Enhancing the Board’s Role in Strategy

In conjunction with our Fall 2015 Roundtable Series, the KPMG Board Leadership Center spoke with Raymond V. Gilmartin on the evolving role of the board in the company’s strategy process. Gilmartin recently co-chaired the National Association of Corporate Directors’ Blue Ribbon Commission on Strategy Development. He previously served as Chairman, President, and Chief Executive Officer at Merck and as lead director at both Microsoft and General Mills.

Following are excerpts from our conversation:

**Board Leadership Center (BLC):** Our surveys are clearly showing that boards are deepening their engagement in strategy and the strategy process. Why is this happening?

**Ray Gilmartin:** Today’s business environment is highly uncertain and change takes place very quickly. With globalization and economic uncertainty, the risk for any one company is that the fundamental assumptions on which their strategy is based have changed and are no longer valid.

I think it’s important for a board to be well versed in what the fundamental assumptions have been so they can detect the change. But, more importantly, the board should be well versed in the context in which the company is operating, its competitive environment, and the changes in markets. That calls for the board to have a higher level of engagement with strategy than they’ve had in the past.

**BLC: Where do you find this need to be especially critical?**

**Gilmartin:** The greatest danger for most firms is disruptive innovation that occurs in a gradual fashion and then gains momentum. By moving from an episodic or once-a-year review to a continuous process, we’re recommending that the strategy development process be broken down into its elements and that those elements are spread out over the course of the year at board meetings. It’s an opportunity to get more in depth on important issues, such as what are the major trends that are taking place in our industry? How are competitors responding to these trends? What alternatives have we considered in light of competitive action and the trends that we see, and what are the fundamental assumptions on which we’re basing our strategy?

A continuous process allows the board to move from a posture of learning about strategy at a year-end retreat to being in a position to evaluate strategy, to have metrics as to how well the strategy is being executed, and most importantly, to be able to assess whether or not economic value is being created by this strategy.

**BLC: How can management and the board itself gauge if the board is not doing enough?**

**Gilmartin:** There are red flags that signal when the board is not sufficiently engaged in strategy. For example, when directors take a position at board meetings along the lines of making suggestions or offering ideas that may or may not actually apply to the situation in which the company finds itself, but instead are based on their own experience.
Or they [directors] ask hard questions to test the validity of the strategy, but come at the issue from many different directions, once again, based on their own backgrounds and experience. A shortcoming of this approach is that there is no agreement or consensus among directors as to important issues and challenges. It’s more a set of random comments, of which there doesn’t seem to be any closure at the end of the meeting.

**BLC: So, how can directors enhance their approach?**

**Gilmartin:** A significant challenge that the board faces is that usually it is only dealing with the information that’s in the room at the time of the presentation. We call this information asymmetry.

Management has a lot of information—and they’re presenting it in a straightforward way based on what they see as the issues and what’s happening in the industry—but, as a board member, if you had access to more information about industry trends or had more sources of information, such as from shareholders or from experts, you would be in a better position to evaluate the actions that management is taking.

The most constructive way for boards to gain more information is to actually work with management to accomplish that. Ask management to bring in outside experts or industry observers or security analysts or portfolio managers. Do that, not as a way of checking up on management, but working with management to say, “Hey, let’s make more information available.”

**BLC: Can the board go too far?**

**Gilmartin:** Yes, one of the most difficult issues that a board faces when talking about a higher level of engagement in strategy is determining whether or not it is crossing the line into management’s responsibilities. A board should not take away the CEO’s ultimate responsibility for the strategy and the execution of that strategy, but I think greater involvement by the board can be achieved if the board keeps in mind that its role is to understand and suggest and stay away from prescribing.

**BLC: Do boards themselves need to change or adjust for this level of engagement in strategy?**

**Gilmartin:** To the extent that the board gets more engaged in the strategy development process, I think it’s also going to change the skills and the experience sets that are required by board members to be effective in engaging with management in that process. It starts, first of all, with the spirit of inquiry—being engaged and seeking information on their own.

But it also requires board members who have demonstrated a sense of strategic thinking. Go beyond the resume and the reputation, and actually look at the experiences a board member brings and the extent to which they have demonstrated the ability to think conceptually about strategy, have dealt with major strategy issues, and have resolved them successfully.

In fact, in the process of strategy development and board engagement, the role of a lead director or nonexecutive chairman is crucial. He or she can help to reach an agreement, as a board and with management, that the board desires a greater level of engagement with strategy. This requires a real change in the relationship between the CEO and the board.

The lead director can also play an important role in this process by ensuring that every voice is heard and that the voices on the periphery are actually evaluated and taken seriously. That does not happen often on boards these days.

**BLC: Any final thoughts?**

**Gilmartin:** The implication of a higher level of engagement by the board is that each of us, as directors, has to be willing to move from a more passive, receiving role where we’re learning about strategy, to a more active and evaluative role. That requires far more homework and understanding of the lower-level details.

A higher level of engagement and the additional work that goes along with it are absolutely essential in today’s environment. If there are activist investors, why not be an activist board?

**BLC: Thank you, Ray.**

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