

Strategy & Corporate Finance Practice

# How boards have risen to the COVID-19 challenge, and what's next

According to a new survey, the COVID-19 crisis has accelerated operational changes and stronger collaboration between directors and management that are key to a board's success.



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**For more than a year**, the COVID-19 pandemic has disrupted and challenged organizations, lives, and livelihoods across the globe. The results from a recent McKinsey Global Survey of more than 800 board directors and executives confirm that while overall corporate performance has suffered during this time, boards were quick to rise to the challenge of navigating a global public-health *and* economic crisis.<sup>1</sup> That is especially true with regard to how boards operate; after many years of reports of only minimal improvements in how they work and their overall effectiveness,<sup>2</sup> the latest results suggest that the pandemic has triggered new and improved ways of working that may outlast the pandemic.

One such improvement is the collaboration between the board and management, which in many organizations has increased significantly during the crisis. Boards have also implemented new structures and processes, become more flexible in their agenda setting, doubled down on strategy, focused on corporate resilience, and, at the director level, committed more time to board-related work. Whether these changes—in particular, a more seamless relationship between the board and the management team—will remain after the pandemic is not fully clear. But when we look at the responses from boards that were most adaptable and effective in helping their organizations navigate the crisis, a few lessons emerge for what boards should do to maintain the positive momentum.

## **Boards before the pandemic**

Our survey results from just before the COVID-19 crisis suggest the extent to which the pandemic caught organizations—and their boards—off guard. A few months before the initial outbreak in China, less than half of all respondents in our 2019 survey said that corporate resilience (for example, the ability to manage a downturn) was on their current board agenda.<sup>3</sup>

And in 2019, only one-fifth believed that a lack of corporate resilience was a significant challenge for their organizations. Among respondents who said resilience was a challenge, nearly half said their boards were unprepared to manage it (Exhibit 1).

Our latest survey asked about the most significant operational challenges facing boards when the crisis began, and directors tend to say that their own boards had few established processes in place to guide them during the pandemic's early days (Exhibit 2). After the lack of in-person interactions and difficulty with remote-working tools, the most common challenges—a lack of crisis-management processes, the blurring of roles between the board and management team, and a lack of relevant capabilities within the board—suggest there were some early challenges to adapting the board's operations in a crisis environment.

At the same time, this environment created a unique opportunity for board directors to step up their game and provide critically needed guidance to their organizations by adapting decision-making processes and lending their crisis-management experience while in some cases also battling for the company's survival.<sup>4</sup> And the survey results suggest they have done just that.

## **Boards responded to the crisis—and quickly**

According to the survey, boards have largely answered the call to help their organizations govern through crisis. To start, directors increased their overall time commitment. Between 2019 to 2020, respondents report a nearly 20 percent increase in the average number of days spent on board work, and they expect to increase their time spent even further between 2020 and 2021. Among directors who say their boards have been very effective at helping the organization respond to the crisis, they

<sup>1</sup> The online survey was in the field from September 15–25, 2020, and garnered responses from 846 participants representing the full range of regions, industries, company sizes, and board roles; of them, 417 were board directors and 429 were C-level executives. To adjust for differences in response rates, we weighted the data by the contribution of each respondent's nation to global GDP.

<sup>2</sup> "Governance since the economic crisis," July 1, 2011, McKinsey.com; "Improving board governance," August 1, 2013, McKinsey.com; "Toward a value-creating board," February 1, 2016, McKinsey.com; "A time for boards to act," March 26, 2018, McKinsey.com.

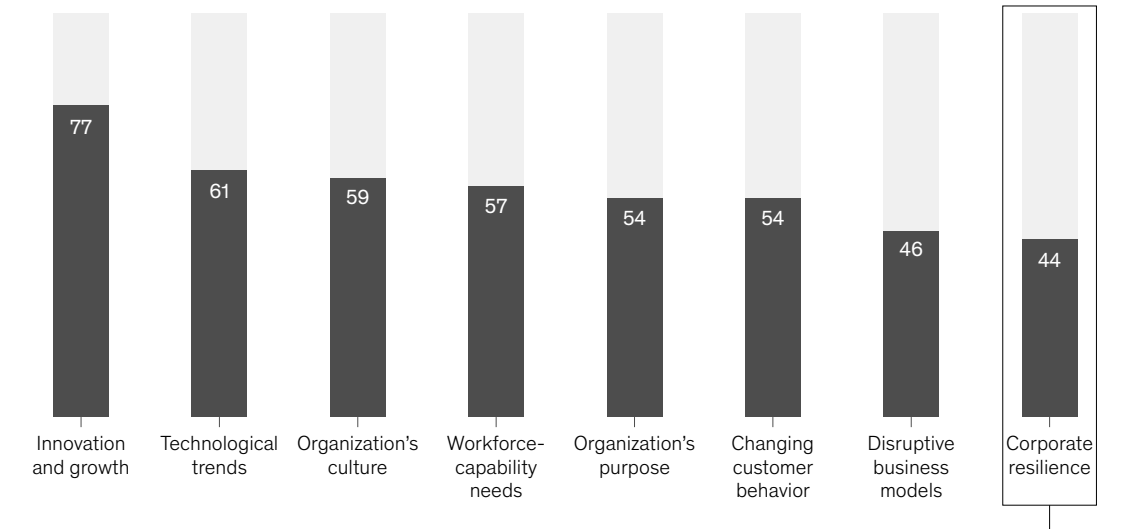
<sup>3</sup> The 2019 online survey was in the field from August 1–16, 2019, and garnered responses from 1,304 participants; of them, 1,041 were board directors and 263 were C-level executives.

<sup>4</sup> Martin Hirt, Celia Huber, Frithjof Lund, and Nina Spielmann, "Boards in the time of coronavirus," April 16, 2020, McKinsey.com.

Exhibit 1

**In 2019, corporate resilience ranked low on the board agenda—and for boards that saw it as a challenge, few were prepared to manage it.**

**Topics on the board's 2019 agenda,<sup>1</sup> % of respondents**



**How prepared boards were in 2019 to manage a lack of corporate resilience within their organizations,<sup>2</sup> % of respondents**



<sup>1</sup>Out of 15 agenda topics that were offered as answer choices.

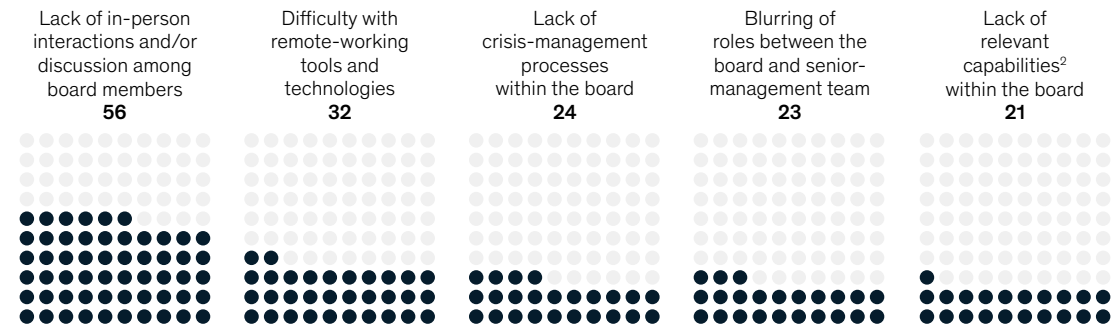
<sup>2</sup>Question was asked only of respondents who identified "lack of corporate resilience" as a significant challenge that their organizations were facing; it was cited by 22%. Respondents who answered "don't know/not applicable" are not shown, so figures do not sum to 100%.

**Directors have largely stepped up during the pandemic, improving collaboration, implementing new processes, focusing on resilience, and spending more time on board work.**

## Exhibit 2

### At the start of the pandemic, boards had few established processes in place to guide them.

Most significant operational challenges for boards when the COVID-19 crisis began,<sup>1</sup> % of respondents



<sup>1</sup>Out of 11 challenges that were offered as answer choices. Question was asked only of board members, n = 417.

<sup>2</sup>For example, digital expertise, transformation experience, crisis-management skills.

already spent significantly more time than others precrisis—and now report much greater increases in their time spent on board work (Exhibit 3).

#### Implementing new structures and processes

Besides the increased time investment, the results suggest that nearly all boards made at least one change to their operating models to better manage the crisis (Exhibit 4). The most common change has been structural: investing in technology and tools to enable more digital collaboration and establishing ad hoc crisis committees. After that, directors most often cite changes to the ways that boards and management teams work together and the flexibility of their agendas. Among the least common changes so far have been to board composition—though perhaps not surprisingly, since adjusting the diversity of skills, demographics, or geographies represented on a board is a more complex change to make than others and also requires shareholder approval (see sidebar, “How to diversify your board of directors”).

#### Strengthening collaboration with management

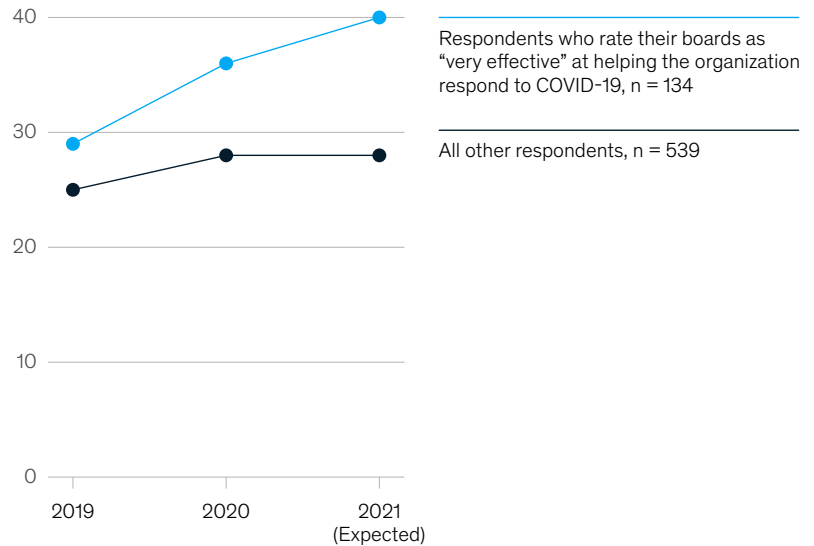
According to the results, the pandemic appears to have triggered changes that, in past surveys, board directors cited as the best ways to improve their collaboration with senior management as well as the effectiveness of board meetings. In our 2019 survey, more than half of all respondents said that more constructive boardroom discussions between the board and senior-management team would most effectively improve their collaboration.

Indeed, better discussions and collaboration between the board and management team are among the most common changes made during the crisis. What’s more, 79 percent of respondents—including directors and C-level executives—say the collaboration between these groups has been effective or very effective during the pandemic, up from two-thirds who said so in 2019. And better collaboration correlates with a more effective COVID-19 response, according to the results: more than 90 percent of respondents reporting

Exhibit 3

### Directors have increased their overall time spent on board work, especially those reporting a ‘very effective’ response to the crisis.

Days per year board directors have spent on board work,<sup>1</sup> number of days



<sup>1</sup>Including board and committee meetings, preparation, training, and informal contact with the organization.

## How to diversify your board of directors

**At least in the near to mid term,** we expect that most boards will continue to maintain a hybrid approach to their meetings, which loosens the requirement for directors to travel on-site for each meeting. The newly gained comfort with remote meetings—and evidence that they can be run well virtually—opens up a much larger pool of talented potential directors with relevant experience and insights that are in line with the strategic needs of a

corporation (for example, geographic diversity) even if they are far removed from a company’s geographic headquarters. These changing norms for meetings also give many boards the opportunity to diversify in several ways beyond geography—including social criteria and industry or topic-area expertise. We would strongly urge boards to start reviewing their diversity with respect to these issues: for example, seeking new members with

experience operating in crisis mode who can effectively contribute to a broader scope of activities beyond traditional board responsibilities, such as workforce capabilities and sustainability. And beyond the composition of the board itself, boards should also explore ways to tap external advisers for their advice on rapidly evolving situations in a more systematic way than they may have done before the pandemic.

## Exhibit 4

# Nearly all boards made at least one change to their operating models to manage the crisis.

Changes made by the board since the COVID-19 crisis began,<sup>1</sup> % of respondents

|  |    |
|--|----|
| <b>Structural changes</b>  |    |
| Invested in technology and/or tools to enable more digital collaboration                 | 45 |
| Established an ad hoc crisis-management committee  | 25 |
| Implemented new crisis-management processes  | 24 |
| Significantly increased the responsibilities of its standing board committees            | 14 |
| Created new board committee(s) <sup>2</sup>  | 11 |
| <b>Process changes</b>   |    |
| Increased the frequency of interaction between the board and management between meetings | 37 |
| Increased flexibility in the board's agenda  | 37 |
| Included strategy as a topic on every board meeting's agenda                             | 35 |
| Implemented changes to existing board processes  | 34 |
| <b>Strengthening collaboration</b>   |    |
| Strengthened collaboration between the board and senior-management team                  | 36 |
| Strengthened collaboration between the board chair and CEO                               | 27 |
| Realigned the board and management team around a shared vision for the company's future  | 23 |
| Realigned responsibilities between the board and senior-management team                  | 19 |
| Improved team dynamics among members of the board  | 18 |
| <b>Adjusting board composition</b>   |    |
| Increased the diversity of the board's skills and/or capabilities                        | 12 |
| Increased the board's demographic and/or geographic diversity                            | 8  |

<sup>1</sup>Question was asked only of board directors, n = 417; respondents who answered "none of the above" (8%) or "don't know" (1%) are not shown.

<sup>2</sup>That is, other than the ad hoc crisis-management committee.

an effective collaboration between the board and management also say their board's response to the crisis was effective—compared with only 60 percent of all other respondents (Exhibit 5).

## Creating a more flexible agenda

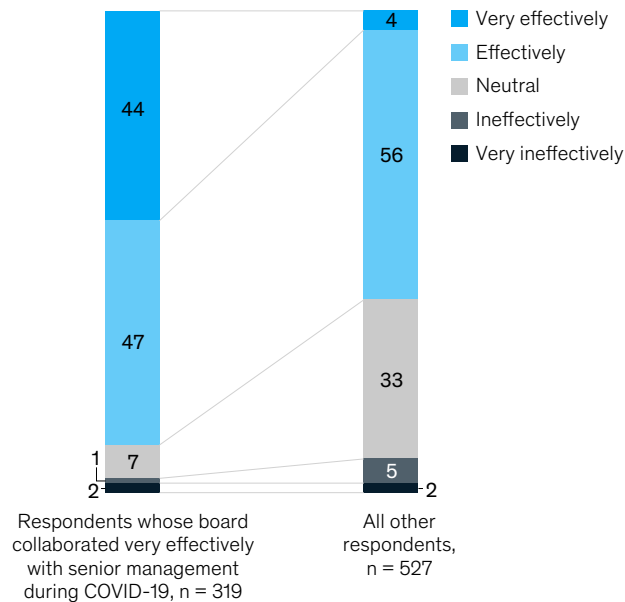
Over the past ten years, our research suggests that at a high level, boards have consistently focused on strategy over other items on their agendas, even throughout the crisis. Yet in a situation as

extraordinary as the COVID-19 pandemic, respondents do report changes to more detailed topics on their agendas, and that an annual process for setting strategy—which was a long-standing norm for many boards in the past—is no longer sufficient. In the survey prior to the pandemic, only half of all board respondents said their boards were effective at either assessing whether their strategy accounts for new or emerging risks or adjusting the strategy continuously, based on changing conditions.

Exhibit 5

## Better collaboration between boards and management teams seems to have supported a more effective COVID-19 response.

Effectiveness of boards in helping the organization respond to the COVID-19 crisis,<sup>1</sup> % of respondents



<sup>1</sup>Figures may not sum to 100%, because of rounding.

Here, too, boards have adapted in response to the crisis. Two of the top five changes respondents say their boards have made relate to the flexibility of their agendas: to discuss topics as they arise and to include strategy on the agenda of every board meeting—of which there were nine on average during 2020.

### Increasing the focus on resilience

Compared with the results from the previous survey, respondents report a clear shift in the specific topics on their agendas (Exhibit 6). In 2019, boards were most focused on innovation and growth as well as technological trends. Innovation and growth remains the most common agenda item in the latest survey—though corporate resilience has risen in the ranks and become an almost equally

important topic. And while boards seem to have shifted away from several people- and organization-focused topics (for example, the organization's culture, purpose, societal trends and changes, and workforce capabilities) in the past year to focus on their crisis responses, slightly larger shares of directors say such topics will be on the 2021 agenda.

### Learning from the most adaptable boards

To get an even better understanding of the changes under way, and which of them might outlast the crisis, we took a closer look at responses from the most adaptable boards and the changes they made across structural, process-related, and interpersonal dimensions (Exhibit 7).<sup>5</sup>

<sup>5</sup> We define "adaptable boards" as boards whose respondents report at least one structural change, one process change, and one change to collaboration on their boards since the COVID-19 crisis began *and* boards that have been effective at helping the organization respond to COVID-19 (n = 143). This analysis included only board directors and not respondents who identified as C-level executives and answered on behalf of their own company's board.

Exhibit 6

**Compared with 2019, respondents report a clear shift in the topics on their boards' agendas.**

**Topics on the board's current agenda,<sup>1</sup> % of respondents**



<sup>1</sup>Out of 15 topics that were offered as answer choices. 2019, n = 1,041; 2020, n = 846.

**Innovation and growth remains the most common topic on the board agenda—though corporate resilience rose in the ranks and became an almost equally important topic.**

On average, respondents on the most adaptable boards are twice as likely as others to report any of the operational changes we asked about once the crisis had started. The biggest differences between the most adaptable boards and all others relate to collaboration between the board and senior

management, as well as collaboration within the board. And compared with all other respondents, a significantly larger share of directors at the most adaptable boards say their boards' decisions and activities have a high or very high impact on the organization's value creation during the crisis.

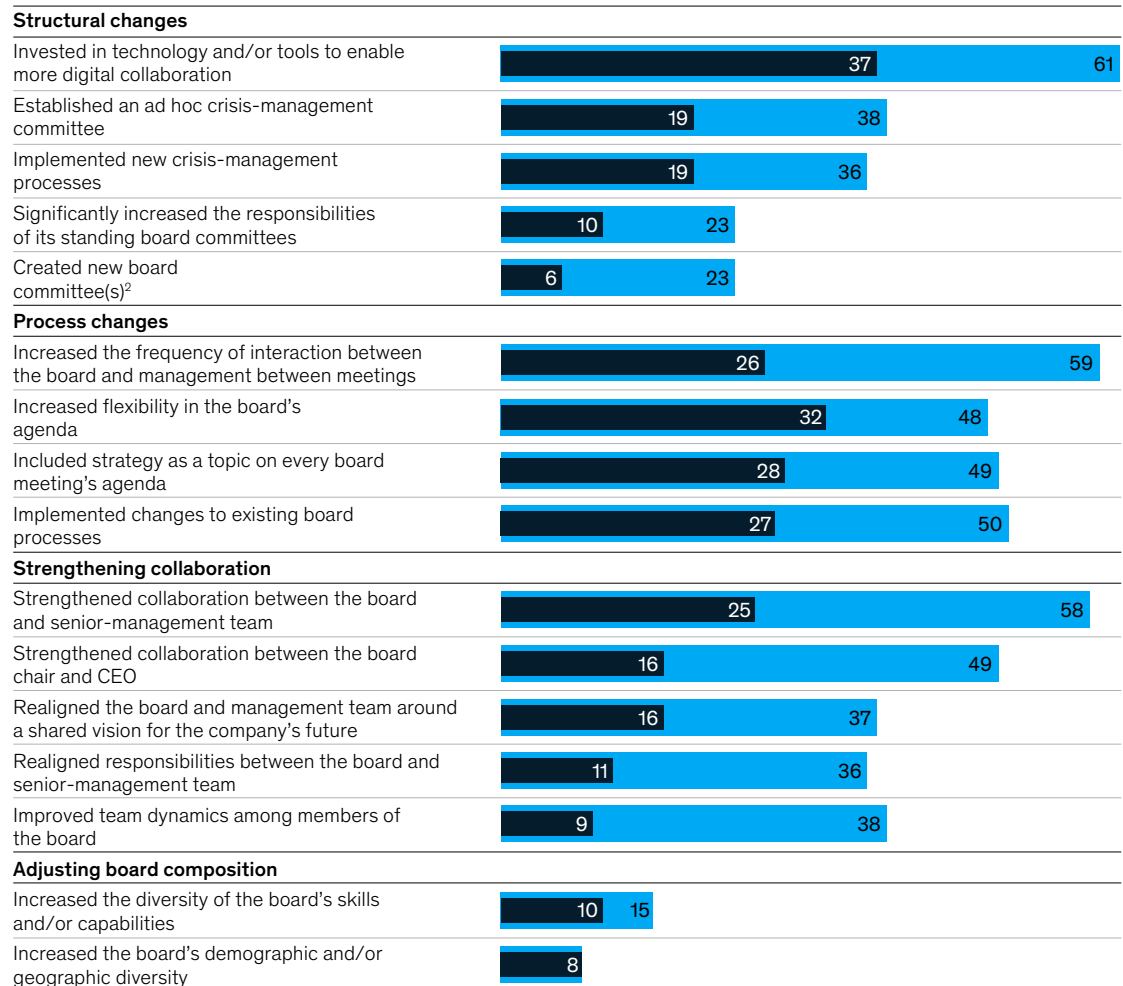


## Exhibit 7

### The most adaptable boards were much likelier than others to implement a range of structural, process, and interpersonal changes.

Changes made by the board since the COVID-19 crisis began,<sup>1</sup> by type of board, % of respondents

■ Respondents at most adaptable boards (n = 143) ■ All other respondents (n = 268)



<sup>1</sup>Question was asked only of board directors; respondents who answered "none of the above" or "don't know" are not shown.

<sup>2</sup>That is, other than the ad hoc crisis-management committee.

When looking closely at this group's responses, we see that they report significantly better performance on a number of other dimensions:

- **Time commitment.** At the most adaptable boards, directors reported the same average number of meetings in 2020 as did their peers on other boards. Yet their overall time spent on board work is much greater: these directors report a 50 percent higher number of days spent on board work in 2020, compared with all others. And while this group expects to spend one less day in 2021 than they did last year, that number (37 days) is still much higher than the days expected by all others (27 days).
- **The board's agenda.** According to respondents, their boards allocate a similar amount of their meeting time to specific topics (such as strategy, risk management, and finance<sup>6</sup>) as they did in 2019; but risk management has moved up in the overall ranking of topics, and boards now spend as much of their time on it as they do on organizational issues, such as talent management, organizational structure, and culture. Yet respondents at the most adaptable boards report slightly different priorities: for example, they spent significantly less of their time on performance management than others.

When looking at specific topics, the most adaptable boards appear to be faster at

changing their agendas to meet the moment. According to directors on adaptable boards, they are much more focused on corporate resilience than their peers (69 percent say it's on the agenda, versus 54 percent), and they are almost twice as likely as others to cite disruptive business models. Fast forward one year, and the most adaptable boards expect the biggest increases in their focus on the organization's purpose; political, geopolitical, and macroeconomic risks; and the effects of climate change.

- **A new way forward.** Finally, the more adaptable boards are more likely to stick with the newer ways of working in the long term (Exhibit 8). Of 15 changes to the ways boards work, much larger shares of the adaptable directors say their boards will continue with eight of them; most notably, they will continue with changes that signal increased value-enhancing board involvement, rather than merely rubber-stamping decisions—for example, including strategy as a topic on every meeting agenda, strengthening collaboration, and increasing interactions between boards and management teams in between meetings. Indeed, almost 90 percent of respondents at the most adaptable boards say their collaboration with senior management was effective or very effective during the crisis.

## Adaptable directors say their boards will continue with changes that signal value-enhancing board involvement such as strengthening collaboration.

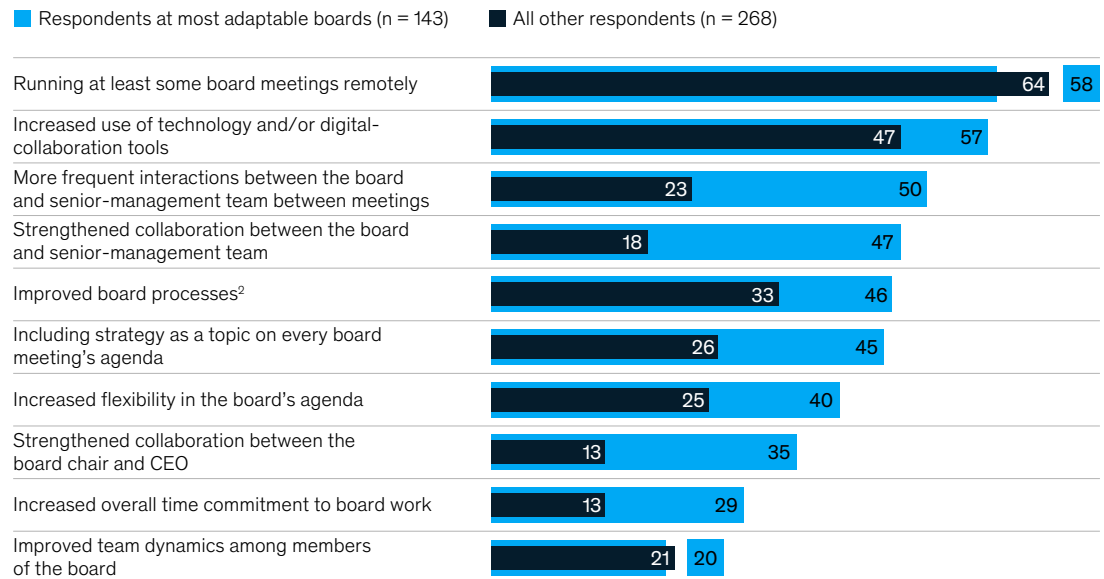
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<sup>6</sup> The survey asked about the following topics and how respondents' boards allocate their time to each one during their meetings: strategy; performance management; finance and accounting; risk management; organizational structure, culture, and talent; investments and M&A; core governance and compliance; and shareholder and stakeholder management.

## Exhibit 8

### Over the long term, adaptable boards are more likely to stick with many newer ways of working.

Changes to a board's ways of working that are most likely to remain over the next 3 to 5 years,<sup>1</sup> by type of board, % of respondents



<sup>1</sup>Out of 15 changes that were offered as answer choices. Question was asked only of board directors; respondents who answered "none of the above" or "don't know" are not shown.

<sup>2</sup>For example, more frequent updates on company insights, shorter reports.

In other ways, the adaptable boards and others are aligned on how boards will continue to evolve. Both groups of respondents agree on the most likely changes: their boards will continue running at least some meetings remotely (62 percent of all respondents say so), and their use of technology and digital tools to collaborate will increase (50 percent).

While it's not clear yet which of the substantial changes that boards made during the COVID-19 crisis will continue to gain momentum, there is a general consensus that the ways boards work in the future will look quite different. Based on our experience, boards can keep the momentum going and serve as catalysts for change by doing the

following: taking a more flexible and agile approach to agenda setting, which will help boards account for timely or emerging topics (for example, corporate purpose and environmental, social, and governance issues), new risks to the business, or strategic alternatives as the need arises; dedicating their additional time spent on board work to value-enhancing activities outside of formal meetings (for instance, prereading of materials; attending training and development sessions; or participating in one-on-one meetings with other board directors, key executives, or other company stakeholders); and interacting more often with the executive team through formal and informal one-on-one interactions. For instance, having the chair of the audit committee coach the company's CFO.

The survey content and analysis were developed by **Celia Huber**, a senior partner in McKinsey's Silicon Valley office; **Frithjof Lund**, a senior partner in the Oslo office; and **Nina Spielmann**, a senior expert in the Zurich office.

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