
The Role of Digital Directors in Industrial Transformation

Have industrial boards become more digitally savvy?

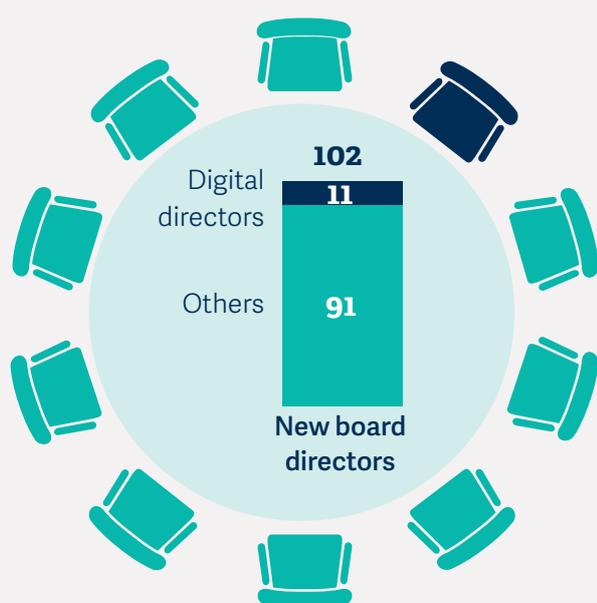
The disruption brought about by the Industrial Internet and the Internet of Things (IoT) means that industrial companies are faced with significant business model, organizational, and talent management challenges. Unsurprisingly, over the past two years CEOs have appointed Chief Digital Officers to help them lead the transformation and navigate many of the organizational and cultural complexities that accompany their digital journeys. While the importance of this C-level position is clear, non-executive leadership also plays an important role when it comes to the strategy, investments and risks related to industrial companies' digital transformations.

We continue to hear from boards, chairs and CEOs that having the right person in the boardroom – asking the right questions and challenging management – is a powerful catalyst for change. Our advice to clients is that traditional industrial goods businesses should ensure the participation of at least one supervisory board member with an executive background in digital to help build a bridge for the rest of the board.

We analyzed the boards of 50 of the global leading industrial manufacturing companies to understand the extent to which new digital directors have been appointed in the past two years. In total, these leading global industrial companies had 539 board directors as of March 2017. 102 new directors have either been appointed or announced since January 2015; of these, only eleven meet our definition of a digital director. This is low given the need for digital transformation in the industry.

At the same time, it is important to recognize that boards have a limited number of seats and that director appointments must often cover several areas of expertise, where digital merits may be just one of the requirements. Also, boards ideally need a blend of digital experience, and every board member has a role to play in transforming the business. Finally, finding and appointing digital directors to industrial boards can be challenging, as the demand currently exceeds the supply of qualified and experienced candidates.

New board director appointments and announcements at 50 of the global leading industrial manufacturing companies, January 2015 – March 2017



Definition of "digital director" in the context of industrial manufacturing

- Senior executive of a tech company/telco
- Senior executive with digital operating experience in a traditional, non web-based company
- Senior executive at a digital web-based company
- Senior partner at a digital/IT consultancy

To qualify as a "digital director", executive experience in at least one of the above areas must be relatively recent (2007 onwards).

How can digital directors add value?

As a prerequisite, digital directors must bring general management weight. On top of that, their individual digital experience can help shape the vision, strategy and business model in unique ways. There are four areas where digital directors are typically asked to add value to the boards on which they serve. They can help set the scope of the digital strategy, design the framework that supports leadership and shapes culture, advise on data and analytics and build new partnerships, and help determine the right level of investment needed to implement it.

The digital director also adds value by challenging the board dynamic. Digital directors bring fresh thinking to the board, questioning the status quo, while helping to maintain a sense of proportion about the potential of digital.



Examples of recent appointments to industrial boards

Examples of digital director appointments to industrial boards from January 2015 – March 2017 or announcements of upcoming appointments.

Diane Bryant
UTC



Year joined 2017
Digital expertise Technology and digital economy
Executive background Intel
Key executive roles EVP & GM, Data Center Group
 CIO

**Jim Hagemann
Snabe**
Siemens



Year joined 2013 – steps up to Chairman in 2018
Digital expertise Software and digitalization
Executive background SAP
Key executive roles Co-CEO
 Corporate Officer, Head of Development
 Head of Industry Solutions

Sheila Talton
John Deere



Year joined 2015
Digital expertise Data and technology
Executive background Gray Matter Analytics, SGT, Cisco, Electronic Data Systems, Cap Gemini, Unisource, Applied Data Research
Key executive roles CEO
 VP, Services
 President, Business Process Innovative Services

Our advice



CONSIDERATIONS FOR BOARD CHAIRS

One solution to the shortage of suitable digital directors is the creation of a digital advisory board. This is an effective way to gain insight from multiple individuals with a wide range of relevant expertise. It is important to ensure that a **digital advisory board** has the right charter and composition to address the full range of digital and technology governance and risk management issues.

In addition to digital directors, some industrial companies have begun appointing **Qualified Technology Executives** (QTE) to their boards. A QTE's role on the board of directors is to give vital input on key technology decisions that require board-level attention, ask the right questions and provide appropriate perspective, as well as mentor leaders of the technology functions (CIO, CTO, CISO). Our 2016 study, *The Rise of the Qualified Technology Executive in the Boardroom*, found that 26% of the Fortune 500 industrial and natural resources companies already had a QTE on their board.

Today, individuals with deep digital experience are in very high demand, working in demanding executive digital transformation roles. Therefore, it is important to be realistic about how much time they can devote to board activities versus their day-to-day executive work.



CONSIDERATIONS FOR DIGITAL EXPERTS LOOKING TO JOIN AN INDUSTRIAL BOARD

Digital experts considering to join an industrial company board should clarify how their participation will create impact on the board and for the company undergoing digital transformation. Therefore, key questions to ask include:

- *What is the board's commitment to digital and the required transformation?*
- *What is the CEO's commitment to digital?*
- *Who owns the digital agenda in the company?*
- *How digital is the company's offering?*
- *Has the company innovated on its business model?*

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