McKinsey Global Survey results

Improving board governance

Directors are savvier about strategy than in 2011, still struggle to get their arms around risk management, and can learn more from boards with the highest impact.

Board directors today are more confident in their knowledge of the companies they serve and more strategic in their approach than they were in 2011, according to the latest McKinsey global survey on governance.[1] They say a greater portion of their boards' time is now spent on strategy, while they are spending less time than before on M&A. The share of time spent on strategy is even greater at private-company boards than at public companies, which tend to spend more time on compliance.

While directors now report a more complete knowledge of various company issues than they did before,[2] they say their boards struggle to understand and make time to manage business risks—one of several areas where directors indicate room for further improvement. Another is the clear need for directors to spend more time on their role: the total number of days per year respondents say they spend on board work has not increased much since the previous survey. At boards where directors say their decisions and activities have a very high impact on company performance, though, respondents spend much more time in their role than others do. These directors also report using some best practices (such as resource allocation) that all respondents agree would most improve board performance.

[1] The online survey was in the field from April 9 to April 19, 2013, and garnered responses from 772 corporate directors, 34 percent of them chairs. We asked respondents to focus on the single board with which they are most familiar. Overall, 166 respondents represent publicly owned businesses, and 606 represent privately owned firms; they represent the full range of regions, industries, and company sizes. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

[2] See Chinta Bhagat, Martin Hirt, and Conor Kehoe, "Governance since the crisis: McKinsey Global Survey results," July 2011, mckinsey.com.

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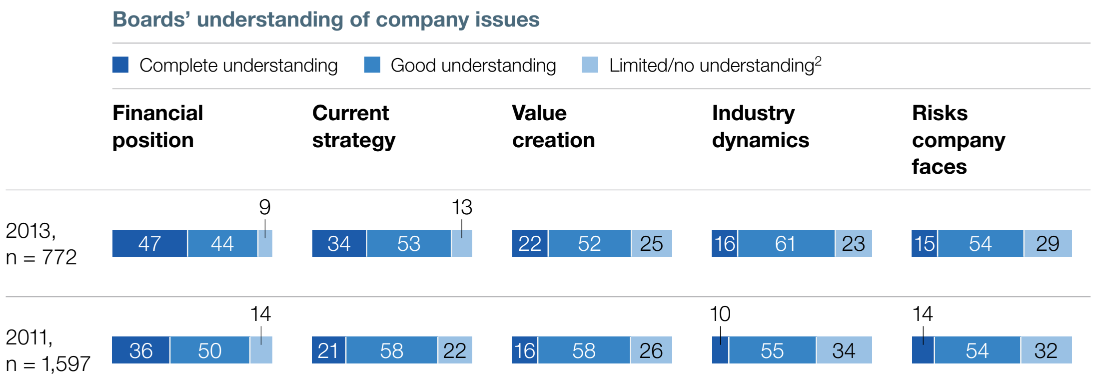
Exhibit

Company knowledge is on the rise.

% of respondents[1]



[1] Respondents who answered "don't know" are not shown, so figures may not sum to 100%.
[2] "Limited understanding" and "no understanding" were presented as separate answer choices in the question.

Focusing on strategy

In our previous survey on governance, directors reported incomplete company knowledge, a passive role in strategy, and low overall performance. Now respondents express more confidence overall in their boards' work and in the amount of influence they wield. When asked about the impact their boards' decisions and activities have on the companies' financial success, 73 percent rate this influence as high or very high. Compared with 2011, larger shares of directors say they understand a range of core issues (exhibit). Roughly one-third say they have a complete understanding of current strategy, for example, while just one-fifth said the same two years ago.

Over 90 percent of respondents also say their boards have become more effective over the past five years, most often attributing that improvement to better collaboration with senior executives and more active or skilled independent directors. The views of what drives progress differ somewhat by ownership: 30 percent of directors at publicly owned companies cite more active or skilled independent directors as the primary driver, while just 19 percent of those at private companies say the same.

Across the functional areas of their work, nearly half of directors say that in the past year, their boards have been most effective at strategy, far outpacing all other areas. A board's strengths can vary by company ownership, too. Though respondents at both public and private companies are most likely to say their boards are most effective at strategy, a much larger share of private-company directors than public-company directors say so (53 percent, compared with 33 percent). Meanwhile, directors at public companies are likelier than their private-company counterparts to say their boards are most effective at compliance (23 percent, compared with 9 percent).

Two reasons may explain why boards are most effective at strategy: board members say they spend more time on it than other areas and that they have increased the amount of overall working time they devote to strategy, answering the call to action expressed by respondents to previous surveys. In our 2008 survey, respondents reported that 24 percent of board time was spent on strategy—and a clear majority said they would increase the time spent.[3] Now, directors say their boards spend 28 percent of their time on strategy, and only 52 percent say they would increase it (compared with 70 percent of respondents who said so in 2011). Meanwhile, the share of time spent on execution, investments, and M&A has shrunk, which is likely related to the fact that overall M&A activity has declined since 2007.[4]

[3] See Andrew Chen, Justin Osofsky, and Elizabeth Stephenson, "Making the board more strategic: A McKinsey Global Survey," February 2008.

[4] Based on year-over-year Dealogic and McKinsey analysis of announced M&A deals of at least $25 million in value, from 2004 to 2012.

Room for improvement

While respondents say their boards are taking more responsibility for strategy, risk management is still a weak spot—perhaps because boards (and companies) are increasingly complacent about risks, as we move further out from the 2008 financial crisis. This is the one issue where the share of directors reporting sufficient knowledge has *not* increased: 29 percent now say their boards have limited or no understanding of the risks their companies face. What's more, they say their boards spend just 12 percent of their time on risk management, an even smaller share of time than two years ago.

Despite the progress they report, directors identify the same factors that would most likely improve board performance as respondents did in the previous survey: a better mix of skills or backgrounds, more time spent on company matters, and better people dynamics to enable constructive discussions. With respect to time, directors say they devote roughly the same number of days to board work as in 2011, and they still want more time. Across regions, directors at North American companies work an average of 22 days on company matters—notably less time than the 29 days and 34 days, respectively, reported by directors at European and Asian companies.

At boards with very high impact, directors spend even more time on their work than their peers at lower-impact boards (40 days per year, compared with only 19 days). Other results suggest that these extra days are not spent on basic compliance but on strategic issues instead. Compared with their peers, the directors at higher-impact boards say they evaluate resource decisions, debate strategic alternatives, and assess management's understanding of value creation much more often. These respondents are also likelier than others to say their boards ensure that organizational resources are in place to deliver on strategy and that they manage strategic performance.

Looking ahead

- *Increase attention to risks.* According to respondents, most boards need to devote more attention to risk than they currently do. One way to get started is by embedding structured risk discussions into management processes throughout the organization.

- *Make time.* As in 2011, most directors say they want to spend more time on board work, and the results suggest real benefits from doing so: directors at higher-impact boards spend many more days per year on their work than everyone else, which likely helps them stay more relevant to and engaged with important company matters.

- *Learn from peers.* Directors at boards with less impact have much to learn from the actions taken by higher-impact boards, and not only when it comes to strategy. Using robust financial metrics, conducting postmortems of major projects, and using systematic processes to create competitive advantage through M&A—which the high-impact boards do more often—could all help boards become better.

The contributors to the development and analysis of this survey include **Chinta Bhagat**, a principal in McKinsey's Singapore office; **Martin Hirt**, a director in the Greater China office; and **Conor Kehoe**, a director in the London office.

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