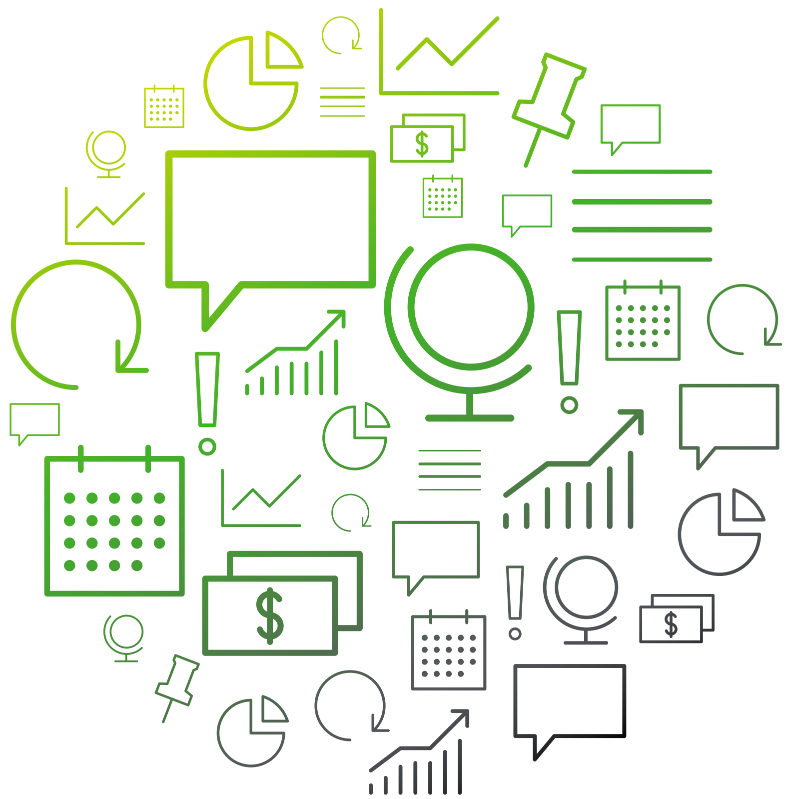
Deloitte.

September 2018



On the board's agenda | US

Not if, but how: Evaluating the soundness of your digital transformation strategy

Often, for businesses to survive in today's world, the question is no longer whether to consider a digital transformation strategy. Rather, as board members oversee management's strategy, a more appropriate question may be *how*: How can our unique organization evolve and work differently to meet the demands of an ever-evolving marketplace?

Digital transformation is increasingly more important than ever, particularly as we get closer and closer to a mature, cognitive-enabled business world that will likely move faster than we can currently imagine. And it may be important to remember that the changes needed to be ready for this new world will likely extend well beyond technology. After all, the real goal of digital transformation is to uncover opportunities to better address human needs and improve businesses' ability to meet those needs. In many ways, it's more about developing a digital mindset and digital habits than it is about implementing specific technologies or platforms.

Digital transformation defined

Digital transformation is how to **gain business advantages** by applying innovation, design, organization and digital technology **to existing and new business models**—in strategic, creative, agile and adaptive ways, **for exponential impact**.

This *On the board's agenda* will highlight some different approaches organizations have taken as they drive digital transformation and also provide some critical questions board members can use to guide conversations about transformation for the businesses they oversee.

Center *for*
Board Effectiveness

Developing a digital mindset: Moving from "doing" to "being" digital

When board members and business leaders hear the term "digital transformation," technology is usually the first thing that comes to mind. However, it may be more useful to think of digital as a mindset that influences every aspect of a business, from strategy, to talent, to operations, to customer engagement—and everything in between.

When organizations take an overly technology-focused approach, it often results in a piecemeal transformation, with disconnected efforts that are not set up to eventually scale throughout the business. Many organizations end up swirling in an endless loop of "doing" digital things—building apps, trying out a new technique, or testing an edge technology in isolation. The potential pitfall of this approach is that these efforts can create the magical illusion of digital transformation, because it appears something is getting done, when really these disconnected efforts may be taking time and attention away from making strategic changes to the core of the business that could help it to compete more effectively in the future.

The true power of digital transformation may be in the business advantages it can deliver—both today and in the future. That's why it's often critical for board members to ask tough questions of management to uncover what's really happening behind digital initiatives. If an organization is only leveraging digital technologies to extend capabilities, but is still largely focused around the same business, operating and customer models, chances are that it is just "doing" digital—and is likely leaving value on the table. There can be massive opportunity in using digital technologies, techniques, and trends to work in more synchronized and less siloed ways, and ultimately to continually optimize business, operating and customer models for a world that's constantly shifting—and doing so at an ever-increasing pace.

Stages of digital maturity

1. Exploring

Leveraging traditional technologies to **automate existing capabilities**. Dabbling with digital. No real change to the organization.

2. Doing

Leverage digital technologies to **extend** capabilities, but still largely focused around **same business, operating and customer models**.

3. Becoming

Leverage digital technologies—becoming more synchronized and less siloed—with more **advanced changes** to current business, operating and customer models.

4. Being

Business, operating and customer models are optimized by digital capabilities and **profoundly different** from prior business, operating and customer models.

How to accelerate up the curve and help avoid random acts of digital

For a business to successfully undergo a digital transformation, it may be critical that all digital efforts connect back to core business operations, and that a company evaluate its strategy for these efforts before diving in. It can also be important to note that there are many ways to approach this kind of change based on each organization's culture, market position, and current challenges.

But what many successful businesses have in common is that companies arrive at "being" digital by moving iteratively through a clear set of cascading choices. Management should consider:

- **Ambitions and value:** Evaluate the organization's foundations and be very clear about its business objectives—not only for digital, but the business as a whole. This can include organizational purpose, financial and non-financial objectives.
  - What is the organization's boldest ambition? How valuable would it be to achieve that ambition?
  - Is the work needed to gain the advantages pragmatic in the short-, medium- and long-term?
- **Link to existing operations:** Evaluate the organization's value proposition, test its sources of defensible competitive advantage, and probe its profit models. Understand how the organization can provide a differentiated experience to customers, employees, and partners—both digitally and non-digitally.
  - Can the organization extract even greater value from current investments and future innovations to the core?
  - Does the organization have its roadmap, investments, and offerings planned? Can it deliver new offerings to make a difference?
  - Does it know how to use the digital techniques and technologies needed for the solution?
- **Connection with human capital:** The approach to digital transformation should include a focus on human capital, including the changing nature of the enterprise's work and workforce.
  - Will the day-to-day activities of employees change, and if so, how?
  - Will new competencies be required, and if so what will they be?
  - How do we shift our talent to yield more value?
- **Change the business model:** With a differentiated strategy in place, it may be time to ask about which talent models and systems will be needed to execute.
  - Can the organization pinpoint specific business processes to gain benefits?
  - Is it leading talent and leadership to the future?
  - Has it established our culture and work practices to do so?
  - Can it deliver offerings rapidly into the market?

- **Communicate to the market:** It may seem obvious, but many companies can trip at the finish line—by forgetting to tell the market that they are a new organization.
  - Is the organization demonstrating its new value proposition to every customer and key business partner with every interaction?

Moving through this cascade of questions can help ensure that the company's digital strategy is truly an integrated plan for how to use technologies, business models, customer experiences, and new talent models required to deliver on competitive strategy.

Five characteristics of marketplace leaders today

One of the biggest challenges with digital transformation is that managements—and boards—have to become comfortable with not fully knowing what the future will hold. In effect, it could be necessary to set up the organization in a way that can deal not only with speed, but also the uncertainty that comes from rapid innovations and technological advancement. That may sound scary, but there are key characteristics of organizations that are thriving in this new world—and it's not because they can predict the future better. They have set up themselves to navigate, respond, and effect change better.

In studying the results of consulting engagements with some of the most successful businesses in the market today, Deloitte found the following five characteristics are almost always present, helping spur a business' competitive advantage:

1. **Business value management.** Does the organization have an approach that allows it to constantly create business value, while pushing its innovation agenda? Can it demonstrate income statement and balance sheet improvements?
2. **Digital workforce.** Does the organization have a strategy for building a strong digital talent pool and helping it to get work done in new ways?
3. **Cross-functional collaboration.** Is the organization working to break down traditional silos to improve collaboration across business units and functions—and even reach to outside sources such as startups or academia?
4. **Innovation culture.** Does it embrace a "succeed fast" approach to innovation that focuses on innovation for known and unknown opportunities? Is the focus on finding unmet human needs? Does it allow initiatives to fail?
5. **Ecosystems.** Is it leveraging external partners (e.g., startups, technology companies, academia, etc.) to improve digital capabilities and inspire new ways of thinking?

Many of these characteristics are inter-related, feeding off of each other to renew the organization and propel it into a new, more innovative future. What's more, they can look very different when applied in each organization. It may be helpful to look at a few different examples of how organizations have successfully addressed these questions to meet their own unique needs.

Three paths to transformation

It can be important that each company develop a strategy for transformation that takes into account the unique aspects of the company, industry, culture, history, etc. to facilitate optimal execution. It's typically not a straightforward process, and so the board has a key role in pushing the organization to ask the right questions, and not get overly focused on legacy or short-term strategies. But another characteristic successful transformations often have in common is that they follow a progression of, "Think big, start small, scale fast." Within that framework the main variable is scope—and this can make these transformations look so different from organization to organization.

The following examples show three distinctly different transformations—one that was large in scope and rapid, a second that started very small and rapidly scaled, and a third that took a hybrid approach.

Example 1: Total, rapid transformation

A 100+ year-old financial services company that offered savings plans and wealth management products to employees of large companies had a struggling brand. Its ambition was to become the "one-stop shop" for consumer retirement needs. The company leaders set the vision and expectation for collaboration across business units, bringing together multiple functions to invent and develop new products and services. Together they figured out that health and wealth are linked, and wanted to rebrand themselves as a wellness company.

This insight—and the innovations that came out of the collaborative approach—identified cross-over opportunities in digital health that could make their clients' retirement much more fulfilling. With these ideas identified, the company rapidly iterated total transformation, becoming a cross-industry health and wealth company that meets and responds to the needs of their customers in completely new ways.

Questions for board members to consider:

1. Management hasn't mentioned whether and to what extent the company is involved in a process of digital transformation. Are we pursuing it?
2. If we are pursuing digital transformation, why are we doing it? Do we view it as an imperative, without which the company will not survive, or is it something that we think would be "nice to have"? Do we have any way of measuring the returns on our digital transformation "investments", whether in terms of human or financial capital or otherwise?
3. Is the board receiving updates on the transformation, including hearing directly from the key leaders who are driving and most impacted by the transformation?
4. Which members of management are driving the change? Are key business leaders collaborating to achieve the change?
5. What are the scope and intended speed of our transformation? Are we seeking to transform the company in its entirety, or just portions of the company? Are we going all-in to get it done as soon as possible, or are we taking slower, "minimally viable steps" to manage risk?
6. What, if anything, are we doing to avoid "random acts of digital" versus seeking to truly transform our company?
7. What challenges do we anticipate along the way? How severe are they? What are we doing to plan for/around them?
8. Is our corporate culture ready to accept or even embrace digital transformation?
9. Digital transformation can be a scary process to employees and many other stakeholder groups. What are we doing to assure those groups that their interests are being considered in our transformation process?
10. What are we doing to communicate our digital transformation to the market? To our other stakeholder groups?

Example 2: Smaller in scope, more iterative, rapid offering into the marketplace.
A large retailer knew it needed to differentiate its customer experience to win in the marketplace. By concentrating on possible unmet human needs, the company identified an opportunity that could help its associates deliver better service to customers: an app that allowed for pre-orders, so customers wouldn't have to stand in line at the store. The company started by putting a minimal viable product (the app) into a few stores, eventually scaling to all of them over the course of a year. The app's success eventually affected other customer-facing services through integration and added functionality, transforming the company from the employee experience outwards.

Example 3: Large scope, slower release
A state agency knew there was a lot of opportunity to serve constituents better with a more digital organization. However, sensitive to the constituent population, it didn't want to put a product out before it was well tested. Instead of relying on the traditional waterfall approach for product development, leaders focused on making internal changes and developing digital capabilities and offerings in-house, with agile sprints over the course of the year. The agency continued to improve its offering and change its mindset behind the scenes, testing its product well before putting it into the market. After a year, it was set to reveal a fully transformed organization (and thoroughly tested product) to the people it served.

Wrapping it up: It's time to begin your transformation

In many cases, management leads the way on digital transformation. If so, the board should be prepared to ask questions about the transformation, such as those to the left. If management doesn't broach the topic, the board should consider asking whether management has considered a transformation and, if so, ask about conclusions and the reasons for those conclusions. And since no two companies are alike, each board should evaluate digital transformation on the basis of the company's business, industry, history, culture and other factors.

It's up to the board to oversee leaders of companies that have chosen to transform onto the healthiest path toward the future. By identifying a company's stage of digital maturity, then asking the right questions to accelerate up the maturity curve, boards can help organizations successfully complete valuable transformations—transformations that reap the greatest value with the least amount of risk.

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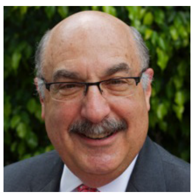

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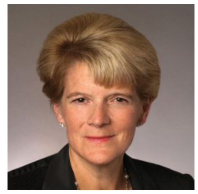

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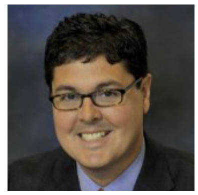

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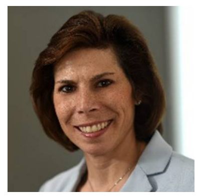

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