

ENTER THE DIGITAL DIRECTOR

ROBERT CHEW

Many boards seek diversity in their membership. They endeavour to ensure the right mix of competencies, industry and geographical backgrounds and, increasingly, gender balance.

The emphasis on competencies has commonly been to ensure the right mix of financial, legal and industry-specific content. In doing so, most boards often overlook a fundamental competency vital in today's knowledge economy – digital technologies.

THE IMPORTANCE OF DIGITAL

Without a doubt, technology has fundamentally changed the way that we all live, learn, work and play.

The first generation of technological breakthroughs was analogue in nature. Digital technologies, with its system of discontinuous data and events, took computing and communications to a whole different level.

Digital technologies, especially with the confluence of social media, mobile computing, data analytics and cloud computing, have been and are still transforming businesses and entire industries.

The phenomenon is not new. For example, Sabre Global Distribution System, which began as an electronic platform for ticketing for airlines in 1964, has since been extended to hotels, car rentals, railways and tour operators, and has enabled the huge growth of the travel and tourism industry.

All around us today, we see the transformative impact of digital on different industries, from advertising (e.g. Google Ads) to finance (e.g. high frequency trading systems) and retail (e.g. Amazon).

The impact of technology is so pervasive that it escapes no company. Matthew Yglesias, an economics journalist at Slate magazine, famously declared that “there is no such thing as a tech company”, and that every company should act like a tech company if it wants to survive.

For this reason, it is important for companies to have directors with a strong understanding of digital technologies and their applications on their boards.

To be sure, many companies have IT steering committees, but these are often focused on IT projects (prioritising projects and ensuring that they deliver on time and on budget), sometimes ad hoc and seldom involving the directors.

The value and impact of technology needs to be continually considered by the board. And it is not just about competitive positioning and digital opportunities (greater efficiency, new business models and market relevance), but also about risk management (business continuity from IT breakdowns, cyber security, business model shifts).

Directors, unlike management, are not bogged down by the day-to-day operations of the business. They can and should provide the macro-strategic perspective of the direction in which the company could and should be heading.

So, how are companies doing with respect to ensuring an appropriate balance of such digital directors on their boards?

THE STATE OF DIGITAL

In 2012, Russell Reynolds Associates published a global study of digital directors. It defines a “digital director” as executives with board or management experience at a company, where digital contributes a large portion of revenue, where digital channels are critical enablers of business, or where the company is a digital transformation leader in the industry.

Of the 300 largest companies it surveyed across the United States, Europe and Asia, Russell Reynolds Associates found that the majority (70 per cent) of companies have no digital boards, and only 6 per cent have “highly digital” boards (those with three or more digital directors).

Not unsurprisingly, almost all (88 per cent) of highly digital boards are in the US. They include well known tech names such as Apple, HP and Microsoft, but also non-tech companies like Walmart, Coca-Cola and American Express. In fact, 40 per cent of them are from sectors outside of technology.

Asia has performed poorly in this respect. Only eight of the 100 large Asian companies surveyed had a digital board, and none had a highly digital board.

What can be done? To start, the inclusion of digital directors needs to be a proactive decision on the part of nominating committees and their boards.

Some companies in Singapore and Asia have already started down this route. A leading example is the Ministry of Health Holdings (MOHH), the holding company of all the public healthcare institutions in Singapore.

In 2009, as part of its reorganisation of and push into the greater use of IT in public healthcare, MOHH assembled several veterans from leading technology companies such as Accenture, HP, Microsoft and BT Global Services, for the board of its newly formed IT subsidiary (Integrated Health Information Systems). At the same time, it spread out these digital directors across the several public healthcare clusters. It may not, therefore, be surprising that Singapore healthcare is often recognised for having some of the most innovative systems in the region.

It would do well for private and listed companies to follow such examples. Digital leadership should be part of every board's composition and its diversity agenda. ■