

RUSSELL REYNOLDS ASSOCIATES

Digital Transformation Practice

# 2014 DIGITAL BOARD DIRECTOR STUDY

A Rising Tide • Digital Board Director Demographics • Leading Today, Looking Ahead

# A Topic Worth Addressing

The demand for digital leaders continues to accelerate – and for good reason. The evidence demonstrates that companies that embrace digital transformation outperform their peers across an array of financial measures. A recent study from Capgemini Consulting and the MIT Sloan School of Management<sup>1</sup> demonstrated that large companies making major investments in technology-enabled initiatives see an increase in revenues, while organizations prioritizing across-the-board digital transformation in both technology and leadership achieve higher profitability and market capitalizations in addition to increased revenues. As well, a follow-up survey<sup>2</sup> showed that senior executives “overwhelmingly believe that failure to effectively conduct digital transformation will harm their company’s ability to compete.”

## Digital Maturity and Financial Performance



Based on the analysis of industry-adjusted financial performance of 184 publicly traded large companies by MIT Center for Digital Business and Capgemini. Financial performance is compared with average industry performance.

Investments in technology-enabled Initiatives change how the company operates (its customer engagements, internal operations and business models). Investments in transformation management establish leadership capabilities necessary to drive digital transformation in an organization (vision, governance and engagement).

## A Rigorous Analysis of Digital Directors

Russell Reynolds Associates believes that digital transformation requires leadership from the top. In our conversations with CEOs and boards, we have repeatedly heard that having the right person in the boardroom asking the right questions is a common catalyst for change. To this end, we first examined non-executive Digital Directors and boards in 2013. Our analysis revealed that Digital Directors—a role that once was found in just a few tech-savvy companies—were increasingly common for organizations across sectors. To build upon the foundation of this work, we initiated a new study of Digital Directors in mid-2014, this time with an emphasis on gathering in-depth perspective on the prevalence and demographics of Digital Directors at 300 of the world’s largest companies. Our results are presented across the balance of this study.

<sup>1</sup> “The Digital Advantage: How digital leaders outperform their peers in every industry” Capgemini Consulting & MIT Center for Digital Business, 2012.

<sup>2</sup> “Embracing Digital Technology: A New Strategic Imperative” Capgemini Consulting & MIT Sloan Management Review, 2013.

## Our Methodology in Brief

Russell Reynolds Associates analyzed the backgrounds of all board members of 300 large companies (The Global 300: Fortune 100 companies in the United States, as well as Fortune 100-equivalent companies in Europe and Asia/Pacific). Our analysis focused on: assessing the prevalence of Digital Directors; understanding the background of Digital Directors; and understanding how Digital Directors differ from non-digital directors.

We defined “Digital Director” as any non-executive board member meeting at least one of the following criteria:

1. Plays a significant operating role in a digital company—an organization with a primary business function based on web-based, social, mobile/device, cloud/SaaS or big data platform
2. Has a primary digital operating role with a traditional company
3. Has two or more non-executive board roles at digital companies

We then grouped Digital boards in three ways:

1. “Highly Digital” boards have at least two Digital Directors
2. “Partially Digital” boards have one Digital Director
3. “Non-digital” boards do not have any Digital Directors

# *A Road Map for the Study*

## **A Rising Tide**

Digital Directors are on the rise, but a number of sectors and geographies are just beginning their digital journey.

## **Digital Director Demographics**

## **Leading Today, Looking Ahead**

# A Rising Tide

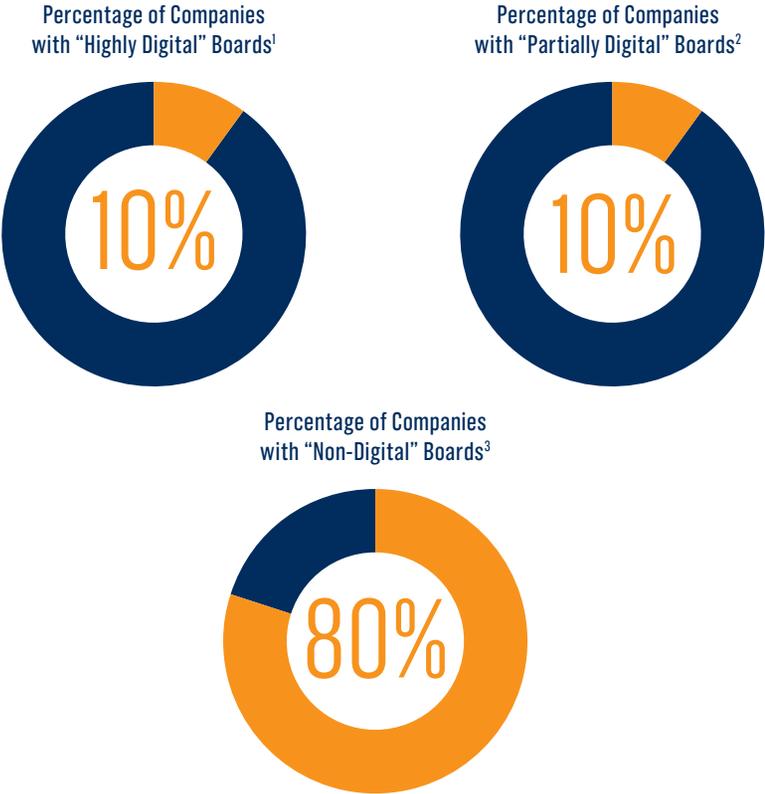
Digital Directors now represent a meaningful population of board members at the world’s largest companies. In fact, more than 100 director seats are now occupied by Digital Directors. While this is still an exclusive club, its membership is growing rapidly. Our analysis revealed that companies added almost twice as many Digital Directors in the past two years as they added in the two previous years. In line with this growth, 30 of the companies in our analysis can now be characterized as maintaining a “Highly Digital” board. The data clearly demonstrate that digital governance has moved quickly from “intriguing concept” to “practical reality” at a range of the world’s largest enterprises.



# A Tide Still Far from the Dunes

While the tide of Digital Director appointments is on the rise, the vast majority of boards remain “Non-Digital.” Only 10% of the boards we studied could be classified as “Highly Digital.” And 80% of the companies we examined lack any digital representation on their board. While digital is impacting some industries more than others, we believe every company should be preparing for the disruption to come. To date, few companies have established boards that are equipped to guide them through these changes.

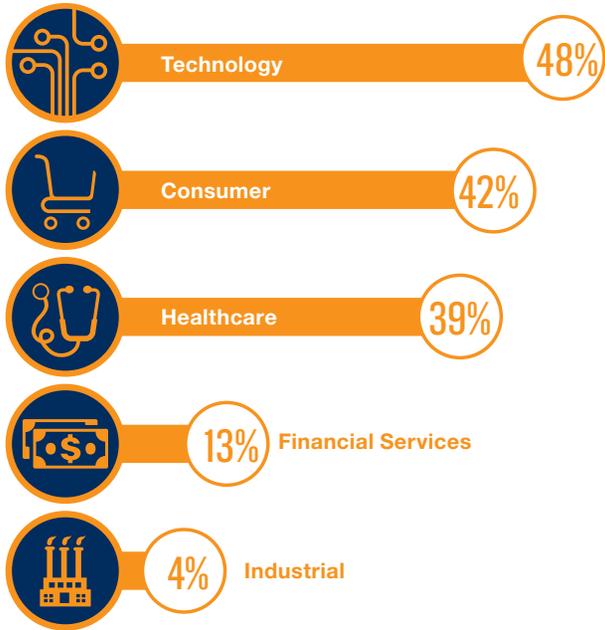
## Global 300 Digital Board Penetration



1 “Highly Digital” boards have at least two Digital Directors  
2 “Partially Digital” boards have one Digital Director  
3 “Non-digital” boards do not have any Digital Directors

## Global 300 Digital Board Penetration by Industry

Percentage of Companies with at Least One Digital Director

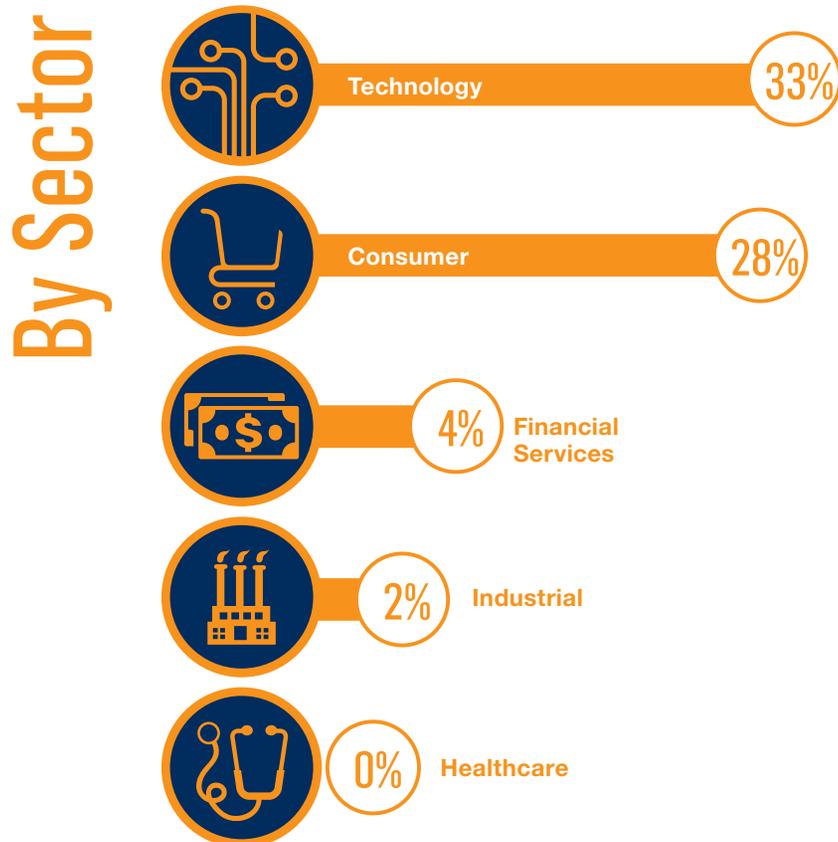


That said, there is a high degree of variability in the penetration of Digital Directors across sectors. Unsurprisingly, firms in the consumer and technology sectors demonstrate the highest levels of digital representation on their boards. Perhaps more surprisingly, a significant share of healthcare firms have added at least one Digital Director to their boards. Each of these sectors demonstrates levels of digital representation that vastly outpace firms in the financial services and industrial sectors.

## An (Expected) Concentration in Tech and Consumer

Our analysis documented the incidence of “Highly Digital” boards across sectors. While it is expected that large technology firms would seek out digitally savvy talent for their boards, consumer companies are also aggressively targeting these leaders for their boards to help navigate the disruptions that digital is causing in their industry. Even more notable is the nearly complete absence of “Highly Digital” boards in financial services and industrial firms. The complete absence of “Highly Digital” boards in healthcare firms is especially striking given that 39% of these firms have “Partially Digital” boards (see page 5). None of these sectors is immune to the impact of digital change, but very few firms within these sectors have built “Highly Digital” boards.

Percentage of Global 300 Companies with “Highly Digital” Boards



Notable Digital Director Additions in Consumer and Technology Companies

	Company	Recent Digital Director Appointment	Select Digital Experience
Consumer	Walmart	Kevin Systrom	Instagram
	Walt Disney	Jack Dorsey	Twitter, Square
	Sainsbury's	Matt Brittin	Google
Technology	STAPLES	Raul Vazquez	Walmart.com
	Deutsche Telekom	Lars Hinrichs	XING, HackFwd
	SONY	Joi Ito	Digital Garage, Technorati, Infoseek
	NEC	Kaori Sasaki	eWoman

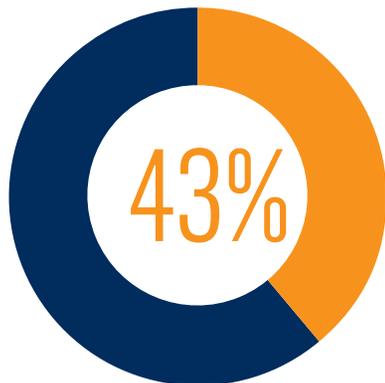
## Notable Appointments of Digital Directors beyond Tech and Consumer

While financial services, industrial and healthcare firms have lagged in the creation of highly digital boards, a closer look shows recent momentum in each of these sectors. Forty-three percent of Digital Directors within these firms have been appointed in the last two years alone.

Firms within these sectors have appointed a number of highly prominent Digital Directors. These appointments clearly demonstrate that these firms are not simply looking to “check a box” with the appointment of a Digital Director. Instead, as the examples here illustrate, these firms are heavily oriented around bringing deep expertise in digital transformation to their boards.

### Percentage of Digital Directors Appointed in Last Two Years

Financial Services, Industrial, and Healthcare Companies



### Notable Digital Director Additions in Financial Services, Healthcare, and Industrial

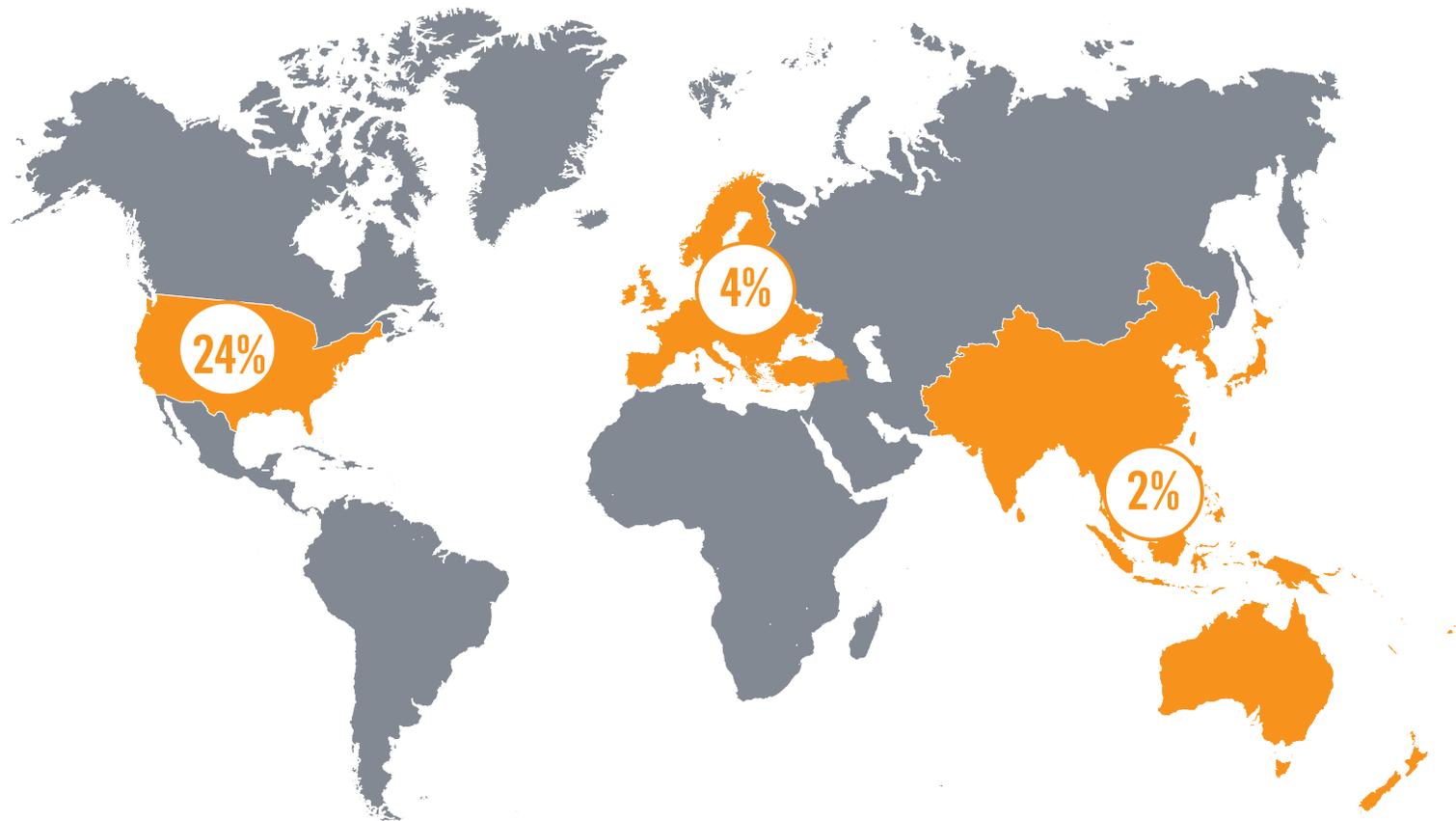
	Company	Recent Digital Director Appointment	Select Digital Experience
Financial Services	Westpac	Alison Deans	eBay
	London Stock Exchange	Joanna Shields	Facebook
Healthcare	HCA Hospital Corporation of America	Annie Lamont	Athena Healthcare, Castlight Health
	Pfizer	Shantanu Narayen	Adobe; Pictra
Industrial	FedEx	Kimberly Jabal	Google; Path
	AIRFRANCE	Isabelle Parize	Mangas Gaming
	Wesfarmers	Paul Moss Bassat	Seek

## *A Tide (Primarily) on U.S. Shores*

While our analysis identified Digital Directors in each region, we also found that a significantly disproportionate share of Digital Directors is concentrated in the United States. While this result can be partially explained by a greater representation of technology companies in our U.S. sample, the composition of the dataset is not the primary cause of this phenomenon. Instead, U.S. companies (thus far) have demonstrated a greater degree of willingness to experiment with the appointment of Digital Directors. The absence of deep digital talent pools, like Silicon Valley, has contributed to slower adoption rates for both Europe and Asia. Further, in Asia, many of the largest companies are state owned or controlled. Even the companies that are not government controlled are, for the most part, still addressing the role of the independent director—and a board dominated by independent directors is a prerequisite for being able to think about board composition in a strategic way.

### Percentage of Highly Digital Boards

By Geography



*A Road Map for the Study*

..... **A Rising Tide** .....

**Digital Director Demographics**

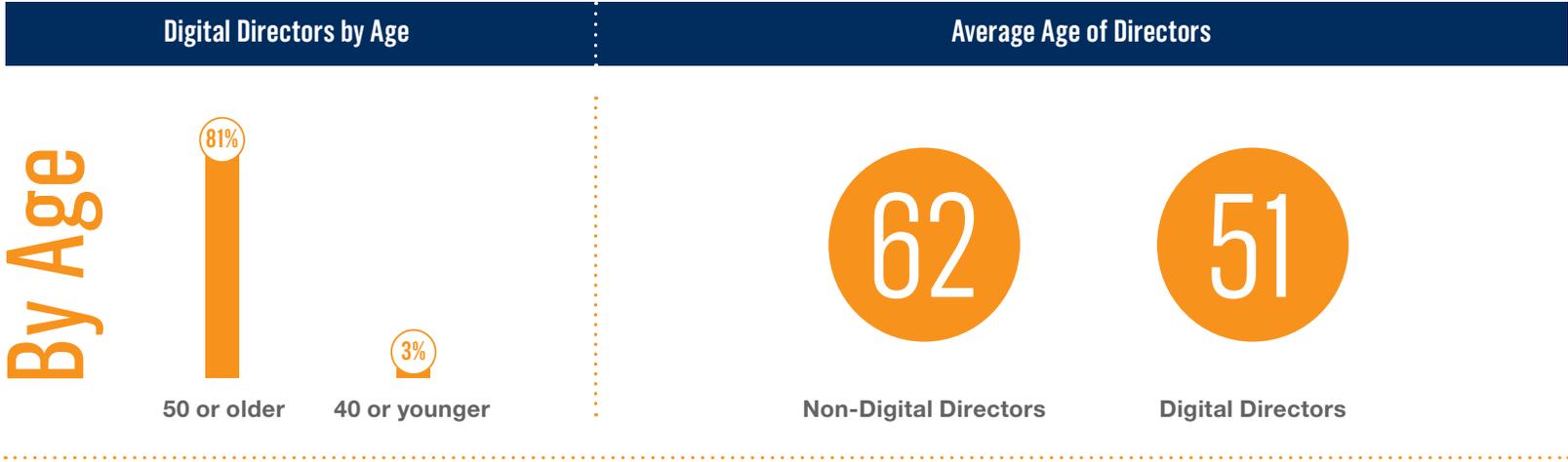
Digital Directors are younger (though perhaps older than would be expected), more likely to be female than non-digital directors, and highly likely to emerge from a handful of academy companies and sectors.

..... **Leading Today, Looking Ahead** .....

# Digital Demographics: Not Quite a Youth Movement

Digital Directors are significantly younger than their non-digital peers. The average age of the Digital Directors in our analysis is 51 years old, compared with an average of 62 years old for non-digital directors. The younger profile of Digital Directors is unsurprising, especially given the demographic profile of leading technology executives who are often on short lists for this role.

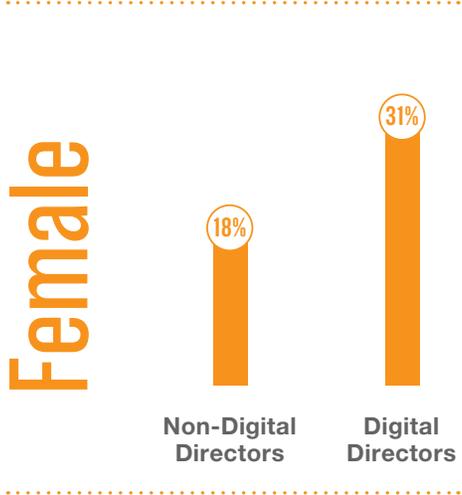
That said, our analysis revealed that the appointments of digital 20- and 30-somethings are the exception, not the rule. Of the Digital Directors in our dataset, only 3% are 40 years old or younger; in contrast, 81% are 50 years old or older. Youthful appointments grab headlines, but the overwhelming majority of Digital Directors bring decades of experience to their role. Rather than emerging directly from digital pure plays, these executives are likely to have served as “digital transformers” responsible for driving large-scale change within incumbent firms. This finding clearly illustrates that the expectation of Digital Directors is not simply to provide a fresh digital perspective, but also to harness the lessons of their broader leadership experience to contribute across a full range of governance issues.



# Digital Demographics: A Narrower Gender Gap

Women comprise a far greater share of Digital Directors than non-digital directors. Nearly one-third of Digital Directors are female, compared with only 18% of non-digital directors. The gap here is real, with companies often achieving the twin goals of “increasing digital intensity” and “increasing gender diversity” with the appointment of a Digital Director. In addition, it has been well-documented that board diversity tends to rise notably when firms use a competency-based approach for recruiting and assessing potential directors. With a heightened focus on the critical competencies (e.g., digital expertise) required of directors, the diversity of candidate pools (and subsequent director appointments) increases naturally.

Percentage of Directors



Notable Appointments of Female Digital Directors

Company	Recent Digital Director Appointment	Select Digital Experience
	Meg Whitman	eBay
  	Sue Decker	Yahoo!
	Marissa Mayer	Yahoo!, Google
	Yseulys Costes	1000 Mercis
	Marie-Laure Sauty de Chalon	Aufeminin, Aegis Media
	Helena Foulkes	CVS (Digital Enterprise)

# Digital Demographics: Digital Academies

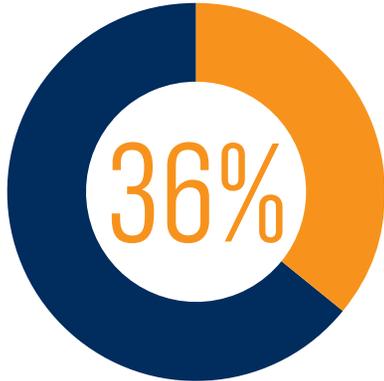
It is not surprising that a large share of Digital Directors gained their experience in a concentrated pool of digital academy companies. More than a third of Digital Directors have worked at one time or another at one of only five high-profile companies—Apple, eBay, Google, Microsoft or Yahoo!—each with a strong reputation for serving as an incubator of digital talent. Over time, we expect the sources of Digital Director talent to become more diverse as a larger number of companies outside of the technology sector establish reputations for developing leaders capable of driving digital transformation.

Just as many Digital Directors emerge from a small handful of firms, most Digital Directors arise from a small number of industry sectors. In examining the most recent industry background of each Digital Director, we found that 74% of Digital Directors emerged from one of only three sectors: consumer, venture capital/private equity or technology. This is expected given that consumer firms have been among those most disrupted by digital technologies, and many already have undergone massive company-wide transformations. In addition, organizations looking to bring digital expertise onto their board often seek leaders who understand how to leverage digital to get closer to the customer. It is similarly unsurprising that VC and technology companies are well-represented in the boardroom, given the perspective that leaders from these industries have on next-generation business models and technologies.

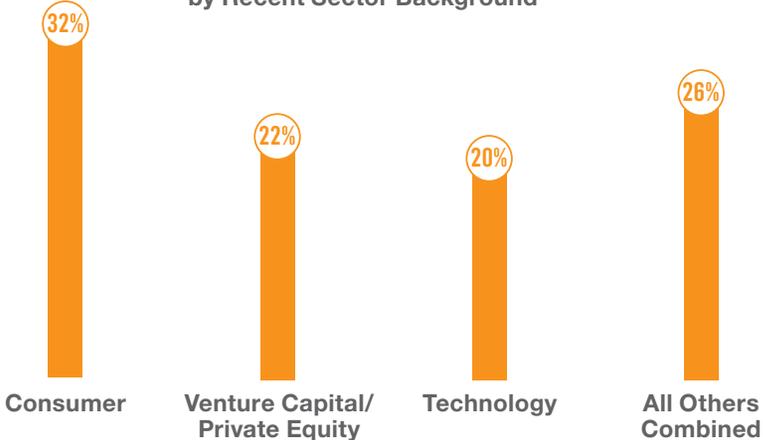
More than one third of digital directors have worked at one of five digital academies ...

... and nearly three quarters come from one of three sectors.

Share of Digital Directors with Experience at one of Five Top Digital Academy Companies



Percentage of Digital Directors by Recent Sector Background



## Top Five Digital Academy Companies



*A Road Map for the Study*

..... **A Rising Tide** .....

**Digital Director  
Demographics** .....

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Digital Directors must actively contribute to a full range of governance issues, not simply digital matters. Across time, we expect “digital acumen” to become a standard expectation in boardrooms and C-suites.

## *Digital Directors: The Governance Framework*

Beyond our quantitative analysis of the pervasiveness and demographics of Digital Directors, Russell Reynolds Associates conducted in-depth roundtable discussions with a range of CEOs, boards and Digital Directors to assess the role that Digital Directors play in digital transformation and corporate governance. Best practices in digital corporate governance include:

### ✓ VISION & STRATEGY

- Understanding what is going on in the market, knowing how to ask the right questions, and having a mechanism to stay abreast of emerging technologies and trends.
- Actively incorporating digital opportunities and risks into strategy and committee discussions.
- Mapping out key digital opportunities and underlying risks across the business.
- Creating a plan for addressing each opportunity and risk.
- Partnering with the board and executive team to explore all the options for embracing outside advisors and forming a digital steering committee.

### ✓ LEADERSHIP TEAM

- Developing succession planning that incorporates digital expertise at all levels, including the CEO, and prioritizes the development of digital skills in rising leaders.
- Creating a framework to assess the digital competence and expertise of current leaders.
- Instituting a program to identify, recruit, onboard, mentor and develop digital talent in the organization.
- Encouraging the organization's leaders to actively support digital transformation within their areas of ownership and collaborate effectively as a group across the business to drive organization-wide digital transformation.

### ✓ ORGANIZATION AND CULTURE

- Establishing a road map of how the organizational structure should evolve to support a digital strategy in different phases of transformation.
- Setting a tone that pushes exploration and collaboration in support of digital transformation.
- Challenging the management team's reluctance to transform (and, where necessary, cannibalize existing businesses).
- Encouraging management teams to adopt "digital pace" on digital transformation initiatives rather than settling for comfortable timelines and goals.

### ✓ COMPLEX AND CAPITAL-INTENSIVE TECHNOLOGY PROJECTS

- Putting appropriate procedures and policies in place to manage the cost and risk associated with complex technology projects.

### ✓ REPUTATION MANAGEMENT

- Educating the organization on how its brand and reputation exist in the digital ecosystem; putting policies and procedures in place in order to manage this proactively and react appropriately to adverse events.

# A Look Ahead

The components of digital and the changes they elicit are in a constant state of evolution. We anticipate an increasing demand for leaders who understand the pace and challenges of these disruptions. Based on our quantitative analysis of Digital Directors and our conversations with digital leaders, Russell Reynolds Associates expects to see:

A marked increase in the number of digital board members in historically non-digital sectors, including financial services, industrial, healthcare and education. As documented on page 6, there is real momentum in the appointment of Digital Directors in these sectors. We expect that momentum to accelerate.



A continuing globalization of the Digital Director trend. We believe that firms in Europe and Asia/Pacific will continue to add digital talent to their boardrooms.



Growing demand for a wider array of traditional technology talent in the boardroom. Just as financial expertise has become a standard (and often legal) requirement on boards, we believe that technology expertise soon will become a de facto expectation in boardrooms. In turn, the share of board seats occupied by digital specialists vs. digital generalists will grow meaningfully.



The advent of “digital natives” as CEOs of large organizations. While this may take years to occur, boards must take proactive steps to ensure that the table is set for them when they arrive.

Russell Reynolds Associates is a global leader in assessment, recruitment and succession planning for chief executive officers, boards of directors and key roles within the C-suite. With 350 consultants in 44 offices around the world, we work closely with both public and private organizations across all industries and regions. We help our clients build boards and executive teams that can meet the challenges and opportunities presented by the digital, economic, environmental and political trends that are reshaping the global business environment. [www.russellreynolds.com](http://www.russellreynolds.com).

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