

Inside the digital boardroom

The digital revolution has big implications for boards. The best of them are already working hard to bolster their digital know-how.

The convergence of physical and online commerce is forcing companies to re-examine—and in some cases redefine—their business models to survive. As businesses respond to the disruptions, they must also address tough questions about the composition and structure of their boards, including the skills, experience, and knowledge required of their board members.

Heidrick & Struggles recently hosted two roundtable board discussions with corporate chairmen to consider how the digital revolution has driven innovation and customer experience in the financial services and consumer sectors. In this boardroom briefing, we examine the issues raised and their implications for effective board engagement.

Reshaping the customer experience

With more than 3 billion people online,¹ how companies do business—and how consumers experience companies' products and services—has changed profoundly. Moreover, the digital age is rapidly transforming how consumers interact with one another, and how they develop online communities. In the United Kingdom, about one-third of Internet users access the Web primarily via smartphone,² and in Europe, one in seven retail transactions is now completed through contactless payments.³ Demand for in-app purchases has also spiked.

Financial services has seen considerable digital disruption. Consider mobile payments, where Apple Pay, Samsung Pay, and Google's Android Pay have all joined the fray in recent years. While some of these offerings have been slow to gain traction, some companies have invested significantly in diversifying from "bricks and mortar" to a fully fledged e-commerce (or omnichannel) strategy. Starbucks already drives 16% of its transactions via its mobile app,⁴ and the UK retailer John Lewis has seen digital

¹ Jacob Davidson, "Here's how many Internet users there are," *Time*, May 26, 2015, time.com.

² Alex Hern, "Smartphone now most popular way to browse internet—Ofcom report," *Guardian*, August 5, 2015, theguardian.com.

³ Marion Dakers, "Contactless cards now used for one in seven sales," *Telegraph*, January 26, 2016, telegraph.co.uk.

⁴ Luke Dormehl, "Starbucks's mobile app payments now represent 16% of all Starbucks transactions," *Fast Company*, January 23, 2015, fastcompany.com.

channels account for up to 40% of total sales during peak shopping times.⁵

As a result, companies are increasing their marketing budgets to drive customer acquisition, and adapting their strategies to make the most of new distribution channels. At the same time, customer buying habits have become more sporadic and subject to influence from social media, the Web, and mobile apps. All of this allows companies to collect data to better understand and anticipate customer demands. The resulting insights can be used to personalize technology and create unique customer experiences. The shift to digital has thus enabled a truly personalized, data-driven, and customer-first approach.

Implications for boards

The dawning of the digital era is the latest in a long series of innovation-led disruptions, and, as with past disruptions, it is the board's responsibility to decide which skills and competencies to add in response, and how best to do so.

While no one has a crystal ball, our experience suggests that boards need digitally astute directors to bolster more traditional skill sets such as strategy,

financial management, governance, operational management, and risk. When seeking such non-executive directors, it is important to consider issues of "fit" and "board-ready" credibility. Do these individuals add value to the board more broadly, and if so, how? If they are based overseas—for example, in tech hubs such as Silicon Valley, Berlin, or Stockholm—will they be able to attend all board meetings?

And will they ask the right questions? Prospective board members from Silicon Valley powerhouse companies, for example, are likely to be digital natives and may have only held leadership roles in pure-play, digital environments. It is important to consider what broader business experience they bring and how they will help a company complete a digital transformation when the company is starting from a low base, such as a legacy environment. How might such individuals respond during a crisis when they are serving as independent directors? How might they respond to the corporate and board culture of a more traditional enterprise?

In evaluating potential new board members, it is important to note that they must add value across the broader board discussion—by being able to

⁵ Thomas Hobbs, "John Lewis sees online sales take off over Christmas as shop performance disappoints," *Marketing Week*, January 6, 2016, marketingweek.com.

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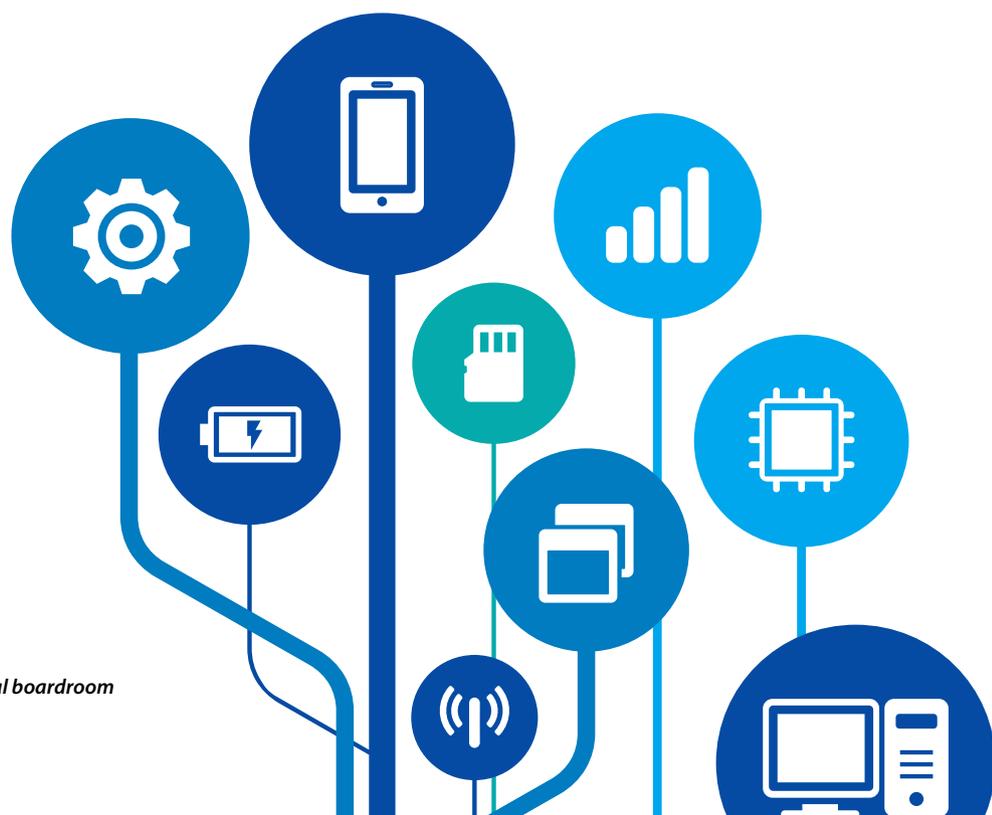
contribute to the audit committee, for example, or, if the company operates in a capital-intensive equipment industry, to the health, safety, and environmental committee. In our experience working with boards, we have seen companies reject potential members with strong digital experience because the candidate lacks enough depth in other areas. Board members should be able to contribute beyond their immediate knowledge and engage across the primary committees on the board. This holds for “digital directors” as well, who must be fully fluent in the language of the board even as they transfer their digital know-how to other board members.

Other boards have approached the challenge by creating time- and scope-defined digital advisory boards that help the main board get up to speed, as well as bringing innovative perspectives and “digital rigor” to boardroom discussions. While there are no hard and fast rules, these advisory boards—recruited from a variety of sectors, representing both start-ups and established firms, and formed of internal and external talent—support the main board’s knowledge and insight into the digital ecosystem and competitive landscape. They link senior executives and the board to outside expertise and networks.

Digital advisory boards can be focused more on topics, dive more broadly and deeply into the technology that drives digital change, or concentrate exclusively on a pure-play environment.

Companies such as Burberry, General Electric, Santander, and Thomas Cook have put digital advisory boards in place to complement the knowledge and skills of the main board. What’s more, the UK government has established the Government Digital Service (GDS), championed by digital czar and lastminute.com co-founder Martha Lane Fox. As a move toward harnessing digital expertise, digital advisory boards can pressure-test the executive team, providing value alongside a company’s digital strategy. They also present a good opportunity for first-time (and aspirational) non-executive directors to get exposure to the main board and develop influencing skills for better board engagement.

One note of caution: while these forums can enrich the board discussion, it is important to be clear on the advisory board’s mission and scope. What is its purpose? How will it add value to the executive team? Board members should not confuse or compromise their role with the executive team, but instead serve



with a well-defined goal in mind, focusing on creating an environment that encourages candid discussion.

Ultimately, the digital agenda should not be the responsibility of an individual board member or a specialized advisory board, but of the full board, which must remain alert to a diverse range of sectoral and competitive forces that can underpin a company's competitiveness. A board whose members have breadth and depth—both specialized expertise and finely tuned antennae for “ripple intelligence” and the “Uberization of marketplaces”—is best positioned to guide a company in a competitive market.

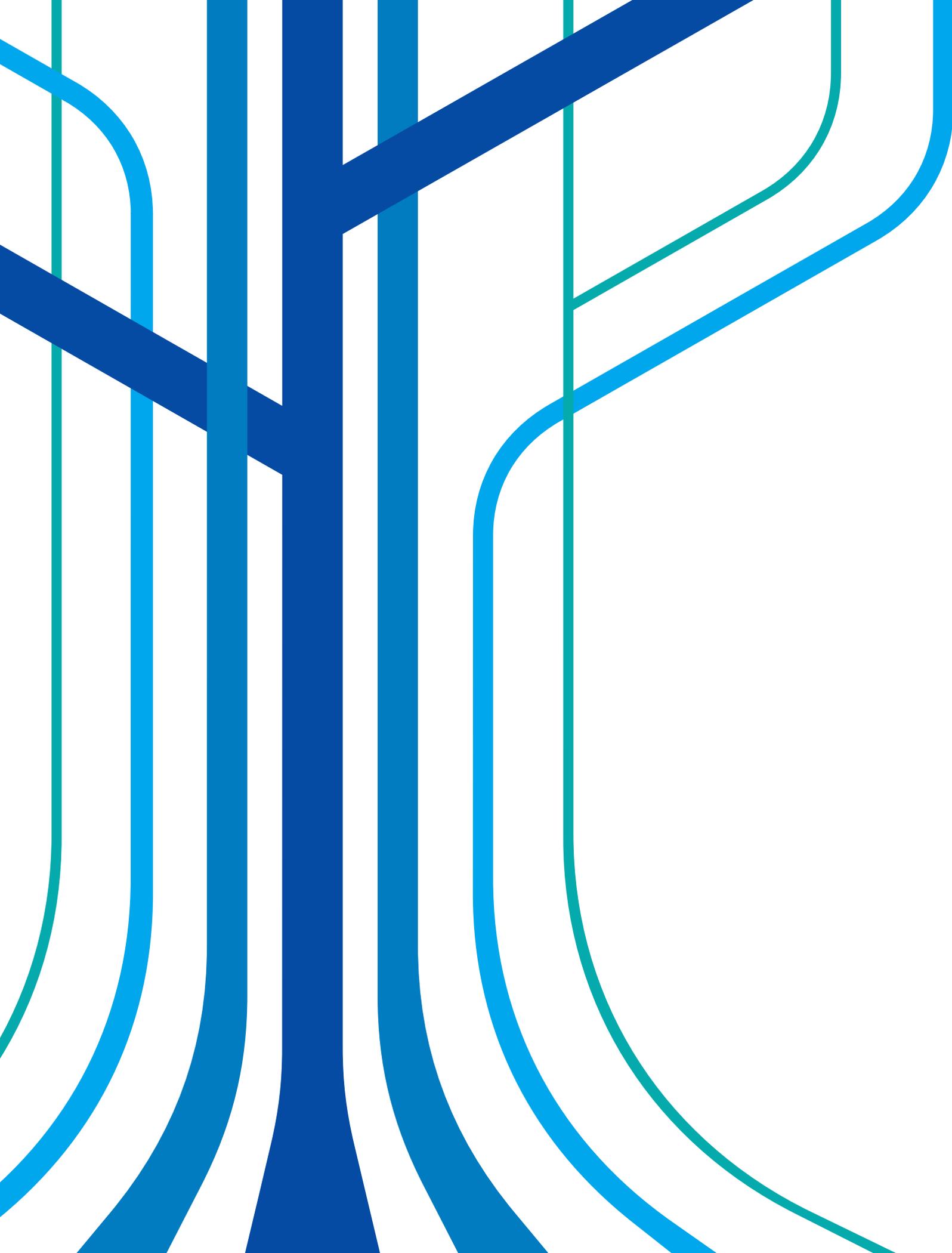
Concluding thoughts

To succeed, companies must align their customer proposition with digital strategy, make the organization's talent retention and development pipeline serve its digital objectives, and have the right leadership in place to deliver transformational change. Boards that cannot keep digital strategy in its proper perspective—important, but only as part of the broader strategic picture—risk losing ground to their rivals. ■

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