DISRUPTIVE TECHNOLOGIES AND CORPORATE GOVERNANCE

The impact of technological disruption on the role of board of directors
DUAL ROLE OF THE BOARD

Disruptive technologies changing the nature of both of these roles
What is the strategy?

Disruptive technologies changing firms’ strategies:

• Are you “digital” yet?

• Cuts across industries – every company is a tech company (67% of CEOs think so)¹

• Firms’ sustainability has significantly decreased over time (lifespan 15 years)²

Board implications:

• Existential threat → more time needs to spend on strategy planning and recruiting talent
Where is the risk?

Disruptive technologies as a source of new risk:

• Cybersecurity and IT related risks are pervasive risks → IT/data risk

• New technologies are subject to new, world-wide regulations → regulatory risk

Board implications:
• Expanded risk oversight to prevent corporate crises.
Where is the risk?

Technology as an accelerator of existing risks:

• Due to social media and non-stop access to news, information (favorable and unfavorable) spreads very fast
• Reputation risk at all time high
• Legal and financial implications of increased reputation risk

Board implications:
• Expanded board role to react to corporate crises – i.e. to have a crisis response plan
DUAL ROLE OF THE BOARD: Which takes precedence?

The demand on directors’ time increases significantly

- How should the time be allocated between value-enhancing advisory role and compliance role?
  - i.e. What increases shareholder value?
  - Will/should advisory role of the board expand?
DUAL ROLE OF THE BOARD: Are the two types of tasks compatible?

Are the two roles more incompatible now than ever?

- Monitoring role requires focus on risk mitigation and elimination of uncertainty
- Directors tend to be risk-averse – little upside, only downside risk
- Disruptive technologies require flexibility and embracing of uncertainty – strategy needs to be adaptable and fluid
SKILLSET: Does the board have right skills?

Is there a right skill-set on the board?

• Are there directors who understand emerging technologies and its impact on the firm’s strategy?
  • Age gap between workforce and a typical board – is there a technological gap too?

• Are there directors who are willing to stand by and approve risky propositions?
• Are there directors who have crisis response experience?
Does the right board dynamic exist?

• Highly responsive and courageous boards needed
  • Skill matrix not enough to ensure this
  • Are there demographic or individual characteristics that can capture this?
COMPENSATION AND RISK TAKING: When should risk taking be rewarded?

Does the incentive structure need to change?

• What is the risk-reward trade off for the CEO?
  • Do we need to rethink “risk” – is it bad?

• What are the right benchmarks when the competitive landscape changes daily?
  • Who are the competitors when industry lines are becoming more and more blurred?
Operational Changes

• Directors need to monitor much broader set of developments
  • Self-education or director training?
  • Closer relationships with CTOs/CIOs to understand corporate issues better
  • Closer relationships with HR to understand talent pool and recruitment strategies
  • Technology strategy subcommittee

• Delegation of work to committees
  • Prioritize board agenda to focus on key issues
Operational Changes

- Strategy evolution on regular agenda
  - Cannot afford annual review/approval process
  - Outward looking focus (at least for a subcommittee)

- Cultural shift to embrace **strategic** risk and be OK with risk taking
  - Revisit the definition of risk-taking in the context of executive compensation – how to reward the right effort even when results are not immediate?
Board Composition Changes

- Directors who understand emerging technologies
  - More than half of firms surveyed in the US have no technology expertise on their boards\(^4\)
  - 79% of directors said their boards did not understand technology sufficiently \(^5\)
  - Younger board – representative of workforce and consumer base?
    - Digital thinker, disruptor, leader or transformer\(^6\)
Board Composition Changes

- Directors with experience in different areas of technology
  - E.g. Cybersecurity, social media, big data, ecommerce
- Directors who are multidimensional
  - Cannot afford directors who are not at least digital thinkers while experts in another area
- Directors with demonstrated ability to be courageous, responsive, adaptable, agile
  - Easier said than done, but recruiting process can incorporate skill search along these dimensions.
In summary, disruptive technologies:

- Increase the demands on directors’ time – to monitor and to advise
- Require that directors focus more on strategic risks – strategy on top of the agenda
- Require that directors become outward focused too – stay on top of developments
- Force directors to rethink their relationship with “risk”
- Implore boards to recruit multidimensional directors with expertise in emerging technologies

Failure to adapt may lead to an existential threat


