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How lead directors are helping their boards keep pace

By Dennis T. Whalen

The demands on the board's time and agenda continue to mount as a host of critical issues—from technology and business model disruption to investor scrutiny, and from regulatory and political uncertainty to geopolitical risk—collide and reshape the business landscape. As the business and risk environment becomes more complex, how are lead directors helping their boards add value and raise their game? What are their key areas of focus?

Discussing these questions with a number of lead directors, I've heard several recurring themes: the importance of the lead director's role in setting the board agenda, the lead director's relationship with the CEO, CEO/leadership succession, and shareholder communications. But virtually all the lead directors emphasized the importance of two additional topics that need to be top-of-mind: board composition and diversity, and enhancing board operations and oversight processes.

Board composition and diversity continues to be a key area of focus for institutional investors, who express concern about low director turnover and whether boards are comprised of directors who can guide the company and its strategy in the future. As Vanguard chair and CEO William McNabb wrote in a 2017 letter to public company directors, the board "is one of a company's most critical strategic assets," and it looks for "a high functioning, well-composed, independent, diverse, and experienced board with effective ongoing evaluation practices."

Developing and maintaining a high-performing board requires leadership and close coordination between the lead director and the nominating governance committee chair—whose responsibilities for board composition may be similar or perhaps overlap. While determining the company's current and future needs is the starting point for board composition, a broad range of related issues require leadership and coordination—including succession planning, director recruitment, age and term limits, diversity, board and individual director evaluations, removal of underperforming directors, board refreshment, as well as disclosures regarding these issues. As one governance observer has noted, the quality of board governance begins with the composition of the board.

Also top of mind for lead directors today is enhancing board operations and oversight processes, including coordination across committees to bring the right focus and attention to those issues that are most critical to the company's success and long-term value creation, such as strategy, innovation, disruption and strategic risks, capital allocation, performance, leadership and talent. To devote more time to these issues, while also remaining focused on compliance, operations, and so-called rear-view mirror items, many boards have significantly increased their time commitment in recent years. But that alone is not sufficient, and lead directors and nominating governance committee chairs are now focused on how they can improve board operations and oversight processes—and the nature of their engagement with management teams and among directors—to devote more time to these critical issues. Among the steps lead directors are taking:

— Crafting board agendas to devote more time to key issues

— Assigning board committees to take deeper dives into issues that require more focus and and attention

— Improving communications between the board and its committees

— Considering the quality of information flow and boardroom discussions

— Reassessing committee structure, including the need for additional committees (e.g., finance, technology, risk)

— Encouraging greater engagement among directors between board meetings

— Tapping individual directors to take the lead on specific issues

— Developing an effective process to "connect the dots" and help ensure the alignment of talent, compensation, culture, risk appetite, and controls with strategy

In short, the important, and difficult, question lead directors are asking today is whether management and the board have the right governance structure and processes in place to drive critical business activities—to manage risk and calibrate strategy in a coordinated way.

This article originally appeared in the NACD BoardTalk Blog.

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