

Digital expertise in the boardroom

Delivering the right impact

As “digital” grows as a business imperative, corporate boards are grappling with how to ensure that the threats and opportunities emerging from a diverse set of digital forces — social networking, mobile, e-commerce and omnichannel retail, data and analytics, and IT virtualization — are adequately reflected in and woven into the overall business strategy. For the past several years, many boards have concluded that an important way to prepare themselves for the kinds of decisions they will need to make is to have a director with experience in digital around the board table. As a result, demand for so-called digital directors has accelerated.

Yet, as many boards have discovered, simply recruiting a digital expert does not necessarily solve digital for the business. Hastily made additions to a board can result in frustrations on both sides: a disillusioned director unhappy with the pace of change and what they view as a lack of urgency around digital transformation, and a board and executive team concerned about a director’s overreaching on issues more appropriately left to management or not having the full governance tool kit to contribute holistically as a director.

So, what makes a good match? What conditions are necessary for effectively recruiting and getting the most valuable contributions from a digital expert? Do all boards even need a digital expert? Drawing on the lessons learned from the past several years of digital director appointments as well as conversations with nearly a dozen CEOs, chairmen and directors, we explore the value of digital expertise on the board and the considerations for recruiting and effectively engaging directors with these specialized skills.

An advocate for digital in and out of the boardroom

A digitally savvy director can make a significant contribution to the board and the company's digital initiatives — in and out of the boardroom. Outside of the boardroom, a digital expert can be a unique partner to the executive team, serving alternatively as a sounding board, a translator and, potentially, a coach. Digital directors may be asked to take on additional projects for the CEO, such as advising on acquisition targets or critical new hires, and frequently make introductions to cutting-edge digital and technology companies.

“As a Silicon Valley tech entrepreneur who serves as a ‘digital director,’ one of the areas of value I can provide is serving as a bridge to connect traditional enterprises with the culture of innovation that abounds here,” said Clara Shih, CEO of Hearsay Social and non-executive director of Starbucks Corporation. “A large part of my role is to expose senior management and my fellow board members to the radical new ideas and emerging business models to see what might make sense for our various businesses.”

In the boardroom, executives with the appropriate digital expertise can demystify digital, help management and the board clarify the specific digital forces impacting the business and provide insight into the ways customer behavior is changing and other important trends — all of which can advance the broader board's understanding of the issues at play for the business. As a result, the executive team can spend less time educating the board and more time in strategic discussions.

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“If I were asked how the additional board members have changed the dynamic in the boardroom, I would say it's a much richer, deeper, more advanced conversation today, better decision-making for the shareholders, and greater velocity,” said GameStop Corporation CEO Paul Raines. “A challenge for any board is whether it can move with as much velocity as management needs it to move or, on the flip side, whether management is moving with as much velocity as the board is. Those two things can get out of alignment. In our case, we're thinking three moves out because we've got a board member who has been there and helps educate the other board members.”

Because they typically have hands-on experience in an area of digital and are still active executives, directors with these profiles also can bring an operational lens to discussions about digital, particularly in relation to capital investments, cultural change and the relevancy of existing technology systems to M&A. While boards may have traditionally been more hands off on such operational issues, today they are seen as critical to the success of digital transformation.

“When we talk about digital, we're not just talking about websites, mobile sites or data, what we're actually talking about are the tools and mindset and culture that digital brings, and that's the transformation piece,” observed Rebecca Miskin, digital strategy director for Hearst Magazines UK and a non-executive director of Centaur Media. Pascal Cagni, former vice president and EMEA general manager for Apple who serves on the boards of Vivendi and Kingfisher, agreed that many boards make the mistake of assuming the company is digital once it has a digital director or digital strategy, underestimating the cultural aspects of digital. “Digital needs to become part of the DNA.”

Capital spending is an area where the experience of digital directors can be particularly valuable, especially for boards more accustomed to large capital investments on physical stores or operations than the long-lead technology investments required for digital. “If you're a retailer, for example, you're pretty sensitive to quarterly results and so if you're talking about spending \$20 million a year or more on ‘digital initiatives’ that aren't going to show a material return for several years, that's a pretty tough challenge for the management, directors and shareholders,” said Shane Kim, former vice president of strategy and business development for Microsoft's interactive entertainment business and now a GameStop director. “By the same token, if you're not paying attention to that side of the equation and addressing those long-term threats that can completely turn your business upside down, you might find yourself a \$5 billion business instead of a \$10 billion business in three to five years because it all went digital.”

While they often find themselves serving as an advocate for the executive team in the boardroom, digital experts also are in the position to lead the board in more effectively challenging management assumptions and plans, when appropriate. “Companies often talk

about the 'what' versus first asking themselves the question of 'why': Why do we need to go digital versus worrying first about what we need to do. Our role as board members is to make sure the company is tackling the real subject," said Carlo d'Asaro Biondo, vice president of Southern and Eastern Europe, Middle East and Africa for Google, and a non-executive director for Darty and Manutan.

Through their work with the executive team, these directors often have unique insight into the talent gaps and organizational impediments to change, and tend to be more confident than traditional directors asking tough questions about technology investments. When the board lacks this insight, it can be harder to determine the degree of progress the business is making and the readiness of the organization to make necessary changes.

"The fact that we are engaged with the management team and others down the line does mean that we're able to challenge the view of the executive directors with far greater confidence and certainty of our view," observes Patrick Taylor, non-executive chairman of Centaur Media.

Recruiting a digital director for show or to check a box is unlikely to be productive for the board or satisfying for the director. Achieving the benefits from the addition of digital expertise to the board requires thoughtful planning and analysis.

Considerations for the digital director

Corporate board service can provide many personal and professional benefits to executives. Many find that a non-executive director assignment enhances their ability to interact with their own boards, broadens their professional networks, and exposes them to different leadership styles, corporate cultures and business models. But board service can demand a significant time commitment, and the time commitment can be much greater for a director with digital expertise, who may be asked to consult regularly on digital issues with members of the executive team or take on special projects.

Given the demands of a board assignment, prospective directors should make sure that the experience will be valuable by defining their own objectives for a board assignment. "When joining a board, craft a role for yourself that is well-defined and in line with the knowledge and expertise you bring," advised Carlo d'Asaro Biondo. For some, a non-executive directorship may provide a platform for enhancing their personal reputation or their employer's brand in the marketplace. Others may view a board role as an opportunity to add to their network of contacts in a specific industry or geography or to be exposed to a different kind of business.

Being comfortable with the CEO and current board is critical to a satisfying board experience, so directors should conduct due diligence on the board dynamics, the engagement of the board on strategic issues and the interaction between the board and the CEO.

If they are to be seen as respected contributors to the board, new directors also need to understand their role as board members. Seek out governance education if it's not offered and a formal or informal mentor to help clarify the expectations. "One of the lessons that I've learned, thankfully without making too many mistakes, is that as an operator I'm used to things happening really fast. I'm used to being able to go talk to the person who is responsible for something and watch them change it," said Gina Bianchini, founder of Mightybell. "When you're sitting on a board, in nine out of 10 cases the last thing the rest of the board or the CEO really wants is for you to get down into the weeds of the organization and 'help out.'"

The tone and timing of contributions also can affect a digital director's ability to be heard and be effective. "You need to know when you need to raise your voice in the boardroom, when the environment is right," advised Pascal Cagni. If a company is struggling with losses in an important region or is in the midst of a major acquisition, the board may be less able to focus on digital issues. "If you try to align yourself with the business and respect what they have accomplished, touch by touch you will make your points. You can't come in and say everything is all wrong."

Are you ready for a digital director?

Digital is on the agenda of an ever-widening set of companies in one form or another and to a greater or lesser extent, but do all boards need a digital director? Not necessarily, according to many of the directors we spoke with. In some industries, the impact of digital so far is minimal — limited to digital marketing, for example — so, for companies in these industries, board-level expertise may be unnecessary, or perspective can be gained from consultants.

For companies that must undergo a transformation, however, a digital expert on the board may be essential for underscoring the urgency of change and ensuring the board is appropriately involved in digital strategy. Boards may even consider recruiting two directors with a digital profile, which can compound their influence and impact on the digital agenda.

“If the company is involved in any kind of consumer marketing today and not dealing in this area with considerable skill, it is in danger of not optimizing the company’s performance over the long term,” argues David Tyler, chairman of J Sainsbury and Hammerson. “If you do not have someone with the right expertise, then the right kind of challenge might not get created at the board level, or worse still, the answer to a major digital initiative may be ‘no.’ There are a number of markets where the move from off-line to online is very fast. The board’s ability to understand these shifts early can make the difference between existence and nonexistence of the business.”

Directors caution strongly against overestimating the impact a single director with this expertise can have on the transformation of the business. Digital transformation is a complex undertaking, requiring a dynamic, collective effort at both the board and executive levels.

“It is nowhere near sufficient simply to appoint a director with digital skills,” explains Matt Brittin, vice president of Northern and Central Europe for Google and a member of the Sainsbury board. “A board has to understand what digital means for the business and commit to make a range of changes to the business and the organization’s skills and the processes. Having somebody on the board with some of those skills is definitely helpful and a sign of commitment, but it’s obviously not sufficient by any means.”

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Defining the capabilities the board needs

The effectiveness of any director depends in large part on the relevance of the expertise he or she is bringing to the board, and this is especially true in the case of digital expertise. There are many different kinds of digital expertise — e-commerce, digital marketing, mobile payments, analytics and data — as well as pure technology experience. Boards that carefully define what digital means for the company, including the specific digital forces that are likely to impact the business over time, will be better positioned to identify the

director profile and digital expertise that will be most valuable in the boardroom.

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“Recruiting experts, no matter how brilliant they are, isn’t worth anything if these experts aren’t capable of extrapolating what is applicable from their ideas or past experiences to the specific context of the company and board they are serving. Cutting and pasting digital expertise in

my experience doesn't work," said the e-commerce director of a French retailer who serves on the boards of several private companies.

Beyond the relevant digital expertise, a director bringing broad-based business acumen and preferably hands-on commercial experience at a profitable company is likely to be much more effective in the boardroom. A pure

technologist, product or strategy expert or chief digital officer may be helpful in pushing the company to leverage social networks or to move quickly into digital content, for example, but may lack the business experience to really translate these initiatives into the broader strategy of the business. Without that perspective, they may lack the weight and influence with other directors, limiting their effectiveness in board-level debates about strategy and capital spending. Furthermore, joining a public company board from a small private or venture-backed company with few requirements about financial reporting or governance can intensify the culture shock.

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Align expectations

Some digital directors relish the opportunity to serve on the audit or remuneration committee and gain new experience. Miskin likens her experience on the Centaur Media board to getting an MBA, where she is learning PLC language, board dynamics, in-depth financial reporting, and risk and liability issues. “I'm a better manager and thinker today than I was before I took on the board role. I've learned so much at meetings and in between meetings in conversations with my fellow non-executive directors,” she said. Other digital experts, however, believe serving on the audit or compensation committee is a waste of their time — and less valuable for the board, which already has more relevant experts on those committees.

Misaligned expectations on committee assignments, the overall time commitment, the degree of transformation that is needed and supported, and a whole range of other issues can be major sources of tension between the board or management and the digitally savvy director. When recruiting a digital director, carefully define the role the new director is expected to play. Will the director be expected to serve on or chair a standing committee, such as audit? Will the new director have a special function on the board, for example, meeting regularly with members of the executive team engaged in digital activities? Given the individual's knowledge of the business and previous exposure to corporate boards, what coaching or governance education might be beneficial as part of an induction program? Would it be valuable to assign a mentor for the first six months or year?

Boards also can help new digital directors understand their role on the board by being very direct with a candidate upfront about the board culture and expectations for director involvement and behavior.

Pay attention to onboarding

Onboarding can be a formal or informal process, but digital experts say as new directors they benefitted from an induction program that includes meetings with the corporate secretary and key members of the executive team, as well as on-site visits to company locations that give new directors the opportunity to learn much more about the business and current digital initiatives. Directors also say they benefit from formal governance education, which can provide context about activities in the boardroom, committee assignments and relevant governance requirements. New directors also may be encouraged to meet with compensation experts or the external auditor, especially if assigned to one of those committees.

“Cutting and pasting digital expertise in my experience doesn't work.”

It is not unusual for digital directors to feel intimidated during their first few meetings and decide to “hang back” from board discussion. The chairman can smooth the transition by taking an active interest in putting the new director at ease and encouraging

participation in board discussion, for example, by specifically asking the new director's opinion on a subject where he or she has significant expertise.

An assigned or informal mentor who is willing to provide perspective on boardroom activities and feedback about the new director's performance also can be extremely helpful. "It is so valuable to have someone to go to where it is safe to ask questions about board dynamics or why something happened in a meeting. Being explicit that it is okay to ask those questions can accelerate the learning curve, which is ultimately the goal," said Gina Bianchini, founder of Mightybell and a director of Scripps Networks Interactive.

Find ways to tap directors' expertise outside the boardroom

Directors with digital expertise want to be impactful and tend to be eager to engage with the business at a deeper level. When they have opportunities to dig deeper — through special projects for the CEO or regular meetings with digital leaders in the business, for example — digital directors are more likely to feel they are making a difference for the business and find the opportunity more rewarding. For a business undergoing a transformation, leveraging a director's expertise and connections can produce real benefits when interactions are well-planned and meaningful.

As the interface between the board and the company, the CEO should manage interactions between the digital director and members of the broader management team to ensure that they are worthwhile for the company and the director. "We look for opportunities to engage the board on select missions that are well-defined and tightly scoped, but where the board member can really have an impact," said Raines.

Boards have an important role to play in ensuring that the management team is examining the threats and opportunities digital presents and devoting appropriate resources to digital initiatives. In embracing this role, many boards have concluded that they need to add digital expertise to the boardroom. Boards who successfully recruit a digitally savvy director and get the most from their contributions will carefully define what digital means for the business and the specific capabilities the board needs. A true digital transformation requires a sustained commitment by the board and executive team to address the talent, process and system changes needed for change.

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