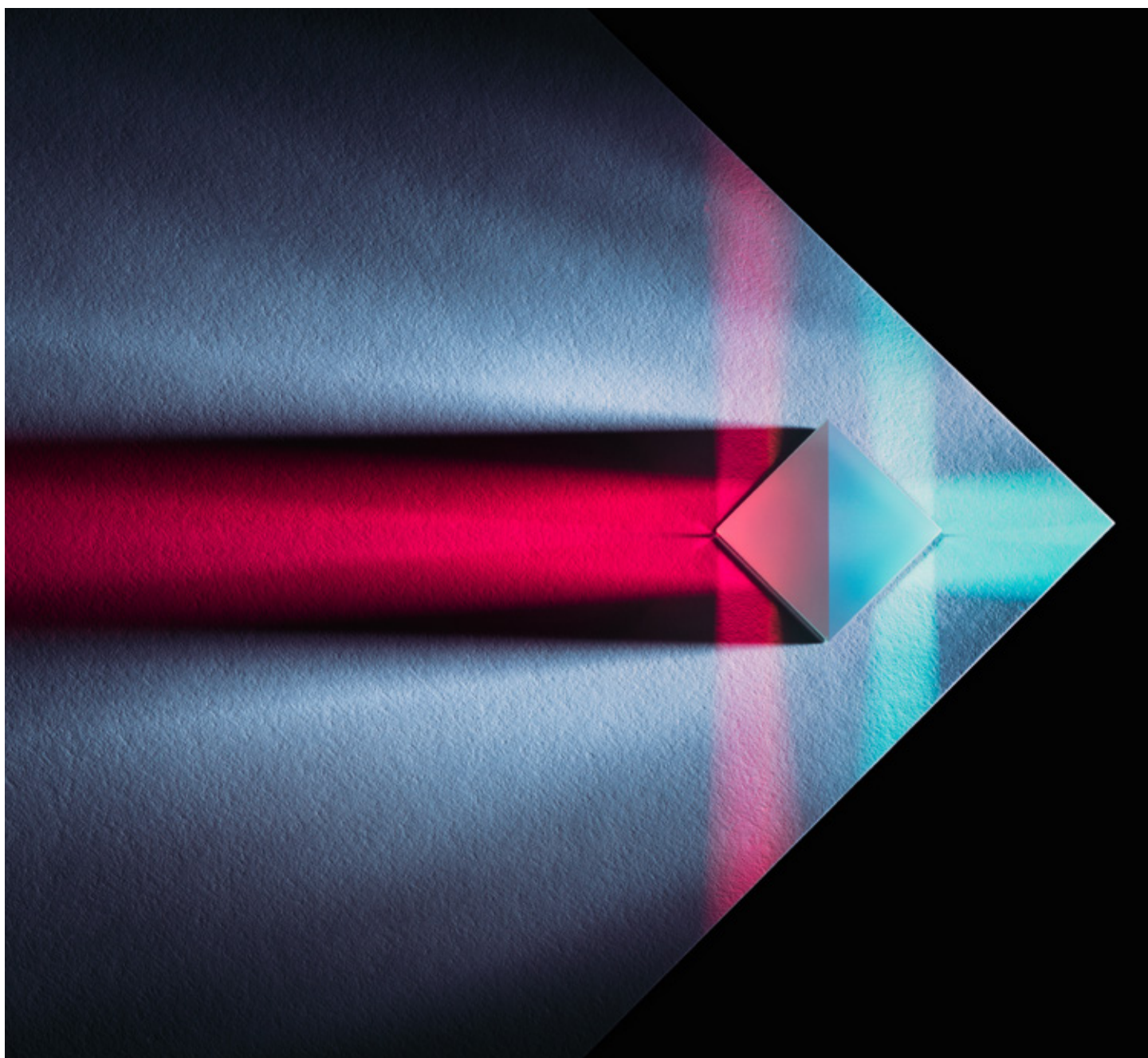


# How Next-Generation Board Directors Are Having an **Impact**



Boards are coming under increasing pressure to demonstrate their relevance at a time when multiple disruptive forces are threatening established business models and creating new opportunities for innovation and growth. Increasingly, investors expect boards to have meaningful processes in place to renew their membership and maximize their effectiveness.

As a result, a growing number of “next-gen directors” are being appointed to boards around the world. Many bring knowledge in fields such as cybersecurity, AI (artificial intelligence), machine learning and industry 4.0 technologies; others have firsthand experience of digital transformation, organizational design, customer insight or social communication. Inevitably, experts in these disciplines tend to come from a different generation than the majority of existing board members.

Younger directors are having an impact on both the content and dynamic of boardroom debate. They are prompting fellow directors to engage with unfamiliar subject matter and bringing a different approach and perspective to the role. Just as companies are broadening their thinking about the value of diversity and recognizing the benefits of cross-generational workforces, so boards are benefiting from recruiting directors who bring not only deeply needed expertise but also a contemporary view on how decisions will affect the whole spectrum of stakeholders — from employees and suppliers to customers and the community. These directors are facing a different set of workplace challenges in their executive roles; as directors they can raise concerns and viewpoints rarely, if ever, expressed around the boardroom table.

Boards that choose their younger directors wisely can stand to benefit greatly from their presence. However, it is not enough to bring new, knowledgeable directors into the boardroom; it is vital that boards prepare them for success through a combination of comprehensive onboarding, thoughtful integration and an open-minded, receptive and respectful attitude toward their contributions.

We asked a group of board chairs and next-gen directors on several continents about their experience of this latest phase in the evolution of boards.

## What’s in it for the next generation?

Before joining the board of a public company, it helps to be clear about motivation. Why now, and why this company? Being a non-executive director is a significant commitment, and you have to be sure that both you and the board consider it a worthwhile investment. We find that most next-gen directors are motivated by three things: personal development; the chance to enrich their executive role with new ideas and experiences acquired as a director; and the desire to make a contribution.

One executive who was starting to get more exposure to his own board felt the time was right to join an outside board: “I wanted to broaden my perspective, gain different experiences and see a company from a different vantage point. I felt that it would ultimately make me a better, more effective leader.” Another director with an entrepreneurial background emphasized the unique opportunity to learn from others more experienced than herself: “I could see I would be amongst inspirational people and that I would be exposed to not just a different sector but a different culture and way of doing business.” A third described the decision to join a board as “one of the more purposeful things I have done in my life.”

# Next-gen directors on the rise

In the U.S., 45 percent of all new directors appointed to S&P 500 companies in 2017 were serving on their first public company board; 55 percent of them were women or minorities. These first-timers are more likely than other new directors to be employed elsewhere in an executive capacity (64 percent versus 42 percent). They are also less likely to be C-suite executives and more likely to have other executive roles such as division/subsidiary leadership.

A similar picture is forming in Europe, where in numerous countries more than one-third of board appointments at leading listed companies in 2017 went to first-time directors, many of them falling into the next-gen category: Poland (82 percent first-time directors); Russia (59 percent); Denmark (43 percent); Finland (41 percent); Belgium (39 percent); Norway (37 percent); France (38 percent); U.K. (34 percent).

**Source:** Spencer Stuart 2017 Board Indexes

New directors cite a number of experiences and skill sets that they hope to acquire by sitting on a board, ranging from observing a different leadership style and working with a different organizational culture to learning about a new sector or geographic market.


Of course, joining a board has to be a mutually beneficial exercise. “It’s helpful for me, because I learn about governance and how a board works from the inside. I can apply what I learn in my other work. The board, meanwhile, gets someone with a different set of specialties and a slightly fresher perspective; they get someone who is willing to be more open and direct, a little more non-conformist relative to the other board members.”

Board chairs are increasingly open to recruiting next-gen talent, citing several reasons ranging from the need for specific skills and competencies to having more diverse voices at the table. One chairman was specifically looking for someone to shift the focus of debate: “A new, younger director can see a dilemma from a different perspective, making us think twice. I’m looking for a person of integrity who is prepared to speak his or her

mind and challenge management. What I cannot necessarily expect from such people, of course, is the ability to apply the experience of having seen many similar situations over 30-40 years in business. It’s a trade-off, and one of the reasons why age diversity on the board is so important. Specialist expertise needs to be balanced with experience, and with experience comes good judgment.”

## Preparing for the role

If you are an active executive joining the board of a public company, a lot of time is at stake (as well as your reputation), so you have to be confident that you are making the right decision. A thorough due diligence process not only provides that security, but helps accelerate your preparation for the role. “During the course of my interviews I read an enormous amount about the company,” said one recently appointed director. “I looked up the analyst calls, read SEC filings and asked a lot of questions, specifically about the dynamics of the board. They had me meet every member of the board so I got to see how they spoke about each other.”



“A lot of due diligence is done during the interview process — checking the chemistry, finding out how board meetings are run.”

It is important to have a clear understanding of what the board is looking for and how your background and experience will add value in the context of the business. For example, although the more tenured members of the board may have a reasonable overview of the disruption facing the business, they will not have hands-on experience of a digital transformation initiative. You may be perfectly placed to provide that firsthand knowledge, but it may be that what the board chair actually wants is someone who bears a few scars, has learned how to deal with the technology challenge from a business perspective and knows what kind of questions to ask. Only thorough due diligence will reveal whether your expectations are aligned with the board’s and enable you to proceed with confidence.

## Onboarding

One of the most common things we hear from next-gen directors is that they would have liked a more thorough onboarding process ahead of their first meeting — this is something that boards clearly need to address. Often it is up to new directors to take the initiative and shape

a program that will help them get inside the business. “A lot of the immersion I needed came through the steps I took myself,” said one director, who felt that meeting a couple of executives and board committee chairs and reading materials provided by the company secretary amounted to insufficient preparation.

A good induction program will include presentations from management on the business model, profitability and performance; site visits; and meetings with external advisers such as accountants, bankers and brokers. Sitting down with the head of investor relations to review investor and analyst perspectives can be useful, too.

Next-gen directors have asked to meet with heads of business lines for a more detailed review of a particular subsidiary or activity where their own experience is especially relevant. In a retail business, for example, it might make sense to meet with the head of merchandising at a flagship store to get hands-on exposure to product positioning and customer experience.

## Due Diligence

As you explore how a new board opportunity might fit with your interests, skills and style, consider the following questions as part of your due diligence.

Do I really understand the business model? How does the company make its money?

What do I have to offer this company?

What will be expected of me as a director?

Do I feel comfortable with the chair? Will he/she support me and provide me with the space to contribute?

How effective is the board I am about to join?

What is the relationship between the board and management?

Will I have the credibility to influence boardroom discussion?

Time spent with the CEO to learn about the business is critical. Most CEOs will be happy to arrange for the new director to see key projects firsthand and meet the people running them, as well as spend time with other members of the senior management team. “They were completely open to me meeting other people, but it wasn’t part of the formal induction program. I found those conversations to be the most enlightening because I simply got closer to the business and to the work.”

One chairman of a consumer products company added an interesting twist to the onboarding of a new director appointed for his e-commerce leadership experience. He invited the new recruit to make a presentation to the entire leadership team about his own journey. “The kind of disruption and speed at which his online company works was mind boggling, and this exercise proved a source of great learning for the board and the management team,” the chairman said. “It also enhanced his credibility with the rest of the board.”

## Making the transition to non-executive

Most next-gen directors understand at an intellectual level that they will need to approach their board responsibilities in a different way from an executive role, but most underestimate how difficult it is to make this transition in practice.

It is important to be able to distinguish between matters that only the board can decide upon (for example, CEO succession) and topics that the board should leave to management (most operational matters). Strategy is one area where, in most markets, the board and management tend to collaborate closely, but there is plenty of other middle ground where next-gen directors can contribute their special expertise.

It does, however, take time to learn how to add value to board discussions without stepping on the toes of management; listening and learning is a crucial aspect of gaining the respect of and credibility with the rest of the board. “You have to be keenly aware of when to interject, when to push something very hard and when to step back,” says one director. “The skill lies in asking the right question in the right way — not to disempower or create a disincentive for management, but to encourage them to think about things a little differently.”

As a non-executive director, you are expected to engage at a higher level and in a more detached manner than you are used to in your executive role. With meetings taking place monthly or bimonthly it can be difficult to work out whether you are adding value, or even what value looks like, especially when your day job involves taking responsibility for high-quality execution. As a non-executive director, you may see things that need to be taken care of and want to get more actively involved, but you have to trust that the executive team will get it done. “I had a perception that the board might be a little bit more engaged. We have very specific places in which we’re expected to really contribute and to drive decisions and actions, and there are others where we are more on the consultative side; it’s a question of finding the right balance. I did think there would be a little more direct involvement in certain issues.”

The work of next-gen directors does not begin and end with board meetings, however. Many will interact with management outside meetings. One U.K. director appointed for her digital expertise takes the time to catch up with the company’s digital team when she is in New York “to find out what they are working on, understand what makes them tick and what their concerns are.” Another newly appointed independent director with an e-commerce background was invited by the CEO to spend a day with the company’s development management team, after which he conducted a review of the customer experience. “I had some very clear feedback but was careful only to send it to the CEO, not to the team I met or any other board member.” Offering help to the management team in an informal, consultative manner can be a good way for next-gen directors to lend their expertise beyond the boardroom, without getting caught up in the weeds.

“Your role is not necessarily to figure out the problems, but to propose ideas and ask questions of the executive team.”

## Getting feedback

Next-gen directors who are used to receiving feedback in their executive capacity can find it difficult to adjust to a role where it is less readily available. “Feedback is the hardest thing I’ve grappled with,” says one director. “With your own business, it’s either successful or it’s not. If you’re an employee, you’re told whether or not you’re doing a good job. That’s not the case on a board.”

New directors need to identify someone they feel comfortable with who can offer them insight into some of the unwritten rules at play in the boardroom. Some prefer a more formal mentoring relationship with a senior board member, but that idea does not appeal to everyone. Regular check-ins with the board chair (and CEO) will help them gauge their performance and learn how they can offer more helpful input.

Beyond informal individual feedback, the board may have a process for providing feedback to each director as part of the board’s annual self-evaluation. On boards where this practice is in place, next-gen directors tend to be quite comfortable with it and welcome the feedback. If there is no process for individual director feedback in place, the next-gen director can serve as a catalyst for establishing this healthy practice by asking about it directly.

## The role of the board chair

Board chairs have a significant influence on how successful next-gen directors are in the role. It can be daunting to arrive on a board full of older, more experienced directors, particularly if there is a long-established “collegiate” dynamic in place. The chair has the twin tasks of guiding the new director, while ensuring that other board members remain open to whatever new ideas and perspectives the new director brings to the role. This may entail working hard to encourage relationships to develop on a personal level, which will then allow divergent views and even dissent at a professional level.

A chair may do a number of things to support the next-gen director, for example: take a close interest in the onboarding process; provide coaching on how best to represent investors’ interests; offer constructive feedback after meetings; and encourage the new director to stick his or her neck out rather than play it safe and simply align themselves with the existing boardroom culture. As one chair put it: “Some boards are wary of a new director who thinks differently and threatens, however respectfully, to shake things up. But sometimes you need the new

director to disrupt the board with fresh views, accepting that this may result in a cultural shift. It is my job to let that happen.” That said, if a new director finds something in the board papers they disagree with or don’t understand, or if they want to make a controversial point in a board meeting, it is probably wise to raise it with the chair in advance of the meeting.

For the new director, adjusting to the structure and formality of board meetings means adopting a measured approach and taking the cue from the chair, especially when going against the grain. “Although I’m only three meetings in, I’m testing the barriers of how open and direct I can really be, and at the same time learning more about the business,” reports one director. Another has been defending a position not shared by the majority of the board, confident that the chair is happy to give a platform to his opinions. “You have to be respectful in getting your point and your reasoning across, but if your argument doesn’t prevail, that’s fine also. Of course, if it becomes a matter of principle, you are always free to go, right?”

Most next-gen directors anticipate that their relevance (and interest) will fade after around five years and are quite happy at the prospect of cycling off the board when the time is right.

## Towards a new kind of board

As companies address new challenges, and a younger generation of executives with very different backgrounds become independent directors, boards will need to find the right balance between experience and relevance; they will also need to become more dynamic in terms of composition, diversity, discussion and tenure. Long-tenured directors with an interest in governance and risk management will serve alongside representatives of the next generation appointed for their excellent domain knowledge or real-time experience of transformational environments, but the tenure of such directors is likely to be shorter than the current average. Indeed, most next-gen directors anticipate that their relevance (and interest) will fade after around five years and are quite happy at the prospect of cycling off the board when the time is right.

Boards need to be realistic about how long a next-gen director candidate may want to stay. They also need to think carefully about whether that director would feel less like an outlier and be more effective if he or she was joined by another director of a similar age and

background. “As a woman, I’ve been a minority all my career, so it feels strange to be a minority because of my digital expertise,” said one director. Just as the presence of other women on the board reduces the burden on any one female director, so there is a case to be made for appointing two or more next-gen directors.

Boards committed to staying on top of the critical issues affecting their companies should consider the potential benefits of appointing at least one next-gen director, not just for their subject expertise but for their ability to bring alternative thinking and multi-stakeholder perspectives into the boardroom. Backed by a supportive board chair and open-minded directors, next-gen directors can have a lasting, positive impact on the board’s effectiveness during a time of unprecedented change.

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