Strategy

Making Data a Board Agenda Issue

By Cathy Engelbert

In a recent poll of Fortune 500 CEOs, the rapid pace of technological change was voted the single biggest challenge facing companies, with 67 percent of respondents saying they consider their company to be a technology company. This response is striking given that less than 10 percent of Fortune 500 companies are designated as being in the technology sector.

Yet, there's an even more fundamental differentiator that will play a critical role in how companies effectively compete in the decade to come: getting the right data, extracting insights from that data, and identifying the platforms on which data can be used strategically. In short, every company should consider itself a data company with a differentiated platform.

The audit committee is uniquely positioned to help navigate these changes through the company's finance function, which is privy to data spanning sales metrics, revenue, margin, marketing performance, valuation, manufacturing, and supply chain vendors. Directors can help their chief financial officer and finance team take a leading role in the data revolution by asking about the tools and technologies they're using that are tied to the company's strategy. How is the enterprise being digitized? What trends should be monitored using data analytics? Have data sets been identified that will provide insights to driving shareholder value?

Equally important is understanding whether the finance function has the data science skills needed today. In a recent survey of finance and internal audit leaders, we found that while 86 percent of respondents use analytics, only about one-third of them are using them at an intermediate or advanced level. Two-thirds are still using basic, ad hoc analytics (like spreadsheets) or no analytics at all.

Board members should also consider thinking about data-centered systems as much as they think about tangible assets and liabilities on the balance sheet. Consider that in 1985, 68 percent of the value of an S&P 500 company sat on its balance sheet in the form of tangible assets. In 1995, that figure was only 32 percent, and in 2015, it was down to just 16 percent. Today, more than 80 percent of a company's value is now driven by intangibles. This shift may call for the board to focus on nontraditional sources of value and what the company is doing to maximize the value of its intangible technology and data. In a world where every company is a technology company, data may be your most valuable raw material.

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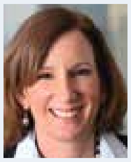
Boards also need to understand how their companies are competing in a digital world and determine whether digitization creates strategic advantages, risks, or both. Data collection and analytics have come a long way. Today, companies can forecast impacts on supply chains and product distribution, embed analytics into the claim adjudication process used by insurers, forecast manufacturing irregularities in the auto sector to stop recalls before they happen, and build sensors into heavy equipment to create an information ecosystem that can target maintenance issues. All of these applications of collected data intersect with finance. Other game-changing innovations are materializing around augmented intelligence, machine learning, and the Internet of Things. With these advances, the opportunities to drive strategy and performance through developing data platforms will only grow. Directors have a leading role to play in helping executives look to future risks and opportunities. Asking the right questions means understanding that some of the greatest risks may not be on the balance sheet, but some of the greatest sources of value may not be on the balance sheet either.

After all, it's not just about surviving in a data-driven age—it's about thriving in one.



Cathy Engelbert is CEO of Deloitte. She serves on Deloitte's board of directors and chairs the Center for Audit Quality's governing board.