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Bridging the Generation Gap

Recruitment of under-40 directors is up, but is age diversity a sure bet for tackling the next generation of boardroom issues? By Jesse Rhodes

Peter Pan notwithstanding, a fixation on youth is generally considered unhealthy in most contexts. In boardrooms, a dearth of age diversity is increasingly viewed as a sign of being out of step with the times. Such myopia may result in an inability to see what disruptions lie beyond the horizon or to anticipate changes in consumer behavior. For example, much has been made about how the millennial generation—which encompasses people born between 1981 and 1996, according to Pew Research—is reshaping business thanks to their digital savvy and spending and work habits that favor socially conscious organizations. Insights into this segment are important as millennials stand to become the most populous generation in the United States this year. According to the latest projections by the US Census Bureau, millennials are expected to number 73 million versus 72 million baby boomers, the generation born between 1946 and 1964. Generation X, which spans from 1965 to 1980, isn't expected to outnumber the baby boomer population until 2028.

Given that companies are sure to face upheaval due to demographic and technological forces, one might think that boards would readily embrace age diversity as a key component of their composition. The case might seem stronger given that the average age of corporate directors overall is rising. According to the 2018 US Spencer Stuart Board Index, the average age of an independent director of an S&P 500 company is 63, up from 61 in 2008. The bulk of the population (74%) is between the ages of 50 and 69. And here's a startling fact: only 17 directors on S&P 500 company boards are under the age of 40.

Studies show that age is a dimension of diversity that simultaneously tantalizes and aggravates. On the one hand, onboarding younger directors can introduce diversity of thought—specifically, the attitude and frame unique to a generation of stakeholders that might not be currently represented at boardroom tables. According to PwC's 2017 corporate director survey of S&P 500 directors, 91 percent of respondents indicated that age was more important to bringing diversity of thought onto a board—more so than gender, ethnicity, or other dimensions of diversity. However, 45 percent of respondents to the firm's 2018 survey indicated some hesitancy about bringing on directors under the age of 50 due to a perceived lack of time to devote to board service, career experience, and knowledge of what board service entails. Age diversity was deemed either very important or somewhat important by 21 percent and 50 percent of survey respondents, respectively.

Perception problems aren't the only reasons boards may eschew youth for experience. Shortcomings in board composition frequently fall within the crosshairs of activist investors, which makes having a slate of high-functioning, highly effective directors all the more important. In this regard, just as youth is seen as a proxy for technological savvy, age is a proxy for experience and boardroom savvy—in other words, a relatively more bulletproof board candidate.

In addition, there are no studies that show a definitive link between age diversity on a board and corporate performance. According to 2017 research by Equilar that focused on the 500 largest US companies by revenue, the majority of boards studied had a decrease in median director age over a three-year period. Some 98.5 percent of companies saw a decrease in median age of three years—a sign that these boards were focused on refreshing their composition with younger directors. Using total shareholder return as a yardstick for performance, Equilar saw negligible improvements in performance over that same three-year period. The researchers did, however, note that age and tenure on a particular board are mutually exclusive (i.e., a younger director may have spent more time on a given board). Moreover, these numbers don't speak to the range of ages on any particular board. As the variables that influence company performance are many, that three-year period might have been too short to deduce any results.

But looking at those same 500 boards, Equilar also noted in its 2017 report that there was a spike in appointing directors under the age of 40: between 2015 and 2016, under-40 board appointments doubled, and in 2017, 30 such appointments were made. So, despite the debatable benefits, more companies seem to be placing conservative bets on age diversity.

Of course, recruiting based on a single quality isn't advisable either. According to Equilar founder and CEO David Chun, age diversity in the boardroom demands both keen attention and a delicate hand. "Diversity goes well beyond just gender," Chun said. "As boards think through issues and opportunities, having people in the room going through different life experiences will often help uncover blind spots. You don't know what you don't know. That being said, it takes a special person who has the gravitas to be a peer for boardroom discussions."

In past years, the editors of *NACD Directorship* have endeavored to profile members of this boardroom minority to gain a sense of the talents and capabilities they bring to the table. (See "The Next Generation Moves Up," March/April 2018, and "Directors Under Age 40," March/April 2015.) This year, however, a more analytical approach seemed in order. Thanks to the data mining capabilities of MyLogIQ, an intelligence company that specializes in public company information, *NACD Directorship* was able to look at the five-year director recruitment history of Russell 3000 companies to discern trends in under-40 director recruitment—where these directors are serving and whether they are stepping into leadership roles as chairs of committees. In addition to looking at age, we were curious to know if boards are pursuing other ways to meet changes in the business environment, specifically by way of committee structures.

Slow Advances

MyLogIQ pulled data from US Securities and Exchange Commission (SEC) disclosures between Jan. 1, 2014, and Dec. 31,

FIGURE 1

Looking at publicly disclosed data over the past five years, how many under-40 directors were appointed to boards each year?

Gender breakdown by year

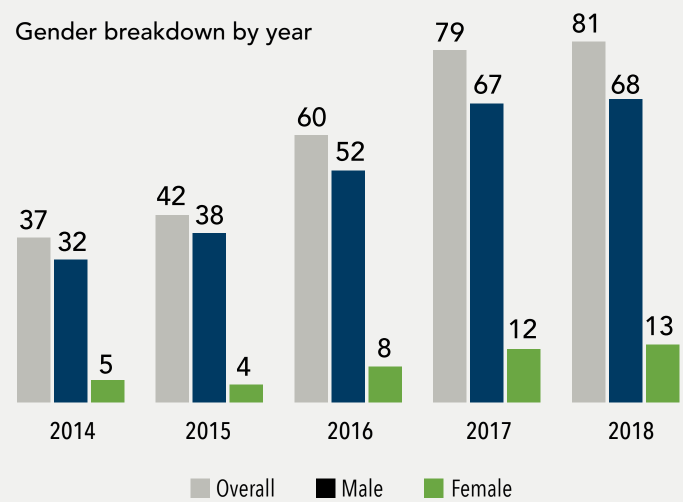
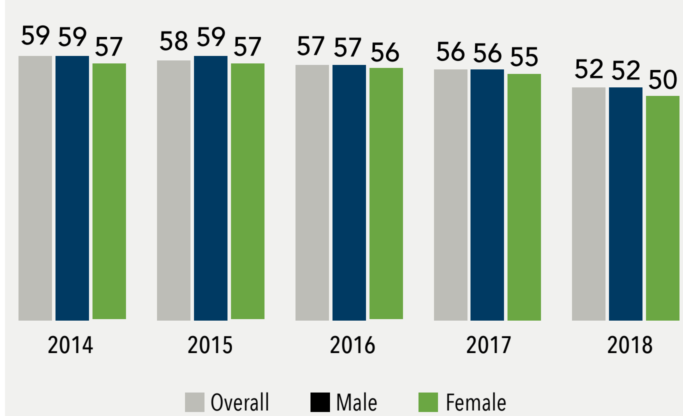


FIGURE 2

Has the average age of directors in general gone down or up in the last 5 years? How is this trending?

Average age of newly appointed directors



Source: MylogIQ

2018. Regarding overall trends in director recruitment apropos of age, Russell 3000 companies follow the trend of the aforementioned Equilar 500 companies. The average age of newly appointed directors is decreasing: 52 in 2018, down from 59 in 2014. It's also worth noting that since 2015, those new appointments are, roughly, equally split between women and men (*see Figures 1 and* 2).

Also similar to the Equilar data, the appointment of directors under age 40 is uncommon but trending up. Only 299 directors under the age of 40—i.e., the younger members of Generation X and the older members of the millennial generation—have been added to Russell 3000 boards in the past five years. In 2018, 71 companies appointed directors under age 40. The average age of these directors hovers at about 35. To put this in perspective, 1,473 companies made 2,494 appointments that year, with an average age of 52. In terms of gender diversity, these appointments are overwhelmingly male. In 2018, men netted 68 out of 81 under-40 board appointments, compared to 67 out of 79 in 2017 and 52 out of 60 in 2016 (*see Figure* 3).

The financial services sector made the most under-40 director appointments during the five-year span studied, and consistently appoint the highest number of younger directors: 17 in 2018, and 20 in 2017, nearly double the appointments made in 2015 (10) and 2014 (8). In 2018, 14 of those appointments were men and three were women. The energy and mining sector and the industrial products sector each made 47 appointments during that time frame. Energy and mining companies made the most under-40 appointments in 2018—20, up from only two appointments in 2014.

All the board appointments in energy and mining during this span were male. The industrial products sector appointed 14 under-40 directors in 2018—11 men and three women—up from eight appointments in 2014.

Although the data don't specifically speak to why companies in these sectors might have added younger directors, anecdotally, these are sectors that are facing significant technological disruption. For example, fintech companies are reshaping the ways in which people connect with their money and the institutions that manage it.

Robust year-over-year information on committee service was not available based on publicly disclosed information in SEC filings; however, it is interesting to note service on committees other than audit, compensation, and nominating and governance. In the past two years, these directors have stepped on to strategic alliance, acquisitions, information technology, and investment policy committees.

Take, for example, Bret Taylor, a director of Axon, the weapons technology company responsible for products such as the Taser. At 37, Taylor has served as the CEO of software company Quip. (When Quip was acquired by Salesforce.com in 2017, Taylor was named president and

FIGURE 3 **Directors Appointed to Boards (Russell 3000)**

UNDER AGE 40	2018	2017	2016	2015	2014
Number of Companies That Appointed Directors	71	68	56	38	35
Directors Appointed	81	79	60	42	37
Average Number of Directors Appointed	1.1	1.2	1.1	1.1	1.1
Directors' Average Age	35	35	35	36	35
Male Directors Appointed	68	67	52	38	32
Average Number of Male Directors Appointed	0.1	0.1	0.9	1.0	0.9
Male Directors' Average Age	35	35	36	36	34
Female Directors Appointed	13	12	8	4	5
Average Number of Female Directors Appointed	0.2	0.2	0.1	0.1	0.1
Female Directors' Average Age	36	36	34	35	37

OVERALL	2018	2017	2016	2015	2014
Number of Companies That Appointed Directors	1473	1399	1353	1254	1286
Directors Appointed	2494	2351	2220	2031	2135
Average Number of Directors Appointed	1.7	1.7	1.6	1.6	1.7
Directors' Average Age	52	56	57	58	59
Male Directors Appointed	1663	1750	1714	1600	1672
Average Number of Male Directors Appointed	1.1	1.3	1.3	1.3	1.3
Male Directors' Average Age	52	56	57	59	59
Female Directors Appointed	831	601	506	431	463
Average Number of Female Directors Appointed	0.6	0.4	0.4	0.3	0.4
Female Directors' Average Age	50	55	56	57	57

Source: MyLogIQ

chief product officer at Salesforce.) In addition, Taylor was chief technology officer at Facebook, and as group product manager at Google, he co-created a product called Google Maps. He's built up considerable business experience that, at least on paper, makes him a natural fit for serving on Axon's mergers and acquisitions committee and its technology committee, which he chairs.

Kevin Systrom, founder and CEO of Instagram, is another young director who is taking on new board leadership roles. In his case, it's at Walmart. Walmart identified itself as a "technology company" during its 2017 annual meeting—an odd moni-

FIGURE 4 Nontraditional Committees in Russell 3000 Companies (By Sector)

	TOP FIVE COMMITTEES	ENERGY AND MINING	ENTERTAINMENT, MEDIA, AND COMMUNICATIONS	FINANCIAL SERVICES	HEALTH INDUSTRIES	INDUSTRIAL PRODUCTS	PHARMACEUTICAL AND LIFE SCIENCES	RETAIL AND CONSUMER	TECHNOLOGY	OTHER
2018	Executive	57	40	228	8	94	17	100	38	1
	Finance	42	21	75	6	71	23	70	24	0
	Risk	12	6	196	1	16	4	11	13	0
	Technology	11	12	33	5	18	37	13	16	0
	Investment	8	1	93	2	5	0	8	5	0
	Other	103	54	245	31	113	111	117	77	1
2017	Executive	59	41	230	8	100	17	104	40	1
	Finance	42	23	71	6	73	20	73	21	0
	Risk	12	6	182	1	16	4	10	10	0
	Technology	12	11	28	4	21	36	11	15	0
	Investment	7	2	91	2	5	0	10	6	0
	Other	94	46	241	28	109	111	111	73	1
2016	Executive	59	41	234	8	96	19	100	38	1
	Finance	47	23	67	5	65	19	74	21	0
	Risk	11	5	163	1	17	2	10	8	0
	Technology	9	9	26	4	20	34	8	16	0
	Investment	7	2	87	1	5	0	9	4	0
	Other	99	43	232	26	110	107	102	66	0
2015	Executive	59	39	218	6	97	17	101	37	1
	Finance	45	22	62	5	68	17	76	20	0
	Risk	9	4	154	1	15	2	4	6	0
	Technology	9	6	19	2	20	30	6	17	0
	Investment	7	2	78	1	5	0	9	5	0
	Other	97	39	217	23	104	91	90	63	0
2014	Executive	64	39	207	6	94	16	106	38	1
	Finance	45	22	64	5	63	16	74	21	0
	Risk	8	4	124	0	8	1	4	4	0
	Technology	6	2	77	1	7	1	8	5	0
	Investment	8	7	24	1	15	9	14	14	0
	Other	95	37	206	18	102	75	89	54	0

Source: MyLogIQ

ker for what has traditionally been seen as a big box retailer. Yet Walmart is investing heavily in e-commerce through acquisitions and partnerships with Microsoft and Google. At the board level, Walmart has had a technology and e-commerce committee since 2011, which is currently composed of three members, with Systrom as chair. The committee is tasked with overseeing Walmart's information technology systems and future trends as they pertain to e-commerce.

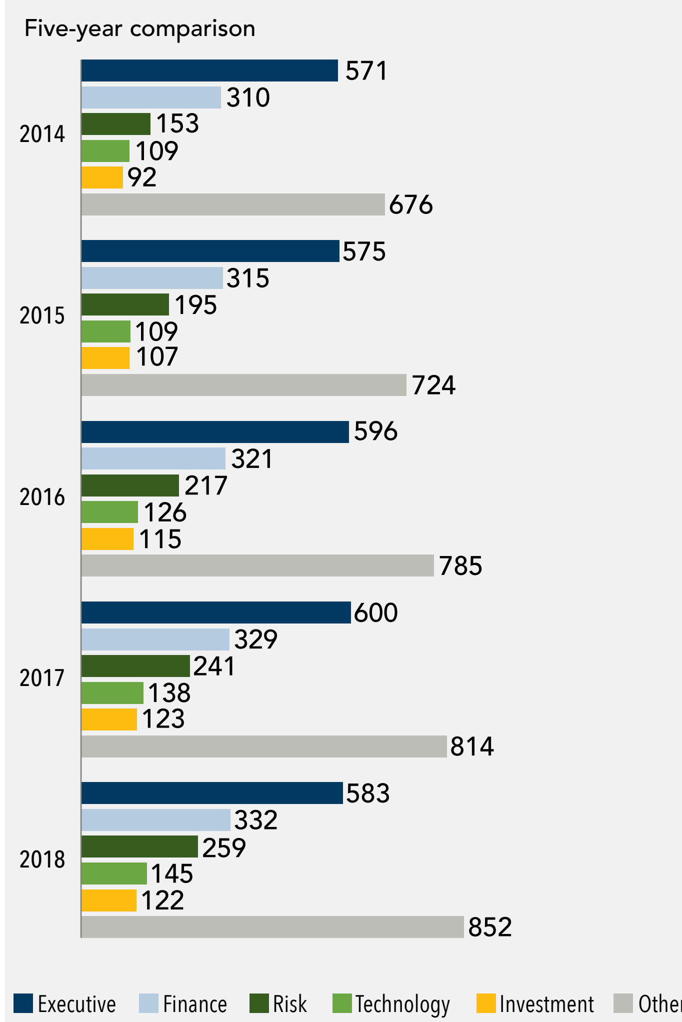
New Boardroom Building Blocks

Looking beyond the under-40 set, it seems there are plenty of companies that are rethinking the standard board committee structure to take on new business challenges. In 2014, 1,866 Russell 3000 boards formed committees outside of the standard three. That number has steadily increased to 2,283 in 2018 (*see Figure 4*). Some risks, such as cybersecurity, are proving so great that boards might consider creating a new committee to provide a requisite level of oversight, should the company's particular situation demand it. The top five nontraditional board committees are:

- **Executive committees.** These are usually small groups of board officers tasked with overseeing pressing issues that the committee then elevates to the full board. In addition, these committees meet to address crisis situations, and in those cases typically have the authority to act on the full board's behalf.
- **Finance committee**. A group tasked with overseeing the company's financial health and financial reporting and policies.
- **Risk committee.** It's no surprise that this is a top-five "special" committee. The Dodd-Frank Wall Street Reform and Consumer Protection Act required financial institutions managing more than $10 billion in assets to have a separate risk committee. Of note, companies in other sectors are creating stand-alone committees stacked against the company's top risks. Outside of the financial services sector (with 196 risk committees total), the next highest concentration of risk committees is in industrial products (16), followed by technology (13). Companies outside of the financial sector that have a risk committee include Alexion Pharmaceuticals, American Campus Communities (a real estate company), B&G Foods, Casey's General Store, General Motors Co., IHS Markit, Kosmos Energy, Proofpoint (a technology company), United Parcel Service, and Westlake Chemical Corp.
- **Technology committee.** Generally tasked with overseeing technology as it pertains to the execution of corporate strategy, technology committees are most prevalent in the pharmaceutical and life sciences sector (37), followed by financial services (33).
- **Investment committees.** These committees are responsible for overseeing the company's financial affairs and investment decisions. They are typically seen in financial services companies (*see Figure 5*).

Ultimately, there is no single correct way for boards to compose themselves, be it in terms of talent or their committee structures. There is, however, something to be said for looking out into the marketplace to see how the boards of similar companies are thinking about the future and how that is affecting their decisions around board refreshment and composition. While under-40 directors are far from achieving critical mass, there is, at the very least, a growing number of companies placing conservative, but key, bets on bringing youth into the boardroom. D

FIGURE 5 Top 5 Nontraditional Committees



Source: MylogIQ