

August 2017

Are your company and board ready for digital transformation?

Board byte: 2017 Global Digital IQ Survey

Going digital means change. Having the right skills is a critical part of the process.

As overseers of company strategy, the board of directors plays an important role in their company's digital transformation. They need to understand what this transformation entails and how the company plans to execute it successfully. Digital skills are a big part of the conversation – at the company and in the board room. Are you keeping up?





Digital transformation is well under way at companies across industries. Businesses are investing in emerging technologies, they're embracing innovation and their executive teams are committed to using digital technologies to get ahead.

Your board has likely heard that going digital is critical to the company's success. But before your company gets too far down the digital path, your board will want to understand what any transformation may mean to the company. Is your company really ready to embrace such a potentially big change? What value and benefits would the company get from any digital investments? How will these technologies impact customer and employee experiences, as well as culture? Has management thought about the talent the company would need to make any digital changes?

Boards have an important role when it comes to digital transformation. It's often a critical component of a company's strategy, which the board oversees. So boards will want to take time during their strategic discussions to talk about what digital initiatives will entail. They will want to discuss which emerging technologies are most relevant to the company and how the company plans to capitalize on them. They'll also want to discuss how the company is innovating – is it focused on traditional research and development centers and internal incubators or does it embrace open innovation and design thinking? They'll also want to know if the company is aligning its innovation efforts with its business strategy.

Boards should also talk to management about the company's talent strategy and how it's acquiring the digital skills it needs. Who is leading the digital transformation effort? How are other leaders at the company involved? Boards will want to know how the company recruits and trains the people to continue that charge in the future.



The board of the digital future

As your board thinks about the company's digital transformation, it should also look inside the boardroom. As you look around the board table, you might wonder if your board is ready for the digital revolution. The technologies companies are investing in are blurring industry lines and creating new business models and competitors. Any industry today will likely look very different in just a few years. Does your board have the right mix of skills and experience for the company's future? If not, it may be smart to add directors with digital and new technology skills.

The focus on specific technology and digital skills for board members is a somewhat new phenomenon. Just a few years ago, many boards were not enthusiastic about the idea of adding a technology expert. Some are coming around to the idea, but only 42% of directors responding to our [2016 Annual Corporate Directors Survey](#) ranked IT strategy expertise as a very important attribute for the board. Still, strategic technology and digital skills are increasingly becoming critical for board members to have – or have access to – as emerging technologies change companies' strategies.

How important are technology skills to directors?

% responding 'very important'

IT strategy expertise



42%

Cyber risk expertise



37%

Source: PwC, 2016 Annual Corporate Directors Survey, October 2016.

Q. How would you describe the importance of having the following attributes on your board?

Base: 865-866



Is your company keeping up?



Digital IQ

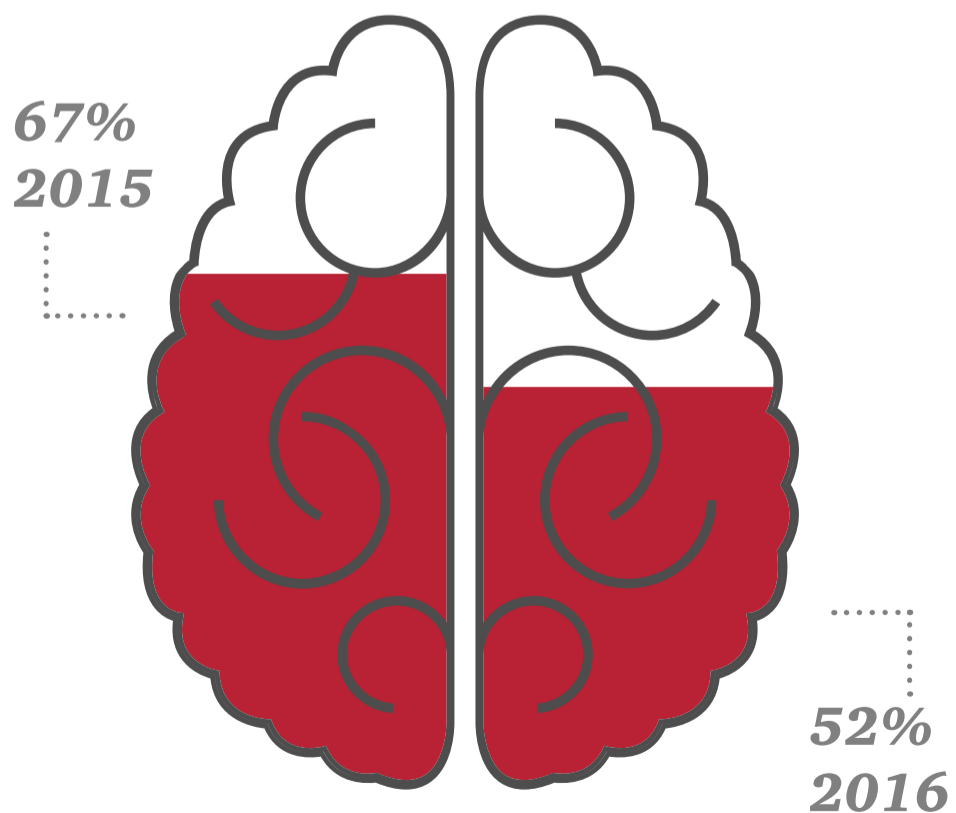
We define **Digital IQ** as how well an organization understands the value of digital technology and weaves it into the fabric of its organization.

As your board begins to understand what digital means for the company, you might also discover that your company isn't ready, either. Many companies are discovering that they're not fully prepared for the next generation of technology. In fact, executives' confidence in their ability to capitalize on digital change is at an all-time low, according to our [*2017 Global Digital IQ Survey*](#).

In our survey, we interviewed more than 2,200 business and IT executives, and just over half rated their company's Digital IQ as strong, down 15 percentage points from the year before. What is the problem? For starters, they're still grappling with current technology, like cloud computing. Companies also can't find the critical digital skills they need. And some don't have strong innovation capabilities. We also discovered another missing element: a lack of focus on the customer and user experience – the human experience. In order to address these areas, companies need to engage the right leadership team.

A dropping Digital IQ

% who say their company's is strong



Source: PwC, *Global Digital IQ® Surveys*.

Base: 2,216 (2016), 1,988 (2015)



63% of executives say that lack of properly skilled teams is an existing or emerging barrier to digital transformation.

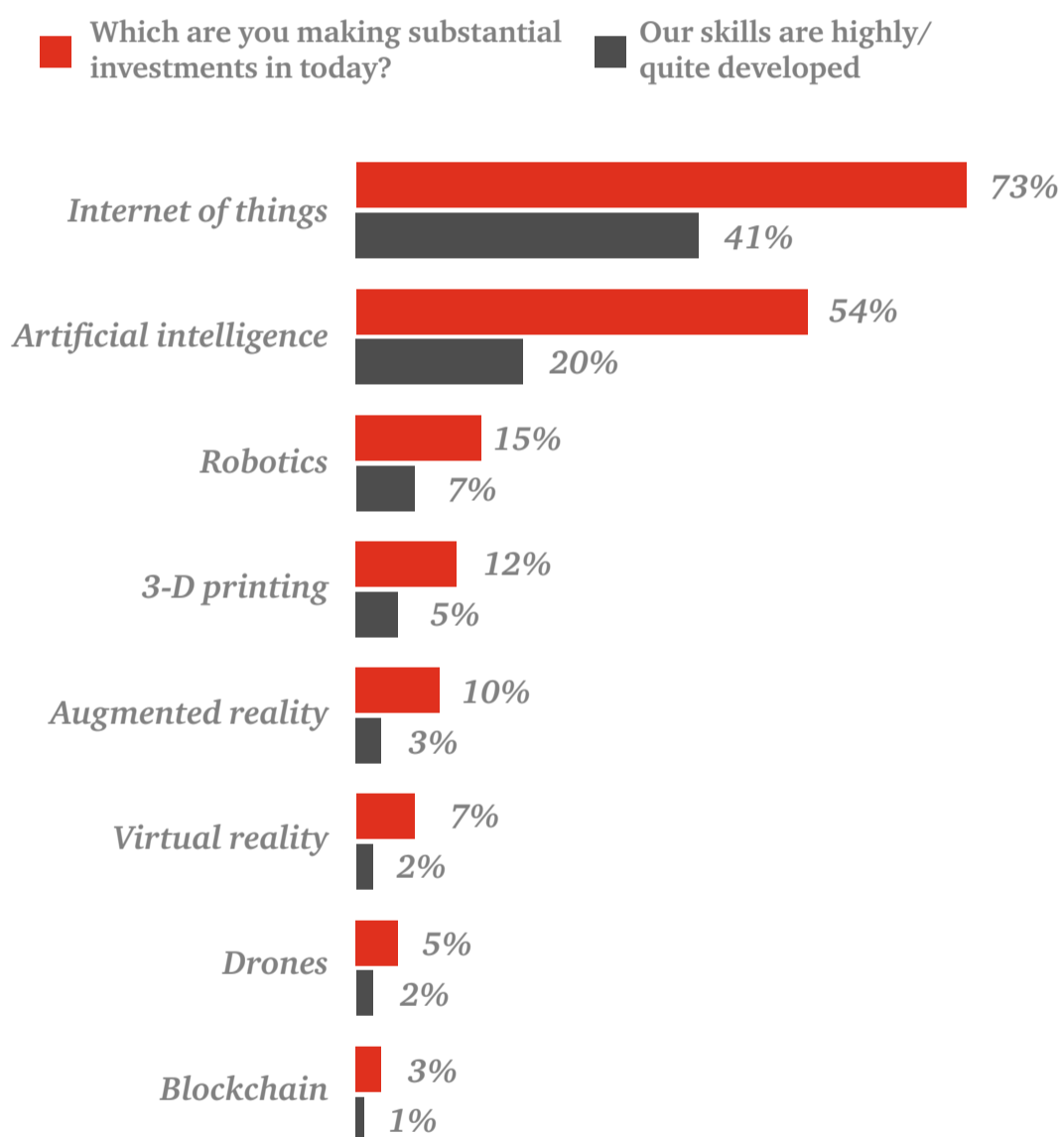
Source: PwC, *Global Digital IQ™ Survey*, February 2017.

Q. How would you characterize the following obstacles to achieving expected results from your digital technology initiatives?

Base: 2,216

To get ahead in today’s digitally competitive landscape, it’s critical for all employees to have a baseline of tech skills. “But respondents to our Digital IQ survey say skills in their organizations lag across many important areas, including development of new technologies, such as the internet of things and artificial intelligence. This skills gap is a big concern to companies because it’s getting in the way of achieving results from their digital investments.

An emerging tech skills gap



Source: PwC, *2017 Global Digital IQ® Survey*, February 2017.
Base: 2,216



So how can companies manage this issue? They may need to upskill their workforce. Company leaders, including the CEO, need to commit to training their employees, teaching them the skills to harness technology and to be conversant in disciplines outside their own.

Another way to help close the gap is to have a collaborative work environment that is conducive to learning. Instead of people working in isolation or only with peer groups, having a cross-functional team of specialists work in close virtual or physical proximity to one another can increase collaboration – and innovation. People can work together to tackle business issues as the company develops a connected, common working language among its employees. This type of collaborative work environment also improves efficiency, which is vital to keeping up with the speed of technology.

Some companies turn to external resources to get the digital skills they need – even when they have their own skilled workers. One-quarter of respondents to our *2017 Digital IQ® Survey* say they use external resources because they find it too difficult or too slow to work with internal teams. And 42% of business and IT executives say third parties are less expensive. But relying on third parties is not a sustainable solution. Companies that lack their own skilled teams could end up far behind their peers and competitors when it comes to getting results from their digital investments. This skills gap can easily become a canyon if companies don't make finding and developing this talent internally a priority.



A missing link: better customer experiences

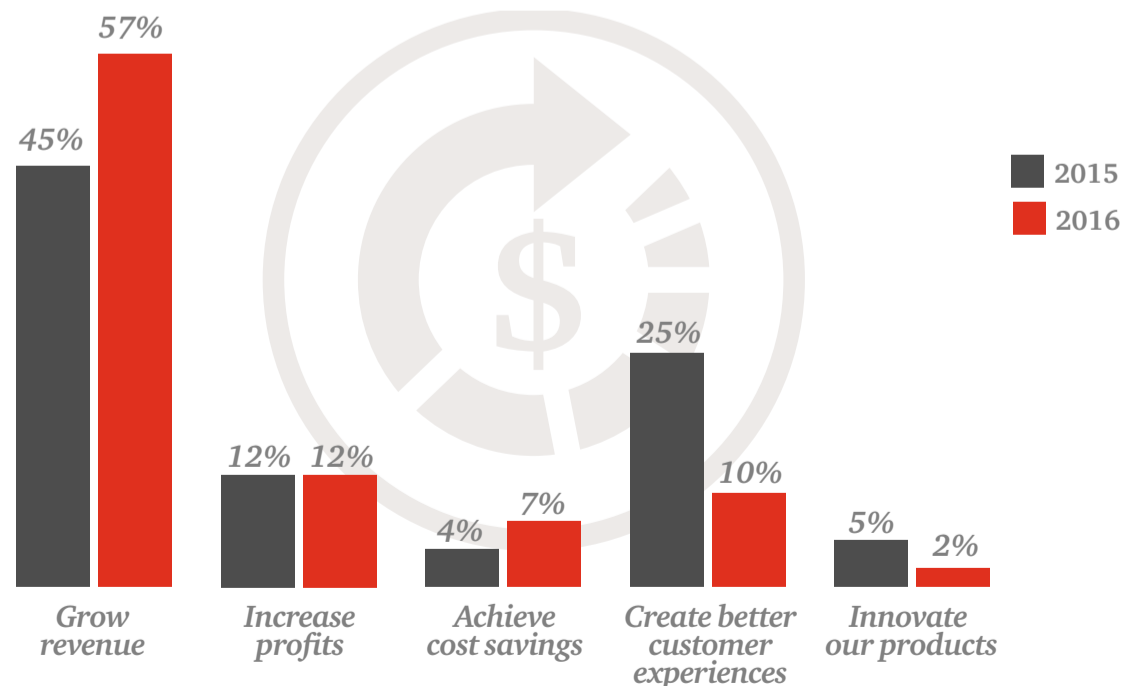
Having the right digital skills and capabilities is essential to delivering a better customer experience – which is key for companies trying to get ahead. But often, experience is not a top digital priority. In fact, creating better customer experiences fell in importance this year, according to our survey. Only 10% of respondents cited it as the number one goal for their digital technology investments, down from 25% just a year ago. While revenue and increased profitability are always important, the customer experience is an important piece of the digital transformation puzzle, and one that should not be overlooked.

Developing a high-quality user experience for employees and customers is key to getting full value from digital investments. Our survey shows that organizations that focus on creating better customer experiences through technology tend to have more mature strategies for digital and see better outcomes. And the icing on the cake: our 10 years of Digital IQ surveys has shown that companies that focus on creating better experiences report stronger financial performance.

Experience is an afterthought

What value do you expect from your digital technology investments?

They will enable us to... (top-ranked choice)



Source: PwC, Global Digital IQ® Surveys.
Bases: 2,216 (2016), 1,988 (2015)



Leaders have to pave the way

It takes strong executive leadership to successfully drive digital transformation. Leaders need to fully embrace and encourage innovation and collaboration across the entire organization. We are starting to see this happen. More than two-thirds (68%) of executives are now champions for digital, up from 33% in our 2007 survey. Responses from our [*20th Global CEO Survey*](#) echo this trend. Innovation is the top thing global and US CEOs want to strengthen to capitalize on new opportunities. The next two: digital and technology capabilities and human capital.

But it's not just about the CEO. The Chief Information Officer (CIO) or Chief Digital Officer (CDO) should be a part of the digital conversation. Together with the CEO, they are typically responsible for setting and implementing digital strategy and investments. They are indispensable to discussions around the strategic use of technology. Some companies are even considering adding a C-suite executive to focus on the human element. This Chief Experience Officer (CXO) would focus on the experience aspect of digital transformation and strategy – how you define and deliver digital initiatives with your employees and customers in mind.



19% of the world's largest 2,500 companies have a Chief Digital Officer or equivalent to lead their digital agenda.

Source: PwC's Strategy&, *Chief Digital Officer Study*, June 21, 2017.



70% of companies say they explicitly incorporate digital strategy into corporate strategy.

Source: PwC, Global Digital IQ™ Survey, February 2017.

It's also important to involve executives from disciplines across the organization, including business strategy, designers, programmers and human capital. Bringing in different perspectives at the outset of any transformation initiatives can help expand the company's view of digital – and help foster success in getting where it wants to go. Together, these leaders can develop goals related to the company's digital priorities and work together to address what's needed to drive the transformation effort.

No matter how your company sets up its leadership structure around digital, regular communications and updates are important. Leaders should have conversations with employees about how digital is changing the business. They should also communicate with customers, partners and other stakeholders. And they should think about how to use technology – video, social media and mobile – to have these ongoing conversations.

Addressing the skills gap starts at the top. Company leaders must understand and engage with digital technology to determine how it could help or hurt their business.



How directors can take action



As companies embrace new technologies to deliver their strategy, they will need to invest in education and training to bridge the digital skills gap. Directors will want to ask management how it is keeping its skills up to date, as well as how recruitment and talent development may change. They will also want to understand any impact on the company's underlying business processes. Directors should be a part of this investment. They need to get educated about digital transformation and engage with emerging technologies in order to weigh in on what makes sense for the company and its plans. Here are some ways to start:

- **Improve your own Digital IQ** – You can't oversee digital transformation if you don't understand it. Keeping up with technology trends is critical today – for executives and the board.
- **Get more hands-on and use more technology in your day-to-day activities** – It is not always easy to find ways to experiment with emerging technologies. But there are more than you think: there are augmented reality fitness and sporting activities, wearable fitness devices, digital household assistants and virtual reality tours of real estate offerings. By exploring these technologies, directors can get insights into the human experience angle of how they work.
- **Hear from those who are charged with driving the company's digital strategies** – The board should hear from the CIO, CDO, Chief Innovation Officer and other technology leaders on a regular basis. By presenting to the board, these experts can inform the board on the latest technologies, digital investments and innovation strategies.



- **Consider deeper dives outside of board meetings to stay up to speed** – Directors can learn about emerging technologies through online courses, reading newsletters and blogs or listening to podcasts. They can attend conferences focused on digital technologies targeted to senior executives and board members. Individual directors may want to meet with or talk to the company’s technology experts outside of board meetings to expand their knowledge. They may also want to visit innovation centers or digital labs to see how these technologies are being tested and used.
- **Keep up with continuing education** – Technology changes every day. What’s new and innovative today may be dated tomorrow. This isn’t a topic that you can learn about once and put aside. It’s dynamic, so in order to keep up, you have to commit to learning and stay on top of it.
- **Make sure digital is part of the overall strategy discussion** – Overseeing strategy is one of the board’s most important roles. Because emerging technologies and digital transformation are integral components of company strategy today, these topics should be a key part of the board’s strategy discussions. Boards should understand their opportunities and risks. It’s also important for boards to regularly talk to management about the company’s strategic digital plans.

By being involved and understanding what is really needed to undergo digital transformation, boards can ensure that leadership is executing on its plan and steering the company toward a successful digital future.

For more board-level resources about digital transformation and emerging technologies, visit our website, [***Technology hub: insights for corporate board members***](#).

Read more about our [***Digital IQ™ Survey***](#), and find additional resources about emerging technologies on PwC’s [***Next in Tech hub***](#).

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