

Digital Transformation and the Corporate Board

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Digital transformation addresses how organizations use technology to compete. The unique events of 2020 drove organizations, across industry and throughout the world, to embrace innovative and transformative digital solutions. Much of the conversation has been about how organizations have been impacted and have had to adapt to get the right information into the right hands to inform effective strategy and drive execution, from the line worker to executives in the C-suite. Another key team has had to adapt as well - members of the corporate boardroom. Thus 2020 drove not only organizations to embrace innovative digital solutions, but also the corporate boardroom for effective strategy and governance for the reality of 2020 and beyond.

Digital Transformation

The Board's Role

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Business growth is rooted in innovation. In a digital world innovation is rooted in the digital. Digital transformation, therefore, addresses how organizations leverage technology to compete, a process that continuously redefines the business landscape. Digital transformation, moreover, is not just delivering products and services more efficiently with improved margins, but driving innovation to develop new products and services to remain relevant. Digital transformation, thus, has move beyond just doing things faster and more efficiently to innovative ideas and tools. This may further require a change in company culture, particularly regarding what the exceptional customer experience is. Due to the challenge to understand digital technologies, their risks and advantages, and the connectivity to stakeholders as well as those lacking the best interest of the organization, e.g. hackers, organizations and their boards of directors cannot afford to be lacking expertise and understanding of the latest technologies, innovations, and risks. Additionally, to be transformative, the stimuli must create competitive, sustainable advantages otherwise budgets are consumed leading the organization astray of the ultimate goal to be the best and deliver exceptional customer experiences.

The board's role in digital transformation is to have oversight of the strategic plan that understands the risk and opportunity to drive long-term value for the company. Because boards are focused on whether the CEO has the correct strategy, understanding how digital transformation is imperative to that strategy is crucial to the digital transformation's strategic role. The board has to ensure the right CEO with the right tone and balance driving the correct strategy and culture. This combination will further recruit and lead the organization's talent through the execution of the strategic plan that embraces digital transformation. The board must be deeply involved asking the right questions and offering insights facilitating the CEO's formation and execution of the right strategy. Thus directors must know what questions to ask to successfully leverage the continued digital transformation. Boards will want oversight, possibly a board-level committee, to have the deep-dive discussions with management and leverage outside experts to ensure the transformation has the right scale. Moreover, digital transformation often touches every aspect of the business and is engrained in the corporate culture directly tying to the strategic plan. Keys to a digital transformation, therefore, include a strategic plan that understands digital transformation ends with goals linked to the organization's business strategy, a culture that has the right talent that embraces the necessary transformation, metrics that accurately gauge the success of the transformation, and a plan to address risk and opportunity.

What Boards Want

With over 80% of directors across the globe finding digital transformation should be part of board strategy, successful companies tend to be outwardly focused to keep an eye on how well the business strategy is working seeking the agility to adapt and grow. Directors expect management to stay abreast of all key aspects that affect the company and look for proactive opportunities including technology, globalization, and market developments. Management must, additionally, have a plan to address risks and opportunities as the way things are done will change. New technologies will be required which bring risk and opportunity of their own, including new and larger amounts of data which have to be secured maintaining the desired quality of services and products. Digital transformation requirements change necessitating change management including a culture of entrepreneurialism, innovation, collaboration, and new ways of thinking where failing is essentially new learning. Digital transformation also requires talent and upskilling in the digital space as well as communication with stakeholders, both internally and externally, to tell the company's story and its strategic vision. This should be a part of management's multiyear strategy discussed with the board otherwise the board may take measures into its own hands.

What Boards Must Do

For successful digital transformation boards must understand the strategy and market, have access to management and data, and be able to ask the questions to flush out any needed change. Digital investments must be included in the strategic plan with the right risk appetite understanding the risk of doing nothing. This may require directors with related experience,

which is often in a younger talent pool. This talent, also, does not have to be from the traditionally known places such as Silicon Valley. Despite the growing importance of digital since the early 2000s, boards nevertheless are found to lack a digital skillset at sufficient levels. Thus, board directors must leverage network as digital savviness means different things for different businesses and sectors. Digital savviness, moreover, equates to understanding an ecosystem's complexity and how to leverage technology for that ecosystem to drive business value. Additionally, along with the right leadership comes the necessity to have the right culture, a culture that embraces change and the entrepreneurial mindset inviting transparency, communication, and *outside of the box* thinking. Though digital is fast, digital transformation is a continuous series of marathons, i.e. an ongoing journey. Digital transformation must have milestones and KPIs to gauge the ROI pivoting as necessary. Furthermore, boards must understand and sufficiently fund realizing the ROI may take time.

Deloitte's Deborah DeHass and Andy Main in their article *The Board's Role in Shaping Digital Transformation* discuss digital transformation as getting the right information to board members and organizational leaders to inform effective strategy. They, additionally, note how boards must engage management with in-depth deliberation to ensure the strategy impacts stakeholders in transformative ways for new as well as the existing organizational capabilities, particularly for customers and business-units. This includes the connectivity to transform engagement among all stakeholders "by connecting people, spaces, products, data, and technology." This connectivity must facilitate innovative, winning digital customer experiences. This further facilitates the use of AI tools and data analytics for the intelligence to provide innovative insights for customer tailored offerings. The organization must, also, deliver leading-edge innovation by leveraging "emerging technologies such as augmented and virtual reality, machine learning, and AI to create innovative products and services that help build competitive advantage." This will, moreover, drive success by use of automation and digital tools to improve operations, engage customers with more rewarding experiences, and better utilize talent for greater valued activities.

Given the increased hacking and risks of intrusions, and the increase in distributed work and the use of the internet that goes beyond the firewall and allows access inside the firewall, cybersecurity is another paramount component of a board and organization's successful digital transformation and overall strategy. While investing in digital tools, boards must also invest in the cybersecurity tools to protect the facilitated activity. Cutting-edge cybersecurity must be implemented for data security over connected devices. Boards must ensure a security culture throughout the organization is well engrained in the organization's day-to-day operations. To reach this threshold, there are increased calls for a board-level committee dedicated to cybersecurity for the organization.

Questions Boards Must Ask About Digital Transformation

With the complexity that joins digital technology and the speed of innovation and change offering necessary opportunity, corporate board directors realize digital is vital to their organizational strategy, but many are uncertain how they add value to the conversation. As digital transformation requires new board mandates further facilitating not only opportunity, but also new risk and competition, McKinsey's senior partners Celia Huber, Alex Sukharevsky, and Rodney Zempel suggest boards must understand the implications of technology in digital transformation is not about going digital, but about creating value. In a Harvard Business Review article Huber et al. propose five questions boards should ask to ensure they are focused on the most impactful digital challenges to ensure their organization has the best, effective, competitive advantage:

- 1) Does the board understand the implications of digital and technology well enough to provide valuable guidance?
- 2) Is the digital transformation fundamentally changing how the business creates value through scale, source, and scope?
- 3) How does the board know if the digital transformation is working?
- 4) Does the board have a sufficiently expansive view of talent?
- 5) Does the board have a clear view of emerging threats?

While the core function of the board remains the same, the scope is expanding regarding intervention on risk and competition. With the continuous and rapid change in technology, boards aren't necessarily to understand the technology but more the implications. Thus boards should include members with expertise that aligns with the strategic priorities.

To ensure the organization is leveraging digital to create value, boards must focus on scale, source, and scope. *Scale* should realize digital initiatives driving operating profits by at least 20 percent changing technology, operating, and business models as necessary for the company and possibly the industry. *Source* addresses where technology facilitates more than just cost savings and leads to innovation and new sources of value. *Scope* discusses how digital transformations require a long-term horizon to reap the benefits. Most in the industry will have committed to the investments to reap short-term gains, but the long-term investments are the differentiators. Thus boards must ensure their CEOs have the right mix of long-term spending and must "understand the implications of technology and digital on the business and sources of revenue." Moreover, boards must challenge management's assumptions regarding how digital will transform the industry and new ecosystems evolve to disrupt traditional value chains. Boards, additionally, can be expected to scrutinize new director candidate's digital transformation experience regarding its

fit with the company's digital strategy. Finally, as necessary boards must seek training that focuses on key technologies and methodologies.

Boards can ensure management is focused on the domains that create the most value and follow progress to ensure the digital transformation is working by tracking the right ROI metrics on digital and technical investments. Metrics include the speed to which new ideas become revenue producing tools as well as the split in talent working on agile teams spurring innovative change. Boards will want insight into outcomes and leading indicators tied to value, e.g. "customer fulfillment in e-commerce, or reduced time to first quote." Boards will also require visibility for behavior and process changes deep in the organization such as the number of ideas translated into frontline tools and what key process are driven by AI versus traditional non-digital methods. In other words, focus to succeed on the transformation and digital will occur because digital is the only way the transformation will happen. Finally, though boards will not get into the details of hiring the digital talent, boards must engage management on the progress made and help management keep ahead of talent needs. Boards will want to ensure management understands the talent needed to drive the digital transformation is being secured with up to a 12-month view.

As digital increases opportunities blurring traditional boundaries, digital will bring nontraditional threats and increase the speed of threats. Digital can be expected to increase complexity of threats beyond just cybersecurity such as governing laws regarding data server locations, competitive threats from new business and technologies that suddenly emerge, and new digitally facilitated sectors. Thus boards must ensure management thinks outside of the box enough with more sophisticated scenario planning by asking the *what if* and *have we thought about* questions.

Trading Places with Digital for the Boardroom Itself

Prior to 2020 board meetings were about 95% in-person to 5% virtual. 2020 found those numbers trading places. While there are definitely advantages to in-person meetings, the experience of 2020 can be expected to find boards utilizing virtual or hybrid meetings more often due to efficiency and attendance gains. Small, but important items such as document signatures forced boards to transition to digital functionality eliminating the need to circulate hardcopies of board papers and ultimately reducing costs of meetings. Much of this has been accomplished with common tools such as Google Meet, Zoom, etc., rather than tools designed specifically for board governance and the security required in the digital world. However, boards are adapting to more secure tools for their board work. Nevertheless, there is plenty of room for improving secure, board governance in the digital world.

Conclusion

Board directors must surround themselves with the best experts, and this may go beyond the CTO or CIO in the company. Boards must be educated, which can involve relationships with younger talent as well as onboarding new directors with digital skillsets. Boards will want to

consider digital at the committee level asking the right questions fostering inspirational leadership championing digital transformation. The board's role in digital transformation, additionally, includes operational digital tools and effective cybersecurity to go along with those tools. Moreover, a certain board-level digital savvy and training is required to stay abreast of emerging digital capabilities facilitated by new tools, technologies, and business models. Companies are more and more seeking digitally competent board talent who can grasp how new technologies are evolving the landscape, thus companies must recruit the right talent and invest in continuing education to stay digitally competent. With the digital transition experienced prior to 2020, and the sudden and rapid shifts required as a result of 2020, the adoption of new digital solutions requires investing in new digital technologies, embracing cybersecurity and its culture, and ensuring board-level digital competency for effective, organizational strategy and execution.

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- <https://www.linkedin.com/pulse/digital-transformation-corporate-board-d-kirk-beatty-phd-mba-bscs>

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