FROM THE COLD ROOM TO THE BOARD ROOM

REINVENT YOUR COMPANY AROUND TECH DESPITE WALL STREET PUSHBACK, SAYS INDUSTRY VETERAN

If you're not investigating how technology can drive your business, you're in trouble. And doing that involves taking a long-term view of your company's future despite Wall Street's obsession with quarterly numbers.

So advises Virginia Gambale, managing partner of Azimuth Partners, LLC, and a former senior technology executive at several multinational firms. Gambale has also served on more than 20 public and private boards.

The reason for Gambale's dramatic statement?

"Technology used to 'enable' your business. Now it truly 'drives' the business," she says. And that requires innovation and direction from the boardroom down—a flip from traditionally relying on the IT department to figure out how to innovate with tech. Now, she contends, it's the companies with forward-thinking board directors who live with innovation and disruption in their day jobs that will empower companies to prevail.

THE CHALLENGE FOR LEGACY COMPANIES

Without taking full advantage of the digital capabilities now available, an organization's very future is at stake. Here's why: Businesses that haven't transformed themselves digitally become legacy companies, Gambale explains. "Legacy companies can be eclipsed at any time" by a new player starting out with all of today's digital tools at its fingertips.

And it's very difficult to innovate within legacy environments, which tend to put all their energies into the operations of the traditional business. That doesn't leave time or resources for finding and executing on all the new opportunities that digital affords.

That's why Gambale advocates that technology move from the "cold" room (the data center) to the boardroom so that, from the top down, technology and business goals are inherently intertwined. She recommends having a defined plan to disrupt your own business with dedicated resources. That means planning to sunset businesses that are legacy with a heavy asset base and tying these plans to compensation at the highest levels in the company.

Legacy companies would do well to set up a venture fund or innovation lab populated with employees that focus exclusively on the new venture, she advises, because of the difficulty with innovating within the four business walls where traditional operations are taking place.

WHAT ABOUT WALL STREET?

Not helping matters is Wall Street's traditional and continued preoccupation with quarterly earnings reports. Similarly, wealth managers find it difficult to quantifiably recommend you invest in a company you have your eye on if its margins are too small or the company appears to be spending more than is typical of its peers. Again, the focus is on numbers on paper and not what the company is doing to reinvent itself and possibly its industry.

Yet any business that wants to survive into the future needs to be preparing to fully leverage the digital advances that are available today. And Wall Street itself should be asking, "How are you investing in technology?"

But instead, financial analysts tend to harp on what they know, which is why costs aren't lower and margins wider. Gambale implies that the Street should have learned its lesson with Amazon years ago.

"Amazon was berated for not being profitable, though it was heavily investing in building out its infrastructure behind the scenes. It then unveiled a lucrative new business, Amazon Web Services, which was immediately profitable. The result was an aha! moment that changed financial models for investors," Gambale says.

And yet, it's rare to hear board members and investors ask corporate leaders the simple, yet powerful question about how companies are investing in technology. Gambale goes so far as to say that she would be "dumbfounded" to hear this question asked on a typical earnings call.

Why is the technology question so important? First, fully embracing today's digital capabilities can improve the quality of what you already have. Witness Tesla. The overall look of its vehicles hasn't changed all that much but the cars continue to gain more and more automated capabilities that are revolutionizing the auto industry.

Second, digital can also allow a business that would have been impossible without the technology to be conceived, such as on-demand car services like Uber and Lyft, or new vacation lodging options that offer ultimate flexibility such as VRBO and Home Away.

Bottom line: If you don't do it, someone else will.

PUSHING BACK

How does a company embark on a fully digital turnaround when beholden to Wall Street for quarterly numbers? Gambale advocates that companies push back when questioned about traditional numbers by financial analysts during earnings calls. "Companies need to educate the Street and talk about how they see the company changing down the road. They need to explain that they are busy investing in the future and revisiting their lifecycle and supply chain."

Sure, some companies will want to keep their exact digital disruption plans in stealth mode and won't be willing to tip their hand to their competitors by divulging all the detailed plans for change. But you can provide examples for direction.

IT'S ROLE

Given Gambale's advice, what's to become of traditional IT? Gambale points out that some CIOs with both left and right brain leanings can do both operations and vision, though finding that type of individual is rare. You really need a visionary CIO, incented to drive technology by the CEO, and someone else to drive down the cost of existing hardware and software infrastructures. Otherwise, the company could have difficulty funding both the status quo and the new digital endeavors at the same time.

CIOs that don't delegate will be continually pulled back into day-to-day minutiae and will have a hard time moving forward. See how Sligro Foods Group is handling balancing existing operations with new digital endeavors in "What Lies Beyond Operations," (page 18).

ECONOMIC OUTLOOK

How will businesses rise to these challenges? Gambale acknowledges that the current U.S. administration in Washington will slow the urgency at which we begin. However, the economy is friends of the consumer, and that's not going to change. "We still have to understand that we exist for the purpose of our consumers, unless the consumer is a government agency. The consumer will continue to demand what it needs, and business will self-select based on that appetite."

She warns that there are enough sizeable giants, such as Amazon, Apple, and Google with their tentacles in everything. "They are not stopping. If you're not holding up your end, these companies will fill the gap."

HIERARCHY FOR SUCCESS

Gambale specifies what she believes should be taking place at every organizational level for companies to succeed in digitally disrupting themselves for future success. All should be looking at disruption from different points of view, she says.

BOARD LEVEL:
Institute the most advanced thinking possible with board members who understand future consumer-driven needs and have the ability to govern within that context.

MANAGEMENT TEAM LEVEL:
Every CEO needs to be carefully selected to empower the right kind of innovation that needs to take place, driven by goals and metrics established in that direction, regardless of what Wall Street is saying. They should think heavily about the composition of the labor force. During earnings calls, they should answer questions about the business but also talk about how they see their business in the future. Push back to defend those forward-thinking investments when hammered about margin compression or that costs are out of line with competitors'. Explain that if they don't invest in the company's future, that's when the financial analysts should start worrying.

EMPLOYEES:
Every employee of every company should step into what they believe is their ability to contribute, influence, and participate in the future and not worry about losing their job. If they can create [the future] they will have it; if they can't, they will lose it, Gambale says.

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