Culture as a Blind Spot: Openness and Transparency in the Private Company Boardroom

As markets move faster, margins get tighter, and global competition grows, public and private companies alike are looking to the board—more than ever—as a vital source of insight and guidance. Beyond ensuring the well-being of their investments, shareholders expect directors to help the company capitalize on strategic opportunities, drive innovation, navigate emerging risks, and shed light on the company's "blind spots." Yet, for all its focus on the business and the marketplace, the board itself can be vulnerable to its own blind spot: boardroom culture.

Fostering the transparency, openness, and healthy dynamics that are essential to any board's effectiveness can be particularly more challenging at private companies. The politics of management and ownership tend to be intertwined among founders, family members, business partners, and key investors. Moreover, many private companies employ advisory boards as strategic consultants to management and the owners as opposed to more empowered governing boards.

Unlike public companies—which operate in a "fishbowl" of scrutiny, disclosure, and regulatory requirements that tend to hold a mirror to the board—private company boards are often more insulated and need to be particularly vigilant in a "black box" environment; the wrong culture can quickly undermine the board's contribution and value as a critical asset to the company." To be sure, "boardroom culture" isn't a new blind spot, but the stakes are higher than ever, and the board needs to be effective.

A culture of openness and transparency in the boardroom is essential for directors to genuinely challenge—and help recalibrate—the strategy, assess the company's risks and articulate its risk appetite, and understand management's ability to execute its near- and long-term plans.

Does the board devote sufficient agenda time to **robust discussion**, versus listening to management's presentations? Are dissenting or alternative views encouraged? Is the board's interaction with management limited to a few key leaders—e.g., the CEO and CFO—or does the board have open access to line management and outside views that may run counter to the C-suite's thinking?

Frank and open discussions also mean acknowledging the natural tendency of individuals to bring a certain amount of **bias** into the discussion. "You have to be comfortable and confident enough to challenge your own thinking and information on any given issue," one director told us recently. "Healthy skepticism is an indicator of a healthy boardroom. If management has 100 percent confidence in its information, that's a red flag."

Varying degrees of "independence" can also cloud the boardroom dialogue. For private companies with a governing board, directors who aren't clear on their **fiduciary duty** to *all* shareholders can serve to divide a board and "create havoc in the decision making process," note Marianne Fortuna and Karen Loch of Georgia State University in a recent research paper on *Boardroom Cultural Governance*. At private companies, independent directors can help to counterbalance directors who may have conflicting duties—to the founder, family or investment group—and spur the hard conversations.

Of course, "openness and transparency" is a matter of degree—and a robust, honest **board evaluation** can go a long way to helping the organization identify major problems as well as areas that may just need fine-tuning. "The results of a good self-assessment can be particularly helpful to refresh how the board works, and even its composition," one director told us recently. One-on-one interviews, facilitated by an external party, can be particularly effective in gaging the tone and culture in the boardroom, while identifying key areas to improve board, committee, and individual director performance.

Private companies, and especially their boards, don't often find themselves subject to the bright lights of media and analyst scrutiny, but the level of transparency and openness in the boardroom—and the board's contribution as a competitive asset—will almost certainly be reflected in the company's performance.

Originally published in December 2014

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding corporate governance to help drive long-term corporate value and enhance investor confidence. 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 actionable 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 about the Board Leadership Center's programs, resources, and insights for directors 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