

EY Center for Board Matters
**Why Gen Z matters
and what boards
should know**

As companies contend with global economic uncertainty, there is an underlying generational shift taking place that will impact companies in every aspect of their business. True digital natives, the members of Generation Z (Gen Z) are perhaps the most influential generational cohort in history, and many businesses are unprepared to meet the high expectations they are bringing both as employees and as consumers.

Gen Z, born between roughly 1997 and 2007, is coming of age at a time when we are all experiencing more change than ever. But while we are all feeling that acceleration of change, Gen Z has normalized it, and is propelling radical shifts that will influence a wide range of outcomes. We are all feeling Gen Z's impact (even if we are unaware of it!), which is prompting preceding generations to understand and adopt new ways of thinking. For example, consider the ways in which today's

parents and grandparents are learning from the younger members of the family and changing approaches to purchasing, technology and social media.

While corporate board agendas have never been more crowded, it is important for boards to understand the influence of Gen Z, what drives this growing segment of the population, and how their behaviors are already inciting great shifts for the future of their companies.

In brief

- ▶ Gen Z is already reshaping consumer and employee trends. Boards need to understand how this generation is having an impact and what questions to ask now.
- ▶ This generation sees and interacts with the world much differently, and its influence can help older generations consider new ways of thinking.
- ▶ Boards should understand how Gen Z is already impacting board priorities such as digital transformation, ESG, and CEO succession planning.

What makes Gen Z noteworthy?

Starting with basic demographics, we define Gen Z as those born between 1997 and 2007, making them roughly 15 to 25 years old today. This covers more than 46 million Americans (14% of the population). If you count Generation Alpha, which follows Gen Z, the youth total adds up to almost 30% of the US population. Globally, they are an even bigger cohort, representing over 40% of the world's population.

What makes this generation noteworthy is less their size than their intimate knowledge of the world – thanks to digital access at such a young age. They have lived through one existential crisis after another (e.g., 9/11, the Great Recession, school shootings, political turmoil, global pandemic, war), and they have had immediate unfiltered access to the world around them through it all.

How this generation of digital natives see the world and interact with it is quite different from those currently in business leadership roles. While the differences manifest in a variety of ways, Gen Z is noteworthy because its members demonstrate three unique behaviors.

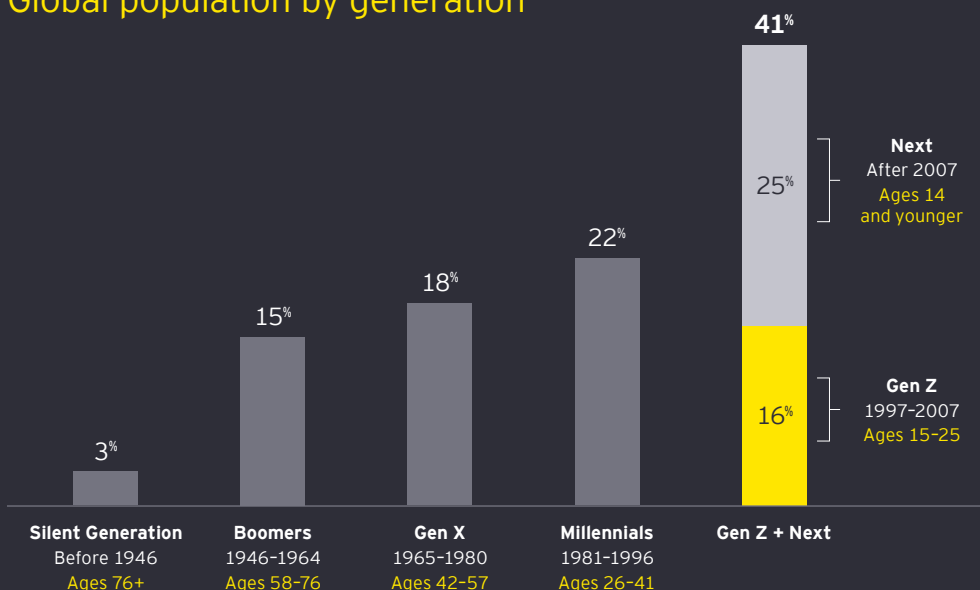
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Combining physical and virtual realities

While past generations make strong distinctions between physical and virtual realities, Gen Z intuitively live in both realms without a sense of silos. Their virtual digital identity is fully intertwined with their daily life. This applies to how they work, shop and socialize. Indeed, their virtual lives are lived through social media and gaming, but also increasingly through education and work. For Gen Z, virtual relationships formed via a screen are real relationships.

Much of Gen Z's mental and social health lies in their ability to freely connect (not necessarily in person) with others and maintain healthy relationships with friends, family and colleagues. Gen Z's reliance on digital channels to interact, meet and connect with others is completely natural for them. To them, technology is not exciting or innovative. It is their way of life. If email was the default communication for Gen X and texting the go-to for millennials, Gen Z's primary communication channel is social media. They recognize some of the negatives of social media, but still very much value its ability to help them create real, meaningful connections.

Global population by generation



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Source: UN Population Division, World Population Prospects, July 1, 2020

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Seeking authenticity through transparency

Gen Z also prioritizes and craves authenticity. After an era of fake news and filtered photos projecting the “perfect life,” Gen Z is over it. They want truth, and they want it now. [Authenticity ranks as Gen Z’s most important value, with 92% saying being true to oneself was very or extremely important.](#) This ranked ahead of spending time on things that will help their future, being independent, changing the world, and being rich or famous. They feel it is difficult to accomplish anything else if not first true to themselves. For Gen Z, authenticity comes from transparency and openness. Born into a society where scandal, social injustice and inequities have become commonplace, Gen Z is largely untrusting of people, institutions and the world around them. [About two-thirds of Gen Z in five countries surveyed agreed that you “can’t be too careful in dealing with people.”](#) Being open and candid with this generation will be key to earning their trust in the long term as consumers and employees.

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Taking a pragmatic approach to wellness and mental health

Stress, anxiety and depression were already increasing at alarming rates among Gen Z pre-pandemic, and now are reaching crisis levels. [In fact, 42% of Gen Z said they were usually or always depressed during the COVID-19 pandemic.](#) Gen Z has been raised in a time when there is an open dialogue around mental health. They have overcome the stigma around mental health that still plagues older generations, because to them it is a matter of survival, not a luxury or quest for self-actualization. Gen Z is self-aware and looks for support more than prior generations. Because many within their generation are consumed with stress and the motivation to succeed, they can have a hard time “turning off” and will seek outlets to decompress and rejuvenate.





How Gen Z is already impacting companies

Whether viewed as future consumers or employees (or both), the noteworthy aspects of Gen Z behaviors and expectations discussed above are impacting companies today in critical ways.

- ▶ **Technology and processes.** Where Gen Z differs from past generations is in their ability to connect instantly and disseminate information globally, influencing all at an exceedingly fast rate. Because Gen Z is inherently wired in, their mindset adapts at the speed of technology. As a result, cultural shifts happen faster, speed is a necessity and change is a constant.

Gen Z has neither tolerance for broken technology or inefficient processes, nor will members of this generation forgive clunky processes and digital ineptitudes. Older generations remember the 100-page manual that came with the first computer they ever opened, while Gen Z came up in a world where all they had to do was take the phone out of the box and turn it on – the rest happened flawlessly. They will expect intuitive, seamless technology in all aspects of their daily lives.

- ▶ **Communication and input.** Proactive transparency is a basic expectation of brands they shop with and employers they may start careers with. They will be increasingly critical of companies that are not proactively open and honest about their sourcing, supply chain and manufacturing processes, or actions to improve social issues, in addition to labor practices and employee policies. Accountability will need to be a theme statement for every company moving forward – Gen Z will hold companies to a higher standard than previous generations did. What millennials and Gen X aspired to from a sustainability and environmental, social and governance (ESG) standpoint, Gen Z will demand and require.
- ▶ **Trust is the new loyalty.** For Gen Z, loyalty is a foreign concept. Just because they have been a longtime consumer or employee does not guarantee their continued involvement. With previous generations, businesses focused on building allegiance through loyalty programs offering incentives, discounts or special perks. But loyalty as we once knew it is dead. Trust is the new basis for loyalty, and

it is a far tougher nut to crack. Gen Z is more passionate and knowledgeable about the world around them, allowing their moral compass to guide their purchases. They are intentional in their spending, looking to simplify their lives while focusing on real outcomes, and are employing greater scrutiny on the companies they buy from when they do make purchases.

- ▶ **Ways of working.** Their proclivity to digital tools is following Gen Z into the workplace, where they will expect that their ideas, creativity and productivity will be valued, regardless of the hours spent sitting behind a physical desk. The emergence of the hybrid work life may very well be enacting the end of the traditional 9-to-5 workday, as Gen Z demands fluidity in their “always on” lifestyle. Organizations must recognize that an individual’s proclivity to digital collaboration and teaming will be as important – and possibly even more – as individual productivity.
- ▶ **Diversity and inclusion.** Perhaps the most important thing to understand about Gen Z is that their greatest source of stress and worry is others being treated badly because of their gender, race, sex, etc. This ranks higher than stressing about getting a good job or paying for college. Gen Z wants to empower everyone to live out loud as their authentic, true selves. We are beginning to see a shift from a “me” society to a “we” society, looking out for the collective good of all.

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Implications for board oversight and discussions

Boards are tasked with overseeing and steering their companies for longer-term value creation for shareholders and stakeholders. With the changes underway and being driven by Gen Z, they are becoming part of the conversation in the boardroom. While Gen Z is not necessarily a topic on the board agenda in and of itself except in some consumer-focused companies, they are (and should be) showing up in topics that are on the board agenda, including the following:

► **Talent management.** Even as management teams and boards debate what the workplace will look like for their company – in office, virtual or hybrid – they may be missing the bigger point. The go-to preferences of current management (typically Gen X and older millennials) may not align with the preferences current and future employees. A one-size-fits-all work approach fits none. Businesses will not win if they try to command Gen Z since having some level of control is something they value and expect.

Instead, understanding and enabling Gen Z to exercise individual values and preferences will be key for employers to tap their potential. This may mean allowing employees to have a choice in when and where they need to work to best fit their lives. Organizations can focus on team dynamics and collaboration as winning factors in attracting and retaining the Gen Z workforce instead of managing the details of location. Additional attractors will be health and wellbeing resources with transparent communication to help them find the flexibility and balance they need.

► **Digital transformation and technology.** Management teams are constantly looking at how they can deliver on consumers' ever-changing expectations. Across industries, companies around the globe are recognizing the rise in Gen Z and finding new and innovative ways to deliver on their innate and growing expectation for ease and immediacy. But it is not a one-and-done scenario. Companies must institute a culture of constant innovation using digital solutions to keep pace with the societal changes that are impacting their future business. Boards can help management teams prioritize technology investment and iterative efforts with an eye toward the future. Because expecting your customers or employees to do today's tasks, let alone tomorrow's, with dated tools and concepts will lead to frustration, anger and disengagement and is a fast way to become irrelevant as a business.

► **CEO succession and executive leadership.** Finding a CEO who can manage today's five-generation workforce is no easy task for a board. However, as the employee composition within companies shifts with boomers and older Gen X retiring, what the board seeks in a successful CEO will need to account for the needs of the growing segment of the workforce. Finding a sense of purpose is no longer something that's done solely outside of work for Gen Z, but through

their work. The tone at the top and management approach will need to reflect this desire for purpose – that purpose out-prioritizes profit. Gen Z employees want to feel trusted, respected and recognized and will follow authentic leaders who lead by example. What could you accomplish if you harnessed Gen Z's savvy for entrepreneurial side gigs at work in your organization? A CEO who watches, listens and brings Gen Z to the table to truly understand the needs and wants of this influential generation will be the leader they strive to work for, and will see the most creativity and productivity as a result.

► **ESG.** While institutional investors and regulators have been a driver of ESG concerns and opportunities on the board agenda, Gen Z as stakeholders are becoming more vocal. Boards can minimize blind spots by developing a true understanding of Gen Z's wants and needs. Climate impact is a critical issue for this cohort. They don't just care about the planet; they are proactive and vocal in their will to save it. As boards consider public commitments and efforts of their companies, understanding expectations and how management is communicating with Gen Z employees and consumers is critical. Gen Z also prioritizes inclusion and social justice and expects to hold companies accountable as employers and product providers. They will speak up for those who don't have a voice and stand up to corporations that they perceive as unfair, unjust or unethical. It is important to note that because of the desire for authenticity mentioned above, Gen Z will look beyond marketing campaigns and press releases and hold companies accountable for real, meaningful changes.

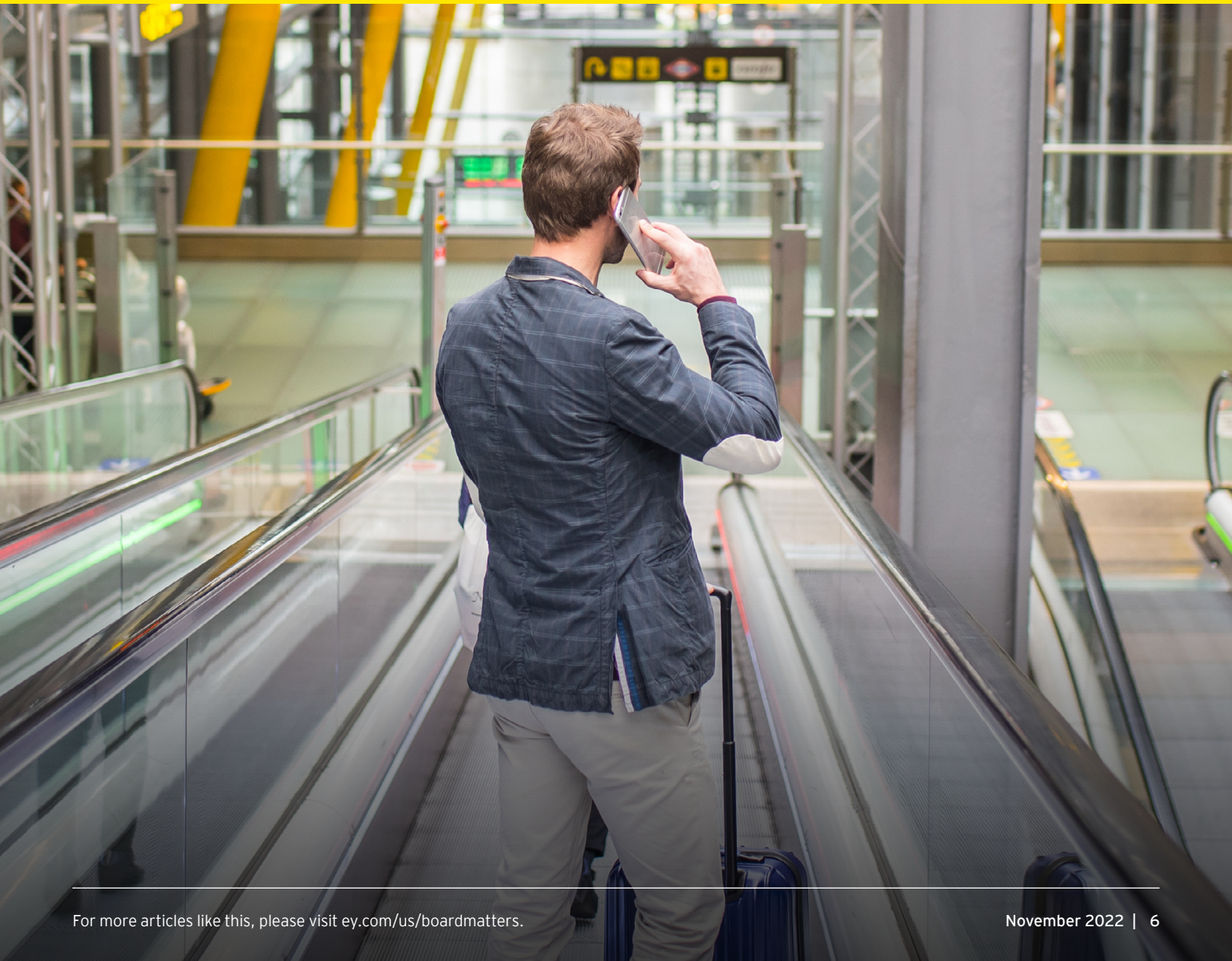


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Going forward

The COVID-19 pandemic has reshaped the way we all live, work and do business, although exactly what that means in terms of the longer term is not clear yet. However, what is clear is the tectonic shift underway among generations. For Gen Z, many of the changes we have seen accelerate during the pandemic are providing an opportunity for disproportionate influence. Digitalization, sustainability and equality have long been on their radar. While many people were fighting to catch up over the past two years, Gen Z leaped forward, strengthening their belief in a better, fairer, greener future and increasingly holding themselves, society and businesses accountable when it comes to building it.

Understanding how Gen Z are going to show up, what they are going to be looking for in the businesses they shop with and buy from, the companies they work for and the life they choose for themselves is critical to how companies prepare for what is coming next. Whether the topic is innovation, product development, supply chain, CEO and C-suite skills, or anything else, Gen Z's considerable influence is set to expand.



Questions for the board to consider

- ▶ How is the company measuring and making progress on building trust with Gen Z customers and employees? Is the company adapting how it thinks about loyalty and traditional measures?
- ▶ How is the board gleaning insight into attitudes and behaviors of Gen Z employees and customers? What information is shared on retention, employee experience, turnover by generation?
- ▶ How is management gaining insight into the changing expectations of purchase decision-makers (B2B or B2C)? What does tailoring to different generational cohorts mean for the business?
- ▶ Is the company delivering individualization (rather than personalization) that matches Gen Z's specific needs? How is the marketing and engagement of Gen Z being done differently than marketing to prior or other generations?
- ▶ Have the company's ESG policies and approach taken into account the perspective of Gen Z employees and customers?
- ▶ Are there technology investments and initiatives that would be accelerated when Gen Z needs and expectations are considered? How is capital allocation for digital transformation being prioritized in light of demographic trends?
- ▶ What assumptions about future consumers or employees is management making as part of longer-term growth strategy? How might the increasing footprint of Gen Z impact these assumptions?
- ▶ How is management thinking about building customer and employee experiences across multichannel processes and journeys? What does the entire end-to-end experiential journey entail, from the perspective of the digitally native Gen Z?

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