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# How Boards Can Up Their Digital Game

## Board leaders need to keep up with the accelerating rate of change.

by Terence Quek

When Mark Tan joined the geomancy consultancy business founded by his father, *feng shui*<sup>1</sup> Grand Master Tan Khoon Yong, in Singapore some 30 years ago, he wanted to address one pertinent challenge: the knowledge and expertise of the *feng shui* consultancy (and hence the entire business fortune) rested on his father and a select few *feng shui* masters in the company. Additionally, the services provided by the firm, such as generating reports for clients, were traditionally high-touch and personality-dependent in nature. This made scaling the business difficult. “It was a keyman problem,” said Tan, the second-generation director and CEO of Way Fengshui Group, who graduated from the US, and was serious about sustaining and growing the family business legacy.

In Vietnam some 1,100 km away, Bennett Neo faced a different set of challenges when he took over the helm of Saigon Beer Alcohol Beverage Corporation (SABECO) in 2018. The Vietnam stock exchange-listed company, which by the end of 2022 boasted an annual turnover of over US\$1.5 billion and a profit of more than US\$236 million, was at that time highly bureaucratic and relied largely on manual processes. From transportation to warehousing, there were insufficient systems in place to collect data to enable business intelligence across SABECO’s portfolio of subsidiary and associate companies. “We wanted to optimise our sales, marketing, production, supply chain, people and assets,” recounted Neo, who is concurrently board chair, and director of several subsidiary firms and companies in Vietnam and Singapore. “All processes had to be standardised, centralised and made simpler.”

### ENTER DIGITAL

Both leaders went about transforming their respective organisations by leveraging technology and digitalisation. For the family-owned and -run Way Fengshui Group, this meant a few things: the use of e-commerce and digital marketing to connect with existing clientele and reach out to a younger audience to diversify its customer base, the building of a system to generate

personalised client reports with greater speed and efficiency, and the tapping on of staff beyond Singapore through remote working platforms to help digitalise its intellectual property and content, and develop technology to deliver its services and products. For the Vietnamese beverage giant, it was the launch of SABECO 4.0, a strategic initiative to transform its business and organisation processes and systems. This entailed the utilisation of data for more informed decision-making, the facilitation of effective information flows, the enhancement of transparency and governance, and the use of digital technology to automate practical operations. After a few years, both Tan and Neo observed good returns from their digital transformation efforts.

Way Fengshui Group saw its top line double, and its income streams diversify with no compromise on the margins. In the past, 80 percent of its service delivery was dependent on a handful of experts, the *feng shui* masters, which was not only a bottleneck, but also a critical risk for the business. Today, with systems in place, 80 percent of the service delivery could be processed by non-experts without compromising the quality of its reports. By digitalising and putting knowledge closely held by a select few into the system, the resources of the experts were freed up, allowing for greater scale and efficiency. Encouraged by the success of the Group’s early efforts, Tan wanted to continue the digital transformation momentum, so a tech department was set up within the company in 2018 with the team in Singapore coordinating the work of remote teams in India and Vietnam to continue supporting the Group’s digital and tech needs.

Meanwhile, as part of the first phase of its digital transformation journey, SABECO focused its main efforts on increasing operational effectiveness, enhancing customer service, and increasing product quality, all of which contributed to raising the awareness of the company’s brand and its profile in the market. As a result, SABECO is now reaping the rewards of doing so across several parts of its value chain. For instance, it can now track and trace the movement of its delivery trucks,

which was close to impossible in the past. This allows for better route and inventory planning, translating into huge savings from deploying their trucks along more efficient routes.

Greater efficiency and cost savings were also observed through its digital warehouse management systems. By equipping its salespeople with a tablet to access and input customer information and insights when they visited their customers, the staff in SABECO's sales network are now able to improve their customer service quality, capture important distribution insights, and manage stock levels and inventory. All the data is fed back to the headquarters for analysis, as well as resource planning and allocation, which is a huge win for the company to stay ahead of any competition.

### THE PROMISE OF DIGITAL TRANSFORMATION

Encouraging results from digital transformation efforts like the ones reported by Way Fengshui Group and SABECO are becoming more commonplace with many organisations claiming success for their own digital efforts.

For instance, the world's largest furniture retailer IKEA tripled its online sales after ramping up its e-commerce capabilities and getting its physical stores to double up as fulfilment centres.<sup>2</sup> Even a technology native company like Microsoft was compelled to embark on its own digital transformation journey by making cloud solution services a strategic focus, among other strategic shifts, after its new CEO Satya Nadella updated its digital strategy.<sup>3</sup>

According to professional services company Accenture, organisations that were leading in tech adoption and innovation were growing revenues at twice the speed of those of their laggards between 2015 and 2018.<sup>4</sup> With so many success stories in the market, it is no wonder most leaders are sold on the idea of using digital transformation to solve business challenges. In fact, the COVID-19 pandemic has hastened the pace of companies going digital. Figures from Statista indicate that spending on digital transformation was projected to reach US\$3.5 trillion in 2026 from US\$1.6 trillion in 2022.<sup>5</sup>

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### Mind the digital gap: Leaders needed!

In 2020, McKinsey reported that 93 percent of executives believe that digital is critical to achieving their strategic goals.<sup>6</sup> With so much interest in digital transformation and considering companies have been digitalising for more than a decade, one would imagine that boards and corporate leaders should be very familiar with digital and technology as they are motivated to digitally transform their organisations. Surprisingly though, only 45 percent of Chief Technology Officers and Chief Information Officers were deemed as digitally-savvy, as reported in a MIT Center for Information Systems research study on boards and digital.<sup>7</sup> When it came to boards, of all listed companies in the US with revenues over a billion dollars, only 24 percent of their boards were digitally-savvy—which researchers define as having “built an understanding, developed through experience and education, of the impact that emerging technologies will have on businesses’ success over the next decade”. What is more interesting is that the study found a positive correlation between digital-savviness and company performance, particularly for large companies.

Therefore, being motivated to conduct digital transformation and having interest in it are insufficient. Boards and corporate leaders keen on a slice of the digital transformation success pie need to be digitally intelligent, literate, and savvy as well. But what does this actually mean?

### KNOWING DIGITAL

In a presentation to directors at the Singapore Institute of Directors’ (SID) Corporate Governance Roundup in November 2022, Howie Lau, Managing Partner of NCS, highlighted “three truths about tech”. He said, “Whatever is fast now will get faster; whatever is offline now will get online, and that tech will become invisible as it becomes even more pervasive.” Just last year, within the domain of Artificial Intelligence (AI) alone, numerous innovations made headlines. Global tech company Meta released an app built on AI that can translate the Chinese Hokkien<sup>8</sup> dialect into English (and vice versa).<sup>9</sup> An art piece generated by AI won an art competition in the US state of Colorado. And ChatGPT took the world by storm. Meanwhile, the Maritime and Port Authority of Singapore accelerated the adoption of smart solutions to manage its fleets of automated guided vehicles (AGV). AI is but one emerging trend in the plethora of developments in digital and tech. Other emerging trends include blockchain and cybersecurity, and these have made remarkable advancements as well.

Given this constantly evolving backdrop, directors know they need to figure a way to keep abreast of new developments

or find themselves facing greater challenges when performing their role on the board. If you do not know enough about digital, you may not ask the management the right kind of questions to ascertain and mitigate risks the firm may inadvertently be exposed to. Nor can you challenge the management to be more ambitious to tap into opportunities created in the wake of the digital movement.

Yet, it may not be as straightforward when it comes to knowing digital. As Jeffrey Tan, a former member of SID's Advocacy and Research Committee, commented, “The current speed of digital change is outstripping any single person's store of knowledge, experience or capability.”<sup>10</sup> According to Lau, directors cannot rely on only themselves or one expert source. They need to collaborate with others to see the big picture. There are also complexities involved in figuring out digital, with several opinions from various experts, and many shades of grey to decipher and discern. Identifying and projecting trends can also be challenging because of the non-linear nature of trends with frequent false dawns. For instance, AI

was a buzzword in the late 1950s, but it faded away for a couple of decades before its revival in the 2010s.

Perhaps one way is for board directors to look at frameworks, which can help them map out in a systematic way the areas that they may need to be aware of or watch closely. In parallel with the rapid development of digital and tech in the last decade, there has been a growing interest globally in the impact of digital transformation, and what individuals, organisations, and governments need to do to future-proof themselves. Prompted by concerns such as technology taking away jobs and making human workers redundant, a widening chasm in know-how among various societal demographics like the young and the old, and a greater need for governance and regulation in how tech is used and its impact on everyday lives, researchers and consultants have started scoping out and defining new digital-related knowledge, skills, and attitudes needed for the future of work and everyday living (refer to box story below for two examples of digital frameworks).

### DIGITAL INTELLIGENCE QUOTIENT AND TECH QUOTIENT

In addition to digital-savviness, other related concepts like Digital Intelligence Quotient (DQ) have also begun to surface. First coined by Dr Park Yuhyun in 2016, DQ is defined as “a comprehensive set of technical, cognitive, meta-cognitive, and socio-emotional competencies that are grounded in universal moral values and enable individuals to face the challenges and harness the opportunities of digital life”.<sup>11</sup> Commercial entities like Singtel and Turkcell and national agencies like SkillsFuture Singapore and the Incheon Technopark have joined hands with many others, including the Coalition for Digital Intelligence (CDI) formed in 2018, to incorporate the DQ Framework into the world's first global standards and common framework for digital literacy, skills, and readiness (IEEE 3527.1), which was endorsed by the IEEE Standards Association, the Organisation for Economic Cooperation and Development (OECD), and the World Economic Forum (WEF) in 2018.

Such frameworks can be useful in laying out a common language, structure, and taxonomy around digital literacy, skills, and readiness that can be benchmarked, referenced, and adopted across nations and sectors worldwide. To highlight, DQ details 24 digital competencies focusing on eight critical areas of digital life (identity, use, safety, security, emotional

intelligence, literacy, communication, and rights). At a national level, the framework provides a backdrop for agencies like SkillsFuture Singapore to uplift an entire nation of workers through digital skills development that is mapped to global standards, with the goal of advancing Singapore's digital literacy level to maintain its global competitiveness and resilience. At an individual level, spelling out specific areas of digital skills such as ‘balanced use of technology’ and ‘personal cybersecurity management’ can help organisations close the gaps for individuals to help them achieve a comprehensive set of competencies that are needed to thrive in the digital age. With more nations, industries, organisations, and agencies leveraging frameworks like DQ to set policies, industry standards, and guidance, companies need to not only contend with the opportunities that tech brings, but also manage risks and expectations, especially those of end-users and customers, to ensure the business entities continue to have the licence to exist.

A board-centric framework would be the one proposed by Accenture's Greg Douglass. He proposed that boards need to increase their tech quotient (TQ), which he defined as an “individual's ability to understand and explain technology”.<sup>12</sup>

While the body of literature on digital literacy at the board level continues to grow, what is clear and urgent is for board directors to increase their awareness of tech and digital, the risks and opportunities involved, as well as their ability to harness this knowledge to perform their role effectively.

Beyond being aware of the evolving digital landscape and knowing more about digital, board directors may need to think about additional roles to play. Joe Poon, who chairs the professional development committee at SID, suggests that companies would do well to have board directors who can be mentors (to guide the management), community leaders (to connect the business to government and society), and agile players (to guide companies to adapt to the evolving environment and seek opportunities through balanced risks).

As companies transform to leverage digital and tech to solve business challenges and progress into the future, board directors, too, must keep up and transform themselves by gaining greater knowledge of digital and tech; increasing their own digital-savviness, quotient, and literacy; and considering the additional roles they may need to play, depending on how far their organisations have progressed on their digital journey.

## DOING DIGITAL

As board directors up their own digital game, what more can a board, as a collective of directors, do to add value to its organisation when it comes to digitalisation?

First of all, it is important to recognise the role of the board vis-à-vis that of the management. According to SID, one of the chief roles of the board is to provide entrepreneurial leadership, and set strategic objectives, which should include an appropriate focus on value creation, innovation, and sustainability. It should also establish and maintain a sound risk management framework to effectively monitor and manage risks, and achieve an appropriate balance between risks and company performance.

Based on the above, in terms of digitalisation, the board should set the strategic direction and goals, and manage risks while pushing the envelope in terms of performance. This is different from the role of the management, which focuses on executing the digital transformation.

In setting out its strategic objectives and goals for digitalisation, the board can consider the five principles set out by the Global Network of Director Institutes (GNDI) and ask themselves the questions as listed in the box story (on the right).

### GNDI PRINCIPLES ON GOVERNING DIGITAL TRANSFORMATION<sup>13</sup>

#### Principle 1: Approach emerging technology as a strategic imperative, not just an operational issue.

- Is our approach to digital transformation piecemeal and fragmented?
- Are we viewing technology through the lens of our customers?
- Are we working with a coherent vision?
- Are we discussing strategy enough? Have we (and our management team, together) defined what “going digital” means?
- Are we confusing digital governance with risk governance? Are we being too risk-averse, too defensive, or overly concerned about cyber threats to the point we are willing to forego business growth opportunities that rely on digital connectivity and accessibility?
- Did we make the mistake of thinking that digital transformation is just the adoption of technology?
- Did we reconcile innovation with the protection of current products and services, and customer retention?

#### Principle 2: Develop collective, continuous technology-specific learning and development goals

- How are we enhancing individual and collective learning to enhance board oversight capabilities?
- Do we know where the technology gaps lie so that we can frame learning objectives and meet recruitment needs?
- Are we learning, individually and collectively, and distributing the knowledge among the entire board? Do we have a learning plan as individuals and collectively as a board?
- Have we considered what might be the best ways for us to learn?

#### Principle 3: (Re-)align board structure and composition to reflect the growing significance of technology as a driver of both growth and risk

- Is our board composition and structure fit for purpose?
- Can we bring in directors with digital background and expertise?
- Are we making the mistake of limiting our recruitment of digital directors solely to technology experts?
- Are we tapping on external sources to recruit new directors for our board?
- Are we headed for the pitfall of fragmenting our board oversight of technology-related matters, such as having a dedicated committee to look into digital but not ultimately involving the board in decision-making?

#### Principle 4: Demand frequent and forward-looking reporting on technology-related initiatives

- Are we having frequent, focused board-management dialogue? Do we have enhanced reporting of emerging technologies and their impact on business?
- Are we improving forward-looking visibility while checking the rear-view mirror to garner insights?
- Are we having too much information, and too little insights?
- Are we too fixated on short-term return on investment (ROI) metrics?

#### Principle 5: Periodically assess the organisation's leadership, talent, and cultural readiness for technological change

- Are we assessing the type of workforce that will be needed to stay competitive? Do we have the right CEO and executive team in place?
- Are we falling into a pit because of not embedding digital fluency and track record into the recruitment, succession planning, and evaluation of the CEO and the executive team?
- Are we underestimating the importance of a change-ready culture that is open to innovation?
- Are we having forward-looking assessments of talent requirements, in line with the broader organisational strategy?

## CONCLUSION

We return now to the two protagonists. When asked to reflect on the role of the board, Neo, having experienced early success with SABECO 4.0, shared that boards should be strategic: “Let management handle day-to-day matters but work with them by being their sounding board and help clear obstacles in areas such as resourcing and government relations.”

As for Tan, whose board members focused mainly on strategy, he felt they could be more familiar with digital transformation implementation and be more understanding towards the team executing the strategy. He also thought it was important for the management to be on board with the strategy charted out by the board. He said, “Co-creation is key between board and management. It's not just about challenging the fundamentals of the business. It is about challenging themselves (the board) too. Ultimately, transformation is not about outcomes only, but also how many heads and hearts are turned towards the direction we want to go.”<sup>11</sup>

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## Endnotes

- <sup>1</sup> *Feng shui* or Chinese geomancy is an ancient Chinese belief that emphasises the harmonious relationship between humans and nature. For example, the way a house is built and how the objects are arranged within that space influence a person's success, health, and happiness.
- <sup>2</sup> Thomas Stackpole, “Inside IKEA's Digital Transformation”, Harvard Business Review, June 4, 2021.
- <sup>3</sup> Jordan Novet, “How Microsoft Bounced Back”, CNBC, December 3, 2018.
- <sup>4</sup> Paul Daugherty, Bhaskar Ghosh, Annette Rippert, et al., “Make the Leap, Take the Leap: Tech Strategies for Innovation and Growth”, Accenture, 2021.
- <sup>5</sup> Justina Alexandra Sava, “Spending on Digital Transformation Technologies and Services Worldwide from 2017 to 2026”, Statista, November 14, 2022.
- <sup>6</sup> Patrick Guggenberger and Patrick Simon, “Getting Your Organization Ready for a Digital Transformation”, McKinsey, June 8, 2020.
- <sup>7</sup> Peter Weill, Gary Scholten, and Stephanie L. Woerner, “Working with Boards on Digital”, MIT Center for Information Systems Research, September 19, 2019.
- <sup>8</sup> Hokkiens form the largest Chinese dialect community in the Singapore resident population. About 40 percent of Chinese Singaporeans are Hokkien.
- <sup>9</sup> Department of Statistics, Singapore, “Singapore Census of Population 2020, Statistical Release 1: Demographic Characteristics, Education, Language and Religion”, June 2021.
- <sup>10</sup> Jeffery Tan, “Digital Smarts – A Post-Covid Necessity for Boards”, The Business Times, October 11, 2021.
- <sup>11</sup> DQ Institute, “12 Future-Readiness Skills”.
- <sup>12</sup> Greg Douglass, “Digital Directors: Boost Tech Savviness of the Board”, Accenture, May 26, 2022.
- <sup>13</sup> MarshMcLennan and Global Network of Director Institutes (GNDI), “Digital Transformation: How to Unlock Innovation and Growth with Emerging Technologies – A GNDI Quick Guide”, June 2022.