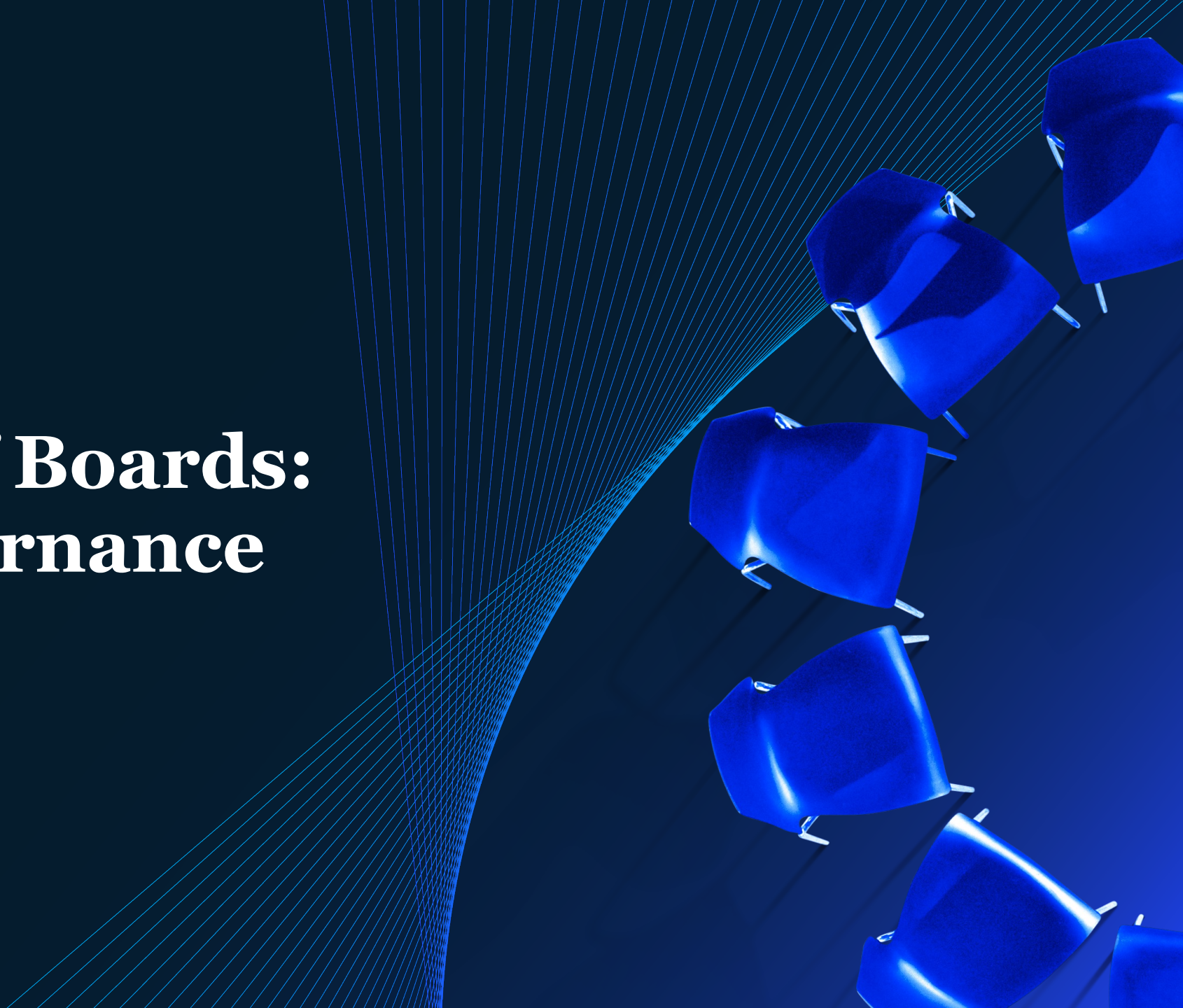


# The Future of Boards: Meeting Governance Challenges

Discussion Document

July 24, 2024



# Topics



**The evolving role  
of the board**



**Insights from  
McKinsey's board  
survey**



**Board skills and  
On-Boarding**

# Boards are under increasing pressure



Increased  
stakeholder  
expectations



Higher business  
complexity



Personal  
reputation



More intense  
market forces

# The role and engagement of the Board has changed significantly the last 20+ years

## The Complacent Board

Period of the 'imperial CEO'; limited focus on effective boards; **boards often seen as 'rubber-stamping'**

## The Compliant Board

Corporate scandals lead to new corporate governance regulation; boards **move from 'rubber-stamping' to 'controllers'**, main focus on fiduciary duties

## The Independent Perspective Board

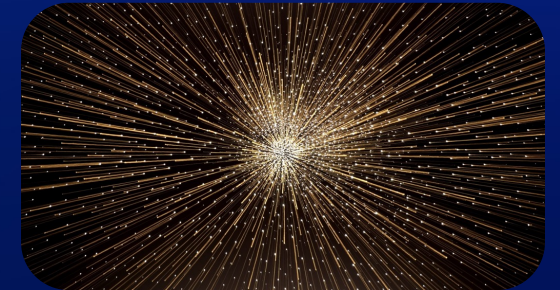
Market and corporate failures trigger tighter regulations; boards expected to have an **'independent perspective'**, including effective checks & balances and risk management

## The Value-Enhancing Board

Technological shifts require external perspectives; boards **rebalance focus from oversight and control to forward-looking, value enhancing activities**






## The 'Catalyst Board'

Increasingly complex market environment and external pressure accelerates Board engagement & involvement; **Boards increasingly expected to set the ambition level and 'catalyze change'**, in close collaboration with management







# Framework: Key elements for a highly effective board

## BoD Platform

-  1 BoD skills/ composition
-  2 BoD role
-  3 BoD time allocation
-  4 BoD committees
-  5 Situational context

## BoD Activities

-  6 Strategy
-  7 Investments and M&A
-  8 Performance management
-  9 Talent management
-  10 Risk management

## BoD Performance Levers

-  11 BoD material
-  12 BoD team dynamics
-  13 BoD decision making
-  14 Policies
-  15 Continuous improvement

# Strategy remains #1 on the board's agenda

**70%**

Effective on setting a comprehensive framework for the overall strategy

**56%**

Adjust that strategy continuously, based on changing conditions

**44%**

Evaluate whether resources are allocated based on strategic priorities

**36%**

Act to reduce biases in boardroom decision making

# Current “Hot” Topics in Boardroom discussions

Not Exhaustive

Risk management, resilience and future scenarios

Technology: AI, new competitors, digital transformation

CEO and senior executive development

Organization culture, talent and future of workplace

Cybersecurity

ESG issues: climate risk, carbon reduction, sourcing

Industry structure changes/M&A

Strategy, innovation and business model transformation

Brand image & relevance, stakeholder perceptions

Supply chain – operations & evolving risks

Geopolitics, politics and business implications

Shareholder returns vs peers, activist investors



# Value from Generative AI requires much more than just the underlying foundation models



**Models** are required but not sufficient



**Data architecture** will be a must, including access to large bodies of unstructured data



**Cloud infrastructure** will be in more demand than ever before



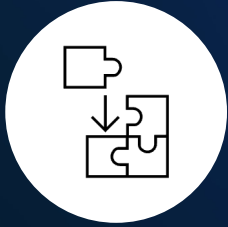
**UI/UX and applications** to get GenAI into production at scale with the right UI/UX interface is critical



**Processes and people** implications will be critical to address in order for GenAI unlock its full potential (“human in the loop”)



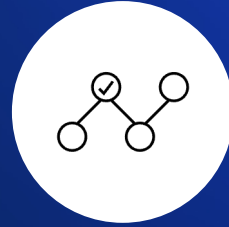
# There are three different ways that companies could think about building and deploying Generative AI solutions



## Taker

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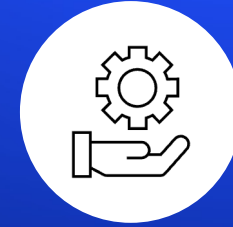
Integrate commercial off-the-shelf GenAI solution into workflows as-is, with little to no customization



## Shaper

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Augment existing GenAI models for specific geographic, sector, organization, and business case needs, leveraging proprietary data and insights



## Maker

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Develop a new foundational model from scratch, tailored to the organization



# Questions for the boardroom

Six core elements to execute successfully on Generative AI

1. **Business-led technology roadmap:** How will this change how value is created in your industry? Is the senior team aligned on the roadmap, the risks, and does the resourcing match the aspiration?
2. **Talent:** Do you have a skills roadmap as detailed as your technology roadmap?
3. **Operating model:** Is your company just saying “agile” or are they being agile? Including the control functions (e.g., legal, finance, regulatory)?
4. **Technology & tooling:** How does your technology approach compare to the leading disruptors attacking your company? Do you have an MLOps approach that allows you to scale AI in a safe and stable way?
5. **Data management:** Are you making best use of your data and the outside world’s data? Are you doing it in a way that is earning digital trust?
6. **Adoption and operating-model change:** Are you investing at least as much in conviction and ability to act as you are in technology? Which business leaders are accountable for adoption?

# Insights on Board Effectiveness



## Less effective Boards

**28**

Days spent annually by “effective” Directors per board

**54%**

Directors seek relevant information beyond what management provides

**61%**

Believe their board chair runs meetings efficiently and effectively

**24%**

Say new directors receive sufficient induction training to be effective



## Highly effective Boards

**31**

**71%**

**72%**

**43%**

*Detail follows on page 15*

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**A diverse board team  
is a must have in  
today's environment,  
but many are still far  
away from the ideal**

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## **Boards ...**

Take an increasingly active and value-enhancing role

Get involved in emerging new trends (e.g., AI, digital)

Are responsible for major strategic decisions

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**But often continue to mainly have long-standing directors  
who lack deep industry expertise and new relevant skills**

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# Ideal characteristics of an effective director



# Define overall board skills matrix

■ Gaps in current Board

## Relevant process steps<sup>1</sup>

Analysis of the **current board composition**

Early identification of **board members to be replaced** in the next **1 to 3 years**

Definition of **required experience** of new board members **in light of future strategy**, upcoming decisions and other company-relevant influencing factors (e.g., Board committee composition)

Deduction of **ideal replacement profile(s)**



## Overall board know-how (“Focus Banking”)

		Required Experience	Current Directors						To be replaced		
			AB	JK	RZ	DO	CM	JT	AL	KW	EN
Industry	General Banking	✓	✓	✓	✓	✓			✓	✓	
	Private Banking										
	Investment Banking			✓		✓	✓				
	Asset Management				✓						
	Insurance		✓	✓					✓	✓	
Functional	Economics	✓					✓				
	Marketing / Sales			✓		✓		✓	✓		
	Digital savvy/Social Media										
	Operational turnaround										
	Human resources										
Country	North America			✓		✓					
	Latin America	✓						✓			
	Asia / Middle East		✓		✓						
	Africa										

1. Similar approach to board composition as if you would think of the ideal top team composition

# Sample outline: Onboarding and training program for Board Directors

	Description	Sample topics for the onboarding program	
<b>On-boarding</b>	Enable new board directors to quickly get a good understanding of the company by providing an interactive ongoing onboarding program	<b>Introduction to the company</b> <b>Industry insights</b> <b>Board expectations &amp; responsibilities</b> <b>Key stakeholders</b>	Provide an <b>overview of the company's strategy</b> and <b>priorities</b> going forward including potential risks <b>Share relevant historic insights</b> (e.g., related to business portfolio, ownership structure) <b>Introduce the organizational structure</b> including challenges faced in succession and talent management Provide <b>access to relevant documentation</b> (including meeting minutes, policies, strategic plans)
<b>1:1 coaching / mentoring</b>	Specially targeted coaching and/or mentoring program for individual board director / board chairperson		Provide an <b>overview of the main industries</b> and <b>relevant trends / challenges</b> faced <b>Share insights on the competitive landscape</b>
<b>Training and development</b>	Ensure continuous improvement of existing board directors by providing access to relevant training programs and organizing regular field visits / offsite meetings		Provide <b>guidance</b> and <b>share expectations</b> towards board directors <b>Introduce standard principles</b> (i.e., 'Way of Working') for board directors <b>Share overview of key board responsibilities</b> and how to <b>become an effective board director</b>
<b>Expert sessions</b>	Periodically invite experts to board meetings for a 1-hour expert input session		Organize <b>1:1 in-person meetings</b> with <b>key internal stakeholders</b> (e.g., management team, project team leaders) Enable <b>1:1 meetings</b> with <b>key shareholders</b> Organize <b>field visits</b> to <b>selected company sites</b>

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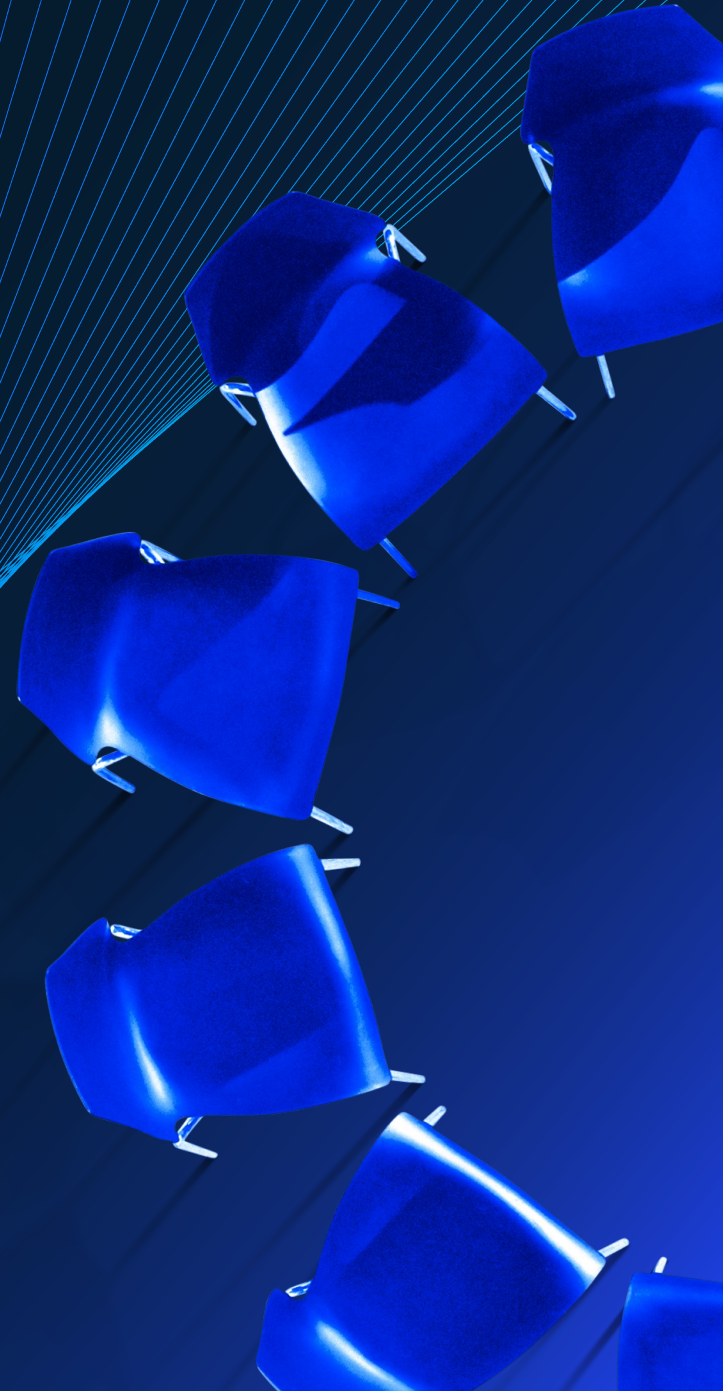
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*For more board insights, visit:*

[www.mckinsey.com/boards](http://www.mckinsey.com/boards)

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# Details: Ideal characteristics of an effective director

## Know-how

### "What a director knows"

**Role and responsibilities of the Board of Directors in general** (e.g., fiduciary duty, roles and responsibilities, boundary with management)

**Breadth of business experience** (a list of experiences, not expected to be an expert in every topic)

- Understands key **industry trends** (e.g., competition), **relevant geographies**, and/or has relevant **functional experience**
- Understands the **cultural, social, political and developmental** context of a relevant geography/market
- Possesses relevant **functional know-how and experience**

**Company-related, currently relevant know-how and experience**

- Knows the **company** well enough at the right level of detail (e.g., where profit is made/lost, how customers buy, how things get manufactured, what are major talent gaps in critical positions)
- Understands **shareholders expectations** (e.g., dividend expectations, growth forecast) and knows key stakeholders (e.g., suppliers, regulators)

## Skills

### "What a director can do"

**Actively and constructively solves problems** (e.g., share, care, challenge & close) with the board and key management

**Decisively challenges and asks challenging questions**, then supports, management

Possesses **business acumen** from prior experiences to identify key issues and propose solutions

Proactively **uses networks and manages multiple stakeholders** for the benefit of the company

Knows – as a **good listener and thoughtful communicator** – when to contribute a thought and when to keep quiet

## Mindset

### "What a director believes"

**Believes that performance of director is critical** (requires performance measures and consequences)

**Balances all shareholder and valid stakeholder interests**

**Behaves like an owner** and feels accountable to the company

**Has the integrity and courage** to not act in self-interest and dissent when required

Is **stress-resistant** and **resilient** and acts effectively even in crisis situations

Has **true independence** of thought, is **reflective** and **thoughtful** in approach, asks tough questions and offers **sound advice**

**Willing to invest adequate time and effort** and not spread too thin across too many responsibilities