

### Part One of a Four-Part Series

## The Responsible Technology Firm of the Future: A Rapidly Changing and Unpredictable Landscape

The technology industry landscape is rapidly changing in response to emerging risks, evolving stakeholder expectations and increased scrutiny from governmental agencies all over the globe. The future success of not only established technology players, but also emerging and mid-market organizations will require innovative products and services, as well as a deep understanding and effective management of emerging risks and heightened expectations of myriad stakeholders in both the public and private sectors.

In our view, the emphasis on understanding risks and establishing and maintaining appropriate controls is increasing in the C-suites of large technology companies and, in particular, in their boardrooms. This emphasis is in stark contrast to the traditional perception that these companies have a “what’s good for us is good for everyone else” mindset and are all about creating enterprise value through innovation and growth, and nothing else. What’s really happening is that the agenda in the C-suite and boardroom is becoming more balanced, with an increased focus on governance and regulatory concerns, social responsibility to the greater community, and other matters germane to preserving enterprise value. This balance is what defines the “responsible technology firm of the future,” one that will be as adept at corporate governance, social responsibility,

risk management and compliance as it is at technical innovation and delivery.

In this four-part series, we present key considerations for technology industry board members and executives interested in the responsible technology firm of the future vision. Our series focuses on the changing landscape that is altering the conversation at the highest levels of technology companies. It then suggests 10 ideas for tech executives and directors to help them make the transition to the more balanced focus of the responsible tech firm of the future. Our ideas are organized under three topics:

1. **Corporate Governance and Regulatory Compliance**
2. **Market Forces**
3. **Corporate Social Responsibility**

These ideas will be presented in subsequent installments of the series. This first installment is focused on the dynamic environment in which technology firms operate.

### A Changing Landscape

Emerging risks, evolving stakeholder expectations and increased scrutiny from governmental agencies are increasing the complexity of the environment in which technology companies operate. For example, global tech companies are being called out for a host of negative issues, including gender imbalance in executive and board positions, a lack of diversity throughout the workforce, the limited protection of customer and consumer data, the lack of controls around the policing of content on social media sites, and in some cases, corrosive cultures at the executive level and throughout the organization. The increased awareness of the “commoditization” or “commercialization” of consumer data has created debate as to where the line is drawn between consumer choice and consumer surveillance. The rollback of federal net neutrality regulations to open the door for state-level regulation – as advocated by telecoms, but opposed by tech firms – has also made things interesting, with the ultimate impacts unclear at this time.

As these and other issues and developments complicate the operating environment like shifting tectonic plates, it is clear the industry is facing a state of discord leading to clarion calls for increased regulation and oversight, particularly as the largest players continue to dominate the industry and have a growing impact on the lives of people across the planet. As the volume of these calls increases,

the negativity of general wariness and even outright distrust is being directed at the industry. In a sense, this is not a surprise given the enormous impact of technology on the human race over an incredibly short period of time relative to the pace of change over history. Perhaps, to an extent, these issues constitute inevitable growing pains for the industry that must now be confronted by its leaders.<sup>1</sup>

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That all said, no one particularly likes the current state of affairs, as the pathway forward is not always clear. For example, there is backlash from some corners that efforts to clean up false content to avert a race to the bottom – by ensuring transparency as to who is developing and sharing it and its quality and truthfulness or by removing it altogether – suppresses free speech. Fueled by the formidable political divide present in our society, this debate places tech companies squarely in the crosshairs of rancorous disputes, a place few executives want to be. The reality of this fishbowl environment means that tech executives can no longer operate their companies under the assumption that whatever is good for the company is good for society. Clearly, that balloon has been popped, with the growing awareness of threats to privacy, access and

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<sup>1</sup> “How the Tech Industry Can Restore Trust,” Michael Gregoire, World Economic Forum, January 18, 2018, available at [www.weforum.org/agenda/2018/01/how-the-tech-industry-can-restore-trust/](http://www.weforum.org/agenda/2018/01/how-the-tech-industry-can-restore-trust/).

innovation, as well as increasing suspicion of tech companies in areas of concern such as search, content, e-commerce and social media.<sup>2</sup>

The imperative for tech executives is to stay ahead of the change curve. According to the most recent survey from Protiviti and North Carolina State University's ERM Initiative,<sup>3</sup> technology, media and telecommunications (TMT) executives responding to the survey identified the following as the top two risks for their organizations in 2018:

- Rapid speed of disruptive innovations and/or new technologies within the industry may outpace the organization's ability to compete and/or manage the risk appropriately, without making significant changes to the business model.
- The organization's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect core operations and achievement of strategic objectives.

These risks are interrelated and point to the need for pause to reflect on how tech firm executives can better manage them. The point is that, amid growing pressure to meet or surpass the speed of disruptive innovation, executives and directors of TMT companies are concerned that their organizations' desire to innovate may outpace their ability to properly manage the attendant risks.

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The emerging importance of corporate social responsibility (CSR) is also a significant contributing factor to the current environment. From its inception, the industry has been fueled by a "let's disrupt the world" mentality enabled by high-velocity decision-making and a "fail fast" approach to innovation. Now, with the steady drumbeat of advances in machine learning, robotic process automation, natural language processing, advanced data analytics and other essential tools of artificial intelligence (AI), the growing concern of further human disenfranchisement has prompted calls for tapping the brakes with questions around the "ethics" of who makes the decisions in balancing the tech company's interests with the interests of the public and whether boundaries are needed to "ring fence" the process to protect civil liberties and human lives. In addition, increasingly the employee base of technology companies are demanding that their leaders take positions which demonstrate a concern for the communities within which they operate. These calls for

<sup>2</sup> "Backlash Against Tech Companies Is a Wake-Up Call," Mitchell Baker, CNN, March 29, 2018, available at [www.cnn.com/2018/03/29/opinions/tech-backlash-facebook-google-opinion-baker/index.html](http://www.cnn.com/2018/03/29/opinions/tech-backlash-facebook-google-opinion-baker/index.html).

<sup>3</sup> *Executive Perspectives on Top Risks for 2018*, Protiviti and North Carolina State University's ERM Initiative, December 2017, available at [www.protiviti.com/toprisks](http://www.protiviti.com/toprisks).

corporate actions, such as pulling business from states, government agencies or entities which employee groups believe violate constitutional rights or do not support societal fairness, have proven effective in demonstrating that corporations can indeed have an impact in society. Savvy technology executives know that further technological progress begs for a public policy response through cooperation and collaboration between both the private and public sectors.

All of this suggests that the level of scrutiny global technology companies are facing will not soon subside, if it ever will. The specter of more potential election meddling through social media sites, the continued impact of fines for market practices,<sup>4</sup> the significant reputation hits stemming from executive behavior, and other developments suggest that culture, governance and risk management matter in shaping the responsible technology firm of the future.

### In Closing

The above discussion is intended to lay the groundwork for a call to action for the technology industry. Tech industry leaders who effectively and proactively manage corporate governance, diversity and inclusion as well as build a reputation for providing strong customer data protection and transparency have the opportunity to forge a stronger, more lasting reputation in the market. There is no shortage of counsel on

what tech companies must do to restore trust in what constitutes largely uncharted waters and an unprecedented operating environment for any industry. In the next three installments of our series, we explore some ideas to help tech industry executives and directors pursue this opportunity. These installments will address three topics – corporate governance and regulatory compliance; market forces; and corporate social responsibility.

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<sup>4</sup> “E.U. Fines Google \$5.1 Billion in Android Antitrust Case,” Adam Satariano and Jack Nicas, *New York Times*, July 18, 2018, available at [www.nytimes.com/2018/07/18/technology/google-eu-android-fine.html](http://www.nytimes.com/2018/07/18/technology/google-eu-android-fine.html).

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