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BOARD PERSPECTIVES: Risk Oversight

HOW DOES YOUR COMPANY MEASURE UP AGAINST DIGITAL LEADERS?

Is your organisation managing to the speed of emerging technology? Is its business model at risk of digital disruption? Is the company a disrupter or facing the threat of becoming the disrupted? If your board isn't sure, it's time to ask management to assess digital readiness.

The northbound train that is the digital revolution is transforming our world at such a breathtaking pace that many directors and executives are concerned their organisations will be left at the station. Innovations in robotics, artificial intelligence (AI), machine learning, wearables, drones, autonomous vehicles and nanotech are just a few examples of the drivers of change now and over the next several years.

Consider AI, for example. A recent global study found that the landscape for the use of AI will change dramatically over the next two years, from just 16% of companies gaining significant value from advanced AI today to more than 50% planning to

fast-track AI applications. These companies expect significant gains in profitability, productivity, revenue and shareholder value that will be realised from improved planning and decision-making, accelerated time to market, more effective risk management, reduced costs, and the creation of new business models and channels.¹

Key Considerations

Most organizations recognize that digitization simultaneously is one of the biggest opportunities and risks they will face in the near future. However, many do not fully grasp that time is of the essence. The question facing boards is deceptively simple:

¹ *The Cybersecurity Imperative: Managing Cyber Risks in a World of Rapid Digital Change*, a research report from a joint effort of ESI ThoughtLab, WSJ Pro Cybersecurity, Protiviti and a group of prominent organisations, 2019, available at www.protiviti.com/US-en/insights/cybersecurity-imperative.

Are we capable of thinking like a born-digital company, and do we have the competencies that we need to compete? To address this question, the company must evaluate its digital readiness, make necessary improvements to acquire and develop the competencies and talent it needs to position itself to act digitally, and break down the barriers to change along the way. This must be done sooner rather than later if the company is to embrace the latest technology and maximize its innovative potential.

We believe that the competencies driving digital capabilities are arrayed along six broad categories: vision, mission and strategy; management and employee culture; organisation, structure and processes; communication, marketing and sales; technology innovation and development; and big data, analytics and automation. Years of research have resulted in Protiviti identifying 36 competencies at which organisations must excel to compete effectively with born-digital companies. We encourage companies to assess their digital readiness by using a suitable framework, either ours or someone else's. Our online, proprietary digital assessment tool is available at no cost (see <https://landing.protiviti.com/digital>) for companies to benchmark themselves to ascertain where they fit within the following five levels of digital maturity:

Digital Skeptic — At the scale's low end, these companies are laggards reacting to innovations happening around them. They know they need to match the capabilities their digital competitors are offering the market, but they have not grasped that how they take advantage of the latest technologies can be a significant differentiator. They are risk-averse, letting others make mistakes and believing that they can play catch-up later. This may work sometimes, but it can be dangerous when the pace of change is so fast and customer loyalty can be fleeting.

Digital Beginner — These companies embrace the need to change and to succeed in implementing new technologies, resulting in a collection of point solutions. They understand that the way they use technology can be a differentiator; therefore, they experience initial successes working with the latest tools. However,

they lack a coherent end-to-end strategy. Their efforts amount to a collection of initiatives, which may be valuable but are not the result of a strategy that addresses how the organisation will compete in the digital age.

Digital Follower — Followers have a clear digital strategy. They make quick decisions in response to innovations and focus attention where change is needed. While they know where they are going, they still have a lot to do to execute their strategy and become digitally advanced. Agile followers can compete effectively in the market.

Digitally Advanced — These companies have progressed their digital transformation efforts by embracing and experimenting with technologies to achieve high levels of automation, a low-cost base and hyperscale business models that are less dependent on people in ramping up or down to meet demand. They have a digital mindset at their core, focusing on their culture and people but thinking and acting digitally in everything they do.

Digital Leader — The distinction between companies that are advanced and those that are leaders lies in the proven ability to disrupt industries and traditional ways of thinking. Advanced companies have digitised and are using the latest technology everywhere — but *leaders* also disrupt. Tesla, Uber Technologies, Airbnb and Amazon.com have all completely changed their respective industries.

Our tool is designed to quantify and assess digital fitness so that a company can determine whether it is a skeptic, follower or leader and identify the strengths it should exploit and the potential weaknesses it should address. A fact-based understanding of where a company is positioned on the digital maturity continuum is important because it can lead to dialogue in the C-suite and in the boardroom that can drive needed change.

Despite years of dialogue about digital transformation, most companies are still in the beginning stages of digital maturity. They aspire to be, but do not today have, a digital mindset at the core of the business. As companies invest in technology, embrace the cloud, replace legacy applications with next-generation

software, build customer-facing websites, and emphasise digital channels, their efforts often result in a digital veneer but do not alter the way the organisation thinks and acts.

True digitisation occurs at the core, transforming the organisation from the inside out to maximise efficiency and resiliency. If a company has a digital mindset, it is going to embrace next-generation digital tools in its strategic thinking and operational execution, and ultimately organise its business model for speed. Trying to force next-generation tools on an organisation that is not digital-ready is a tactic almost certain to fail. Thinking digital is more likely to result in acting digital than vice versa, and leaders who understand this vital distinction are more likely

to attract the talent they need on their team to achieve their goals faster than those who give digital transformation mere lip service.

As companies shape and implement their digital strategies, they must recognise that a narrow view of digital transformation puts them at risk of missing out on important market opportunities. That is why the board needs to be proactive in asking the tough questions around whether management is doing the right things, doing enough, and adapting to new market realities. For organisations to navigate through uncertain times and face a dynamic future with confidence, the board must ensure that their digital transformation programs are positioned to succeed.

Questions for Boards

Following are some suggested questions that boards of directors may consider, based on the risks inherent in the entity's operations:

- Does the board have access to the expertise and experience needed to provide oversight over how management is developing a digital mindset in the business? Is it convinced that executive management understands the digital economy, is embracing the market differentiation possibilities in their strategic thinking, and is focused on nurturing the innovation culture that facilitates attracting and retaining the talent needed to effect change?
- Has management assessed the organisation's digital readiness and identified strengths and limitations across the business in the context of a clearly articulated digital vision, mission and strategy? If not, why not, and has the board discussed with management the need to conduct such an assessment to address critical strategic issues?
- Are there barriers to innovation and digital transformation that exist within the organisation that require the board's attention from a change management standpoint? For example, barriers may include uncertain ROI and high implementation costs, cybersecurity and data privacy issues, indecision over the best digital applications, regulatory constraints, and limited skills and talent. Are steps being taken to eliminate these barriers and track progress over time?

How Protiviti Can Help

Protiviti is working with 60% of the *Fortune* 1000 and 35% of the *Fortune* Global 500, as well as with smaller companies, including fast-growing technology organisations, both pre- and post-IPO. We have a proven track record of bringing innovative solutions to help companies solve some of their most difficult business problems. Our digitalisation offerings focus on:

- **Customer Engagement** — Exploring new ways to build strong relationships with customers.
- **Digitising Products and Services** — Launching new, enhanced products and exploring new business models.

- **Better-Informed Decisions** — Enhancing information available to enable timely and effective data-driven decision-making and improve digital propositions.
- **Operational Performance** — Creatively using technology to improve processes and underlying performance.

Our online, proprietary digital assessment tool is designed to help companies identify issues that may undermine their digital strategy, focus on the decisions they need to address to advance their digital maturity and measure progress over time. It enables multiple people to complete the assessment independently and to prepare a consolidated summary of results to the organisation.

Is It Time for Your Board to Evaluate Its Risk Oversight Process?

The TBI Protiviti Board Risk Oversight Meter™ provides boards with an opportunity to refresh their risk oversight process to ensure it's focused sharply on the opportunities and risks that truly matter. Protiviti's commitment to facilitating continuous process improvement to enable companies to confidently face the future is why we collaborated with The Board Institute, Inc. (TBI) to offer the director community a flexible, cost-effective tool that assists boards in their periodic self-evaluation of the board's risk oversight and mirrors the way many directors prefer to conduct self-evaluations. Boards interested in using this evaluation tool should visit the TBI website at <http://theboardinstitute.com/board-risk-meter/>.

Learn more at
www.protiviti.com/boardriskoversightmeter

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk and internal audit to our clients through our network of more than 75 offices in over 20 countries.

We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on <https://blog.nacdonline.org/authors/42/>. Twice per year, the six most recent issues of *Board Perspectives: Risk Oversight* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.