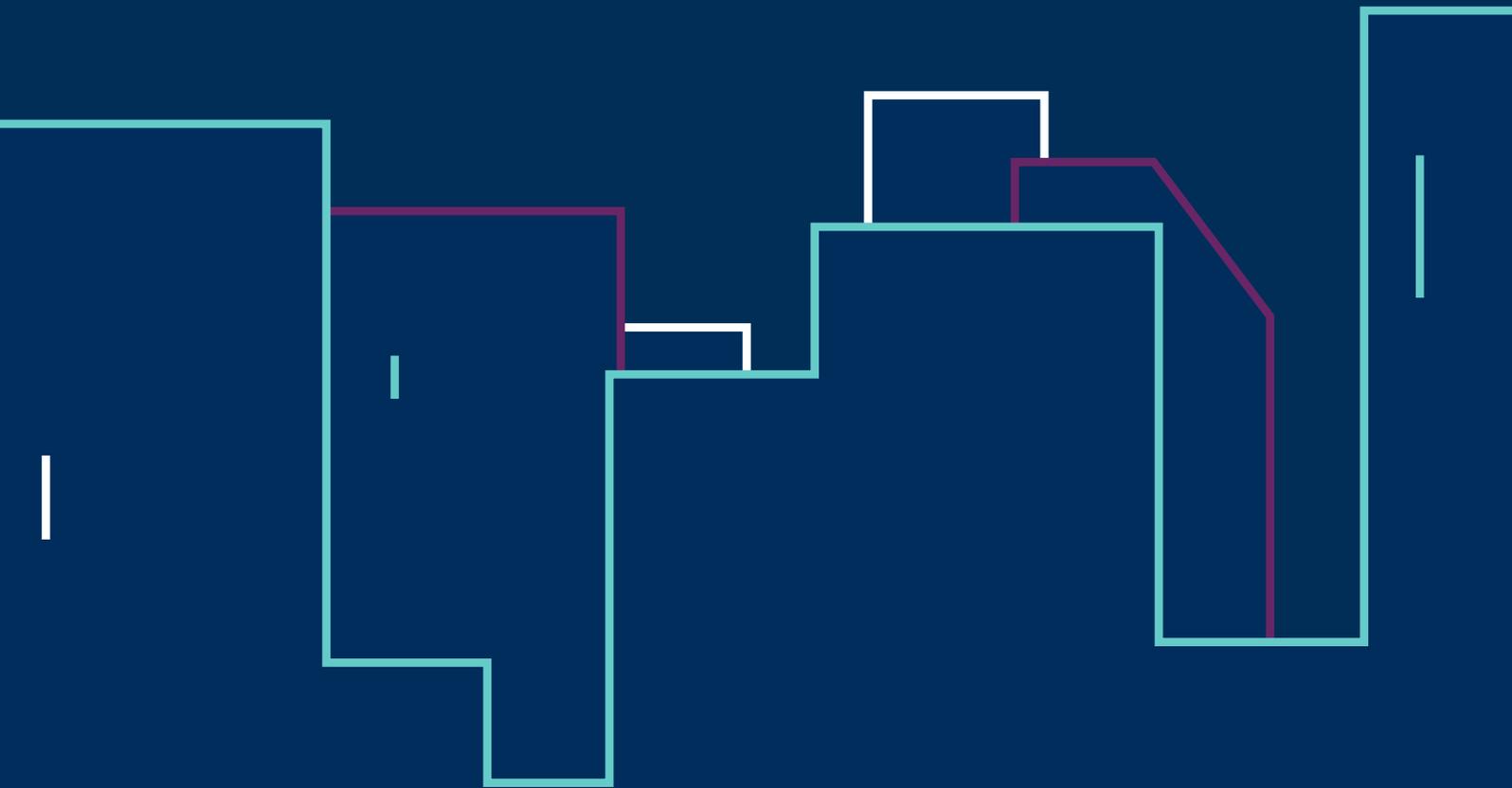

Digital NEDs

A view from the chair



Getting digital on board

There has been a growing trend among boards to appoint non-executive directors (NEDs) who have a digital background. Russell Reynolds spoke to experienced UK chairs of boards in a range of companies who have already taken steps in this direction to find out what type of NEDs have been appointed. What difference have they made to the board's effectiveness and modus operandi?

The findings suggest boards and companies have a long journey ahead of them when it comes to embracing digital. The distinction between a 'digital' NED and other NEDs is rapidly becoming an artificial one. Appointing a digital NED certainly changes the board dynamic, but the journey doesn't end there.

“Digital skills and knowledge are increasingly important around the Board table – both in B2C and B2B companies.”

— David Tyler, Chair of J. Sainsbury plc

“The key issue isn't technology per se, but nowadays you need to know how to use technology to transform a business.”

— Richard Ensor, Former Executive Chair of Euromoney

“Digital is growing and necessary... the entire world has moved to multichannel.”

— Lord Burns, Chair of Channel 4

What is a digital NED?

“When you’re in the digital arena, you realise it’s not a single space. There are so many different aspects and approaches to digital.”

— Philip Yea, Chair of bwin.party digital entertainment plc

“Depending on what stage your business is in, you need either a digital transformer or a disruptor.”

— John Allan, Chair of Tesco plc and Barratt Developments plc

“There are few people in the pure-play arena able to contribute on broader business topics regardless of how good they are on digital.”

— Archie Norman, Chair of ITV plc

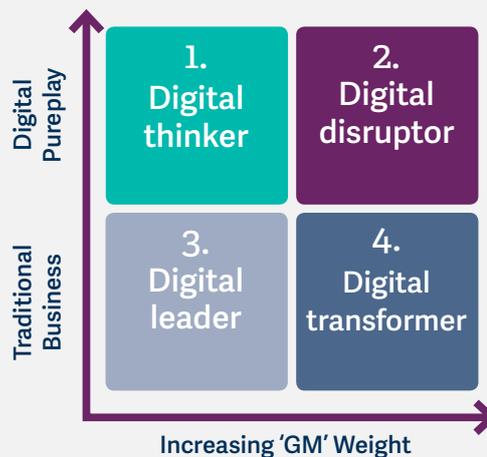
There are many different ways in which someone might be considered ‘digital’. From a technology perspective, executives may be more or less familiar with cloud, social, mobile, big data and analytics, as well as digital media and ecommerce. There is also a distinction between individuals from a specific technology role (e.g. chief technology officer or chief information officer) and those who have grown up in other functions, with the former often regarded as too narrow in outlook.

Chairs also note a distinction between ‘digital mindset’ and ‘digital upbringing’ – those who are conceptually aware of the issues as opposed to those who have made their careers in digital.

However, chairs report that one of the key considerations in appointing digital directors is the general management ‘weight’ of the individual. Put simply, there is a tradeoff between seniority and experience of complex P&Ls on the one hand and proximity to the digital coalface on the other. In addition, experience of operating in a traditional company environment and, if possible, of how to transform an old business into a new one, is seen as increasingly important.

As businesses and business people become more digital the distinction between a NED and a digital NED is becoming blurred. Where a digital NED sits on the spectrum below depends largely on their background and experience.

THE DIGITAL NED SPECTRUM



1. DIGITAL THINKER

Little direct interaction with digital but conceptually understands the digital environment. May be a NED or advisor in a digital business, but has not grown up in a digital environment. Limited general management experience.

2. DIGITAL DISRUPTOR

Deeply embedded in digital, with an encyclopedic knowledge of its ins and outs, probably from a digital pure-play. Usually, has less general management breadth.

3. DIGITAL LEADER

Significant experience of running a traditional business, which touches or leverages digital in a significant way, for example, in retail or media. An established general manager, albeit one with less digital experience. May be CEO of a traditional business driving transformation.

4. DIGITAL TRANSFORMER

Deeply digital, but crucially has led or participated in a transformation of a traditional business. Will be more junior than a Digital Leader, but tends to be more digitally astute.

NED first, digital second

As with any NED, company boards need people who can contribute to the wider board debate. A good NED, even if hired for their digital expertise, should be able to bring something to the table on a wide range of issues beyond digital.

Chairs caution against 'single issue' board members. Candidates from pure-play digital backgrounds can run the risk of being too narrow in their outlook or being left behind.

Sector experience is beneficial, but it's not as important as a person's ability to translate his or her experience in a way that is meaningful to the board. An interest or passion for another industry can also be a driver. In short, a NED needs to be a rounded business person.

"This isn't always the person from Google. The key skill is the ability to communicate what they know and understand to the board."

— Richard Ensor, Former Executive Chair of Euromoney

"Don't suspend the judgment of the 'T' – breadth and depth – it is more important to be a well-rounded business person than a narrow specialist."

— Helen Alexander, Chair of UBM

"You're screening for someone who is a good director, who can fit with the team, and who has good digital skills."

— Ian Russell, Chair of Johnston Press plc

"It's tempting to recruit them when they come from a pure-play but you need to check they won't run out of things to say after three meetings"

— Philip Yea, Chair of bwin.party digital entertainment plc

Getting the best from NEDs

“They are naturally strong on how consumers relate to the web and user experience.”

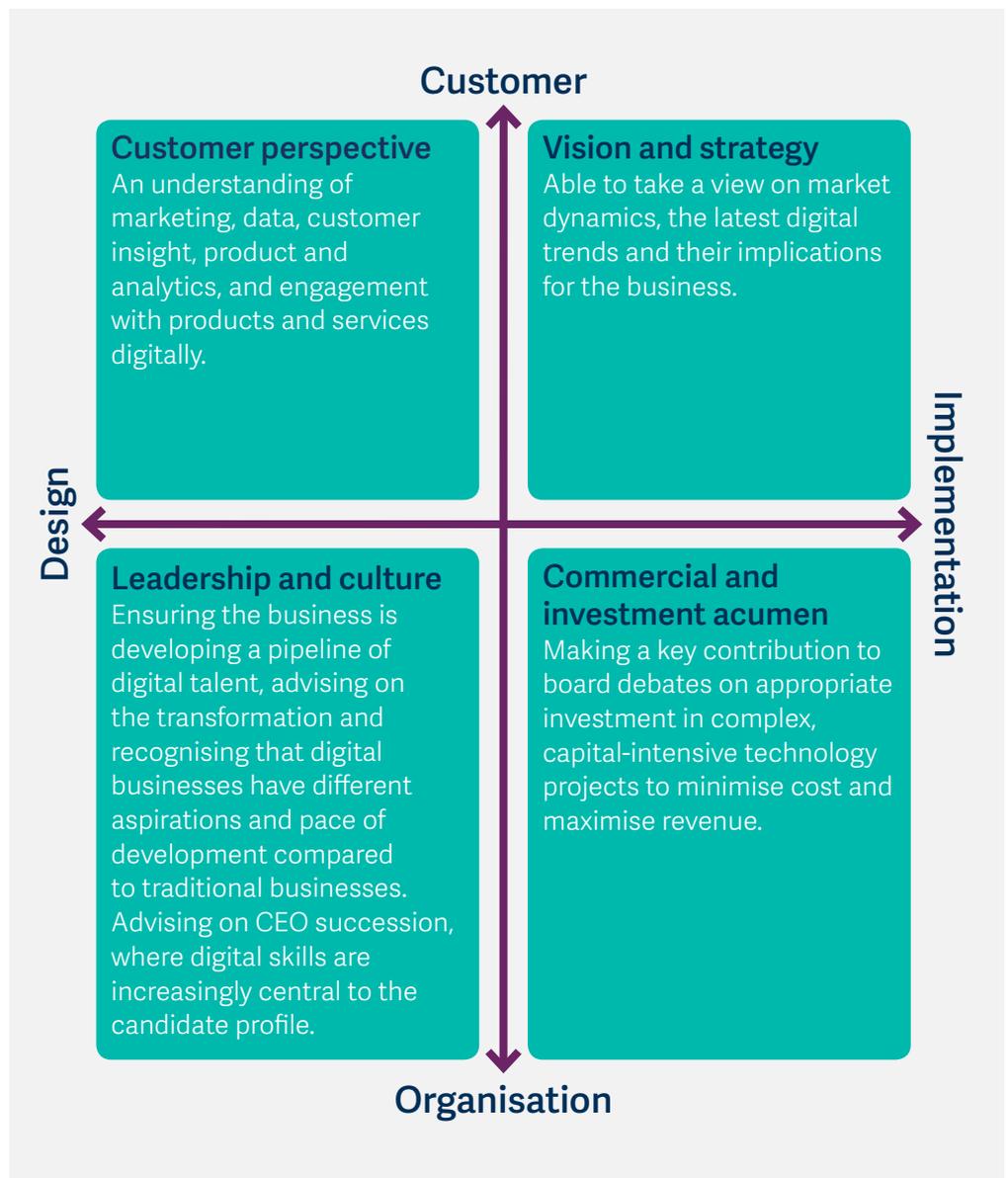
— David Grigson, Chair of Trinity Mirror

“Digital NEDs tend to be more outward and forward looking than other NEDs.”

— John Allan, Chair of Tesco plc and Barratt Developments plc

There are four broad areas identified by chairs where digital NEDs are typically asked to add value to the board.

Being good at one area, doesn't mean a NED will be good at others. For example, NEDs who are good at the customer perspective, vision or leadership are not always good at capex oversight. Many 'Digital Disruptors', for example, have limited experience of capex appraisal and systems implementation, yet they are often consulted on such issues.



Challenging the board dynamic

More broadly, another area in which the right digital NEDs can add value is by challenging the board dynamic. Digital NEDs can bring fresh thinking to the board, questioning the status quo, while helping to maintain a sense of proportion about the potential of digital.

Some chairs commented that traditional NEDs can be reactive, adopting more of a policing function. In contrast, digital NEDs can be more proactive, stimulate management thinking and act as a catalyst for change.

Chairs also comment that digital NEDs can embrace their role outside the boardroom more fully than their traditional counterparts. Digital NEDs can sometimes be closer to the heart of the executive team and more comfortable having probing conversations outside the boardroom than in a committee environment. Perhaps this is due to the fact the executive team is often drawn to the digital NED.

“Digital NEDs probably tend to be more active outside the boardroom with the executives than others.”

— David Tyler, Chair of J. Sainsbury plc

“Boards need more people who can infuse disruption in the organisation, evaluate digital talent and drive pace. To do this you need to be brought up in the digital world.”

— David Grigson, Chair of Trinity Mirror

“They offer security and encouragement to people on the board who are worried about digital.”

— Lord Burns, Chair Channel 4

“A digital brain thinks in a more challenging way than a non-digital one as they are used to change, they are used to pace and they are used to failure.”

— Neil Berkett, Chair of Guardian Media Group

Avoiding the digital NED pitfalls

A common theme among chairs is that a NED should not be brought in to solve a problem that would be better addressed by an executive hire. The danger is that this results in a 'narrow' digital hire, who can only contribute in his or her specialist area, without truly engaging with the rest of the board on other issues. They can also get drawn into effectively becoming an executive, working too closely with the business.

The board's perception of the NED, and NEDs' perceptions of themselves, must also be broader than being simply a 'digital director'. It can be challenging for one person to be seen as the effective authority on all digital issues. Equally, digital NEDs need to avoid the temptation to overcompensate for lack of experience in other areas of business.

Digital NEDs, particularly Digital Disruptors, may take more time to integrate into the board. Chairs should be prepared to spend longer with them to help them understand the pace, scope and dynamics of the business. They also need to ensure that digital issues are framed in appropriate business, rather than technical, language.

Some chairs raised the possibility of creating digital advisory boards. However, there was a feeling that while this might help with educating and advising the board, it would not be as effective at driving change as appointing digital talent to the board itself.

“The problem with having only one digital NED is that companies go for the pure-play internet person and they cannot fight all the battles by themselves.”

— Neil Berkett, Chair of Guardian Media Group

“You’re taking a double risk – either they’re not that special, or they’re too special.”

— Helen Alexander, Chair of UBM plc

“Some people pigeon-hole the digital NED as only able to contribute on digital issues and not on other matters”

— Philip Lader, Former Chair of WPP

Bridging the gap to a digitally functioning board

“What is really important is ensuring the DNA of the board is digital and that everyone is prepared to understand it.”

— Neil Berkett, *Chair of Guardian Media Group*

“You need people who stay current, regardless of background.”

— Philip Lader, *Former Chair of WPP*

There is a strong feeling among chairs that company boards are recognising the gaps in their digital expertise. The trend towards appointing ‘digital NEDs’ is now well established and this is challenging and reshaping the board dynamic. However, there is a broad spectrum of different digital NEDs, as outlined in this paper. Careful thought is required to strike the right balance between digital exposure and general management experience to transform a legacy business into a new one.

Ultimately, a digital NED must be NED first and digital second – a well-rounded business person able to contribute on a wide range of issues beyond digital and engage with the rest of the board. Chairs increasingly recognise that digital cannot be the responsibility of a single individual and all board members must embrace and understand it to some extent.

The distinction between digital and non-digital is increasingly breaking down. Hiring a single digital specialist is unlikely to provide all the answers to the digital challenges faced by a business. Boards need a blend of digital experience and every board member has a role to play. It is up to each board member to become digitally savvy and keep up-to-date.

“There’s no such thing as a digital director. Most businesses are partly digital and partly analogue, or legacy. All good businessmen have to have digital as part of their DNA”

— Archie Norman, *Chair of ITV plc*

WITH THANKS TO OUR CONTRIBUTORS:

- Helen Alexander, Chair of UBM plc
- John Allan, Chair of Tesco plc and Barratt Developments plc
- Neil Berkett, Chair of Guardian Media Group
- Lord Burns, Chair of Channel 4
- Richard Ensor, Former Chair of Euromoney Institutional Investor plc
- Peter Erskine, Former Chair of Ladbrokes plc
- David Grigson, Chair of Trinity Mirror plc
- Philip Lader, Former Chair of WPP plc
- Archie Norman, Chair of ITV plc
- Ian Russell, Chair of Johnston Press plc
- Philip Yea, Chair of bwin.party digital entertainment plc
- David Tyler, Chair of J. Sainsbury plc

For further insight on digital NEDs, contact Russell Reynolds Associates.

Russell Reynolds Associates is a global leader in assessment, recruitment and succession planning for Chief Executive Officers, boards of directors, and key roles within the C-suite. With more than 300 consultants in 45 offices around the world, we work closely with both public and private organizations across all industries and regions. We help our clients build boards and executive teams that can meet the challenges and opportunities presented by the digital, economic, environmental and political trends that are reshaping the global business environment. www.russellreynolds.com. Follow us on Twitter: @RRAonLeadership



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