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Leading Ideas

Your Next Board Member Should Be a Geek

Why companies need directors with technological expertise.

by Chunka Mui, Toby Redshaw, and Olof Pripp

Imagine that you were a major investor in a leading company, and its board of directors had no members with independent, world-class financial expertise. Who would look after your interests? You could probably coach the directors to ask good questions, but they would lack the competence to judge the answers. The board would not be able to engage management in robust conversations about the complexities of capital structure, mergers and acquisitions, financial accounting, reporting, regulatory compliance, or risk management. Most investors and regulators would deem such a board unfit to carry out its fiduciary guidance and governance responsibilities.

Yet that's precisely where many companies are when it comes to information technology. Digitally driven change is becoming as critical an issue to most companies as finance. Companies are being called on to reimagine and reconstruct every aspect of their business; customers, suppliers, and markets expect no less. Consider, for example, the rapidly expanding use of mobile phones in retail and banking. Or the changes foreseen in the transportation industry due to car-hailing algorithms and driverless vehicles. Already, one MIT study has found that digitally adept companies are, on average, as much as 26 percent more profitable than their competitors. And that advantage is only likely to increase.

The boards of many large companies are ill-equipped for these shifts. That was the conclusion of our 2015 study of more than 1,000 nonexecutive and executive directors at 112 of the largest publicly traded companies in the United States and Europe. By analyzing company filings and public information, we found that all too many boards lacked the expertise needed to understand how technology informs strategy and affects execution. In Europe, for example, 95 percent of the companies we assessed, excluding technology and telecommunications companies, still had no non-executive directors with deep technology fluency. In the United States, almost half of the surveyed companies had no technology expertise on their boards. These included major financial-services, insurance, industrial, and consumer products companies. Yet each of those industries is grappling with complex strategic questions that hinge on technology.

Even boards with world-class technology expertise can have blind

Illustration by Benoit Tardif, colagene.com spots in areas of strategic importance; these include analytics, cybersecurity, and digital fabrication. And even experts who keep up with particular technologies may miss the general effects of rapid technologically driven change on core products, business models, and customer preferences.

Many board members are aware of these deficiencies. They know that their companies will either embrace technological change and claim the markets of the future or be put out of business. In 2015, a PwC global survey of large-company directors found that 85 percent of the respondents were dissatisfied with the way their companies were "anticipating the competitive advantages enabled by technology." Almost as many, 79 percent, said their boards did not sufficiently understand technology.

The pervasiveness of the problem is troubling for anyone who cares about these companies — but it also represents an enormous opportunity. At the board level, there is a need for knowledgeable, incisive "geeks": independent directors with experience and perspective in putting technology to use. In the past, many boards have compensated by relying on management or external consultants for strategic advice. But the stakes are now too high to take that approach.

Boards can no longer duck the responsibility for the company's digital transformation. They must take real ownership by ensuring that they are equipped to fully understand this part of the board agenda. Otherwise, how can they adequately oversee their company's strategy, investments, and expense base? How can they guide profitability, manage risk, assess management performance, and ensure proper talent supply? Below are three critical steps you can take to better prepare your company for these challenges.

1. Hold out for sufficiently broad and deep expertise. Although company leaders agree on the need to attract technology-fluent directors, they often approach the undertaking as an exercise in diversity. They "check the box" by bringing in one person to stand for the full technological field, rather than seeking multiple directors with relevant experience and insight.

To assess the severity of this deficiency in the companies we studied, we analyzed the resumes of their nonexecutive directors on four distinct aspects of technology: pure-play disruptive digital business, enterprise-level IT, cybersecurity, and the digital transformation of Fortune 500–sized enterprises. Each is critical to boards' oversight responsibilities, and fluency in each requires a distinct body of knowledge and experience. Few experts in enterprise-level value-chain IT could offer expert guidance on building disruptive digital business, and vice versa. We found that more than 90 percent of the companies, including technology and telecommunications firms, lacked expertise in one or more of these critical technology areas. Our research revealed only two companies that addressed all areas: Google and Wells Fargo.

To address the gap, you must open multiple board seats for people with technological experience. Just as having only one woman on a board has proven to be insufficient, having just one IT-savvy member is problematic. To fill these seats, you may have to reach beyond the traditional search targets of former CEOs and CFOs. Tap into recent CIOs, CTOs, and other C-level leaders at successful information-intensive companies; retired military officers with large information-technology commands; and senior consulting and private equity partners with deep cross-industry expertise in enterprise technology transformations. Resist the urge to rely solely on Silicon Valley experience. Startup experience is valuable, but addresses just a small part of the large enterprise technology challenge. Likewise, the "move fast and break things" attitude in Silicon Valley often does not translate well to other industries.

When recruiting these board members, be wary of candidates without fresh experience; in fast-moving fields such as cybersecurity or disruptive digital technology, people who are no longer active don't always keep up with the latest trends. If executives in the business sector are scarce, look elsewhere; other sectors may be surprisingly relevant. In financial services, for example, understanding sophisticated process control is increasingly important. The best prospective board member may come from the logistics industry — from, say, FedEx or UPS.

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2. Support robust discussions of technology with the right kinds of practices and management structures. There are two possible mechanisms for accomplishing suitably robust discussions. The first is to establish a formal technology-focused subcommittee of the full board, on par with other oversight functions such as audit or compensation. This can be helpful in raising critical issues and promoting deep discussion of complex topics. It also creates a mechanism for engaging external advisors.

Alternatively, set up a technology advisory committee that meets regularly with top management and periodically reports to the board. AT&T does this. It may be easier, with such a committee, to attract best-in-class expertise, given that the time commitment is low and there are no full fiduciary responsibilities. Typically, advisory committees can also rotate members more frequently than a board can. It must be remembered, however, that an advisory committee reports to management, not the board. This can and will color its advice.

Whatever the structure, it is important for this group to address topics that go beyond technology strategy and IT governance. The most important priority may be enterprise strategy and the ways in which technology makes new value propositions possible. FedEx, which is as much a technology company as a transportation icon, has used such a board to great effect for many years.

3. Set the right context. Alan Kay, one of the foremost pioneers in personal computer conception and design, once said, "Point of view is worth 80 IQ points." The context with which your board of directors views technology is a critical element for enterprise success. They must collectively understand the 10 to 15 drivers of technology that have taken quantum leaps in the past decade — for example, big data and analytics, cloud computing, mobile technology, artificial intelligence, the Internet of Things, and autonomous transportation — and the potential implications each has for the company.

They must also have a clear view of their own company's IT landscape: their existing hardware and software, including estimates of redundancy, age, robustness, any risk of obsolescence, and costs. For example, how many marketing systems, customer databases, and human resource systems does the company have? How interoperable are those systems? The need to ask these types of questions about a factory or back-office footprint would be obvious, but boards have generally neglected such inquiries regarding technology. The board must also understand risks related to technology, the defenses currently in play, and any weaknesses in those defenses. Most important, the board must understand how the company's IT systems relate to the company's overall strategy, and what capabilities are needed to support it.

It falls to the board to ensure that the company has a multiyear plan to address technology needs while reducing costs and risk. Boards need not grant a license to spend. On the contrary, the hallmark of computers and networks is that they continually get faster, better, and cheaper. These benefits accrue only to those with modern gear, however, so frequent upgrades are essential.

Finally, the board must incorporate its expanded technology context into larger deliberations. Talent recruiting and leadership development should be designed to fill gaps in technological fields. The criticality of IT should inform the review of proposed mergers and acquisitions. A close link to the audit committee is important because technology affects regulatory compliance and ethical issues. And the relationship to full board strategy discussions is critical.

Of course, placing someone with world-class technology expertise on a board does not guarantee success. Many technically proficient companies have lost to upstarts with a better product or service. But without this expertise, boards cannot play their most important role: intervening with substantive conversations about strategic decisions early enough to make a difference. And without these focused conversations about technological investments and decisions, boards cannot fulfill their fiduciary responsibilities.

Today, every board of directors has a once-in-a-generation chance to leapfrog the competition through technology competency. The opportunity is great because the task is difficult, and there is no large pool of talent waiting to be recruited. Those companies that meet this challenge successfully will capture the markets of the future. +

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