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How independent directors can add value to private boards

In any boardroom conversation, independent voices are vital to the quality of the discussion and the rigor of thinking and decision-making. For private companies, it can be game-changing, with the potential for taking the thinking on strategy, risk, talent, and the future of the business to a different level.

In our recent survey of private company directors, nearly 90% of respondents said their company has at least one independent director. And three-quarters said independent directors can add the most value to the business by serving as a sounding board for the CEO and other executives, advising on strategy, and helping to balance the views of management and owners. Indeed, private company directors—whether CEOs, founders, or investor representatives—are not uniform in their views, but the real and potential value offered by independent private company directors is evident in our survey findings.

To get behind the data and better understand the real-world factors driving the use and effectiveness of independent directors, we convened roundtables with private company directors—in conversation with CEOs—around the US. These candid discussions provided insights into the value that private company directors and CEOs see independent directors adding—from providing a broader perspective on strategy, offering additional expertise in critical areas such as emerging technologies, international markets, and risk management, to helping instill the right tone and culture, and helping define the path as the company matures to a more robust governance structure. Participants also said that effectively drawing on the talent and skills of independent directors takes planning and work.

Where do you believe an independent director can add the most value to the business?

Select up to 5.

77%	Advising/counseling/serving as a sounding board for the CEO and/or other executives
75%	Advising on strategy
74%	Balancing the views of management and owners with an independent perspective
51%	Helping to improve board effectiveness, functioning, and processes
45%	Focusing on oversight of financial reporting and/or risk management
43%	Overseeing CEO succession
23%	Serving as a board committee chair
19%	Serving on a special committee (e.g., investigations, conflict transactions)
16%	Serving as board chair
4%	Other

Source: 2023 Private Company Board Survey Insights, which surveyed 584 private company directors in the United States from November 2022 through February 2023.

Our conversations, conducted under the Chatham House Rule, highlighted a number of factors that both private company directors and CEOs view as essential to successfully tapping into the value of independent directors.

Identifying the background, skills, and experiences desired in independent directors

A key consideration is the background, skills, and experiences the company should be looking for in an independent director, given the company's unique circumstances and needs, including its size, stage, and ownership structure. For example, family-owned companies may be looking for an independent director to help professionalize the board and formalize governance structures and processes, whereas institutional owners such as private equity and venture capital investors may be homing in on a director's industry-specific experience or preparing for an initial public offering (IPO) by building a public company-ready board.

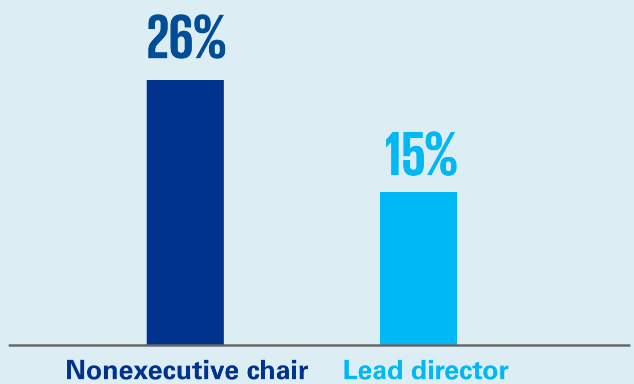
Other considerations might include:

- Can an independent director help provide a new direction—e.g., fresh thinking, new energy, strategy, or leadership?
- Some of the biggest challenges relate to digital transformation. As one director noted, "Reimagining your business and core strategy is an evolving process." Digital transformation is key to strategic growth, and it is critical that the board have a "technology evangelist" to help cascade technology ownership across the company. "It's not just the CTO's responsibility."
- Family-owned businesses face unique challenges. Investor-backed companies often follow a well-worn path—i.e., an IPO or sale to a strategic or financial buyer; however, family-owned businesses may face tension both between and among generations. For a family-owned business, consider where the company is on its journey—e.g., first, second, third, or fourth generation. "An independent director can play an important role in balancing the diverse interests and backgrounds of the family shareholders and considering their role in the management of the business."
- Independent directors may bring specific expertise that the company needs—e.g., M&A, international markets, or emerging technologies, risk management, legal/regulatory compliance. "M&A would not have been possible without the experience of our independent directors," said one CEO.

Serving in board leadership

Would independent board leadership (e.g., board or committee chair) help the board's governance structure and processes mature and thus improve the board's effectiveness? In our survey, 26% of respondents said that an independent director serves as board chair and another 15% said that an independent director serves as lead director. Of the survey respondents who indicated that their boards had audit or compensation committees, two-thirds said that those committees are chaired by an independent director.

Which of the following roles does an independent director serve on your board?



Board committee*	Independent Chair	Independent Member
Audit	65%	61%
Compensation	65%	59%
Nom/gov	64%	62%
Finance	50%	57%
Other	64%	35%

Source: 2023 Private Company Board Survey Insights.

* Among survey respondents who indicated that their board included the specific committee.

Using an advisory board as a first step

Particularly for a family-owned business exploring adding independent perspectives and experience, an advisory board may be an important interim step. The advisory board—as distinct from the fiduciary board—can serve as a consultant to the CEO and senior management, providing advice and guidance on issues including the development and execution of strategy, operations, financial performance, risk management and mitigation, key business initiatives, senior management succession plans, capital projects and transactions, and corporate culture. An advisory board can also provide additional business acumen, as well as an unbiased view of company performance and the management team.

Companies that do not utilize an advisory board can still access outside thinking at the board level by bringing in board observers (who are often already investors in the company). "Even observers can make a difference," said one independent director and observer to an employee-owned company board.

Bringing objectivity, challenging the status quo, and focusing on performance.

Our conversations highlighted the value of the objective perspective and unbiased viewpoint independent directors can provide, as well as their willingness to challenge the status quo. Other ways independent directors can add value include:

- Insisting on forward-looking, strategic board agendas and fewer management-led discussions. Focus on the future of the business by discussing culture, investment in the business, and key strategic initiatives, and spend less time on quarterly results and lookbacks. "Flip the agenda," suggested one CEO, "and be very clear that you want the directors' help in building forward-looking board agendas."
- Focusing on a culture of performance, not just loyalty. In a family-owned business, talent can be a difficult discussion, and independent directors can provide important insights. "Talk to senior leadership," advised one director. "Make sure that company leaders have access to the board. They may not have an immediate need for the expertise of the outside director, but when they do, there's a real opportunity to learn."
- Helping the CEO understand blind spots on the leadership team and develop maturity models to solve for those blind spots—including robust leadership succession planning. Think in terms of a window of three to seven years. How will the company diversify its business and where should roles and skills be upgraded? Consider the board's skill sets and capabilities, as well as future needs. A sharp focus on performance is essential for both CEO and board succession planning.

Formally onboarding new directors

As one director noted, "Onboarding is critical, and I have been surprised at the number of private companies that don't have formal onboarding. My experience taught me to ask for it, but a lot of CEOs and boards don't think about it." In our survey, "onboarding of new directors" was ranked among the lowest areas of board effectiveness. Orientation and onboarding can help new directors understand the business and the CEO's expectations (including skill sets gaps to be filled and where the company is headed) and be more effective from day one. "For new directors joining a private company board, have a board buddy, ask for a thorough orientation and onboarding. Then attend every meeting for every board committee, if possible."

It is clear from our survey work and ongoing conversations that private company boards continue to improve their effectiveness in areas including overseeing strategy and agenda-setting, communicating with management, conducting board meetings, and communicating among directors. Independent directors can be pivotal in helping private companies navigate the challenges ahead—from AI to geopolitical uncertainty to CEO succession.

At a time when CEOs and boards need to be challenging assumptions and widening their company's aperture on strategy, risk, and talent, having independent voices in the boardroom can be game-changing. That said, simply adding an independent director to the board is not enough. Adding real value requires planning, work, and close collaboration among the members of the board, the CEO, and other company executives.

The KPMG Board Leadership Center would like to thank members of the Private Directors Association for their participation in our private company director peer exchanges.

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About the KPMG Board Leadership Center

The KPMG Board Leadership Center (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC—which includes the KPMG Audit Committee Institute and close collaboration with other leading director organizations—promotes continued education and improvement of public and private company governance, BLC engages with directors and business leaders on the critical issues driving board agents—from strategy, risk, talent, and ESG to data governance, audit quality, proxy trends, and more. Learn more at kpmg.com/us/blc.

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