

Step 1: What digital transformation is—and what it isn't

Digital transformation is *not* just about technology. It is about how a company can *compete* better using technology.

While digital transformation and disruption are often mentioned together, they are not the same thing. Companies generally regarded as disruptors represent only 4.5%¹ of the profits of all publicly traded US companies. Therefore, there is plenty of space for other companies to use digital and begin achieving sustainable competitive advantage—the goal of digital transformation.

Digital transformation can be as simple as using digital innovations to dramatically improve or expand upon what the industry is already doing.



Digital transformation: From science-fiction to non-fiction

Digital is paving the way for innovations beyond our wildest imaginations. Board members are uniquely positioned to help companies develop a smart approach to driving long-term competitive advantage. What makes digital transformation so special?

- The magnitude, scope, and pace of change is exponential, not linear.
- Strategies and impacts tend to be transformative, not just incremental.
- Data and insight are now primary sources of value creation and competitive advantage.

Step 2: Get your strategy straight

Companies rarely benefit from random acts of digital. As a board member, question whether or not there is a digital strategy, and understand how digital fits into the overall company strategy for long-term success. Question if the digital initiatives underway are tied to the strategy, vs being “random acts of digital”. There are three broad digital strategy categories to help direct the discussion:

- 1. Improve the core:** Use digital to enhance the existing business model and current revenue streams. For example, introducing sensors into manufacturing plants to improve efficiency/predict maintenance problems that could cause delays.
- 2. Move into an adjacent market.** Use digital innovations to take advantage of new revenue streams. For example, with more connected cars, automakers could begin to sell driver data with insurance companies to inform premiums.
- 3. Create entirely new business.** Use digital innovation to look to markets and opportunities beyond the boundaries of its current business. For example, some automakers have moved into car sharing, creating revenue from more of a rental model than car ownership.

In the digital era there are six digital enablers of digital innovation that when combined could deliver competitive advantage for businesses. It is important for board members to observe and question the use of these digital enablers.

- **Connectivity.** Transforming interactions and engagement models among internal and external stakeholders—including customers, employees, business partners, and investors—by connecting people, spaces, products, data, and technology.



Questions for boards to consider:

- Is the existing business at risk of disruption, and if so, are we willing to be our own disrupter?
 - What are the risks of clinging to the status quo vs. cannibalizing our existing business?
 - What is the company's overall digital transformation strategy: Core? Adjacent market? New business?
 - What is the anticipated financial impact of the company's digital transformation strategies, and the timeline for demonstrating a return on those strategies?
 - What is the timeline for demonstrating income statement and/or balance sheet improvements arising from digital transformation?
- **Experience innovation.** Wiring the organization to orchestrate and deliver a winning customer experience, such as using speech and gesture based interfaces, linked to artificial intelligence (AI) engines and bots.
 - **Data intelligence.** Using data and analytics to uncover breakthrough business insights and develop products, services, and experiences tailored to customer needs.
 - **Leading-edge innovation.** Leveraging emerging technologies such as augmented and virtual reality, machine learning, and AI—to create innovative products and services that help build competitive advantage.
 - **Automation.** Using robotics and digital services to automate tasks that are currently done by humans—improving operations and ultimately delivering more engaging customer experiences. ➔

¹ Deloitte analysis of 2016 after-tax corporate profits without IVA and CCAAdj, Bureau of Economic Analysis, National Income and Products Accounts.



- **Cybersecurity.** Implementing cutting-edge security to protect customer data—particularly sensitive information such as health or financial data that is transmitted over connected devices.



Questions for boards to consider:

- Is our company using digital technology to drive transformation, or are we limiting our focus to incremental improvements? Why?
- Are we using any of these six digital enablers to gain advantages in the market? What actions are we taking?
- If any of these digital enablers are not receiving significant attention and action, why is that the case?

Alone, each one of these digital enablers could create opportunity, but sustainable advantage often comes from a combination of two or more—opening up new forms of business value.

Board members should consider understanding these digital enablers, and how they apply to the three digital strategies categories on the prior page, and should consider challenging management to develop solutions and experiences that are innovative, unique, and valuable to the business—with the ultimate goal of gaining market share and improving profitability.

Step 3: Make sure your ambition is bold enough

Is the company too conservative about digital transformation? Companies that have been very successful in the past, in particular, tend to be skittish when it comes to embracing bold transformation. Their prior dominance anchors them to a way of thinking that can make it easy to overlook or dismiss new and innovative opportunities.

Even companies that accept the need for digital transformation may find that slow and steady linear improvement is not enough. To compete effectively, it is important for board members to help their companies understand, appreciate, and embrace the full scope of change occurring around them—and then establish ambitions for the business that are aggressive enough to win.

Long-term success through transformation requires much more than simply pouring time and money into an assortment of digital initiatives, such as developing a new mobile app or redesigning the company website. Unless those efforts can create sustainable competitive advantages, they will likely not be enough for real transformation and, in the worst case, could provide a false sense of security.

A risk-intelligent board understands that seeking to avoid any and all risks can be just as damaging to a company as undertaking excessive risks. Boards help management determine the appropriate risk appetite—both how much and what types of risk the company is prepared to take on in order to grow and achieve solid long-term performance.



Questions for boards to consider:

- What are our specific ambitions for winning in the future, and are they bold enough?
- What strategies and actions are we pursuing to achieve our ambitions, and how will they contribute to building a sustainable competitive advantage?
- How is digital changing habits and behaviors, and how does it affect our customers and business strategy?
- What are the biggest threats and opportunities around us? Are non-traditional competitors chipping away at the edges?
- Are people in the business ready to take on this challenge, and is the leadership team poised to act?

Step 4: Envision your end goal

At the end of the day, no matter what the specifics are of your unique and bold ambition, in today's world, winning requires an *exceptional customer experience*. To execute, non-digitally native companies often need to make some fundamental changes at the DNA level—creating *digital cultures* that embrace innovation, accept appropriate degrees of risk, and are not afraid to learn from mistakes. To move up the digital maturity curve, consider the following: ➔



Authors



Andy Main
US leader

Deloitte Digital
Deloitte Consulting LLP
amain@deloitte.com



Bob Lamm
Independent Senior Advisor

Center for Board Effectiveness
Deloitte LLP
rlamm@deloitte.com



Debbie McCormack
Managing Director

Center for Board Effectiveness
Deloitte LLP
dmccormack@deloitte.com

Contact us



Deborah DeHaas

**Vice Chairman, Chief Inclusion Officer,
and National Managing Partner**
Center for Board Effectiveness
Deloitte US
ddehaas@deloitte.com



Henry Phillips

**Vice Chairman and
National Managing Partner**
Center for Board Effectiveness
Deloitte & Touche LLP
henryphillips@deloitte.com



Maureen Bujno

Managing Director
Center for Board Effectiveness
Deloitte LLP
mbunjo@deloitte.com



Krista Parsons

Managing Director
Center for Board Effectiveness
Deloitte & Touche LLP
kparsons@deloitte.com

Acknowledgements

Deloitte would like to thank Siri Anderson for her assistance with the creation of this edition of *On the board's agenda*.

About this publication

This publication contains general information only and is not a substitute for professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. The authors shall not be responsible for any loss sustained by any person who relies on this communication.

About the Center for Board Effectiveness

The Center for Board Effectiveness helps directors deliver value to the organizations they serve through a portfolio of high quality, innovative experiences throughout their tenure as board members. Whether an individual is aspiring to board participation or a veteran of many board experiences, the Center's programs enable them to contribute effectively and provide focus in the areas of governance and audit, strategy, risk, innovation, compensation and succession.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.