



On the board's agenda | Denmark

Winning with digital: What boards need to know about digital transformation

Not so long ago, many business leaders thought “digital” was just about mobile phones and other electronic tools. Very quickly, we’ve learned that it’s an enormous, global shift on a par with the Industrial Revolution: Digital is fundamentally changing the habits of individuals, society and businesses, the likes of which few have seen.

Digital technologies and related business innovations are permeating everything around us—introducing new cultures, changing society, reshaping the competitive landscape, raising customer expectations, disrupting established business models, blurring the lines between industries, and creating unprecedented challenges—and opportunities—for companies everywhere. In light of this, digital transformation is now one of the most important strategic issues on the board’s agenda.

A board member’s role is to help the company create sustainable advantage for the long-term. In today’s environment, that includes a broad understanding of the benefits and risks associated with digital transformation—including the risks of inaction.

This document defines digital transformation, outlines competitive advantages and provides in-depth questions to facilitate discussions between the board and management focusing on strategies for an ambitious and successful future. ➔

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: ➔



- **Innovate on the edge, scale to core**—for companies that need to make progress fast, setting up a digital organization on the edge, and scaling it to the core has proven successful.
- **Faster and more agile**—able to rapidly respond to changes in the marketplace.
- **Transformative innovation**—pursuing transformative, not just incremental, change. This means setting a bold ambition and paying attention to the technology and market dynamics that are shifting every day.
- **More efficient and effective**—use digital breakthroughs to do things better, faster, *and* cheaper.
- **Willingness to embrace risk**—taking calculated chances, consistent with the company's risk appetite, and constantly learning from new market offerings.
- **Increased data-driven and analytic**—using data and insight as a strategic weapon.

Adopting these traits looks different at every company. It could include improving agility through from non-traditional workforce approaches like remote workers, virtual employees, offshore resources, and digital ecosystem partnerships. It likely includes

embracing *rapid ambition delivery*, where, instead of spending months or years in product development, you take smaller steps to deliver into the marketplace in just days or weeks instead of months.



Questions for boards to consider:

- Does the company need to make changes at the DNA level (people, processes, and technology) to prepare itself for competition in a digital world? If so, what changes are necessary?
- Do we have the right people on board to achieve our digital ambitions—people who know how to think differently and can foster that mindset throughout the organization?
- Are we making adequate investments in technology and training?
- Are we doing business with ecosystem partners (suppliers, service providers, etc.) that have digital in their own DNA?

Don't settle for random acts of digital

Board members are responsible for overseeing a company's digital vision. They need to be satisfied that the vision makes sense for the long term—and that the required transformation unfolds strategically. Some companies make the mistake of focusing on technology first, investing in a jumble of digital projects that are not directly related to the ambitions of the business, only to find their executives wondering why those projects fail to deliver the sustainable competitive advantages necessary to take the company into the future.

Transformative change happens by starting with an ambitious vision and then aligning the company's efforts to make that ambition a reality. As a board member, you can help the business plot the right course by assessing whether it is ambitious enough—overseeing the appropriate steps to achieve and sustain long-term success.

When it comes to digital transformation, one secret is to stop thinking that the end-goal of digital is focused on a digital device or technology initiative. Rather, the end-goal is about creating a winning business for the future—which is the true measure of digital transformation success. ➤



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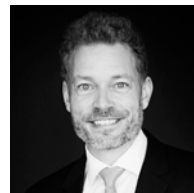
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