

BOARD PERSPECTIVES

ISSUE 166

Is Your Board Technology-Engaged?

With technology clearly a material driver of change, boards of larger companies are trending toward a more strategic focus on technology. Should your board be a part of that trend?

Board Focus: Technology

Why it matters: The board community has been acknowledging the speed of disruptive innovation, largely driven by emerging technologies.

- Artificial intelligence is here as a generative force, with the buzz loud on ChatGPT, Bing and Bard.
- The metaverse is on the horizon as a game-altering iteration of the internet.
- Quantum computing continues to demonstrate the potential to revolutionize all types of optimization and machine learning problems.
- Technologies such as green hydrogen presage a low-carbon future.
- Devices making possible the Internet of Things help businesses track, monitor, uncover and analyze customer relationship data faster than ever.

Then, there are considerations pertaining to speed to market, technical debt, privacy, unintended consequences and regulation.



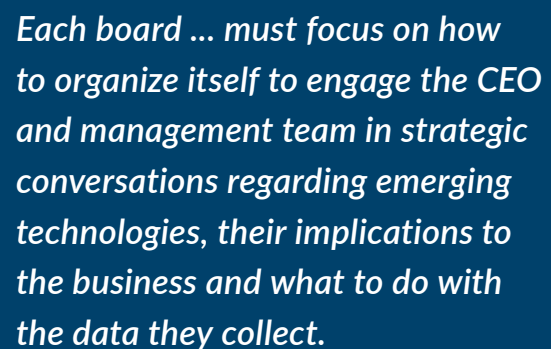
Our thought bubble: This is the reality that companies and their boards have faced for several years. Boards, given their organizations' needs and their fiduciary responsibilities, must focus on how to organize themselves to engage the CEO and management team in strategic conversations regarding emerging technologies, their implications for the business and what to do with the data they collect.

- **The formation of a technology committee** in various forms is increasingly becoming a part of how some boards are responding, creating a need to develop criteria as to who sits on these committees.

The big picture: Our research of the Fortune 100 companies reporting on 2022 indicates a marked increase in stand-alone technology committees over the last 10 years as well as an increase over 2021. The numbers of boards deploying a technology committee were seven in 2012, 25 in 2021 and 36 in 2022.

Financial services and healthcare companies lead the way, with an uptick also noted in consumer products and retail, manufacturing and distribution, and energy and utilities.

- Financial institutions continue to integrate technology innovations into their offerings to enhance the consumer experience and increase reliance on digital infrastructure.
- The results for healthcare, which took a big jump in 2022, and the other three industry groups indicate multiple boards with technology committees.
- Interestingly, only one company in the technology, media and telecommunications industry group reports having a technology committee on the board in 2022 and 2021. This is likely due to technology being so embedded in all aspects of the operations of these organizations that it is integral to most discussions held by the full board and its committees.



Each board ... must focus on how to organize itself to engage the CEO and management team in strategic conversations regarding emerging technologies, their implications to the business and what to do with the data they collect.

By the numbers: Research of the Russell 3000® companies¹ offers additional insights noted below relative to board committee trends over the last five years:

	Annual Meeting Year		
	2022	2021	2018
Technology Committee	198	185	113
Cybersecurity Committee	55	47	22
Research and Development Committee	50	42	27
Sustainability Committee	70	56	18
	373	330	180
Increase over 2021	13%		
Increase over 2018	107%		

As the table notes, the number of Russell 3000® companies with technology-related committees increased by 13% year-over-year in 2022 and more than doubled over the last five years, an indelible trend. The analysis includes sustainability committees because they consider technology and innovation in dealing with issues such as climate change.

The key takeaways:

- First, various sectors have boards deploying technology committees. This is not a surprise, as every company must embrace technology in one form or another to establish and sustain competitive advantage.
- Second, not all “technology committees” are necessarily labeled as such because the need for each board varies. Thus, boards are forming cybersecurity, research and development, innovation, and sustainability committees.

¹ 2022 *Inside the Public Company Boardroom*, National Association of Corporate Directors, 2022: www.nacdonline.org/insights/publications.cfm?ItemNumber=74564.

Why a Technology Committee?

One key question: Why are boards forming technology committees? It is possible that boards serving industries with a stronger reliance on technology or digital transformation — such as financial services — are seeing these committees as a way to achieve a sharper focus on technology opportunities and risks.



- Boards serving consumer products companies may see these committees as a means to drive increased emphasis on growth strategies and enhancing consumer experiences.
- Other boards may see a need to dedicate directors with the requisite expertise to focus on technology planning, strategy, investments and maintenance.
- Still others may desire a dedicated focus on relevant market trends in emerging tech and the technology landscape, anticipating likely future trends and assessing the implications to the industry and business.

Why it matters: Technology has become so ubiquitous that there is hardly a topic concerning a company's strategy and operations that does not have technological underpinnings.

- **The board should consider** the organization's business model, digital maturity, market opportunities, risk profile and exposure to digital disruption.
- **These factors will help the board** determine how best to organize itself for purposes of advising the CEO and management team with respect to the technology issues germane to the successful execution of the organization's strategy.

The key takeaways:

- A technology committee is an extension of the full board. The board's responsibilities to exercise independent business judgment entail bringing relevant technology knowledge and expertise to the table to connect emerging trends to the business and customer and employee experiences with a focus on creating long-term value.
- Regardless of whether the board has a technology committee, directors conducting a board self-assessment should address the board's effectiveness in considering technology opportunities and risks when advising management on formulating and executing strategy.

Six Key Questions to Ask

- 1. Is the board devoting enough time to reviewing the company's technology strategy, investments and operations?**
 - **It is incumbent on the board** to ensure that it is receiving and reviewing sufficient information from management on technology plans and operations. This responsibility applies whether a separate technology committee is established, an existing committee is charged with oversight of technology, or technology oversight is the domain of the full board.
 - **There should be open discussion of innovation direction** – supported by appropriate innovation-related metrics – and its impact on processes, products and services, with the objective of assessing the results the strategy is delivering, return on investment (ROI) and the effectiveness of the innovation culture.
- 2. Is there sufficient technology expertise on the board?**
 - **This is square one.** In today's digital world, every director should be technology-fluent.² But more than fluency is needed.
 - **Acumen and currency are vital** when advising management on allocating capital to current and future technology investments in view of the competitive environment. Without these skills, it doesn't matter how the board organizes itself to oversee technology strategy and operations.
- 3. Is the board tapping outside resources with technology expertise?**
 - In addition to company personnel, directors should avail themselves of outside experts who can provide periodic briefings on emerging technology and its impact on the business and customer and employee experiences.
 - **Outsiders can offer broader market experience** regarding digital transformations, managing technical debt, emerging cyber threats and post-merger transitions. While obtaining an external view is of value to all boards, it may be the primary option for small cap companies.
- 4. Is the board satisfied that technology planning is aligned with strategic discussions of capital allocation to ensure relevancy?**
 - **Optimizing ROI** is an integral part of efficient resource allocation, particularly with respect to enterprise transformation and elevating the customer experience. The board should build its confidence in management's track record for implementing new technologies in a cost-effective manner.

² "Ensuring Technology Fluency in the Boardroom," *Board Perspectives*, Issue 150, Protiviti, April 2022: www.protiviti.com/us-en/newsletter/ensuring-technology-fluency-boardroom.

- **Reporting** on ongoing implementations and post-mortems on past successes and failures sustains the board’s institutional memory and establishes accountability for realizing the promised value of technology investments.

5. Should technology be positioned as an agenda item for the full board?

- The full board may decide to make technology, innovation and transformation an integral part of its discussions with management regarding the interrelated topics of technology, strategy and the CEO dashboard.
- Because technology is a fundamental enabler of customer and employee experiences, differentiating corporate strategies, and initiatives to improve operational effectiveness and efficiency, this approach engages all board members.

6. Alternatively, should the board delegate its technology oversight to one or more standing committees?

- Often the agenda of the full board is so crowded that it is not possible to give technology topics sufficient attention. In such instances, the board may delegate its oversight role to one or more standing committees. This decision may involve the following actions:
 - *Assigning aspects of technology oversight to one or more of the strategy, finance, investment, audit and risk committees.* When delegating technology oversight responsibilities to one or more existing committees, the board should assess whether other items on each designated committee’s agenda may result in overload. If so, the technology conversation assigned to it may receive short shrift.

A decision to form a technology committee implies that directors with the requisite qualifications are available to sustain it.

- *Creating a stand-alone technology committee.*

If the technology discussion is of such a complex and specialized nature, a more focused conversation may be needed to enable long-term strategic thinking on the implications of technology trends for the business. As noted earlier, these committees can take different forms as the specific areas of focus may vary by organization, so the no-one-size-fits-all caveat applies. A decision to form a technology committee implies that directors with the requisite qualifications are available to sustain it.

- **When delegating technology oversight responsibilities** to one or more committees, keep the following factors in mind:
 - *Each committee’s role and responsibilities should be defined in view of the activities of other standing committees and the full board.* For example, a functioning technology committee does not absolve other committees of the responsibility to consider relevant technology issues, as they are pervasive across the organization. The full board and other committees should be prepared to address their respective chartered activities through a technology lens.
 - *The designated committees are expected to escalate important matters to the full board for further discussion.* These matters may include significant technology risks, e.g., speed to market, cybersecurity, data privacy, technical debt, operational resiliency, and regulatory, investment and change management risks.
 - *Retaining a “whole board view” can be challenging due to the complexity of the technology conversation.* For example, a holistic view is needed to assess the performance metrics used to evaluate senior executives charged with responsibilities affecting the company’s deployment of technology and the succession plans that will retain talent, institutional memory and technical knowledge. A splintered focus does not support the board’s best interests.

The Bottom Line

Regardless of the approach taken to engage management on technology matters, every director should be technology-engaged.

- In a digital world, knowledge of and attention to technology should not be limited to a separate board committee — whether it be a technology, an audit or a risk committee.
- Because technology is a strategic enabler, knowledge of technology-driven opportunities and risks is relevant to the board’s strategic conversations and to holding management responsible and accountable for results.
- All board members have a stake in these conversations.

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How Protiviti Can Help

Whether you are looking to automate, modernize or embark on an end-to-end transformation journey, our technology consulting solutions can help. Our services range from strategy, design and development to implementation, risk management and managed services. Every business is becoming a technology business. Our professionals become your trusted advisers — for both management and the board — providing insight and strategic vision through innovative actions. Innovation is embedded in everything we do. And it all starts with design thinking. From the C-suite to the newest consultant, our professionals are trained in design thinking to deliver unique solutions that solve today's business problems. Our experts leverage agile processes and are certified in the latest technologies and platforms, keeping you at the forefront of technology transformation.

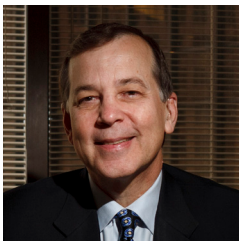
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Frank Kurre works with our firm's clients and account teams in leading Protiviti's global board governance, CEO and alumni programs. Based in New York, he is focused on expanding Protiviti's deep relationships globally and working with Protiviti's CEO and other senior leaders on projects of strategic importance to the firm.

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