



Optimising the mix of “generalist” and “sector-specialist” non-executive directors in your board team

A company board chair recently lamented to me during an external board evaluation that he regretted his approach to board composition over the years and that at a time when the CEO, executive team and the company badly needed serious strategic firepower and new thinking from the non-executive directors on the board, it simply wasn't there. He described how up to a few years ago, their market sector was pretty straightforward and while his CEO and executive team worked well with the board and had their annual strategy away day, the CEO never really needed serious strategic and fresh thinking from the non-execs on the board. That resulted in the chair defaulting to generalist non-executive directors who were very solid and that he knew well, brought strong overall executive and corporate experience but with one exception had either high-level generalist knowledge of the sector or were not from the sector at all. In recent years, the sector the company operates in has experienced severe disruption in terms of technology disruption, radical changes in business models, significant changes in customer requirements and new entrants appearing with strong private-equity backing. For the first time in decades, this company is losing market share and a lot of its larger customers are disappointed at the company's roadmap and serious lack of genuine innovation to meet their rapidly changing requirements.

The board chair and CEO found it tough initially to hear this message but embraced my recommendation that a serious re-refresh is needed in the ranks of the non-execs to bring in some serious heavyweight sector specialists who are very current in terms of their expertise of the sector, understand the competitive landscape and trends in terms of where the market and customer mindsets are evolving to. I indicated that it is important to be very respectful of the contribution that the generalist non-execs on this board have made but at the same time **the board chair and CEO have a critical responsibility on behalf of the shareholders and stakeholders to ensure that the board has**

the strategic firepower and independence of mind in the non-executive ranks to “move the needle” in terms of the value they are bringing to the CEO and company in terms of positioning the company for sustainable success over the years ahead in what is a very fast-changing and dynamic marketplace.

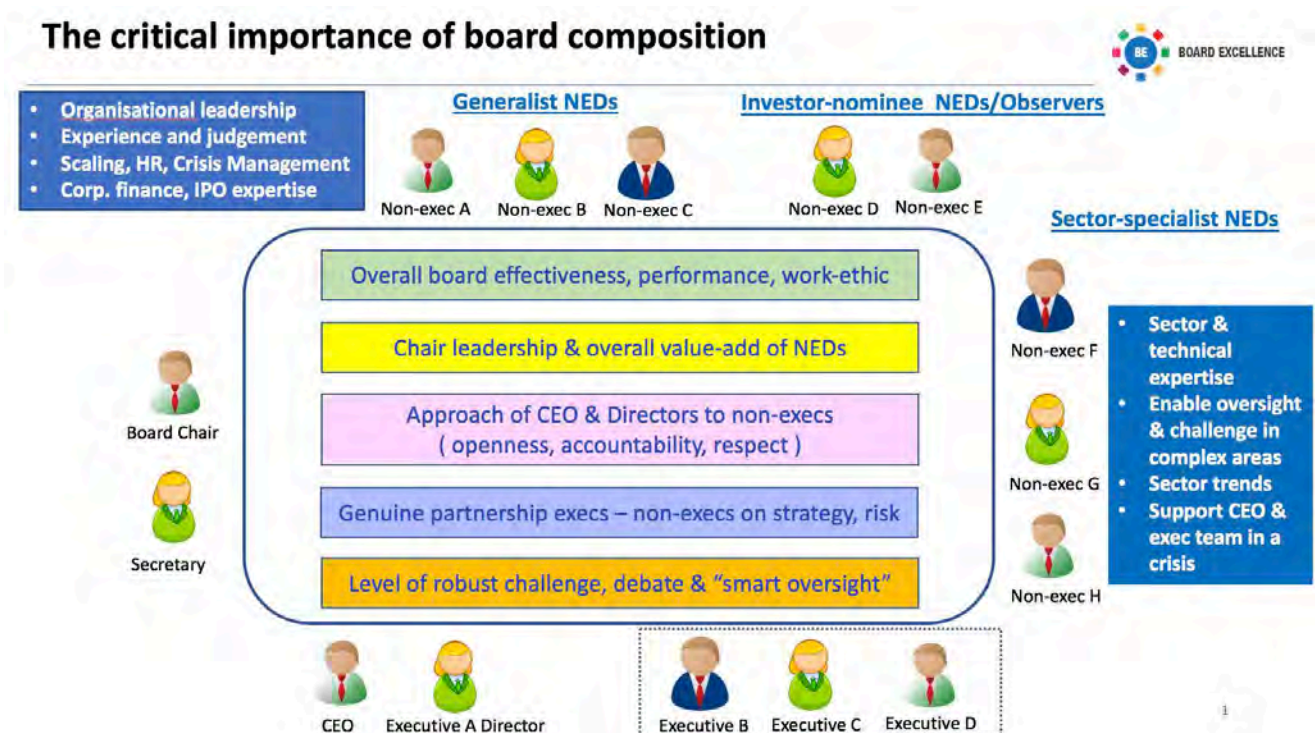
The challenge facing this company now is a very common challenge facing many company board teams across the world and illustrates very effectively why a company board needs genuine sector heavyweight non-executive directors (NEDs) who can not only go toe to toe with the CEO and executive team in terms

of challenge and debate but can more importantly roll up the sleeves to add serious value in the area of strategy and bringing a very independent and honest perspective on

- The current position of the company in terms of how the company's products and services are aligned with the changing needs of its customers
- Levels of genuine innovation needed to address the evolving customer needs
- Open debate on potentially stepping back from sacred cows that have been the bedrock of the company's revenue and market position but the market may now be moving beyond
- The competitive landscape and ensuring that the CEO/executive team are not stuck in a time-warp in terms of their understanding of their competitors

- Re-thinking the traditional approach to M&A and opening the minds to for example an adjacent sector acquisition that could provide the company with disruptive technology

The following diagram from our board best practices workshop illustrates a typical composition of a company board. This covers the full spectrum of company boards from Small Medium Enterprises, private-equity backed companies, family businesses, large companies and PLCs. Clearly this will vary considerably based on the size and sophistication of the company and board with boards sizes most commonly in the range of six to 10 board members with some larger boards in certain cases. In general company boards consist of the following outlined below.



Board chair and Company Secretary: Board chair would also bring significant general expertise to the table as well as in some cases deep sectoral experience

CEO & Executive directors: Normally would be the CEO and CFO who attend the board meeting, occasionally a COO or VP Sales

Executives: Comprising executive team members who attend parts of the board meetings

Generalist non-executive directors: Usually have strong executive and company track records bringing significant executive experience and judgement in the areas of financials, company scaling, M&A, HR, sales, marketing, corporate finance expertise and a strong track record of non-executive board roles

Investor/Shareholder nominee directors/observers: These comprise non-executive directors/observers who represent key shareholders/investors such as a private equity firm for example. In reality, these board members have two hats on in terms of a duty to the company first and foremost and then to the shareholder/investor who they represent.

Sector-specialist non-executive directors: These would usually comprise of industry/sector veterans who have deep expertise and track record in the sector, are keeping themselves sharp on the evolving market and technologies to enable them provide high-quality challenge and debate to CEO/Exec team as well as bringing serious value and independent thinking in the strategy area.

Ideally you are looking to have a very vibrant mix of both generalist and sector-specialist NEDs who complement each other really well, as a board and company need both types of expertise and this also ensures great diversity of thought and reduces significantly the potential for group-think as in our experience there are often quite a different thinking style across generalist and sector-specialist NEDs. While we have seen some cases of a very strong NED who combines both the best of a generalist NED and a sector-specialist NED, our experience is that in most cases, a NED normally excel as one or another. In practice, many board teams struggle to get the optimum mix between generalist and sector-specialist NEDs with the following representing common challenges;

Too many generalist NEDs and not enough high-calibre sector specialists who can genuinely contribute to the strategic thinking of the company and go toe-to-toe with and challenge/debate with the CEO and exec team

This is the most common problem in board composition and represents the scenario the company faced in the introduction to the article. We see far too many boards full of generalist NEDs who while in many cases are very experienced committed NEDs who are working very hard for the board, in reality they are overlapping with each other too much and struggle to generate genuine “move-the-needle thinking” and to be able to very intelligently challenge and debate with the CEO and executive team. In many cases we find, the CEO deliberately did not want heavyweight sector NEDs as the CEO felt that they would either provide too much robust thoughtful challenge and debate or that they would somehow weaken the CEO’s ownership of the strategy for the company.

The sector-specialist NEDs have not been upskilling to keep pace with sector developments and have not been refreshed to bring in the right type of sector expertise for the next phase of the journey

This is a more common problem that what’s realised and is where the sector-specialist NEDs on the board have not kept up with the market in terms of changing customer requirements, new technology and business model disruption, changes in the competitive landscape etc. Where the company need to make some big decisions in terms of strategy and response to major competitive threats, these sector-specialist NEDs are not equipped with the either the current market understanding and more importantly where the market is going to provide that critical support and challenge to the CEO and executive team.

Not enough heavyweights in the ranks of the sector-specialist NEDs

This is a common problem whereby many board chairs, CEOs and nominating committees have defaulted too much to “their own networks” to find sector-specialist NEDs rather than pay a specialist non-executive search firm to do a far broader search both locally and internationally that could bring a far broader array and in our experience often much stronger sector-specialists. I have also been surprised at how many investment and private equity firms over-focus on their “own trusted network” rather than the mind-set of finding the very strongest NEDs who while not currently known to them could bring significantly stronger strategic independent thinking to the board team.

Too many sector-specialist NEDs and not enough generalist NEDs

This is a less common problem which we see from time to time where there are simply too many sector-specialist NEDs which often results in debates and board discussions being overly technical. In this case, while the board may have more than enough sector-firepower around the table, it lacks sufficient generalist expertise in terms of overall company performance, operations, finances, HR, corporate finance, scaling expertise etc.

Investor shareholder nominee directors who do not add sufficient independent value either as a generalist or a sector-specialist

This is an interesting problem which we see from time to time whereby a nominee director from an investment firm or a major shareholder/investor does not add serious value either as a generalist or as a sector-specialist NED. I have seen some outstanding nominee directors with very deep sector and generalist expertise add incredible value to a company board based on their experience with similar portfolio boards etc. I have also seen cases of nominee directors who are continually in “defensive mode” on the board prioritising their investment firm/investor interests and not adding any value in their own right as a board director. While the investment firm or significant shareholder may have a legal right enshrined in the shareholder agreement to have a nominee director on the board, they have a key responsibility to ensure that their nominee director genuinely adds value to the board and company as a NED in their own right in addition to wearing the investor hat in the appropriate balanced manner.

Summary

In summary, each company's sector today is undergoing radical change and its board needs a very vibrant mix of both generalist and sector-specialist NEDs who compliment each other and bring the full range of independent challenge, debate, strategic thinking and support to the CEO and executive team. Even the most battle-hardened CEOs are finding the strategic waters of their marketplace increasingly difficult to navigate and are appreciating the benefits more and more of genuine sector heavyweight NEDs who have the firepower to intelligently challenge and debate with the CEO/Execs as well as bring genuine "move-the-needle and left-field thinking" to the executive team. I have seen many CEOs over the years admit that either they or the board chair deliberately biased selection of NEDs to the generalist area as they were uncomfortable with strong industry NEDs who would hold their feet to the fire in terms of the strategy, technology, product, service and innovation areas. A number of those CEOs now realise that this ultimately weakens the board and executive team's capability to optimise their strategic and overall decision-making at a time when no company's future is guaranteed.

Kieran Moynihan is the managing partner of **Board Excellence (www.board-excellence.com)** – supporting boards & directors in Ireland, the UK and internationally excel in effectiveness, performance and corporate governance.

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