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High-performing boards: What's on their agenda?

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Directors report that they have a greater impact as they move beyond the basics.

Five or so years after the financial crisis, the pressure on boards and directors to raise their game remains acute. A recent survey of more than 770 directors from public and private companies across industries around the world and from non-profit organizations suggests that some are responding more energetically than others.[1] The survey revealed dramatic differences in how directors allocated their time among boardroom activities and, most tellingly, in the respondents' view of the effectiveness of their boards. More than one in four of the directors assessed their impact as moderate or lower, while others reported having a high impact across board functions. So what marks the agenda of a high-performing board?

A hierarchy of practices

Our research suggests that the distinction between higher and lower impact turns on the breadth of the issues directors tackle and on the time dedicated to them. We drilled down to detailed board practices across the functions to which directors devote much of their attention: strategy, compliance, and M&A, as well as performance, risk, and talent management. It appears that boards progress through a hierarchy of practices that's analogous to Maslow's hierarchy of needs.[2] Directors who report having a low to moderate impact said that their boards undertake "the basics" of ensuring compliance, reviewing financial reports, and assessing portfolio diversification, depending on the function. Directors reporting that their boards have a higher impact undertake these activities, as well, but add a series of other practices in every function.

In the area of strategy, for example, this means becoming more forward looking. Boards with a moderate impact incorporate trends and respond to changing conditions. More involved boards analyze what drives value, debate alternative strategies, and evaluate the allocation of resources. At the highest level, boards look inward and aspire to more "meta" practices—deliberating about their own processes, for example—to remove biases from decisions (Exhibit 1).

We observed a similar hierarchy across other board functions. In performance

Exhibit 1

Boards appear to progress through a hierarchy of practices, with high-impact boards often employing more rigorous practices.

● Practiced by majority ○ Practiced by minority
▲ Biggest aspiration

	Example: Strategy practices	Low-impact boards	Moderate-impact boards	High-impact boards
Rigorous	Reducing decision biases	▲	○	▲
	Evaluating resource reallocation	○	○	●
	Assessing value drivers	○	○	●
	Debating strategic alternatives	○	▲	●
	Assessing portfolio synergies	○	○	●
	Adjusting strategy, based on changing conditions	○	●	●
	Assessing whether strategy stays ahead of trends	○	●	●
	Engaging on innovation	●	●	●
Basic	Assessing portfolio diversification	●	●	●

Source: April 2013 McKinsey Global Survey of 772 directors on board practices

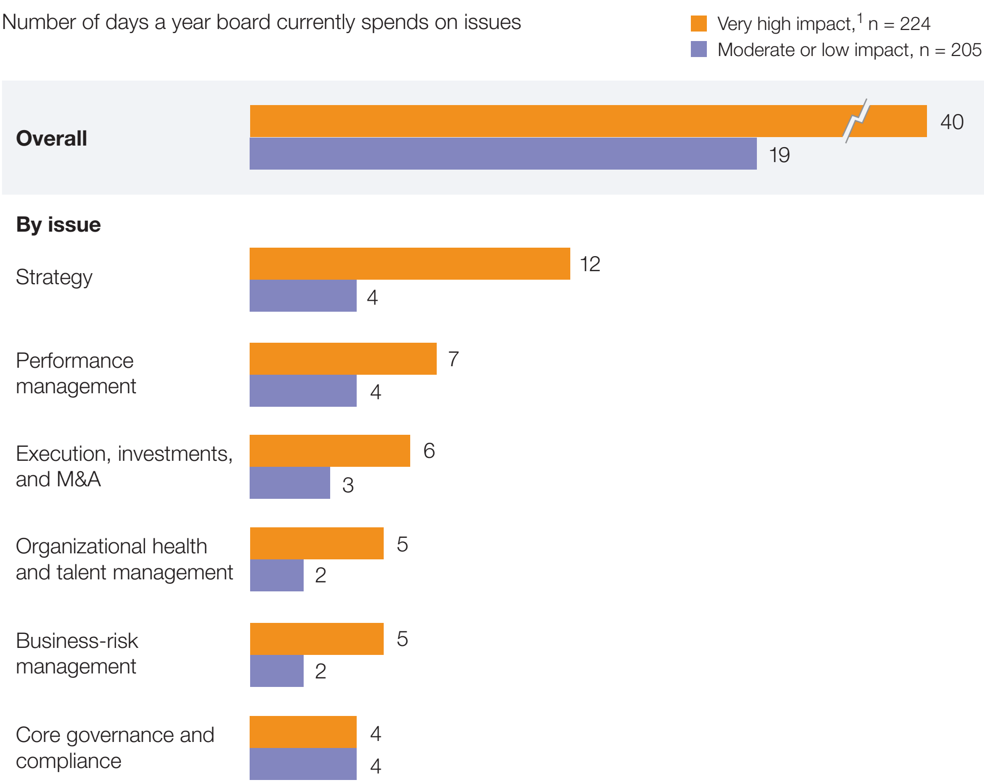
management, for instance, many boards start with a basic review of financial metrics. More involved boards add regular performance discussions with the CEO, and boards at still higher levels of engagement analyze leading indicators and aspire to review robust nonfinancial metrics. In the areas of risk, M&A, and talent management boards follow comparable progressions. (For more, see "Building a forward-looking board," on mckinsey.com.)

A greater time commitment

Working at a high level takes discipline—and time. Directors who believe that their activities have a greater impact report spending significantly more time on

Exhibit 2

Board members with very high impact invested eight extra workdays a year on strategy.



[1] Figures do not sum to total, because of rounding.

Source: April 2013 McKinsey Global Survey of 772 directors on board practices

these activities, on average, than those who serve on lower-impact boards. We found that directors reporting that they had a very high impact worked for their boards about 40 days a year, while those who said that their impact was moderate or lower averaged only 19.[3] Higher- and lower-impact directors spend the same amount of time on compliance-related activities: about four days a year. By contrast, higher-impact board members invest an extra eight workdays a year on strategy. They also spend about three extra workdays on each of the following: performance management, M&A, organizational health, and risk management (Exhibit 2).

The data suggest that less engaged boards correctly identify the next step up in the hierarchy but underestimate the time it would take to meet this aspiration. When low- to moderate-impact directors are asked how much time they ideally should spend on their duties, they suggested increasing the number of

What surveys can and can't tell us

Survey-based research can be an effective means of aggregating information from diverse respondents about fairly granular attitudes or activities, such as detailed governance practices. However, as Professor Phil Rosenzweig, of the International Institute for Management Development (IMD), and others have pointed out, there's also a danger that other factors will influence respondents, undermining the validity of the survey results.[1] For example, a "halo effect"—the tendency to make specific inferences on the basis of general impressions—might make board members more inclined to rate their efforts highly if their companies have been successful. We recognize this difficulty and did not seek to correlate the directors' self-reported evaluations with financial performance. But it is possible that directors who devote a large number of days to their boards come to believe that they are having a greater impact simply as a result of making that investment of time.

Some additional checks, however, showed that this isn't necessarily true. First, we split the number of days when directors worked into quartiles. Not surprisingly, this showed a wide range of time commitments. However, it also showed that those claiming to have a high impact were by no means all in the top quartile of directors by days worked. This suggests that a board member's view of his or her impact is influenced by matters other than just the amount of time spent on the job.

We also cut board practices by quartile of days worked. From this analysis, we saw that high-impact boards appear to have an even richer set of strategic priorities than the most time-intensive boards (those in the top quartile). In addition, we found much less differentiation among the practices of the second-, third-, and bottom-quartile board members when cut by days worked—which again suggests that when directors assessed the impact of their activities, they were doing more than just counting hours served.

Factors beyond days spent, of course, affect the richness of a board's agenda and how directors rate their impact. For example, a board locked in crisis or subject to new and complex regulation may need to work hard just to keep the business running. The size of a board and the skills of its members have also been shown to affect efficiency and effectiveness. And in all situations, a skilled chair can make boards significantly more efficient by setting high standards and taking action to help members improve their contribution.

[1] See Phil Rosenzweig, "The halo effect, and other managerial delusions," *McKinsey Quarterly*, February 2007, mckinsey.com.

days to 27, from 19. While spending more time can never assure a high impact (see sidebar, "What surveys can and can't tell us"), even very high-impact directors would increase their commitment to 45 days, from 40.

A final implication of our survey is that CEOs need not fear that a more engaged board may constrain their prerogative to set a company's direction. Highly committed boards are not spending the extra time supplanting management's role in developing strategic options. Rather, they are building a better understanding of their companies and industries, while helping senior teams to stress-test strategies and then reallocate resources to support them. Some CEOs find that task to be lonely and difficult when they face internal "barons" who protect their fiefs. In short, engaged boards can still be supportive of management. And the directors serving on them, our research suggests, are not only more effective but also more satisfied with their work. ○

[1] The online survey, in the field from April 9 to April 19, 2013, 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 privately owned ones, including the full range of regions, industries, and company sizes.

[2] Psychologist Abraham H. Maslow contended that human needs are structured in a hierarchy; as each level of needs is satisfied, the next higher level of unfulfilled needs becomes predominant. See Abraham H. Maslow, "A theory of human motivation," *Psychological Review*, 1943, Volume 50, Number 4, pp. 370–96; and Abraham H. Maslow, *Motivation and Personality*, first edition, New York, NY: Harper & Brothers, 1954.

[3] Directors who assessed their impact as high worked about 27 days a year.

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