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FEATURE

Bringing digital to the boardroom

The impact of digital transformation on companies' boards

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THE DELOITTE CENTER FOR FINANCIAL SERVICES AND THE DELOITTE CENTER FOR BOARD EFFECTIVENESS

Digital transformation is changing the way businesses operate in many ways—including how boards of directors engage with management teams. What opportunities exist to enhance board effectiveness through digital technologies?

DIGITAL TRANSFORMATION IS *not* just about adopting new technologies. Its significance, especially in the business world, extends to how technology can be used to create—and sustain—a competitive advantage.[1]

As such, digital transformation, along with the potential for disruption, is high on the agenda for executives at many financial institutions, as well as their boards of directors. Boards are increasingly discussing the topic,[2] not just with management, but also with line employees. Many boards are keeping a close eye on the latest technological innovations, such as artificial intelligence (AI) and blockchain, and they are taking a strong interest in their businesses' strategic choices around technology.

However, though boards are paying more attention to digital transformation, their discussions tend to focus on the potential impacts that digital presents to the organization as a whole. Rarely, if ever, according to our research, do they consider the question of how digital transformation may affect the role of the board itself, and how board members engage with each other and with management. Yet boards are not immune to the impact of digital on the organizations they oversee.

We posit that digital transformation can have a marked influence on how boards function and communicate, and that boards could have much to gain from the thoughtful use of digital technologies to execute their role. At the same time, however, digital can also raise new challenges and hinder what boards are able to accomplish.

To explore these challenges, we interviewed board members and corporate secretaries from select major financial institutions, including banks, insurers, and investment management firms, to determine how digital technologies may affect boards and what boards should keep in mind as they embrace digital transformation.

The board's role: How is digital affecting what boards do?

The board's function has traditionally been—and fundamentally remains—one of supervision and stewardship. As supervisors, boards are expected to take ownership of CEO appointments, approve organizational strategies and their implementation, and oversee risk and compliance.[3] And as stewards, boards are tasked with "informing and helping to shape the future direction and health of the organization; advising on areas of investment; fostering greater innovation; responding to the changing geopolitical and technological environment; and developing organization talent and culture."[4]

However, changing market dynamics and regulatory actions are placing additional expectations upon today's boards. The National Association of Corporate Directors (NACD) Blue Ribbon Commission report urged directors "to keep finding ways to tap into fresh, unconventional thinking in order to improve oversight of the risks and opportunities posed by disruptive forces and events, including, but not limited to, the seismic shifts in the way we live and work that are being accelerated by new and emerging technologies."[5]

Indeed, "new and emerging technologies" have added a layer of complexity to boards' governance responsibilities, seemingly bringing more questions than answers. Our interviews suggest that digital raises fundamental questions about the board's role. For instance, as digital brings a new level of visibility into a company's day-to-day operations, how much information is necessary for boards to do their jobs? And do boards need to acquire new skills to keep abreast of digital developments and trends? In particular, several directors who we interviewed felt that digital transformation was blurring the line between the roles of boards and management as

This blurring of board and management roles is being heightened by increasing expectations around board oversight.

information access and distribution become easier, causing marked tension.

One director asserted that board members may need more transparency and greater access to information during times of stress and regulatory inquiries because simply asking questions of management—informally known as the "noses in, fingers out" approach[6] —only works until the company is undergoing stress. "As a board member, when the company has a big problem, the shareholders, employees, and customers hold boards accountable, so it becomes 'fingers in' as well," said the director.

Consequently, as digital continues to increase boards' access to information, many boards today are providing guidance on a range of rapidly growing and morphing topics. Directors are increasingly engaging more deeply on a diverse set of issues, such as strategy, mergers and acquisitions (M&A), risk, talent, information technology (IT), and even marketing.

The mounting pressure to push beyond oversight has boosted the importance of hands-on board stewardship. Many boards are trying to be better stewards by being more thoughtful and bringing their best judgment to the table on a variety of issues. One board director we interviewed even pondered if boards would be able to challenge management with new and more detailed information that big data and analytics may provide.

The directors and corporate secretaries we interviewed acknowledged that, in this changing landscape, they could face an uphill battle. Many felt that their jobs might become significantly harder in the short term before getting easier in the long run. Nevertheless, boards will have to find a way to strike the right balance between oversight and stewardship to maximize their effectiveness while maintaining their objectivity. Despite the questions that it raises, digital can empower board members with new information and tools to more effectively do their jobs. Much of this will depend on how technology is implemented and used in the boardroom, as well as how well management teams and boards understand both its benefits and its risks.

Communication and information exchange: Is digital a blessing or a curse?

Board members depend on communication and information exchange to do their job: communication from the management to the board, from the board to the management, and between board members. In this regard, our interviews revealed that digital technologies, while they have facilitated more effective communication in some respects, have been a mixed blessing.

THE TOOLS: THE ADVANTAGES AND CHALLENGES OF BOARD PORTALS

Recent technological advancements have led to the rapid adoption of board portals as a vehicle for board communications. These portals are intended to support the easy sharing of documents and data between board members and management. In fact, many written board communications today happen via board portals.

Board portals deliver several benefits over old-school paper-based communications, and even over electronic document-sharing without a mechanism for coordination and centralization. For one thing, board portals are designed to be protected, trackable electronic tools that cannot easily be lost as paper documents can. On the pragmatic side, board portals give directors a single place to go for information, eliminating the need to keep track of multiple communications delivered in hard copy or through email.

However, board portals have also brought their own set of challenges. While many boards use some kind of portal application, interviewees revealed they may exhibit some variability in features and functionality. For instance, information in certain portals might only be accessible on laptops and not through tablets or smartphones, or vice versa. This issue is especially complicated for those directors who sit on multiple boards. The use of several board portals with different security parameters and device requirements typically forces them to use more than one device to access information.

Directors who sat on multiple boards also indicated that there was no standardization across portals in how information is organized and presented, forcing them to spend extra time becoming familiar with different portals' features. For instance, some portals might display information summarized in a dashboard, while others do not. Additionally, some portals organized and restricted certain information to board committee members (such as the audit or risk committee); others shared all information with all board members.

Security was another concern. Although, generally deemed to be more secure than paper communications, board portals—like any online information repository—are vulnerable to cyberattacks. In some cases, too, a company might disable some of the portal's functionality or features—such as the ability to mark up communications between board members—to reduce legal risks. And notably, it was not uncommon for board members interviewed to use personal email accounts to access board portals and transmit documents, which could pose additional cyber risk challenges.

Overall, the consensus view from our interviewees was that many current board portals need further development, especially with regard to usability and consistency, and that improvements in these areas would help board portals to become more effective tools.

THE CONTENT: TOO MUCH INFORMATION, NOT ENOUGH TIME

It is well known that boards receive a great deal of information to digest in a limited amount of time. In fact, the aforementioned Fed proposal on enhancing board effectiveness noted that "boards of large financial institutions face significant information flow challenges [and can be] overwhelmed by the quantity and complexity of information they receive. Although boards have oversight responsibilities over senior management, they are inherently disadvantaged given their dependence on senior management for the quality and availability of information."[7]

Digital communications technologies are a big driver—perhaps even the biggest driver—of this information overload.

For the most part, the directors we interviewed shared that the information they received varied widely in both quantity and quality. As a result, most felt the effectiveness of these communications was somewhat mixed. Most directors also felt that they were often deluged with information, and that this information overload was especially severe when dealing with companies in the financial services industry with its highly regulated environment. One interviewee lamented that directors continuously receive "reams and reams of information," often impeding their ability to ask probing questions and potentially diluting their judgment.

Digital communications technologies are a big driver—perhaps even the biggest driver—of this information overload. The cost of transmitting information digitally is often minimal, so there is less incentive to prioritize or cut back, unlike in the past when paper communications were more prominent. As one interviewee put it: "It doesn't cost to add more slides." On the positive side, digital communications have eliminated the need for directors to lug around pounds of paper materials—but at the cost of receiving substantially more information in electronic form.

Although some management teams are conscious of the volume of information they share with board members, said another director, many executives tend to share more rather than less because they view providing more information as less risky. Another challenge some interviewees identified is the tendency for management to provide a great deal of information in an undigested form, assuming that different board members will want to analyze and classify it in their own way. However, this assumption is rarely accurate: The directors we interviewed stressed the importance of management sending cogent, concise reports and summaries to allow them to do their jobs efficiently.

One director also felt that the digitization of communications has led management to shorten their expectations for document review time. "Management teams do not give directors enough of a time window to review all the materials sent," said the director. The expectation of faster, real-time, "anytime, anywhere" communication in individuals' private lives seems to have spilled over into the business world, as boards face not just a growing volume of information but a growing demand to respond to it more quickly.

Even though digitization makes sharing information easier, these points suggest that management should be mindful of when and how much information to share so that it does not overwhelm board members and dilute their ability to process information and do their jobs effectively.

Digital in the future: How might emerging technologies further impact boards?

We expect that emerging technologies such as AI, cloud, and potentially blockchain will continue to change how information is produced, transmitted, consumed, and analyzed. Some interviewees also worried that the fast pace of technological change could potentially decrease the value of industry experience that board members bring to the table.

One way in which advancing technologies could be useful to boards is to enable data-driven decision-making. AI, for example, could be used to track an organization's capital allocation patterns so that boards can identify potential concerns, like if a company is cutting research and development spending while most of its competitors are increasing it. AI could also be used to review and process press releases to help management and boards spot new competitors in specific product areas. In such cases, the technology might even be able to suggest appropriate investments to protect the organization's market share.[8]

The directors we interviewed appreciated, in principle, the value that advanced technologies could bring to strategic decision-making. But there was less agreement on the extent to which board members specifically could benefit from such tools. Given the heterogeneity in directors' technical capabilities and inclinations, some thought that systems or tools for applying advanced technologies might be too complex or demanding for all directors to use, at least without proper training. Directors also differed in the extent of information they wanted; some interviewees emphasized their lack of desire to take a deep dive into the details of the data supporting management decisions, while others wanted to have greater transparency into the data (such as risk or performance data).

In the short term, the board members we interviewed generally felt that it was management, not boards, who should use advanced technologies to better access, collate, analyze, and communicate information to boards. That said, many interviewees also indicated that they would appreciate receiving continuing education on emerging technological developments that could affect boards in the future. In the words of one corporate secretary, "This education should be a management responsibility."

Key considerations for boards as they consider digital enablement

Digital transformation will continue to affect organizations in a myriad of ways. However, digitization is still a work in progress for many organizations, and its full impact, especially on boards, are not yet known. As one director mentioned, some boards have not yet broached the subject of digital transformation as it relates to how the board itself operates. The onus is on both directors and management to be more proactive in understanding how digital can affect their responsibilities—in both scope and execution.

Before future digital solutions are adopted or implemented, what should boards do to better understand the impacts of digital transformation on board processes?

- Get smarter about the current technologies in place and new technologies on the horizon.
- Task working groups or committees with identifying the risks and the rewards of applying these new technologies to board operations.
- Be clear on what problems you are trying to solve. Avoid the temptation to implement "shiny new object" technologies that may not be most effective for the problem at hand.
- Work with management to define the boundary between oversight and decision-making amid the implementation of new technologies.
- When the appropriate technology tools are identified for implementation, put proper training mechanisms in place to get board members up to speed.
- Develop guidelines that will help management identify the most pertinent pieces of information to share with the board, allowing board members to make the best use of their time.
- Engage in dialogue with industry associations about digitizing board processes.

Endnotes

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