



# The Judgment Premium

in Today's Boardroom



Companies are now looking for board members with diverse knowledge of emerging trends and disruptive forces—not just traditional industry and functional experience.

Just as a global pandemic, uncertain economic environment and social pressures have led to an updated paradigm for what it takes to be a successful CEO, dynamics in the boardroom have shifted as well. The 21st century skills matrix for a board extends far beyond the specific experiences of directors in a particular industry or committee function. A “judgment premium” has become arguably the most valuable attribute in board directors.

At a time when stakeholders are pushing companies to take a position on societal challenges and communicate with clarity as well as nuance, old formulas are less effective. What matters now is a keen understanding of how a company is positioned. Consider how The Walt Disney Company has had to navigate political pressures in Florida.

In addition, when a company is in crisis, balancing the legal, reputational and market risks means making calls with imperfect and incomplete information. Both experience and judgment matter, and the latter is more difficult to assess. Board directors play a key role as a resource to pulse-check, challenge and support decisions that require judgment to help management teams navigate them.

A judgment premium requires being able to see around corners, ask the relevant questions and consider seen and unseen risks. This means a more diverse set of experiences is needed on boards, and a new generation of board directors is emerging.

Of all new board appointments made to the S&P 500 in 2022, active CEOs made up only 13 percent of seats, down by almost half from a decade ago. In addition, next-generation directors (under the age of 50) now make up 18 percent of new directors and 6 percent of all directors, while the average age of new directors appointed is declining.

By Duriya Farooqui

## SIX QUALITIES OF A MODERN BOARD

The attributes that NYSE-listed companies are often looking for are diverse candidates with experience in the new frontiers that are disrupting and reshaping industries. Expertise in new technology and a closer connection to the pulse of consumers mean that younger directors are becoming valuable experts in the boardroom.

To help CEOs navigate global challenges, make decisions for the future during uncertain times and manage stakeholders beyond shareholders, boardrooms today demand this “judgment premium” to drive better, faster decisions. Boardrooms now need representation and insights into emerging trends and disruptive forces, beyond traditional industry experience and functional knowledge that boards have relied on in the past.

Twenty-first-century boards with a high judgment premium need a combination of these six qualities:

### 1 Transformation Experience

The rate of change is unprecedented. Giants that dominated their industry for decades are under pressure to transform their operating models or find new ways to differentiate themselves. Tech companies, for example, are becoming players in the hospitality industry, encroaching on a field that had long been dominated by hotels and airlines. Consumer product companies are having to consider generational shifts. And banks are being disintermediated by payments companies and digital currency.

Companies that have enjoyed stability for decades are having to develop new muscles to drive transformation. And change management is uncomfortable, especially when culture has to evolve. It is critical, particularly with legacy companies that have experienced uninterrupted prosperity with a relatively static business model, for a board to have some experienced leaders who know what a successful transformation journey entails. This enables board members to more effectively support their CEO in steering the Titanic before it hits an iceberg.

Because of all the uncertainty in the world, boards have to be comfortable making and supporting decisions with imperfect or limited data, where judgment becomes critical. Waiting for complete clarity can be costly in this environment.

### 2 Decision Agility

Because of all the uncertainty in the world—with geopolitical conflicts, a pandemic that has catapulted us into a new era of risk management and emergent crises like the one that began with Silicon Valley Bank—the business context can change very quickly and also remain in flux for extended periods. Boards have to be comfortable making and supporting decisions with imperfect or limited data, where judgment becomes critical. This means that trust and collaboration become even more important with the CEO, who needs a board that can brainstorm about the implications of various paths when there is no easy or obvious answer.

Waiting for complete clarity can be costly in this environment. CEOs and boards have to use judgment to determine when it makes sense to act quickly or to wait, both for managing risk as well as driving shareholder value. Clarity and alignment in communications and transparency also become key for bringing along stakeholders.

### 3 A Global Mindset

The pandemic, supply chain disruptions and swings in global financial markets impact businesses everywhere, regardless of whether they have a global footprint. The move to establish regulations around data privacy and climate in Europe is making its way to the United States as both challenges continue to accelerate. Board directors today need to build expertise in those issues and consider the emerging risks and implications, particularly for businesses that are global.

Public companies are increasingly adding directors to their boards who are from countries other than where they are headquartered, to add representation from regions where they have significant operations or growth ambitions. Global UK companies are seeking to add U.S. directors and vice versa. International directors add to the perspective and judgment in the boardroom to provide valuable context for discussions about the future growth strategy of the company, while managing risks that vary by geography.

### 4 Industry and Financial Acumen

Industry knowledge is table stakes for board directors. And so is the ability to evaluate the P&L, balance sheet and leadership of a company to hold it accountable to business results. This doesn't mean that everyone on the board should have experience in the same industry or have sat in the CEO or CFO chair (though it is helpful to have at least one director of each kind). If you only had former bankers on the board of a bank, you would get a limited experience-set around payments, digital transformation, cybersecurity and customer loyalty, which are important priorities for banks today.

To foster creative, outside-in thinking and learning from other industries, the common denominator is relevant business acumen. This comes from executive management experience and a wider skill set that can help a CEO make good decisions. Board qualifications have moved past the expectation that everyone must have been a chief executive, making it possible for leaders who are earlier in their career but have a strong judgment premium to become effective board directors.

## 5 Diversity in Gender, Ethnicity, Generation

By now there is overwhelming evidence that diversity in perspective, lived experience and demographics is better for businesses. The push for more diversity has become stronger in recent years, as the various constituents who make up the ecosystem of stakeholder capitalism become more vocal in their demands to see greater diversity at the top of companies.

If your leadership team mirrors the customers you serve, you will anticipate their needs better. If your leadership team has gender balance and greater racial representation, you are more likely to inspire all employees in the company. The same is true for boards, and “being in touch” with market trends

means that gender, racial and generational representation on a board matters.

The chair’s role is critical for fostering an environment that is inclusive and welcomes contributions from all board directors. Younger and minority directors may be deferential in the beginning, but critical mass helps.

Research shows that having at least three women on a board leads to a clear shift in dynamics, since no female director carries the burden of representation by herself. In 2022, 72 percent of the 395 new directors appointed to S&P 500 companies were from historically underrepresented groups and almost half were women. NYSE companies consistently request help in finding female board candidates who can chair an audit committee.

## 6 Expertise in New & Accelerating Frontiers

There is no doubt that AI and ChatGPT will have tremendous impacts on how we consume, create and share data as well as other information. Those new technologies also represent enterprise risks that need to be managed.

When we were in the thick of the pandemic, supply chain disruptions were a constant conversation and there was no playbook for navigating them. Now that public companies have to disclose their climate mitigation plans, there is a scramble to develop a reasonable strategy that leads in ways that still preserve or build on a company’s competitive advantage. For ESG, determining the right pace and sequence of acting on those priorities represents another reason the “judgment premium” is so valuable.

Boards are updating their skills coverage to include expertise in climate, supply chain, regulation, cyber and tech/AI. The new and emerging frontiers all require expertise combined with judgment about where we think the world is headed, and where it is important for a company to lead versus follow.

In the last few years, the role of individual nonexecutive directors and of boards collectively has grown more complex as they help their executive leadership teams build the muscle to navigate endless disruptions across all industries. In addition to skills and experience that are table stakes, the “judgment premium” across leadership drives how well a company navigates crises, storms, disruption and opportunities to build and grow.

The imperative to diversify boards is timely because one person’s judgment is, by definition, going to be imperfect and incomplete. Building a collaborative culture on a board where diverse perspectives and voices can be engaged is important for optimizing the collective judgment contribution of a board. Only by building the capacity to look at problems from multiple angles are we able to build boards that can help companies stay sustainable and robust over time, while leading when and where it counts. ■■



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