

Board of Directors

# Digital Maturity



## Significant need for a digital step-up in Norwegian Boards

Digitalisation and disruption have affected most industries for years, reshaping businesses and reinventing how organisations create value<sup>1</sup>. Throughout 2020, Covid-19 has emphasised even further the importance of secure digital solutions, and accelerated the need for digital business models. Digital businesses require digital understanding and leadership, not only to develop new services and customer journeys, but to ensure a high level of cyber security in order to protect business and personal data.

Norwegian boards have traditionally focused mostly on business strategy, corporate governance and financial matters. As many organisations lack sufficient IT competence and technology understanding at the board level, operational management tends to be responsible for the greater part of companies' digital agenda. However, to succeed with digital transformation, it is critical for board members both to understand technological development and the opportunities it represents, as well as to lead by example<sup>2</sup>. Previous studies show that board members already feel overwhelmed by the large and rapid changes driven by technology, leading to new business models, new risks and new competitors<sup>3</sup>.

With this backdrop, Capgemini has conducted a qualitative survey among nearly 60 board members in companies listed on the Oslo Stock Exchange across all industries, analysing the digital maturity of Norwegian board rooms. Our findings show a growing need to clarify and strengthen the role and contribution of board members as it relates to digitalisation. To survive – and to succeed – in tomorrow's competitive markets, board members must take a proactive role in shaping strategy, improving processes and performance, ensuring corporate governance and driving the digital agenda.

### Our study reveals three key challenges for Norwegian boards of directors:

- Board members do not prioritise exploring business opportunities within digital technologies
- There is a significant digital knowledge gap among board members
- Board members have an overly optimistic view and unrealistic faith in the current business model

To summarise, there is a need for a significant digital step-up in Norwegian board rooms. We hope this report can contribute to valuable insight and be a tool for positive change.

<sup>1</sup>Capgemini, 2019. [Taking Digital Transformation To The Next Level: Lessons From The Leaders](#). Digital Transformation Review. Capgemini Research Institute.

<sup>2</sup>Kane, G., Palmer, D., Nguyen Phillips, A., Kiron, D. and Buckley, N., 2015. [Strategy, Not Technology, Drives Digital Transformation - Becoming A Digital Mature Enterprise](#). MIT Sloan Management Review.

<sup>3</sup>Sarrazin, H. and Willmott, P., 2016. [Adapting Your Board To The Digital Age](#). McKinsey Digital.

## Board members do not prioritise to explore business opportunities within digital technologies

In 2020, Capgemini conducted a survey among nearly 60 individuals serving on the boards of Norwegian companies listed on the Oslo Stock Exchange. The survey captured insights from nine different industries.

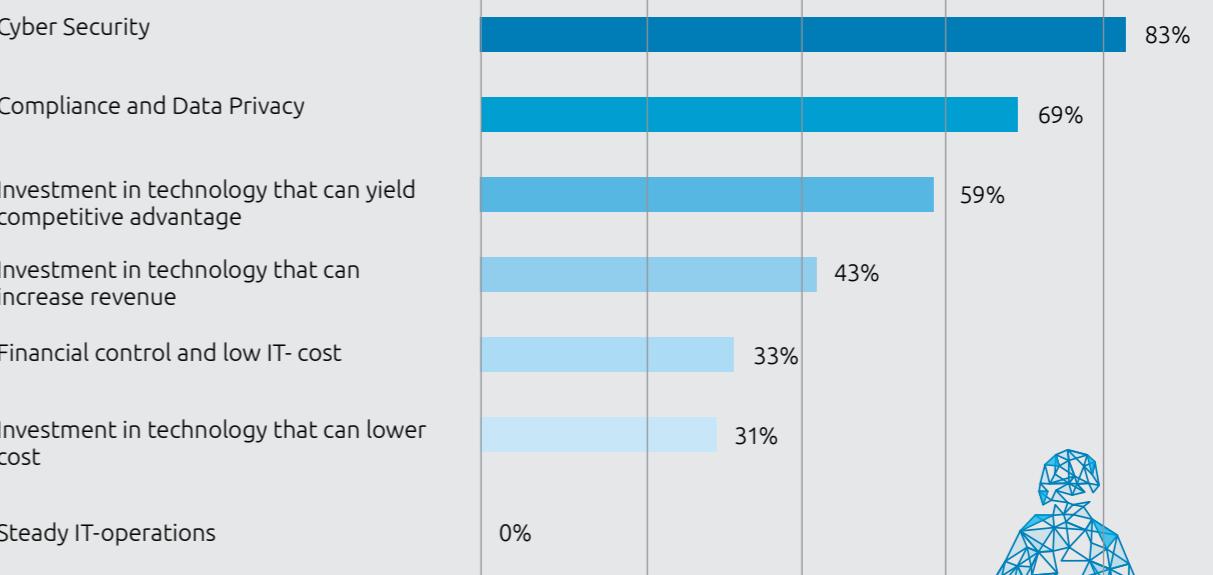
Our survey reveals that 89 per cent of the board members consider digitalisation as strategically important for their organisation. However, only 23 per cent of the respondents said that digitalisation

is on the agenda of every board meeting, and fewer than one in five (19 per cent) of the board members are directly involved in digital initiatives.

The areas of digitalisation considered most important are cyber security (83 per cent) and compliance and data privacy (69 per cent). This is not surprising, considering the massive media coverage of GDPR regulations and several cyber-attacks in 2020.

While board members underline the strategic importance of digitalisation, only 59 per cent believe it would be very important for the board to focus on investments in new technology that could give competitive advantages in the long run. One third of the respondents consider investments in technology to reduce cost as very important.

### Areas considered very important for the organisation



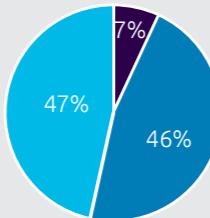
These findings are in line with the traditional role of Norwegian boards as more of a control organ, rather than a proactive and assertive body. The results indicate that boards tend to take a short-term view on matters such as data privacy and compliance, rather than a more innovative, long-term view of digitalisation. By taking such a passive approach to transforming digitalisation, companies risk falling behind on innovation and industry disruption, thus losing competitive advantage due to board decisions (or the lack of such decisions). For most companies, digitalisation involves significant investments in technology. Therefore, involvement, support and proactiveness from the board of directors is crucial for success.

## There is a significant digital knowledge gap among board members

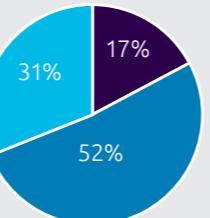
The lack of focus on digitalisation may be caused by a competence and awareness gap among board members. Our survey shows that there is a broad agreement on the importance of board involvement in decisions regarding digitalisation. Moreover, 88 per cent of the respondents believe that discussions about digitalisation will become an increasingly prominent item on board agendas going forward. However, our findings question whether board members have adequate competence for making sensible digital strategic decisions. More than 50 per cent of the board members admit that they have low, or neither high nor low, understanding of digitalisation and how digital solutions create business value. Additionally, 69 per cent of the respondents consider their own IT-competence as low or neither high nor low<sup>4</sup>.

Furthermore, 60 per cent of the respondents state that their organisation has implemented skill improvement measures within digital capabilities the last 12-18 months. More than 80 per cent of those who had carried out such measures, highlighted cyber security and GDPR as the two main areas. These results further emphasise the tendency of boards having a short-term focus on risk-reducing measures, rather than a more innovative, long-term view of how digitalisation can create business value for the company. In our opinion, cyber security and data protection are to be considered as hygiene factors rather than competitive advantages in today's digital business industries.

**Board members' understanding of digitalisation**



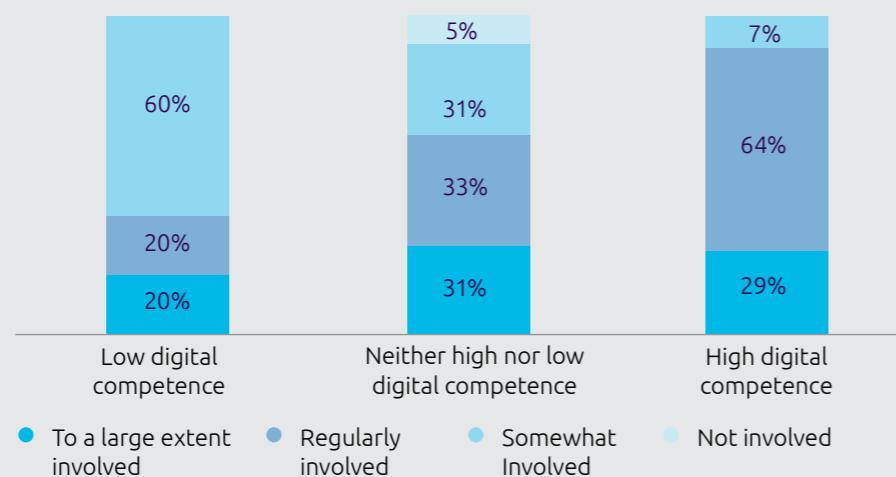
**Board members' IT-competence**



Consequently, one may ask if the boards have the needed focus and competence for making the best decisions regarding new investments and if they will manage to steer the organisations in the right direction. A failure to understand how digitalisation can improve competitive advantage, reduce cost and increase revenue, increases the risk of being left behind by other forward-looking companies investing heavily in new technology and digital solutions.

Moreover, the data reveals a connection between the digital competence among the board members and the board's involvement in digitalisation initiatives. Board members with higher digital competence and knowledge are more involved in digital initiatives compared with board members who have lower digital competence and knowledge. Furthermore, considering the boards' evaluation of different digital aspects such as board involvement, focus and quality, we see the same trend regardless of the level of competence. However, board members with lower digital competence rated aspects of digitalisation as less important compared with board members with higher digital competence and knowledge. This suggests that closing this digital knowledge gap will also indirectly increase the focus on digital matters in the board room, preparing organisations for tackling international competition.

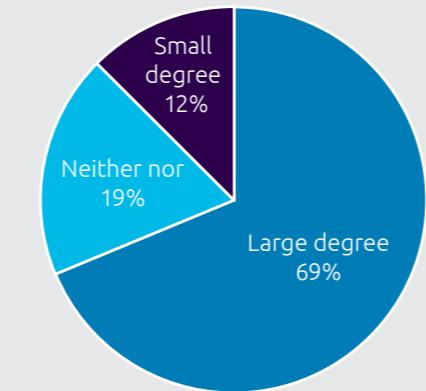
**Boards involvement in digital initiatives grouped by digital competence**



## Board members have an overly optimistic and unrealistic faith in the current business model

Lack of digital competence and technological understanding may result in an inaccurate or narrow perspective on industry trends and future business model innovations. Among the respondents, 69 per cent considers their business model to be viable and sees no need for changes in the near future. This heavily contradicts with previous global studies, in which only 8 per cent of the companies believe their business model will remain economically viable in the future without digital adaptations<sup>5</sup>. Furthermore, according to a study conducted by SINTEF, digitalisation in the industry is as much an organisational challenge as a technical one<sup>6</sup>. A key question is whether the Norwegian board members in fact understand the strategic impact and major changes that digitalisation is likely to have on the business model going forward.

**Percentage of respondents believing today's business model is viable**



## Three must haves to thrive in the digital landscape

Our survey shows that there is a significant need for a digital step-up in Norwegian board rooms. Capgemini has vast experience working with organisations going through digital transformations, and here are our top three critical success factors:

- Conduct an analysis of the digital disruption in your industry
  - Assess your current business model
  - Business Model Innovation
- Adapt to market trends**

**Increase the use of data-driven decision making**

**Close the knowledge gap in the board room**
- Ensure a data-powered enterprise
  - Assign ownership and responsibility of data and technology
  - Increase competence in the right areas
  - Evaluate the composition of the board

### Adapt to market trends

Boards need to recognise how technology will challenge their industry and current business model. The most successful organisations will embrace the changes in the market and manage to exploit opportunities coming their way.

**Conduct an analysis of the digital disruption taking place or coming up in your industry.** To fully understand the impact of digital technologies, boards should order a thorough assessment of the market, including possible threats and opportunities related to technology and digitalisation.

**Assess your current business model.** Organisations that fail to adapt their business model to market changes risk reducing competitiveness and being beaten by new competitors. There are numerous well-known examples of organisations that have invested heavily in cutting-edge technology and innovative products without adapting their business model to meet customer needs. Based on the insights from the analysis, the boards should assess the viability of the current business model.

**Business model innovation.** Business models must evolve in line with industry transformations. Continuous adjustments to the company's business model must be on the board's agenda. To ensure innovation that creates value, the board must close perceived or actual knowledge gaps, either by improving their own skills or recruiting board members with digital capabilities.

<sup>4</sup> Carter, T. J. and Dunning, D., 2018. [Faulty Self-Assessment: Why Evaluating One's Own Competence Is an Intrinsically Difficult Task](#). Social and Personality Psychology Compass.?

<sup>5</sup>Bughin, J., Catlin, T., Hirt, M. and Willmott, P., 2018. [Why Digital Strategies Fail](#). McKinsey Digital.

<sup>6</sup>SINTEF, 2020. [Lær av de beste - Hvordan Skaffe Seg Konkurranseskraft Gjennom Digitalisering](#).

## Increase the use of data-driven decision-making

Data-driven decisions are keys to success for innovative companies. Big data analytics and artificial intelligence allows for insight-based decisions that can both reduce risk and improve the quality and outcome of decision-making processes. In fact, boards should define a target for a certain amount of decisions to be based on data. Best practice on a global basis is for 80 per cent of decisions to be based on data and 20 per cent based on experience and "gut-feelings"<sup>7</sup>.

We recommend that boards push for processes to ensure a data-powered enterprise that can create, process and leverage data proactively to achieve business objectives and drive innovation. A report from the Capgemini Research Institute<sup>8</sup> recommends three focus areas.

- Data activation to transform data into action
- Data enablers to get the key capabilities to build data infrastructure, governance, and operations
- Data advantage to create a competitive advantage particularly by leveraging external data

Assign ownership and responsibility of data and technology, to someone with the capabilities to strategically exploit insights from data and who has the mandate to initiate actions.

## Close the knowledge gap in the board room

Our findings suggest that there are both a knowledge gap and a general lack of digital competence in Norwegian board rooms. Organisations need effective boards that can challenge management to make the right strategic decisions. To achieve this, boards need to:

**Increase competence in the right areas**, not only within cyber security and GDPR. The recent GDPR regulations have forced the boards to focus on cyber security and data privacy, potentially creating a false belief that they are taking digitalisation seriously. However, GDPR is only a limited part of the digital agenda. Board members need to know how digital solutions can be used to ensure better business development and decision making. Capgemini Research Institute has established a digital mastery framework in partnership with MIT Center for Digital Business that describes how organisations should progress on two dimensions to become digital masters – digital capabilities and leadership capabilities<sup>9</sup>.

**Evaluate the composition of the board**. Election committees and owners need to find new ways to attract required competence. This is likely to require searches outside established networks. The benefits of increasing board diversity are well documented<sup>10</sup>, contributing to a more relevant agenda addressing digitalisation as well as other strategic and future-oriented topics.

## Conclusion

Proactive boards will excel in today's markets characterised by fast-changing demands and major digital innovations

This is the time for boards to take a more active role in digitalisation and digital initiatives. Board members no longer passively observe technological development. Almost all the respondents in our survey state that digitalisation will be important for their organisation in the future, and several respondents also assess digital matters frequently. Yet, board members are not taking the same responsibility for digitalisation as they do for corporate governance or financial performance. Companies that do not take these matters seriously risk losing competitive advantage and can be left behind by more disruptive and innovative players in the market.

We recommend three main actions for boards to survive and thrive in today's fast-changing and digital market:

- Order an assessment of the digital disruptions in your industry, and update the business model accordingly
- Increase the use of data-driven decision making
- Build the right competence and balance in the board room

## About this study

To understand how Norwegian boards of directors perceive digitalisation and their own responsibilities regarding digital matters, Capgemini conducted a survey in 2020 among nearly 60 board members representing Norwegian companies that are listed on the Oslo Stock Exchange.

The survey captured insights from board members across nine different industries and from boards of various sizes. The selection of respondents included both women and men of ages ranging from 28 to 70 years old. In addition to the survey, in-depth interviews were performed with a small group of board members representing different companies. The interviews provided deeper insight into the digital competence and awareness among board members.

The respondents were asked a total of 30 questions, spanning from open-ended questions, to multiple choice questions and "yes"/"no"-questions. In the case of 15 of the questions, respondents were asked to rate an aspect of digitalisation from 1-10, for example: "To what extent do you believe it is important for board members to be involved in digital matters". This provided a good basis for correlation analysis.

Parts of the data from the survey were analysed using descriptive measures, such as mean, standard deviation, maximum and minimum, and correlations between different questions were examined. In addition, Capgemini's own observations and experiences were considered.

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<sup>7</sup>Russell C., 2019. [Amazon - Redefining The 80:20 Rule](#). Forbes

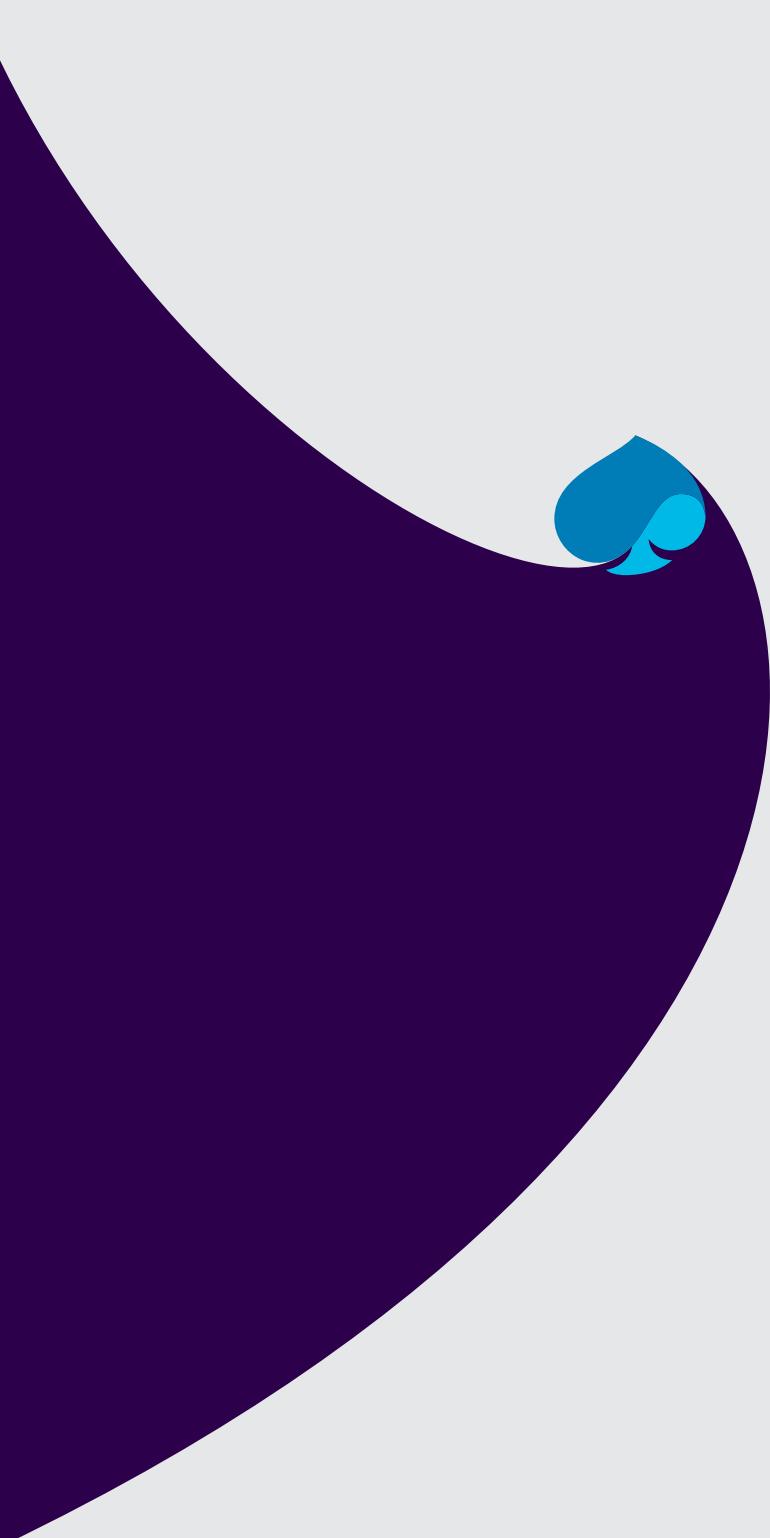
<sup>8</sup>Capgemini, 2020. [The data-powered enterprise](#). Capgemini Research Institute

<sup>9</sup>Capgemini, 2020. [Digital Mastery](#). Capgemini Research Institute.

<sup>10</sup>Ellingsrud, K., 2020. [Accelerating Board Diversity](#). Forbes.

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