

AGENDA

A Financial Times Service

Boards Seek 'Geeks' for Strategy, Cyber-Security Input

By Amanda Gerut

As companies focus on digital transformation, and news headlines scream about data and cyber vulnerabilities, more nominating and governance committees are recruiting new directors with experience serving as chief information officers and heads of technology. In other words, boards are opening their ranks to “geeks,” “techies” and career technologists, many of whom have never held CEO or CFO roles at public companies.

According to Craig Stephenson, managing director of Korn Ferry’s North America CIO/CTO practice, roughly 42% of Fortune 500 boards now have directors with an active or former chief information officer (CIO) or chief technology officer (CTO) title. Three years ago, the percentage hovered around 28%. Nearly one third (31%) of Fortune 100 boards currently have a director who is a CIO, which is a 78% increase in the number of CIOs serving on those boards in the past two years, Korn Ferry found.

“That trend is going to continue,” Stephenson says. “This might be a bit of a bold prediction, but I think in the next three to five years every single Fortune 500 company will have a CIO on their board and it might not just be one director — it might be two.”

While it might seem bold, other figures confirm the upward trend, particularly among companies that have outperformed the S&P 500.

A June analysis published by Deloitte reported that among all public companies, the percentage of boards that included directors with technology expertise grew from 10% in 2010 to 17% in 2016. Among the S&P 500, the percentage grew from 16% to 28.5% during the same period. However, among companies that outperformed the S&P 500 by 10% or more during the past three years, the percentage nearly doubled, from 17.2% in 2010 to 31.3% in 2016.



Many directors have long believed that cyber-security or technology expertise could come to the board in the form of a hired consultant. The figures show a different reality however: Many non-gov committees are luring talented CIOs into board seats. Experts say the

CIO, CTO and chief digital officer (CDO) titles are often interchangeable, but boards should screen candidates carefully for experience at different companies or across different business lines, innovative thinking and an external, customer-based focus. Such directors provide insights covering the intersection of strategy and technology, cyber security and executing digital transformations. Bringing that perspective directly onto the board can also bolster oversight of enterprise risks stemming from known and unknown competitors, employees and internal IT projects and budgets. According to data from Vell Executive Search, in 2017 such boards as Banner Corporation, Firstgroup plc, Forrester Research, Hilton Hotels & Resorts, Morningstar, Nasdaq, Peapack-Gladstone Financial Corporation, Plug Power, Rockwell Automation, Sanofi, Wolseley and Zurich Insurance Group appointed CIOs as directors.

The CIOs are either active executives or recently departed from Amazon, AT&T, Bank of America, Capital One, Computer Software, General Electric, Intuit, New Relic and Total System Services.

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“The role of technology in corporations, day particularly non-tech companies, has changed enormously,” says Naomi Seligman, a partner at Ostriker von Simson and a veteran director who currently serves on the boards of Akamai Technologies and Oracle. “Simply put, you can’t do strategy today in any company, whether it’s consumer products or automobiles or it’s defense or a chemicals company — it doesn’t matter. You cannot do current strategy today without understanding technology.”

Demographically speaking, says Seligman, many board members are in their 60s. Accordingly, they’re often uncomfortable with technology, which could lead them to overlook the benefits of having a CIO as a board member. Directors are more accustomed to focusing on topics such as finance, overall strategy and competitors in the same sector. However, says Seligman, technology executives can help boards discuss new and emerging competitors in adjacent sectors that can creep into a company’s competitive landscape.

Interestingly, despite headlines about data security and the recent Capitol Hill grilling of former Equifax chairman and CEO Richard Smith, experts say cyber security isn’t the most critical reason to recruit a

technologist to the board. The main driver, experts say, is that boards need technologists to help critique or validate strategic plans. Thus, simply recruiting “a CIO” won’t work.

Tim Theriault, a director on the boards of Alliance Data and The Vitamin Shoppe, says there are typically two types of CIOs. One is focused on computer networks and technology infrastructure and leads projects, but is less involved in strategy and innovation. This CIO likely reports to a C-level executive, and IT investments are made reluctantly.

The modern-day CIO, says Theriault, has a more dynamic role. This CIO is a C-level executive who reports to the CEO and is an equal partner in contributing to the business of the company. More importantly, this CIO also has the ability to create the strategy for the business going forward, and the agility to move the company in that direction, he says.

“Those are two very clearly different skill sets,” says Theriault, former CIO at Walgreens Boots Alliance.

Boards often lean one of two ways when recruiting technology-focused directors, Theriault says.

Some boards are technology-savvy, and want to recruit directors to help the board more fully understand the way their industry is being transformed. On the other hand, some boards are more focused on cyber security, geopolitical risk or regulatory issues, which Theriault describes as a more defensive posture.

If boards find themselves in the latter camp, Theriault says directors should still consider recruiting a second director with a different type of technology expertise that can help directors understand and critique strategic plans and assess innovations that could impact a company’s product and business lines.

Dora Vell, CEO of Vell Executive Search, says companies that are targets for cyber-security breaches have focused on recruiting directors with geopolitical risk expertise and connections to various federal agencies, such as the FBI and CIA. If companies are more focused on growth, a CIO, CTO or CDO makes more sense.

Still, experts also caution boards not to get caught up in going with their gut when appointing directors with technology expertise. While many have worked at several large organizations and are comfortable presenting

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in front of the board and communicating with directors, they might not all have the charisma of CEOs.

Seligman says some non-gov committees she's encountered have been uncomfortable with CIO backgrounds because they're "non-traditional." But Seligman says that often means that non-gov committees aren't comfortable assessing the CIO's knowledge base.

Indeed, Vell says she has seen some companies choose "good over great" because of inexperience in assessing CIO, CTO or CDO talent. In most cases, she says, boards need to "override their gut" by involving executives with technology expertise as well as the CEO in assessing director candidates. In various searches, Vell says, involving a major investor with extensive tech experience and senior technology executives for feedback in the search process has led clients to choose the "great" candidate rather than the "good" candidate they were leaning toward.

"In a different business model or in a world you don't understand, your gut is wrong," Vell explains.

Other pitfalls to avoid, says Vell, include looking for a CEO that has overseen a digital transformation, rather than the CIO that executed it.

"You wouldn't hire a pilot supervisor to fly your plane," Vell quips. "You hire the pilot."

Yet, while IT has become intrinsic to many companies' strategies, if board members don't have CIO expertise, it can also be more difficult for directors to validate CIOs' internal strategies.

"One of the reasons you have a finance guy on the board is to validate that other people are doing the right things internally," Seligman says. "You need the same thing here."

Rebecca Blalock, a director on the boards of Aspen Aerogels and Hannon Armstrong, says she often provides support to the company CIO, and serves as a bridge for the CIO back to the board. Blalock previously served in various executive roles at Southern Company, including as an executive vice president and CIO.

Blalock says she hears from directors on other boards that their companies are spending large chunks of income on IT, but can't assess how effectively the money is being spent. A CIO, says Blalock, can assess how well an IT investment is faring.

Deloitte found that 37% of respondents to its global CIO survey reported that technology budgets increased by at least

20% in the last fiscal year, while 12% reported that budgets were up more than 20%.

Plainly, says Seligman, "CIOs are spending a lot of your money."

"If a CIO is not sitting around that table when those discussions take place, it's hard to know how to prioritize that spending," Blalock says. "The board is there to minimize risk and to ensure that, strategically, the company is going in the right direction."

Dora Vell is the CEO of Vell Executive Search, a premier retained technology executive search firm in Boston. Ms. Vell is an internationally recognized expert in recruiting technology executives including: CEOs, COOs, CTOs, CMOs, CROs, board members and others. She works with VC-backed, PE-backed private companies and public companies. She can be reached at dora@vell.com.