Boards still need to go viral on digital

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The modern economy is unthinkable without big and medium size corporations, and hence without board directors who steer the navigation of those corporations. Though their job has not changed dramatically, the challenges they are facing have. How the board can address the digital change is at the heart of this article.

Introduction

In these times of Uberization, universal digitalization, Big Data, and Blockchain, the discussion revolves around the astounding rapidity of change and the magnitude of its impact. Change itself is now a given, and the pace is only increasing.

To understand how well board members in Luxembourg are equipped to face the new digital era, the Institut Luxembourgeois des Administrateurs (ILA) and Deloitte Luxembourg jointly conducted a comprehensive survey of over one hundred board directors.

The results appear to indicate that the most common understanding of digital among board directors is largely limited to internal challenges, such as increases in efficiency and decreasing costs within the organization. External challenges related to strategy, such as opportunities and trends, disruptive ideas, and innovative solutions, lack attention at the board level according to the directors surveyed.

We believe boards must go viral on digital if their companies are to thrive—not only to survive.

In fact, as many as 48 percent of directors surveyed responded that they do not regularly receive—or in many cases never receive—reports or presentations highlighting such strategic subjects.

And yet it is clear that a lack of understanding of evolving technologies and disruptive innovations dramatically increases the risk of missed business opportunities, fosters competition and disruption threats, and may undermine investor trust.

We believe boards must go viral on digital if their companies are to thrive—not only to survive. Every director must invest heavily in understanding new technologies.

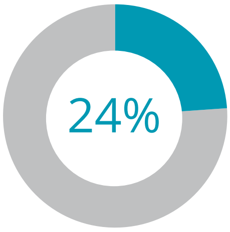
Boards must lead by example and must position themselves to ensure they can both challenge and contribute to management proposals and discourse. Boards must leverage the power of all digital and technological advances.

Board directors must also ensure—and continuously monitor—that the overall corporate strategy and the digital strategy are in absolute alignment. This would facilitate the digital transformation of organizations, adaptation of their operating models to new reality and business imperatives, and the closing of the talent gap. New KPIs will be required to effectively and efficiently measure the digital impact.

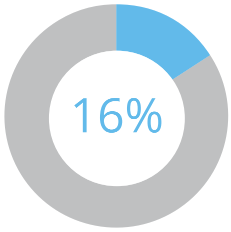
Digital and the role of the board

Digital transformation of organizations will involve adapting operating models to new business imperatives. Companies and their boards must leverage the convergence of multiple digital technologies to ensure they maintain a clear picture of not only internal challenges, but also external ones.

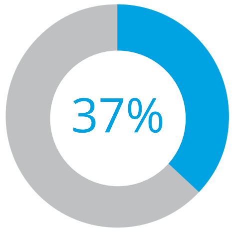
While corporations already strive to adapt themselves to the burgeoning world of innovations, forcing the entire board to be digitally savvy should help ensure their company's medium- to long-term survival.



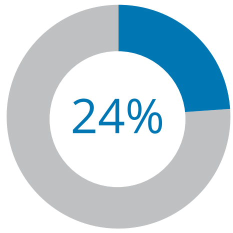
Board receives **detailed reports** about new and existing cyber security risks



Board receives **reports** regarding actual and simulated cyber security attacks on company



Board does not receive **information** about potential cyber security risks



Board is **not involved** in topics related to cyber security at all

It is important that boards take time to understand all that digital involves—a convergence of social, mobile, analytics and Big Data, cloud, consumerization, AI technologies, and the Internet of Things (IoT). Digital involves not only a technological change, but also a profound sociological one. Digital is not only new and evolving pieces of software, but a new and evolving way of doing things. This is why digital requires radically new approaches. This distinction is important, but not always evident at first.

Even if one is yet to see, for instance, whether Distributed Ledger Technologies (DLT), such as Blockchain (currently one of the biggest hypes in financial services), will become a Black Swan or will slowly fade to insignificance, boards cannot afford to ignore such important trends or leave the entire discussion to management. Together with management, boards must explore what the success of a given technology might mean. For example, some efficiencies may lead to revenue cannibalization across certain markets. Board and management need to have reflected in advance what this may mean for their entire business model.

While the survey results indicate directors are already focused on internal challenges such as increases in efficiency and decreasing costs within the organization, it was surprising that they had not radically questioned traditional focuses of risk management reporting. With new collaboration and communication technologies, cyber risks and other external threat increase. Yet surprisingly, few directors currently receive regular information about potential cyber security threats. They are also not involved in topics related to cyber security preparations. Along with executives, directors must play a critical role in preparing for and responding to cyber risks. Boards must become active partners in such matters, with cyber risk added to the board agenda.

Understanding new technologies is one thing, but making something of them is still another. Boards have started rethinking their digital ways of functioning, having largely moved beyond 20th century technologies such as emails, to at least simplistic web portals. However, only a fifth of respondents indicated they can access company data on mobile devices, and we still hear of resistance to simple things such as moving away from paper reports.

Dynamic data feeds would allow strategy KPIs, and even board packs, to be available on tablets with live data. This would improve the reliability of board reporting by ensuring that information reviewed was current, helping boards to become more forward-looking. Such feeds could also enable directors to access company information outside of scheduled board meeting cycles, enhancing the effectiveness of monitoring through strategic information flows with directors.

Boards are not, however, ready for routine replacement of regular face-to-face meetings. The importance of interpersonal dynamics required for effective group decision making cannot be neglected. Participation through technology does not allow as efficient signaling for effective communication as physical presence. Physical presence allows for better interpretation of subtle body language signals, which can be a crucial part of effective communication and debate. Technology can, however, enhance these processes and allow for the reality that a director will occasionally be unable to attend in person. In such circumstances, a director can better participate through visual conference, while having access to a tablet showing slides of the most recent reports, than by simple telephone conference with a board pack full of stale data. A director would also be able to comment on and question content directly, and share those observations with other board members in real time, even when not physically in the board room.

Digital requires a renewed focus on strategy

Survey responses indicate only 14 percent of boards are aware of their companies having a clearly defined and communicated digital strategy, with less than half of directors believing their company's digital strategy and overall corporate strategy are aligned.

Why is that? Within some organizations, efficient company-wide spread of digital ideas may suffer from traditional departmental structures and communication methods. In the absence of effective board communication on digital matters, boards risk setting (or keeping) their companies on a course toward disruption without even trying to avoid it.

Boards must ensure technologists are empowered and closely partnered with other C-suite stakeholders. We see a significant rise of CIO importance and powers on a par with the other C-suite cohort, with the evolution of the Chief Digital Officer (with much broader responsibilities than that of the traditional CIO). Directors must ensure that digital initiatives are given sufficient thought to evaluate viability and business potential. Boards may also need to re-think the traditional annual budgeting process, as many digital projects will require a multi-year roll out.

52%

Definition of digital strategy

Digital strategy is not clearly defined or directors are unaware of such

21%

Alignment with overall strategy

Digital strategy is aligned with the overall corporate strategy

38%

Communication

Company employees who have received communication about the digital strategy

The board must ensure—and continuously monitor—that the overall corporate strategy and activities with the digital strategy are in alignment and merged to become one vision. The board needs to be part of the setting and challenging of those strategies. All types of new or seemingly outlandish technological ideas must be considered. Who would have believed only a short time ago that we would be using drones for items such as topographical surveys, urgent medical deliveries, and even projects such as building rope bridges without human intervention. What seemed fantastical a year or two ago is now the reality. New ideas must constitute a part of a well-thought digital strategy with dedicated resources responsible for their implementation.

Going viral on digital can be great thing. On the other hand, too much digital too quickly could also backfire if projects end up unfocused, under-resourced, and lacking results. Internal conflicts of interest are inevitable, requiring a proper strategy roadmap to ensure success. The strategy roadmap must stem from a well thought-out digital strategy, and crucially, it must be supported by everyone in top management.

Given that organizational inertia and resistance to new ideas are cited among the main barriers to embracing an enterprise digitalization, board directors must proactively brainstorm how such barriers will be overcome. Boards should strive to break down silos, to ensure information flows freely across the enterprise, and encourage collective ways of working and communicating. "Department wars" and resistance to change must be monitored to ensure they are not putting brakes on the digital wheels.

New KPIs may be required to track the digital strategy

Boards must ensure that their digital ventures always remain relevant, aligned with strategy, and advance at an appropriate pace. It is a key role of the board to monitor, among other things, implementation and budget. At the same time, boards will increasingly need to reflect on how these various ventures and evolving trends and technologies interact with each other to ensure that efforts are being maximized, or have not since become obsolete due to new external factors.

Boards will need to review internal measures of effectiveness and efficiency to ensure they remain appropriate. KPIs should be adapted to ensure effective monitoring of progress and return on investment of these new ventures. In its paper "Digital KPIs: Defining and Measuring Success," Gartner suggests to focus on two primary categories of digital KPIs: one measuring the pace of digitalization of the current business, and the other evaluating the impacts of digital on the company's business model, related to growth, changes in the market share, and competitive advantage. The two categories of KPIs are complementary, deliver differing information. For an example in a sales context, the first could be viewed as a metric to measure paper work reduction for salespeople, while the second could reflect increases in lead conversion ratios. Assessing such KPIs together improves the insight into where management should best focus for maximum impact.

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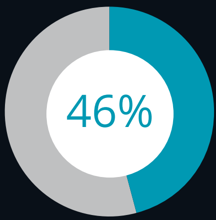
KPIs to measure the progress of the realization of the digital transformation



KPIs do not exist or the respondents are unaware of them

Main barriers and challenges in the successful realization of the digital transformation

Too many competing projects

Lack of organizational agility and resistance to new ideas

Internal efficiencies for external impact: Using data to your advantage

Coming along with the advantages of digital, are also of course the challenges. Staying on top of things has become a major challenge for company management and for boards. Exponential increases in information volumes risk creating chaos if data is merely dumped on decision makers rather than curated to present only those aspects that are relevant.

To fully benefit from digital, companies must leverage the combined power of analytics, Big Data, artificial intelligence, the Internet of Things (IoT), and other digital innovations. These new technologies, when properly used, offer almost unlimited possibilities to interpret and use data. As data consumption abilities are not endless, it is only through analytics that it will be possible for companies and their directors to digest that data in a meaningful manner.

For instance, information gathered through social media can be used to tailor products or services for the "real" needs of clients—taking into account their current behaviors, preferences, and lifestyles. Such approaches should project a more accurate picture of what clients want and need, and could cover audiences who would never have responded to an old-school questionnaire.

Conclusion

It is the responsibility of boards to ensure their companies stay in (or even ahead of) the game. Avoiding disruption and obsolescence can only be done by embracing new technologies. Boards must find ways to ensure the company's capabilities are sufficiently adapting to changing paradigms, with strategic digital survival prioritized on the board agenda and at every level of the organization.
Success will only be achieved by those companies capable of adapting in rapid and smart ways. Not all projects or initiatives will succeed, but project success was never guaranteed in the past either.

Understanding and exploring new business opportunities offered by technological innovations is already a key focus of those few boards who are truly strategic. Every board and every director must now become digitally strategic, and must reflect on how their companies are addressing these challenges. Given the survey results, it would appear many companies and their boards risk being left in autopilot on a disused highway. They must urgently prioritize training in digital skills, refocus on the potential impacts of digital on their strategies, and adopt new forms of collaboration and communication at all levels of the organization.

Addressing the board's digital quotient

A digitally savvy and diverse board is not an option, but a must. How can boards address this digital deficit in order to get to the level required for ensuring meaningful conversations with the new generation of business leaders?

- **Directors themselves must become infinitely curious.** Each director must ensure they remain sufficiently informed of important trends and developments though a variety of media channels of their choice. Examples could include, for example, reading newspapers, blogs, listening to web and podcasts, subscribing to email newsletters, or following digital leaders on Twitter. Directors should consider attending events that are outside their usual comfort zone. It may be useful to dig deeper than usual into new areas in order to be able to master the concepts for later discussion and challenge.
- **All directors must strive to become digital champions.** Appointing a single digital champion will never be enough, as failure to detect "the next big thing" or a decision to block an initiative because of non-understanding could quickly lead to the loss of competitive advantage or even to obsolescence. The importance of having an extensive range of digital competencies among all board directors cannot be underestimated. The winners in the current innovation game will likely be those who have dreamed about and investigated the interconnectedness of new possibilities. Focusing on only one new technology will mean missing crucial elements and combinations. Boards must be in a position to question the CEO's digital agenda to ensure their company is not merely engaging in piecemeal or misguided initiatives, as although each initiative will likely begin in isolation, it ultimately needs to be fit within a fuller business strategy and fit with the company's organizational backbone.
- **Boards need to invest in their collective knowledge.** Boards must urgently consider the digital literacy of all directors on the same level as other required professional skills. Board education programs must include ensuring all directors are trained in appropriate digital skills, in addition to regulatory and other traditional focuses.
- **Boards need to regularly self-evaluate and review their composition.** While boards may go viral in training existing directors to upskill them for the digital challenge, this will rarely be enough. Boards need to embrace robust self-evaluation processes, and they must ensure the board composition remains appropriate in light of an increasingly regular refocusing of corporate strategy.
- **Boards must professionalize their director recruitment and succession planning processes** to ensure they are searching for—and finding—the most needed skills, personalities, and profiles for the current strategies of the organization.
- **Board diversity is needed more than ever.** Each director must bring unique viewpoints to discussions and ensure thorough debate from differing angles. Diversity in all its aspects—culture, gender, geography, age, backgrounds, etc.—has become more important than ever for boards to leverage a maximum of divergent viewpoints around which to debate and rally. Non-executive directors can also bring valuable viewpoints from other companies and other industries as traditional lines between sectors fall away. Boards that ignore these imperatives do so at their peril, and may be putting their organizations at risk.
- **Boards need to offer comprehensive induction and on-boarding support for new directors.** Comprehensive board induction programs must be offered to ensure that new directors quickly find their place and can perform with optimal impact in these fast-paced times.