QSB Insight

WHITE PAPER SERIES

CIO BRIEF: IT and the Board of Directors

With IT integral to a firm's risk management and strategy development plans, CIOs have to learn how to effectively engage board members. Here's how they can get heard

By Heather A. Smith and James D. McKeen

CIO Brief meetings bring together Chief Information Officers from leading Canadian organizations to exchange best practices around information technology management strategy. Membership is by invitation only.

The sessions are co-sponsored by Deloitte and Queen's School of Business.

For more information on this industry forum, go to: http://www.ciobrief.ca/

THIS WHITE PAPER IS BASED ON THE PROCEEDINGS of a CIO Brief meeting focusing on how CIOs can engage their boards of directors.

The last 15 to 20 years have meant profound changes for IT. We now live in a pervasively technical world and this has created both opportunities and challenges for CIOs and their organizations. In particular, boards of directors have begun to recognize that they must pay more attention to IT from a number of perspectives.

Speakers at this session were two former CIOs who are themselves members of several boards of directors.

Michael Foulkes is a former executive at TD Bank Group who held various positions, including EVP Group Operations and Chief Information Officer, EVP Commercial Banking, and President and CEO TD Waterhouse UK. Foulkes is currently a Director of Davis + Henderson Corporation, the Canadian Depository for Securities, First Nations Bank of Canada, and eHealth Ontario.

Dr. Catherine Aczel Boivie is an executive with more than 20 years' experience in IT leadership, most recently as SVP of Information Technology and Facility Management for Vancity Credit Union. Previously, she was SVP of IT and CIO at Pacific Blue Cross and CAA British Columbia. She is also an experienced board member, having served on several boards, including: Insurance Corporation of B.C., Certified General Accountants of Canada, and the Burnaby Board of Trade.

Why Boards Care About IT

"There has been a steady increase of interest in IT by boards of directors," Michael Foulkes said. Boards have three oversight responsibilities:

- to oversee and measure risk;
- to oversee and approve strategy; and
- to oversee and approve succession and compensation plans.

Boards are the biggest check and balance on management. In recent years, as IT has become integral to organizations' risk management and strategy development plans and IT resources have become critical and scarce, the board's attention to IT matters has risen. In addition, boards have always been interested in "big ticket" items and IT projects often fall into this category.

Risk is a key driver of any board's interest in IT. "Boards are becoming more alert and less deferential than in the past and risks are greater, more numerous, and more costly." Boards are concerned

QSB Insight

about operational risks, such as availability, business continuity planning and disaster recovery planning, reputational risk (which is related to operational risk), IT project failure, and regulatory and government compliance issues, such as privacy. “Today, exposure to risk is far greater and infinitely quicker and more visible than in the past,” Michael said. To illustrate this change, he noted that a bank outage in 1996 rated only a small article in the *Report on Business*, whereas when a similar outage occurred in 2001, it was front-page news for several days — even after it was fixed. “These days, the damage is done immediately and boards are therefore much more sensitive to operational risk,” he said.

With IT growing increasingly complex, greater risk is also involved. “In 1990, the TD Bank had 26 connections to external companies. Today, it probably has five million external connections to customers every day!” Risk associated with this much greater connectivity is increased by offshoring and outsourcing and higher security threat levels. “It’s a much scarier world than it used to be and, combined with more oversight from regulators, IT has been drawn into the purview of the board as a result,” he said.

Board oversight can take two forms, both of which affect a CIO. First, there is general oversight that looks at the organization’s operational competencies, such as continuity, security, and privacy, on a regular basis. It also ensures that proper controls are in place, including project management, governance, and process and operating metrics. Finally, it ensures the firm has the necessary merger and acquisition capabilities. In this area, IT’s ability to integrate systems and data are particularly important. A second area of oversight is more specific. Boards review annual budgets, incidents of note or interest, top 10 risks, and key management resources and compensation.

The CIO-Board of Directors Relationship

CIOs are somewhat constrained in how they work with the board, said Michael. The primary relationship is between the CEO and the chair of the board, so CIOs do not have an independent connection with the board. Nevertheless, they have a strong opportunity to influence, particularly through educating, addressing strategic topics, and supporting the CEO’s agenda. Ideally, boards should ask IT questions and CIOs should work with their CEOs to stimulate

About the authors

Heather A. Smith is a Senior Research Associate at Queen’s School of Business. A former senior IT manager, Heather is author of five IT management books. She is also a Senior Research Associate with the American Society for Information Management’s Advanced Practices Council. In addition, she consults, presents, and collaborates with organizations world-wide.

James D. Mckeen is Emeritus Professor at Queen's School of Business Jim has been working in the IT field for many years as a practitioner, researcher, consultant, and speaker. In 2011, he was named the “IT Educator of the Year” by ComputerWorld Canada. Jim has taught at universities in the U.K., France, Germany, and the U.S. His research is widely published and he is co-author (with Heather Smith) of four books on IT management.

good questions. If board members are silent in this area, CIOs and CEOs should ask themselves why this is the case. iPads, for instance, are an immediate opportunity for IT to make a difference at the board level and to interact with board members by showing them how to use this technology.

Michael identified three ways CIOs can get invited to meet the board:

1. **Define your IT strategy.** Boards are interested in proposed changes, such as new third-party relationships, big investments such as an ERP, outsourcing, and changes in the IT operating model.
2. **Define your IT risk using a framework and/or maturity model.** "A CEO's nightmare is when a board member calls about something they've read in the paper," Michael explained. CIOs can proactively develop a baseline risk profile and take the board through it. Then, when there are changes, such as exposure to related parties or new threats, they can be asked to discuss them in the context of this framework.
3. **Describe your M&A readiness.** IT brings significant project management capabilities to an organization that can be utilized in M&A work. "Boards have often underestimated these capabilities and CIOs can discuss their ability to assess new opportunities, their readiness to take on integration of an acquisition, and what new capabilities they might need in this area," said Michael.

It is important for CIOs to calibrate how they speak to the Board. "You can kill your relationship if you speak too technically," he said. Michael recommended that CIOs get guidance from those who present regularly to the board, such as the CEO or corporate secretary. "Often a good analogy can help members understand a technical issue." Board members, however, are not substitute management. "Noses in, fingers out" is a good way to describe the way Board members should work with IT and others in the organization.

Board involvement with IT should be viewed positively. "If they're not interested in IT, it's a much bigger problem," said Michael. Board governance and IT are both evolving quickly so there are new questions all the time. IT is growing as a strategic enabler in more businesses and risks from privacy, security, and regulation are growing. In addition, new technologies, such as big data and new fields, such as healthcare IT, will stimulate board interest and oversight further. It is therefore likely that this important relationship will continue to expand over time.

Working with the Board of Directors

Dr. Catherine Aczel Boivie says the role of the CIO has evolved over the past 10 years. "It has become more strategic and less operational. As this has happened, the board has become more interested in IT." Today's CIO is part of the executive team and participates in strategic planning, goal setting, and understanding and optimizing business processes and outcomes. In addition, he or she often views the organization in greater breadth than others because the CIO has to know every part of the organization to utilize technology as an enabler. As a result, boards are more frequently inviting CIOs to speak with them.

Unfortunately, many CIOs find it difficult to communicate in "board-relevant language." As well, they may not understand the role of the board in managing risk. These issues are complicated by the fact that many board members do not understand IT, particularly strategic IT risk, and many boards do not have an IT champion. Therefore, some CIOs can be apprehensive when interacting with the board. "Today's CIOs must see themselves as business leaders," said Catherine, "and they must master the critical skill of working with their boards of directors."

CIOs are often asked to address risk at board meetings, but presentations are also opportunities for CIOs to demonstrate the business value of key projects and the overall portfolio. "Boards are always value tracking," explained Catherine. In addition, they will be interested in the strategic alignment of business and technology plans, what IT is doing about security and compliance, particularly related to business continuity and new regulations, and also new processes and changes that will result from new systems.

There are three prerequisites for effective CIO-Board interaction:

- Strong business, interpersonal, and communication skills.
- The ability to influence the Board. "Good strategies and good ideas are not enough," said Catherine. "A CIO must learn how to exercise influence."
- The right balance. CIOs need to understand how much risk is acceptable to the organization and how to find the optimal path between action and "analysis paralysis."

Boards of directors have three roles with respect to IT. They must understand the importance of IT, ensure that the board and business management are appropriately involved, and oversee the mitigation of IT risk. The primary focus of the board is the relationship between IT and business strategy. Members are not interested in technical details but in what the technology will enable, the risk it exposes the organization to, how it improves financial performance, and how it supports the business' strategic plan. These four factors should be used as a framework for any presentation to a Board.

Preparing for a Board Presentation

Catherine outlined five steps a CIO can take to prepare for a board presentation:

1. **Understand the board's role.** The board of directors represents and protects the interests of the shareholders or members of the organization. They are not management. Senior managers are responsible for running the organization. "Sometimes the line between the board and management is not always clear," said Catherine, "so a CIO needs to know how to support the board in making this distinction."
2. **Be prepared to explain the role of the CIO.** CIOs should be business executives specializing in IT. They should be prepared to describe their high level challenges. As well, many CIOs have at least one additional responsibility and strategic differentiation can come from these other roles.
3. **Get to know the board and its members.** Boards can be elected, appointed, or political, and members can have different degrees of technology comfort. A board can be focused on one or more items, such as cost cutting or M&As, and can have different ways of working. Understanding these issues and how boards make decisions (e.g., through committees) can assist a CIO in knowing how to shape a presentation.
4. **Work with the CEO and other executives.** Ideally, executives should meet in advance to review presentations and understand and support each other's message. It is important that all presentations provide the organization's view, not the view of one executive.
5. **Acquire board experience.** "It's never too early to get some experience as a board member," said Catherine. She recommends

participating on volunteer boards and taking corporate director courses.

Board presentations should provide a complete view of IT and IT governance that is aligned with senior management. The CIO should describe to the board how IT governance is used to ensure that IT decisions are made and prioritized appropriately. He or she should use business, not technical, terms. “ The use of fancy technology terms does not impress the board; what does is how technology impacts/enables the organization,” Catherine advised. It is important to explain technology concepts in terms of what a board can relate to; for example, compare the need to replace an aging application to a vintage car, which looks great but uses unleaded gas, has no air bags or CD player, and for which it is extremely difficult to find parts or mechanics. “The most challenging task is understanding the difference between talking about technology and communicating how a technology impacts business.” Transparency and providing regular, short updates about the progress of key projects are also important.

Finally, CIOs have a responsibility to educate the board regarding IT issues. They could present sessions on IT governance, IT strategy and its implications for the business, where and how technology could be a strategic differentiator, and where IT expenditures are made. “These are topics that boards are interested in and about which CIOs could schedule time to present to their members,” said Catherine.

Discussion

What about organizations where IT is less important?
The best approach is to be supportive of business strategy and to stress how IT enables it.

How important is it for the CIO to be at the table with the board?
In some cases, it may be better for the CEO to represent the management point of view. This should not be seen as a slight. Make sure that the CEO understands the importance of IT’s contribution. A CIO should make sure the organization is prepared for the next big issue, such as privacy, risk governance, or supplier management. His or her approach to the board will depend on reporting relationships and a host of other factors. “The key thing to understand is how to motivate the board to address these issues,” said Michael. “You may

need to identify a number of people you need to influence to get there."

How can a CIO ensure the right outcome?

CIOs must find a balance between gaining the board's interest and showing how IT will enable business goals. To ensure the right outcome, CIOs need to speak in business terms and stay on point. Questions from board members need to be answered in the framework of expected outcomes.

What about innovation?

Risk oversight does not mean that an organization is risk averse, said Catherine. Opportunities need to be managed as well as risk. it is important to boards, however, that the entire game plan be balanced and reward mechanisms should reflect this.

Canada’s Premier Business School

Queen's School of Business is one of the world's premier business schools, with a faculty team renowned for its business experience and academic credentials. The School has earned international recognition for its innovative approaches to team-based and experiential learning. In addition to its highly acclaimed MBA programs, Queen's School of Business is also home to Canada's most prestigious undergraduate business program and several outstanding graduate programs. As well, the School is one of the world's largest and most respected providers of executive education.
Go to: http://business.queensu.ca

Professional Programs to Accelerate Careers

MBA PROGRAMS

Queen’s MBA
This 12-month, full-time program develops exceptional leaders, valuable team members, and highly effective managers. Personalize the program around your strengths and aspirations.

Queen’s Executive MBA
Designed for working managers and executives, this 16-month program is offered everywhere in Canada and at many international locations.

Cornell-Queen's Executive MBA
This program is a partnership between Queen's School of Business and Cornell University, one of the eight U.S. Ivy League schools.

Queen’s Accelerated MBA for Business Graduates
A 12-month program for people with an undergraduate degree in business (or equivalent) and at least two years of relevant work experience. Earn a Queen's MBA while you work.

Go to: http://business.queensu.ca/mba_programs

GRADUATE PROGRAMS FOR PROFESSIONALS

Queen’s Master of International Business
This program offers a global business curriculum and an international exchange, and features both single and double degree options.

Queen’s Master of Finance (Toronto)
Earn a Master’s degree in Finance in one year, while you continue to work. Developed in partnership with the CFA Institute.

Master of Management Analytics (Toronto)
Acquire the skills and knowledge to develop, direct, and deliver projects in analytics that add value to your organization.

Queen’s Graduate Diploma in Accounting
The program consists of four accounting courses that meet the CA certification requirements.

Go to: http://business.queensu.ca/grad_studies

EXECUTIVE EDUCATION

Meet the competitive challenges of today's dynamic business environment. More than 10,000 managers from over 3,500 organizations in more than 60 countries have made us leaders in management education and development.

Go to: http://business.queensu.ca/executiveeducation/

Queen's SCHOOL OF BUSINESS

Queen's UNIVERSITY