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BOARDS

Does Your Board Need a Tech Expert?

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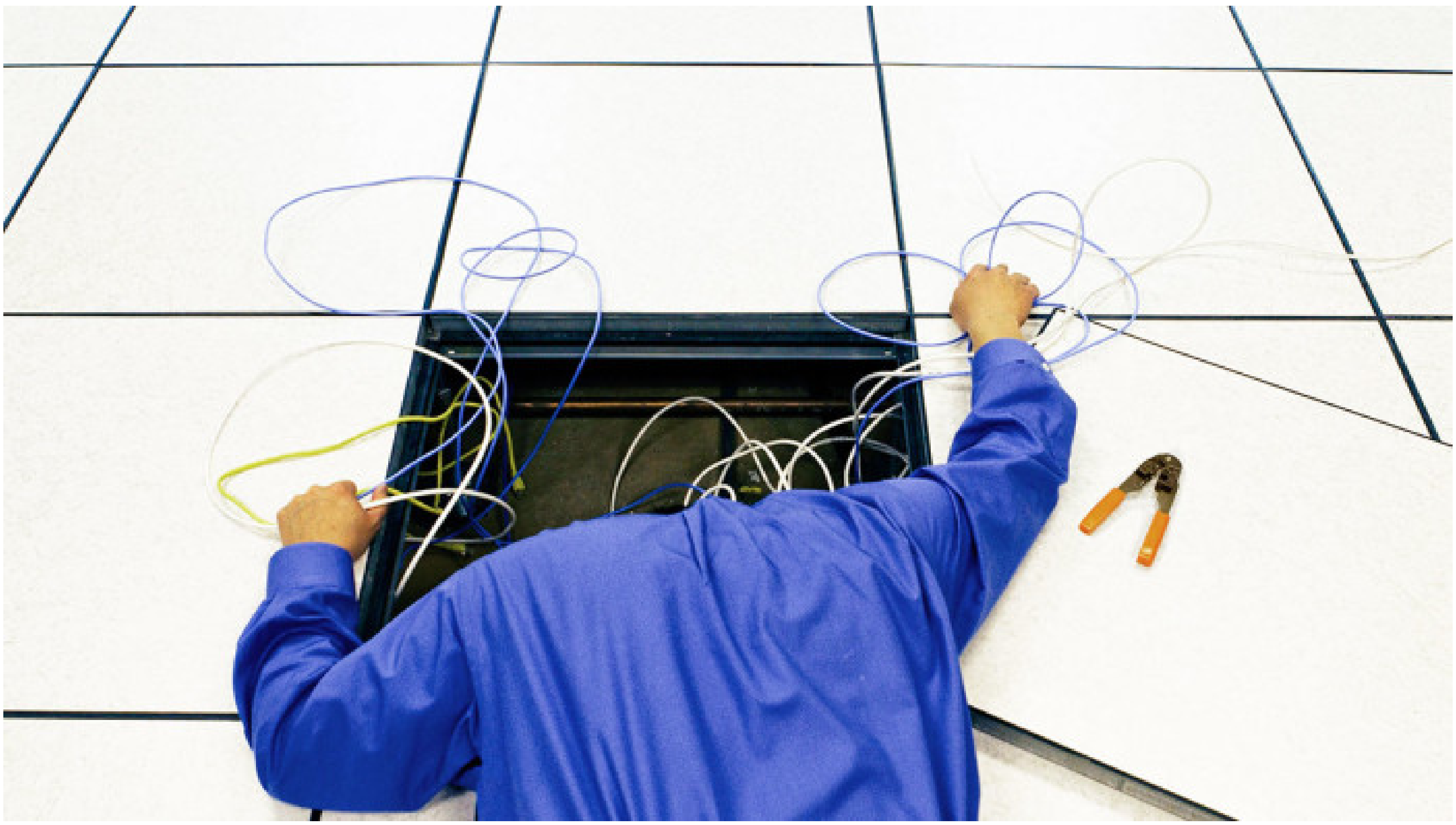

Only six percent of the directors overseeing the world's biggest banks have any technology experience. That figure, from an Accenture report, is surprising given that the banking industry is increasingly digitized. Yet banking is not alone. Technology is transforming the rules of businesses and reshaping industries in just about every sector.

So, what role should a board play in deciding on technology investments and shaping businesses in the digital age? And more specifically, what does this mean for staffing a company's board?

The answer to these questions depends on two factors: whether technology is a strategic differentiator for the business, and the nature of the industry and market structure in which the company operates. These questions help define the degree to which a board should be involved in the key technology decisions; whether by expert technology representation on the board (via a board seat), by relying on the advice of an external consultant or committee, or by simply delegating to the company's (internal) executive management.

How—and whether—to staff the board room with relevant technology expertise dictates how a corporate board of directors receives and interprets the information it needs to make key business decisions such as capital asset allocation, staffing, risk assessment and, of course, how it incorporates technological changes into the business, in an ever-changing landscape.

Staying in the Game or Creating Value?

The extent to which technology differentiates a business from its competitors can be viewed on a sliding scale. On one end technology innovations and improvements simply ensure that a company "stays in the game," while at the other extreme, technology acts as a critical source of value creation and enhancement.

If technology serves simply to keep a company in the game, the board probably doesn't to be actively involved in the day-to-day management of technology decisions and should delegate this responsibility to the executive management. But as businesses derive a more direct or significant part of their inherent value from technology, they'll need access to independent experts with deep understanding of technology as a key driver of the company's fundamental value proposition—people who can check and challenge management's recommendations.

Indeed, for companies whose core value and viability crucially depend on getting technology bets right, technology decisions should probably fall squarely to the board which arguably should have at least one member with the appropriate depth and breadth in the field.

Industry Structure Matters

The industry structure in which a business operates should also influence how a board assesses technology effects. For companies operating under a monopolistic structure, for example, technology most likely serves to ensure efficient operations rather than differentiate the company. Under such a scenario the board can adopt a relatively *laissez-faire* approach and delegate technology-related decisions to the company's executive leadership. The opposite is true for businesses operating in more perfectly competitive industries, which have an unlimited number of suppliers and consumers. Those boards should have as much as visibility and understanding of technology shifts as possible.

Of course, like most business decisions, the answer to how best to imbue a company's board with technology expertise depends on context. Most companies, after all, are complex and don't operate on the extreme ends of the scale I've described. After all, just as a monopolistic company can decide to delegate technology responsibilities if technology is seen as merely enabling it to "stay in the game" (for example a utility company), a monopoly business that sees technology as a differentiator will want to ensure it has board level technology know-how (technology companies themselves are an example). In a similar vein, a company that operates in a perfectly competitive market, but largely relies on technology just to "stay in the game" (for example a mining or oil and gas business), can delegate this responsibility with a good degree of confidence. However, a business in a perfectly competitive market that draws appreciable value (and risk, for that matter, if it is a technology laggard) from technology, (for example, a financial services business) is best served by bringing independent technology expertise directly into the board room.

How to Bring on Technology Expertise

Once a board gains clarity on these two key questions, it must decide exactly how it should bring technology expertise into the board room. In broad terms there are three options covering the spectrum of board involvement from which to select. Each has its pros and cons:

The board delegates technology tasks to management. This option has the benefit of keeping technology responsibility and expertise in-house with the day-to-day company managers (assuming the senior management does not itself outsource or delegate to outside consultants), who are closer to the particular and unique facets of the underlying company structure, processes, and competitive attributes. However, this alternative carries the risk that the board over-relies on internal management, and has limited ability to check and challenge management's information, especially when the board's own (independent) technology knowledge is limited.

The board draws on independent advice but does not create a board seat. In this case, the board solicits its own technology knowledge, and relies on a third-party to provide regular and objective views on technology trends and their impact on the business. The third party could be an outside consultant or advisor, or a committee of independent technology experts who report directly and only to the board. This approach is relatively light-touch and like the first option only works if technology's impact is largely peripheral to a company, and not at the core of how the company does business and derives profits. The downside of this approach is that it can fuel mistrust and cause consternation and disagreements between internal and external know-how, which can in turn complicate board decision-making. Another problem is that the external experts often offer more generic advice because they don't the nuance of the business context gleaned from daily management oversight.

The board creates a seat for a tech expert. Aside from enabling direct, independent board oversight and the ability to challenge management assumptions, this approach helps ensure that company strategy encompasses technology trends. The challenge is to find board candidates whose technology expertise enhances board discussions, but who also have the broader business knowledge to contribute to the full range of board room debate and decision-making. Such candidates may be hard to source. More fundamentally, as technology talent tends to skew young, the quest for technology expertise, will likely force boards to confront their more deeply embedded strictures requiring traditional operational experience, corporate tenures, and minimum age requirements.

Staffing corporate boards for a global business is a perennial challenge. However, for 21st century corporations, this issue is increasingly complicated by technological transformation. Effective board staffing must grant due consideration to the three core responsibilities of a board of directors: defining the company strategy; succession planning; and setting the tone from the top, with a particular focus on corporate governance and company culture. Ultimately, technology expertise should seek to enhance the execution of these duties.

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