-generation opportunity.



¹ Jesse Pound, "This is the special lesson Warren Buffett gave new stock investors at his annual meeting," CNBC, May 1, 2021.

Deepening the board's reengagement in strategy and envisioning the future

In light of the dramatic changes and disruptions that management teams and boards have faced since we published "Facilitating the board's engagement in strategy" in 2019, we have reengaged with experienced board members around the elements and practices that are pivotal to quality boardroom discussions about strategy: What has changed in the board's engagement in strategy over the past two years? What's changed in management's strategic planning processes? Which oversight practices are most critical given the level of disruption, uncertainty, accelerating megatrends, and expectations of boards?

Ask management to revisit and, if necessary, refine its strategic planning process

Is the company's strategic planning process adequate and flexible enough to address the speed and disruptive impact of the accelerating megatrends and to assess the continuing validity of the core assumptions that are the basis for the company's strategy and business model? What disruptive forces and risks are on the horizon?

Develop a vivid picture of the future

Given the level of uncertainty today, understanding where the industry and competition are headed and the impact

on strategy is critical. Developing that picture can be a formidable challenge, and it will be an informed best guess. What do we think our business will look and feel like in 2, 5, or 10 years? Question whether you're still in the same business you started in. Do we still sell products, or experiences? Imagination sessions with third parties can be helpful.

Make the "what-if" conversations mandatory

Part of the problem with scenario planning is that it can get too theoretical for boards. Find a way to have dialogue around what-ifs in a more focused and urgent way. And because we know that black swans really do happen, make low-probability/high-impact scenario discussions a requirement, not an optional activity.

- *"I'm a big proponent of setting up plausible futures. What are those signposts, those mile-markers, that would cause us to believe that we're seeing movement toward one of those directions? It gives you a language to talk about uncertainties and what could be."*
- *"What's your gap analysis? How will you recover should that scenario happen? Scenario planning gives you a sense of what you're prepared for and not prepared for."*
- *"Supply chain issues during COVID are a good example. Was all that thinking about being centralised for bigger discounts with one supplier network smart or not smart? What's the trade-off between cost and efficiency versus being able to deal with the what-ifs?"*



Understand the evolution of whatever scenario planning you're doing.



- *“Understand the evolution of whatever scenario planning you’re doing. You have a base-case scenario and a stress-case scenario. If you only look at those two scenarios at a point in time, it’s easy to forget what you were thinking a year ago or six months ago. Look back in time. Don’t focus only on the best view today. That puts in context the degree of precision.... We need to be reminded of how fallible it is. Our own perceptions change over time. It gives you a healthy degree of scepticism about what you think you know. This has been made more relevant and important by the global pandemic and the global financial crisis.”*

Hear perspectives from beyond the inner team

We call it a ‘fitness process.’² The top team articulates a strategy and asks their ten most trusted employees next down the line to talk to 50 people about that strategy. What worries you about the strategy? Those ten then come back with their learnings. It gives voice to the organisation. Ask what are the worst things that could happen – without having to solve them. It’s about stimulating discussion and getting out-of-the-box thinking.

Rigorously test strategic assumptions and look beyond immediate competitors

Have one or two board sessions devoted to having an honest debate about the assumptions, the environment, and what is changing. Which of these assumptions, if wrong, could really hurt us? What’s the probability? The biggest risk is probably not from your direct competitors.

- *“As a director, you have to know about the company and apply your wisdom from your decades of experience and analogous situations. It’s about being able to pose those third- and fourth-level derivative questions that lead to much more insightful strategic questions that management might not have thought about. That requires making time to seek out external sources to better understand the industry. It’s not enough to just listen to management’s presentation and read the board materials. To be effective, directors should be reading five or seven times more than what you get from management.”*

Understand (and reinforce) the value of the board’s lens

The board can play a constructive role in bringing the ‘unknown unknowns’ to a threshold of uncertainty in a way that management can’t. Management is fully immersed in the company’s activities, looking over their shoulders at their competitors – as they should be. Board members are engaged in other activities and the perspectives and signals they’re picking up are likely to be different because they work in different environments.



It’s about being able to pose those third- and fourth level derivative questions that lead to much more insightful strategic questions that management might not have thought about.



² Michael Beer, “Fit To Compete: Why Honest Conversations About Your Company’s Capabilities Are the Key to a Winning Strategy,” Harvard Business Review Press, 2020

Ensure that strategy-setting is an iterative process

It's more important than ever for the chair to ensure the strategy process is set up correctly. Set expectations at the beginning: 'Here's what we want to see from management. What do you need from the board?' Management has primary responsibility for developing the strategy, but the chair should be pushing that process with the CEO and the rest of the board. As part of the board's strategy engagement, consider having a non-traditional committee take a look at the company's innovation process. How do we go about thinking differently – about new things? What is the process? Challenge the process, not specific projects. It's important that early, honest failures are celebrated, not punished.

See resilience as part of the strategy discussion

How does resilience fit into the strategy discussion? It's not about risk; resilience is about the ability to pivot on strategy when conditions change. Resilience means you understand your optionality, you have diversification, and no matter what happens you can move forward and stay viable. The ability to reposition yourself is critical to survival. How you practice and what tools and levers you have to reposition quickly are going to really matter.

Foster trust and transparency in conversations

Trust is the foundation of honest, transparent discussions with management and among board members. Without that, conversations about strategy and the risks to that strategy will probably fall short.

- *"The biggest barrier as a board member is feeling like you have a question or concern that falls into the 'stupid question' category. Directors have all of these perceptive abilities and aren't burdened by being engaged deeply in the company seven days a week. Because we don't have the deep-domain expertise that management does, we're able to filter certain signals more effectively. This gets to board culture and a sense of confidence and the authenticity of directors that can make or break the board's ability to identify critical issues."*
- *"Rather than just management reporting up to the board or the board making pronouncements from on high, it has to be a conversation that is informed by trust. Management needs to know they're going to get useful feedback from directors, and directors should feel that they're not just being 'presented to' on things that are fait accompli, but are being asked to provide useful input. The board needs to be used as an asset, not just a check on management."*
- *"At least annually, review how the board engages with management. Is that process working well? Are the pathways for engagement and lines of communication open? It's critical for the lead director to be focused on process effectiveness."*



The ability to reposition yourself is critical to survival.



Changing risk profiles and the implications for risk oversight and crisis readiness

Well before the events and crises of 2020, companies and boards were navigating an increasingly complex and challenging business and risk environment – including technology and business model disruption, cybersecurity risk, investor scrutiny, geopolitical risk, and regulatory and political uncertainty.

Despite the progress companies have made in managing risk, many lead directors are recommending that their boards and management teams take a fresh look at the company's risk management processes/ERM programs and assess whether crisis readiness and resilience are closely linked to the company's critical risks. The board's risk oversight – including committee responsibilities – should be under the microscope as well (see "Taking a fresh look at risk oversight: Big picture questions").

Board committees should be doing the heavy lifting

Risk oversight is a full-board responsibility, but "a lot of the heavy lifting should be happening at the committee level. How that is structured depends on the skill sets of board members and their ability to dig into different issues.

- *"In addition to bringing the right focus and attention to substantive risks, it's essential that the board and its committees stay focused on the effectiveness of management's risk oversight processes – including the talent and resources."*
- *"For a lot of boards, committees do the legwork – the filtering – to figure out what issues really require the other directors' attention. It makes for a more efficient and effective discussion that engages the full board and the management team."*
- *"The alignment and linkage of the strategic planning and risk management processes also need to be on the radar at the board and committee level. Strategic planning and risk management go hand in hand, and they should be overseen that way."*

Take a hard look at crisis readiness.

Management's crisis plans tend to be retrospective, even though the next crisis is unlikely to be the same. Each crisis has its own fingerprints, so doing a 'lessons learned' exercise and tucking that book on the shelf usually isn't the answer.

- *"Crises do have commonalities, which should be helpful in preparing for the next one. What's our communication plan? What kinds of scenarios should we be war-gaming? It may take some time to figure out, but knowing how important it was—and is—to quickly identify the company's priorities in a crisis is a valuable lesson."*
- *"Two years ago, many of us were sitting through ERM presentations where we were told that a global pandemic is a long-tail risk. Few of us said, 'what do we do about it? How do we think about a global pandemic?' That experience should inform all of us that we need to be more curious and try to identify issues that may seem silly or so abstract that it's hard to even have a conversation about them. We know now that those amorphous risks need to be discussed, no matter how difficult."*

Taking a fresh look at risk oversight: Big picture questions

- Does management have an effective process to identify emerging and evolving risks that are critical to the company's reputation, strategy, and operations – and to help ensure that appropriate controls and risk mitigation plans are in place?
- Does the board's committee structure bring the right focus and attention to the company's critical risks? Are the risk oversight responsibilities of each committee clear? Does that allocation of responsibilities still make sense?
- Are strategy, risk management, crisis readiness, and resilience closely linked – and are we prepared for the worst-case scenarios – crises or disasters – that we can envision?



The ability of the board and management to muster all available resources is half the battle during a crisis.



Elevating corporate purpose, ESG, and stakeholder interests

Chairs and other non-executive directors emphasise that the shift toward purpose, ESG, and stakeholders has been profound and is here to stay. These issues are accelerating as priorities for companies and their stakeholders.

That said, addressing ESG and stakeholder issues as a strategic matter continues to be a formidable challenge, and COVID-19 and the events of the past year have amplified the importance of factoring ESG – particularly the social issues – into corporate strategy, risk, and resilience. Which ESG issues are most critical to the company’s long-term value? How is the board helping to ensure that these issues are priorities for the company and that the company is not only talking the ESG talk but walking the walk?

The directors we engaged with emphasised several considerations for directors and boardroom leaders.

ESG has moved from important to imperative

Institutional investors and key stakeholders see ESG as critical to a company’s success – and they’re right.

This is a priority for most boards as a lot of time is spent engaging with large investors on ESG matters. With the large index fund shareholders driving the ESG agenda so much and so hard, there is more pressure on companies to respond than ever.

- *“ESG rests with the board and management. It’s not just a nice idea. More and more studies are connecting a focus on stakeholders, investors, the environment, their employees, and communities with better performance. It makes sense: You get higher productivity – people want to come work for you. The board should be asking management very directly, where is the company on its ESG journey?”*
- *“The ESG issues of importance will vary by company and industry. For some, it skews towards the external environment, climate change, and the emission of greenhouse gases. For others, it skews toward social issues. Certain elements of ESG are common to most companies, while others are company specific, generally based on industry. If a company is performing adequately today, it should be looking to the future with an ESG lens to assure financial performance.”*

Keep stakeholders front and centre

Stakeholder capitalism is here, but it’s still evolving. The board can play an essential role in listening for instances where management may be tone deaf or may be prioritising shareholders and not giving other stakeholders proper consideration. The board can play this role as they hear things differently than management.

- *“As chair, it’s part of my job to keep the boardroom conversation focused on the ESG issues that matter most to the business and understanding how management is addressing them.”*



ESG rests with the board and management. It’s not just a nice idea – it’s critical to corporate success.



- *“Boards today need to be more aware of the context in which the decisions are made, particularly on issues such as ESG and IDSE, and understand the importance of these issues to key stakeholders.”*

ESG should be driven by strategy and linked to incentives

ESG is not an add-on anymore. It needs to be integral to strategy and linked to performance – including factoring ESG into executive compensation. Shareholders are driving this.

- *“Tying ESG performance to executive compensation signals the importance that the board places on defining ESG and how it fits into strategy. Many companies have meaningful initiatives at the operating level of the business – clean water, being green in terms of energy use, carbon emissions, etc. Often those issues haven’t been aggregated at the surface. Finding a way to embed these initiatives in compensation incentives is a helpful signalling device and rewards those activities.”*
- *“Be careful what you put into your compensation plans. Make sure the ESG metrics you choose are linked to your core strategy. Identify your key ESG issues and framework before you tie ESG to incentive compensation. Test the right metrics to measure before you tie them to compensation.”*

Ground your ESG story with a disclosure framework and disciplined process

With stakeholders increasingly focused on ESG issues, finding an ESG disclosure framework that is right for the company is key. “It has to be the story that you want to tell about how you are stewarding E, S, and G.” Once you have a framework, have a process. Make sure that every committee and every board member is engaged. ESG should be on all the main board committee agenda as well as being discussed at the full board.

- *“Your ESG story should be about what is material to the company, and that varies greatly across industry and company size. Figuring out what is material is part of the larger discussion of strategy and risk, so that disclosure flows from what is informing your business plans as a company.”*
- *“A disclosure framework—whether it’s a standard like SASB or TCFD, or company specific—will help you have those deep discussions as a board and with the CEO, and the ESG issues that matter the most will bubble up. Then, you should put some money where your mouth is” by including some ESG metrics in compensation plans.*
- *“Directors have statutory responsibilities for the ESG statements in the annual report and accounts. Is the company actually doing what it claims to be doing? It’s important to have an internal process for validating the data that you’re presenting. The gold standard for doing that is to subject that information to the same kinds of disclosure controls and assurance procedures that you would for your financial statements.”*



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ESG-related proxy activity is intensifying

ESG was front and centre in shareholder proposals during the AGM season, consistent with the trend of the last five years. This season is also seeing some “say on climate” proposals asking for a shareholder vote on how the company is addressing climate risk and proposals seeking to tie compensation to ESG metrics.

- *“What’s more interesting is what will happen during the off season, when companies engage with their largest shareholders about their priorities for next year. Increasingly, institutional investors are being very specific about the ESG disclosure they expect to see, for example, on board and C-suite diversity, diversity-related data, sustainability, and climate-related risk. “A lot of work has to be done ahead of those meetings to make sure that management teams and directors have the right talking points to respond to the sort of strenuous perspective that institutional investors will present.”*

Set expectations for the CEO speaking out on social/political issues.

A number of chairs we spoke to (but not all) felt that CEOs should be speaking out on issues that reflect the company’s values. Perhaps not ideological conversations, but you can’t have values and not make judgments consistent with those values. It’s part of being a CEO today – and the board has a role to play as well.”

- *“Remember that saying nothing is saying something.”*
- *“When the CEO is speaking out on social issues, the board should be kept informed. I would encourage all directors to think about this in terms of what is in the best interest of the company’s most important stakeholders. By definition, speaking out on a controversial issue can be uncomfortable, but staying focused on the company’s values will keep the CEO anchored.”*
- *“Should the board be consulted? Yes—most of the time, because it’s about reputational risk and taking a reputational stand. It doesn’t have to be a formal conversation every time, but I think it would benefit the CEO to have some conversations with at least a set of directors, if not the full board.”*



When the CEO is speaking out on social issues, the board should be kept informed.



Having the right individuals in the boardroom and C-suite

Boards should look at the company's long-term strategy and put the board and C-suite 'up against it,' to evaluate whether they have the necessary skills. Indeed, the talent pipeline, CEO succession, board evaluations, and board refreshment continue to challenge even the most proactive organisations.

Be the board's own harshest critic and rethink the skills matrix.

Board composition and diversity continue to be a major concern for institutional investors, who often point to low director turnover and question whether boards are composed of directors who can help guide the company and its strategy in the future. Do CEOs and companies need different boards today than they needed not too long ago? As Vanguard stated in an open letter to public company directors, the board "is one of a company's most critical strategic assets," and Vanguard looks for "a high-functioning, well-composed, independent, diverse, and experienced board with effective ongoing evaluation practices."³

- *"Longevity on the board has been frowned upon lately, but when the COVID crisis hit, the dialogue with institutional investors around board tenure changed. Now it's about finding the right balance with tenure – so that when a crisis happens you have a balance of skills and tenure to do the job properly."*
- *"It's comfortable, especially for long-standing boards, to look at continuity as a positive driving force. That's dangerous these days because things are changing in the market quickly. It's not about throwing out all continuity and experience – which are critical to board effectiveness – but it's having a good skills matrix to make sure you're well-positioned for the future."*
- *"One of my boards just updated their skills matrix for the first time. We changed some of the skills categories primarily around the ESG skills needed. I think the COVID crisis is prompting a lot of boards to reconsider and update their skills matrix."*

Skills matrixes can be helpful, but they should only be the starting point for a discussion of "the real challenge, which is to find the individuals who can actually engage on the issues, apply sound business sense, and get the job done. A skills matrix can create a false sense of comfort that you have the right people at the table based on résumés."

- *"I think board diversity and keeping it fresh is key. Management diversity as well. Avoid getting into a rut. Keep challenging yourself. You need different perspectives, not just from different industries and not just from your competitors."*



I think board diversity and keeping it fresh is key. Management diversity as well.



³ "An open letter to directors of public companies worldwide," Vanguard, August 31, 2017

- *“I don’t think you’re ever going to have the expertise on the board side that you have on the management side. I don’t think you want that; it’s not healthy. You do want a breadth of experience and skills—to draw on that expertise to address the what-ifs. You need to make sure people have the time and intellectual curiosity to dive under the hood to learn about the industry. More boards are adding educational requirements, and directors need to spend time learning, staying fresh, not resting on our laurels. This is a real job—time demands are increasing.”*
- *“What many boards don’t do well is evaluations. We have to have open and honest performance evaluations. We have to say, ‘Here’s the strategy. Here’s where the strategy is going. Do we have the right set of skills?’ As a nomination committee chair, I am very clear-eyed about that.”*
- *“As chair, I have at least one private session with each director each year, by phone or video, where I ask for candid input on our overall risk assessment procedures and strategic evaluation processes, plus whatever else they might feel more comfortable telling me one-on-one.”*
- *“Ask yourself, if you owned 51 percent of this company, would you have this person on the board? It is a tough question, but you have to have that discipline to be open and honest about your own performance.”*

Align C-suite talent with the company’s future

In a certain chapter of a company’s life, the skill set required of the CEO or top officers may be different than what was needed in the last chapter. It’s the board’s responsibility to look at people who are different than what they currently have. Diversity, equity, and inclusion absolutely should play a part, because that is often going to lead you to the talent that can handle a volatile future.

The premium on empathy and soft skills

As with directors, the importance of a CEO’s soft skills is much more apparent today than 5 or 10 years ago. Think about the CEO of the past – very command and control. That doesn’t go very far in this day and age with expectations and impact that employees, shareholders, and other stakeholders have. “Great CEOs today have empathy, good EQ, and are mindful of the broader dynamic they have to navigate.”

Workers’ well-being has to be paramount. It’s often said that employees are the company’s greatest resource, but that has taken on exponentially greater weight in light of COVID-19 and the impact on workers and their families. Talent and retention strategies must go hand in hand with the company’s human capital management activities.

Taking a Fine-tuning the fundamentals

Many of the directors we speak to reiterate the importance of focusing on – and continually fine-tuning – the fundamentals of board leadership:

- **Focusing the agenda.** “The most valuable time engaging with management and the CEO is in that unstructured, non-compliance agenda time. If you’re going to be thoughtful about the environment and focus on the issues critical to long-term value creation, make sure you’re devoting sufficient time to those discussions.”
- **The purpose and quality of meeting pre-reads.** “Anything that’s backward-looking should be a pre-read.” “If directors aren’t reading a lot more than what management provides, they’re probably underprepared.”
- **Considering the board meeting structure.** “Find the balance of efficiency and effectiveness in a hybrid approach.” “The move to virtual meetings has actually helped address the heavier workload. Boards have become more thoughtful about breaking the work into manageable chunks and creating distinct time for the work.”
- **New director onboarding.** “Learning on the job is just not an option anymore. New directors need to be able to add value from the start – and that hinges on a solid and systematic onboarding process.”
- **Meaningful board evaluations.** “Make it robust, meaningful, and action oriented – and have the courage to deliver bad news to underperforming directors.”
- **Director recruitment—beyond a skills matrix.** “The right mix of skills and backgrounds is important. But groupthink is always a risk – and it takes diversity and courage around the boardroom table to overcome that. Keep that front and centre when you’re looking for new directors.”



The KPMG Board Leadership Centre

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