

Digital Transformation: How Boards Can Help Forge the Path Forward

By Carley Taslov and Chris Kosty



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Directors should be able to identify the signs that a company would benefit from advanced digital processes.

Digital transformation is the business world’s latest and greatest buzzword. A quick online search will return a variety of definitions, each with some small twist on the concept of implementation of technology to improve business processes. While defining this seemingly “black-box term” is certainly important, understanding the benefits of digital transformation is where one can begin to value and appreciate the excitement surrounding the process.



What is Digital

Transformation?

We define digital transformation as challenging the alignment of people, process and technology to identify opportunities to improve business processes. It is designed to help organizations achieve their strategic objectives, optimize their business processes and improve stakeholder experience. Digital transformation is not a particular product or service; rather, it is a commitment to improvement

through self-evaluation, innovation and technology. The process itself should follow a methodology that includes fact-gathering, evaluation, planning, execution and monitoring.

What differentiates digital transformation from a traditional technology implementation is that it evaluates the purpose, risks, efficiency and effectiveness of both business process and technology solutions simultaneously. The three pillars of people, process and technology all play a key role in ensuring businesses run effectively, so each should be considered when evaluating the efficiency and effectiveness of processes. In fact, all three pillars should be positively impacted during a digital transformation. Otherwise, the mark has been missed.

Why Is Digital Transformation Important?

Companies realize numerous benefits by going through digital transformation. Some benefits are quantitative, such as increased revenue and reductions in cost. Other benefits are more qualitative in nature, such as improved employee morale, risk reduction and improved customer experiences and relations. While a company's day-to-day performance should improve, the benefits of digital transformation continue beyond strictly financial or operational performance. Individuals charged with monitoring, governing and guiding companies are beneficiaries, too.

There are several positive outcomes from digital transformation that impact boards both directly and indirectly. Companies that lack standardization, organization and reliable data inherently carry more risk, especially from an oversight perspective. At the most basic level, the responsibility of boards can be broken into three main themes: ensuring sustainability of the organization, monitoring management's execution and prioritizing shareholder interests. How does digital transformation create advantages in each of these areas?

Sustainability of the organization. As companies grow, new challenges arise. Whether it be human capital risks (hiring or retention), market risks (inflation or rate changes) or business continuity risks related to an inability to handle changing landscapes, growth and change challenge sustainability. Process inefficiencies that exist within a company today will get exponentially magnified as growth continues. The quantitative and qualitative benefits resulting from digital transformation mentioned above inherently mitigate these challenges.

The standardization of processes paired with the utilization of technology helps to ensure that those processes are repeatable, easy to follow and sustainable over time, even as business needs change. Further, while technology alone cannot replace the people executing certain tasks, removing mundane or non-value-added tasks from an employee's day will improve their job satisfaction, thus reducing turnover. Amid the Great Resignation, and with the significant estimated costs of replacing talent, the importance of employee retention is at an all-time high. Lastly, digital transformation improves the efficiency, accuracy and reliability of data throughout the organization, allowing for data-driven decision-making by management with their newfound timely access to data.

The culmination is a sustainable foundation for the three pillars of people, process and technology to stand on for today's environment and tomorrow's needs.

Monitoring the management team's execution. Technologically speaking, a typical outcome of digital transformation is improved integration of data between systems. The benefits of system integrations surpass just the efficiencies gained in a process, as they also assist with reliably monitoring company performance. Assuming there is proper data governance at the point of data entry, integrations ensure and enhance the accuracy, accessibility and timeliness of data throughout an organization. Accordingly, when data is more easily accessible and the appropriate reporting and data analytic tools are in place, the ability to use this data for proper monitoring and decision-making increases exponentially. Ultimately, board members can make timely decisions and evaluate performance confidently, as they will have access to data to effectively monitor the management team against goals and strategic objectives.

Shareholders' interests as the priority. Shareholders are concerned with growth and return. Digital transformation produces outcomes that can result in an improved bottom line, directly impacting shareholders of the company. With more accurate and efficient data reporting comes a better ability for management to oversee the key financial areas of the business. Outside of reporting, as processes are reimaged via digital transformation, many opportunities arise to reduce or eliminate manual or mundane tasks. This results in significant benefits for organizations, which could include:

- Overall reduced risk with improved data governance and organizational alignment of processes and controls.
- Enhanced return on investment for existing or new software, as capabilities of existing systems will be evaluated, and technology gaps will be uncovered and filled as part of the digital transformation process.

- Reduction in days for month-end close due to automation and data integration optimizing the data aggregation and reporting components of close.
- Increased workforce capacity due to automating or optimizing inefficient processes, leading to revenue growth potential outpacing related costs.

Identifying the Opportunity Ahead

There is significant value to be had from digital transformation. Ultimately, digital transformation can create a positive impact for all stakeholders, including more satisfied employees, improved customer interactions, improved earnings for shareholders and enhanced visibility for the board.

Where should you begin? There are certain identifiers that typically indicate it's the right time for digital transformation:

- Untimely or inaccurate operational or financial information
- Multiple locations lacking standardization or alignment of best practices
- Accelerated growth outpacing current process capabilities
- Key changes in management, succession planning or significant employee turnover
- Mergers, acquisitions or divestitures
- Control environmental failures, significant audit findings, control deficiencies, material weaknesses or concerning management letter comments
- Unsuccessful implementations of new systems

A successful digital transformation will properly align people, process and technology to optimize business processes and help achieve strategic goals and objectives. The organizational commitment to the process is necessary to recognize the full benefit and mitigate associated risks, so top-down support on a digital transformation initiative will produce the best results and yield the highest overall enhanced stakeholder experience. Board members play an integral role in advocating for the enactment of positive change within an organization and should be aware of the identifiers and benefits of digital transformation to elevate the future of their companies.

Carley Taslov is shareholder, risk advisory services, and Chris Kosty is manager, technology consulting, for Schneider Downs & Co. Inc.