



ISSUE 150

BOARD PERSPECTIVES

ENSURING TECHNOLOGY FLUENCY IN THE BOARDROOM

Every company is a technology company today. With business and technology inextricably intertwined, directors need to possess sufficient knowledge of technology issues to execute their duty of care responsibilities.

Research indicates there is a financial performance payback from a technology-savvy board. An analysis of the boards of U.S.-listed companies determined that companies with boards of directors that have *at least* three technology-savvy members outperform other companies. These outperforming companies reported notably higher profit margins, revenue growth, return on assets and market capitalization.¹

It's also beneficial to have one or more individuals with deep technology expertise serving on the board or as advisers to the board, independent of management. But the pervasiveness of technology suggests that *every* director should at least understand how technology enables the organization's strategy and business model as well as the implications of disruptive innovations to their industry. The bottom line is that every director today should be technology-engaged. No director gets a pass.

¹ "Without a Digitally Savvy Board, Your Company Is Falling Behind," by Peter Weill and Stephanie Woerner, *The Hill*, March 20, 2019, available at <https://thehill.com/opinion/finance/434788-without-a-digitally-savvy-board-your-company-is-falling-behind>.

Below are suggestions to help make sure your board has the technology fluency it needs.

Accept that disruptive change is the norm.

Technology fluency is important. According to a recent global survey by Protiviti and NC State University's ERM Initiative, risk concerns for the next decade drive a stake in the ground on technology.² More significant worries for companies over the next 10 years, according to the survey, include the risk that the rapid speed of disruptive innovations enabled by new and emerging technologies may outpace the organization's ability to compete without significant changes to the business model.

Other top-rated risks in the global survey relate to the impact of the changing workplace, the threat of new competitors, evolving customer preferences, utilization of insightful data analytics, resistance to change, and data privacy and cybersecurity. Technology is an underpinning to all of these risks. The focus on innovation and digital transformation to retain relevance has never been stronger.

Stay current with the evolving technology landscape. To stay abreast of technological developments, the most prominent suggestion from a recent National Association of Corporate Directors (NACD) Master Class session³ is also fundamental to other complex matters: Bring outside experts into the boardroom and invite them to keep the board apprised of technological trends. Alternatively, identify and lean on expert resources inside the organization — regardless of the function they're supporting. When seeking guidance from management, advisers and others, insist on getting it in plain, practical terms. Many publications and subscriptions also offer strong technology content presented in relevant ways. Directors should take the initiative to select the ones they find most useful.

Beyond the basics, the real insight from the session was that it helps to view technology as a strategic enabler rather than a shiny object implemented for its own sake. Focus on the organization's long-term strategic goals and how technological innovation can help reach those goals. Consider the capital deployment ramifications alongside the related upside opportunity. Understand how existing legacy technology in the organization might hamper goal achievement. Recognize the risks emerging technologies can pose — for example, the risk of improper algorithms and bias inherent in artificial intelligence (AI) — and ensure management has implemented mitigations to address them.

Engage the full board on the right questions.

Technology fluency is also about learning, and learning comes from asking the right questions and obtaining input from the right subject-matter experts. Critical questions for the full board to consider include the following:

- Is technology identified as an integral part of the company's strategy and key initiatives? Does the CEO dashboard monitor technology investments that enable improvements to customer engagement, process efficiency, products and services, and competitive position?
- Are the organization's digital transformation efforts properly prioritized to deliver the expected value and results? (For example, are multiyear plans reevaluated every three to six months in view of changing markets and customer needs?) Are plans resourced with the requisite skill sets, or is help needed?
- What are the long-term plans for hybrid work environments? How will the company enable access and connectivity to ensure productivity, safety and security in the future, considering the next generation of mobile connectivity and systems as well as data access?

² "2022 and 2031 Executive Perspectives on Top Risks," Protiviti and NC State University's ERM Initiative, December 2021, available at www.protiviti.com/US-en/insights/protiviti-top-risks-survey.

³ The December 6, 2021, NACD Master Class session, "Digital and Cyber Fluency in the Boardroom," captured a panel conversation featuring Joan Smith, a Protiviti managing director, and two active directors.

- What programs are management considering to protect the organization’s critical data and information assets and to comply with global data privacy requirements?
- What are the company’s business continuity, crisis management and disaster recovery plans? Are contractors and outside services aligned to support them? Does the technology infrastructure enable or hinder business resilience? How would operations be affected if a security breach were to occur, and how quickly could the company respond?
- Are the processes that management chooses to automate focused, streamlined and simplified enough that automation makes sense? Is selecting a process for automation a strategic decision (for example, to focus employees on more complex, value-added tasks)?

The board should expect management to consider these questions and the accompanying resources needed to be successful.

Focus on the implications of technological advances for talent availability. Technology fluency is also about understanding the implications of digital disruption. For example, the NACD session pointed to the positive and negative impacts of remote work on the workforce. Employees have experienced new opportunities in terms of team dynamics, collaboration and culture-building. Remote work has also enhanced well-being by reducing commutes over long distances. However, technology has implications for relationships, and it has become increasingly intrusive to everyone’s personal space. People are exhausted and plugged in too much, and they find it difficult to reclaim their private time. Technology has resulted in significantly higher productivity levels, but it has also increased the risk of burnout. This may be one of the contributing factors to the so-called Great Resignation. There’s also the related impact on organizational culture.

Dependence on technology has led to talent availability as a critical issue for boards and executive management to address. Over the long term, the limited pool of technology professionals will be drained quickly by overwhelming demand for skilled and experienced talent as new technologies take root in the execution of business models.

This market reality creates an obligation to provide learning opportunities related to emerging technologies. How is the organization thinking about upskilling and reskilling its workforce to help address what many see as a dwindling availability of talent? The proverbial “search for the purple squirrel” — finding the candidate with the requisite education, experience, and range of qualifications and skills that perfectly fit a job’s requirements — has become even more challenging.

Thus, human capital strategies require a revisit. For example, it may be necessary to find people with a strong base of skills and then upskill them so they can work with new technologies. Employees also should be motivated and incentivized to keep their skills current and develop new skill sets and knowledge areas. People should learn on the job. Continuous learning, upskilling, agility and innovation should be emphasized as core values and supported by executive management and the board.

None of this will happen organically. Training and upskilling must be intentional and pushed by management, with the board’s encouragement. Organizations may find it necessary to seek technology talent everywhere, including outside the region or country. The board should engage management in discussions to explore options.

Ask: Should the board have a technology committee? This has been a discussion point for well over a decade. The focus of such a committee varies by company, and these committees remain relatively uncommon. It’s up to each board to

decide how best to provide strategic oversight regarding technology. That said, every director should be technology-engaged.

The view discussed at the NACD Master Class session was that while a technology committee may be appropriate under certain circumstances, technology oversight responsibilities should ordinarily not be entirely relegated to a small handful of board members. And knowledge of and attention to technology shouldn't be limited to a separate board committee — whether that committee is a technology, audit or risk committee.

As technology often drives overall business strategy, knowledge of technology-enabled opportunities and risks is relevant to many board discussions with management. A designated technology committee is not a panacea.

Remember that cyber risks come with the technology territory. The NACD session also offered several insights regarding cybersecurity as an integral part of the technology conversation. First, the cyber incidents of today are very different from the incidents of a few years ago. The landscape changed dramatically during the pandemic as organizations transitioned to remote workforce models. Many people worked — at least for a time — on less secure or even unsecured networks and modems, necessitating a planning process to protect these assets.

Second, cyber insurance companies are more demanding and discerning in underwriting

policies and settling claims in the event of an incident. The high bar requires extensive organizational resources to obtain coverage. Boards should consult with management to ensure that appropriate steps are being taken.

Third, organizations should have a cyber response team in place and ready — with legal, forensics, communications and other resources. Such teams should be steeled through preparation and practice. To that end, there's a difference between a cyber incident and a cyber breach. The former represents a violation of an organization's security policy. The mere presence of malware inserted in a system by a cybercriminal is a cyber incident but not a breach.

A breach only occurs when there is unauthorized access to data or information (for example, when malware compromises systems and data). This distinction is important when drawing up contracts, as their terms dictate the actions required of the contracting parties. Ordinarily, a cyber breach must be reported publicly. General or outside legal counsel should be engaged to determine the appropriate courses of action depending on the circumstances in each case.

Finally, prevention is an imperative. Many services and products are available to protect the organization from incidents and breaches. Multifactor authentication (MFA) is an example, and everyone in the organization should be required to use MFA on company systems to provide a critical layer of protection.

How Protiviti Can Help

Evolving needs and customer expectations challenge even the most agile organizations to keep pace in the digital age. To survive, organizations must constantly innovate and transform. To that end, Protiviti helps organizations think differently — from digital strategy and stakeholder alignment to solution design and implementation.

Our experts instill a culture of innovation and agility by bringing deep capabilities in system integration, cloud transformation and enablement, advanced data analytics, and business intelligence and intelligent automation. Our offerings include:

- Strategy and business case definition to develop and quickly align on a business-oriented digital transformation strategy.
- Customer experience and journey mapping to capture the voice of the customer and analyze and enhance the end-to-end customer experience.
- Culture, skills and capabilities definition and alignment to understand organizational strengths and weaknesses through digital maturity assessments and benchmarking and to define digital talent management programs to transform how the organization acts and thinks.
- Transformation program definition to turn a vision into an actionable plan, with clearly delineated key activities, roles and responsibilities.
- Transformation program execution to design, prototype and deliver high-quality solutions with demonstrable return on investment and a foundation for growth.

Protiviti (www.protiviti.com) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the [2021 Fortune 100 Best Companies to Work For](#)[®] list, Protiviti has served more than 60 percent of *Fortune* 1000 and 35 percent of *Fortune* Global 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on <https://blog.nacdonline.org/authors/42/>. Twice per year, the six most recent issues of *Board Perspectives* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.