

LEADERSHIP IN A DIGITAL AGE

# BUILDING A CASE FOR DIGITAL TRANSFORMATION

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*Getting the Board on board*



# INTRODUCTION

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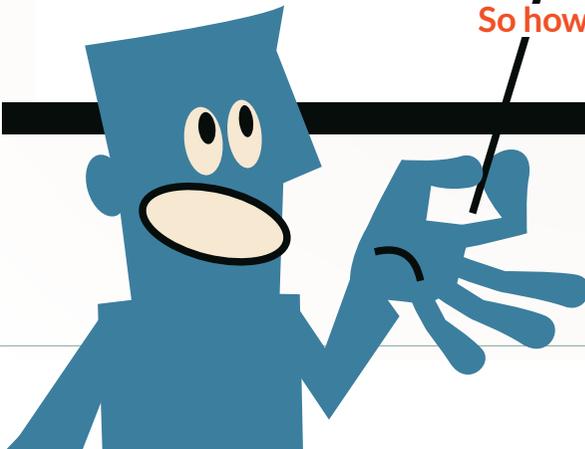
*If you're reading this, you're most likely already aware of the importance of a comprehensive, company-wide Digital Transformation (DT) strategy. However, chances are that one of your biggest challenges is how to get the necessary approvals and ongoing support from everyone else.*

**And right at the top of that sceptical heap is the Board of Directors.**

You may have collated the necessary stats, analysed the opportunities and threats and identified the technologies that could transform how you do business. But all of this is for naught if you cannot convince the board, for whom most of your arguments may be far outside their scope of experience.

**This is a communications challenge, not merely a strategic one.**

**So how do you persuade the board?**



# UNDERSTANDING THE PROBLEM

In every industry, digital leaders outperform their competitors across a range of financial measures. A study from Capgemini Consulting and MIT Center for Digital Business<sup>1</sup> found that companies prioritising digital transformation in technology and leadership achieved higher profitability and market capitalisation than their competitors, as well as increased revenues.

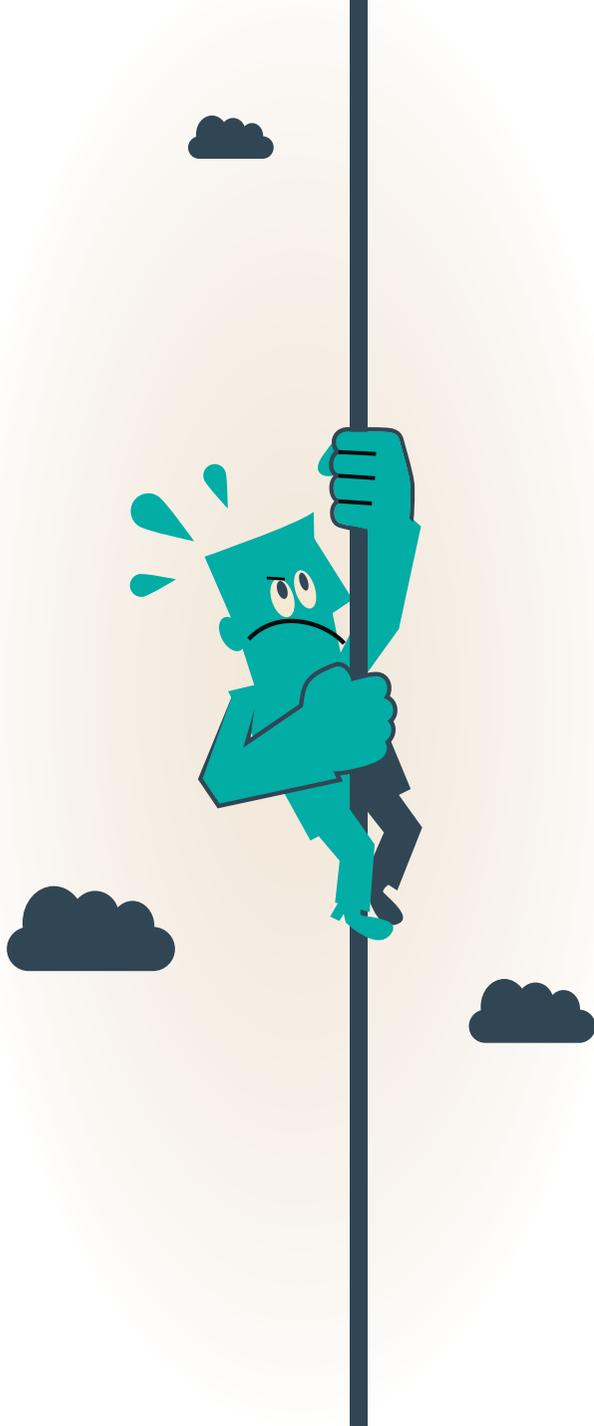
**Unfortunately, Digital Transformation (DT) represents a kind of radical business re-modelling that is not only uncomfortable or unfamiliar to most board members, but may also appear downright radical and scary.**

Let's be honest—upsetting the status quo isn't what most board members signed up for. Board members traditionally focus on 'duty of care' governance issues, such as share growth or compliance/regulatory concerns. They represent a steady hand on the tiller, relying on decades of experience to safeguard the values and ideals that made the business what it is.



1: The Digital Advantage: Capgemini Consulting and MIT Center for Digital Business





But their caution and hesitance does not alter the unarguable fact that all brands face some level of digital disruption. And as brands adapt to this new reality, so too must board members recognise that their own roles and responsibilities are similarly disrupted.

**Companies need board members who are not so much caretakers as coaches—powerful influencers who can combine experience of what worked in the past with exploration of what may work in the future. The corporate leadership can only successfully manage the difficult migration to a digital future with the full understanding and support of the board.**

Board members are usually pretty eager to offer considered (and sometimes not so considered) opinions on every other aspect of the business. So why are they often less keen to get involved with digital transformation?

**There may be many reasons, but two in particular crop up again and again ...**

## Global 300 Digital Board Penetration

Percentage of companies with “highly digital” boards



Percentage of companies with “partially digital” boards



Percentage of companies with “non-digital” boards



Source: Russell Reynolds Associates



# 1

## "I DON'T KNOW WHAT I DON'T KNOW"

In 2014, Russell Reynolds Associates analysed the backgrounds of all board members of Fortune 100 companies in the US, Europe and Asia/Pacific (the Global 300)<sup>1</sup>. The report found that 80% of companies had 'non-digital' boards.

*Members of these boards have no professional experience in directly managing or overseeing digital transformation. Naturally, this leads to a reluctance to offer guidance or assess options in an area in which they may have little or no direct knowledge.*

In fact, 39% of respondents to a Capgemini Consulting/MIT Sloan Management Review survey suggest that the most significant barrier to DT is a 'lack of urgency'<sup>2</sup>.

And if the urgency for change isn't there, neither is the motivation or willingness to better understand the issues.

This lack of urgency, coupled with a lack of understanding, means there is inadequate appetite to tackle radical new ideas that take them outside their comfortable sphere of experience.

1: Russell Reynolds Associates 2014 Digital Board Director Study  
2: Embracing Digital Technology: MIT Sloan Management Review and Capgemini Consulting

# 2

## "WHY ARE YOU BOTHERING US WITH AN IT PROBLEM?"

Many boards enjoy the comforting illusion that digital transformation is an IT problem. They see DT as a collection of technology products and services—the cloud, enterprise systems and e-commerce, to name a few.

Product purchasing, supplier agreements and installation issues are way below their pay grade. "Leave such matters to the specialists. We're concerned with the bigger picture."

Unfortunately, by equating DT with a better website or a popular app, the board misses the real opportunity (or threat) and delegates away the power to address it.

*Customers expect an increasingly digital brand experience—web, mobile, social media and more. Should managing the customer experience really become the sole responsibility of the IT department? Of course not.*

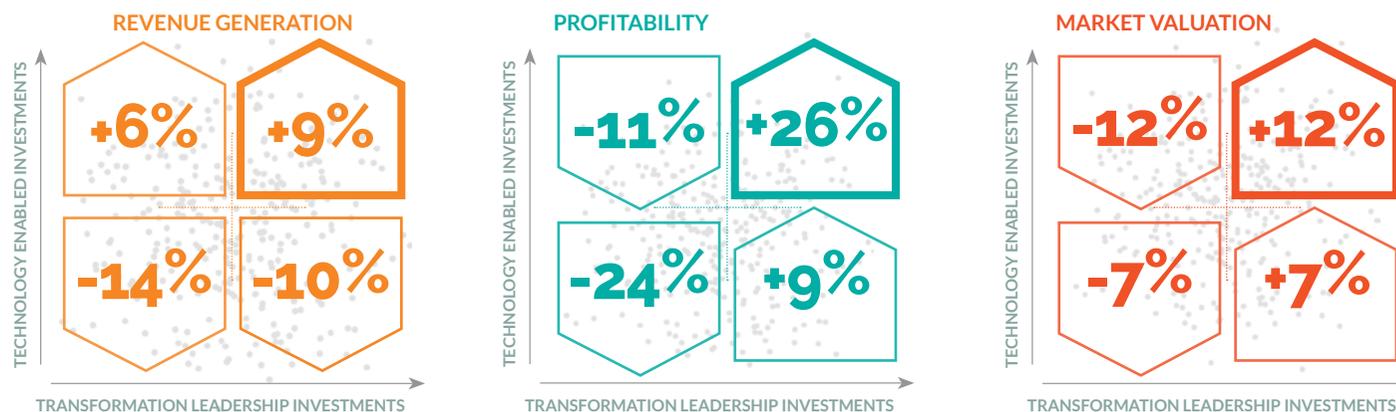
Digital transformation isn't a box to be ticked on an IT shopping list.

It's a perspective that needs to be incorporated into all ongoing operations and planning.

### Digital maturity and financial performance

*Digital Masters invest in technology and transformation leadership, and they outperform their competitors across a range of financial measures*

Source: The Digital Advantage: Capgemini Consulting and MIT Center for Digital Business



# FOLLOW THE LEADER

*Consequently, boards rely on the corporate leadership to provide the kind of safe, bulletproof proposals they're used to receiving in other areas. In short, instead of leading the transformation, they need to be led through it. And the board won't follow any strategy without a great deal of certainty in the outcome.*

This “you first” attitude towards making the business case places even more pressure on corporate leaders.

While the management team may have more direct digital experience, they are also aware that there is no such thing as a sure bet when it comes to formulating and implementing a DT strategy.

## Catch 22.

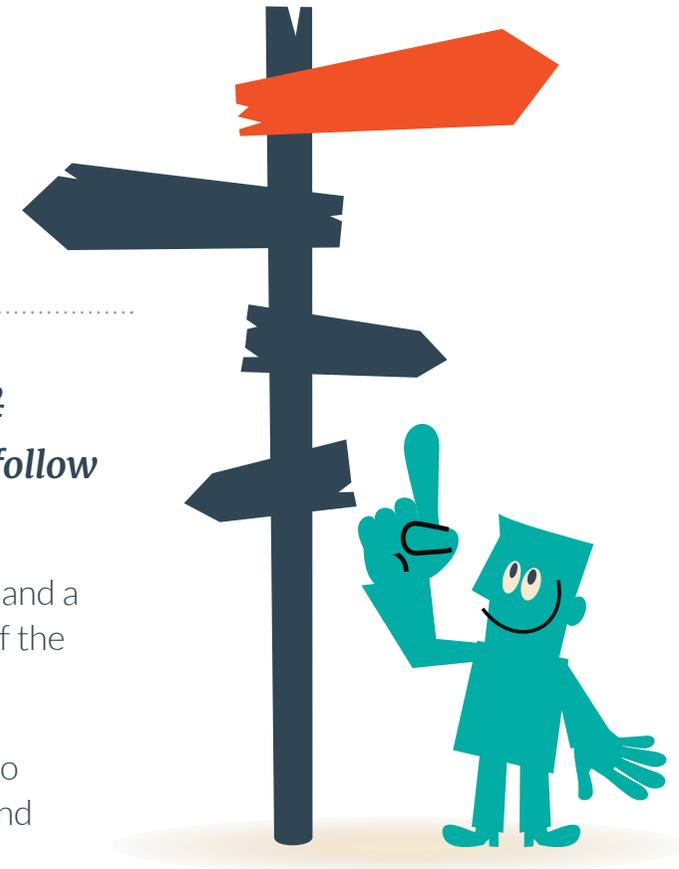
The corporate leadership is sensitive to the board's lack of understanding or support. So, their DT strategies often adopt 'safe' options that are less likely to be challenged.

This results in a lack of genuine innovation and a much slower and cautious interpretation of the market they operate in.

To capture the board's interest, you need to link your digital strategy to the problems and opportunities they already contend with.

To counter their lack of digital experience, you need prepared answers to all possible objections.

## Time to dispose of a few 'strawmen'.



*“There go the people.  
I must follow them,  
for I am their leader.”*

(APOCRYPHAL) ALEXANDRE  
AUGUSTE LEDRU-ROLLIN:  
FRENCH POLITICIAN



# I OBJECT!

*These are just a few of the more common objections that, whether said or unsaid, can ground your digital thinking before it can take off.*

## OBJECTION ONE:

**“Digital is just a distraction from our real goals”**

It’s easy to paint digital as a distraction when the Board is focused on the here and now.

A common assumption is that digital is just an enhancement to “the way we’ve always done things”. This is a myopic and cautious perspective that avoids disrupting or challenging long-held beliefs and practices.

The problem is that digital is far more than just an additive or enhancement. It is increasingly transforming the core activities of any brand strategy by presenting entirely new ways to achieve those long-standing business goals.

Sometimes DT even presents completely new and more rewarding goals instead, transforming the entire business model.



## CASE IN POINT: DOMINOS PIZZA

*Dominos Pizza realised that digital applications had the potential to change the entire transaction process, transforming every point of the customer experience.*

*The strategy focused on customer pain points—choosing what to order, waiting for it to be delivered (or having it ready on time when picking up in-store). Dominos then used digital technologies to reduce these pain points and streamline the whole process.*

*The company launched simple mobile apps, and even some games, that turned the ordering experience into a faster, more convenient, more interactive and more enjoyable experience.*

***Dominos’ reward was a huge 48% increase in profitability<sup>1</sup>.***

<sup>1</sup> Online Orders Help Dominos Pizza Deliver Sizzling Result  
—Sydney Morning Herald: August 12, 2014



## BUILDING THE CASE: Removing obstacles

### Where are your customers’ pain points?

*Be honest. Is it payment, delivery, customer service? Or do your customers face some other hurdle when trying to do business with you?*

*This pain point may colour their entire perception of your company, damaging sales and brand reputation—both major business goals for any board. Back up your findings with customer and sales data and then consider how DT could bulldoze these hurdles to turn those numbers around marketplaces in a comparatively short period of time.*



## OBJECTION TWO:

### “There’s far too much for a business our size to take on”

Often, discussions about DT can collapse when confronted by the sheer and bewildering breadth of options that must be considered.

Plus each option is usually coupled with a myriad of complex and potentially confusing steps to implement whatever decisions are agreed.

### Digital transformation is never ‘plug and play’ simple.

This complexity and scale can lead to a belief that if just one of the many dominos falls out of sequence (or fails in any way), the entire strategy could collapse.

Millions of dollars could be staked on the successful completion of the DT strategy and just one wrong call could blow everything. “Why take such a huge risk?” says the Board. “We stand to lose far more than we may gain.”

However, this assumes that DT is an all-or-nothing strategy. In fact, DT can easily scale in controlled stages, one contained project at a time.



## CASE IN POINT: BURBERRY

*When Burberry found itself being consistently outperformed by its competitors, the iconic 150+ year-old fashion brand didn't seek to change everything or reinvent itself in one huge DT push.*

*Burberry focused its DT efforts on the most important issues—enhancing the customer experience and rationalising internal systems. The DT strategy wasn't one decision but a series of them. It wasn't one project, but a number of self-contained projects that each targeted a specific area for improvement. If one project underperformed, it wouldn't undermine the huge gains achieved elsewhere in the business.*

*The cumulative effect of these decisions touched every point in the business. A revitalised commitment and vision from CEO Angela Ahrendts helped to turn the brand around—doubling sales and increasing the share price by 250%<sup>1</sup>.*

<sup>1</sup> Apple to Pay ex-Burberry Boss Ahrendts \$68 Million in Shares  
—BBC News: May 6, 2014



## BUILDING THE CASE: One step at a time

### What’s your team’s Digital IQ?

*Does everyone on the team have the skills necessary to plan, implement and manage DT? Are all staff members comfortable with the new technologies or workflows they will be asked to work with?*

*Corporate trenches are littered with brilliant DT plans that were undermined or defeated by team members who lacked the skills or digital experience to implement them effectively.*



### OBJECTION THREE:

#### **“Our competitors aren’t doing it, so why should we?”**

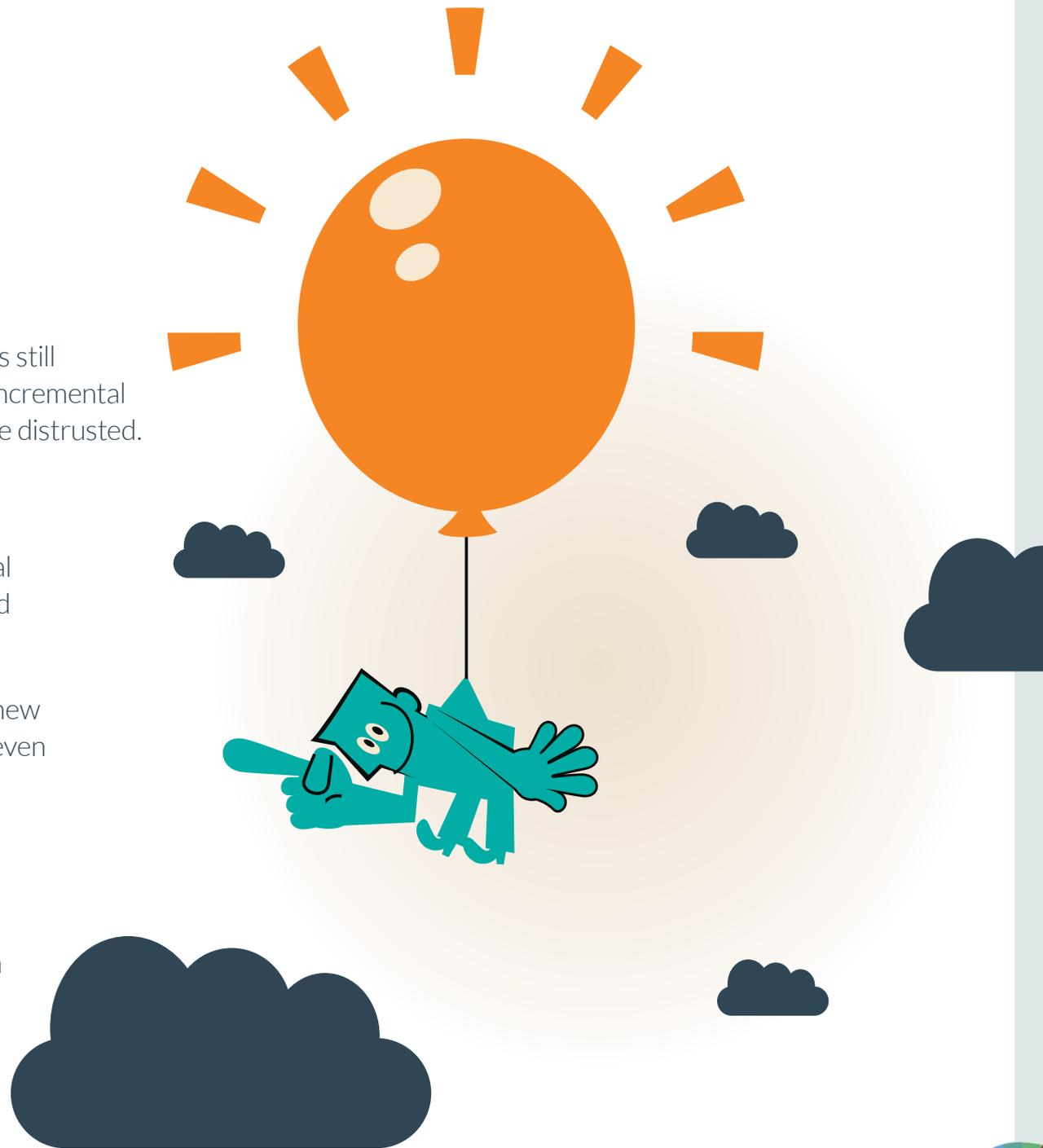
Innovation may be a much-lauded virtue, but many brands still consider it a potentially dangerous approach in practice. Incremental improvements are preferred—big game changing leaps are distrusted.

#### **And true innovation is never incremental.**

Most board members come from a time when incremental improvement made sense. Back then, it was the safest and most reliable way to build a competitive advantage.

The future was more predictable. Major disruption from new technology—such as the office computer—took years or even decades to truly change business models. Start-ups with crazy new ideas were almost unheard of, because the costs involved were still extremely prohibitive.

Today, a simple idea married to the right approach can disrupt a market in months. Incremental improvement is a far riskier bet when an agile new start-up can undermine your entire business model faster than you can adapt.



Unfortunately, most boards remain focused on established industry competitors, creating an echo chamber of expectations and predictions that can miss the real risk of a clever 'upstart' with a big new idea.



## BUILDING THE CASE: Disrupters in your midst

### Who are you **really competing** against?

First, conduct a competitive audit. You may find the biggest risks to your future don't come from the usual suspects.

Jeff Bezos of Amazon put it simply: "Your margin is our opportunity." Any existing or potential competitor can use DT as the battering ram to knock down your existing brand defences.

Don't believe it? Consider how Uber and Airbnb have disrupted their own marketplaces in a comparatively short period of time.



## CASE IN POINT: AMAZON

Amazon's decision to develop the Kindle, Apple's launch of the iPad and even Google's Glass experiment all have one thing in common. In all three examples, a successful brand ignored the competition and dismissed established wisdom to turn in completely new directions.

Not all have been equally successful—Google discontinued Glass—but all three brands DID benefit from the experience.

- Certain myths were proven to be false—eg: people prefer reading paper to a screen.
- Competitor products strategies were disrupted—the rise of tablets seriously impacted the netbook market
- New consumer boundaries were tested—when does digital technology become socially uncomfortable or unacceptable?

No brand knows how to build a new product category better than Apple. Digital innovation has fuelled Apple's growth to become the largest company in the world, with a market cap over US\$660B<sup>1</sup>. Forbes ranked Apple as the #1 most valuable company for earnings and relevancy with consumers<sup>2</sup>.

No brand understands wearable technology better than Google—giving it a growing competitive advantage as this new market develops.

And no other brand connects readers to authors better than Amazon.

In each case, their respective boards glimpsed the future and saw new and greater commercial opportunities.

<sup>1</sup> Apple's Cash is Now Greater Than the Market Cap of These S&P500 Companies — Zerohedge.com; Jan 27, 2015

<sup>2</sup> Apple, Microsoft and Google are World's Most Valuable Brands—Forbes; May 11, 2014



# A FASTER HORSE

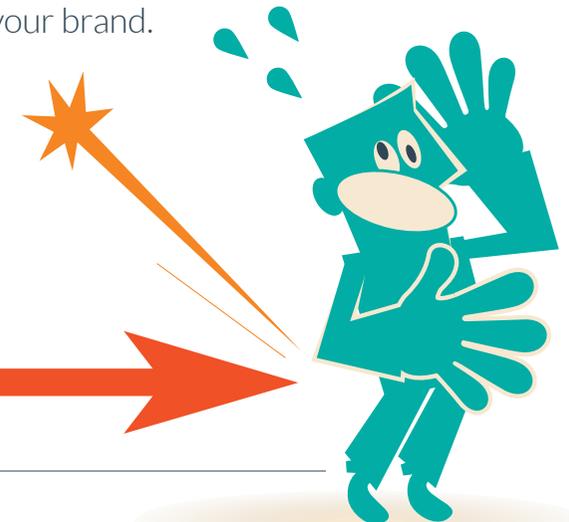
When asked what most consumers thought they needed, Henry Ford famously suggested “A faster horse.” Instead, he gave them the automobile. Within a few years, horses virtually disappeared from city streets forever.

**Ford’s example illustrates how the constant quest for incremental improvement can easily miss a much greater opportunity to completely change the model with something new.**

Digital disruption is happening all around us. While Hilton tinkered with check-in apps, Airbnb disrupted the industry by providing more rooms than any of the world’s top hotel groups ever could. Uber has caused an earthquake in the headquarters of major taxi firms (and government regulators) by offering an alternative to consumers that sit outside their fiercely protected model and threatens to seriously undermine it. In late 2014, Uber received US\$1.2B in new funding, bringing its estimated valuation to US\$40B<sup>1</sup>.

And if you think your business model or industry is immune, consider how even the disrupters can be disrupted. Renegade upstart Napster devastated the old music industry model until it too was displaced by iTunes. Now iTunes has to adapt to fend off competitive threats from new challengers like Spotify, Pandora and SoundCloud.

To remain competitive, your board must move beyond their comfort zone. And once your brand has achieved digital transformation, they can’t become complacent and slip into a new comfort zone either. There will always be someone else trying to find a new and better way to get in front of your brand.



<sup>1</sup> Disrupters Bring Destruction and Opportunity—Financial Times; 30 December, 2014



# IF NOT NOW, WHEN?

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That is the question faced by all brands yet to actively embrace a DT strategy. Likewise, it is the question every board must consider—demanding answers from their own management.

There is no ‘right time’ to finally commit to digital transformation. That would suggest DT is a single event or time-bounded project.

## **It isn't.**

The time for digital transformation is now and always. It must be immersive, eventually touching every aspect of the brand. And it must seep into the natural way your business makes decisions, adapts and evolves every day.

Anything less, and it will likely become a straitjacket on future revenue and share value prospects.

As the appointed guardians of the brand's present and future, it is both the responsibility and the honour of the board to be involved in the maturation of the organisations they represent.

**To lead in a Digital Age, your board members need to become pioneers. There's a digital gold rush happening right now. It's time to stake a claim!**



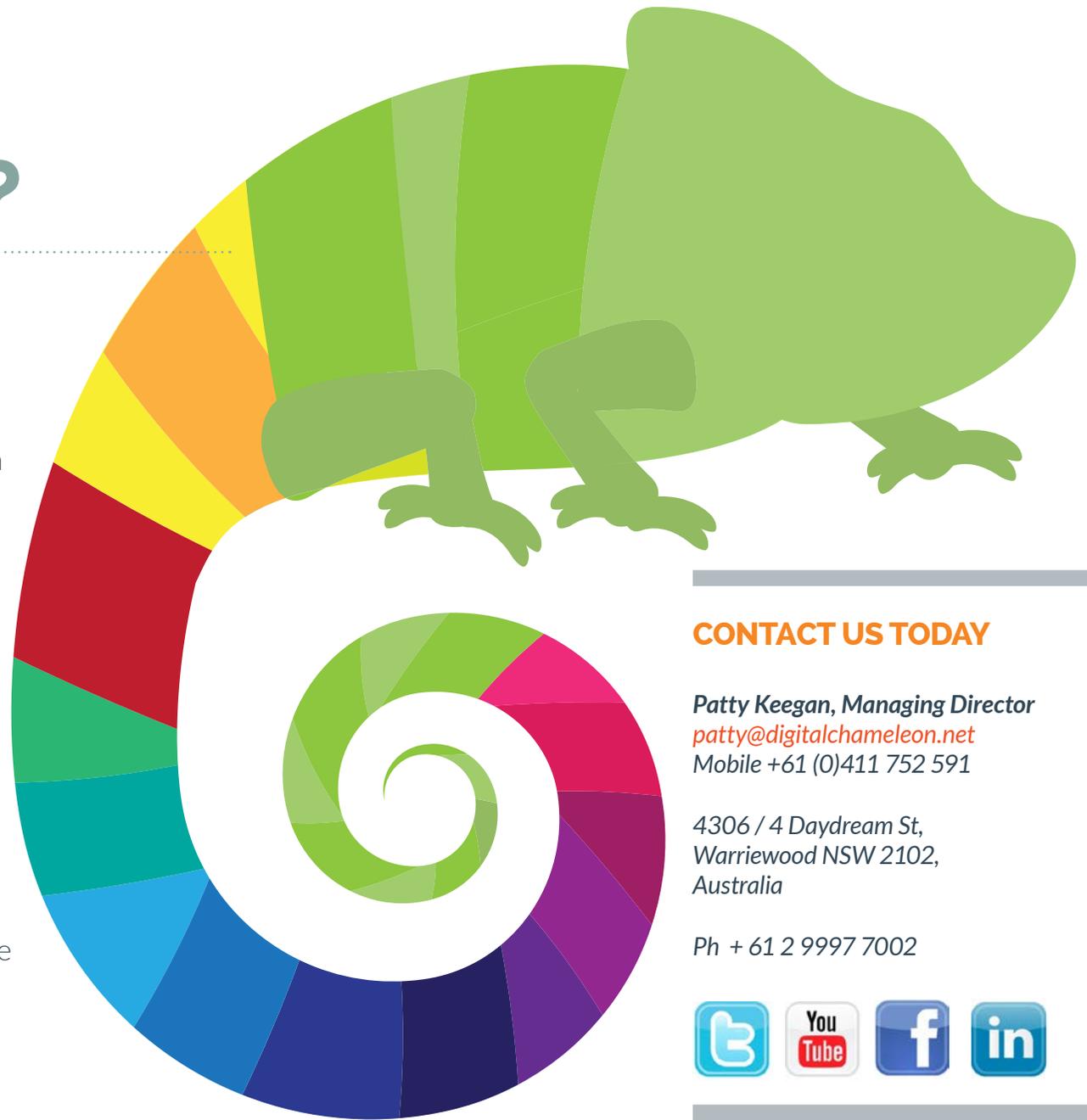
# WHAT'S NEXT?

**Digital competency can be quantified, and we can show you how.**

Before you can convince the board, you need to know just how ready your company is to undergo a digital transformation.

**Not everyone in your business needs to be a digital expert, but everyone will need an understanding of the tools and concepts related to their roles.**

Digital Chameleon specialises in establishing digital competence requirements, assessing the Digital IQ of large teams, and designing learning programs to make sure everyone has the necessary skills to make your DT strategy a success.



## CONTACT US TODAY

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