



## Governance and the Evolution of the Technology Committee – Is it Time to Establish One on Your Board?

Directors are seeing a significant shift in the priorities discussed in the boardroom. Since the dawn of the 21st century, boards have seen it all — the emergence of the Sarbanes-Oxley Act of 2002, the 2008 global financial crisis, expanded proxy disclosure mandates in 2009, digital disruption of business models amid the threat of “born digital” market entrants, and, of course, the COVID-19 global pandemic. Most recently, underpinning these developments have been the risks and opportunities of digital transformation and innovation.

In fact, over the last 10 years, board-level conversations have shifted, with an even heavier emphasis on how the board organizes itself to engage in strategic conversations with the CEO and management team on emerging technology and transformation. Increasingly, a key part of these board efforts has been the formation of a technology committee.

### What does the data say?

Everyone knows we are operating in a technology-driven world, but how has this impacted directors?

Our research shows that 10 years ago, only seven of the *Fortune* 100 companies had a standalone technology committee. Fast forward to 2021, the latest year for which this data is available, and we find this number has risen to 25 of all *Fortune* 100 companies — an increase of more than 300%.<sup>1</sup>

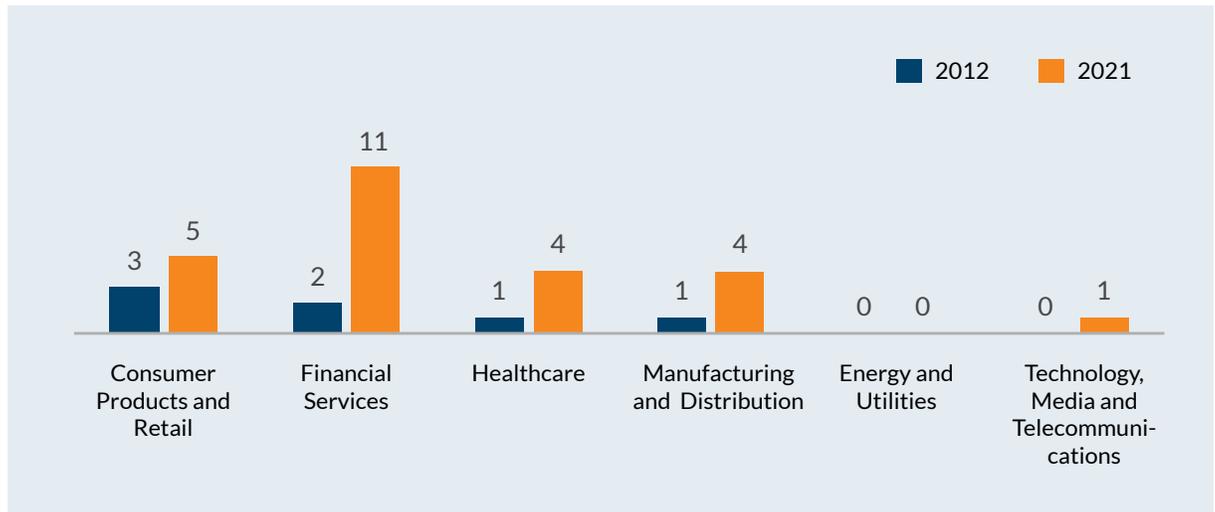
The financial services industry leads the way, with the number of technology committees increasing from two to 11 organizations since 2012. This is to be expected as financial services firms must continually pursue and implement consumer experience-enhancing innovations that integrate technology into their offerings.

<sup>1</sup> To conduct this research, Protiviti reviewed the 2012 and 2021 proxy statements of the *Fortune* 100 companies and compared by industry the number of companies with a Technology Committee. We defined “Technology Committee” as a Technology Oversight Committee, Science and Technology Committee, Operations Technology Committee, or Technology Committee.

There also have been increases in the number of board technology committees in consumer products and retail, healthcare, and manufacturing and distribution organizations, as the ubiquitous use of technology in their day-to-day operations elevates into the boardroom continued challenges and opportunities associated with digital transformation.

On the other end of the spectrum, it is interesting to find just one *Fortune* 100 company within the technology, media and telecommunications industry group that has a technology committee. While at first this seems counterintuitive, this is likely due to technology already being well-embedded in all aspects of these organizations.

### • • • Industry Comparison of *Fortune* 100 Companies With Technology Committees: 2012 & 2021



#### The need for a technology-engaged board

As the market evolves, boards are seeking more directors with technology expertise. That said, all directors should strive to be current in their understanding of the changing digital landscape so they can ask the tough questions of the CIO, CTO and CISO, rather than just rely on their reports and expertise.

To illustrate, a study indicates that there is a significant financial outperformance payback when at least three digitally-savvy directors serve on the board.<sup>2</sup> This is a key reason why more nominating/governance committees of boards are including technology background and knowledge in their prerequisites for evaluating potential new directors.

**The big takeaway:** To be successful in the digital age, companies need technology leadership from their boards to help them advance their digital maturity and sustain competitive advantage.

**The big question:** How does the board organize itself in the digital era?

#### It's time to take a fresh look at the board's structure

Boards need to reassess their organization's business risks and challenges to determine how best to position themselves to advise the CEO and management team as they bridge current technology vis-à-vis the desired future state. In the digital era, every director should possess technology fluency to keep up with the evolving market. Given this, there are several options available in terms of organizing the board's oversight:

- 1. Stand pat with the status quo structure, but onboard more digital expertise.** This may be the most appropriate option for small caps.
- 2. Engage the full board on the right questions about technology and strategy.** With technology now a foundational element in the organization's strategy and key initiatives, directors should make technology, innovation and transformation an integral part of the full board's strategy discussions.
- 3. Assign technology oversight to one or more standing committees.** This option should be

<sup>2</sup> "Without a Digitally Savvy Board, Your Company Is Falling Behind," Peter Weill and Stephanie Woerner, *The Hill*, March 20, 2019, available at <https://thehill.com/opinion/finance/434788-without-a-digitally-savvy-board-your-company-is-falling-behind>.

considered carefully, as it is important to retain a “whole board view” on technology matters. If the board decides to roll technology under, say, the risk committee, there may be competing priorities that emerge from the latest hot topics.

4. **Create a technology committee.** Technology committees typically advise the full board and executive management on the direction of the technology evolution and its impact on the business. For example, the technology committee:

- **Provides guidance on the company’s digital landscape** — The committee not only remains abreast of new and emerging technologies, but it also thinks longer term as to where the landscape is headed and the related implications to the business.
- **Increases awareness of risks and opportunities** — One of the greatest challenges organizations must address today is cybersecurity and data privacy.

Disaster planning and recovery is also of vital importance to sustaining the business during an unexpected event or interruption, including but not limited to black swan and gray rhino incidents.

- **Advises on the organization’s strategic goals** — Current and future investments in technology underpin these discussions.

The above represents just a sample of potential responsibilities of technology committees, as defined in their charters. Their specific areas of focus will vary by organization — there is no one-size-fits-all approach. Each board electing to form a technology committee must clearly define the role and responsibilities of that committee.

**A key point:** If the board creates a technology committee, other committees are not off the hook. Technology permeates all aspects of the organization. Therefore, all committees and the full board need to consider issues through a technology lens.

### Call to action

With one in four *Fortune* 100 companies forming a standalone technology committee on the board and many more considering such a committee, is now the time for your board to do the same? Consider the following:

- Every board member should be technology-engaged. No director gets a pass. This means staying abreast of the evolving technology landscape.
- As you evaluate and enhance the composition of the board and its committees, keep in mind the “rule” of three or more technology-savvy directors, which leads to stronger financial performance.
- Rethink your committee structure and consider whether a standalone technology committee is right for your board. At the same time, ensure that other committees are technology-fluent.

Bottom line, it’s time for the board to embrace the technology and digital transformation drivers that are changing the enterprise and market by considering and, if needed, forming a technology committee with qualified directors.

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