



Insight

The Implications of Digital Disruption on Boards



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Introduction

It is clear to most of us that we are at the early stages of the greatest transformation of industry structures, business models and the nature of work that the world has ever seen. These changes have the potential to impact all businesses and most categories of work.

The opportunities are exciting, and the threats are potentially severe.

In 1962 the average lifespan of an S&P 500 company was 62 years. Today it is 18 years, and could be 15 years by 2025.

It is estimated that business models may only have a lifespan of three to four years, given the pace of technological change. About the same lifespan as average CEO tenure.

This paper aims to summarise some of these major changes, and suggests that many boards need to rethink how they respond to these forces sweeping the world, in terms of how best to discharge their responsibilities.

Consider the following:

- World's largest accommodation provider owns no real estate – Airbnb
- World's largest taxi company owns no taxis – Uber
- World's largest phone companies own no telco infrastructure – Microsoft Skype, Apple FaceTime, Google Hangouts and WeChat
- World's most valuable retailer has no inventory – Alibaba
- Most popular media owner creates no content – Facebook
- World's largest movie house owns no cinemas – Netflix
- Largest software vendors don't write the apps – Apple & Google
- The Internet of Things will reshape logistics and supply chain processes
- Quantum computing will dramatically accelerate the power of Artificial Intelligence ('AI')
- The continuing development of IBM Watson type AI systems offers considerable productivity improvements



- By 2025 a significant proportion of cars are likely to be driverless and/or electric – our current car is likely to be one of the last many of us buy
- A combination of inexpensive alternative energy sources with smart batteries – like those offered by Tesla – will change many industries
- The blockchain platform has the potential to revolutionise various kinds of financial services and commercial transactions
- 47% of today's jobs could be automated by 2030. When we emerged from the industrial revolution of the 19th century, we were left with entire workforces untrained and unskilled for what was needed next. The same is happening today.

Extraordinary changes have happened, are happening and will continue to happen

It is clear that extraordinary changes have already occurred, and many more are waiting in the wings.

A recent Deloitte study has identified that there are five industries in Australia, representing a third of the economy, where major disruption is expected within a three-year time horizon:

- Retail
- ICT & Media
- Finance
- Professional Services
- Real Estate

Six industries, representing another third of the economy, will also experience major disruption, but over a longer time period, according to the Deloitte study:

- Education
- Government Services
- Health

- Transport
- Utilities
- Agriculture

A survey of 941 business leaders in 12 countries also estimated that four out of the 10 biggest players in most industries would be displaced by digital disruption before the end of this decade.

Technological Transformation and Revolution

Informed observers comment on the transformational impact on specific sectors:

Unless financial institutions undergo major transformation, they will become ‘capital-providing utilities’ in a highly regulated, ever less profitable, environment:

- In the near future, it’s predicted that 20-50% of branches will close and 20-50% of bankers will lose their jobs.

The last two years have been extraordinary, in the sense that technology has deconstructed the retail industry. Now, every merchant, every retailer must have an omnichannel strategy, or they won’t survive. That’s very different from even just 24 months ago.

The big picture for commercial real estate - more change than any time since the industrial revolution:

Office

- Employees work anywhere, anytime
- Changing the workspace delivers a more connected place
- The workplace is a business-enabler, to collaborate and drive productivity.

Retail

- Consumers can shop anywhere, anytime

- Store networks are at the beginning of a major shift
- Empowered consumer driving new business models.

Many start-ups are leveraging the combined GAAF capability – Google, Apple, Amazon and Facebook.

These technologies also offer incredible opportunities for companies to reduce radically their operating and overhead cost structures.

There is a range of other technologies that are transforming the world as well – nano, materials and biotech to name just a few.

This overall technological revolution is driven by three things:

- All the world's media and information has or is being digitised, and new information is being added at an accelerated pace from sensor data from 'smart devices', sometimes referred to as the Internet of Things
- Mobile devices can access this information and anyone anywhere at anytime
- Cloud computing puts a supercomputer in your pocket – it's like Moore's Law has gone berserk. Barriers to entry have been demolished.

As a consequence, the world is far more unpredictable, and change is happening far faster than ever before, making the jobs of boards and management much more difficult than in the past.

Most of the chairs and directors I speak to across most of Australia's key sectors believe that every business needs to embrace these fundamental forces sweeping across their markets, to ensure the long-term survival of the businesses under their stewardship.

Implications for Boards: Responsibilities, Strategy, Technology and Embracing Opportunities

In my opinion, boards have two key responsibilities among a large number of requirements mandated by various regulators:

- Ensure the long-term survival, value and strength of the business

- Includes ensuring that the company complies with its legal obligations and therefore sustains its right to operate, and protects its assets through appropriate risk management
- Ensure that expected performance is delivered to key stakeholders continuously.

Boards discharge these key responsibilities by focusing on the following:

- Making sure the leadership of the business is competent to deal with the many issues facing the business and deliver on performance expectations
- Making sure that succession processes are in place, to allow relevant leaders to be in place to lead the future business
- Ensure that the leaders of the business, including the board itself, build and sustain a culture that is necessary to underpin success
- Testing the adequacy of the business's vision, strategy, business and operating models and cost structures
- Ensuring that appropriate risk management processes are in place.

Boards need to spend more time on strategy and the impacts of digital transformation on their businesses

The fourth point – testing strategy and business models – is where many boards need to spend more time, given the dramatic changes likely to affect every part of their businesses.

Many public company boards need at least two directors with deep technological knowledge and experience

In my opinion, many boards in the public arena can only truly discharge this key fourth responsibility if they have some directors on the board who have a deep understanding of the technology forces at work relevant to their industry.

I believe that many boards need at least two directors with strong and relevant technology knowledge and experience. This knowledge and experience is required to provide the board with a deep understanding of the relevant forces that produce significant new opportunities and major threats to the sustainability of the business.

The entire board needs to have a mindset that embraces the challenges and opportunities of digital disruption

The entire board needs to have a **mindset** that believes that their business will look quite different in a few years' time, and enthusiastically embraces the work required to ensure the ongoing relevance of their business.

This mindset can be created and sustained by a range of possible initiatives, some of which will be embraced by individual companies:

- A chair who is passionate about keeping abreast of these changes, and actively engages in the process of learning about new opportunities and threats. I believe that this is a key factor
- Overseas visits by the board and senior executives, to learn about relevant transformational changes at close quarters
- The technology directors helping the board appreciate the range of opportunities and challenges generated by new technologies at a detailed level
- Many businesses have created the role of Chief Digital Officer, who will have an important job in keeping the board up to date with all relevant technology developments
- The creation of a new board committee – The Digital Committee – with a charter to evaluate all possible opportunities and threats and develop appropriate strategies
- Many businesses have set up labs in Silicon Valley or in Sydney to explore these opportunities
- The creation of an Advisory Board of eminent technologists, to advise the major board on these matters.

Using technology to disrupt board processes and work

One way for directors to prepare themselves to be a good digital director is to use technology to disrupt the way the board does its work. Technology can help directors automate the compliance factors for internal and external audit and, as a result, give greater insight to both compliance and culture. The time saved can be invested in strategy discussions.

I look forward to discussing these exciting developments with you over the coming months.

Thanks for reading

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