Welcome aboard to your 'youngster' on the board

The addition of a new director always impacts (not always for the good) board dynamics, and if the new director is particularly young this adds even more to the challenge for both the freshman director and the board. But a smooth onboarding is eminently doable.

By Dennis Cagan

Many seasoned directors have noticed the fairly recent minitrend, as chronicled in the business press, of much younger individuals being elected to big company boards (where the average age is 63). We are not talking here about successful corporate executives in their 40s, but rather entrepreneurs in their 20s or early 30s, often with little real business experience much less any board experience or even any meaningful tenure with a company having revenue or, dare we say, profits. One might think, why . . . and then, OK, how can we prepare them for this responsibility?

After having had the privilege of sitting on many boards over many years, I have seen and served with the widest possible variety of directors: from ages 18 to 85, from no high school diploma to multiple Ph.D.s, both genders, many ethnic backgrounds, and from zero business experience to sitting directors of Fortune 100 companies. In addition, as with most directors with at least a couple of years of service, I have also have seen a full range of personalities and behaviors: nasty, disagreeably argumentative, not so bright, and even criminal, as well as delightful, polite, thoughtful, intelligent, and even lovable. While a much younger director might still represent a cross section of all the above, they may also add a distinct generational element to the equation.

This is an important time in corporate governance to ask, and try to answer, the question, "What advice would you have for these new (young) directors

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An old youngster

In the context of a board, not all youngsters are necessarily young. A new board member could just as easily be much older, even someone in their 50s or 60s. Many seasoned C-level executives, and professionals like retiring partners from large audit firms, have been discouraged or not permitted to join for-profit fiduciary boards. First-time directors also come from long careers in academia, military, government, or nonprofit sectors, and of course private or family companies.

Although they may have attended 'board meetings,' or been on nonprofit boards, they still may lack some degree of familiarity with governance concepts — e.g., fiduciary responsibilities, discussion protocols, personal and corporate liabilities, committees, risk, 'nose in, fingers out' oversight, and more.

When considering the addition of a new director, it is important to weigh what skills and perspectives are needed most, along with the true need for, and value of, a uniquely young perspective. Also, if your board is adding one of these older freshman directors, it is still worth considering what governance education and company information and cultural acclimation they might need — right alongside their young colleagues.

— Dennis Cagan

so that they can blend in, be effective, and avoid making naïve youthful mistakes." This is my attempt to do this dual objective justice. I hope that regardless of the reader's reference point, my thoughts are helpful.

Dynamics

From my experience, and that of many fellow directors who have shared their opinions with me, the most common single problem underlying nonperforming boards is *board dynamics* — the interpersonal relationships and communication culture within the board. A young first-time freshman director and all their welcoming (all too often upper class male) colleagues on the board are advised to be keenly conscious of this factor. Everyone should be very comfortable with the mix of personalities as well as qualifications.

Throughout your interview process make good use of personal interviews, and in the final stage even possibly invite the candidate to a guest sit-in on appropriate segments of a board meeting. Whether you are the 'joiner' or the 'joined,' this could avoid tremendous potential unpleasantness down the road. This is not totally about age; however, as everyone will recognize, a potential 40 to 50-year difference in age can alone be its own barrier to communications and add stress to the passionate discussion of critical topics. All directors should agree in advance to be willing to courteously meet each other half way in even the tensest situations.

Regardless of the age issue, when younger individuals are being sought there is likely to be one or more specific domains of knowledge that the board is seeking to augment. I have never heard of a case where being 25 or 30 years old was the candidate's *sole* qualification. I believe that the reason for the youth movement is the quest for acknowledged and extraordinary expertise in specific fields like Internet technology, social media, mobile applications, 'big data,' or cybersecurity. While there are certainly older folks with these qualifications, youth is often assumed to be more current and tuned in. In addition, if they are the founder or CEO of a big name (multibillion-dollar valuation) company, they add a nice halo of credibility and savvy. Some large-cap companies may attract a 30-year-old billionaire social media wunderkind. Small caps, private companies, and even tech start-ups might land a 20-year-old globally renowned hacker or data analytics geek.

> EVERY BOARD THAT IS SATISFACTORILY PERFORMING HAS A CADENCE AND A CULTURAL PROCESS.

Onboarding

As a younger director joining an established board (as opposed to forming a new one), or as a member of the board adding this director, there are two primary areas of preparation that I recommend be addressed as part of the onboarding process — education and assimilation. There is also a third and less obvious one — attitude or perspective.

It starts with education and information. The candidate will be well served by learning as much as possible about the company: its business, technology, customers, distribution channels, employees, facilities, culture, recent or current problems, opportunities, finances, competitors, company origin (if less than 10 years or so old), vendors, banking/investment banking and legal/audit relationships, and the backgrounds of the board members and executives. The board will likely have already done this homework on the candidate. I am a big fan of one-on-one (or max two-to-one) interviews between a candidate and all board members. It is unfortunate when a serious personality clash arises between a candidate and the one director that they did not meet. I feel that the days of everyone approving sight unseen a selection made by a small nominating committee or the CEO are long past.

As part of the educational process I always

Bringing aboard a younger director

By Alex Schmelkin

Alex Schmelkin joined the board of United Stationers Inc. in 2012 at the age of 36. United Stationers, whose shares are traded on Nasdaq, is a leading wholesale supplier of business products with 2014 net sales of $5.3 billion. Schmelkin is CEO of Alexander Interactive (Ai), a New York-based firm that he founded in 2002 and grew from a small web agency to a full-scale web design and engineering company. Close readers of Directors & Boards *will recall that we interviewed this digital entrepreneur for the cover story on "Recruiting the Digital Director" in the First Quarter 2013 issue. We have returned to ask him for guidance on how a board might best bring on a young new director. Here is his advice.*

— James Kristie

Alex Schmelkin

Have you recently welcomed a younger director to join your board? This "youngster" was likely recruited to contribute a fresh perspective to the boardroom. He or she has a relevant background in the emerging needs of a large corporation, ranging from digital expertise to customer centricity. Yet, by simple virtue of their lack of years of service to a public company, special attention will need to be focused on how to best assimilate the new director. Consider these tips to help the new person feel most welcome and readily become a productive board member.

Offer an expanded orientation

There's a good chance that it's the first time your younger director is serving on a public company board. Consider that your standard new board member orientation may be insufficient. Invite the new director to meetings with varied members of senior management to thoroughly introduce him or her to the important commercial aspects of the business. Spend extra time reviewing the purpose and scope of each committee, particularly audit and comp, which could be totally new concepts for the director.

Assign a mentor

Assign a seasoned member of the board as a mentor for the first few board meetings. The mentor should not only talk about company strategy, but also the basic mechanics of the board, the cadence of the meetings, and the various personalities and backgrounds of the other board members.

Encourage relationships with management

The most effective board members form deep relationships with senior management. This may not be obvious to a less-experienced, younger director. Encourage the new director to spend a lot of time with the CEO and other key members of executive leadership.

Welcome fresh perspectives

You welcomed the new director for his or her demeanor, experience, and fresh thinking. Do not forget this! Encourage them to participate actively and fearlessly in boardroom discussions. The director's perspectives could be controversial, but remember that's precisely the thinking you need. If the new board member isn't making you feel uncomfortable you aren't getting what you need from them. At the same time, 'nose in, fingers out' is a foreign concept to your younger member, who probably got on the board because he or she is opinionated and decisive. Help the new board member to become comfortable offering advice and healthy criticism, while resisting the temptation to jump in and run the company.

Take moments to be inclusive

It could be difficult for a younger director to find his or her voice in the boardroom. While confidence is usually not lacking, understand it is intimidating for the younger member to recommend that the final candidate (under NDA if necessary) review a selection of governance documentation. This can include previous board minutes, resolutions, current capitalization schedule, status of debt/debt holders, stock option plan and allocations (and any forms of synthetic equity or deferred compensation), and of course litigation. When first joining a board I like to understand the board's assessment of primary risks, which I often find to be missing something material. If the freshman has not previously sat on a board then perhaps even some education or coaching on governance would be in order.

The assimilation of a new member should be made as smoothly as possible. The board is there to exercise its guidance and fiduciary responsibilities as a body, as well as individually. This is a continual process. Every ongoing board that is satisfactorily performing has a cadence, a rhythm, and a cultural process.

Sometimes this cultural element is healthy and open, inviting productive discussions, and sometimes it is not. There are a very limited number of circumstances when one new director can change this quickly — for example, if he or she represents a very large new investor. Under most other situations a new director is advised to first get in sync with the board's style. Unless a new director comes aboard with some mandated authority or control, the power to change a board's culture must be earned and awarded over time. In a board of directors, where every director has one vote, power and influence come primarily from respect and confidence, which are not gained quickly or easily. Smoothly entering the process facilitates your ability to build your credibility and fully understand the dynamics between the individual directors, and avoid stepping into deep doo-doo.

In a board, power and influence come primarily from respect and confidence, which are not gained quickly or easily.

Diversity and Attitude

There are several facets to diversity — more than are commonly referenced. Most discussions revolve around a traditional three-dimensional view of diversity, namely race, gender, and age. In this case age almost always is referring to directors being too old, not too young. In today's ultra-competitive business climate, a time of, so to speak, perfect knowledge — where everyone knows just about everything that everyone else everywhere does — the diversity issue should be about bridging the gap between the customers that provide your livelihood and the expertise and experience contained in the combined resources of

step into an unfamiliar situation. Peers will often have decades more experience in the boardroom. Your lead director or chairman should take specific moments to be inclusive of the new board member. Offer up the floor or pause to solicit advice when it's clear the new member has something to contribute.

Alex Schmelkin: If the new board member isn't making you feel uncomfortable you aren't getting what you need from them.

Give feedback, early and often

The youngster board member should receive early and thorough feedback. Don't wait until the annual board effectiveness review to share the larger board's opinions of how the director is integrating and contributing. When the annual review does come around, listen very closely to the feedback of the new member. He or she isn't yet influenced by years of public company service and could offer deep insights into what's working well and areas for improvement.

Strongly encourage board training

Encourage your new board member to attend board training. The director undoubtedly has limited time, but advise him or her to not wait too long to attend. Board conferences offer not only a great way to come quickly up to speed on the governance topics du jour, but also a great way to network with other seasoned and new board members. And suggest to the new board member to read the board publications.

Recruiting the younger director: 5 practices to increase your odds of success

By Kim Van Der Zon

Boardrooms have long been the domain of executives in their 50s, 60s — and even 70s, now that more boards are loosening mandatory retirement limits. But many boards are also electing directors in their early 30s — very often younger entrepreneurs who are the leading lights of digital transformation. Competition for these younger directors is fierce because of the experience and perspective they bring regarding the forces shaping the economy. But recruiting them also brings risks because of differences in generational perspectives and expectations.

In our role working with nominating committees to recruit younger directors to their boards, we have identified five practices that help ensure that the right candidates are pursued, nominations are accepted, and that the new director goes on to fulfill his or her boardroom potential.

• ***Start the recruiting process early:*** Don't wait for a young executive to rise to prominence before building the connections that will lead to the acceptance of a board seat. Informal interactions with individual members of the board and periodic intimate events for potential candidates should be part of the board calendar. But to do this well, the nominating committee needs to be able to call upon a search firm that is expert in board composition and succession planning to help identify likely future board candidates early in their careers.

Kim Van Der Zon

• ***Set realistic expectations:*** Because virtually every sector is undergoing some sort of disruption, it is easy for boards to hope that Generation Y directors will be able to provide digital-native insight into everything from technology trends to the consumption patterns of their peers. While undoubtedly they will offer important perspective on a range of issues, they can't be expected to have every answer to the range of transformation issues the company is facing — or to make up for critical capability gaps on the management team. Like every other board member, the contribution of younger directors will be a combination of specific domain expertise and broader judgment, both of which have their limits. Don't attribute superhuman powers to them.

• ***Be prepared to sell the opportunity:*** Because these candidates are so in demand, nominating committees can expect that they will be entertaining offers from multiple boards. But the nominating committee isn't just competing against other companies — it's also competing against itself. The young executive you are pursuing doesn't need a board seat to establish their stature. Will they want to be intimately associated with your company? See the company through the candidate's eyes, anticipate objections, and articulate why the opportunity is compelling.

• ***Screen carefully for cultural fit:*** Because a well-run board relies on collegiality and trust, it is essential that new directors are able to fit with the culture of the board. Don't let the allure of recruiting a young digital star lead to a less-rigorous evaluation of intangibles — particularly of those issues that might arise due to generational differences. For example, the younger director will surely encounter a number of board processes he or she thinks need to be changed. Does the candidate have the savvy and maturity to spend time getting to understand the board and forge bonds with its members before lobbying for change?

Kim Van Der Zon: Be realistic — younger directors can't be expected to have every answer to the range of transformation issues the company is facing.

• ***Have a solid onboarding process:*** The odds of a younger director smoothly transitioning onto the board is greatly increased with a thorough onboarding process. Assign two experienced board members to anticipate areas where guidance would be most beneficial and charge them with providing it. Mentors should help ensure that younger directors are also included in the informal social interactions of the board and are exposed to the board's network, both within and outside of the company.

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the CEO, senior management team, and board of directors. More specifically, having on your board personnel resources who understand all aspects of your customers, your industry, and business in general. I suggest that this view of diversity also include a complementary set of professional skills, industry or domain expertise, demographic diversity, geographic representation — and yes, youth.

In each of these diversity categories, by definition, there exist corresponding attitudinal differences. Someone with a predominate sales and marketing background does not view things from the exact frame of reference as an accountant, attorney or scientist. An educator sees issues through a different lens than an entrepreneur. A life-long businessperson will not have the same perspective as a nonprofit executive or former government official. Someone from an impoverished background will likely see different aspects of some discussions than someone from a privileged one. No matter how smart or sophisticated a director, one from the U.S. or Europe may have opinions based on much different standards than one from China, India or Africa.

This is no less true with an age difference. Those entering the digital age of advanced electronics and communications in their 50s will generally not view today's complex digital landscape the same as someone born in the 1990s. This is not good or bad, or better or worse, but just a fact. This variation in viewpoints can either add immeasurable incremental material value to a board's oversight and strategic guidance, or it can entangle it, confuse and strangle it, and paralyze it. The key in my opinion is two-fold: each board member's ability to steadfastly focus on their fiduciary responsibility to the shareholders and the value of the enterprise, and their ability to collaboratively explore key issues, render informed decisions, and provide appropriate governance.

In conclusion, the placement of a new director is always sensitive. If the new director is particularly young, this adds even more to the challenge for both the freshman director and the board. To the extent that each individual director, new and sitting, resolve to educate and inform themselves, and cooperate to meld their personalities and expertise, they will have the opportunity to deliver the highest level of governance and wisdom to their company. ■

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Wanted (or not): a 30-year-old expert

I applaud companies whose boards are open and progressive enough to broaden their nominating criteria in this way. I believe that there are very good reasons to add youth to a board. I also believe that there are some critical categories of risk, opportunity, and diversity that may be best found in a younger person. It is also true that adding a 30-something rock-star billionaire can accomplish all three, and add certain credibility to the company. However, look carefully at both the need, and available talent. Two contrasting examples:

- *Wal-Mart Stores Inc.:* $476 billion in 2014 revenues, a giant in the retail industry, sells to billions of consumers of all ages, high use of IT, highly affected by Internet/social media/mobility, maintains large online databases of highly personal information, and must embrace mobile applications. Absolutely, and well done on its recent election to the board of Kevin Systrom, the co-founder and CEO of Instagram, the photo and video-sharing social networking service now owned by Facebook.
- *Acme Power Co. (fictitious):* A power industry player with $100 million in 2014 revenue, sells large generators to utilities (under 50 customers), trailing-edge IT, minimal use of Internet, no social media presence, and no online database or mobile technology. Why bother?

— Dennis Cagan