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What is a board of directors?

A board of directors is a governance entity that oversees and supports management on behalf of shareholders and other stakeholders to maximize value creation.

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If the CEO of a company is the lead singer, the board of directors is the rhythm section. The chief executive officer fronts the company, leading the team in day-to-day operations to carry out strategy and create value. But just like the bass player and drummer lay down the lines that form the backbone of a great pop song, it's the board of directors that provides direction and oversight to ensure shareholder and broader stakeholder interests are well looked after. Boards may include the CEO and sometimes also the chief financial officer, as well as nonexecutive and independent directors. It's the job of the lead singer—or CEO—to make sure the strategy is executed.

In today's rapidly changing business and societal landscapes, effective board governance is more important than ever. In the past, boards mainly oversaw CEO succession and financial strategy, providing support and approval for strategy proposed by management. But the environment has changed. Today, the board's involvement extends well beyond that: the modern board of directors provides more proactive direction and oversight on strategy, risk and opportunity management, sustainability, talent management, leadership succession, organizational culture, and even brand management and marketing. And that's just the tip of the iceberg.

Read on for a breakdown of the who, what, and why of a board of directors.

Who serves on a board of directors?

For publicly traded companies, boards typically comprise executive, nonexecutive, and independent directors elected by shareholders. This is known as a one-tier board structure.

The board of directors often includes the CEO and sometimes the CFO of the company. Nonexecutive directors can include interested parties such as shareholders or sometimes employee or union representatives. Independent directors are usually subject-area experts outside the company, who can offer an unbiased, bird's-eye view of any situation that may arise. The challenge for independent directors is to stay fully informed about the companies on whose boards they serve, as well as the ecosystems in which the company operates.

Some organizations maintain a two-tier board structure with clear separation between the management board and supervisory board. In this structure, overall board responsibilities are generally very similar to any other board. One of the differences, though, is that the management and supervisory boards in two-tiered structures may not have access to the same information.

Most boards operate on either a one- or two-tier structure. But multiple deviations exist in different countries and for different ownership structures. Family-owned businesses, for instance, frequently have unique board structures.

Board activities are facilitated by the chair. The chair's role is to ensure productive meetings and a good dynamic, as well as to spark constructive debate and oversee the implementation of strategy. Frequently, the chair works closely with the company's CEO; in some cases, these two roles are even combined into one.

What are four essentials to building a strong board of directors?

Here are four areas that are essential for building a better board.

1. *Broaden the board's scope.*
   Many traditional boards focus solely on oversight of the management team. But the best boards go beyond this responsibility, taking a more active role in providing input and constructive challenge on a variety of issues. These could include corporate strategy, risk and resilience management, sustainability, technology and digitization, potential mergers and acquisitions, and culture and talent development. Increased involvement means that directors must be more digitally literate.

2. *Deepen directors' commitment.* With a broader scope of board responsibilities, it makes sense that directors must become more involved. This means working more days and executing forward-thinking agendas but steering clear of operational activities. This helps preserve a necessary (but sometimes thin) line between the roles of management and the board.

3. *Clarify responsibilities and board composition*. Each type of position on a board—chair, independent director, nonexecutive director, or executive—has its own role to play. Understanding how these positions work together is key to building a successful board. Appointing an ambitious chair is critical, as the chair will set the tone for broader board dynamics. The chair should run effective meetings, nurture a culture of trust and feedback, and invest in training and development. A board ideally includes directors with a diverse set of experiences relevant to the organization's strategic direction. Board directors should be generalists who are able to keep a helicopter perspective, but they should also have a specific area of expertise.

4. *Create trust by investing in board dynamics*. According to McKinsey Global Surveys, the most effective and well-rounded boards have dynamics of openness, trust, and collaboration. Board directors must be well versed in the company and its ecosystem in order to challenge management with critical questions, and they must work to continually improve their knowledge and skills.

How has the COVID-19 pandemic changed how boards operate?

Even before the pandemic, fruitful collaboration between directors and management has been key to a board's success. In times of crisis, this becomes even more critical. Faced with the once-in-a-century disruption wrought by the pandemic, boards mostly rose to meet the new challenges, according to a biannual 2021 McKinsey Global Survey of more than 800 board directors and executives. In fact, results indicate that the pandemic may have triggered new and improved ways of working that may continue to yield positive results for a long time to come.

More specifically, board directors who we surveyed had significantly increased their time commitments. Between 2019 and 2020, directors reported a nearly 20 percent increase in the average number of days spent on board work—and they expected this number to increase even more in 2021.

Most boards also made at least one change to their operating models in response to the crisis. Frequently, this change was structural. That could mean investing in technology and tools to nurture digital collaboration or establishing crisis committees. Boards also made changes to the way they work with management, and they increased the flexibility of their agendas. One example is that boards are increasingly taking on the role of catalyst, working to enact real change in their organizations by asking probing questions and defining (or redefining) the path forward.

These changes are working. Nearly four in five directors and executives reported that collaboration between boards and management has been effective or very effective during the pandemic, up from two-thirds who said so in the 2019 survey.

How can boards help usher in digital transformation at their organizations?

The critical importance of digital is not exactly news. But many board directors seem uncertain about how they can help drive the digital transformation that businesses need. But as we've seen, the role of the board is expanding. Smart boards can evolve their tactics and strategy to deliver the most value.

Here are five things board directors can do to have the greatest impact on digital transformation:

1. *Be clear about the implications of technology.* The role of the board isn't necessarily to understand technology but to understand its

implications. If there's no one on the board who is familiar with the emerging technology affecting the business, make sure the board gets relevant training or consider bringing on a new board member with relevant experience.

2. *Ensure that the digital transformation is fundamentally changing how the business creates value.*
   Any digital initiative a company adopts should have the potential to change at least 20 percent of operating profits. A long-term commitment may be required to reap the full rewards.

3. *Track whether the digital transformation is working.*
   Boards need metrics that truly reflect digital progress. One key metric could be the speed with which new ideas are translated into frontline tools. Another is the percentage of talent that's actually working in agile teams.

4. *Get expansive about talent.*
   Boards are frequently involved in hiring C-suite leaders—but given today's imperatives, it pays to expand beyond that group and to engage with senior leadership on developing lower-level talent. Roles that form the backbone of the digital business, at all levels, can make or break a digital transformation.

5. *Understand where nontraditional emerging threats are.*
   As digital businesses migrate into new sectors, boards will need to expand their view of where threats exist.

How can a board shape an organization's talent and culture?

An organization's strategy is only worthwhile if management and employees are able to carry it out. And an organization is only capable of carrying out strategy if it has the right people working in the right environment. In the past, boards were focused on the finances of a company, but because of a rapidly changing business and social landscape, questions of talent and culture are increasingly on the agenda of board meetings.

CEO succession is the core role of the board. But recently, effective boards have turned their attention to providing input on appointments and successions beyond just the chief executive. According to Hugo Bague, a global executive who has served on several corporate boards, directors are increasingly looking at strategy through the lens of execution. Boards are asking questions, Bague reports, such as, "If we make these strategic shifts, do we have access to the critical skills needed [to execute them]? What is the health of the leadership pipeline, not only in terms of the top team but for other critical roles?"

Organizational culture is also increasingly on the agenda. In this context, culture refers to a set of mindsets and behaviors that shape how work gets done and decisions are made. Data have shown that companies with strong cultures outperform their peers by a factor of three. But culture is not an end in itself; rather, it's a way of enabling an organization to deliver its strategic goals and to effectively manage its risks. And one of the responsibilities of the board of directors is to role model culture, says McKinsey senior partner Frithjof Lund. By promoting people according to stated values and fostering lifelong learning, boards can model the type of culture they want to see throughout an organization.

How can a board help an organization build resilience?

Fundamentally, resilience means the ability to pivot when a disruption strikes, both by addressing what's happening now and preparing for what lies ahead.

When economic projections are mixed—or even dire—organizations have the opportunity to differentiate themselves from the competition. In past downturns, actions that companies took when the chips were down made a tenfold difference in share price over a seven- to ten-year period. And boards can play a role in enabling these actions.

The COVID-19 pandemic was a watershed moment in society and business. Among many other lessons, the experience of the pandemic taught boards that they need to increase their speed and ability to make decisions to match the environment, says McKinsey senior partner Celia Huber. But despite the trial-by-fire learning opportunities afforded by the pandemic, only 40 percent of corporate directors believe their organizations are prepared for the next large crisis, according to McKinsey's annual global board survey.

To prepare for the next crisis, boards need to engage on a risk management strategy. Some boards stage war games around potential crises, such as a ransomware-attack scenario. They might also create new playbooks built on their past experience of economic cycles, and ensure management is focused on both defense and offense.

What are some actions directors can take to hone corporate purpose?

There is more scrutiny than ever on corporations and the actions they take. Ultimately, as one board member told McKinsey, "Corporations exist with the permission of society, and any sector can be regulated out of business." Corporate purpose, founded in measurable environmental, social, and governance (ESG) commitments, can help organizations deliver on societal expectations. Corporate purpose is also good for business: organizations with a well-defined purpose see improved company reputation. And reputation matters: 65 percent of consumers recently surveyed said they would buy or boycott a brand based on its actions during the COVID-19 crisis.

Here are five specific actions boards can take to build, own, assess, reinforce, and drive purpose:

1. *Build* and role model an authentic purpose narrative with management, engaging stakeholders proactively on the company's strengths, vulnerabilities, and possibilities.

2. *Own* purpose in board practices. That means boards should reflect and role model diversity and ESG competence. Purpose and ESG issues should be regularly included on the board agenda.

3. *Assess* purpose commitments, and ensure management sets clear, measurable goals, actions, and accountability at all levels of the organization.

4. *Reinforce* viewing core board decisions through a purpose lens. Boards can use purpose to pressure test decisions and trade-offs in company strategy, investments, risk and performance management, HR and culture, governance, and external reporting.

5. *Drive* organizational accountability for purpose through board and management evaluations, training, and reporting. Boards can tie ESG metrics to executive compensation and celebrate successes related to purpose.

For more on activist investors, visit McKinsey's activist investors special collection.

For a more in-depth exploration of these topics, see McKinsey's board governance collection and our Strategy & Corporate Finance Practice. Also, check out corporate governance-related job opportunities if you're interested in working at McKinsey.

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