



Are European Directors Ready for a Digitalized World?

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ECODA'S ANNUAL CONFERENCE

"ARE EUROPEAN DIRECTORS READY FOR A DIGITALISED WORLD?"

21 April 2016 - WRAP-UP REPORT

The conference was moderated by **Peter Dehnen**, *Chair of VARD*

A Video recorded interview with **Professor Robin Teigland** (at the Stockholm School of Economics) co-author of the book: "The Sharing Economy - Embracing Change with Caution" was then presented.

- The Sharing Economy is a new way of thinking about how we can create value,
- Boards are impacted by the Sharing Economy because there is a lot of new firms coming up, changing the basic consumption with new actors, new models which are more flexible. It is time for technological change and sociological change.
- There are a few different policy considerations. One of the most important is to understand what should be regulated and how to remain flexible.
- Another big challenge is reeducating people in a quick manner, as Sharing Economy moves alone.

Turid Elisabeth Solvang, *Chair of ecoDa*:

- The future is actually happening right now
- This is yet another symptom of what Klaus Schwab from the World Economic Forum calls the Fourth Industrial Revolution. He is convinced that we are currently in the early phase of a revolution which fundamentally alters the way we live, work, and relate to others
- A digital single market is high on the EU agenda, and digital competence, opportunities and strategies are on the plate of a multitude of conferences around Europe this year – among them the World Economic Forum in Davos in January. And here is what 800 technology leaders and experts said, when the World Economic Forum asked what they think will happen by 2025 – within just a few years, that is:
 - 3D printing of cars may not surprise you much.
 - But are you ready for the transplant of a 3D printed liver?
 - And the bottom line should be of particular interest
- As the highest level of corporate strategic decision makers, board directors need insight into digital development and its opportunities and threats. Unfortunately, the current body of

international research on the subject confirms that neither the C-suite, nor board directors, appear to be attuned to digital risk and opportunities, and it also confirms that many companies suffer from this competence gap.

- Russel Reynolds Associates' *Digital Board Director Study* from 2014 confirmed that 80% of the boards in the survey are NON-digital – which means that NONE of that company's board directors are considered digitally competent. In the new world, companies should acknowledge that: "it is not the big fish which eats the small fish, it's the fast fish which eats the slow fish».
- Wise board members are attuned to the times in which they serve. Wise board members are willing and able to adapt their operation to navigate changing circumstances, whilst also understanding that to have a future, they must also dare invest in areas of unknown potential.

Liselotte Hægertz Engstam, Chair Digoshen, Independent Director at multiple organisations:

- The speed of change and digital impact is unprecedented. Out of the Fortune 500 largest companies in the world in 1955, only 61 remain in 2014. The average age of companies 1955 was 75 years and is now down to 15 years.
- According to the Deloitte research [Technology and people: the great job-creating machine](#), technology has created more jobs than it has destroyed in the last 144 years; it has boosted employment in knowledge-intensive sectors such as medicine, accounting and professional services.
- There is no single role not impacted by the digital revolution.
- Today's environment is not the one of predictable competition. Companies need to engage consumers and they are the ones that need to be able to choose and customize. Consumers are dictating the direction. It is important to make digital a part of management and culture and leave the fear of change behind. People in position of power need to take deliberate decisions.
- She presented some concrete examples of companies that have developed their business on technologies that they didn't consider originally:
 - Tesla started out to revolutionize transportation by providing electrical cars. The charging need later made them enter into providing charging stations between cities. To make them independent of battery providers, they are building a battery factory that will also produce batteries for both cars, charging stations and also build large home and business batteries that can store home energy for a week. <https://www.teslamotors.com/energy>
 - Google started out in search algorithms, expanded into search and mapping functions, then photographing many parts of our world, and now based on that function have measured the sun effectiveness on all roofs (starting in US), and can together with solar panel companies now offer house owners a fully predictable sustainable financed energy solution. <https://www.google.com/get/sunroof/about/>
 - Minecraft stimulates collaboration. About 100 million users have created videos. Minecraft was bought by Microsoft. Their technology is changing how people are interacting. The system will be used to teach geography.
- She presented a survey done of board members in Nordic countries, and also included Europe/EcoDa board members (75% Nordic 25% Europe). The results of the survey found that the majority of companies still focus their digital initiatives on functional improvements (65% use digital in marketing, 50% in selling and less than 50% in products and services), while there are more gains when companies adjust their business models and value propositions (25%

have increased global reach and 40 % launched new business models). Half of the boards feel that they are less digital than their customers.

- Board members believe that about 20% of their boards are competent on digital. 30% have decided on a transformative vision (which increased if a board members with IT/internet background was included, but had highest likelihood when including a person with business background and added digital competence). 50% of board members has started to listen on social media even if they're not acting.
- Directors need insight in digital developments but they often suffer from a competence gap. It is important to stay on top of the digital developments because company's strategic direction depends on it.
- It is important that European companies dare to do business experiments. Only 30% of firms are currently doing that according to the survey. Through several examples she shared what other companies are doing to address the challenge. They are engaging in start-ups, using start-up working methods and developing innovation centres. Companies are also increasing digital competence on the board and assigning CDOs – Chief Digital Officers (executives). There is an increase in engaging boards and leadership teams, and they go on insight and strategy journeys to, for example, Silicon Valley.
- It is also important that board members learn and show personal courageous leadership. For board members that want to assess their companies digital leadership as well as their own, the referenced survey can be taken free of charge and anonymous and a personalized feedback report is provided directly via the link digoshen.com/research. Via the same link access will be provided to the referenced European Digital Progress Board Report.
- Suggestions for change
 - Increase involvement and time spent on strategy (f.ex start revisit what Start-ups do in your area)
 - Increase digital competence on board (f.ex get personal experience of sharing economy)
 - Revisit focus on board meetings (timebox areas and increase time spent on strategy)

1st PANEL: BOARD STRATEGY WORK IN A DIGITAL SINGLE MARKET

Liri Anderson, Founder of This Fluid World on “Impact of digital on business and management”:

INSEAD report [The Real Impact of Digital - As Seen From the “Virtual Coalface”](#), was presented at the conference. The study approaches the issue of digital from a fresh direction: the real perceptions and experiences of managers on the ground and “in the coalface” of business. The results, as well as 21 insights and recommendations for the 21st century, are highlighted in the report.

LiriAndersen made a quick overview of what the digital disruption actually is and how it is positioned in the press. She highlighted that everyone today has the same computer power than those who put a man on the moon.

Some insights from the INSEAD study:

- The word ‘digital’ doesn’t mean anything – it depends on the complexity levels of the company. There is no off-the-shelf digital solution – companies need to be clear what digital means for them.
- Digital today does not have one form or a shape that we can copy from and optimise on it has many different forms and shapes;

- There is no such thing as a digital road map, each organisation's digital journey appears individual
- In sum: there is no 'prêt-à-porter/prêt à penser' solution for digital. It is a true opportunity to personalize the strategy of your organisation. Digitalization empowers the general public.

The business opportunity:

- Therein lies the opportunity... use innovation in digital technologies to differentiate through:
 - customisation and personalisation of organisations, products services value chain processes ...
 - ensure effectiveness and efficiencies (redefine how value is created and by whom?)
- The 20 billion \$ question: digital convergence (to a finite set of digital business forms/models) OR true customisation through digital?

Digitally enabled business

- How are companies doing this today? Illustrations through powerful examples from across regions, industries, brands and functions and is based on my expertise in this area (example of Red Roof Inn which developed an algorithm to check the weather conditions and to inform their clients whether airports will be closed, example of smart label to get information on your alcohol consumption).
- 5 strategic ways in which organisations can generate value by capitalising on digital.
 - unbundle the value proposition
 - enhance or expand the value proposition
 - enhance decision making
 - enhance the business (the organisation) rethink the economic model
 - rethink the economic model

Some of the 10 recommendations from the report:

- Clarify and Qualify What You Mean by 'Digital'
- Make Digital Everyone's Business and Make People, Management and Culture the Main Drivers of Digital
- You may not need a (stand-alone) Digital Strategy - but you do have to consider it and include it in your business strategy
- Board members need the courage to develop new models. People who will not get in the digital world will face the worst of time while people engaged in that journey will get the best of time.

Ludo Van der Heyden, Professor of Technology and Operations Management, The INSEAD Chaired Professor of Corporate Governance, Academic Director, INSEAD Corporate Governance Initiative:

- Ludo Van der Heyden highlighted that from responses received to the INSEAD survey, it is clear that a disconnect is emerging between board members and the digital changes underway in organisations.
- Not only must board members stay abreast of these developments, they need to be made aware that digital is a fundamental disrupter. The digital transformation ongoing has an impact on the entire organisation and is inextricably linked to its future success. A disconnect from digital is a disconnect from the business, and thus undermines the board's competence in the governance sphere. Boards have to steer the future.

- One further difficulty is that one digital solution “does not fit all” – so that board members, responsible for charting the best future of the organisation, must spend time both understanding the multiple ways in which digital is affecting business and business organisations, it also must decide on the right strategy for exploring this new space and the impact it has on strategy, organisation, and management
- The positive news might be: “Has seen this, but in other ways!”. Digital is very much about strategy, culture and change, and hence leadership. Interesting is the data confirming that executives identify “people and culture” (another board responsibility) as the main roadblocks.
- This is clearly an issue for boards, which ought to be wary of “one way to do things in the digital space” and of experts and gurus singing one, but only one song – even though a very enticing song
- Given the continuing technological progress and the resulting industrial turbulence, this topic will be on the boards for the years to come – and the cumulative or final result might be that the business comes out of this period radically transformed.
- When one thing of transformation, it probably also means transforming the board (in language, competences, processes, and culture – for you cannot govern what you do not know and you are not credible if you do not practice it yourself).
- Fundamental changes on the horizon:
 - The 5-year visioning/planning/deciding/executing/evaluating cycle is likely to be considerably accelerated into continuous review of the strategy and its execution
 - Boards will need to get used to make bets – without sufficient certainty of correctness and success (the real risk becoming obsolete or bypassed)
 - It certainly means that digital dialogue will take place on a regular if not ongoing manner between board members and executives – so we are going to see boards much more tied up in digital and strategic issues, implying amongst others that board work will become more complex, more time consuming, and also more disciplined (to simply allow the board to function)

Agnès Touraine, Chair of the French Institute of Directors (IFA):

- She stressed the fact that digitalization will impact all the main duties of board members and that board members have to understand the long term impact of digitalization. Board members have to take the right decision at the right time. They should not be too early or too late in taking their decisions.
- The problem is that board members are spending less time on strategy. There is a tendency indeed to spend more time on what they can control. Board members have however to dedicate time to understand the environment in which the company operates and its competitors. The strategy should also be aligned with the corporates’ stakeholders.
- It is important that companies in Europe dare to take risks. Each company should define its risk appetite.
- To perform well, boards need to be surrounded with the right people and the right skills. The gender quota law in France has improved the level of the boards by bringing new profiles. Engagement is essential not only for the board members but also for the employees. Too many companies are losing their talented employees. Companies can’t implement properly their strategy if they cannot engage their employees for the long run. It was highlighted that companies need to have good HR strategy.

Peter Montagnon, Associate Director, Institute of Business Ethics - IBE:

- As addressed by Peter Montagnon, boards allocate capital, and in a digital world, they cannot do so if the directors don't understand the implications of the digital economy. So this is not a specialist skill, but one which applies to all.
- The second point was that boards oversee the management of risk. And the risks around digital are considerable. This was another reason why they need to be up to speed on digital matters. He asked whether boards have sufficient experience and expertise and he thought the answer at present was "no" That raised questions about the shape of boards, because the people with most knowledge of digital were also often younger with no experience if running a business. He said that from a governance point of view there was therefore an important challenge around deciding on the shape and composition of future boards.
- Peter Montagnon also addressed the question of risk management: how Risk Management is handled? Protection of big data is becoming the biggest risk which raises new ethical issues. Companies might never know that their data have been stolen. There are many cases of data thefts; however, only 28% of them are reported
- He also pointed out the fact that digitalization change the way companies communicate externally. He raised a speculative question: What digitalization will do to large major corporations? / big companies becoming dinosaurs while it is becoming so easy to set up business from home.

2nd PANEL:BOARD CHALLENGES IN A DIGITAL SINGLE MARKET

Silvija Seres, Independent investor and board member:

- Silvija highlighted that digital is like learning a language. We don't need to be digital natives – we need to be digital immigrants.Revolutions imply a dramatic redistribution of privileges. Accepting that something one was good at doesn't matter anymore is hard but necessary. It is not because your company used to be a local champion that it will remain. It is not a question if digital hits you – it is a question when it does.
- She emphasized the fact that all successful digital companies have often a bright chair on their boards, a positive owner (not reluctant to take the necessary risks) and a brave CEO. Board members have to be curious and to understand the dynamics. It is important to move from risk-covered people to innovative people
- There is a new set of companies that rule the world. Rather than trying to regulate out, the legislator should help to develop the good ecosystem.Regulators should open up the market to Uber in a responsible way by allowing corresponding players with a limited geography approach. Vision is important.
- The value chain has been reshuffled (robots, artificial intelligence, and nanotech) and new changes that will impact the society are ahead of us.

Roger Barker, Senior Consultant, Institute of Directors

- Roger Barker stressed the fact that the management and business models are fundamentally different. He questioned whether the same would apply to Corporate Governance.
- He argued that we need people on boards with business awareness, not digital experts. Business generalists are still important on boards. We should not move in a direction where the boards would be composed of technical experts. Profiling the board is a good thing but we should not forget that they are there to provide a business function. However it does not mean

that the board should operate in a vacuum. Boards should take example from the risk managers who don't see them as IT people but who are acting as a bridge to connect the board with experts.

- He stressed the importance of integrating cyber risk in an enterprise risk management framework. However small organizations have to be realistic about what they can do.

Jean Christophe Gallien, The European Federation of Cyber Security Experts - EFCSE:

- Jean Christophe Gallien presented the newly-created European Federation of Cyber Security Experts – EFCSE.
- He explained that the objective of the federation is to urge the EU to get the best of the digital economy. The EU should move from a defensive approach to an offensive approach. There is need to develop private equity and bonds in Europe. The EU should foster the creation of innovating companies.
- Board members are there to drive the changes.
- There are large challenges around security – often companies hold a lot of personal data and we don't know what happens to it. Developing cyber security immunity is very relevant for companies. Companies should be ready to get hit.

Suzanne Knöfel, Deputy Head of Unit, DG Justice, European Commission

- She mentioned that EU action in company law and corporate governance is motivated to create a predictable and sound environment for business, while ensuring sufficient protection all the interests that may be affected by different business operations
- The Single Market Strategy issued in 2015 refers to an initiative to facilitate the use of digital technologies throughout a company's lifecycle. The Commission is currently in an exploratory and fact-finding phase. It organised a conference on "Company Law in the Digital Age" in October 2015.
 - The Commission is inter alia reflecting on how digital tools can help companies to communicate with their shareholders in an easy and cost effective way. It is to be noted that the Shareholders' Rights Directive includes already some solutions (electronic voting means, electronic appointment of proxy, publications on the website).
 - The Commission is looking at what is functioning well and is aiming at gathering best practices (e.g. on e-voting and e-participation in general meetings as well as possible electronic platforms; tools for the exchange of information between companies and investors; tools, such as platforms, to enhance cooperation between shareholders).
 - The Informal Company Law Expert Group which the European Commission set up to advise in company law issues has produced a [report on digitalisation in company law](#).

OUR PHOTO GALLERY:



The conference was video recorded by Herman Caroon thanks to the sponsorship of Digoshen.

