

2018 Governance Outlook

PROJECTIONS ON EMERGING BOARD MATTERS

A Publication of the National Association
of Corporate Directors and Partners

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ABOUT THIS REPORT

2018 Governance Outlook: Projections on Emerging Board Matters is NACD's first publication of its kind, designed to give corporate directors and senior executives a comprehensive overview of major business and governance issues likely to demand board focus over the coming year. The report begins with an introduction from NACD, highlighting survey findings about leading board priorities for 2018, and follows with six partner contributions that provide distinct insights and projections on the following themes: business risks, board evolution, litigation, workforce disruption, and cybersecurity.

Each partner contribution provides (1) an overview of key trends in a particular area of governance, (2) an outlook for how those trends will play out in 2018, and (3) relevant implications and questions for boards to consider. *2018 Governance Outlook: Projections on Emerging Board Matters* is designed as a collection of observations to help corporate boards prioritize their focus in 2018 and increase their awareness of emerging issues, through both detailed topical analysis and coverage of broader governance implications.

Workforce Disrupted: Radically Rethinking the Workforce and Digital to Become Future Ready

By Erica Volini, Jeff Schwartz, and Anthony Abbatiello

Every business in every industry today faces unprecedented disruption in terms of technology and the rapid evolution of business models. As a consequence, the composition, demands, and expectations of the workforce are shifting dramatically. Given the board's critical roles in overseeing risk and strategy, directors in 2018 should seek to understand the impending disruptions and opportunities that stem from future human capital trends.

How can you capitalize on the widespread disruption taking place and help management prepare the workforce for the dramatic changes ahead? Start with an understanding of how work will be performed in the future. Organizations that fail to both proactively address changes in the workforce and embrace digital and cognitive capabilities risk being leapfrogged by their competitors.

What the Future of Work Looks Like

Conversation about the future of work typically involves common themes such as the need to become a digitally focused organization and the value you can get from machines, from robotics to cognitive technologies. The impact of changing demographics also features heavily in discussions on today's workforce, as do changing views on work and careers, with the "gig" economy (in which laborers conduct freelance, contract, or single-task work, rather than permanent jobs) on the rise and the disappearing notion of "lifetime employment."

In mass media, at conferences, in boardrooms, and beyond, the future of work has emerged as a top business topic, but one that is often fragmented. The following framework provides a more integrated view that highlights areas likely to have the greatest impact—starting with the roles of technology and the rise of alternative work arrangements, as well as the implications for people, organizations, and governments. (See graph on page 32.)

Many organizations in 2018 will need to revisit their long-term strategy around work, specifically from the angle of automation and digital transformation. Automation capabilities, meanwhile, are on the rise as organizations in every industry streamline and simplify their business processes with new digital and cognitive tools.

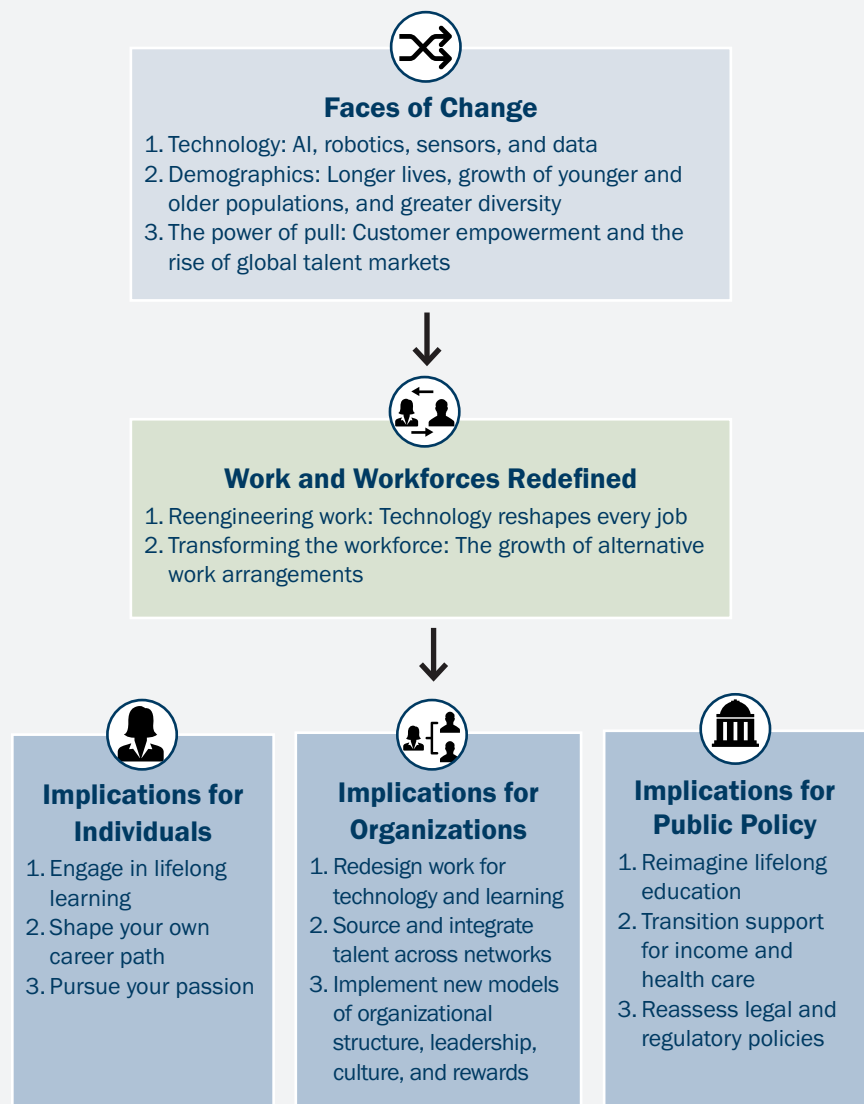
Embracing a Digital Mind-Set

Organizations that plan to survive and thrive in the future understand that digital must be a significant part of the plan. What does that mean? It means management must go beyond merely adopting digital technology. Embracing digital means cultivating a digital mind-set, changing how people view work and the business as a whole.

This effort begins with the board and management assessing what Deloitte refers to as the organization's "digital DNA"—23 traits that Deloitte research has shown characterize digital maturity and "being digital." How does the organization measure up against these DNA traits? What strengths and gaps does the evaluation reveal? In a similar vein, digital talent is not strictly about "techies" and people who know how to use, build, or invest in new disruptive technologies. Rather, digital

talent includes employees working in any department, who are excited about the potential of digital technologies, exponential disruption, and new ways of working. They are agile risk-takers, intentionally collaborative and customer centric. They want to learn fast and apply this learning and excitement in their daily work—in an environment that supports and enables this way of working.

A Framework for Understanding the Future of Work



Source: John Hagel, Jeff Schwartz, and Josh Bersin, “Navigating the Future of Work: Can We Point Business, Workers, and Social Institutions in the Right Direction?” *Deloitte Review*, Issue 21, July 31, 2017.

A Digital Edge

What does digital maturity look like and why does it matter? A series of reports by Deloitte and *MIT Sloan Management Review* has examined this question in depth, studying organizational practices that differentiate digitally mature companies from those that are less developed. Key findings of the report include:

- **Digitally mature companies value experimentation and speed.** They embrace risk and create distributed leadership structures. They also foster collaboration, and they are more likely to use data in decision making. Nearly 80 percent of digitally maturing entities surveyed are actively engaged in initiatives that will bolster risk-taking, agility, and collaboration.¹
- **Digitally mature companies surveyed also place a strong emphasis on innovation.** They are more than twice as likely to invest in innovation, compared with early-stage entities—87 percent versus 38 percent. More than 80 percent of digitally maturing companies plan to develop new core business lines in the next three to five years in response to digital trends. Only about half of early-stage companies have similar plans.²
- **Digitally mature companies are also talent magnets.** Employees and executives are highly inclined to jump ship if they feel they don't have opportunities to develop digital skills. For example, vice president-level executives without sufficient digital opportunities are 15 times more likely to want to leave within a year than are those with satisfying digital challenges.³

Where to Start

Regardless of where an organization is along its journey to embrace workforce and digital disruptions, directors can ask management four important questions to spur discussion in 2018:

- **What is this organization's current digital DNA, and how should management move us toward digital maturity in a way that advances company strategy?** Is the company just “doing digital” to check a box, or has the company aligned the elements of the organization to be digital? “Being digital” requires an investment for the long term—an ongoing transformation that should be executed on a continuous, iterative basis, rather than a one-and-done event.⁴
- **How well will this company's workforce operate in the digital future?** Does the company have the right talent and the skill sets to thrive? If not, how will senior executives build the needed workforce? Will they develop the

¹ Gerald C. Kane, Doug Palmer, Ahn Nguyen Phillips, David Kiron, and Natasha Buckley, “Aligning the Organization for Its Digital Future,” *MIT Sloan Management Review* and Deloitte University Press, July 26, 2016.

² Ibid.

³ Gerald C. Kane, Doug Palmer, Ahn Nguyen Phillips, David Kiron, and Natasha Buckley, “Achieving Digital Maturity,” *MIT Sloan Management Review* and Deloitte University Press, July 13, 2017.

⁴ Ibid.

current workforce, recruit a new one, or some hybrid of both tactics? Will top leaders be retained or replaced?

- **How could this company use automation and cognitive capabilities to complement the workforce?** Where can you augment human roles with automation and machine intelligence? Where is a human essential to the business? Understand how automating (or not automating) a task can help improve the customer experience and set you apart from the competition. For example, if your sales force is a high revenue generator, could you augment that job with technology that automates parts of the job or provides data and insight to better anticipate and serve customer needs?
- **Have we assembled the right mix of leaders to address future workforce trends?** Planning for the future of the workforce goes far beyond human resources and technology considerations. The CEO will need a strong chief human resources officer and chief information officer. The finance and procurement functions should also be part of discussions as the company plans for new investments and looks for new sources of value.



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