BOARDS

Embracing Technology is About Innovation

Embracing Technology is About Innovation

In a fast-changing digital world, the successful businesses will be those that demonstrate adaptability and embrace innovation. Technology opens the door to new business models from manufacturing to marketing functions, while cyber security and the risks around it loom large as major concerns for every boardroom.

On one level, it is simple: technology expertise is not just IT expertise. It is more the ability to view the future of a business through a technology lens. Trends such as big data, cloud computing and social media are creating new operational capabilities, and the responsibility for how to make the best strategic use of them lies not just with the IT department, but with company boards.

Boards need to confront a series of leading questions to stay ahead of the game, says Preety Kumar, Managing Partner of Amrop India and a member of Amrop's global Executive Board. They need to ask: "How is our long term business going to be influenced by the play of technology? Who are the new emerging competitors? Do they have an angle which we are not considering? What are some of the technologies needed to drive agility in the organization? What are the long term investments needed in technology?"

"Technology can be a major business enabler or a stumbling block, depending on how well the 'technology factor' is built into company strategy. Most boardrooms do not currently have appropriate state-of-the-art knowhow among their non-executive directors. This is particularly true when we look at mid-cap or even large mid-cap businesses" says Fredy Hausammann, Managing Partner Amrop, Switzerland.

"Digital transformation is hitting all companies, across all industries, across the world. Some skills could be there by chance" suggests Niels Bentzen, Head of Amrop's Global Technology and Media Practice. The question, he says is: "Will boards be able to challenge the top management team? Would the Chief Digital Officers of the world be able to get a sparring partner in the boardroom?"

'Big picture' discussions can be led by the Chief Information Officer, and there are many steps that can be taken to ensure that this happens. They include regular broad reviews of IT projects, tech-focused special committees, appointing special advisers to the boardroom, and more.

“The issue is not just about having one person on the board, or one committee, it’s more about the whole board being aware – by one way or another - that technology is not (merely) a department in their company.”

Some businesses are giving their Audit Committees the task of measuring technology risk, but in the end it is about putting the right people together, and considering it a strategic discussion, not a technical one. This is an imperative for all businesses in 2015, wherever they happen to be located. As Joi Ito, director of the MIT Media Lab, put it: “The internet is not a technology, it’s a belief system.”

But, also as Tomasz Magda, Managing Partner of Amrop in Poland and a member of Amrop’s Board Practice puts it: “The issue is not just about having one person on the board, or one committee, it’s more about the whole board being aware – by one way or another - that technology is not (merely) a department in their company.”

“Across the world, governments and companies are using their mastery of technology and the internet to reimagine their scope of operations and the role they can play in the networked economy” wrote Saul Klein, partner at investor Index Ventures, in an opinion piece for the Financial Times.

“We see a real need for senior technology skills and experience among non-executive directors in the boardroom. In Switzerland we are about to place the former CTO of a major bank on the board of a large mid-cap bank as a non-executive director. He will be able to play a critical role as a sparring partner and controlling body for their CFO” says Amrop’s Mr Hausammann.

In global terms, South Africa was early in starting this conversation: it was the first country to mandate regular interactions between boards and executive management on technology issues through its corporate governance code King III.

But only recently have there been appointments to boardrooms which demonstrate that businesses are starting to rise to the challenge. The fashion house Burberry, which has spelt out a clear and far-reaching mandate for its Nominations Committee (see Amrop, ‘Raising the Bar for the Nominations Committee’) - is one example. In September 2013, the company appointed Matthew Key, the former boss of Telefónica Digital, as a non-executive director because of his digital experience.

Other hires demonstrate an ability by some boardrooms to think differently about exactly what they need to take their business plan forward. At International Airlines Group (IAG), Maria Meija was appointed as a non-executive director, undoubtedly because of the importance of her regional expertise to the airline group: she is President of Kellogg America.

Appropriate profiles for occupancy of the boardroom are changing. The social media site Twitter has a hashtag for #DigitalTransformation. As Mr Bentzen suggests, 'stretch thinking' is needed.

Potentially excellent non-executive directors in the digital space may come often from pure play online players that could be far removed from an industrial company, he suggests. "So integrating these kinds of people, integrating their knowledge into the board - this is going to be a transformation as well " says Mr Bentzen.

It is often assumed that obtaining the right technological profile requires moving to search a younger demographic to find the right skills for boardrooms. But "The deployment of technology in a company is a business issue, and it requires mature skills" warns Preety Kumar.

"The Board has to think in a broader way, and not just focus on 'technology, technology" she says. "So if I was to recommend the kind of people who should represent technology on the board they should be business leaders, who have successfully deployed technology and who are ahead of the curve. They bring the wider perspective on the various challenges that a company will experience when they look at moving from one level of technology to the other, because it's not just technology, it's about people, organization, business, commercial" she adds, emphasizing the importance of the bigger picture.

It is essential to think outside traditional parameters in a multitude of ways in order to best create and deal with new business models thrown up by technology.

That is clearly what Sotheby's, the auction house that has gone through two years of financial and managerial uncertainty, is trying to do with its recent CEO appointment.

"The deployment of technology in a company is a business issue, and it requires mature skills."

Even the hitherto insular mining group Coal India – which has a near monopoly producing 80% of India’s coal – is thinking differently for a technology-enabled world. Under its new Chairman Suthirtha Bhattacharya, it is looking for new global partners as it seeks cutting-edge technologies to double production.

Amid boardroom turmoil and attacks from an activist investor, in March 2015 Sotheby’s appointed Tad Smith from Madison Square Garden Company as its CEO – although he is an outsider to the art world. “My first priorities are to start soon with dispatch and pace working with my new team, explore how the business can take advantage of new technologies and reflect with the board on an effective capital allocation strategy” said Mr Smith on news of his appointment.

But the challenges facing the auction house will not go away in a hurry. Bloomberg Business revealed in November 2015) that Sotheby's was offering employees voluntary buyouts in an attempt to reduce costs. “Sotheby's costs of doing business—increased staff, more expensive catalogue production, huge marketing and promotional costs, etc.—have to be balanced against the declining revenue from commissions" David Nash, co-owner of Mitchell-Innes & Nash gallery in New York and former head of Impressionist and modern art at Sotheby's was quoted as saying.

The auction house’s annual report from 2014 showed a total of just 1,550 employees across its holdings in North and South America, the UK, continental Europe, and Asia, reported the media outlet Artnet – suggesting that embracing new technologies alone will not be the answer to its woes.

Looking at a completely different industry sector, even the hitherto insular mining group Coal India – which has a near monopoly producing 80% of India’s coal – is thinking differently for a technology-enabled world. Under its new Chairman Suthirtha Bhattacharya, it is looking for new global partners as it seeks cutting-edge technologies to double production.

“How the partnership will take place is a matter of details. We have an international vision, we are looking at companies operating anywhere in similar kinds of mines….we have to bring in the best technology” Mr Bhattacharya was reported as saying recently.

In some cases businesses have looked to transform their entire culture in a bid to embrace a better future with technology. After two profit warnings and criticism for poor customer service, Ryanair, the low-cost airline carrier started to work on improving its customers’ digital experience by investing in making its wesbite and mobile apps more useful and easier to use.

Last summer it set up a new Digital Lab, even marketing it as "A Digital Media Lab With An Airline Attached." In August 2015, Ryanair appointed John Hurley as its chief technology officer, heading up the 200-strong Labs team. Mr Hurley, who joined from US book publisher Houghton Mifflin Harcourt, is responsible for developing and implementing Ryanair's digital and technology strategy.

It seems the strategy is working: half-yearly results in November revealed a 32% increase in profits to €795 million.

Breaking across boundaries with innovation – sometimes called 'disruption' – is everywhere. Technology businesses themselves are using their expertise to think differently about expansion into new sectors.

Mobile devices are opening new ways to measure individual health and well-being, and, quick to respond, big names in the tech industry – most notably Apple and Google – are entering the healthcare market. Apple is doing it via its mobile devices, and Google is doing it via investment in companies that aim to do healthcare research on the back of data.

As Hiroyuki Yanagi, CEO of Yamaha, the Japanese motorbike manufacturer, recently said: "To become a bigger company, we need to try something new." He was referring to Yamaha's decision to manufacture two-seater cars for fuel-efficient city running. This decision comes after six decades of Yamaha experience manufacturing solely motorbikes.

The financial services industry is one that has had to deal with multiple challenges in the way in which it operates, under continuing pressure from global regulators since the financial crisis. Banks have traditionally suffered from siloed decision making and legacy systems that render their IT obsolete and inefficient.

But new entrants in the banking sector by way of the so-called 'challenger banks' are paving the way to using technology more efficiently, and altering the platform on which to do the best business.

New entrants in the banking sector by way of the so-called 'challenger banks' are paving the way to using technology more efficiently, and altering the platform on which to do the best business.

While boardrooms are anxious about the prospects for cyber security, they have taken very little action to identify the expertise needed to best prepare themselves for the future.

One UK example is the challenger bank Aldermore. Its CEO, Phillip Monks, was recently quoted as saying; "The combination of a modern, digital, legacy-free platform and award-winning expertise in otherwise underserved market segments enable Aldermore to offer banking services they way they should be."

A timely report from Deloitte entitled *Banking Disrupted; How Technology Is Threatening The Traditional European Retail Banking Model* makes for interesting reading.

It refers to the 'new rules' that are being created by the new entrants, to good effect. Handelsbanken, for example, almost tripled the number of its branches in the UK between 2009 and 2013. Yet this is a financial institution that is finding its own unique way forward with data: the Swedish bank's CEO told the FT in 2013 that the bank draws on minutes of board meetings from the past 140 years to inform its attitude to customer loans and business cycles.

But there is one common threat caused by technological advances to all businesses, large or small, regardless of the industry sector in which they operate – and that is cyber risk. Yet, while boardrooms are anxious about the prospects for cyber security, they have taken very little action to identify the expertise needed to best prepare themselves for the future.

Bankers and accountants, for the most part, make up the non-executive director ranks of boardrooms such as Barclays, Lloyds Banking Group and Royal Bank of Scotland. HSBC is an exception – it has appointed both Safra Catz, President of Oracle, and Sir Jonathan Evans, the former head of British intelligence service MI5 as non-executive directors.

HSBC also has a panel of experts known as the Financial System Vulnerabilities Committee, to help it identify areas where it could be exposed to financial crime. But data from BoardEx, a database of company information, suggests that the Chief Technology Officer (CTO) position is still in need of upgrading, with an essential seat at the table in the boardroom of every business, regardless of size.

In conclusion, technology can be seen as both an 'enabler' and a 'stumbling block' – as Amrop's Mr Hausammann suggested. It is up to boardrooms to decide in which of those two categories the business is falling, and then to take measures as deemed needed to change direction.

Further Reading and Resources

http://www.pwc.co.za/en/king3/the-governance-of-information-technology/index.jhtml).
http://www2.deloitte.com/uk/en/pages/financial-services/articles/banking-disrupted.html
http://www.amrop.com/nominations-committee-raising-bar
http://www.amrop.com/smart-factory-smarter-leaders-conversations-c-suite
http://www.amrop.com/mobile-payments-new-market-new-leaders

Author: Dina Medland

Dina Medland is an independent writer and commentator on issues around better business, corporate governance and boardrooms. An ex-Financial times staff journalist, she has been a regular contributor to the FT and its Non-Executive Director Club website in recent years .

Since 2013 she has been a Forbes contributor on corporate leadership, the boardroom and corporate governance, and writes a monthly 'Governance Watch' for Norway's Institute of Directors. Her blog 'Board Talk' can be found on her website, www.dinamedland.com, along with a portfolio of her work.

Dina acted as as Special Consultant to the Dean of London Business School - Laura D'Andrea Tyson - for just over a year. Dina was brought in to help with a report on the recruitment and development of non-executive directors, published in 2003.

As one of the founding board members of the Cambridge University Alumni Advisory Board, Dina served on it for three years and was Deputy Chair of its Communications Committee.

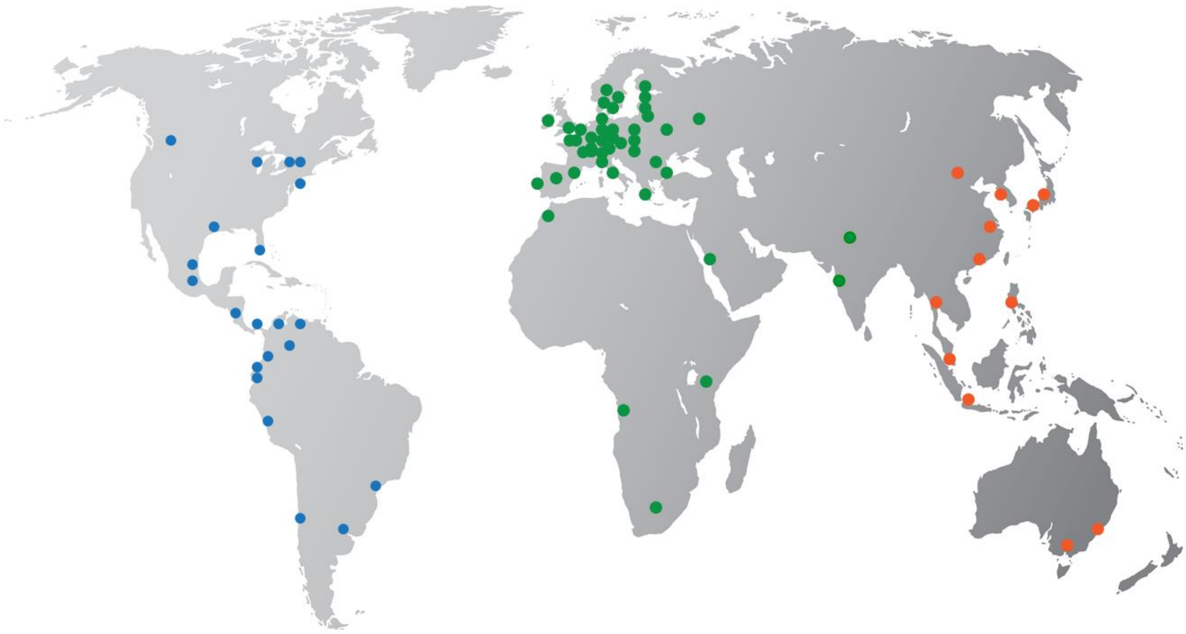
Born in India, Dina grew up in Washington DC. She has a Cum Laude BA degree from Wellesley College in the United States, an MA from Somerville College, Oxford University, and an MPhil from Trinity, Cambridge.

Dina writes regularly for Amrop.

About Amrop

With 83 offices in 57 countries, Amrop provides services in Executive Search, Leadership Assessment and Board Consulting. It is the largest partnership of its kind.

Amrop advises the world's most dynamic organizations on finding and positioning Leaders For What's Next: top talent, adept at working across borders in markets around the world.



www.amrop.com/offices

www.amrop.com