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The rising complexity of board directorship

Board experts explain how directors can meet the demands of growing agendas.

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In this episode of the *Inside the Strategy Room* podcast, three experts offer advice on how corporate board directors can deal with their increasing responsibilities. Steven Sterin has decades of experience as a senior executive in the energy and chemicals industries, and Karen McLoughlin is a former CFO of Cognizant; both now serve on multiple boards. They are joined by Frithjof Lund, the global leader of McKinsey's Board Services service line. The discussion was recorded in New York City at a McKinsey leadership and strategy forum. This is an edited transcript of their conversation. For more discussions on the strategy issues that matter, follow the series on your preferred podcast platform.

Sean Brown: The business world has changed dramatically over the past few years. What does it mean to be a board director today?

Frithjof Lund: With all the new challenges coming up, from geopolitics to generative AI and digitization to sustainability, being a board director is probably more complex than ever. New topics pile onto the board agenda almost by the day. We've also seen a massive increase in the expectations of the board to engage on strategy, investments and M&A, performance management, risk, talent, and the organization.

Steven Sterin: It's worth noting that none of the aspects of the board's historical role have gone away. What Frithjof just mentioned is all additive, so the amount of engagement required of the board has gone up dramatically and it's not letting up.

Karen McLoughlin: I also think the challenges that management teams face today are quite different from before. Many executive teams had never experienced the kind of trial and tribulation that they went through over the past few years, so having a strong relationship with the board and leaning on directors as advisors in navigating through the challenges has become more important.

Sean Brown: Are directors working with senior management in different ways than before?

Steven Sterin: Given the number of issues we have to address, how boards and management engage is changing. No longer is it four board meetings a year. Now we have inter-quarter board meetings and meetings of special committees that handle specific topics, such as diversity and inclusion.

Frithjof Lund: I find the rising amount of interaction between individual board directors and management team members interesting. Historically, we primarily saw that in private equity companies but now, senior executives at leading-edge companies often get direct input from board directors. You might see a seasoned CFO on the board pairing up in a coaching role with a younger CFO in management.

Karen McLoughlin: That's very true. It can also take the form of collaborations based on skill sets, as when a board member with a certain background helps the management team with a particular issue. As a board member, I find it very fulfilling to engage outside the boardroom and dive deeply into a topic. My role is to support the management team as well as the shareholders, but I learn as much from my management teams as hopefully they learn from me.

Sean Brown: During your session at the conference, Frithjof, you talked about a "catalyst board." What does that mean?

Frithjof Lund: Aside from being a value-enhancing sparring partner, the board often also needs to be a catalyst for more rapid change. Take as an example an oil and gas company struggling to manage the energy transition and identify the opportunities it may offer. Typically, the management team will have grown up in that industry and now they are getting into green hydrogen, off-shore wind, and other energy-producing methods. You would want to have that expertise on the board of directors in order to help catalyze rapid change.

Karen McLoughlin: The board can also give the management team the confidence to make those pivots. Oftentimes, the CEO of a public company is stuck in what the short-term investors might want at the expense of long-term opportunities for the organization. I find the board playing a bigger role in helping the CEO make those hard decisions for the longer-term benefit of the company, and that's a big change in the board's role.

Sean Brown: How can the board ensure it has enough information to substantively advise on strategies and big moves without being overloaded by detail?

Steven Sterin: The preparation of board materials is such a critical step in making board meetings run well and engaging the directors and management in the right discussions. The time that management spends on it allows them to think through the issues, which helps focus the discussion. I find it useful to have a summary memo where the CEO communicates what's top of mind and routine matters such as performance management, so the topics that need discussion at the meeting are very clear.

The time directors need to invest in reviewing the materials is also increasing, which I think is a good thing because it then allows for more dialogue at the board meeting versus slide presentations. The challenges we see today aren't going away, and there will be new ones, so I think demands on directors will increase. Consequently, where in the past it might have made sense to sit on three, maybe four boards as a retired executive, one to two boards may be more practical now.

Frithjof Lund: We do see director time rising over the past five to 10 years. On average, boards are spending 32 to 33 days per year in total, including committee work and preparation, and boards of private equity-owned companies spend almost twice the amount of time that boards of public companies do.

Sean Brown: Given the growing scope of a director's work, how can new directors quickly get up to speed during their onboarding?

Frithjof Lund: During our session, one participant said that her company filmed discussions with business leaders talking about how each of the different business areas worked and the key strategic topics, then ensured that every new director reviewed those recordings. It was an example of thinking creatively about ways to onboard new directors.

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Karen McLoughlin: Onboarding is critical, but ongoing training and getting your hands into the business, making sure you go out to the sites, are also important. Having the management team present in the boardroom is fine for some of the time, but you don't get the sense of what's happening on the ground that you do by hearing from frontline employees about what's working and what's not, or how customers perceive the business.

Steven Sterin: A good onboarding practice is to have new directors come to the headquarters for a day or two and spend one-on-one time with leaders of different disciplines, asking questions that they may not feel comfortable asking in a board meeting. That can accelerate the learning process. I also find that boards holding meetings at regional sites not only allows directors to learn more about the company but enables them to engage with frontline leadership and better understand the company's culture.

Sean Brown: On the topic of talent, what do you see as the board's role around helping develop talent?

Karen McLoughlin: On one of my boards, each director has mentees on the management team. I mentor a young woman coming up through the organization. She and I meet routinely and talk about whatever is on her mind as she continues to develop as a leader. It's a very informal structure, but it works for us.

We as directors also get involved in strategic projects if their leaders need help or assist in areas where we can provide advice. For example, one of my boards was recently reviewing its IT organization and because I come from a services background, the CIO asked me for help. It's a very open collaboration, which I don't think many boards had historically, but I think that's the way to get the best value out of your board.

Steven Sterin: Traditionally, the board focused on CEO succession, but today you see that going down a level or two into the organization. The board engages with these individuals on a recurring basis, giving them an opportunity to interact with the board and the board a chance to assess the talent capabilities within the organization.

Sean Brown: Do you think that mentoring executives and helping to shape the future C-suite should become a standard part of the board's role?

Karen McLoughlin: In some ways, it already is, because talent has become such a risk issue for organizations. The board needs to have insight into the next layer or two, not just for the CEO but for other key executives. It also helps me as a board member to see how the CEO thinks about talent. When the board doesn't think an executive is right for a role but the CEO believes in them and says, "I will work with this person and come back to you," we've seen some amazing results.

Frithjof Lund: It also links to culture, for which the board is becoming more accountable. We have seen multiple corporate scandals where the board was accused of failing to adequately monitor the cultural aspects. To oversee the culture, you need to have your antennas down into the organization—you can't rely solely on the management team.

Sean Brown: What about the board developing its own capabilities? In your session, you referred to a learning board, one that infuses perspectives from outside the company into its discussions and decisions. How common has that become?

Frithjof Lund: I increasingly see boards invite experts and leading thinkers on topics such as geopolitics or AI. These become capability-building sessions but with external perspectives in the boardroom.

Steven Sterin: I think that's a very good practice. I have also seen boards bring in both buy-side and sell-side analysts to talk about how they value the company or where they see opportunities. The ultimate job of the board is to represent the shareholders, so having that shareholder perspective is invaluable, not only to the board but to the management team.

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Frithjof Lund: One board chair we interviewed brought in a third party to review the strategy every three years, using a red team/blue team approach whereby the management team offered their perspective to the board and the outside party presented theirs. It was a way to collide management’s inside-out view with the outside-in perspective, which led to fruitful discussions. Of course, that can only work when there is strong trust between the board and the management team.

Sean Brown: If someone who was invited to join a board asked you for advice, what would you tell them?

Steven Sterin: The first question I would ask a potential director is, “Why do you want to be on the board?” It’s not about remuneration—the compensation is immaterial given the hours the director has to spend. You have to want to have an impact on the company and feel you can add value.

Karen McLoughlin: I would additionally ask why the board wants you to join. Do you understand what role they want you to play? What about your background could be of value to this organization? I would also ask, “Do you respect the management team members you’ve met? Do you respect the other board members?” You will spend a lot of time with these people, so that’s important. Finally, this is not a one- or two-year commitment. You have to go into it with an expectation of a 10-year commitment.

Sean Brown: What do you find management teams and boards most often need advice on?

Frithjof Lund: How to create a good team dynamic in the boardroom where the management team feels that the board really adds value. How do you ensure that the discussion focuses on the key strategic challenges?

Karen McLoughlin: Having separate committees to focus on specific topics—compensation, audit, nominating and governance—can help create that time. But there has to be trust within the board and between the board and management.

Frithjof Lund: We also see too many CEOs being reluctant to clearly state what they need from the board in order to get full value of the directors’ expertise. For example, they could communicate to the board which director capabilities would be most useful to them and the role they wish the board to play in strategy development, talent development, or culture. It turns traditional governance practice on its head a bit because it’s the board that typically sets the parameters.

Karen McLoughlin: As part of our board assessment, the management team can provide feedback.

The directors then get that individual feedback anonymously, which is great, because you learn how you are performing and where you are adding value.

Steven Sterin: Another point is defining the line between the management and the board. We talked about the board being a catalyst, but management is accountable for the strategy and the operations of the company, as well as for delivering results. As we get more involved, we have to keep that line in mind.

Frithjof Lund: I fully agree. The topic of creating boundary conditions comes up often. Boards are moving along a spectrum from historically being oriented mainly around control and compliance toward becoming sparring partners but not taking over accountability. Many boards and management teams could benefit from delineating that line. How do we collaborate effectively on strategy? What is the board's role around risk? Some boards haven't done it for years, and it's a good idea to do it again.

Karen McLoughlin is on the boards of Best Buy and Agilon Health. **Steven Sterin** is a director on the board of DuPont de Nemours and Kosmos Energy. **Frithjof Lund** is a senior partner in McKinsey's Oslo office. **Sean Brown,** global director of communications for the Strategy & Corporate Finance Practice, is based in Boston.

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