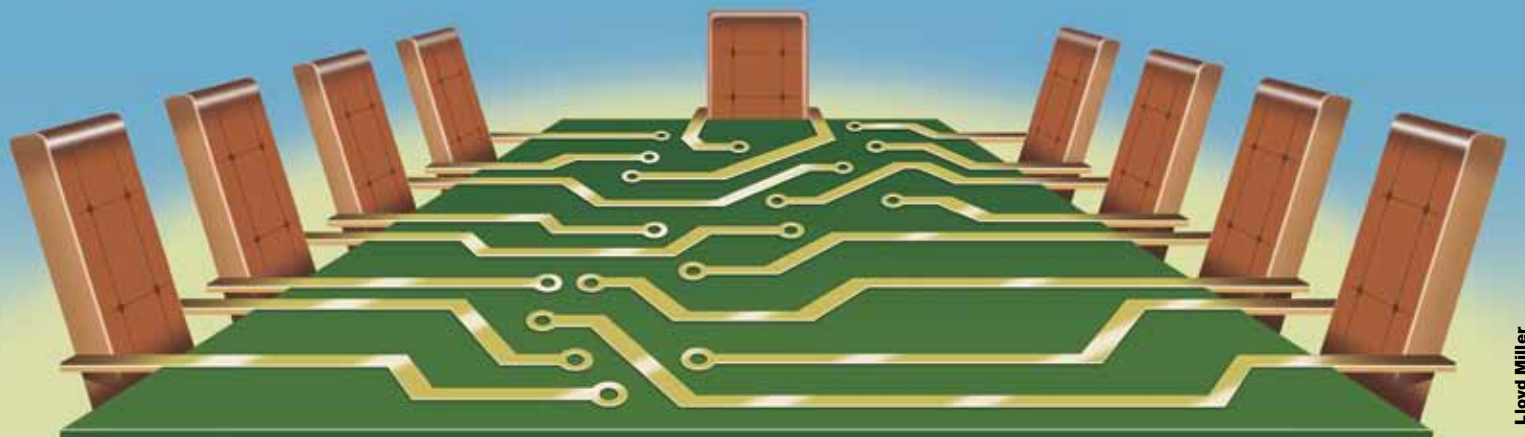




Elevating technology on the boardroom agenda

Boards are starting to guide management by asking the right questions about technology.

Michael Bloch, Brad Brown, and Johnson Sikes

Businesses are becoming increasingly digital and it's not just a matter of process automation or resource-planning systems. Technology trends such as big data, cloud computing, mobility, and social media are giving rise to new marketing and operational capabilities. Indeed, technology has become too embedded in the fabric of the business—and too critical for competitive performance—to be left to the IT function alone.

As a result, many senior-executive teams have been called upon to get involved in technology issues. Boards are also beginning to take a strategic view of how technology trends are shaping their company's future. More boards than ever before are asking questions that ensure executives focus on the right issues. Deeper board involvement is also serving as a mechanism to cut through company politics and achieve endorsement of larger, integrated technology investments.

The value at stake from getting technology right is typically quite large. Recent research indicates that about half of M&A synergies depend on IT, which makes it a core driver of deal success.¹ The risk of cyberattacks is another area that can directly affect both operations and the broader brand or business reputation. In fact, some boards are beginning to direct their risk committee to oversee cybersecurity issues.²

There are also many other competitive opportunities and threats that are driven by technology trends, such as new entrants causing industry disruptions with radically different cost structures or game-changing innovations. What's more, major corporate investments or transformations, such as supply-chain or operating-model transformations, often have a major IT component that can imperil delivery if anything goes wrong.

¹For more information, see Hugo Sarrazin and Andy West, "Understanding the strategic value of IT in M&A," mckinseyquarterly.com, January 2011.

²For more information, see James Kaplan, Shantnu Sharma, and Allen Weinberg, "Meeting the cybersecurity challenge," mckinseyquarterly.com, June 2011.

Takeaways

Getting the board of directors to engage on technology issues offers significant value and helps to ensure that executives target the right topics.

Surveys show, however, that insufficient attention is paid to technology at the board level, and that discussions lack proper focus.

A more structured approach to board engagement is called for; a number of measures, such as establishing new forums and strengthening the technology governance structure, can yield results.

A constructive IT role for boards

It's not surprising that many corporate directors and senior executives would like boards to have a more frequent and more constructive role in IT strategy. In a McKinsey survey of corporate directors, more than half said their boards had one technology-related discussion a year or none at all. Almost half of the survey respondents indicated that this level of attention was insufficient (Exhibit 1). Moreover, a separate McKinsey survey of executives suggested a significant gap exists between the conversations their boards ideally should be having and the ones the boards actually were having. For example, more than half of the respondents said their boards should discuss forward-looking views of technology's impact on their company's industry. Less than 30 percent reported that their boards had these discussions (Exhibit 2).

Given the importance of technology, many companies are considering a more structured approach to board engagement. In our experience, this involves new forums, new thinking about board organization and about interfaces with management, and, when needed, an infusion of talent so that the board includes people with better knowledge of technology.

Indeed, some national governance bodies agree. South Africa's code of company governance, for instance, now mandates regular interactions between boards and executive management on technology topics,³ making the country one of the most advanced in this regard.

Boards can take a number of measures to engage management on technology issues:

Sponsor periodic reviews of technology's long-term role in the industry. Some boards are taking responsibility for the big picture by engaging

in forward-looking conversations about how technology affects the industry and what the implications are for their company. Some companies may have a CIO or other senior executive who can facilitate such a discussion. Those that don't, and those that prefer an outside view, involve external experts who can help generate a discussion about technology trends and topics that can inform current and future strategies. Given the rapid pace of change, such big-picture discussions should take place every 12 to 18 months—or more frequently if necessary.

The CIO of one financial institution, for example, requested substantial investment to modernize legacy software platforms and develop new capabilities in advanced risk analytics across the business. In response, the board looked for an outside perspective and arranged a presentation and discussion rooted in the company's industry context. The presentation, which looked at recent trends, found that while a new type of player—large, highly tech-enabled and data-driven companies—was emerging in the commercial market, there would still be room for a sizable number of smaller players with varying technology capabilities. The presentation also highlighted leading practices applied by other companies and drew on developments from other sectors in using data and analytics to improve customer segmentation and risk assessment. By engaging the board with these perspectives and then discussing the implications, the company gained a better understanding of its business-technology gaps, and the investments that would be required to close the most critical gaps. As a result, the CIO received funding for substantial expenditures in the next corporate-investment cycle.

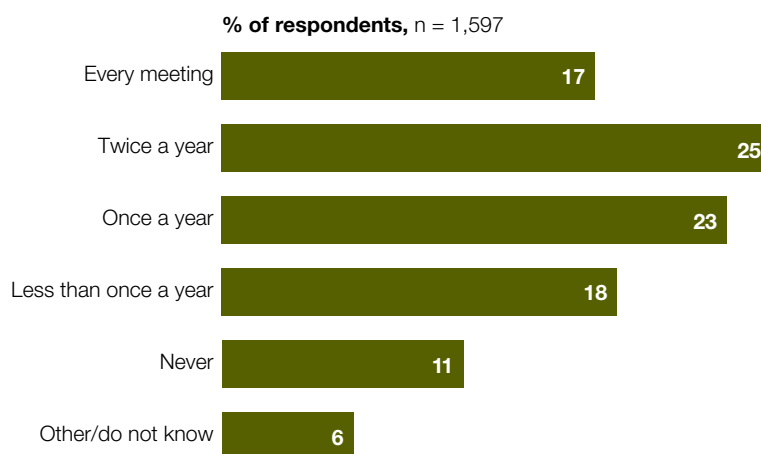
Establish board reviews of the IT portfolio and major projects. Some boards are also beginning to introduce an annual “state of the union” report on the company's wide-ranging IT

³The King Code of Governance for South Africa (King III), 2009 (african.ipapercms.dk/IOD/KINGIII/kingiiiireport).

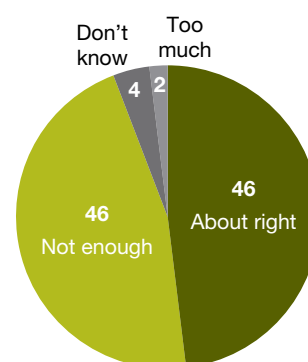
Exhibit 1

Executives would like boards to have more frequent discussions about technology issues.

How often does your board discuss IT topics?



How would you characterize the board's attention to IT topics?

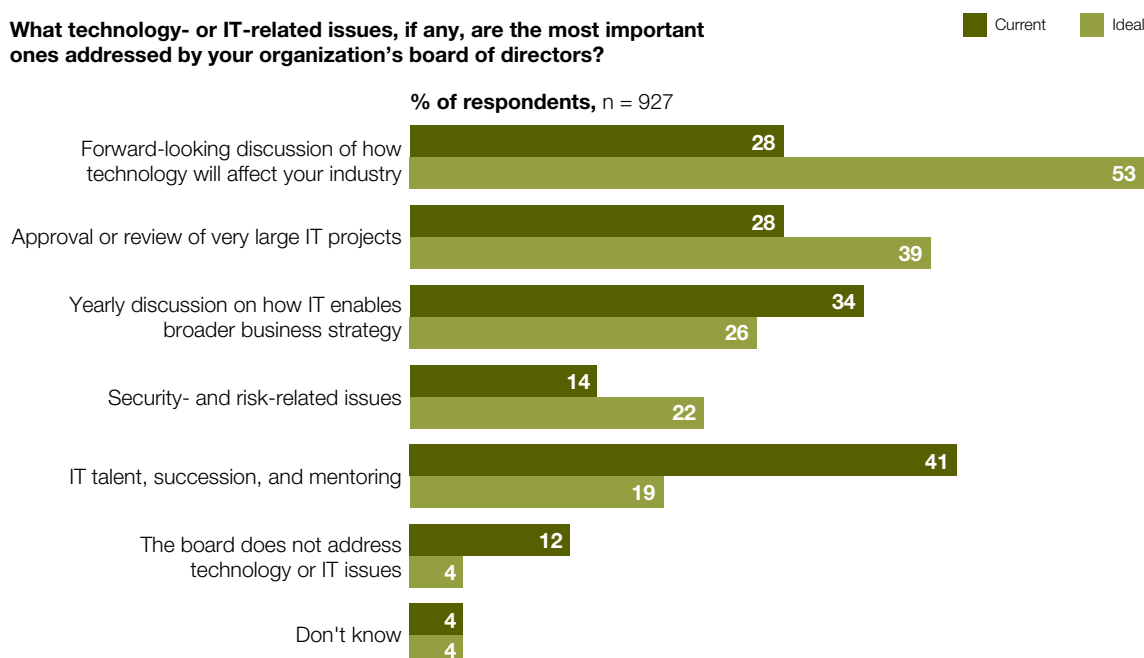


Source: Apr 2011 McKinsey survey of corporate directors

Exhibit 2

Board priorities appear to be misaligned.

What technology- or IT-related issues, if any, are the most important ones addressed by your organization's board of directors?



Source: Dec 2011 McKinsey survey of executives

How CIOs can raise their board game

As boards get more deeply involved in technology issues, CIOs are learning how to engage with corporate directors in ways that benefit the company and the IT function. Here are four key lessons.

1. Interact regularly with board members

CIOs must get closer to the company's board. One approach is to interview directors on their perspectives; by doing so, IT executives will understand board concerns and attitudes, as well as which dimensions speak most to directors. These conversations often are a critical opportunity to shape the dialogue on technology.

A CIO at a global company, for example, has monthly conversations with a tech-savvy board member. Their meetings, to which the CIO often brings members of his own team, also benefit IT. The exercise allows the CIO to demonstrate his bench strength, and it also expands the IT team's awareness of top-management issues.

2. Set the agenda with the board proactively

Work with the CEO and executive team to proactively bring technology topics before the board. This can set the scene for more positive discussions and avoid unpredictable requests to which the CIO ends up playing a reactive role. Importantly, the first task for many CIOs is to have a straightforward dialogue on how the technology strategy links into the overall business strategy—an area where too many CIOs struggle.

A cautionary tale: at one company, the board asked for an update on IT strategy. The group CIO, however, didn't know what the board was

interested in and didn't dare ask—was it business support, costs, cyberrisks, innovation, key projects, or perhaps all of the above? The CIO went in with a presentation that didn't address the board's questions. As a result, the meeting was a lost opportunity for the CIO, and the board's response was lukewarm.

3. Bring the right people to the board meetings

CIOs who do well at board meetings often bring their business unit counterparts along for discussions of major projects—or share the floor with some of their high-performing employees as a way to give them broader exposure to business issues. The people to involve will depend on the topics under consideration; getting the right mix can be a critical element of success. When the right people are in the room, board discussions on technology topics tend to be more fruitful than those that take place in the executive team because the conversations focus on the right issues and on how to move the ball forward.

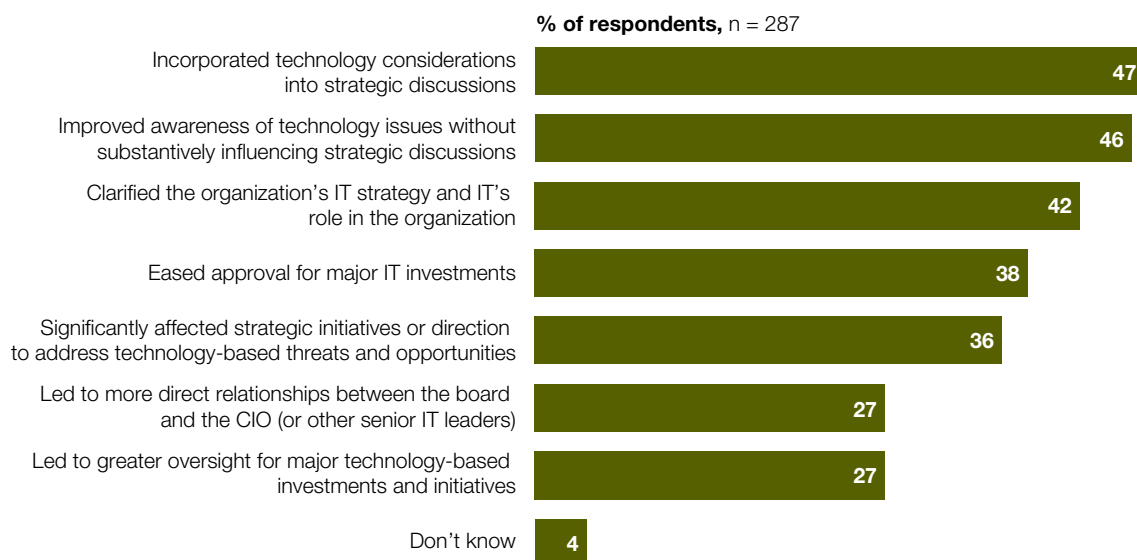
4. Leave the IT jargon behind

Finally, the CIO and his or her staff must engage in the discussions at a board level. Leave the IT jargon behind to ensure the discussion focuses on technology issues in the business context. Remember, a board discussion on technology is quite different from a status report on IT infrastructure.

Exhibit 3

Technology-focused discussions are richer when boards have at least one IT-savvy member.

How has the presence of 1 or more knowledgeable board members affected the way your board considers technology issues?



Source: Dec 2011 McKinsey survey of executives

capabilities and infrastructure and how they support its corporate strategy and operations. This is essentially a review of the entire IT portfolio's alignment with corporate and business unit strategy, focusing on major IT systems and components. These often include core business systems (for example, enterprise resource planning, customer relationship management, and industry-specific systems), as well as the company's IT operating model and resource strategy. The review should also look at ongoing issues and projects like cybersecurity and major transformational efforts, which often have a substantial IT component. Moreover, the review should include discussion about IT talent and CIO succession plans. For greatest impact, this report should feature joint presentations by IT executives and corporate and business unit managers.

Boards also need to more frequently review major business projects that have a significant technology component. One company, for example, is rolling out a massive systems-transformation project, estimated to cost several hundred million dollars and representing the company's largest investment over a five- to ten-year period. Given the importance of this effort, the board conducts regular progress reviews with the project leader, who is supported at these reviews by the CIO and the head of the business area.

Leverage technology-savvy board members.

Greater board involvement in technology matters means that corporate directors, just like CIOs, have to raise their game. Many more boards are seeking to better understand technology issues and their business implications than they have in the past.

For boards that are lacking in this regard, there are ways to build the expertise that will enable them to have constructive dialogues with IT.

One approach is to bring on, over time, more board members with technology backgrounds who can help start these conversations more organically during the course of board meetings. A recent report from Spencer Stuart⁴ indicated that 20 percent of boards are actively looking for directors who have this expertise. Finding the right board member can pay significant dividends. This is borne out by survey results (Exhibit 3) and our client experience.

Some boards are also considering their own “technology boot camp” training sessions, much like the risk or accounting training that some boards conduct for committee members. Although this will not turn board members into experts, it would give them a chance to become familiar with the core issues.

Strengthen the technology governance structure. While boards often need to improve their technology expertise, there are also structural steps that can make them more effective stewards. One is to create a technology-focused committee to ensure more frequent and directed discussions on these topics. Twenty-two percent of survey respondents reported that their company board had a committee responsible for technology oversight. It is important to remember, however, that delegating this work to a committee does not

relieve the full board of broader responsibilities, such as discussing technology trends.

Another way to strengthen technology governance is to delegate risk-related technology issues to the board committee that oversees company risk. Many boards already consider some technology topics in their audit reviews. However, they could expand oversight to conduct risk reviews of systems and review the operational risk from business processes dependent on those systems. They could also review how company data are used and how these data are safeguarded, as well as discuss concerns about broader cybersecurity issues.

A UK group has tasked its board’s audit committee with overseeing technology risks. The group COO reports regularly to this committee. In addition, the audit committee regularly asks the company’s internal audit department to examine the IT-security strategy and report on its findings. The committee then mandates the group COO to report on the measures being taken to fill existing gaps.



Technology is becoming increasingly important to corporate strategy, and boards have a crucial role to play as trusted advisers. That means engaging continuously in discussions about technology trends and the company’s technology portfolio, as well as building the expertise of corporate directors and creating structures that strengthen IT governance. Now is the time to act. ○

⁴Spencer Stuart US Board Index 2011 (spencerstuart.com).