



Building board–management dynamics to withstand a crisis: Addressing the fault lines

by Linda Liu, Robyn Bew, and Friso van der Oord

Crises can strain relationships at the top of organizations to the breaking point. Improving the dynamics between board members and senior executives can make recovery from crisis more successful.

Introduction

A corporate crisis has become a modern-day rite of passage for the board directors and senior executives of many companies. Everyone knows by now that crises are an ever-present threat that can strike any organization, no matter how apparently well run. Crises can emerge from a clear blue sky, escalate within hours or even minutes, and threaten an organization's viability. They may also arise when long-simmering issues spiral out of control. Institutions have paid the price: huge regulatory fines or legal settlements, shattered reputations, lost trust, and decimated share prices.

Less discussed are the significant personal costs. Crises are emotional events that severely stress the relationships between the CEO, the senior-management team, and the board of directors. Crises can end careers. Such stresses can make the response to the crisis less effective and severely impair an organization's ability to emerge strengthened from it and return to a path of profitable growth.

Yet how many companies can truly say they are prepared for this dimension of a crisis? How much of the work of crisis preparedness fully considers interactions within the board and between the boardroom and the executive suite? What is the best way to identify and address the risk of deteriorating organizational dynamics—ideally, before a crisis?

Looking beyond the contents of conventional crisis playbooks, we probed some of the most sensitive fault lines that a crisis rapidly exposes to devastating effect. Drawing on in-depth interviews with battle-tested board directors and senior executives who have experience serving on boards of or as senior executives at more than 80 US and UK institutions, we explore the lived reality of such events as seen from the top, exposing lessons learned from both failures and successes. And we suggest some ways for boards and senior executives to equip themselves ahead of time to work together more effectively. While board governance may differ by region, and thereby affect some of the issues

covered in this article, certain lessons are applicable broadly—though they may need to be modified to some degree.

Our joint research and experiences have led us to believe that correctly calibrating the dynamics of the boardroom, and the interactions between the board and senior management, is an essential and often-overlooked ingredient of crisis preparation. We believe that the act of identifying and redressing the fault lines in board–management dynamics is not just a matter of prudent self-defense in moments of crisis. By strengthening their governance, collaboration, and culture, senior executives and board members are likely to create healthier and better-run organizations—in conditions not only of crisis but also of business as usual.

Crisis: The new normal

A crisis is a “low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect, and means of resolution, as well as a belief that decisions must be made swiftly.”¹ Crises may occur when an institution cannot resolve an apparently serious (and often publicly known) problem quickly and straightforwardly or when serious misconduct that defies any rapid solution comes to light. Or a crisis might result from slow-boiling risks that compound over time until they escalate past the point of no return. Whatever the cause, a crisis creates moments of truth for an organization. Sometimes it is existential.

Of course, such mishaps are not new: they have become an unfortunate staple of business life for organizations of all sizes and sectors, including both for-profit and nonprofit institutions. On the corporate side alone, the total amount companies paid out for US regulatory infractions grew more than fivefold, to almost \$60 billion a year, from 2010 to 2015.² From 2010 to 2017, headlines with the word “crisis” and the name of a top 100 company (as listed by *Forbes*) appeared 80 percent more often than they had in the previous decade.³

¹ Judith A. Clair and Christine M. Pearson, “Reframing crisis management,” *Academy of Management Review*, 1998, Volume 23, Number 1, pp. 59–76, journals.aom.org.

According to the 2018–19 public-company governance survey of the National Association of Corporate Directors (NACD), 97 percent of US board members expect the frequency of crises to increase or stay the same, and 98 percent expect the severity of crises to increase or stay the same over the next three years. In addition, 81 percent of the respondents rate improved board preparedness for a corporate crisis as a moderate to very important priority over the next 12 months.⁴

The nature of contemporary business makes crises not only more likely but also more prone to escalate dangerously. This problem reflects the complexity of global supply chains, the heightened interconnectedness of operating relationships, and the requirement for speed. It reflects changes in stakeholder expectations, as governments, customers, or victims are more likely to seek redress. It is fueled by the culture of instant communication and fragile trust in for-profit, nonprofit, and government institutions alike, meaning that negative narratives frequently seize the public imagination with alarming speed. This confluence of factors explains why crises have become such existential events—perhaps, especially, for large organizations with brands and reputations to defend.

A stress test for boards and management teams

A crisis scenario, whatever its origins or specific circumstances, is the ultimate test of resilience for any institution, its board, and its top executives. Senior executives and directors of a stricken organization can find themselves exposed to unrelenting external scrutiny from the media, the legal profession, regulators, and other stakeholders for months or even years. As individuals and as a team, top executives and board members are under the most intense pressure to make rapid decisions, statements, and actions to mollify or reassure anxious or angry stakeholders. Yet by definition, they are not in command of sufficient information to feel fully confident about any particular course of action.

Relationships between managers and those who oversee them become frayed; information flows are

found wanting; existing tensions and dysfunctions within the board and the C-suite—problems that may have seemed tolerable in normal times—become inflamed; and relationships break down. In the worst cases, a vicious cycle of blame and mistrust establishes itself at the highest level of the company, causing it to make serious missteps or to become paralyzed.

Are organizations really prepared? According to NACD survey data, most companies have comprehensive and regularly updated crisis-contingency plans, and many also undertake regular management-crisis exercises. Yet the data also show that only in a small minority of cases—8 percent—did boards participate in crisis-simulation exercises with management. And while 88 percent of directors say they know what their roles and responsibilities will be during a crisis, fewer than 25 percent actually had explicit discussions, in the preceding 12 months, about the board's crisis roles and responsibilities. Less than 10 percent had participated in postcrisis assessments.⁵

A comment from one senior director and company chairman we interviewed captures the issue: “Preparation is useful and important—establishing processes, roles, communication plans; identifying advisers; and so on. But personal relationships and emotions can't be predetermined or rehearsed. CEOs and board leaders need to get granular about emotions as well as tactics in considering crisis response. Recognize that no matter how realistic the crisis-simulation exercise is, everyone is going in [to it] with a collaborative mind-set, so it's not likely to expose tensions or issues with team dynamics.”

Another director agreed: “Most companies probably have some sort of crisis plan or playbook—but to what extent is it check-the-box and going through the motions? Does anyone stop and ask, ‘How do we take this beyond words on paper?’” This amounts to an argument for more proactive board–management engagement on crisis preparedness than is currently visible—and for a greater focus on the relationship between the CEO and the board,

² Sanjay Kalavar and Mihir Mysore, “Are you prepared for a corporate crisis?,” *McKinsey Quarterly*, April 2017, McKinsey.com.

³ *Ibid.*

⁴ “2018–2019 NACD public company governance survey,” National Association of Corporate Directors, nacdonline.org.

⁵ *Ibid.*

information flows between management and the board, and leadership roles and relationships within the board.

Altered dynamics

The point many of our interviewees underlined is that crises fundamentally change the terms of engagement between boards and senior management. People in both groups must often make difficult decisions, including whether major changes are needed on the senior-executive team or the board itself (see sidebar “The ten tough calls”). Just as a major storm or earthquake can expose long-standing structural flaws in a building, so a crisis can reveal and inflame existing weaknesses and dysfunctions at the top of a company. All the more reason, then, to recognize and resolve such issues in calm times.

As more than one of our interviewees pointed out, improving these dynamics will also enable a company to make correct, well-informed judgment calls on the true nature of a crisis, as well as when to declare that it is over. An organization may take years to recover, and while it may continue to operate in the immediate

aftermath of the crisis, second-order effects such as litigation can last for years and pose a complex long-term challenge. That becomes even more difficult when issues keep getting uncovered and eventually reveal that the problem of the company is systemic. In those cases, it will often undergo wholesale change in management and staff. As one director put it, “Then it’s not ‘change management’; it’s ‘change the management.’”

Critical fault lines

Our interviewees identified a few critical fault lines in boardroom dynamics. In their experience, these pose a serious threat to an effective crisis response.

Fault line 1: Overreliance by the board on the CEO or senior management

Several interviewees said that boards on which they had served were sometimes insufficiently willing to check or challenge senior management. These interviewees identified various causes. One was concern about going beyond mandated roles and crossing the line into operational activities that are the executive team’s responsibility. As

The ten tough calls

In McKinsey’s experience when organizations go through major crises, boards must sometimes make difficult decisions, many relating to senior management or to the board itself. Here, from McKinsey’s Crisis Response and Preparedness Practice, are some of those tough calls.

1. In an organization where several negative events have occurred, should it pivot toward “crisis mode”?
2. If establishing a central crisis response is the right call, who should lead this team?
3. What decision authority should the crisis-response team have to ensure the right balance of speed and oversight?
4. Do we publicly support management and endorse its response to the crisis?
5. Are major changes in the senior-executive team necessary?
6. Does the board need to hire an additional, independent member to help the company respond and recover?
7. What immediate shifts within the board must we make to enable the right governance? How extreme might some of these shifts be—for instance, splitting the roles of chairman and CEO?
8. Is the board’s broader composition right?
9. Should the board start an independent investigation to find out what happened?
10. Does the board need to establish the guiding principles that will provide the guidepost for the organization’s response and recovery?

one interviewee pointed out, directors often don't want "to push too hard on management, because they feel [key decisions] are management's call, but it's a tough line." Many boards struggle to find the right balance between support for management and constructive skepticism. "We happen to have a fantastic CEO," said one director we spoke with, and that can lead to "the board being almost beholden to management's point of view."

Challenging discussions with management are a necessary element of proper corporate governance. Failure to make such candid conversations the norm inside the boardroom leaves directors complicit in poor judgment calls by management and less able to take an independent stance when a crisis comes.

Personalities or broader cultural issues can also undermine candid discussion. Directors may be reluctant to speak their minds for fear of being seen as "difficult." CEOs might adopt a domineering or dogmatic style in dealing with the board, restrict discussions, or fail to listen adequately. "A lot derives from the tone that the CEO sets with the board," said one director. "If he or she is confident and has an open relationship with the board—sees the board as an asset—senior management will follow that lead. If the CEO views the board as an encroachment on his or her authority and takes an approach of carefully rationing the information that's shared with the board, then it's easier for things to go south in a crisis."

A particularly acute difficulty arises in whistleblowing cases if a board is too slow to take appropriate measures when accusations are made against senior or other high-level executives. "I think boards often take too long to react and find it difficult to form an objective point of view. Too often there's a bias that the accuser can't possibly be right."

Fault line 2: Micromanagement by the board

An equally significant and opposite problem is micromanagement by the board—for example, when board members seek a direct say in the management process, in a reversion to the "muscle memory" of their prior executive positions, or simply because they don't understand or appreciate the respective roles of boards and senior managers.

"Boards can be afraid of appearing tone deaf in a crisis," one long-tenured director observed. "There is a natural desire to act quickly and decisively, but we need to remember our oversight role and calibrate our response carefully."

In crises, board members must reserve the right to step in and steer the organization, especially if it becomes apparent that the leaders are conflicted or complicit. In those instances, boards are expected to take on some operational responsibilities and to make decisions that would otherwise fall within management's purview. But in the absence of such circumstances, said one director, boards must hold back: "If directors are overly intrusive on good management teams, it creates a muddle in terms of crisis management. If the board is more than a thought partner with the CEO and other managers ... and instead [is] trying to be the CEO or a management member, it's a recipe for disaster."

Fault line 3: Problematic dynamics within the board itself

Crises can exacerbate existing board dysfunction or expose a lack of clear leadership. Too often, said our interviewees, boards have simply not devoted enough time or effort to considering and addressing these issues before a crisis comes.

"If there are any preexisting tensions or poor dynamics, it will be much more difficult to be successful in a crisis," said one director. "Directors come into the board as individuals, from different backgrounds, and we only meet in person five times a year. If poor dynamics exist, lots of time will be wasted in unproductive conversations—there's likely to be a lack of trust and uncertainty about different directors' strengths and weaknesses."

Strong board leadership—either an independent chair or, if the chairman is also the CEO, a lead independent director—is indispensable to facilitate the right dynamics. However, according to at least one interviewee, "if the lead director is not particularly strong, and the CEO is the one who's really in charge, that's a problem. The voice of the independent directors might not be heard—they'll be kept more at bay."

Fault line 4: Poor information flows between management and board

Determining the appropriate volume and type of information that flows from senior management to the board can be challenging in calm times. It is all the more so when an organization's leadership focuses on managing a crisis. Particularly at such times, "there's a tension arising from the board that wants more data because of their fiduciary duty of staying informed in order to make decisions and demonstrate duty of care," said one director. "On the other hand, board communications take a significant amount of energy and time on the side of management." During a crisis, "it's extremely challenging for the management to simultaneously fix the problem and [also] spend enormous time giving the board the play by play."

Inconsistent or poor information flows, which may be a preexisting problem between boards and management teams, can be exacerbated by (or an outgrowth of) the other relationship fault lines described above. A senior executive recalled a personal experience when "things were disorganized—and in the immediate crisis, it became [even] harder for us to meet the reporting requirements of the board. The board was meeting every day, so you're working 20 hours a day and try[ing] to prepare for board meetings—you must stop doing the day job to report to the board. We were doing it the hour before the meeting, so information was sometimes inconsistent."

On the other hand, an overly restrictive approach to information flows from management to the board can also accelerate the erosion of trust during difficult times, exacerbating all the other fault lines. One director told us about a long-serving chairman and CEO who sought to maintain tight control of board communications in a crisis. "There was a long-established cadence for board communications, [and] when the crisis started to unfold, the CEO kept control of that cadence." Insisting that wider discussion was possible only once the facts had been established, he spoke solely to the lead director as the crisis unfolded. The full board did not meet to consider the issues until the situation was already far advanced—and not surprisingly, by that time, the board was so suspicious that it felt the need to become heavily involved.

A question of trust

It is not difficult to see how these cultural, structural, and personal fault lines can crack open in a crisis and combine to create a chasm. In essence, they all indicate insufficient trust between board members and senior managers. That may simply be frustrating in calm times but escalates rapidly once a crisis starts. It is striking how often these issues came up in our conversations with directors. The point they all made, in different ways, is that a lack of transparency and trust too often hampers the effectiveness of board–management dialogue even in normal times. In a crisis, poor relationship dynamics can prove fatal.

One director described the dynamic as follows: "From the board's perspective, once you feel like the management wasn't open with you, then there's a breach of trust, and it's hard to overcome that. In those situations, the board's antennae are going to be up; there's always going to be an air of 'I'm going to figure out what you're not telling me.'"

An experienced board member summarized these issues by dividing board–management dynamics into three categories. In the best case, management not only engages the board on a regular basis about key risks and preparedness but also proactively drives those conversations. Scenario planning is on the agenda, and communications are open and transparent—including early-stage issues where management might say, "We don't have all the answers yet, but we're looking into it." There are few to no surprises, and the board feels confidence in the organization's ability to withstand and respond to unexpected events.

In many organizations, however, the management team is less proactive, so the bar to establish transparency is higher for the board. As directors, "we have a sense that if we do not ask [just] the right questions, we might not get the information we need." In these "middle of the pack" situations, said the director, management teams are ultimately responsive to board members' questions and requests, and productive dialogue can occur, but that requires more effort. Good directors "will ask the questions, but it's better if the onus is not always on us."

Worst of all, said this director, are instances where “management remains uncommunicative, and the board ends up with unpleasant surprises. We hear: ‘Yes, we’ve got it under control; we’ll bring an update to the next meeting’—then something goes awry, and it turns out it was a much bigger incident than initially thought. Or it was something management discovered months ago but didn’t want to bother the board with it.” These situations fundamentally—and often permanently—erode the board’s trust in the management team. “When the board gets surprised, our reaction is negative and swift,” said that board member. “This can create a negative spiral—our reaction as directors can reinforce management’s tendency to keep things from the board; that in turn causes the board to push even harder, and so on.”

Addressing the fault lines before a crisis

These anecdotes, together with the evidence about the increasing intensity of corporate crises, make a powerful case for rethinking board–management relations. What’s needed is a clear-eyed assessment of existing relationship dynamics to prepare organizations to face highly disruptive circumstances more effectively. Senior executives and nonexecutive directors need to have much more transparent, rigorous discussions about their relationships and governance processes and to explore the health of the company’s culture at the top of the house much more deeply than they would normally do. Our interviewees shared several complementary approaches, summarized below, that would not only address the fault lines that hamper crisis responses and help organizations to recover more quickly but also enable them to function more effectively in normal times.

Remedy 1: Establish shared expectations about roles in a crisis

Well-developed crisis playbooks typically not only include details such as a designated crisis-response team and operating protocols but also establish clear responsibility for internal and external stakeholder management and communications in various scenarios. Regularly reviewing these playbooks and plans with the board, and sharing the results of simulation exercises, strengthens directors’

confidence in the organization’s leadership and can mitigate the desire to micromanage.

Another indispensable element of expectation setting, said one director, is candid discussion between the board and management about what their respective roles should be in a crisis—bearing in mind that those roles will necessarily evolve as it unfolds. “The CEO should want to lean on the board, draw on their expertise, and use [directors] as a sounding board, especially in crisis situations. If management’s view is that the board’s just another constituency to be managed—or, in the worst case, a necessary evil—that’s a big problem.”

Even if these discussions have not taken place during peacetime, it is still possible to change an unproductive board–management dynamic while a crisis unfolds. One interviewee told of a crisis when the nonexecutive chair, who had retired from executive roles and could spend significant time at the company, stepped in at a critical moment in a leadership capacity. “He essentially said to management, ‘I’m going to be in these meetings; here’s the information I want; copy me on communications.’ He took the reins with the external advisers and kept the rest of the board members informed. The latter was critical, because when it came time to vote on key decisions, everyone felt appropriately informed. It was extremely uncomfortable, at first, but then we started to see behaviors change—the CEO began reaching out to board members proactively to tap their expertise, and information started to flow more freely from management.”

Remedy 2: Make the role of leadership within the board crystal clear

Strong, effective board leadership—from a nonexecutive chair, a lead director, or both, as well as the leaders of board committees—is a fundamental tenet of good corporate governance. Whatever structure the board chooses to use, it should clearly define in writing the responsibilities and expectations for key leadership roles, along with the criteria for selecting and evaluating those who assume them.

In particular, the nonexecutive chair or lead director needs to take the initiative in establishing a collaborative environment and managing board dynamics, both inside and outside board meetings.

One of the board leaders we spoke with suggested several questions that nominating and governance committees can ask about the role of the nonexecutive chair or lead director. “Is the leader maintaining focus; encouraging open discussions; and also managing the board dynamics outside the room—identifying where directors have concerns or questions? Is he or she taking into account the maturity of the board as a team?” Nonexecutive chairs also need to be capable of providing guidance to the CEO on engineering a course correction when a crisis is underway, and—should circumstances require—of stepping in as the organization’s voice if the executive leadership is compromised.

Remedy 3: Hardwire information flows into the boardroom

Once roles and responsibilities have been clarified, it is important to establish reasonable expectations and protocols about information flows and sources of information required by the board. Concretely, this means, first, establishing a plurality of sources in management reporting to the board, so the CEO does not become the sole gatekeeper. As one director put it: “Avoid having all the information to the board coming [from the CEO’s office]: this highlights the importance of strong and independent internal-audit functions, as well as the general counsel, the chief financial officer, and chief risk officer. All of these are channels for communication.” Another said: “As the chair of a key committee, I have strong relationships with various company executives. At dinner outside meetings or visits to company locations, I can have candid conversations with these executives.”

Increasingly, we see CEOs and senior-management teams scheduling interim updates for directors—the full board or a key committee or subcommittee, depending on the issue—between scheduled board meetings, to help board members stay on top of rapid changes in the business environment. These are often short, informal conference calls but go a long way not only to keep directors informed but also to establish the type of open, transparent dialogue that is the foundation of good board–management dynamics.

Including third-party perspectives from objective independent advisers as part of the information

flow is also essential. “Management sometimes resists this notion,” said one director, except if it’s legally mandated—for example, the compensation consultant or external audit firm. “But there is benefit to directors having access to a point of view that’s neutral and well informed, with an understanding of the company and the situation. One of my boards didn’t bring in an independent counsel until midstream in a crisis situation; it took them a long time to get up to speed. On some issues, regular third-party reviews for the board can be beneficial.”

Hardwiring information flows means establishing protocols and ground rules well in advance of a crisis, so that when one strikes, nobody questions the cadence, frequency, or flow of information. Particularly useful in this respect, an interviewee pointed out, are executive sessions—meetings between independent directors and leaders from internal audit, risk management, finance, or legal, conducted without other members of management present. “When executive sessions are treated as routine agenda items, they’re [already] there if needed during a disruptive event.”

Directors also need to agree about the information they expect to get once a crisis hits—and to keep their expectations reasonable. Said one director, “The board has to have information in order to do our jobs—at some level, management has to just deal with that. But we don’t need 50-page [slide] decks; a 15-minute update over the phone is fine. If a foundation of a trusting relationship exists already, it makes this much easier. The CEO and CFO might do quick update calls for the board: simply, ‘Here’s what we know; here’s what we’re doing; here’s what we need.’”

Remedy 4: Conduct regular, rigorous self-assessments

Time for thoughtful self-evaluation is a critical ingredient of continuous improvement—an ethos that underpins high-performing teams of all types. Boards are no exception. Like the three remedies outlined above, assessments make boards more effective in good times and bad by prompting reflection about operating processes and the health of the board’s culture (see sidebar “Assessing boardroom culture and dynamics”).

One experienced director told us, “We’re explicitly discussing, in our nominating and governance committee, what does ‘being an effective team’ look like—how well are we aligned, as directors, about that? Then, how well are we doing? Good boards should be talking about this informally and also assessing it explicitly. It should be part of evaluations, and effectiveness here presumes that board evaluations are not just a paper exercise.” Moreover, a small but growing number of boards are including perspectives from management in their evaluation process. Leaders on these boards report that candid feedback from executives provides valuable input for improvements in the board’s governance policies and practices.

Self-assessments are especially important after a crisis to evaluate how the board and management performed and could have done better. Although such postmortems are universally acknowledged as helpful, only 9 percent of NACD survey respondents currently conduct them. Postmortems—a critical look at what worked and

what failed—enable management and boards to surface the lessons learned from a crisis and to apply those lessons going forward, capturing institutional memory for the next crisis.

Conclusion

We share the view of the board members and senior executives we spoke with: healthy boardroom dynamics are crucial to help a company respond effectively in a crisis. Such corporate crises are becoming more frequent and more intense, and they are imposing unprecedented stresses on boards and senior management teams. In the worst cases, they can create a threat to a company’s very existence.

Board members and senior-management teams need to approach preparing for a crisis much more proactively (see sidebar “Related resources for further reading”). They should go beyond the conventional crisis playbook and simulation exercises by honestly assessing how well prepared they are

Assessing boardroom culture and dynamics

This list is adapted from the report *Adaptive Governance: Board Oversight of Disruptive Risks*.¹

Evaluation of the board

- All directors have an opportunity to speak and are encouraged to share their input, even if they have a different or dissenting opinion.
- There is an appropriate balance in board meetings between reviews of past performance and discussions about the future.

- Directors and management understand the thresholds for escalating information to the board.

Evaluation of the lead director, independent chair, and committee chairs

- The lead director maintains an appropriate level of constructive tension in boardroom discussions by building consensus without prematurely shutting down conversations.

Evaluation of individual directors

- Has the director actively participated in director-education activities during the past 12 months?
- Does the director take an inquisitive approach to bad news or to reports of poor performance, without punishing the messenger or looking for scapegoats?

¹ *Adaptive Governance: Board Oversight of Disruptive Risks*, National Association of Corporate Directors, NACD Blue Ribbon Commission Report, 2018, nacdonline.org.

to manage the turbulent dynamics of a crisis. That means candidly discussing roles and responsibilities, while surfacing potential vulnerabilities in organizational dynamics well before a crisis hits and preemptively agreeing on the ground rules and remedies.

That will not only make companies more resilient when something goes seriously wrong but also help them function more effectively in meeting the challenges of business as usual.

Related resources for further reading

Sanjay Kalavar and Mihir Mysore, “Are you prepared for a corporate crisis?,” *McKinsey Quarterly*, April 2017, McKinsey.com

Report of the NACD Blue Ribbon Commission on Adaptive Governance: Board Oversight of Disruptive Risks, NACD, October 1, 2018, nacdonline.org

Report of the NACD Blue Ribbon Commission on Culture as a Corporate Asset, NACD, October 3, 2017, nacdonline.org

“Toward a value-creating board,” McKinsey & Company, February 2016, McKinsey.com

The Board Perspective—Numbers 1 and 2 (collections of recently published articles on boards), McKinsey.com

Linda Liu is an associate partner in McKinsey’s New York office. At the time of the research, **Robyn Bew** was Director of Strategic Content Development at NACD. **Friso van der Oord** is Director of Research at NACD.

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