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Digital

How boards can help digital transformations

Boards can add value to their business's digital transformation in five specific areas.

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Few board directors would dispute the importance of digital and how it's fundamentally reshaping the competitive landscape in almost every sector. But many of those we speak to are uncertain about what their role should be in helping senior management drive the digital transformations that businesses need to execute in order to survive.

In-depth discussions with dozens of board directors has helped shed some light on where boards can add value. What is emerging is a model where the core mandate of the board is unchanged but its scope for intervention on issues such as risk and competition is expanding. We see five things boards members can do to have the greatest impact.

Be clear about the implications of technology

The complexity and speed of change in digital and technology can make it difficult for board directors to focus on technology as a crucial strategic priority that can unlock new revenue and competitive advantage. The goal for the board isn't to understand the technology but, rather, to understand its *implications*. Artificial intelligence (AI) is a good example. Because AI can provide a huge leap over standard approaches in terms of delivery speeds, costs, and quality—often by a factor of ten—companies can more quickly and cheaply test new markets, products, and business models. Emirates Team New Zealand's America's Cup sailing team, for example, used AI bots to test and refine designs through a process of reinforcement learning, speeding the team's design process by a factor of ten.[1]

One way to address this issue is to bring on new board members whose experience aligns with the business's strategic priorities. If e-commerce is crucial, find a board member with that experience and expertise. If it's supply-chain digitization, then a different profile with that background is needed. Intensive training with the goal of demystifying technology, and demonstrating what technology makes possible, can be formative. Of 75 board members who completed this kind of immersive training, more than 50 percent of them went on to make digital transformation the top agenda item for the business.

Ensure that the digital transformation is fundamentally changing how the business creates value

Digital transformations aren't about being digital; they're about creating value. That aligns with the board's most important mandate, and the board can be particularly helpful in assessing value across three vectors:

— *Scale.* The typical aspirations of digital transformations often lead to changes at the margins (5–10 percent increases over the previous year). This is fueled by an insufficient understanding of what digital can do. As a rule of thumb, digital initiatives should have the potential to change at least 20 percent of operating profits. Boards can push their CEOs to shoot higher.

— *Source.* Technology is often an efficiency conversation about cost savings. But the greater value of tech is in its ability to build value. Recent McKinsey research into cloud economics, for example, has shown that as much as 75 percent of the $1 trillion at stake in cloud will come from business innovation.[2] Directors can make sure that management is exploring ways to tap tech to create new sources of value.

— *Scope.* Short-term pressures can overtake any business, especially when the market is volatile. Digital transformations, however, require long-term commitments to reap the full rewards they can deliver. Boards can press their CEOs to make sufficient expenditures for long-term initiatives.

Track whether the digital transformation is working

Almost every business has embarked on some kind of digital transformation, but for all the activity, it can

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[1] "Flying across the sea, propelled by AI," March 2021, McKinsey.com.
[2] Will Forrest, Mark Gu, James Kaplan, Michael Liebow, Raghav Sharma, Kate Smaje, and Steve Van Kuiken, "Cloud's trillion-dollar prize is up for grabs," February 2021, McKinsey.com.

be hard to know if it's working (or, more often, why it isn't working). That's because, while board members generally have some kind of dashboard to review, the metrics don't help show whether "digital" is happening.

On one level, it's simply a matter of tracking the return on investment (ROI) of digital and technical investments, but this is a surprisingly infrequent occurrence. On another level, however, boards need metrics that truly reflect digital progress often in the "guts" of the business. For example, one key metric is the speed with which new ideas are translated into frontline tools. Another is the percentage of talent that's actually working in agile teams where true change occurs. One consumer-goods company tracks how many prices put into the system were AI-driven.

Get expansive about talent

Boards are often intimately involved in hiring C-suite leaders, but executive hires aren't always the most important ones. We find that roles deeper in the business are the backbone of the digital business and can make or break a digital transformation. McKinsey analysis shows, for example, that top engineers can be ten times more productive than their more junior peers.[3] Boards don't need to be involved in hiring data engineers, product managers, and scrum coaches—among many others—but they need to engage with senior leadership on progress made in developing this digital talent bench.

Because few companies will be able to "hire their way to victory," upgrading existing talent must be a core pillar of the business's program. Boards can help companies move past outdated training approaches and push senior management to develop targeted learning journeys that map to the capability needs of the business for the next six to 12 months.

Understand where nontraditional emerging threats are

Boards have traditionally provided guidance on how to navigate emerging threats to the business landscape, but digital has radically shifted where threats come from and how quickly they emerge. While cybersecurity is now a top board agenda item, local compliance or national security laws, for example, have created risks when businesses have their servers located in these corresponding locations.

Similarly, boards will need to expand their view of where threats exist as digital businesses migrate into new sectors. Think about e-commerce businesses getting into data management, tech companies moving into banking, or retailers into logistics. Boards can help press executive teams to look for "analog threats" rather than direct competitors and to inject more creativity into scenario-planning exercises. For example, some hedge funds are developing AI- and machine learning–driven analyses to better understand trends and to provide more sophisticated scenario planning.

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Even before COVID-19 hit, 92 percent of executives believed their business models would need to adapt to respond to digital.[4] Boards have a broader role to play in helping their businesses respond and accelerate their digital transformation programs.

For a deeper look at how boards can support digital transformations, read "Five questions boards should be asking about digital transformation" on hbr.org.

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[3] Peter Jacobs, Klemens Hjartar, Eric Lamarre, and Lars Vinter, "It's time to reset the IT talent model," *MIT Sloan Management Review*, March 5, 2020, sloanreview.mit.edu.
[4] Jacques Bughin, Tanguy Catlin, Martin Hirt, and Paul Willmott, "Why digital strategies fail," January 2018, McKinsey.com.