Highly Digital Boards

2013 Edition 1

Digital Economy, Analog Boards: **The 2012 Study of Digital Directors**

The digital transformation of business is dramatically changing both the products and services that companies produce and the processes used to produce them. Retailers prosper or struggle based on their ability to leverage online social networks. Oil companies race to build digital oil fields—data-driven models to help maximize extraction. Financial services firms must retool to serve a cashless society. Healthcare companies are developing online patient communities and are leveraging digital technologies to drive collaborative research and development.

In this environment, every function has a digital component, every C-suite executive must be able to lead a piece of the company's digital transformation and the CEO must be the chief digital visionary. These imperatives are widely recognized. Too often, however, companies fail to see that the same requirement holds true for boards. After all, how can boards provide counsel to the CEO, ask the right questions of senior management and manage the CEO succession process in an increasingly digital environment if they themselves don't have a certain critical mass of the digital "right stuff"?

Introduction and methodology

To understand how boards are responding to the need to build their own digital capability, the Russell Reynolds Associates Digital Transformation Practice and the CEO/Board Practice initiated an ongoing analysis of the digital capabilities of boards around the world. Our initial research, reported online in the *Harvard Business Review*,[1] focused on the U.S. Fortune 100; this report expands the dataset to include Fortune 100 companies in Europe and Asia for a total of 300 companies and 3,307 directors across the three regions.[2] As part of our analysis, we identified those boards that can be considered "highly digital"—that is, boards with at least three members with either digital roles or significant operating or board experience at a digital company.[3] We then assessed whether "digital directors" were becoming more common among recent board appointments. Following that analysis, the report concludes with a review of key board appointments during 2012, both within the large-company dataset and among midsized companies, and identified those that stood out as particularly noteworthy.

Key findings

While a few companies have established boards with deep digital experience and competency, the vast majority have made little progress. Of the 300 companies we assessed:

- Seventeen had highly digital boards.
- Sixty-six had digital representation on boards (at least one digital member but not enough to be considered highly digital).
- Two hundred seventeen had no digital board members.

There is a great deal of regional variation:

- Almost all (88 percent) of the highly digital boards are in the United States.
- Two highly digital boards are in Europe, and none are in Asia.

Technology firms don't have a monopoly on highly digital boards:

- Six of the 17 highly digital boards are from sectors outside technology.

In 2012, numerous boards took the opportunity to increase their digital capability:

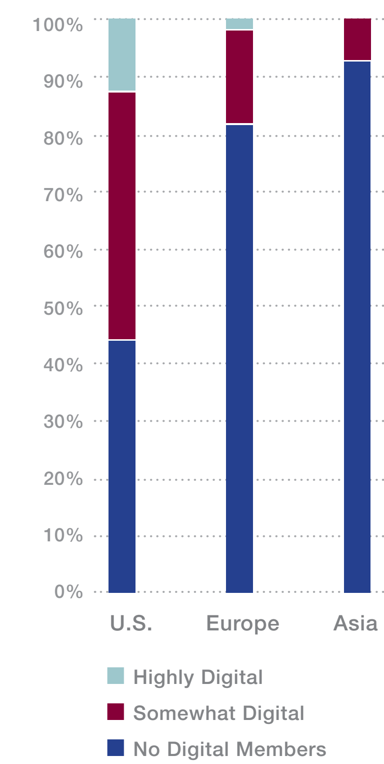
- Fifteen percent of newly appointed directors in the United States, 5 percent of those added in Europe and 1 percent of those added in Asia had digital backgrounds.

We project the demand for digital directors will continue to accelerate:

- In 2013, we expect 19 percent of newly appointed directors in the United States and 8 percent of newly appointed directors in Europe to have digital backgrounds.

"How can boards provide counsel to the CEO and ask the right questions of senior management in an increasingly digital environment if they themselves don't have a certain amount of digital expertise"?

Digital Boardroom Capability by Region



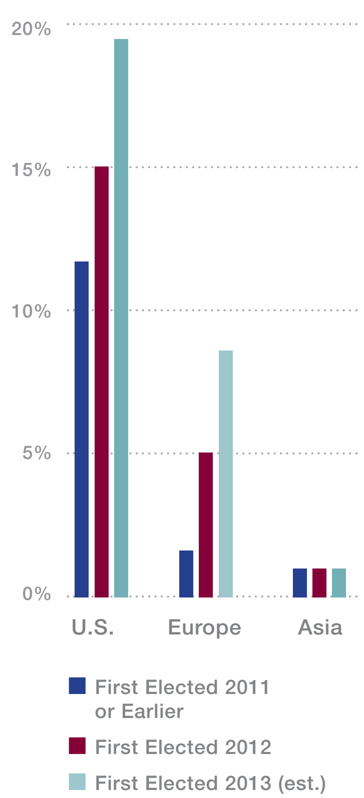
Findings in detail

Our research found that 15 of the boards of the 100 largest public companies in the United States had highly digital boards. While nine of those companies are in the technology sector (**Apple, Cisco, Dell, Google, Hewlett-Packard, Intel, Microsoft, Oracle** and **Amazon.com**), six (**Wal-Mart, Berkshire Hathaway, Procter & Gamble, FedEx, Coca-Cola** and **Allstate**) are from a range of non-technology sectors. While these 15 companies have been the most successful in building the critical mass necessary to help drive changes to the boardroom agenda and culture, an additional 42 boards in the United States have at least one digital member. The nominating committees of this second group are well-positioned to move their boards to the top digital rank, depending on how their next board searches are executed.

While the data show that many of the largest companies in the United States are grappling with the task of building digital capability in the boardroom, those in Europe and Asia have more work to do. Among the 100 largest companies in Europe, two—Spain's **Telefónica** and Finland's **Nokia** (discussed below)—can be counted as highly digital; an additional 17 boards have at least one digital member.

In Asia, none of the 100 largest companies examined can be said to have a highly digital board and only eight of these companies have at least one digital member. On its face, this might seem counterintuitive, given the fact that Asia has a stronger digital infrastructure than much of the world, boasts an active base of digital early adopters, and is home to companies like **Samsung** and **Sony** that have been significant drivers of digital innovation.
All this is true. But many of Asia's largest companies are state owned or controlled; even those 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.

Percent of Board Members with Digital Backgrounds by Region



Projections for 2013

Examining the backgrounds of directors first appointed in 2012 against those appointed in 2011 or earlier illuminates the rise in digital director appointments. Tellingly, this analysis shows that European companies may be making more progress in this regard than is apparent at first sight: Five percent of the directors first appointed in 2012 had digital backgrounds vs. 2 percent of those appointed in 2011 or earlier. Given this jump, we forecast that 8 percent of directors appointed to European corporate boards in 2013 will have digital backgrounds—despite the fact that Europe lacks a deep digital talent pool like Silicon Valley. Digital director appointments to U.S.-based boards will hit nearly 20 percent. While we believe that Asian boards eventually will follow suit, we expect the status quo to continue there in the short term.

Key boardroom moves in 2012

In 2012, several boards made noteworthy additions, strengthening their digital capability. Among boards that already were highly digital, **Wal-Mart's** addition of Marissa Mayer, CEO of Yahoo!, particularly was interesting. Wal-Mart has long been ahead of the curve in the digital talent of its board; adding Mayer to James Breyer, James Cash and Gregory Penner strengthens its digital core and illustrates the company's deepening commitment to digital transformation. Wal-Mart's four digital directors have board or operating experience at Google, Facebook and Yahoo!, Microsoft and Dell, RealNetworks and Brightcove.

If the Wal-Mart board continued to reinforce an already significant digital capability, **Nokia's** board underwent a wholesale transformation to build one. As part of CEO Stephen Elop's attempt to radically remake the company from a hardware enterprise to a consumer software and services provider, three new board members were added—Bruce Brown, Chief Technology Officer of Proctor & Gamble; Mårten Mickos, CEO of Eucalyptus Systems; and Elizabeth Nelson, former CFO of Macromedia—representing a strong infusion of experience in understanding, reaching and retaining customers in a digital service environment.

Cisco's election of Marc Benioff, founder of Salesforce.com, is another example of a hardware company building board strength in a time when the move to cloud and on-demand services models is rewriting many strategic plans. Who better to provide insight on that transition than someone who pioneered the disruptive software-as-a-service model?

"The smartest companies are moving to anticipate their digital future—understanding it is "when," not "if."

Coca-Cola added Robert Kotick, CEO of videogame giant Activision Blizzard and former member of Yahoo!'s board—a move that elevated the company's board to highly digital status. As an interactive entertainment visionary, he will be a commanding boardroom counterpart to IAC's Barry Diller and Donald Keough in the drive to harness digital channels to build customer engagement.

Home Depot added Mark Vadon, founder of online diamond retailer Blue Nile, giving the board powerful experience in applying online retailing and merchandising to a sector still in the early stages of developing and executing these digital strategies.

Google provided board talent to two retail companies: Lorraine Twohill, Google's Head of Global Marketing, became **Williams-Sonoma's** first Digital Director, while Matt Brittin, who heads Google's operations in the United Kingdom, joined the board of British grocery chain **J Sainsbury** in 2011.

In 2009, Facebook COO Sheryl Sandberg joined the board of **Walt Disney**, helping to oversee its expanding strategy in online media. In 2012, we can see a trickle-down effect at traditional media companies like **Yellow Media**, which, as part of a recapitalization, brought on Craig Forman, who had been Executive Chairman of WHERE, a location-based media company that was purchased by eBay, in addition to having held leadership roles at EarthLink and Yahoo!. Forman joined Martin Nisenholtz, who was re-elected to the board and led the digital transformation of *The New York Times*.

While none of Asia's top companies have digital boards, a few of those firms have begun to move in this direction. **NEC's** board recently added Kaori Sasaki, who founded eWoman, a pioneering portal for women that allowed companies to crowdsource ideas for products long before the concept of crowdsourcing took hold.

Implications for boards

The key moves of 2012 hold valuable insight for nominating committees looking to refine their digital board composition strategies:

- **Look beyond the usual suspects.** The competition to recruit directors with digital acumen will only increase. As a result, nominating committees will have to look beyond digital "academy" companies such as Google, Facebook and Yahoo! and to those executives who have successfully implemented digital strategies in non-digital firms or who have accelerated digital transformation in a non-traditional niche, as Blue Nile did with luxury goods.
- **Don't just "check the box" with one digital director.** For many boards, the ideal endpoint will be to have several digital board members whose experience and competencies both complement and overlap. Constructing such a "digital board within a board" takes long-term planning and patience.
- **Don't wait for a digital crisis to digitize your board.** The smartest companies are moving to anticipate their digital future. Bringing on several digital board members at once to accelerate the board's digital capability shouldn't be limited to cases where the company is going through turmoil; some boards may benefit from a concerted infusion of digital talent. For most companies, digital disruption is "when," not "if."

1 Jeffrey F. Rayport and Tuck Rickards, "Do You Have the Digital Leaders You Need?" *Harvard Business Review* Blog Network, http://blogs.hbr.org/cs/2012/06/these_days_you_cant_have.html.

2 The European sample was taken from the top 100 European companies included in the Global Fortune 500; the Asian sample was taken from the top 100 Asian companies with publicly available board data in the Global Fortune 500.

3 "Digital company" is defined as a company in which a high percentage of revenue is generated from digital operations, digital channels are crucial enablers for business or where the company is regarded as a digital transformation leader in its industry.

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