CALSTRS

Board Governance Committee

Item Number 3 – Open Session

Subject: Board Education Session: Practices of Effective Boards in the Time of COVID-19

Presenter(s): Celia Huber, McKinsey & Company

Item Type: Information

Date & Time: January 28, 2021 – 60 minutes

Attachment(s): Attachment 1 – Celia Huber biography

Attachment 2 – Nora Aufreiter biography

Attachment 3 – Peter Bisson biography

Attachment 4 – Boards in the time of coronavirus

PowerPoint(s): PowerPoint 1 – Boards Beyond the COVID Crisis

PURPOSE

The purpose of this item is to receive information and education about how other effective boards are navigating their board business in the time of COVID-19. Celia Huber from McKinsey & Company will be presenting on this topic along with panelists Nora Aufreiter, a corporate director at Scotia Bank, Kroger Company, and Cadillac Fairview, and Peter Bisson, a corporate director at ADP and Gartner.

DISCUSSION/SUMMARY

CalSTRS has quickly and nimbly responded to continue to deliver on its mission since the onset of the COVID-19 pandemic. Periodic reflective discussions among the Board and Board and staff to assess and improve performance have been integral to its response. At the October 2020 Offsite, staff presented its viewpoint for Board discussion on "Lessons Learned to Date from COVID-19 and Possible Implications for CalSTRS Looking Forward." Further, the Board has discussed the pandemic's impact on board operations. How to maintain Board effectiveness, optimally engage as a Board within the current public health guidance, and the appropriate timing and longer-term

value for a hybrid Board meeting model (i.e., a mix of virtual and in-person board meetings), continue to be areas of Board interest, among other topics.

At the November 2020 Board Governance Committee meeting, Committee members requested educational information on effective practices of other boards during COVID-19 times. McKinsey & Company has published pertinent research on private-sector board practices. Although public sector boards have governance protocols different from the private sector, best practices can be found anywhere, so long as they are appropriately translated.

At the January 2021 Board Governance Committee meeting, McKinsey Senior Partner and North American Board Services Leader Celia Huber will present an interactive education session on the topic. She will be joined by esteemed panelists Nora Aufreiter and Peter Bisson, both McKinsey alums who currently serve as directors on several well-regarded boards. They will discuss how the pandemic has impacted both the content of board agendas and the board's ability to accomplish its work, innovative practices designed to address short-term board challenges, and offer practical insights for improving near and long-term board effectiveness.

CELIA POHANI HUBER
Senior Partner
McKinsey & Company, Inc.

CELIA HUBER is a Senior Partner in McKinsey's Silicon Valley Office and focuses on advising organizations on strategies to thrive within a context of global industry and regulatory change. Over the course of more than 25 years, Celia's client service has spanned healthcare, insurance, benefits, and financial institutions—including publicly-traded, mutual, not-for-profit, and public-sector organizations.

Celia drives major strategy-development initiatives by creating growth strategies in the consumer and B2B/group markets, designing international market-entry strategies, improving financial performance of struggling business units, redefining product distribution channels, and understanding deeper consumer insights to drive new-product penetration and improved customer experience. Many of these growth strategies have included due diligence on key capabilities and technologies, merger management, and the creation of innovative partnerships.

Celia leads McKinsey's Board Services practice in North America with a focus on governance, diversity & inclusion, and the evolving role of the Board. She conducts research, is a frequent speaker, and has created developmental training programs on this topic.

Celia is core faculty for McKinsey's leadership forums, bringing actionable solutions to CEOs and their direct reports. She also leads McKinsey's West Coast Healthcare CEO roundtable, convening 25 CEOs quarterly to discuss industry issues.

Recent articles of Celia's include "How workers' compensation carriers can build better models of care in the US," (2020), "The Board's role in embedding corporate purpose" (2020), "Boards in the time of coronavirus" (2020) and "How to accelerate gender diversity on boards" (2017).

Outside her client work, Celia is an Executive Committee member of the Board of Directors for the California Business Roundtable. She is an active board member of CURE (Citizens United for Research in Epilepsy) and part of its governance subcommittee. She holds an M.B.A. from the Stanford University Graduate School of Business and a B.B.A. from the University of Texas at Austin where she graduated with High Honors.

Nora A. Aufreiter

Nora Aufreiter is a member of the Board of Directors of the Bank of Nova Scotia, where she is Chair of the Corporate Governance Committee; the Kroger board, where she is a member of the Financial Policy Committee and Chair of the Public Responsibilities Committee; Cadillac Fairview Property Trust, where she is a member of the Audit and Compensation Committees. Nora previously served as a Director of the Neiman Marcus Group (2014-2019) where she was Chair of the Digital and Technology Committee.

Nora also serves on several non-profit boards. She is Vice-Chair of the Board of Directors of Unity Health Toronto, a network of 3 hospitals, where she also chairs the Research and Education Committee. She is a member of the Board of Directors of the Canadian Opera Company where Nora chairs the Marketing Committee and she is a member of the Dean's Advisory Board for the Ivey Business School and their Executive Committee.

Ms Aufreiter was a Senior Partner and Director of McKinsey & Company where she worked for 27 years until she retired in June 2014. Ms Aufreiter was Managing Partner of the Toronto office of McKinsey's Canadian Practice from 2008 until 2012. She then led the Firm's North American Consumer Digital Practice until her retirement. Ms Aufreiter also previously led the North American Retail Practice, the North American Branding and Marketing Organization Service Lines. She served on a number of the Firm's global Personnel Committees to elect and evaluate partners. Throughout her career she worked extensively in Canada, the United States and internationally serving her clients in consumer-facing industries in retail, consumer, financial services, and energy.

Ms Aufreiter was the first woman partner and senior partner elected in Canada and among the first dozen women senior partners elected globally at McKinsey. In 2011, Ms Aufreiter was recognized as among Canada's "Top 100 Most Powerful Women". In 2018, she was awarded an Honorary Degree (LLM) from The University of Western Ontario.

Before joining McKinsey, Ms Aufreiter spent 3 years in financial services working in corporate finance and investment banking. She has an HBA in business administration from Ivey Business School at the University of Western Ontario and an MBA from Harvard Business School. Nora lives in Toronto, Canada.

Peter Bisson

Peter Bisson serves as an independent director on the boards of Automatic Data Processing Inc. ("ADP") and Gartner. For ADP, Peter also chairs the ADP Corporate Development and Technology Committee and serves on the Governance/ Nomination Committee at Gartner. He is a special advisor to Brighton Park Capital. He served as a chair on the NY Board of the Nature Conservancy, a global environmental group.

Mr. Bisson was a director and the global leader of the High-Tech Practice at McKinsey & Company prior to his retirement in June 2016. Mr. Bisson also held a number of other leadership positions at McKinsey & Company, including chair of its knowledge committee, which guides the firm's knowledge investment and communication strategies, member of the firm's shareholders committee (Board of Directors equivalent), and leader of the firm's strategy and telecommunications practices.

In more than 30 years at McKinsey & Company, Mr. Bisson advised a variety of multinational public companies in the technology-based products and services industry. His work focused on corporate & business strategy, marketing, technology development, M&A and corporate restructuring. Over the course of his career, Peter has led a variety of broad transformation programs for Fortune 50 companies in Tech-Media-Telecom.

Before joining McKinsey, Peter earned an MBA from Harvard Business School where he was a Baker Scholar and received the Ford Award for outstanding academic performance. He is also a Phi Beta Kappa graduate of Dartmouth College. Peter resides in the greater NYC area.

McKinsey & Company

Strategy & Corporate Finance Practice

Boards in the time of coronavirus

Boards need to step up their game and guide their organizations toward the next normal.

by Martin Hirt, Celia Huber, Frithjof Lund, and Nina Spielmann

April 2020

Never before have CEOs and their teams been more in need of the foresight and seasoned judgment that a well-functioning board of directors can provide. Likewise, never before have boards needed more carefully to balance providing support to management teams operating in highly stressful conditions with challenging them to ensure that they make the best decisions throughout a crisis for which no playbook exists. This may well turn out to be the moment when your board proves its value—or shows its flaws.

In a recent article, our colleagues have called on management to act across five stages—Resolve, Resilience, Return, Reimagination, and Reform—both to address the immediate crisis and to prepare for the next normal after the battle against coronavirus has been won.[1] At the same time, many board chairs and CEOs are looking for guidance on what role boards should play in these challenging times (for highlights, see "Boards of directors in the tunnel of the coronavirus crisis" on McKinsey.com).

Just as every organization faces different challenges during this crisis—some are reaching new levels of growth, while others are struggling to survive—there is no one-size-fits-all answer for what a board should do. While management teams focus on making rapid decisions to protect employees, address customers' needs, and communicate with stakeholders, boards need to balance oversight of the crisis response with thinking beyond the immediate challenges. Time is a scarce asset for most board directors, requiring them to make deliberate choices about where they focus their attention.

In hindsight, the early 21st century may be seen as divided into two periods: the time before the coronavirus outbreak and the post pandemic era.[2] That era could be characterized by different consumer behaviors, new ways of working, altered industry structures, and value pools redistributed across existing and new ecosystems. What does that imply for your organization and for your board?

Resolve and Resilience: Support through the crisis

Everyone is looking to an organization's leaders to serve as role models in protecting people's health and safety while acting decisively and with purpose amid chaos. The board's priority should be to support the management team's crisis response without encroaching on its operating role while also safeguarding longer-term shareholder and stakeholder interests. Management needs board directors to act as both sparring partners and empathetic counselors at a time when many leaders are seeking candid advice and personal support.

Ensure that management adopts a scalable crisis operating model

Your organization likely already has a crisis-response team in place. The team takes care of employee safety, shores up the balance sheet, and interacts with suppliers and customers to ensure business continuity.[3] But that is not enough. The scale of the economic crisis that is unfolding is unprecedented in living memory. Organizations need a crisis operating model that can scale as issues escalate, with a plan-ahead team that develops strategic responses to multiple scenarios across all time horizons. Boards should frequently review and discuss the strategic crisis-action plans that plan-ahead teams develop to stay ahead of the evolving crisis.[4]

Augment leadership capacity

A board can ease the pressure on the management team by reviewing communication plans and reputation-management strategies and engaging with select external stakeholders. Importantly, directors should help manage investor expectations in light of financial decisions, such as dividend cuts and changes to share-buyback programs, that may draw negative reactions. And since COVID-19 may affect board directors or managers personally, establishing clear succession and leadership contingency plans is more critical than ever.

[1] Kevin Sneader and Shubham Singhal, "Beyond coronavirus: The path to the next normal," March 2020, McKinsey.com.
[2] See Kevin Buehler, Ezra Greenberg, Arvind Govindarajan, Martin Hirt, Susan Lund, and Sven Smit, "Safeguarding our lives and our livelihoods: The imperative of our time," March 2020, McKinsey.com.
[3] See Mihir Mysore and Ophelia Usher, "Responding to coronavirus: The minimum viable nerve center," March 2020, McKinsey.com.
[4] See Yuval Atsmon, Chris Bradley, Martin Hirt, Mihir Mysore, Nicholas Northcote, Sven Smit, and Robert Uhlaner, "Getting ahead of the next stage of the coronavirus crisis," April 2020, McKinsey.com.

Long-term implications for a board's operating model

The changes to a board's mode of operation ushered in by the COVID-19 pandemic may have a lasting impact. Here are some examples:

— *Board agenda.* The pressure to become more involved in forward-looking strategic activities immediately may permanently change a board's agenda. The board may appreciate the increased impact it can achieve through regular involvement in strategy development or early succession planning, for example, while management may value the ongoing input and challenge from the board.

— *Time commitment.* The realization that board directors need to spend more time on board work may lead to a reduction in the number of boards an individual can sit on and may affect director remuneration. The additional time commitment may come in the form of new ad hoc committees or a general increase in a board's involvement in forward-looking activities, both within the organization and with outside stakeholders.

— *Virtual board meetings.* Boards may start to recognize the advantage of holding at least some board meetings virtually, which may broaden the pool of prospective directors.

— *Team dynamics.* The heightened collaboration and trust between a board and management team required to navigate the current crisis may produce a lasting shift in their dynamics, such as more informal information exchanges.[1]

— *Diverse board composition.* Boards with diverse experiences and backgrounds drawn from a variety of industries, functions, and geographic areas will have a distinct edge in effectively leading organizations through the current crisis. As a result, enhancing board diversity may become a high corporate priority.

[1] Robyn Bew, Linda Liu, and Friso van der Oord, "Building board-management dynamics to withstand a crisis: Addressing the fault lines," September 2019, McKinsey.com.

Strengthen decision making by sharing crisis-management experience

Board directors with experience in managing external shocks, such as the aftermath of the 9/11 attacks and the 2008–09 financial crisis, will be particularly valuable sounding boards for a management team as it crafts response plans amid high uncertainty. Board directors' insights from earlier crisis situations can help them constructively challenge business-continuity plans, for example, or supply-chain strategies. That said, the current crisis is uncharted terrain for all executives, making intuition and experience unreliable guides and cognitive biases particularly dangerous. As such, boards should urge management to use techniques such as red and blue teams or premortems to ensure that their decisions weigh all relevant factors.[5]

Balance short-term and long-term priorities

While a board needs to protect all shareholders' and stakeholders' interests by weighing key operational risks and ensuring effective cash management and financial stability, it cannot lose sight of the organization's long-term priorities, even as it focuses on short-term crisis response. Preserving the foundation of the organization's competitive advantage, such as maintaining investments in a digital transformation or customer-experience improvements, should be a key point of board attention.

Return: Lead into the reconstruction phase

As business conditions start to stabilize, a board should strive to lift management's ambitions and

[5] See the Bias Busters collection on McKinsey.com.

A clear division of roles and mandates between a board and management is paramount to make collaboration seamless and avoid the distraction of unnecessary conflicts.

position the organization to ride the waves of uncertainty rather than be overpowered by them. The severity of the disruption of this crisis suggests that the path out will feel more like a reconstruction than a recovery. Boards can add value by pushing early for scenarios and robust plans to be prepared for the reconstruction phase.

Engage on major decisions

As employees start coming back to work, a board should confirm that effective health and safety protocols are in place and continue to oversee management's integrated action plans. Some decisions are more complicated than they at first seem—for example, a government stimulus package may seem like a boon, but it can dilute shareholders' equity and come with unexpected strings attached. The board should also closely monitor the management team's evolving plans (such as slowing down new-product introductions and capacity expansions or accelerating resource reallocation) to ensure, for example, that these decisions do not overly weaken the balance sheet amid challenging capital-market conditions.

Catalyze a strategy review

Many organizations will have to rethink their product-market focus, customer engagement, or pace of technological innovation. During this period, a board should encourage management to undertake a broad strategic reevaluation that could entail embracing some bold moves.[6] It can foster this process by requesting regular, joint strategy sessions with management to discuss various alternatives and scenarios.

Review the operating model

A new strategy may require a broad review of an organization's operations. The board should trigger the discussion, share external perspectives on the operating models of comparable organizations, and provide constructive challenges. It should also encourage management to match critical talent to key strategic initiatives, especially new leadership talent that may emerge during the current crisis.

Help manage shareholder and broader stakeholder commitments

Maintaining an ongoing, open dialogue with key shareholders and other stakeholders should be a key board responsibility as business conditions change. Managing interactions with governments and regulators may be particularly vital at this time, especially if an organization receives a stimulus package or other public assistance that entails commitments. Major investors, including activists, may also offer ideas for repositioning the organization for the postpandemic era that the board and management should consider.

Reimagination and Reform: Stay ahead of the next normal

As businesses will shift focus on preparing themselves for the next normal, some changes

[6] Chris Bradley, Martin Hirt, and Sven Smit, "Strategy to beat the odds," *McKinsey Quarterly*, February 2018, McKinsey.com.

adopted during the current crisis may become permanent. This might well have implications for the purpose and overall positioning of the organization that a board should closely monitor.

Reassess the organization's purpose and value proposition

Our world will almost certainly look different after the coronavirus crisis. Industries and supply chains will be reshaped, value pools will have shifted (some irreversibly), and new behaviors may become the norm. Getting ahead of such trends by developing privileged insights can make the difference between leading or lagging in an industry for the subsequent decade. These changes may be profound enough to require a reassessment of an organization's value proposition—and even its fundamental purpose. The board should also closely monitor how competitors are evolving and where they are investing (for example, in vertically integrated supply chains to fill gaps left by bankrupt suppliers) and make sure these realignments are factored into management's long-term plans. By connecting management teams with the larger ecosystem of innovative players (including ones outside the organization's traditional business), the board can widen leaders' understanding of shifting business conditions.

Plan for the next crisis

It is never too early to plan a response to future shocks. A board's role makes it well positioned to ensure that key lessons from the current crisis are captured and synthesized. The importance of remote-working technology and enterprise-wide action plans, for example, can guide new governance measures that make organizations more resilient during future disruptions (including potential later waves of the COVID-19 outbreak). Importantly, a board should challenge the management team to address a critical question: Is the risk-management approach sufficiently robust to respond to another "black swan" event?[7]

Operating the board during the crisis

The current crisis sheds light on the vital importance of a diverse board. A group with a breadth of experience, relevant industry and functional expertise, and a range of ages, genders, and backgrounds enables an organization to assess challenges from a variety of perspectives. Here is how a board can effectively play its role (see sidebar, "Long-term implications for a board's operating model").

Reconfirm the board's role and accountabilities

A clear division of roles and mandates between a board and management is paramount to make collaboration seamless and avoid the distraction of unnecessary conflicts.[8] While the level of stress and pressure every individual is facing during the current crisis can be draining, a board needs to remain calm and focused. Some decisions that take years of alignment in normal times may have to be passed in a matter of hours. All this will be difficult unless boards and management teams embrace seamless teamwork, trust, and mutual support. During this time, boards should make explicit that they are fully behind the management teams as they make some of the most difficult decisions of their careers.

Adapt the board's operating model to the crisis

During a crisis, a board has no choice but to adapt its working mode to the speed of events, requiring directors to invest significantly more time than normal and relax the annual agenda. Ongoing communication between boards and management teams is necessary for quick action on contingency planning, public announcements, strategy development, and other urgent matters. An ad hoc board-level crisis committee can help directors engage regularly with the crisis leader who reports to the CEO. While some of the board's heightened responsibilities—such as more frequent risk or policy reviews, financial-stability assessments, and governance-structure changes—can be absorbed by standing committees (including those for audit, risk, nomination and governance, and compensation), assessing the crisis's strategic implications and the organization's future direction

[7] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles pop, downturns stop," *McKinsey Quarterly*, May 2019, McKinsey.com.
[8] Robyn Bew, Linda Liu, and Friso van der Oord, "Building board-management dynamics to withstand a crisis: Addressing the fault lines," September 2019, McKinsey.com.

needs to be handled jointly by the entire board, with collective accountability and frequent interaction.

The coronavirus pandemic is, first and foremost, an urgent health crisis affecting countless people around the globe. The scale of change—social, political, economic, and cultural—it may bring is immense. To manage a crisis of this magnitude successfully, boards need to help management balance short-term priorities with long-term goals, actively engage with shareholders and other stakeholders, and support a fundamental rethinking of long-term strategies. Management teams may need boards to extend them a greater-than-normal level of trust so that leaders can rapidly respond to unprecedented conditions.

While oversight and control remain vital, board directors' wisdom, insights, and experience have never been more important. Boards should seize this moment to step up their game and provide critically needed guidance to their organizations.

Martin Hirt is a senior partner in McKinsey's Greater China office, Celia Huber is a senior partner in the Silicon Valley office, Frithjof Lund is a senior partner in the Oslo office, and Nina Spielmann is a senior expert in the Zurich office.

The authors wish to thank Peter Bisson, Ian Davis, Conor Kehoe, Sajal Kohli, Jean-Christophe Mieszala, Asutosh Padhi, Thomas Seitz, Shubham Singhal, Sven Smit, Kevin Sneader, Ramesh Srinivasan, and Bob Sternfels for their contributions to this article.

Designed by Global Editorial Services