Building and maintaining the "right" board

Board perspectives

Getting board composition right is a challenge no matter the company size or ownership structure. Many private companies, however, face a different set of challenges than those encountered by their public company counterparts.

In the early generations of a family-owned company when directors, shareholders, and management may be the same people, board composition may not be an issue. As a business begins to grow and mature, however, independent directors can play a critical role in setting strategy, as well as supporting and monitoring the CEO. Yet, the family may be reluctant to bring in independent directors due to worries about muffling the family's voice and losing some degree of control.

Private, investor-backed companies also may be hesitant to bring differing views to the board when majority owners, particularly private equity investors, are focused on building up to the "next transition," or the sale of their interest. Private equity investors may see directors with a diversity of views as more of a distraction for management than an enhancement.

To be sure, board composition is an issue that public companies wrestle with, too. The KPMG Board Leadership Center recently surveyed 2,300 directors and senior executives to better understand the tools and approaches directors are using to achieve the right mix of talent in the boardroom. Among the findings, one third of public company respondents said they had little or no formal discussion about board succession planning, and only 14 percent said they had a succession plan in place.

A look at survey responses from private companies suggests that board building is an even greater challenge for private companies—both investor-owned and family-owned. Only one third of private company directors said they are satisfied that their board has the right combination of skills, backgrounds, experiences, and perspectives to probe management's strategic assumptions and help the company navigate the increasingly volatile business environment.

When asked to rank the most effective mechanisms to achieve the right mix of skills, backgrounds, and experiences on the board, some 80 percent of private company directors cited both robust board evaluations (including individual director evaluations) and formal board succession plans as their top two. Yet, few private company boards have formal succession plans, and nearly one third cited the lack of board and individual director evaluations and difficulty in removing underperforming directors among the greatest barriers to building and maintaining a high-performing board.

These survey findings were shared during the private company board forum at the 2016 NACD Global Board Leaders' Summit. Several directors and governance professionals offered their thoughts about the survey findings and how to close the gaps regarding board evaluations and succession plans.

"In the case of both board evaluations and board succession plans, there's clearly a lot of room for improvement," said one governance professional, "but I see more and more private companies—of all sizes—looking to enhance board composition, including casting a wider net in board searches and conducting more thorough evaluations."

"When it comes to board succession plans, board evaluations are a key first step," one independent family-owned company director said. "The evaluations help identify the gaps in board experiences and skill sets that will be needed for the future. The succession plan is how to fill the gaps."

"A balance of new and more experienced board directors really helps keep the company moving forward," said another director.

Engaged and effective board members often warn management about their potential blind spots. But, ultimately, a static board—one that is not regularly considering its composition and skill sets—can become a critical blind spot itself.

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG's Audit Committee Institute and Private Markets Group, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/blc.

Private Company Boards

The KPMG Private Markets Group focuses on serving privately held entities and their boards with insight from our global network of professionals, offering integrated audit, tax, and advisory services tailored to meet the needs of private enterprises, including private equity- and venture-capital-backed companies. Learn more at kpmg.com/us/privatemarketsgroup.

kpmg.com/socialmedia