California Management Review

LEADERSHIP

A Board of Disruptors for Hyper-Transformation

by Alessandro Lanteri

Image Credit | Austin Distel

Revolutionize strategy with a Board of Disruptors

INSIGHT | FRONTIER 04 Mar 2024

Organizations began deploying shadow boards alongside their traditional Board of Directors in the early 2000s as a way to tap into the insight and creativity of younger employees. A Board of Disruptors takes this innovation a step further: making disruption and hyper-transformation an explicit part of the business strategy. Appointing a Board of Disruptors is a powerful but tricky strategy, requiring absolute clarity on three elements: diversity of membership; brevity of appointment; and clear governance to ensure buy-in and alignment with the organisation's broader goals.

RELATED CMR ARTICLES

G.Manso (2017), **Creating Incentives for Innovation**, 60 (1).

More than ever, transformation is the name of the game for organisations and businesses. Yet according to McKinsey's **State of Organizations 2023** report, too many are woefully unprepared for the extent of disruptive change that has become the new normal. Only half of the leaders surveyed say their organisations are prepared to anticipate and react to external change, and two-thirds see their organizations as overly complex and lacking in agility.

Further to such challenges, it is not enough to react to externally driven disruption. To be and stay cutting edge, organisations need to constantly **monitor and drive radical innovation**. In other words, they should become the disruptors. They need to embrace what I call **hyper-transformation**: the transformation of multiple elements simultaneously, and at an accelerated pace. Hyper-transformation represents a major departure from the former school of change management, which involved an **incremental and gradual approach**, often focused primarily on one major organisational element as a standalone project. Leaders following this model today are doomed to failure.

The organisations best positioned to master hyper-transformation are those that make continuous disruption an explicit part of their strategy. Some success stories achieved this by establishing a second board to support and to challenge both the Board of Directors and the prevailing status quo: a Board of Disruptors empowered with a mandate more ambitious than the typical so-called "**shadow board**."

Struggling with Change

Leaders and Boards of Directors are currently struggling with a change paradox: a recognition of the need for change, coupled with what some observers call "change fatigue." According to one survey by **Gartner**, the average employee experienced 10 planned enterprise changes in 2022, up from two in 2016. But in that same period, employee support for enterprise change has shrank from 74% to 43%.

My own experience confirms this painful experience with change. I was recently asked, along with 45 global thought leaders, an apparently simple and straightforward question: What are the most critical topics Boards are discussing right now? The result: a list of 166 different priorities.[1] The onslaught of challenges requiring immediate attention isn't going to slow down anytime soon. **Issues organisations are struggling with** include flavour-of-the-month technologies (the metaverse in 2022, generative AI in 2023, perhaps quantum computing in 2024), shifting customer expectations (such as phygital experiences and in-chat commerce), large-scale political and social change (sustainability in Europe, diversity and inclusion in the US), geopolitical shifts (armed and unarmed conflicts, expanded BRICS), and more.

Overwhelmed Boards and executives already inclined toward short-term solutions are ill-equipped to cut through the noise and think about the future with both clarity and vision. It is time we give them some help. And a bit of a push.

From Shadow Boards to Disruptors

The idea of the "shadow board" seems to have originated with former General Electric CEO Jack Welch in the early 2000s. In a sense, it was an extension of his reverse mentoring system where junior and senior executives were paired so that younger talent could teach older colleagues about technological tools they were naturally more conversant with.

Shadow boards institutionalized this dynamic by giving young, non-executive talent in an organization a forum in which to have regular input into strategic planning and decision making.

The goal of providing a platform for younger employees has been an explicit part of shadow boards ever since, with some companies like consultancy Capgemini even calling their version a "Millennial Board." It has also been a way to create a bottom-up antidote to the typically top-down nature of most strategic planning. While **Gartner** finds that 75% of organisations adopt such a top-down model to transformation initiatives, a more inclusive approach results in a 24% greater chance of success.

One oft-cited example of **the potential power of shadow boards** is the contrasting experiences of fashion giants Prada and Gucci over the last decade. For years, both companies were known for being on the cutting edge of consumer tastes. But Prada's sales began declining after 2014, and a former CEO later admitted they had been slow to realize some of the new forces disrupting the fashion sector, including digital channels and blogging 'influencers.' Gucci, by contrast, assembled a shadow board in 2015 whose input was, in the words of CEO Mario Bizzarri, a "wakeup call for the executives." While Prada's sales dipped almost 12%, Gucci's rose 136%.

Another success story is the French company AccorHotels, which was facing stiff competition from disruptor Airbnb. Efforts to develop a new brand for Millennials came up empty for two years. But then one executive, the companies chief talent and culture officer, turned the project over to a shadow board. This transformation initiative gave birth to two major innovations: a new Jo&Joe brand marketed as an urban shelter for Millennials; and the Accor Pass, a hotel subscription for people under 25.

In spite of these success stories, shadow boards come with their limitations. First, the composition of such boards often consists largely of high-potential younger employees. While developing young talent can be a welcome by-product of a shadow board, if members see advancing in the organisation as a main reason for participating in a shadow board, they are unlikely to truly challenge the status quo.

Second, shadow boards are typically given a narrow and targeted mandate, often focused on developing new product lines for younger customers. If a shadow board is to help drive true hyper-transformation, they must be given a broader - and bolder - mandate. Calling a shadow board a Board of Disruptors is more than a semantic difference; it puts the mission of disruption front and centre.

Beyond this question of mission and mandate, three critical elements must be considered if a Board of Disruptors is to be effective: its members, its tenure, and its governance.

Critical Element #1: Members

From their inception, shadow boards have been built around giving younger, non-executive employees a platform and a way to exercise their voice. This demographic composition ensures a contrast with the traditional Board of Directors, often **predominantly middle-aged and male**. The Gucci shadow board discussed earlier intentionally selected young adults below the age of 30. The members of the shadow board of Beazley, a Lloyd's of London insurer, are in their "very-low twenties" and 50% are women.

The goal here isn't just demographic diversity, but cognitive diversity as well. The larger objective is to ensure a steady flow of fresh ideas, ideas that spring from a very different generational experience. For Millennial and especially Gen Z employees, diversity and inclusion is a core value, not an extra or a box to be ticked off. Empowering these young voices serves to nurture their long term potential in the organisation, and their loyalty.

Yet as noted earlier, when shadow boards recruit exclusively from a pool of what are deemed to be "high-potential" employees, you may inadvertently create the perception that participation in a shadow board is a path to career advancement. If participants view it primarily through that lens, they are more likely to echo the views of the Board of Directors, rather than to actively and boldly challenge the status quo.

In fact, researchers at IMD have found a number of advantages in forming shadow board through an open application process, as opposed to one that specifically targets the high-potential pool. An **open application process** tends to generate a more diverse group of applicants, is better at uncovering previously hidden talent, and makes employees who aren't selected feel they have a voice. Conversely, the process of **identifying high-potential employees is notoriously prone to bias**.

If you are seeking to create a Board of Disruptors that will boldly and fearlessly challenge the status quo, cast as wide a net as possible. Intentionally going beyond the "usual suspects" sends a signal to them (and to the rest of the organisation) that you are giving a green light to exploring uncharted territory and asking tough questions, and valuing transformation over hierarchy and consensus.

Critical Element #2: Tenure

The duration of appointment to a Board of Disruptors also sends a powerful message. Appointments to shadow boards tend to be short as well, and arguably they should be even more so for a Board of Disruptors. A short tenure creates a compact timeline, which in turn fuels a sense of urgency, a critical ingredient in the recipe for hyper-transformation. Brief appointments also sends a clear message that there is no room for caution or politics. Aware of the ticking clock, members will be motivated to act decisively, and unafraid to bring their most challenging and disruptive ideas to the forefront.

Consider the case of a family-owned conglomerate in Kuwait I am familiar with but cannot disclose. Upon replacing their CEO after a successful fifteen-year term, they established a Board of Disruptors to craft a new vision for the future. They implemented a two-year, non-renewable term, even shorter than that typical for shadow boards. The result was a steady flow of fresh and bold perspectives.

Oliver Wyman, the management consulting firm, has an even quicker turnover for its version of a Board of Disruptors, which it calls its Global Leadership Team Council. **Appointments for the Council are only a year long**. But the company sees the experiment as a wild success, and credits the innovation with helping to reduce attrition by 30% in 2022.

Critical Element #3: Governance

Beyond giving your Board of Disruptors a broad mandate, it is also essential to provide absolute clarity regarding role and expectations. This involves creating a structure and clear lines of accountability in order to foster innovation while at the same time ensuring alignment with the organisation's overall strategic goals. It must be clear from day one that the Board of Disruptors is embedded in the organisation's decision making process, and is not a sideshow.

Shakespeare Martineau, a UK-based law firm, invests a great deal of upfront time both in onboarding shadow board members, and in creating a rapport and understanding between the shadow board and the main board. At a retreat for the two boards, participants worked jointly on devising their governance guidelines. This collaboration, says the CEO, "created common ground and established informal rules of engagement between the shadow and the main board"—which, among other things, allayed fears among executive board members that the shadow board would be a threat to their authority. Some experts recommend several joint meetings a year so that the two boards are working to complement one another rather than compete with each other.

All On Board

In an era where slow incremental change is insufficient, and where rapid, simultaneous hyper-transformations are the norm, organisations cannot afford to default to the status quo and the old way of doing things. Establishing a Board of Disruptors is a way to immediately inject fresh energy and ideas into stale decision making, to improve ambidexterity, and to better position organisations to navigate the complexities of today's fast-paced, ever-changing business landscape.

Making this initiative successful requires a true collaboration between the two boards. Creating a diverse and passionate group of young employees to serve on the Board of Disruptors is the first step. But the CEO and the Board of Directors must have total buy-in to the process: seeing the young disruptors as an asset, not a threat.

References

1. Emeritus Executive Education (n.d.), “Top Priorities for Boards in 2022: A Global Survey.”

Alessandro Lanteri Follow

Alessandro Lanteri is Full Professor of Strategy at ESCP Business School, where he teaches executive education programmes. He is an international keynote speaker and helps organisations seize the opportunities of turbulent environments. His latest book with Ted Ladd, “Innovating with Impact,” is published by The Economist.