

# Becoming Future-Ready in a Digital World: The Board's Role

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## **Boards must become more digitally savvy to help guide companies through transformations.**

As the world rapidly digitizes, companies are racing to create new value from digital and then capture that value in their financial performance. A digital economy not only creates opportunities for many companies but also erects barriers for those companies that can't adapt fast enough. For many traditional companies, the viability of the existing business model is at stake as customer expectations change and new competitors emerge in a digital world. One of the roles of the board is to ensure the company's long-term success by playing a pivotal role in overseeing the digitally enabled business transformation of the company.

The goal of a digital business transformation is to improve customer experience and be more efficient. We call companies that have learned to do both "future-ready." These future-ready companies are top performers, reporting estimated average revenue growth of 17.3 percentage points and a net margin of 14 percentage points above their industry average. This is according to new research findings from MIT Center for Information Systems Research (CISR) based on a study of 1,311 global firms that finds only 22% are "future-ready," having gone through digital business transformation and developed the capabilities that enable them to innovate, engage and satisfy customers while reducing costs.



Board members tend to be

older, more experienced and less likely to be digital natives. But they are often fast learners. They understand the need to get up to speed on the risks and opportunities of digital. However, in [“It Pays to Have a Digitally Savvy Board,”](#)<sup>1</sup> our study of all listed U.S. boards of companies over \$1B in revenues, we found only 24% of boards were digital-savvy — and those digital-savvy boards’ companies performed better, with more than 30% higher growth, return on assets and market cap growth than competitors. The board will not be leading the transformation, but the most adept boards play an integral role, encouraging change; asking pointed questions of the top management team; and providing encouragement, resources and oversight. Working with more than 30 boards globally, we have identified six actions boards can take to provide guidance and support to the top management team and company as they transform.

## **Develop a Common Language**

Aligning on a common framework and language for discussing and prioritizing digital strategies is critical for preventing executives and other members of the enterprise from talking past one another. Board members must ensure that the leadership team has worked out their differences in language and framework before greenlighting a transformation. Then everyone must use that common language in their own discussions and when talking to external stakeholders.

**Action:** Point out, via questioning to management, when there is a lack of common language. Be attuned to certain terms to make sure they are consistently used. Such terms include “ecosystems,” “platforms,” “AI,” “test and

learn” and “insights from data.” For example, in a recent workshop we conducted for a bank’s top management team, with several board members invited, each executive meant something a little different when using the word “platform,” both around the platform’s business purpose and what the platform would look like. The CIO talked about building a platform of digitized services to be used across multiple business-to-consumer brands to create efficiency and speed in delivering the firm’s current offerings. The CEO described building a new platform business with its own business unit (and profit and loss statement) where they would sell business-to-business services to other firms, like payments or identity management. The head of retail talked about building a new self-service, retail-only platform to focus on selling traditional banking products like mortgages, loans and insurance via an app. And the head of the business bank wanted to build a platform to help small businesses thrive and grow. The platform would include the bank’s products and complimentary products from partners like accounting software and customer relationship management systems. Upon further discussion, it was clear to all participants that this firm was not coordinated in their goals — not surprising, given the lack of common language. Progress was minimal, frustration was high, and there was talk about stopping the transformation because “it will never work.”

## **Motivate with a Strong Purpose**

To be meaningful and resonate with stakeholders, the company’s purpose must be the driver of any transformation. The purpose not only guides the customization of an enterprise’s vision of future-ready, but also helps people make judgments and trade-offs along the way. The board’s actions should embody the purpose, and its decisions should help meet the purpose. A strong purpose is an important tool to guide all levels of the enterprise, particularly in times of uncertainty.

**Action:** Challenge the management team to demonstrate how their transformation proposal furthers the company’s purpose.

## **Commit to a Pathway**

Most companies beginning their transformation have organizational silos, disparate data, fragmented processes and incompatible platforms and legacy systems. Every company should choose a pathway (or several) to go from this state, which we call “silos and spaghetti,” to future-ready. We found four possible pathways: industrialize, delight customers first, alternate the focus between

customer experience and efficiency, and create a born digital unit.

- **Pathway 1: Industrialize.** Pathway 1 starts with building a series of platforms with API- enabled (or similar) business services that can be accessed across the enterprise and externally. It enables a firm to eliminate many of its legacy processes and systems, creating a base for rapid innovation and delighting customers.
- **Pathway 2: Delight customers first.** Pathway 2 involves doing several things at once: develop new attractive offers, build mobile apps and websites, improve customer experience in different channels, and empower relationship managers — all with the goal of delighting the customer. After delighting the customer, pathway 2 companies then create reusable platforms to scale their operations and innovation.
- **Pathway 3: Alternate the focus, like stair steps.** Firms on Pathway 3 alternate their focus from improving customer experience to improving operations and then back again, taking care to pass the results of each project on to the next — not always easy.
- **Pathway 4: Create a new “born-digital” unit.** Leaders choose a Pathway 4 transformation when it is likely to be an uphill battle to transform the existing firm or they have a compelling opportunity where success depends on speed to market. The advantage of Pathway 4 is that it allows an enterprise to build its customer base, people, culture, processes, and systems to be “born” digital. It doesn’t need to deal with legacy systems, silos or culture change.

Not being explicit about which pathways you are following leads to very frustrating outcomes. Boards must understand the chosen pathway(s) so they can properly evaluate senior management’s plans, assess progress and demand accountability for the transformation.

**Action:** Ask the management team to specify the pathway(s), milestones, measures of success and capability development for the proposed transformation. Ask for demos!

## **Anticipate Explosions**

Developing new operational and customer experience capabilities often involves difficult organizational changes. Without those changes, it will be business as usual. We call these changes “organizational explosions,” because that’s what they feel like. The changes —clarifying decision rights, creating new ways of working, developing a platform mindset and performing organizational surgery —

are significant and disruptive. They affect most of a company's employees and partners. When well-managed, these four explosions smooth the way for the journey toward becoming future-ready and create a more agile, digitally savvy and collaborative culture. Explicitly deciding who will (and how to) manage the explosions typically reduces the time spent on the task and increases the likelihood of success in becoming future-ready. Ensuring that senior leadership has adequately anticipated the explosions and has plans to manage them is a key role of the board in a digital transformation.

**Action:** Ask for a report from management about the top four or five changes needed to succeed with transformation, as well as a report on progress. These changes nearly always start with changing decision rights and the prioritization of spending.

## **Build Capabilities**

Research from the MIT Center for Information Systems Research (CISR) has identified 10 future-ready capabilities that top-performing companies develop to achieve progress on both customer and operational dimensions and to capture digital value. For example, we found most future-ready companies have moved from a "command and control" leadership style to one that emphasizes "coach and communicate." An important and far-reaching aspiration is to build the future-ready capabilities across the entire company, including the board, management and everyone else. These capabilities help a company become future-ready and sustain competitive advantage. This is not a one-and-done initiative, but an ongoing effort that requires leadership, purpose, goal, metrics, budget, fresh approaches and perseverance. Boards need to make sure the enterprise is building these capabilities and provide the resources to invest in them.

**Action:** Ask for an inventory of the new digital skills that need to be developed and the progress to date.

## **Accumulate Value and Track with a Real-time Dashboard**

In the digital era, the way that companies create and capture value is changing. The key to success in transformations is creating value from digital initiatives, capturing that value in company performance and accumulating that value over time. Value encompasses all the beneficial outcomes of digital business, like

lower cost; better customer experience; more loyalty; and growth from cross-selling, attracting new talent and innovative products. We identified three kinds of value to both create and capture:

- **Value from operations.** The foundation of digital business, value from operations includes reduced cost and increased efficiency and speed.
- **Value from customers.** Value from customers encompasses increased revenue from customers via cross-selling and new offerings, plus more customer stickiness and loyalty.
- **Value from ecosystems.** Value from ecosystems relies on developing revenues either from leading or participating in an ecosystem — typically by partnering to reach new customers with your services or providing more services to existing customers.

Encouraging senior leaders to focus on creating and capturing operational and customer value is the baseline of what a board should expect. The board can play an important role in asking whether the enterprise needs to create more value from ecosystems. Value from ecosystems is riskier and therefore often overlooked or deferred, but it is increasingly important for long-term company performance.

**Action:** Ask for a real-time dashboard to show the value created from digital in operations, customers and ecosystems, and how that value is captured in company performance.

As we move into the digital era, boards have to adapt their important contribution to the company. It's time for boards to educate themselves and become more digitally savvy so they can provide the necessary guidance and support for these six actions for a successful digital transformation.

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*1 Peter Weill, Thomas Apel, Stephanie L. Woerner and Jennifer S. Banner, ["It Pays to Have a Digitally Savvy Board,"](#) MIT Sloan Management Review, March 12, 2019. <https://sloanreview.mit.edu/article/it-pays-to-have-a-digitally-savvy-board/>*