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February 2022

Center for Board Effectiveness

On the board's agenda | US

Tech-savvy board members: A common language for transformation and the impact on performance

Technology and board composition

Many of the risks and opportunities facing companies and their boards today revolve around technology. From the risks posed by ransomware to the opportunities—and risks—afforded by artificial intelligence, technology is a critical factor in developing and implementing strategy, mitigating risk, and achieving performance goals. It is not surprising that transformations have accelerated, and as seen in the *2021 Deloitte Digital Transformation Executive Survey*, investment in digital transformation has increased by more than 10% over the period of COVID-19.[1]

It is therefore not surprising that the focus on technology and transformation has impacted board composition. Many boards and their nominating/governance committees are considering whether and to what extent their boards of the future need to include members with technology skills and what types of skills are called for. Given the investment and momentum of a focus on digital and technology transformation, it isn't surprising that boards are looking for the right composition to provide oversight. These transformations are focused on enabling resiliency in dealing with unexpected changes and challenges to the business environment or enabling the ability to use digital technologies to drive differentiation.

1. Rich Nanda et al., "A new language for digital transformation," Deloitte Insights, September 23, 2021.

The rooting of technology in strategy and the investment this strategy demands leads some boards to assess their composition. They may seek out experts in technology or aspects of technology most relevant to the company's business, or look for one or more directors who are "tech-savvy"[2]—not necessarily experts, but rather sufficiently conversant with different aspects of technology to engage in meaningful discussions on the company's technological opportunities and risks. In fact, the 115th Congress proposed legislation that would require companies to disclose whether any board member has "expertise or experience in cybersecurity" or, if not, how the board has taken "cybersecurity steps" to address the company's needs.[3] We'd hypothesize that these tech-savvy board members help to facilitate a common language between the board and management, driving more productive engagement and better company performance.

While it seems reasonable to consider whether a board has the requisite technology skill sets—whatever they may be in the circumstances—there has been little, if any, data concerning the impact of having a tech-savvy board on the company's performance. A study completed by Deloitte Consulting LLP in 2021 analyzed how the "techcentricity" of the board impacts the company's performance. The study and its conclusions are discussed on the following pages.

The study

The study involved analyzing the boards of the top 100 companies (by market capitalization) as of June 2020 to determine (1) the levels of their boards' tech-savviness and (2) whether and how that impacted financial performance, measured by revenue growth and stock price performance.

Tech-savviness indicators

The study based the tech-savviness of the boards in question on the educational backgrounds and technology experience of the directors using the following criteria:

- The percentage of directors who had been a technology executive—for example, a chief information officer (CIO) at any company;
- The percentage of directors holding a degree in an area of technology (such as computer science) or in a technology-related field; and
- The percentage of directors with a technology role at the company in question or any other company.

The study also considered whether, and the extent to which, the company had undertaken or was planning technology initiatives. Based on a sensitivity analysis between the tech-savviness and financial performance variables considered in the study, as well as the consideration that sufficient presence is needed to influence board decisions, the study concluded that 33% of the directors had to meet these criteria for the board to qualify as tech-savvy.

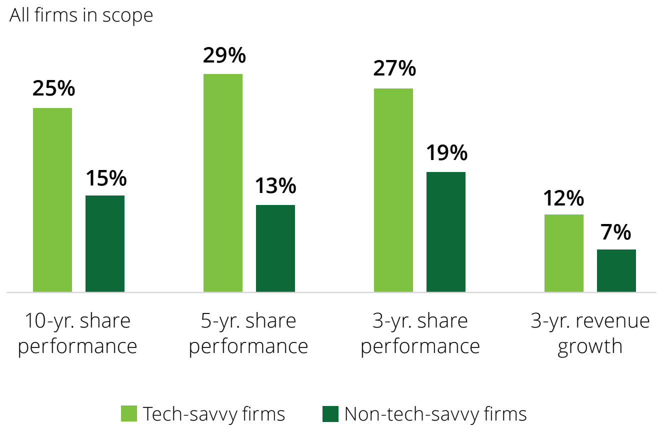
Key findings

Using these criteria, the three key inferences found in the study were as follows:

- Of the 100 companies analyzed, 31 were found to have a tech-savvy board (i.e., at least 33% of the board members were tech executives, held a tech or tech-related degree, or had held a tech position in the past).
- Overall, companies with a tech-savvy board performed better. Specifically, such companies experienced, on average, 5% greater revenue growth over a three-year period, and 8% better stock performance year over year, over three-, five-, and 10-year periods, than companies with non-tech-savvy boards.
- The gap in stock performance widened during the COVID-19 pandemic, with companies with tech-savvy boards experiencing 26% better stock performance during the first nine months of 2020.

2. Bob Lamm, "On the board's agenda: The tech-savvy board—A director's perspective," Deloitte, September 2019.
3. See the Cybersecurity Disclosure Act of 2017, S. 536, 115th Cong. § 2 (2017).

Figure 1. Firms with tech-savvy boards of directors performed better than those with non-tech-savvy board of directors across metrics studied



Source: Deloitte Consulting LLP, 2021

Additional findings

The study yielded a number of interesting additional findings.

- The CIO was a board member at four of the top 100 companies analyzed in the study. Out of the four companies, two were in the software industry. Research suggested these two companies exhibited better performance compared to their industry peers in the top 100 list during the COVID-19 pandemic and had higher valuation multiples. While a direct causation cannot be established between having a CIO on the board and superior performance, the correlation suggests that during times of crisis, technology may become even more important.
- On average, women comprised 29% of the directors of the companies analyzed in the study, and a majority of those women had backgrounds in finance/banking, sales and marketing, and social welfare. Companies with non-tech-savvy boards had a slightly higher ratio of women directors (29%) than those with tech-savvy boards (28%). However, there was no discernable correlation between stock price or revenue increase on the one hand, and the percentage of female directors on the other.
- Seventy-five of the companies covered in the study used various tech-savvy "keywords" in their annual reports, suggesting a strong emphasis on tech.

Reimagining technology and aligning strategy

Similar to the insights found in the *2021 Deloitte Digital Transformation Executive Survey,* we can hypothesize that having a common language on which for management and the board to align can lead to greater success, both for holding management accountable and discussing in the boardroom. The *2021 Deloitte Digital Transformation Executive Survey* boils this down to the five digital imperatives influenced and enabled by technology: experiences, insights, platforms, connectivity, and integrity. Putting these imperatives to work and having board members who speak this common language can help align strategy and drive transformation.

The Deloitte Consulting LLP study demonstrated that examined companies are reimagining technology to harness disruption, enable business outcomes, and drive transformation. Some important findings of this type are:

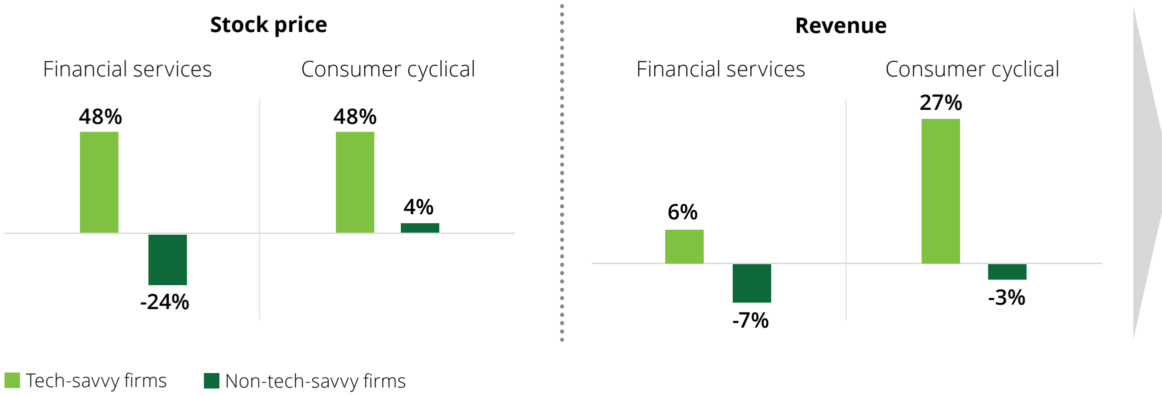
- Seventy-seven percent have a digital vision and agree that a robust technology strategy will drive future financial performance.
- Of the companies that have an IT member in the C-suite, 86% have invested in strategic technology.
- Ninety-three percent of the companies in the technology industry have comprehensively outlined a technology strategy with new initiatives such as analytics, artificial intelligence/machine learning, and cloud technologies and saw twice as much revenue growth pre- and post-pandemic over the 2018–2020 period (10% CAGR vs. 5% CAGR for other firms).
- Eighteen of the 100 companies included in the study lack a tech-savvy board and have limited or no digital strategy; these companies experienced 4% revenue growth over the 2018–2020 period.

The impact of COVID-19

The study indicated that COVID-19 accentuated the performance gap between companies with and without tech-savvy boards. Specifically, over the second, third, and fourth quarters of 2020, companies with tech-savvy boards experienced 26% better stock performance and 10% better revenue growth than companies without tech-savvy boards. The study did not determine the causes for these differences, but the results suggest either adapting to changes quickly or having a sound foundation may allow for more strategic and operational flexibility.

The performance gaps appeared to be consistent across industries, as illustrated on the next page in figure 2.

Figure 2. Performance of tech-savvy vs. non-tech-savvy firms across different sectors (Q2–Q4 2020)

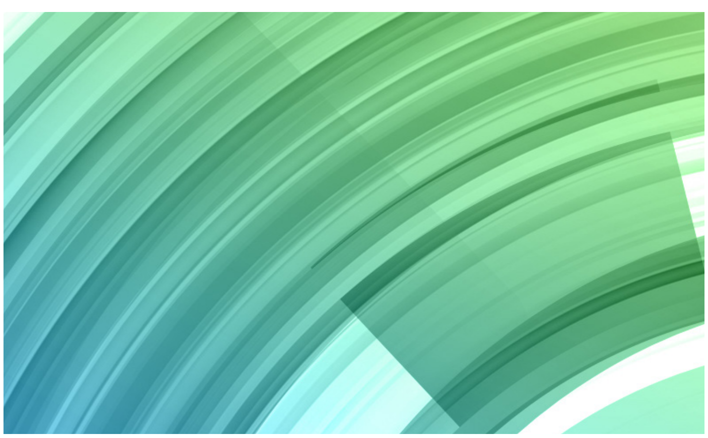


Source: Deloitte Consulting LLP, 2021

More to come

The study described in this paper is being updated for 2021. At the outset, it is clear that some new companies will be included in the top 100, particularly those in areas such as e-commerce, food/parcel delivery, and telecom services, all of which benefited from the COVID-19 pandemic, and that some companies, including those in the aircraft industry, will likely fall off the list, as they were adversely impacted by the pandemic. The impact of these changes are not yet known, but given the industries that appear to have done well in the pandemic, it will not be surprising if the benefits of having tech-savvy boards will remain or become more prevalent.

In addition, while the methodology of the study is expected to be substantially the same as the one discussed in this paper, the next iteration is expected to give greater focus to companies' agility and performance in response to the COVID-19 pandemic and recovery from its effects.



What does it all mean?

Technology affects companies in a wide variety of industries; in fact, it seems likely that all companies, regardless of industry, face, and will continue to face, risks and will be presented with opportunities associated with technology. The *2021 Deloitte Digital Transformation Executive Survey* drives the importance of leveraging the tech-savviness and common language to align possible transformations to the strategic north star. Boards could leverage the below discussion guide to broach the conversations with the management teams as well as with each other in the boardroom.

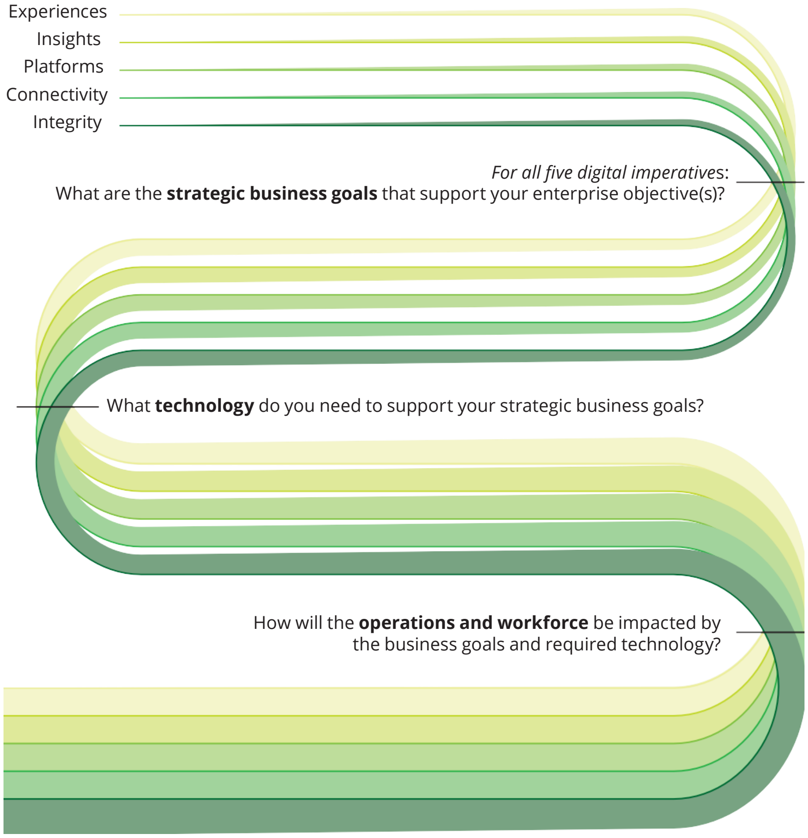
1. What's the enterprise objective for the digital transformation? Capacity to change? Ability to win? Both?
2. Across *each* of the five digital imperatives, consider asking the following questions:
   - What is the **strategic business goal** that best supports our enterprises' objective(s)?
   - How do we need **technology** to support this business goal in terms of purpose, function, security, and risk requirements?
   - What will the **operations and workforce** impacts be for those business and technical or security decisions? Conversely, how might workforce strategies and capabilities impact the transformation strategy in a way that considers profound changes across leadership teams, operating models, ecosystems, and the workforce aligned to strategy?
3. We can then arrive at a technology strategy, with planned technology investments that ladder up to the overarching organizational ambition and align with organizational and workforce transformation needs.

Figure 3. Digital transformation discussion guide for boards and C-suites

Enterprise objective

☐ Ability to win ☐ Capacity to change ☐ Both

Five digital imperatives

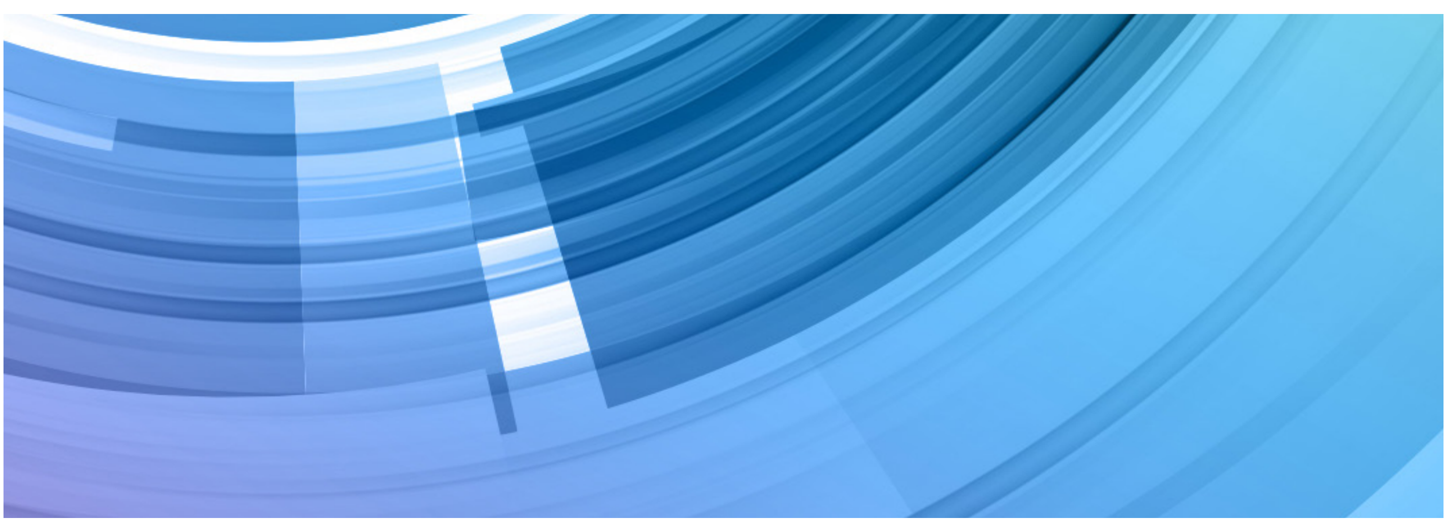


Source: Deloitte analysis

Accordingly, boards of directors need to consider whether their members possess an adequate level of knowledge concerning these risks and opportunities. The evolving Deloitte Consulting LLP study suggests a few points in this regard:

- Given the positive performance metrics achieved by companies with tech-savvy boards, in developing and implementing board succession planning, boards should, at a minimum, consider having some directors who are knowledgeable about technology, including the risks and opportunities that technology presents to the company and/or its industry.
- It is not clear whether one or more directors need to have "deep" technological knowledge, particularly if a director with that degree of knowledge lacks other skills or experience that may be valuable to the board. Phrased otherwise, a director who is a "one-trick pony" when it comes to technology may not be an ideal candidate.
- It may not be necessary for all members of the board to be tech-savvy, so long as some members possess some degree of tech-savviness. This may afford boards and their nominating/governance committees the flexibility to focus on other critical skill sets and other qualifications, as well as diversity, in considering future candidates for election to the board.
- While board composition and skills are important, harnessing that knowledge come through in how the board operates and behaves. Excellent board effectiveness may also be a critical factor in tapping into the true benefits of a tech-savvy board.

Technology and design change daily, and boards need to provide oversight on how their management teams can develop and invest in adaptive processes and technology architectures that can enable much-needed resiliency and differentiation in today's world.



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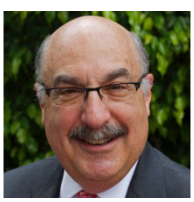

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Acknowledgments
Deloitte would like to thank Alan Cohen Broitman and Nisha Chhaya for assisting with analysis that contributed to this *On the board's agenda*.

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Deloitte's Center for Board Effectiveness helps directors deliver value to the organizations they serve through a portfolio of high quality, innovative experiences throughout their tenure as board members. Whether an individual is aspiring to board participation or has extensive board experience, the Center's programs enable them to contribute effectively and provide focus in the areas of governance and audit, strategy, risk, innovation, compensation, and succession.