

Toward a value-creating board

The amount of time board directors spend on their work and commit to strategy is rising. But in a new survey, few respondents rate their boards as effective at most tasks or report good feedback or training practices.

Directors say they dedicate more time now to their board duties than ever before and that, since 2011, they've cut in half the gap between the actual and ideal amount of time they spend on board work. In the newest McKinsey Global Survey on corporate boards,¹ the results confirm that strategy is, on average, the main focus of many boards. Yet directors still want more time for strategy—more than any other area of their board work—when they consider its relative value to their companies.

We asked directors about the effect their boards have on company value and found that, in general, respondents believe their impact is high or very high—which was also true in our previous survey on the topic.² To gain a deeper understanding of how boards create value, we took a close look at larger commercial companies and identified patterns between directors' assessments of the board's overall impact, effectiveness at executing specific tasks, and the way the board works. From our analysis emerged three types, or profiles, of boards, which we call ineffective, complacent, and striving. Interestingly, some directors' initial views on their overall impact diverge from how effective they say their boards



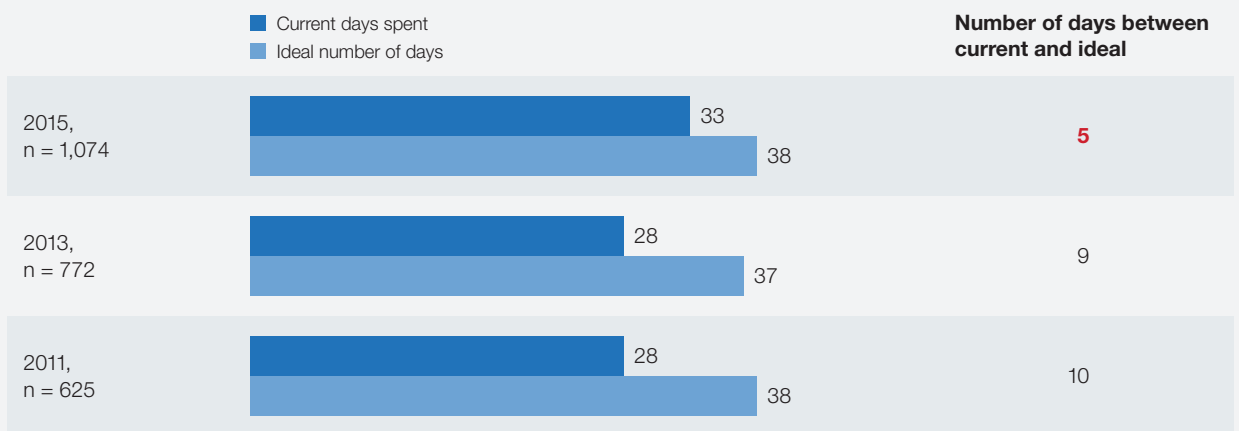
are at individual tasks. To be successful, then, the results from our three profiles suggest that boards must be effective at individual tasks, maintain a trust-based but challenging board culture that embraces feedback, and aim to improve continuously.

Time spent—and commitment to strategy—are on the rise

On average, the amount of time directors spend on board work has increased notably in recent years. Compared with 2011, respondents now say they spend five more days per year on board work, cutting in half the ten-day gap between the actual days spent and the number of days directors want to spend to get it right (Exhibit 1).

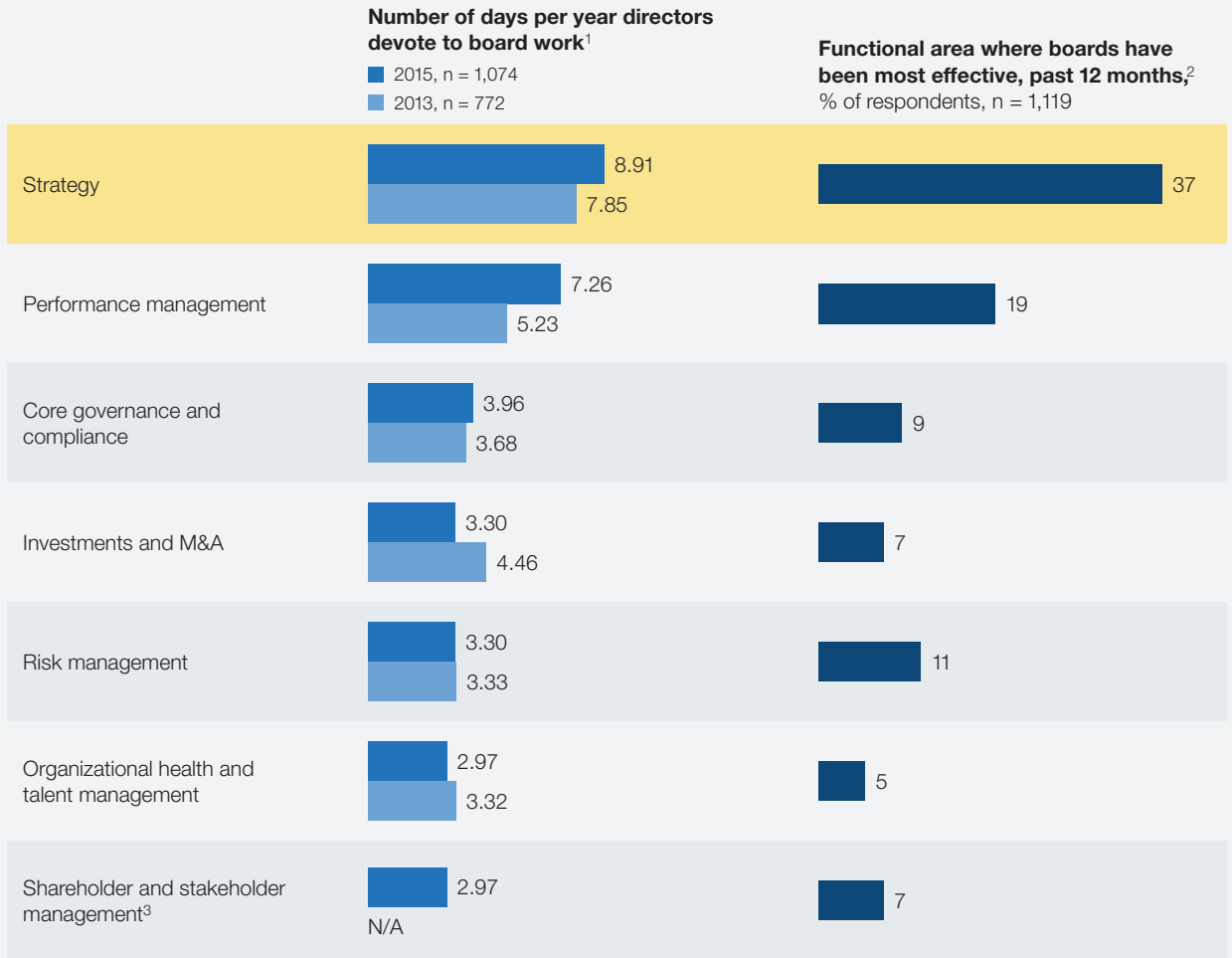
Exhibit 1 Since 2011, directors have halved the ten-day gap between actual days spent on board work and their ideal number of days.

Number of days per year directors devote to board work (including meetings, preparation, and informal contact with company)¹



¹ Respondents who answered “don’t know” are not shown.

Exhibit 2 Directors spend more time on strategy now than in 2013—and tend to say it's where their boards make their biggest contributions.



¹ Respondents who answered “don’t know” are not shown.
² Respondents who answered “none” or “don’t know” are not shown.
³ Not offered as an answer choice in 2013.

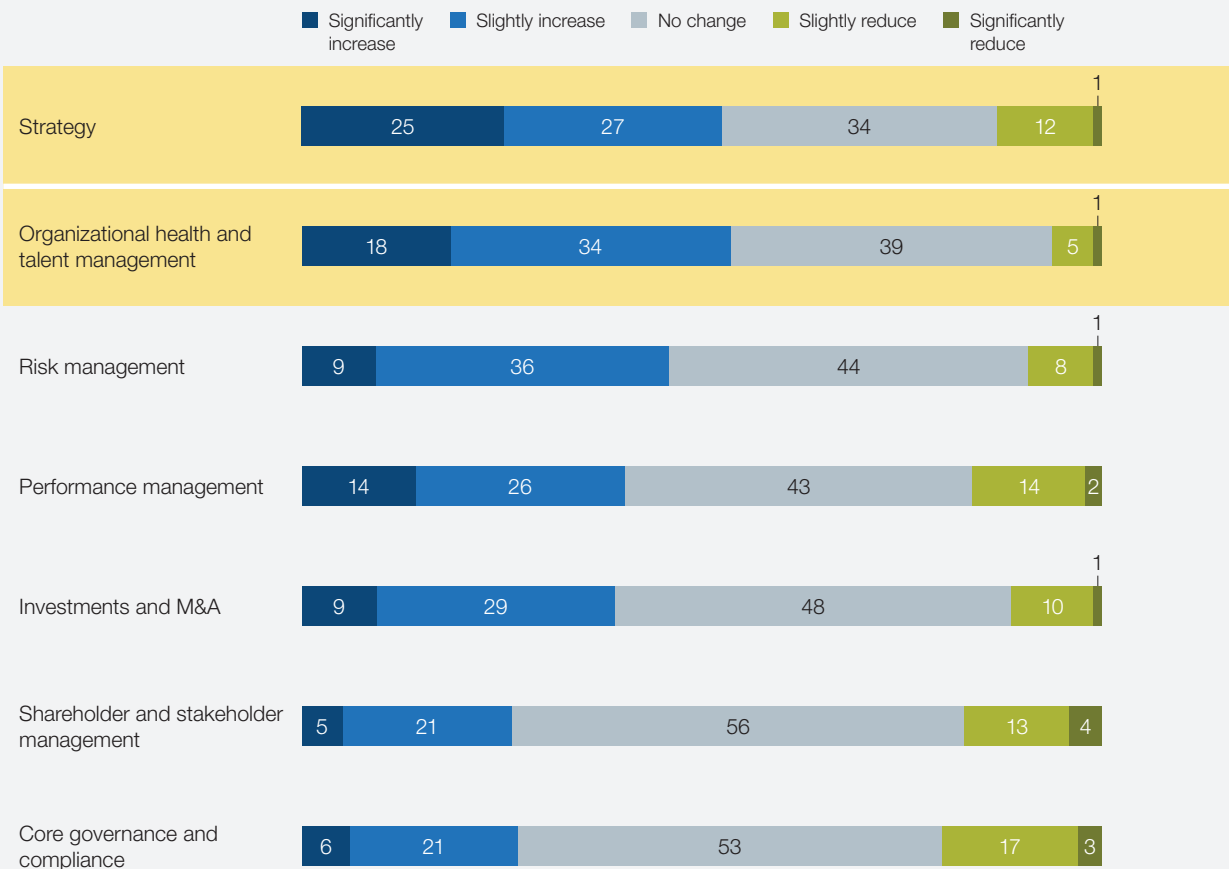
As the number of days has grown, so has the amount of time spent on strategy, where board members tend to say they make their biggest contributions (Exhibit 2). Indeed, directors are almost twice as likely to say their boards are more effective at strategy than any other area of their work; they report the least effectiveness at organizational health and talent management.³ Strategy is also where directors spend nine days per year, the greatest amount of time across the seven areas of board work we tested.

But for all of their focus on strategy, most directors would like to dedicate even *more* time to strategic issues. Fifty-two percent of directors say they want to increase the time they spend on strategy in the next few years, based on its relative value to their companies (Exhibit 3). An equal share say the same for organizational health and talent management, an area where boards spend only three days per year.

Exhibit 3 Over half of directors say they would like to dedicate more time to strategy and to organizational health and talent.

% of respondents,¹ n = 1,119

How directors want to change the time they spend on the following functional areas, next 2–3 years



¹ Respondents who answered “don’t know/not applicable” are not shown, so figures may not sum to 100%.

A board's actions, dynamics, and self-perception all matter

To gain a more comprehensive understanding of how boards can be successful, beyond the time directors spend on their work, we looked closely at three factors of board performance: directors' assessments of what impact their boards have overall, how their boards perform specific board tasks, and how their boards operate.⁴ After considering responses at both the global and the task level (where some interesting differences emerged), our analysis resulted in three types of boards: those that are ineffective, those that are complacent, and those that are striving.⁵

The ineffective boards

Compared with their peers, the directors on ineffective boards report the lowest overall impact on long-term value creation and the least effectiveness at the 37 tasks we asked about. Notable shares say their boards don't execute some of these tasks at all: 70 percent, for example, say their boards don't align with the executive team on how to manage company risk. Of the tasks they do perform, only minorities of these directors say their boards are effective at any one. Ineffective boards do best at securing and assessing their management teams: 44 percent say their boards are effective at discussing top-team performance with the management team, and 42 percent say they're effective at regularly reviewing the top-talent pipeline. When it comes to how boards operate, less than half of ineffective-board directors report a culture of trust and respect in the boardroom or that directors seek out information on their own. Only 1 percent say their directors received sufficient induction training.

The complacent boards

By contrast, directors on the complacent boards have a much more favorable view of their overall contributions. Close to half say their boards have a very high impact on long-term value creation—the largest share among the three types of boards. But when asked to consider their boards' execution of 37 specific tasks, there are only 3 for which a majority of respondents report effectiveness: ensuring that management reviews financial performance, setting the company's overall strategic framework, and formally approving the management team's strategy.

Exhibit 4 **According to respondents, complacent boards neglect succession planning—and several other tasks to manage organizational health and talent.**



¹ Includes respondents who answered "effective" or "very effective." Those who answered "neutral," "ineffective," "very ineffective," or "not applicable; this is not an action we take" are not shown.

Organizational health and talent management is a particular weakness: just 9 percent of directors on complacent boards, for example, rate their boards as effective at ensuring the company has a viable CEO successor who can step in at any time (Exhibit 4). Compared with ineffective boards, though, these boards have a stronger sense of trust and teamwork. Two-thirds of complacent-board directors report a culture of trust and respect, and about half say their boards spend enough time on team building. At the same time, they struggle to embrace feedback. Less than one in five say their boards regularly engage in formal evaluations, either individually or as a board, or that their chairs ask other directors for input after meetings.

Exhibit 5

Across six areas of board work, the striving boards are particularly good at strategic and performance-management tasks.

% of respondents, by type of board¹

● >75% ● 51%–75% ● 26%–50% ● ≤25%

Effectiveness of respondents' boards at performing the following actions²

- Strategy actions
- Performance-management actions
- Investments and M&A actions
- Stakeholder-management actions

Directors at striving boards,
n = 174

Directors at complacent boards,
n = 122

Directors at ineffective boards,
n = 20



¹ Includes respondents who answered “effective” or “very effective.” Those who answered “neutral,” “ineffective,” “very ineffective,” or “not applicable; this is not an action we take” are not shown.

² Out of 37 board actions tested in the survey, covering 6 areas of board work: strategy, performance management, investments and M&A, risk management, talent management, and shareholder and stakeholder management. Responses are arranged in descending order based on the biggest percentage-point differences between respondents at striving boards and respondents at ineffective boards.

The striving boards

The striving boards, then, are the most well-rounded of the bunch. Just 26 percent of these directors rate their boards' overall impact as very high, compared with 44 percent at the complacent boards. But on specific tasks, they report much greater effectiveness than their peers on every single one—and at least half of striving-board respondents say they're effective at 30 of the 37 tasks. These directors rate their boards as particularly good at strategy and performance management (Exhibit 5). For example, 69 percent of respondents on striving boards say they effectively adjust strategy on a continuous basis; only 35 percent on complacent boards and 2 percent on ineffective boards say the same.

Striving boards stand out, too, in the ways they operate (Exhibit 6). These directors report an exceptionally strong culture of trust and respect, that board members and the management team constructively challenge each other (76 percent say so, compared with 53 percent of complacent-board directors), and that chairs run meetings well. Feedback is another area that distinguishes these boards. Striving-board directors are more than twice as likely as complacent-board directors to say their boards conduct regular evaluations, and more than three times likelier to say their chairs ask for input after each meeting. That said, there's significant potential for even the striving boards to improve: only one-third of these directors say their boards regularly evaluate themselves.

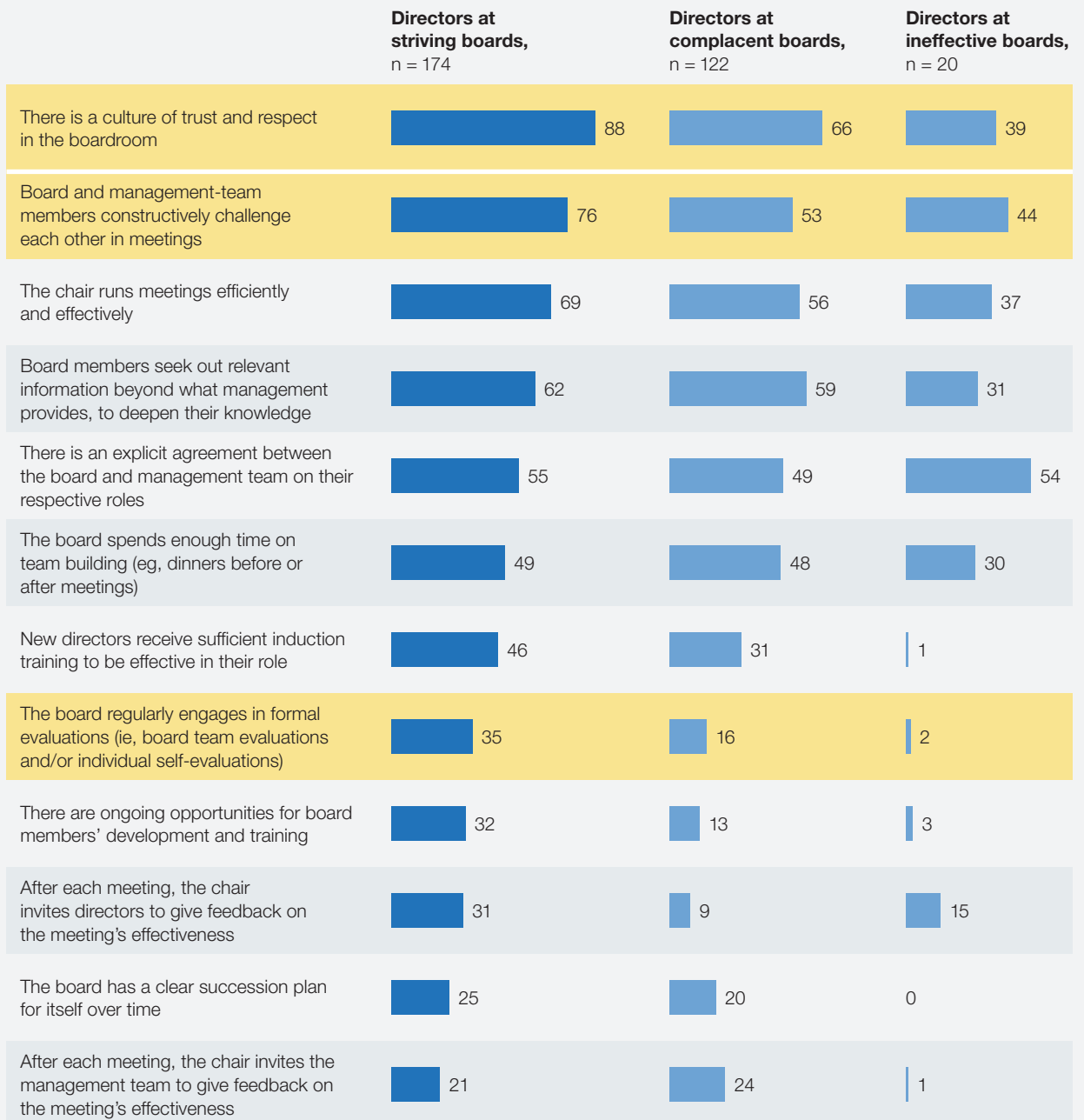
Finally, directors on striving boards commit much more time to their work than others do: on average, they spend 41 days per year on board duties. The complacent-board members spend only 28 days per year—even less time than directors on ineffective boards, who report spending 32 days on board work.

Looking ahead

- *Spend even more time.* This year's results indicate across-the-board increases in the time that directors spend on board work, compared with previous surveys. While directors at striving boards already spend 41 days per year and have no ambitions to spend more time, the average board member spends 33 days and says he or she would, ideally, spend 5 days more. In our experience, though, many board members are spending 50 days or more per year on board work, either due to regulatory pressure or simply owing to the fact that the time required to do a good job is usually more than directors initially expect.
- *Balance trust with challenging discourse.* According to the results, the boards that are most effective and well-rounded also have the strongest board dynamics. In a healthy boardroom, a culture of trust and respect is vital. But so is an environment where directors and company leaders challenge each other. It's no coincidence, then, that directors at striving boards report these characteristics most often. But all boards could be better at other elements of how their boards work: improving induction training, for example, and conducting regular evaluations, which only a minority of respondents report—even at the striving boards.

Exhibit 6 Compared with others, the striving boards have an especially strong culture and mechanism for feedback.

% of respondents who agree with the following statements, by type of board¹



¹ Respondents who answered "none of the above" or "don't know" are not shown.

- ***Appoint an ambitious chair.*** Another important ingredient of improved board dynamics—and an improved board—is an effective chairperson, who runs meetings well, establishes a culture of trust and constructive discourse, and invests in training, development, and feedback. Good leadership sets the tone for the board as a whole and can set the stage for a more effective, value-enhancing board. ■

¹ The online survey was in the field from April 14 to April 24, 2015, and garnered responses from 1,119 board directors representing the full range of regions, industries, company sizes, and board roles; 23 percent of respondents are chairs. We asked respondents to answer all questions with respect to the single board with which they are most familiar. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

² This year, we asked respondents how much impact their boards' decisions and activities have had on their companies' long-term value creation; 36 percent report a very high impact. In 2013, we asked about the impact their boards had on their companies' overall financial success, and 30 percent said their impact was very high.

³ We define "organizational health" as the ability to align around a clear vision, strategy, and culture; to execute with excellence; and to renew the organization's focus over time by responding to market trends. For more information on organizational health, see Scott Keller and Colin Price, "Organizational health: The ultimate competitive advantage," *McKinsey Quarterly*, June 2011, mckinsey.com; and Aaron De Smet, Bill Schaninger, and Matthew Smith, "The hidden value of organizational health—and how to capture it," *McKinsey Quarterly*, April 2014, mckinsey.com.

⁴ First, we asked respondents to rate their boards' overall impact on the company's long-term value creation. Second, we asked them to rate their effectiveness on 37 board activities related to strategy, performance management, investments and M&A, risk management, organizational health and talent management, and stakeholder and shareholder management. Third, we asked which 12 aspects of board culture, information management, training, and evaluation are true of their own boards.

⁵ The cluster analysis included only the responses from directors who sit on boards of private-sector companies with annual revenues of more than \$100 million. Of the 316 respondents included in this analysis, 6.3 percent of respondents are directors at ineffective boards, 38.6 percent are directors at complacent boards, and 55.1 percent are directors at striving boards.

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