

Board of the Future: Evolution, Challenges and Priorities

Roundtable Discussion

December 5, 2023



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Today's Speaker



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McKinsey Board Resources Available to Directors

www.mckinsey.com/boards

Board insights



'Spotlight' on board diversity: McKinsey and Goldman Sachs move the needle
October 2023



Geopolitical resilience: The new board imperative
By Z. Haider, J. Huntsman Jr., and C. Leech
August 2023



Four essential questions for boards to ask about generative AI
by F. Lund, D. Maor, N. Spielmann & A. Sukharevsky
July 2023



What is a board of directors?
McKinsey Explainer
July 2023



An interview on building organizational resilience: A board-level priority in today's challenging times
by F. Lund
June 2023



Five ways to increase your board's long-term impact
by C. Huber, G. Lewis, F. Lund & N. Spielmann
July 2022



Articles also available in three compendia 'The Board Perspective'

Other resources



Events and networking opportunities

- Board Chair Roundtable in collaboration with CCI
- US Board Forums in major cities



Individual support

- McKinsey Talent Network
- 1:1 Board insights and coaching

Topics



**The evolving role of the
board**



**Insights from
McKinsey's board
survey**



**Priority strategic agenda
topics**

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

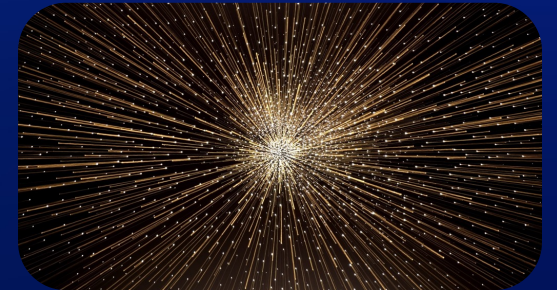


The Value-Enhancing Board

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



Insights on Board Effectiveness



Average Boards

30

Days spent annually by “effective” Directors per board

63%

Directors seek relevant information beyond what management provides

53%

Believe their board chair runs meetings efficiently and effectively

30%

Say new directors receive sufficient induction training to be effective



Highly effective Boards

33

Days spent annually by “effective” Directors per board

83%

Directors seek relevant information beyond what management provides

78%

Believe their board chair runs meetings efficiently and effectively

49%

Say new directors receive sufficient induction training to be effective

Key elements for a value-enhancing, highly effective board



Strategy remains #1 on the board's agenda

70%

Effective on setting a comprehensive framework for the overall strategy

60%

Adjust that strategy continuously, based on changing conditions

53%

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

Technology-driven change incl. AI and digital transformations

Geopolitics, politics and business implications

Supply chain and operations

Risk and opportunity management, resilience and future scenarios

Cybersecurity

Industry structure changes/M&A

Strategy, innovation and business model transformation

Future of work

Organization culture, purpose and talent management

CEO succession and performance management

Activist investors





Discussion Questions

- ❓ How do you see the evolution of board service?
- ❓ Are you seeing the same divergence between effective and less effective Boards?
- ❓ What are your best practices in ensuring strategy is well developed and implemented?
- ❓ What are the hot topics on your boards?
- ❓ Are there topics that we discussed that are not on your board's agenda?

Deep Dive Pages Follow



Gen AI



Geopolitical
uncertainty



Supply chain
resilience



Climate change –
investment view

GenAI is evolving at lightning speed, and so is CEO's focus

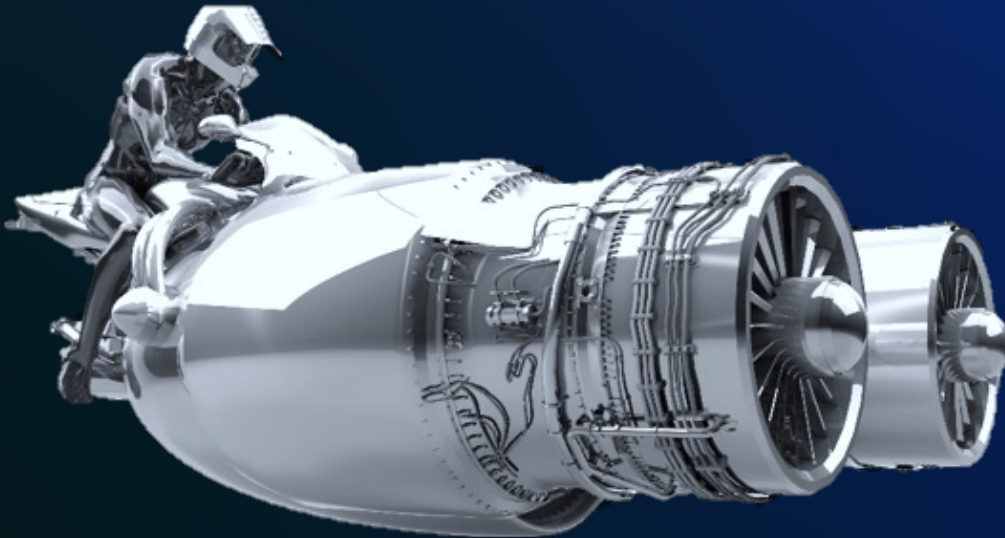
From a few months ago...



What is GenAI? What it is not?



Is it hype or reality?



... to today (all about scaling!)



What are my company specific opportunities?



How do we organize and govern GenAI?



Which player(s) should we partner with?



How do we balance risk and value creation?



What are the talent and tech stack implications?



How do we get going, learn fast, and create value?

About 75 percent of the value that Generative AI use cases could deliver falls across the “4 C’s”



Concision (virtual expert)

- Summarize and extract insights from unstructured data sources
- Interpret text/transcripts (i.e., create embeddings)
- Enable querying and cite relevant sources

Co-pilot for claims adjudication



Creative content

Generate text/images/others, e.g., to:

- Write documents like contracts, RfPs
- Create communication (e.g., outbound marketing)
- Generate visuals to accelerate R&D processes

Draft marketing emails aligned to brand



Coding & software

Interpret and generate code (mainframe migration from legacy systems at scale, automated development of tests, documentation and linting)

Refactor code to accelerate mainframe migration



Customer engagement

Provide customer service through chat and expand client chatbot usage towards client outreach and data collection

Equip Call Center agents with knowledge



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



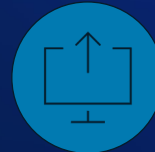
Models are required but not sufficient



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”)

Previous Earthquakes followed by New Eras

1944–1946 another seismic confluence of events



Foundation of UN, IMF, World Bank
Currencies pegged to USD
Potsdam conference
Atomic age begins
End of World War II
Rebuilding Europe and the Marshall Plan



Followed by a Post-War Boom

1971–1973 also reminds us of today



Japan surpasses German GDP
End of Gold Standard
Détente between USSR & US
US withdrawal from Vietnam
Oil crisis
Inflationary recession



Followed by an Era of Contention

1989–1992 ushered in a new world order

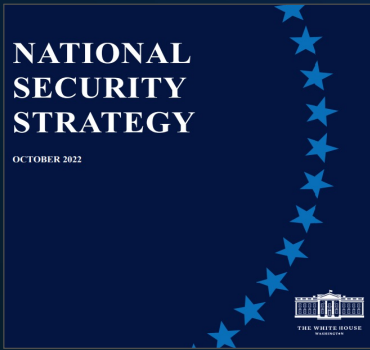


Fall of the Berlin Wall
Gulf War
Birth of WWW
Disintegration of USSR
Maastricht treaty
Deng Xiaoping's Southern Tour



Followed by an Era of Markets

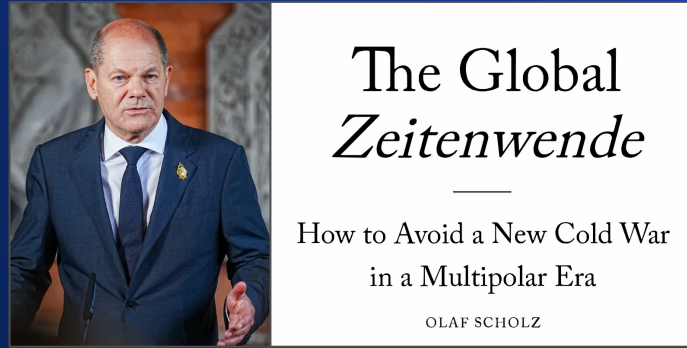
The global order is fragmenting



“

We are now in the early years of a *decisive decade* for America and the world. The terms of geopolitical competition between the major powers will be set.

US National Security Strategy (October 2022)



“

The world is facing a *Zeitenwende*: an epochal tectonic shift. New powers have emerged or re-emerged. In this new multipolar world, different countries and models of government are competing for power and influence.

German Chancellor Olaf Scholz, “The Global Zeitenwende,” *Foreign Affairs* (Jan/Feb 2023)



“

We must send out a strong message that the world is *multipolar*, is rebalancing and old ways cannot address new situations.

**S. Jaishankar, Indian Foreign Minister (June 2023)
BRICS Foreign Ministers’ Meeting, Cape Town**

Boards must upgrade their geopolitical risk capabilities

Based on our benchmarking, we see the following “must-have” Board attributes:



Who?

- Build a diverse board with the relevant experience and committee oversight to provide strategic guidance and actively engage in problem solving.



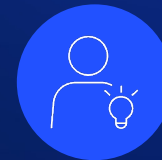
Where?

- Convene board meetings in a range of markets to deepen a board's understanding and signal externally and internally commitment to market.



What?

- Establish a geopolitical risk unit to provide regular updates about key geopolitical developments and implications for the organization.
- Supplement internal perspective with distinctive external sources of insight.



How?

- Mandate geopolitical risk unit to coordinate inputs across teams (e.g., data, legal, security) and to drive aligned action on behalf of board.
- Pair a board member with the geopolitical risk unit to provide strategic guidance.

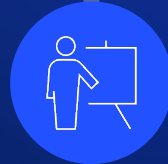
Additional elements of geopolitical resilience



Risk frameworks



Structural segmentation



Narrative



Cultural cohesion



Scenario planning

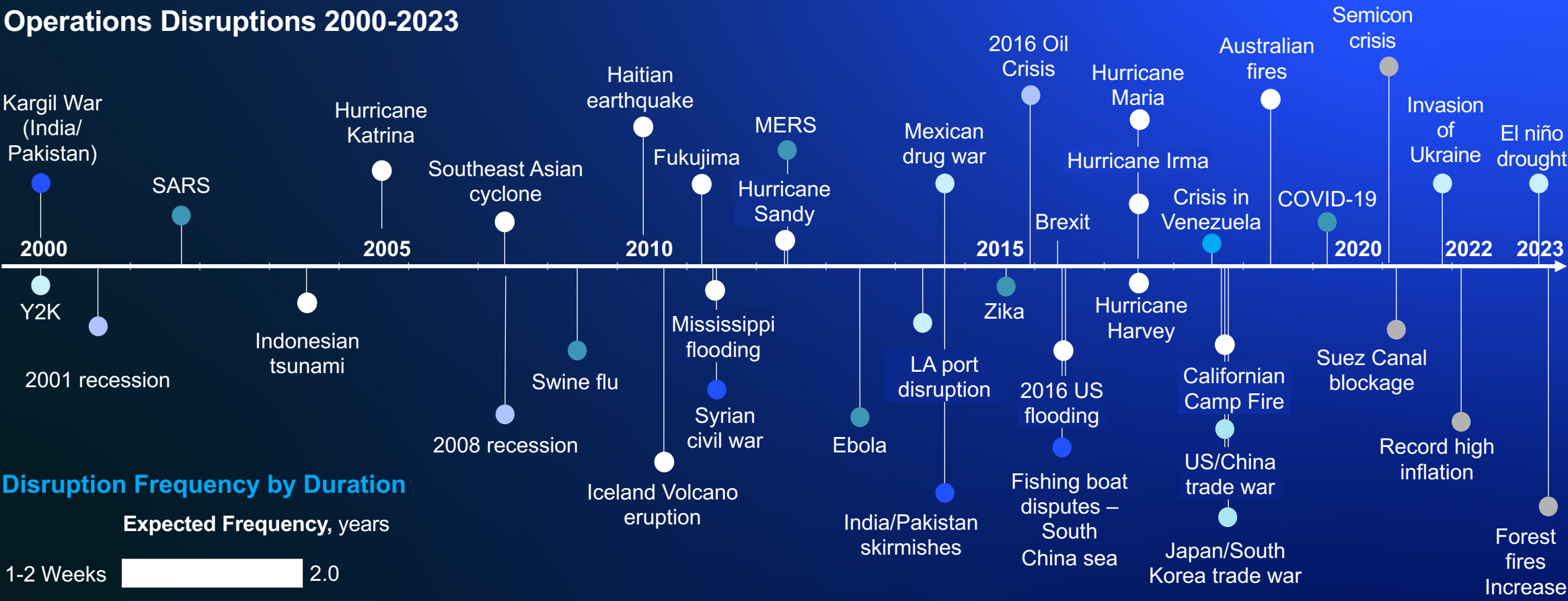
Scenario Planning

Framework

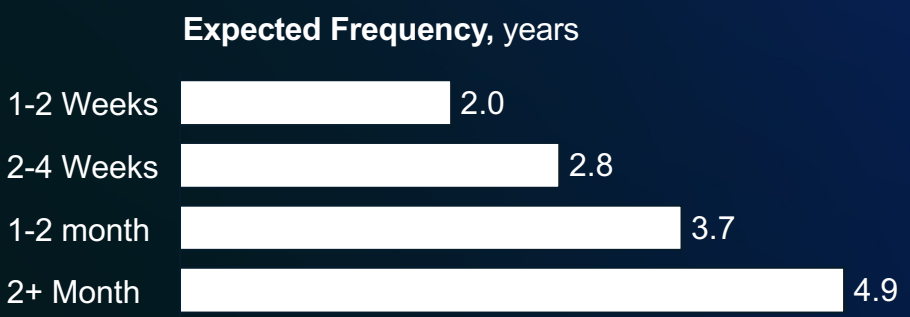


Supply chain disruptions are a part of our new reality

Operations Disruptions 2000-2023



Disruption Frequency by Duration

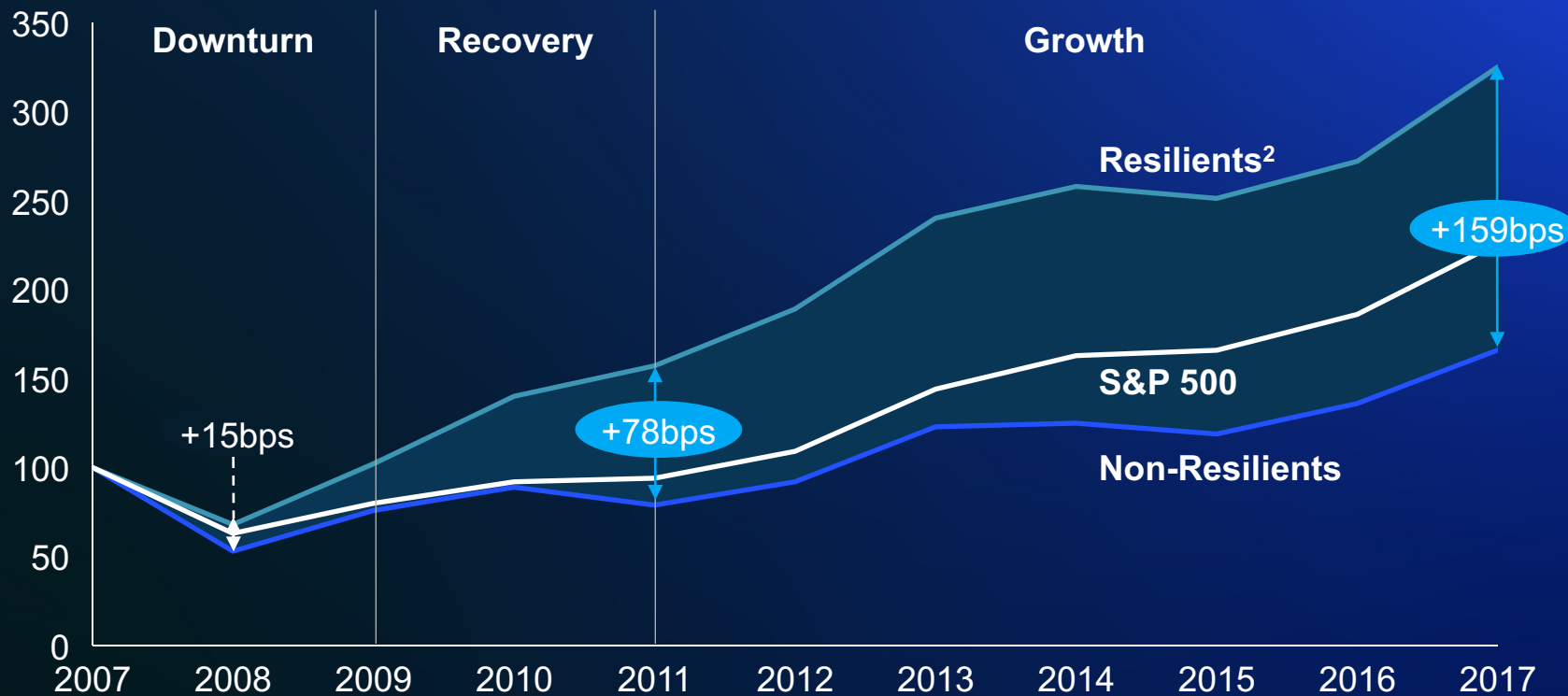


- Natural disasters
- Armed conflicts
- Pandemics
- Political crisis
- Trade wars
- Economic crises

History teaches us that resilient companies are much more likely to come out as winners – especially during disruption

Last Updated June 30, 2022

TRS performance of ca. 1,000 global companies¹ during the 2007-08 Financial Crisis



Resilient companies achieve + ~ 100bps TRS driven by...

Outperformance in earnings

Faster and harder moves on productivity

Divestments in downturn phase, acquisitions when recovery

Operational and financial optionality

In practically all sectors, resilient companies demonstrate similar attributes

1.Total returns to shareholder; calculated as average of sub-sector medians performance of resilient and non-resilients. Includes 1,140 companies (excludes FIG & REITs)

2.Resilient companies defined as top geometric mean TRS quantile by sector.

Some of the disruptions we see towards supply chains are:



Cost to capital ratio

A higher interest rate environment is increasing the cost of capital, influencing the accessibility for new investments



Technology/AI / Gen AI

AI is expected to drive the next productivity frontier, helping companies better understand their supply chains (e.g., visibility into their operations)



Talent and Talent to Value

Labor shortages and newly emerging required capabilities (e.g., demand planning, network analytics) can limit speed of supply chain changes



Geopolitics

Geopolitical tensions are stress-testing the operational resilience of organizations across the globe, requiring increased resilience measures



Cybersecurity

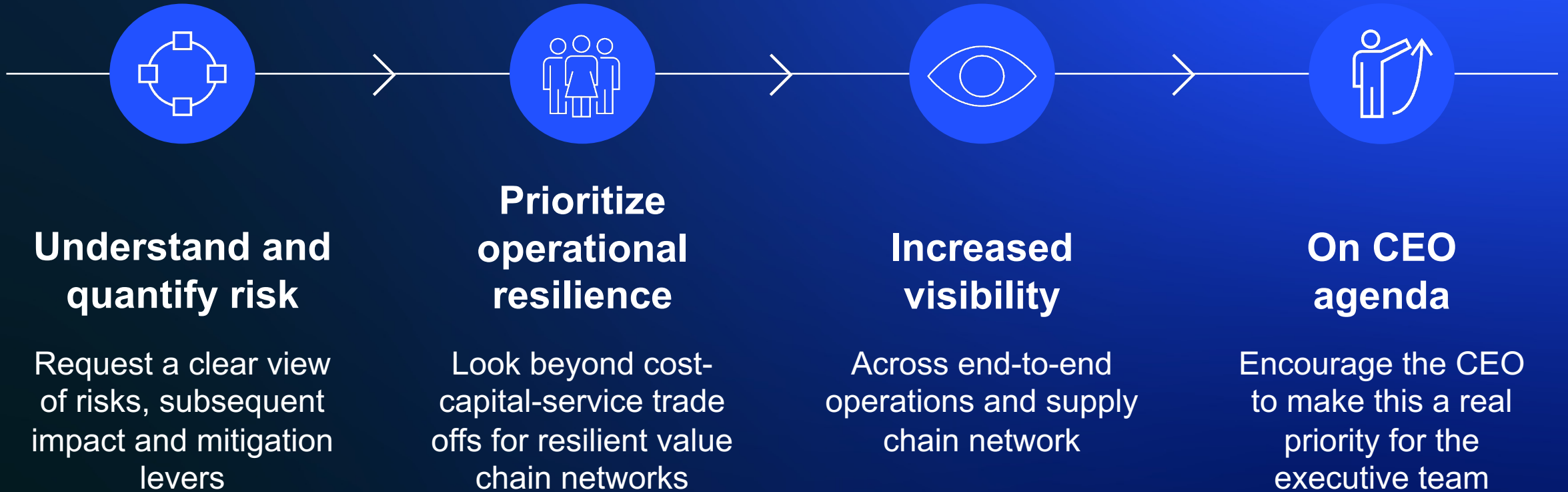
Unforeseen supply chain vulnerabilities such as cyber incidents are costly and involve significant indirect and often unforeseeable risks



Trade environment

Today's trade environment is turbulent with increased costs (e.g., higher tariffs) and more restrictive trade agreements (e.g., semi-conductors)

Potential actions boards can take

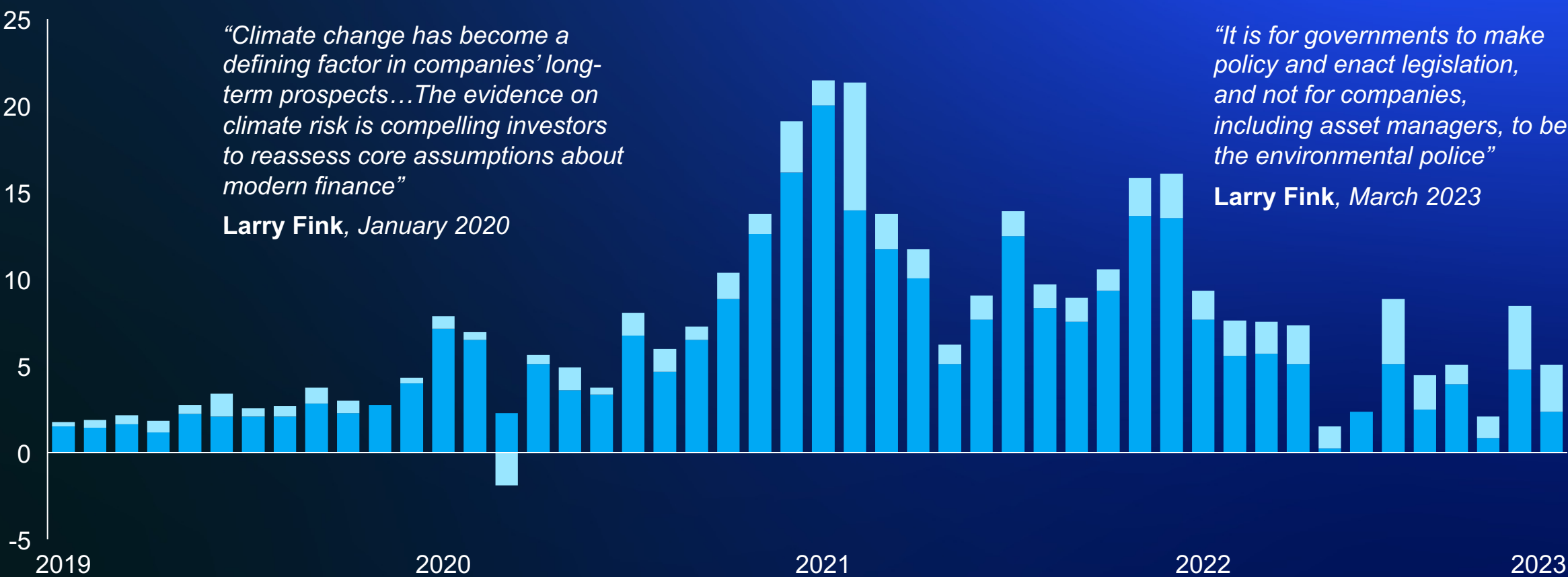


Shifts in investor sentiment as ESG inflows continued decline from its peak in 2021

ESG exchange-traded fund inflows

Debt Equity

ESG exchange-traded fund monthly inflows, \$B

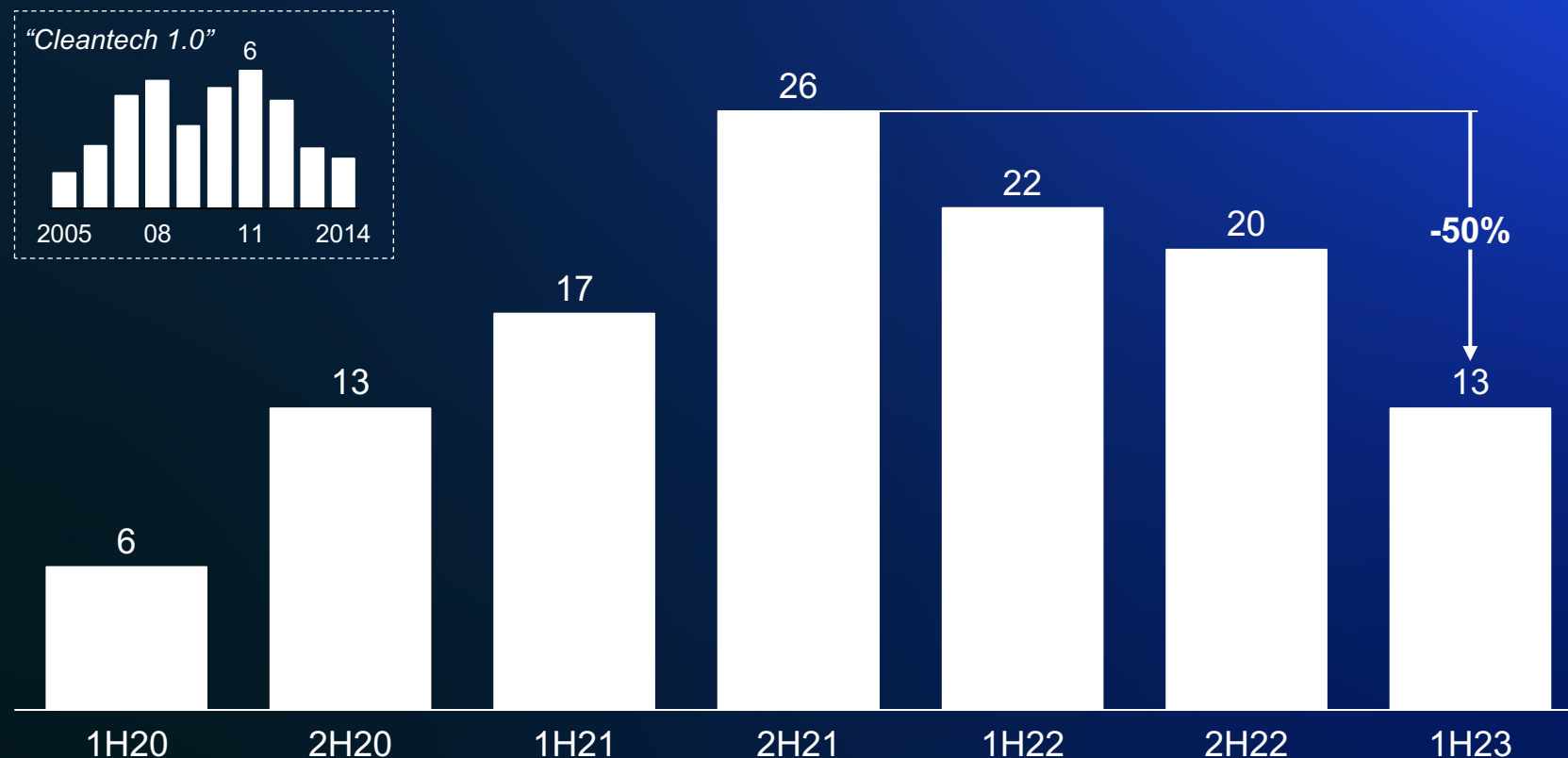


“Climate change has become a defining factor in companies’ long-term prospects...The evidence on climate risk is compelling investors to reassess core assumptions about modern finance”
Larry Fink, January 2020

“It is for governments to make policy and enact legislation, and not for companies, including asset managers, to be the environmental police”
Larry Fink, March 2023

The venture capital investments into climate-tech is decreasing

Venture capital¹ 2.0, climate-tech companies, \$B



- Venture capital funding into climate tech companies is 50% below its peak in the second half of 2021
- Venture funding in this market looked similarly across the 2006-2014 period, and even more so if focusing on Series A rounds which peaked in 2008 and declined sharply in 2009

1. Venture Capital and Growth Equity deals that have been publicly announced through regulatory filings or press releases as of June 28, 2023. Excludes Country/state-level funding (e.g. State-owned enterprise funding), Non-dilutive funding (e.g. grants), Project finance, Private equity, and Post-IPO funding