



On the board's agenda | US

The tech-savvy board—A director's perspective

With the ever-increasing focus on technology—as both a risk and a driver of success—the board's role in technology oversight is one of the hottest topics in corporate governance today. Bob Lamm, independent senior advisor to Deloitte's Center for Board Effectiveness, recently spoke with Sherry Smith, an experienced board member with a passion for technology, to get her take on this critical area. ➔



Sherry Smith is a director of Deere & Company, Piper Jaffray Companies, Tuesday Morning Corp., and Realogy Group Inc. She previously served as executive vice president and chief financial officer of Supervalu Inc. and has 25 years of experience in the grocery industry, progressing through various financial management positions including treasurer, corporate controller, and senior vice president of finance.

Editor's note: This publication is part of an ongoing series of interviews with CEOs, CFOs and other executives. Ms. Smith's participation in this publication is solely for educational purposes based on her knowledge of the subject and the views expressed by her are solely her own.



As an experienced board member, why do you think oversight of technology has become top-of-mind for boards?

There are a number of reasons for this. With the exponential growth of technology and tools that are available and the use of data analytics driving more business decisions than ever before, companies need to become digitally savvy and agile to compete. Therefore, one of the biggest reasons is the reality—and fear—of disruption. It permeates many board discussions these days, and there is a great and growing realization that if your company is not accelerating the use of technology and data as part of business strategy, it may well be disrupted.

How do you define “tech-savvy” as applied to boards of directors?

I believe there are two main components. First, to be tech-savvy, a director needs to have at least a basic level of tech literacy. For example, he or she needs to know the terms and concepts that comprise technology today, such as AI, blockchain, and the cloud. But the second component is equally or possibly more important—it's being educable and receptive to learning about and immersing yourself in a new area. And a major part of being educable and receptive is asking questions. It may seem elementary that directors need to ask questions, but it's particularly important in technology. A director may be reluctant to ask questions on a topic on which he or she is inexperienced, but it's critical to overcome that reluctance.

There are plenty of ways to achieve an understanding of the new technologies and tools that are out there, with all the publications, news stories, books, forums, etc. that are all talking about it. You can always take a class at your local college or technical school. Attending the annual Consumer Electronics Show (CES) is another great (and enjoyable) way to get exposure to all the ways in which technology is being used to change how we do things.

In considering whether a board is tech-savvy, do you look for particular types of experiences or skill sets, certain “attitudinal” traits, or specified demographics?

At the risk of stating the obvious, it can be very helpful to have a board member or two with a strong technology background. However, when people hear that phrase, they may tend to think you're referring to a CEO of a tech company or a CIO. In my view, that's too limiting; there are many industries, as well as areas of government service such as the military, where people gain great experience in dealing with a broad range of technologies and the use of “big data” to drive business in large, complex organizations all the way down to small, innovative start-ups.

As for attitudes or traits, aside from being receptive and educable, a tech-savvy director needs to be prepared to question the status quo. Another trait is being willing and prepared to keep current

with the exponential pace at which things are changing. By the way, that's not limited to technology; corporate culture is another area where questioning the status quo and keeping on top of a constantly changing environment is critical. A related trait is an ability to think out of the box; once you question the status quo, can you come up with new solutions, or new ways of developing solutions, to the challenges you learn about from your questions?

How do you think boards in general (i.e., not just those on which you serve) are doing when it comes to being tech-savvy?


Based on what I've seen, not very well. I recently saw the results of a survey in which just over 50% of the board members surveyed said they had adequate technology backgrounds on their board. That's not great. I've heard that some companies are increasing the size of their boards to make room for directors who are tech-savvy or have other needed skill sets. (Anecdotally, some boards are doing this to add some diversity as well.) I guess that's fine, but there's a limit to how much you can increase board size, so that approach doesn't seem like a long-term solution.

What do you recommend boards consider doing over the longer term to become more adept at dealing with matters of technology?

I believe there are quite a few things that a board can do in this area. First, though it sounds simple, an important step is to see to it that your agendas provide adequate time to discuss and consider technology matters, including how technology is being used to make business decisions both on day-to-day matters as well as for longer term strategy. If you don't make time for it, you're likely to keep putting it off until it's too late. Moreover, for many companies, technology is a key component of strategy—perhaps a major or the sole component of strategy—so if you're not talking about it at every meeting, you're probably not talking about it enough.

A second step is to challenge management, particularly if it is not bringing technology matters to the board. It's perfectly all right for a board to say “show us what you're doing with technology.”

Third—and, again, it may sound simple—is to ask the same kinds of questions that are asked in other areas: What resources do we have? Are they adequate? How much are we spending and what are we spending it on? Are they the right areas? These and similar questions can elicit important information from management that the board might otherwise not get.

Another responsibility is on the board members themselves. Specifically, you need to educate yourself. Even if you've “mastered” technology at one company, every company is different, so you may not be able to apply what you learned at one company to other companies on whose boards you serve. By the way—you can't 

rely upon “regular” board education when it comes to technology; it simply isn't specific enough, and you generally need to get up the learning curve in a much shorter time.

We see and hear so much about the risks associated with technology, such as cyber and disruptive risk. However, aside from being a necessity, technology can bring many benefits and advantages to companies. Do you think boards in general think enough about technology in “offensive” as well as “defensive” terms? For example, based upon your experience and your observations, does technology play a part in how boards oversee their companies’ strategies and strategic planning processes?

I can't speak for other companies, but the boards on which I serve think a lot about using technology offensively; in fact, for us and many other companies—and I think I suggested this earlier—technology, including the use of data analytics, is a key component of strategy. And if nothing else, strategy is forward-looking and proactive rather than reactive, and our approach to technology reflects this.

By the way, there are external forces that are pressuring companies and their boards to think about technology offensively as well as defensively. For example, customers/consumers all rely on their smart phones to do everything for them, so they want better tech-enabled solutions in your product offerings. You even see it in earnings calls and analyst meetings, which are focusing on technology to a much greater extent than in the past.

For boards that do not bring technology into strategic oversight, how might you suggest they do so?

Honestly, I don't see how that could possibly happen. How can you talk about strategy without it?

Any suggestions as to how boards can help their companies make more effective use of technology?

One way comes to mind: look around the boardroom and make connections with other directors with technology experience. And if you have connections that might be helpful for management to meet with, see what they are doing, and so on, make that introduction. Do any of your board members have other board experience overseeing technology? Can they provide examples of their experiences? One size does not fit all, but learning of others' experiences dealing with technology can be extremely helpful. And, by the way, this type of storytelling is a very effective way to educate directors.

Also, you need to make sure technology is embedded in your board agenda and discussions, and make sure you understand what the competition and disruptors in your space are doing, and how your company benchmarks with them.

What's your view on creating a board-level technology or similar committee?

There is no one right answer, but I believe that ultimately the full board owns—and needs to own—technology as part of strategy. Of course, committees also can play a role vis-à-vis technology, such as monitoring and doing deeper dives where appropriate. In my experience, the audit committee generally has a role to play with



regard to technology and the use of data, especially in relation to enterprise risk and cybersecurity. In fact, at one of my companies, fully one-third of every audit committee meeting is devoted to technology topics, as we do not have a technology committee and this area has been added to our charter.

The answer may differ depending upon the industry. For example, banking and tech are industries where a technology committee may well be advisable.

Regardless of how a particular company decides to address committee oversight responsibility for technology, it's important to cover the roles/responsibilities in the committee charters—and in practice. And the chair of each relevant committee needs to understand his or her committee's responsibilities as well and provide meaningful updates to the full board as appropriate. Otherwise, things may fall through the cracks because of an assumption that someone else is handling the matter.

What is (or should be) the role of the CIO/CTO in assisting the board to become or remain tech-savvy? How could the CIO/CTO be better used to help the board fulfill its oversight responsibilities with regard to technology?

The board and its committees, on the one hand, and the CIO or CTO, on the other, need to use and appreciate each other as resources. Each can help the other to better understand the company's technology roadmap and balance with the rapid pace of change, review existing resources as well as any additional resources that may be needed, and the challenges in meeting those needs.

It is also important for boards and committees and CIOs/CTOs to understand each other much better than is often the case. A greater understanding on both sides can help to create tech-savviness on the board—and can help the CIO/CTO as well. One way of achieving a better understanding is to have executive sessions in which the CIO/CTO can communicate directly with the board or a committee, including to explain his/her view of the company's technology needs and resources. ➤

Should there be some sort of dotted-line reporting relationship between the CISO (or the CIO/CTO) and the board (or a committee), similar to the customary relationship between the audit committee and the head of internal audit?

I think an informal set-up of this type can be very helpful—if only to facilitate better communications both ways. I wouldn't suggest a formal reporting relationship.

What's your view of the use of outside advisers or consultants in the area of technology?

It can be helpful to have outside advisers or consultants, as they can assist boards or committees to “trust but verify” vis-à-vis management. However, it's important to remember that board members have overarching fiduciary duties that cannot be outsourced. Phrased otherwise, while boards and committees are entitled to rely upon advisers, their reliance must be reasonable. So boards and committees can't “set it and forget it”; they need to remain vigilant. Another factor to bear in mind is that outsiders customarily act on a “transactional” basis—they are brought on for a specific assignment or series of assignments and often don't have a long-term relationship with the company. So, again, it's the job of the board or committee to have a long-term perspective.

Another approach that some companies have found useful is the advisory board. Advisory boards come in a variety of shapes and sizes, but they are generally a group of experts in a particular field that advise the board or management on that field. I've seen them used in other areas, such as strategic planning, from time to time. However, the same considerations apply—advisory boards do not have fiduciary obligations, and their assignments tend to be more limited in scope and possibly in time than is the case with boards and committees.

There is legislation pending in Congress that would require public companies to disclose whether the board has a technology “expert” and, if not, to disclose why not. (This is similar to the existing requirements for “audit committee financial experts”). What do you think of that requirement, and why?

To be candid, I am not a fan of that approach. It's very simplistic and doesn't do justice to the complexities of technology oversight or the role and responsibilities of boards and committees.

There are also some practical concerns. First, I don't know how the term could be defined; it's different for each company, so a one-size-fits-all approach isn't likely to succeed. Also, technology is changing so rapidly that a person deemed an “expert” might not qualify as such for very long. Third, companies face a broad and ever-changing array of responsibilities and challenges that call for board members who can deal with those responsibilities and challenges; bringing on a board member just because he or she is a technology “expert” may not make sense; phrased otherwise, there's little or no benefit to having a director who is a one-trick pony.

Any concluding observations?

Boards and committees—at least good boards and committees—are accustomed to dealing with new challenges. While there are certainly unique challenges to oversight of technology, I believe that the skills and attributes that many directors bring to their roles will enable them to succeed in this area as well. ➤



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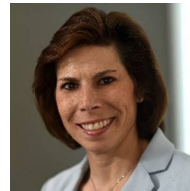


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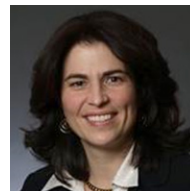
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