DISRUPTING DISRUPTION

The pandemic impacted many companies' business models and digital transformation roadmaps. Objectives shifted, new risks emerged and consumer interest in engaging through technology spiked. In a survey of 188 public company directors, *Corporate Board Member* and RSM sought to find out where companies were heading and how they were surmounting some of the roadblocks 2020 threw in their way. Here are the key takeaways.

BY MELANIE C. NOLEN

In a world of constant change, the way customers interact with companies is evolving dramatically—and there's no doubt that those changes are driving digital transformation. To succeed in the decade ahead, companies must not only understand how consumers interact with their brands across new technology channels but also how they want to interact with them in the future. Customer loyalty is a thing of the past in most sectors, and companies must now rethink the customer experience and develop a digital transformation strategy to match.

According to our survey, board members are fully aware that digital transformation is critical to their company's future success: Half ranked it a 10 out of 10, on our 10-point scale, with 10 being most critical. Overall, 69 percent of directors participating in our survey said digital transformation was very important to their company, rating it either a 10 or 9 out of 10. No one ranked it below a 4 out of 10

(and only 1 ranked it a 4), a clear sign of consensus.

That is a significant change from just two years ago. Only 6 percent of participants say the issue has not evolved in their board discussions over the past two years. The great majority (85 percent) say the issue is now either part of the overarching strategy discussions or that it continues to accelerate at a significant pace.
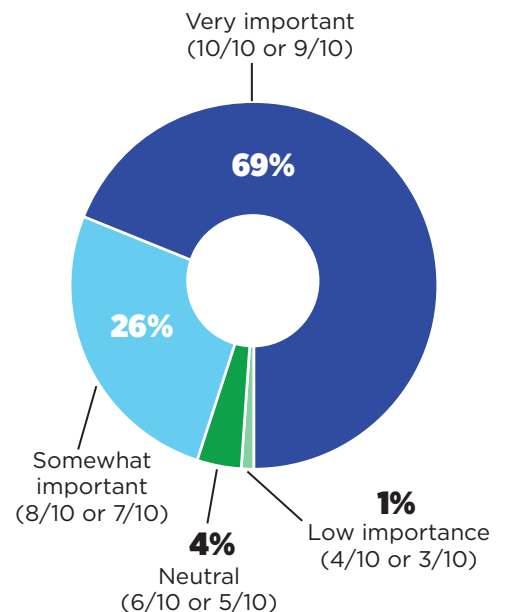
THE TRANSFORMATION IMPERATIVE

When asked why, fully three-quarters of directors say the Covid pandemic is the main reason for this accelerated pace of transformation—a crisis that altered business models and impacted digital transformation roadmaps.

"Companies were backed into a corner by the crisis in a way," says Bill Kracunas, principal at RSM US LLP, who partnered with *CBM* on the study. "If you didn't have an ecommerce platform, if your customers

HOW MUCH IT MATTERS

What is the importance of digital transformation in your company's success?

- Very important (10/10 or 9/10) — 69%
- Somewhat important (8/10 or 7/10) — 26%
- Neutral (6/10 or 5/10) — 4%
- Low importance (4/10 or 3/10) — 1%

couldn't buy from you directly, you were in panic mode. And a lot of companies started thinking, 'we gotta figure that out.'"

He says the Covid pandemic has made companies realize that on the one hand, they had to react—and fast—and on the other that they were able to move much faster than they ever thought possible before.

Werner Geissler, director at Phillip Morris International and The Goodyear Tire & Rubber Company, says the key driver of digital transformation for his company has been the need to become much more consumer-centric and deal with the impact of social media on consumers being better informed; having higher expectations regarding the entire product experience; requiring tailored messaging; being valued as an important value creator for the company—"and not accepting unexplained compromises or deficits on consumer service."

Taking this approach allows companies to better understand that digital transformation is not an IT project but rather an enterprise-wide transformation that requires an in-depth look at structures, systems, capabilities and activities. "It has ramifications on the entire E2E supply chain, which in turn has implications on working capital and cash flow management," he says. "And it has consequences on people and culture systems from building the needed skills through internal training or external sourcing, driving the right culture, installing appropriate performance evaluation systems and synchronizing compensation systems."

George Corbin, director at Edgewell, former chief digital officer at Mars and former SVP of digital at Marriott, agrees that digital transformation is about something much bigger than technology. He says companies need to approach digitization from three angles—strategy, operating model and leadership—by identifying the true demand disruptors for a product in general rather than who the direct competitors are; understanding that the entire traditional operating model has to change rather than modernizing just a few processes; and ensuring the company has a growth-focused leadership team rather than just leaders who know how to run a business well. "And that includes who's on the board itself," he says. "Technology is just a bit player in all of this."

Our survey data shows that companies are, indeed, beginning to understand the true value of digital and what that really means in the big picture. Only five years ago, the primary aspiration for digital was an internal focus on building efficiencies, reducing costs and improving processes. Today, the spotlight is on the customer and changing perception of the offering by modernizing the brand with new capabilities. In the next five years, directors say they expect digital to push businesses even further, breaking into new markets and redefining the very essence of their company.
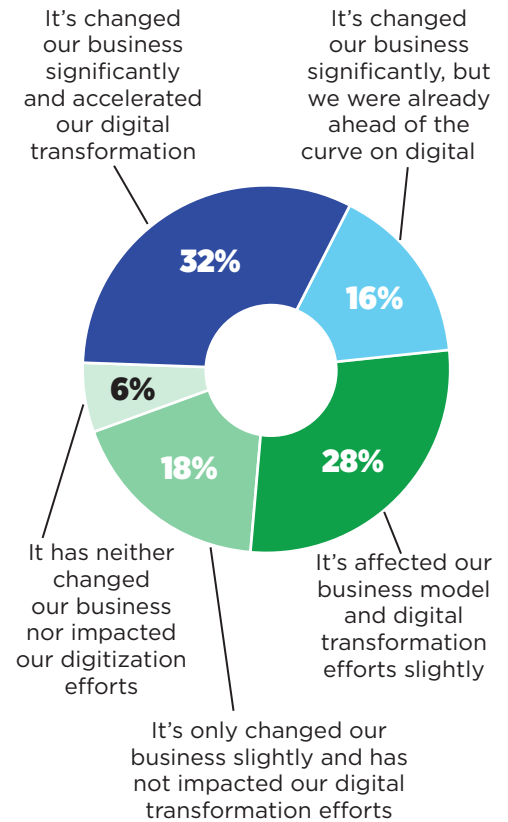
DIGITAL ASPIRATIONS

Kracunas describes the progression from automating the accounts payable process, for instance, to transforming the product into a smart product to building the capabilities to go global or break into new markets as a natural curve that demonstrates the vast power of digital transformation and the growing awareness that the customer is at the very center of it all.

"Digital is an enabler," says Dr. Latham Ramchand, director at Insperity and executive vice chancellor and provost at the University of Missouri, who says her company has taken a proactive step toward considering those aspects so that digital transformation becomes a little more than

THE COVID EFFECT

How has the pandemic impacted your business model and digital transformation roadmap, if at all?

It's changed our business significantly and accelerated our digital transformation — 32%

It's changed our business significantly, but we were already ahead of the curve on digital — 16%

It's affected our business model and digital transformation efforts slightly — 28%

It's only changed our business slightly and has not impacted our digital transformation efforts — 18%

It has neither changed our business nor impacted our digitization efforts — 6%

WHERE IT'S GOING

How has the issue of digital transformation evolved in your discussions in the boardroom over the past two years?

They have been increasingly integrated into our overarching strategy talks but at a regular pace
49%

They have accelerated significantly
34%

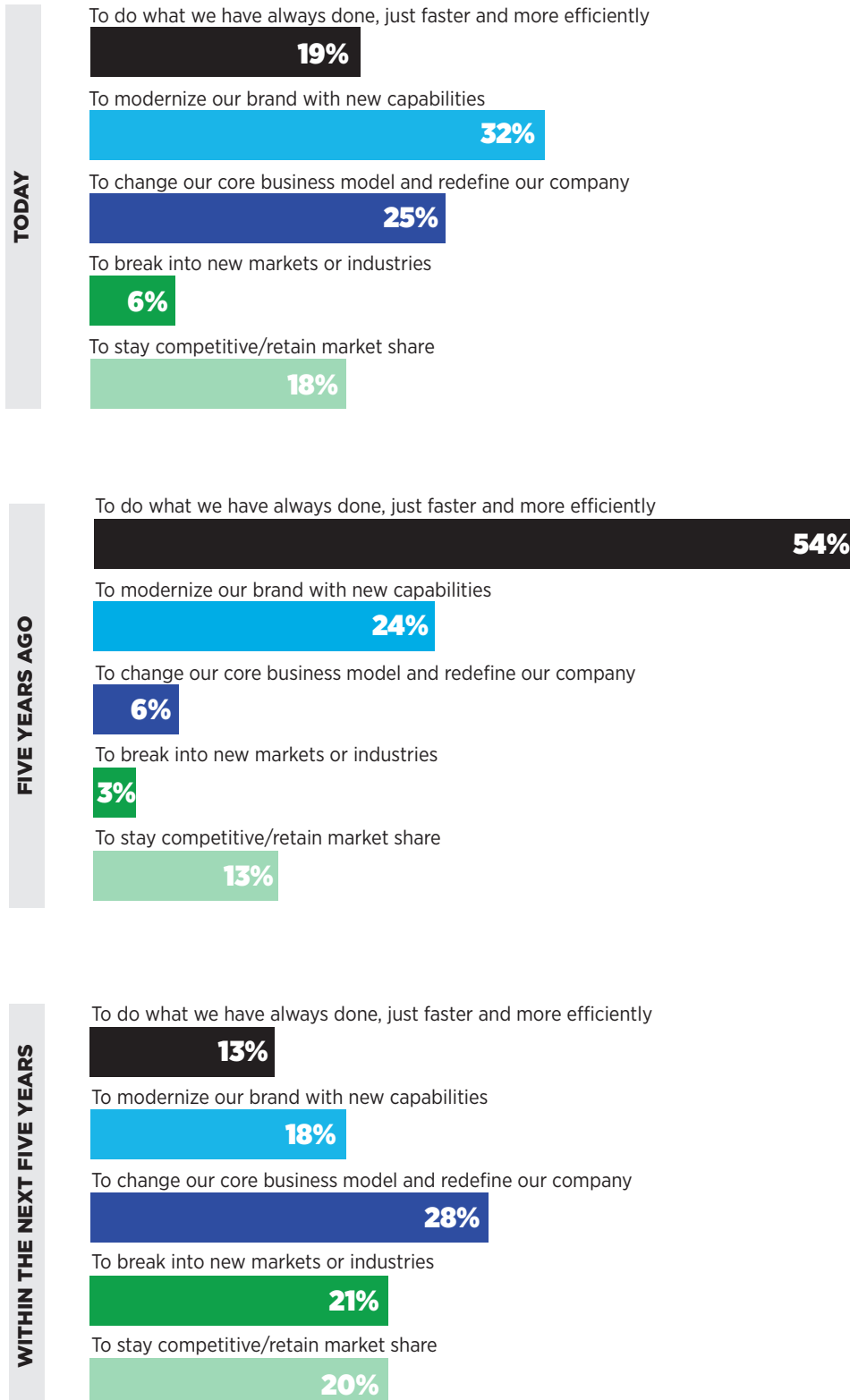They have been part of our discussions but mainly at a committee level
10%

They have not evolved further than where they were two years ago
6%

GROWTH GOALS

Which of the following best describes your company's primary aspiration for digital outcomes?

TODAY

To do what we have always done, just faster and more efficiently
19%

To modernize our brand with new capabilities
32%

To change our core business model and redefine our company
25%

To break into new markets or industries
6%

To stay competitive/retain market share
18%

FIVE YEARS AGO

To do what we have always done, just faster and more efficiently
54%

To modernize our brand with new capabilities
24%

To change our core business model and redefine our company
6%

To break into new markets or industries
3%

To stay competitive/retain market share
13%

WITHIN THE NEXT FIVE YEARS

To do what we have always done, just faster and more efficiently
13%

To modernize our brand with new capabilities
18%

To change our core business model and redefine our company
28%

To break into new markets or industries
21%

To stay competitive/retain market share
20%

just a technical reality or a function. "It becomes more a part of the customer experience that can then differentiate what you offer."

Overall, 84 percent of directors say they are hoping digital technologies will help their companies improve the customer experience. While that is a significant proportion, it is followed very closely by cost effectiveness (74 percent) and growth (71 percent), which Kracunas says should be viewed as benefits of digitization rather than objectives.

"It's easy to cut costs," he says, "but it's a lot harder to gain market share and make sure your customers remain loyal, and that's where you want to focus your time." He says companies need to learn to focus outward. "It takes a new type of thinking to think about your customers' journey and what they are going through, how they are buying your product, what they are experiencing."

With 30-plus years in the retail industry, Tara Abraham, director at Peoples Bancorp and chair of privately owned manufacturer Accel, considers herself a retailer at heart. She says companies need to use data analytics to better understand their customers' future wants and get there before they do. "It's about continuous improvement and never settling and seeing what else is out there," she says. "Your customer isn't asking for it yet. Because if your customer is asking for it, you're too late."

THE DATA DILEMMAS

The majority of board members agree that the harnessing of technology should be customer-driven, with 70 percent listing data analytics as most important to their company's future success. While that is promising news, Abraham cautions that companies need to pay close attention to how they treat the data they collect. "The privacy of customer data is paramount," she says. "It's that level of trust. It's the reputational risk. As soon as you learn that you lose that reputation, you've pretty much lost all the confidence of your clients, and they will go somewhere else because everyone has so many options out there right now."

In addition to privacy and security, companies also need the ability to make sense of the data and understand why

they're collecting it. "I would suspect that most companies focus on the 'what' analytics—what's going on in terms of sales, costs, service, etc. However, the real value is being created by the 'why' analytics, such as understanding why the what's are what the what's are, because they enable you to address underlying root causes and to drive factors that deliver good what's," Geissler says, adding that he believes "the ultimate use of data analytics would be to manage the 'how'—how one can lift a company or a team onto a higher level of performance by simulating different what-if scenarios of interdependent variables before the final plan gets implemented."

Ramchand says that while her board company views analytics as merely a tool to better serve the customer, companies may find answers to questions that they hadn't considered in the data collection process. "I think that really depends on having good leadership that continues to ask questions," she says. "At the end of the day, all these are tools, and our goal is something bigger."

Data collection and analysis alone is not a strategy, agrees Corbin. "I've seen a lot of effort go into data cleansing and data standardization and a whole bunch of stuff; sometimes it was investing millions where it didn't necessarily need to be spent," he says. "But data is not the same as insight. What are the insights we need to drive the business?" The potential is in determining the big problems the company needs to solve, and then applying data and insights against that.
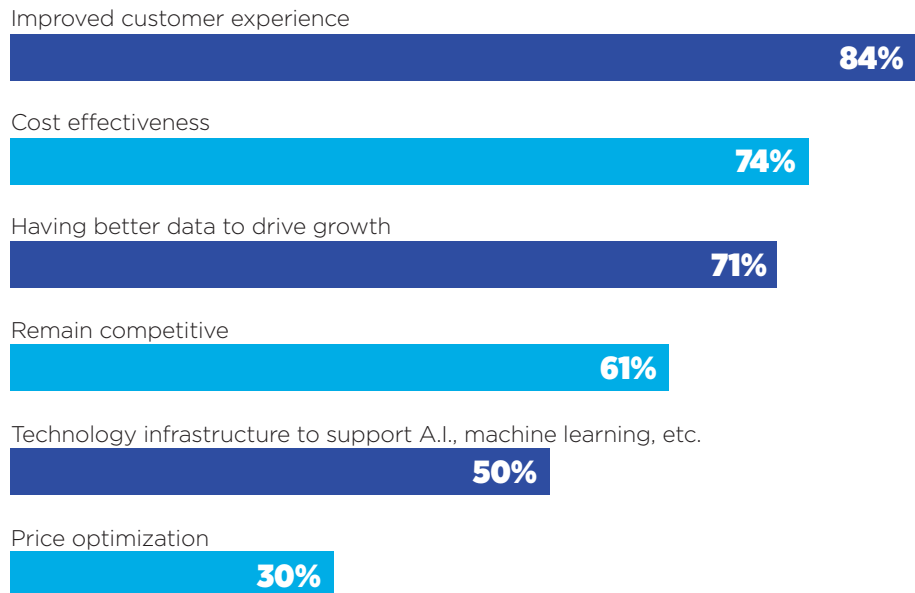
CLOSING THE GAP ON DIGITAL

Breakthrough technologies are emerging at a faster pace than predicted, and the Covid-19 crisis has further accelerated that pace. Today, most companies are left playing catch-up to the digital leaders—60 percent of directors say their company is still behind.

"Technology solutions evolve so rapidly, and it is natural for organizations to feel behind to some extent," says Kracunas. "However, customers are drawn to solutions and companies that simplify their buying experience. Without a perspective of what's available—and perhaps more importantly, what's coming—companies face a challenging and more costly journey to play catch up."
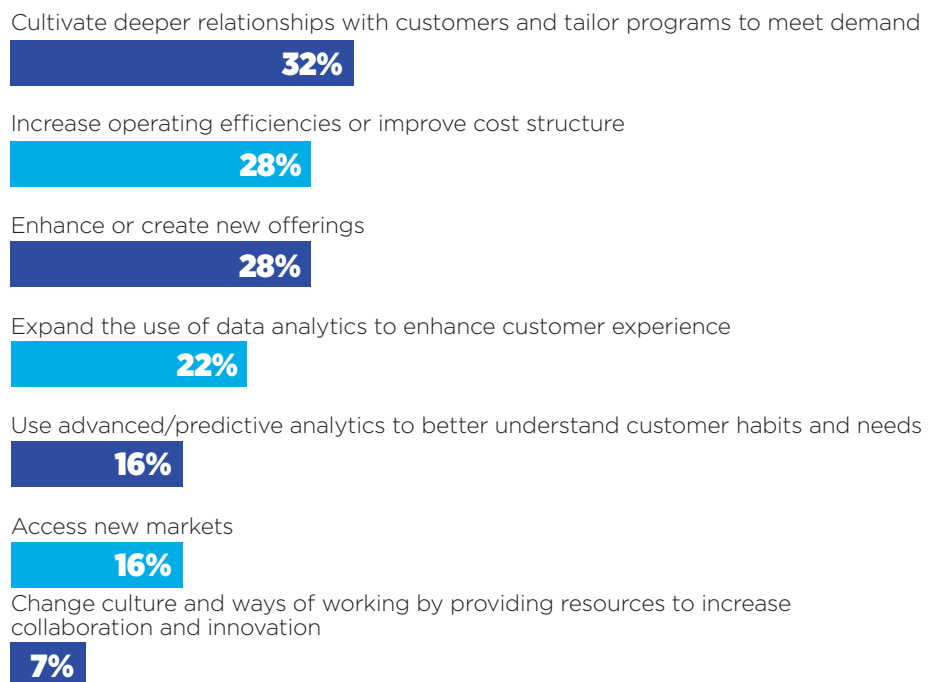
TOP OBJECTIVES
Which of the following business objectives are you trying to address with digital technologies?

Improved customer experience
84%

Cost effectiveness
74%

Having better data to drive growth
71%

Remain competitive
61%

Technology infrastructure to support A.I., machine learning, etc.
50%

Price optimization
30%

Respondents were asked to select all that apply.

WHY WE CARE
Reason for pursuing digital transformation

Cultivate deeper relationships with customers and tailor programs to meet demand
32%

Increase operating efficiencies or improve cost structure
28%

Enhance or create new offerings
28%

Expand the use of data analytics to enhance customer experience
22%

Use advanced/predictive analytics to better understand customer habits and needs
16%

Access new markets
16%

Change culture and ways of working by providing resources to increase collaboration and innovation
7%

WHAT MATTERS MOST

Technologies directors said were "extremely important" to future success:

Data analytics
70%

A.I.
40%

Machine learning
27%

Robotics & automation
26%

Smart products
26%

IoT
25%

Blockchain
11%

VR
10%

3D printing
7%

WHERE WE STAND

How would you rate your organization's progress toward digital transformation relative to the companies you would consider to be digital leaders?

At the cutting edge
5%

Very far behind
11%

34%

49%

Somewhat behind

About on par

[the latter], I think, happening; the market is giving us that valuation," says Ramchand. "And some may respond to those signals and say, 'Okay, I don't want to be left behind.' But all I can say is, it's definitely a trend to watch out for, and good leadership should be able to step in and feel comfortable saying, 'No, I'm not going to do this just because that's what everyone else is doing. I need to make sure I'm still serving my customer right.'"

Directors are walking a challenging line in this area, with 34 percent of those surveyed saying they do not feel confident about their own understanding of their companies' strategic customer insights, including the customer experience, and 24 percent saying the same of their company's possible innovation inflection points—only 15 percent report feeling "very confident" in either of these aspects.

SOLVING FOR KNOWLEDGE GAPS

Awareness of your customers' pain points is the starting point to understanding your innovation inflection points, says Corbin. "We went from Gillette and Edgewell basically dominating the shaving industry to, for instance, seeing Gillette go from 70 percent market share to 50 percent market share because of these insurgent brands, like Harry's, The Dollar Shave Club and others coming in—and not because they had a better product, but because they solved the customer's problem better for the customer at the time."

Newcomers succeeded by successfully analyzing customer friction points and tackling them better than the incumbents did. "It wasn't the speed of the blade, because Gillette has 2,600 patents on blades alone. You're not going to make a lot of incursion there," he says. "But what they tackled are these other friction points, 'Do I have to go to the store? Can I just get it delivered to my doorstep? Can I just schedule that? Can I just pay this amount per month for that privilege?' Yes, to all of those things. And that's where companies tend to get blinded by doing what they've always done."

Ramchand says her research background prompts her to ask questions about anything she doesn't fully grasp. "The more questions we can ask of the management, the more effective we can be as directors, because clearly there's so

At the same time, companies shouldn't rush to adopt a new technology just because there's hype around it. Ramchand believes it may be too early to assess the true value of technological innovation on individual companies and across sectors, and that good leadership teams should be able to discern the hype from the value. "If you look at how companies are valued, at what's happening on Wall Street, and you see the tech companies' valuations relative to the bricks-and-mortar companies' valuations, it's clear that the market is placing a huge bet," she says. "And it may not even be a bet because some of these are a little more mature companies—but there's clearly a difference between that sector versus other sectors now."

The question is whether the expectations of the capabilities of emerging technologies are warranted or based on assumptions of potential that may not ever be realized. "There is a little bit of

much out there that's hard for us to grasp all at one shot," she says. "I just emailed someone and said, 'Are we doing this because it's required, or are we doing this out of best practice?' And the response has been we're not required to do this, we're doing it. That's good information. That tells me something about the leadership of the company."

Seeking different schools of thoughts on any given matter to challenge group-think is a primary board responsibility. "Of course, you always hope that management has a sharper perspective on the future than you, as the board, do, but you can't always bank on it, so it's always good to have a board that brings in outside perspectives and is open to provocation," Corbin says. "There are folks out there who are actually quite good at stirring the pot, who have literally written books on this, talked about the disruption threat and how incumbents get disrupted and how to prepare yourself… If you're not feeling challenged and are a bit terrified of the future, then you're not bringing in the right perspective."

LEARNING OPPORTUNITIES

For the board at Peoples Bancorp, it's all about continuing education—which has been strongly recommended by CEO Chuck Sulerzyski. "He is a huge proponent of continuing education for the board of directors," Abraham says. "It's expected that we are doing continuous education in all aspects. Chuck will consistently bring in an expert in some areas to talk about what's going on in the economy or market space or what the trends are in technology and where they see the shifts in consumer spending… it really helps the board be able to analyze where there could be possible threats or possible shifts and how we would have to pivot so rapidly."

Directors have a responsibility to seek out the knowledge they need to be effective while resisting the urge to let that newfound skillset lead them to overstep their role, she adds. "Our job as the board of directors is oversight. We're not supposed to be in the weeds. It's also our job as a director of a board to take that initiative to get that education, to get that knowledge transfer, to take the time and do research on what's going on in the industry that you sit on that board, and if you're not taking the time to do that, then you're not

invested and you're not committed to the success of the company on whose board you're sitting."
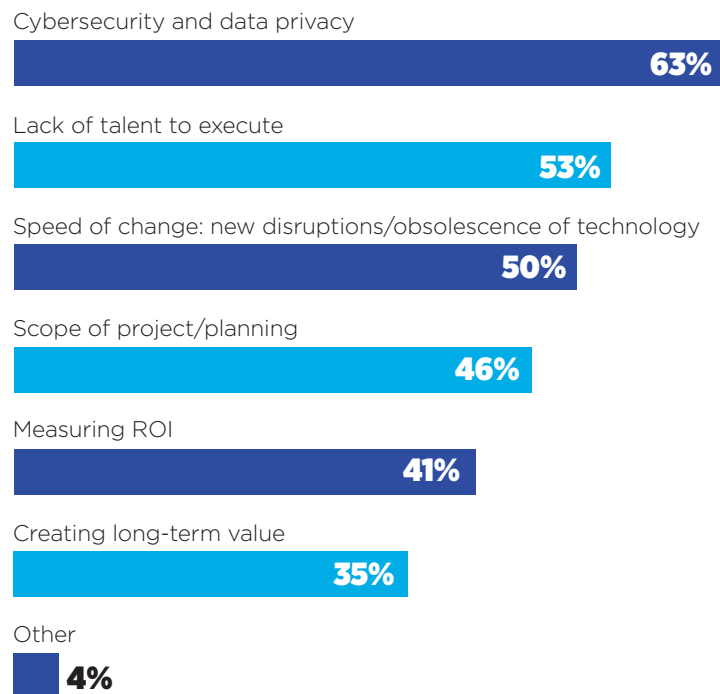
At Skyline Champion, board chair Timothy Bernlohr addressed the gap by seeking out and onboarding digitally savvy directors, including CEOs of tech companies. "I got cutting-edge industry leaders who have never served on public boards to do an assessment of many of our attributes and our deficiencies, and work with us in the strategic-planning process, along with the big-name consultants working with them and thereby customizing our own

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>
> *—Dr. Latham Ramchand, Director, Insperity*

WHAT DO YOU KNOW?

Percentage of directors "very confident" in their understanding of the following:

Megatrends facing your organization and industry
37%

New and emerging competitors
22%

Possible shifts in your organization's operating model resulting from external or internal risk drivers
20%

The wide-ranging strategic opportunities and impacts that are possible for your organization
20%

Potential technology shifts that could disrupt your organization and industry
18%

Strategic insight about customers at a granular level, including customer experience
15%

Your organization's possible innovation inflection points
15%

"Everybody's consumed with the day-to-day job, but you've got to delegate the present and tackle the future. And sometimes you need these catalysts to help do with that."
—George Corbin, Director, Edgewell

WHERE TROUBLE LIES

Which of the following do you perceive as risks associated with operationalizing digital transformation?

Cybersecurity and data privacy
63%

Lack of talent to execute
53%

Speed of change: new disruptions/obsolescence of technology
50%

Scope of project/planning
46%

Measuring ROI
41%

Creating long-term value
35%

Other
4%

*Respondents were asked to select all that apply.

digital strategy," explains Bernlohr, who is also a director at WestRock, Atlas Air Worldwide and International Seaways.

While some directors express concern that placing too much emphasis on the "tech-savviness" skillset can run its course once the digital strategy has been developed and executed, Bernlohr disagrees: "Digitally savvy directors who are CEOs and CFOs of large, publicly traded tech companies are no different than CEOs of old economy," he says. "They all have investors to answer to, they all have quarterly conference calls, and they all understand the pressures of running a

business. They, in my opinion, are undiscernible from other types of directors that you might get in an 'old' industry. They can see around corners that perhaps older directors like myself can't see, and not just in technical matters. They have a workforce, generally, that is younger; they have a workforce that is more professional; they have a workforce that is more millennial; they have a workforce that has those same skills and attributes that we're trying to hire to complete our digital transformation out in the heartland. So, I think they've got excellent skills that don't run dry after a project is completed."

Some directors find war games to be quite effective in thinking through disruption. Corbin suggests dividing the board and leadership into groups and giving each a mandate, such as, "We want you to take 50 percent share of our industry in the next three years. What are you going to do?"

"This group of executives came into the room that day, nervous about a competitor and about this other sort of intermediary that was in our industry, and they left that room terrified of Google and this other third party," he says. "When you get a bunch of executives competing with each other, magic happens because the first table stands up, puffs out their chest like, 'We've got this,' and by the end of it, their jaws are on the table."

For Abraham, the area directors should prioritize if they do not feel confident about or are behind in their digital transformation is "investment in technology to mitigate risks and to make sure that your reputation is secured, that the data is secure. Because even if you can't afford a chief information technology officer, chief information security officer, you can outsource that. But if you don't have the systems and the technology already installed, then no one can implement them," she says. "So, if you don't have that investment in technology that is paramount to protecting your data and your security, then you don't have the ability to expand your business offerings or take care of your clients."

THE HURDLES AHEAD
Cybersecurity and data privacy ranked as the most recognized risks associated with operationalizing digital transformation,

"We've done a lot of work defining what the talent looks like and what our needs are to digitally transform, but finding the right talent to implement robotics automation, ERP, MRP systems is difficult..."

—Timothy Bernlohr, Chairman, Skyline Champion

BIGGEST HURDLES
Top 3 barriers to operationalizing digital transformation

Talent: Recruiting, retaining, upskilling
57%

Technical: Integration, implementation
54%

Financial: Cost of digital investments, access to capital, etc.
43%

Source for all charts: RSM and *Corporate Board Member*

In some cases, the challenges are regional. "At Skyline Champion, we've done a lot of work defining what the talent looks like and what our needs are to digitally transform, but finding the right talent to implement robotics automation, ERP, MRP systems, is difficult, particularly where the predominance of the manufacturing base exists," Bernlohr says. "People who are recent computer science or logistics, science graduates many times want to work on either coast and don't necessarily want to work in the heartland, where they're predominantly manufacturing jobs that are digitally transforming as we speak. So, it's an issue finding people to go to certain locations and work on robotics when there are other opportunities in perhaps more favorable locations, at least in their opinion."

For many companies, the talent challenge is more complicated, entailing understanding what the company will do with the skillsets it's so intent on acquiring. "What I have seen in some other groups in the move to digital is that it's that shiny object out there," Ramchand says. "How do I get a cloud engineer or how do I get a software engineer? In my role, I see this a lot. And then people are like, 'Okay, what do you really want them to do? And it's not clear what they want them to do. All they've heard is these fancy terms out there."

"If your strategy is murky, if you're unclear on what the real outcome is of your digital transformation, it's easy to go in the wrong direction with the type of talent you hire," agrees Corbin. "You've got to get clear about the destination, and from there it cascades into, here's the type of people you're going to need. Now, the challenge for everybody is hiring them. Data scientists are expensive. So, you then have to look at, is there a combination of insource versus outsource that you can use? Can you contract out on some of these resources? Yes, it's likely that could cost you more, but it also gives you more versatility for peaks and valleys in demand... Look at flexible staffing models for them, building the team in time, as folks contract with you, you can convert them to full-time. It gives you a sort of dating period together and create the best offer you can to bring them in." **CBM**

according to 63 percent of directors in our survey, and talent as the main barrier, with 57 percent of the votes. For Abraham, security ranks as a top priority: "You have to make sure that the data is so highly secured and guarded, that you have the seven-layer firewall and that you're constantly upgrading your technology so it's not antiquated because, quite frankly, 12 months from now, we're on to the next," she says.

Kracunas agrees that companies need to think about these risks from the very beginning and not as an afterthought. "There is an inherent level of risk involved in any technology investment, and you need to address those challenges and develop a plan upfront before a solution goes live," he says. "Implementing new tools and applications is important for long-term success, but if risks are ignored and become an ongoing issue, they can continue to compound and the true value of the investment may never be realized. Ultimately, getting the most out of your digital solutions starts with the insight and talent you have access to."