Making the board more strategic: A McKinsey Global Survey

Corporate directors want to spend more time developing forward-looking strategies that help maximize shareholder value. Boards that are already highly influential in creating corporate value work differently.

Corporate directors are eager to spend more time developing long-term strategy, according to the latest McKinsey Quarterly survey on governance.[1] Indeed, they want to accord a higher priority to talent management and forward-looking strategies that maximize shareholder value and to spend less time dealing with issues such as compliance. But this may be easier said than done: in addition to saying that their priorities are misaligned, directors also indicate that they lack the knowledge, expertise, and substantive interaction with management that could help them contribute to developing long-term strategy.

Some directors, however, say their boards already have a strong influence on creating corporate value (as measured by total returns to shareholders). At these companies, boards are far likelier to spend more time on strategic activities, such as analyzing leading indicators to predict future performance; to have deep expertise and access to many levels of managers; and to engage with management in substantive debates about long-term strategy.

These insights emerged from the survey, which generated responses from 586 corporate directors, 51 percent of them CEOs or other C-level executives. Respondents represent 378 private and 161 public companies; the remainder work at nonprofit organizations and government agencies. Twenty-six percent of the companies represented in the survey have annual revenues of $1 billion or more.

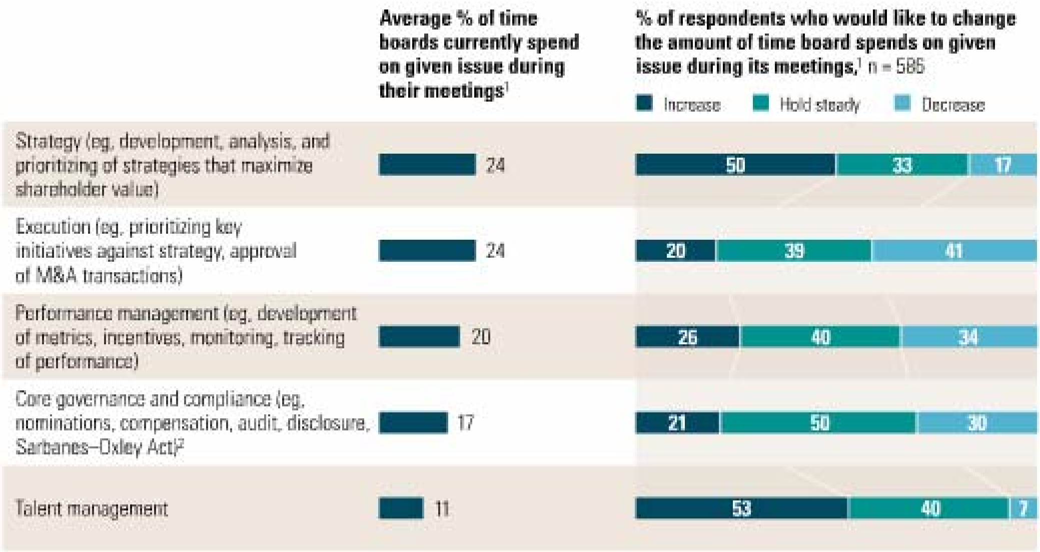
The ideal board meeting

In recent years in most developed countries, corporate boards—particularly public-company boards—have spent a great deal of time focusing on meeting regulatory requirements and other short-term goals. This survey suggests that directors now want to focus on the long term, including analysis of trends, future scenarios, and global forces. As competition for consumers and talent intensifies worldwide and executives increasingly expect social and political trends to influence the bottom line,[2] this shift in focus seems timely.

Respondents to this survey say that their boards currently spend most of their time on strategy and execution. Ideally, they would like their boards to spend even more time developing strategies that maximize shareholder value and on helping to manage talent (Exhibit 1).

EXHIBIT 1

Boards and time

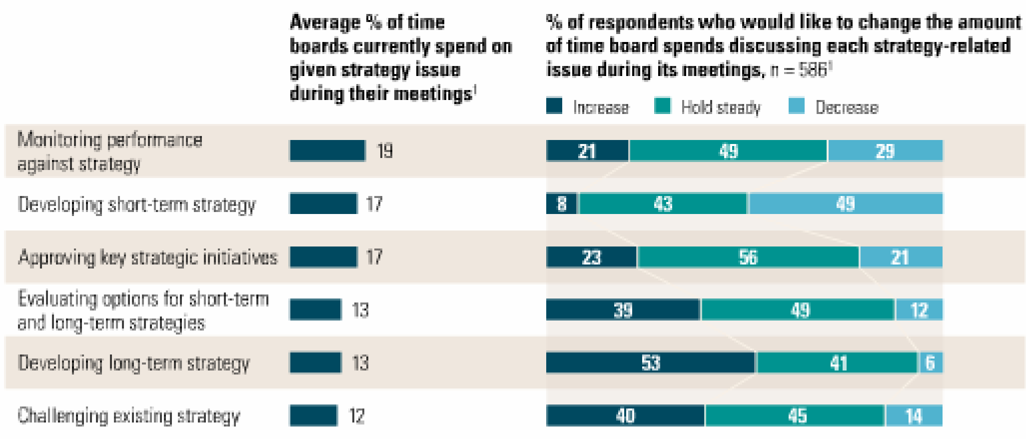


[1]Respondents who answered "other" are not shown.
[2]Figures do not sum to 100%, because of rounding.

Specifically, for example, they want to spend more time on long-term strategy and less time on short-term matters such as ensuring that quarterly earnings will consistently meet market expectations (Exhibit 2). Many directors would also like to spend more time evaluating a broad range of strategic options and challenging existing strategies.

EXHIBIT 2

More focus on long-term strategy



[1]Respondents who answered "other" are not shown.

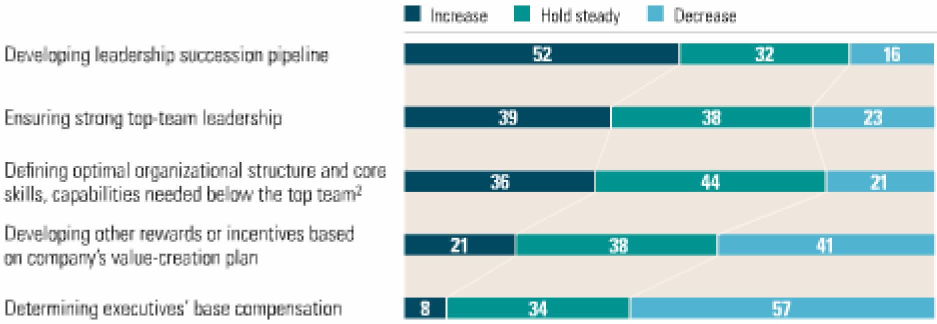
When directors were asked about the amount of time the board does and should spend on various corporate issues, talent management emerged as the one on which directors want the greatest increase in time spent. In considering various talent-management issues, directors indicate that they want to be more strategic with that increased time. For instance, boards currently attach the greatest importance to compensation, but directors say they would like to increase the importance of succession planning and of developing the top team's leadership (Exhibit 3).

EXHIBIT 3, PART 1

Rethinking priorities

Talent management

Change in relative importance that board should give to each talent-management issue, % of respondents, n = 499[1]



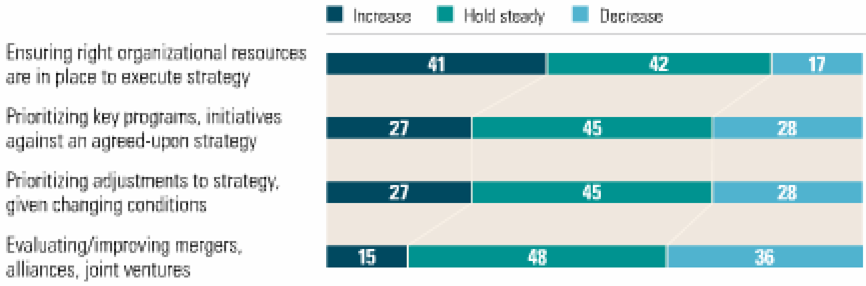
[1]Respondents who answered "other" are not shown.
[2]Figures do not sum to 100%, because of rounding.

EXHIBIT 3, PART 2

Rethinking priorities

Strategic execution

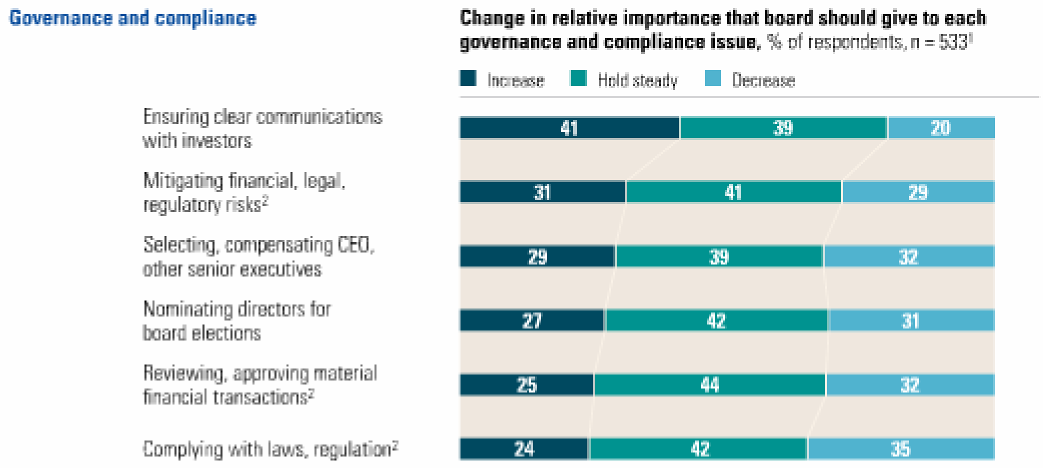
Change in relative importance that board should give to each strategic execution issue, % of respondents, n = 572[1]



[1]Respondents who answered "other" are not shown.

EXHIBIT 3, PART 3

Rethinking priorities



[1]Respondents who answered "other" are not shown.
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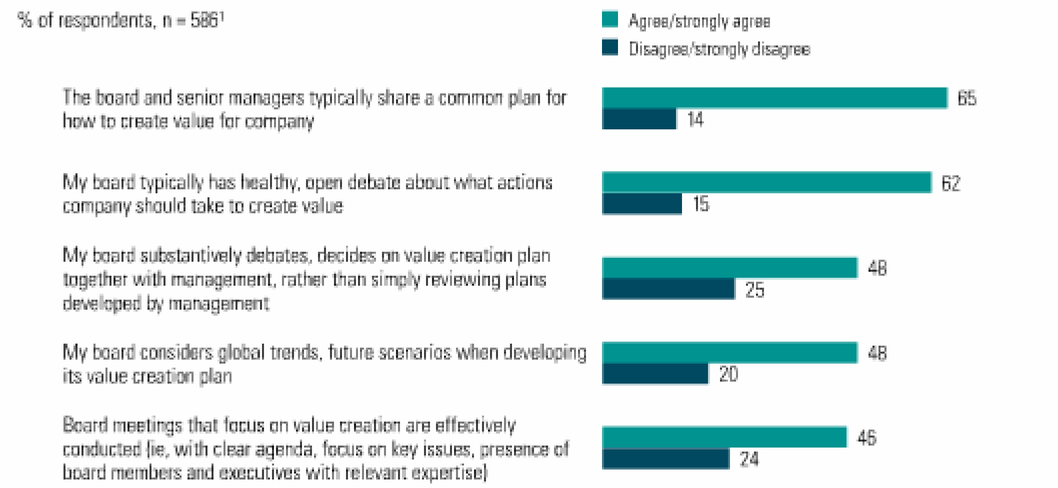
Similarly, when asked about strategic execution, directors say they would like to give a higher priority to forward-looking issues: 41 percent of the respondents say they want to increase the importance of ensuring that organizational resources are in place to execute strategy; far fewer want to elevate the importance of adjusting strategy based on changing conditions. With regard to governance and compliance, directors want to give a higher priority to ensuring clear communications with investors (41 percent), although they already spend a significant amount of time on this activity. Directors also want to focus more on future rather than current performance. Half of the respondents, for example, say they want to increase the importance of analyzing leading indicators; the same proportion would like to decrease the importance of financial metrics on current performance.

More knowledge needed

Almost two-thirds of corporate directors say they are aligned with management on the value creation strategy (Exhibit 4). But when asked about the details of how they work with management to develop plans to create corporate value, only 48 percent of the respondents report any substantive discussions, despite their interest in spending more time debating and monitoring these plans. Moreover, only 46 percent say that board meetings focused on value creation are conducted with a clear agenda and a focus on key issues—and in the presence of board members and executives with relevant expertise.

EXHIBIT 4

Working with management to create value



[1]Respondents who answered "neutral" or "other" are not shown.

Further, although most corporate directors say they have good access to the CEO, CFO, and COO, only about a quarter say that's true of their access to most other senior executives, many of whom are likely to have relevant expertise in areas such as talent management or the customer experience.

That lack of access is particularly troublesome because of the gaps directors report in their boards' knowledge of these topics. For example, only 33 percent of the respondents report that their boards have significant expertise in talent management, far lower than the share with expertise in other areas (Exhibit 5).3

EXHIBIT 5, PART 1

Knowledge and resources

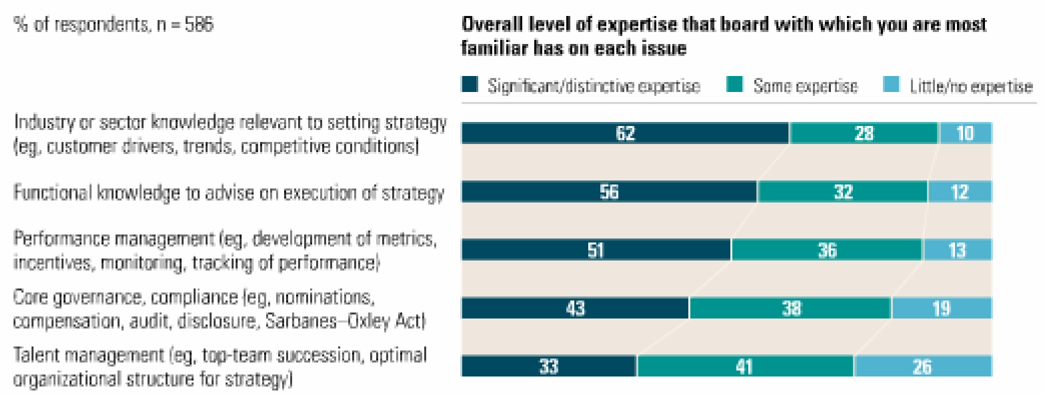
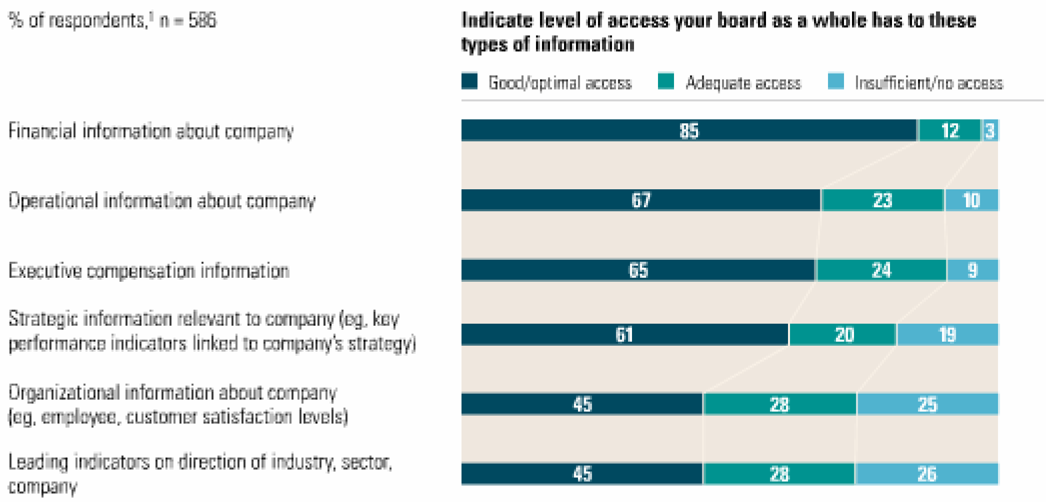


EXHIBIT 5, PART 2

Knowledge and resources



[1] Respondents who answered "don't know" are not shown.

Survey findings also suggest that many boards may not even recognize where they have gaps in knowledge or other performance issues: only a third of the respondents say that directors at their companies are evaluated at least once a year. However, when evaluations are held, they are broadly considered effective. Of the directors serving on boards they consider highly influential, more than 80 percent say the evaluations are effective.

What highly influential boards do differently

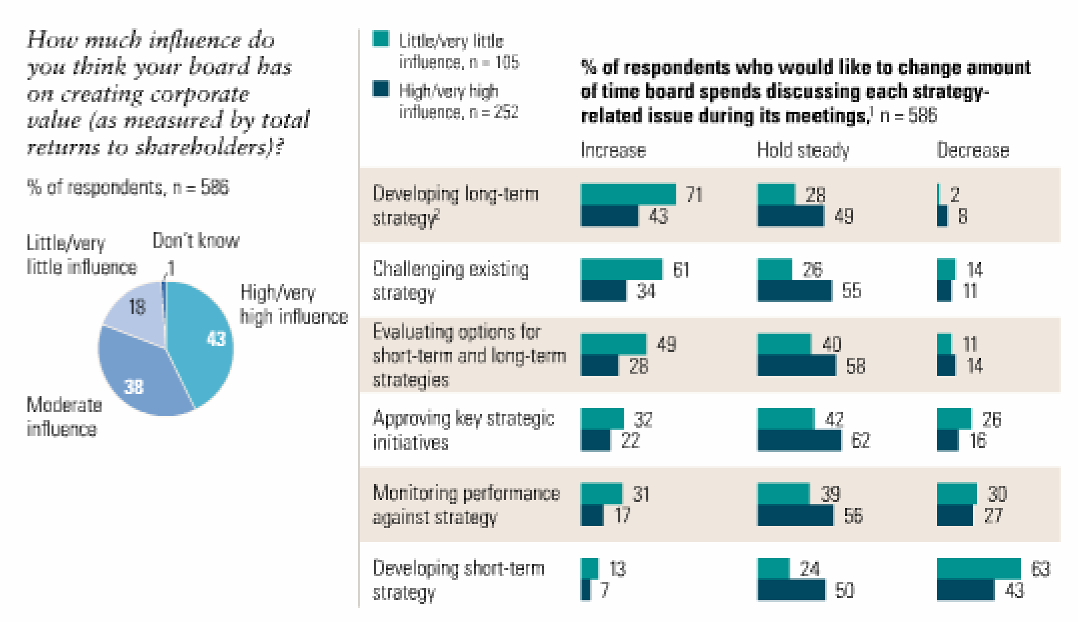
Although 43 percent of the respondents say their boards are highly influential in creating corporate value, responses to the survey indicate that there is still significant room for improvement: 79 percent of all respondents believe that boards could have great influence on the creation of corporate value if they were as effective as possible.

Conventional thinking has long held that private-company boards maximize shareholder value more effectively than public-company boards. However, as this survey indicates, boards that are highly influential in creating value are distinguished less by the type of corporate ownership and more by their strategic priorities and the kind of relationship they have with management.

What do highly influential boards do differently? These boards are already focusing on long-term strategy (Exhibit 6). Most notably, in areas such as talent and performance management, where most boards are struggling to make their priorities more strategic, directors on highly influential boards say that they already put a higher priority on activities such as succession planning and the evaluation of future performance. These boards also are more likely to have expertise in sector and functional knowledge, performance management, and talent management. (With regard to talent management, however, there's still room for improvement: only 46 percent of the respondents on influential boards say they have significant or distinctive expertise.)

EXHIBIT 6

Influencing value creation



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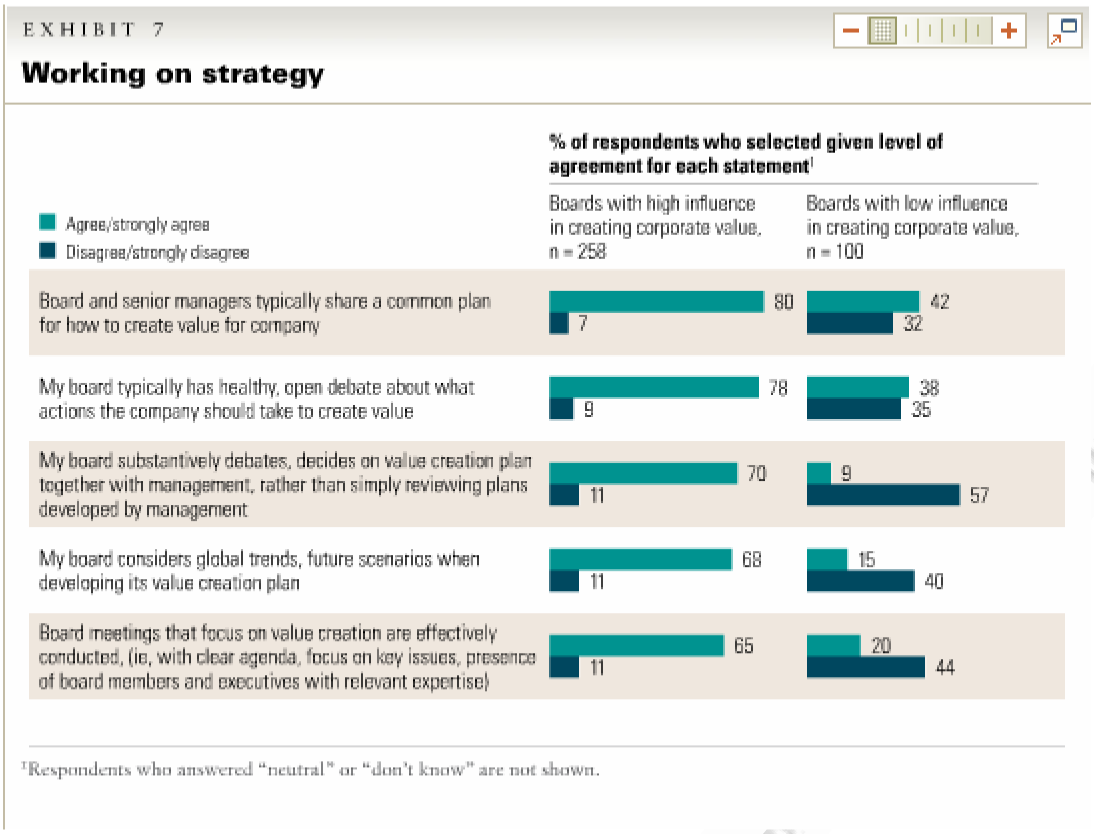
As for board processes, 70 percent of the respondents on highly influential boards say they engage management in substantive debates about strategy, compared with less than 10 percent of the respondents on boards with little or no influence on creating value (Exhibit 7). Moreover, almost two-thirds of these respondents report that when their boards conduct meetings, they focus on key issues and can rely on executives with the relevant expertise to be present.



Not surprisingly, half of the respondents on these highly influential boards say they have significant or unlimited access to executives beyond the most senior level, compared with roughly 29 percent of respondents on boards with little influence on corporate value. The former are also more likely to have relevant information available and to focus on future performance. About 60 percent, for example, say they have good or optimal access to leading industry indicators and to data about employee and customer satisfaction. Only about one-third of the respondents on boards with little influence have access to this information.

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