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The Data-driven Boardroom

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It's a standard scene in Singapore boardrooms: Seven or eight directors sitting around the table, ploughing through the latest financial results and the previous quarter's performance.

At various points, the meeting inevitably discusses the future – reviewing plans and strategies for the organisation. These discussions are typically based primarily on previous experience and historical statistics.

But things are changing. Directors are starting to realise that "actionable data" and data analytics tools that not only analyse information but also forecast future trends and those that help shape business strategy are now essential for evaluating strategies and the competencies needed to execute them.

BIG DATA

In recent years, the term "big data" has emerged from the obscure corners of its IT habitat to assert itself as a hot agenda item at board meetings around the world.

The overwhelming volume and variety of data – and the split-second speed of their delivery – raise technological challenges for securing, storing and tracking data. It all suggests that big data is becoming a game-changer for businesses.

In such a business environment, fluency in data management and analytics can be vital for success.

The ability to capture, organise, extract insights from and transact with data has become a core competency across industries and sectors.

David Earle of the IBM Institute for Business Value notes in *Analytics in the Board Room* that organisations which use sophisticated analytics are twice as likely to outperform their peers by a wide margin.

Similarly, a recent joint survey by Deloitte Singapore and the Association of Chartered Certified Accountants showed organisations that are more analytically inclined and have business analytics embedded in the organisation roadmap have a better competitive advantage, compared to those who have just started on their analytics journey.

However, the majority of Singapore companies are not there. The survey showed that only 14 per cent of Singapore corporations have well-defined analytics capabilities showing continuous improvement in methodologies for adapting to future change.

IN THE BOARDROOM

Analytics is arguably best utilised in two areas that boards need to focus on: risk management and growth.

Risk management requires the ongoing assessment of a myriad of factors and events. Analytics often provides a better "radar" for risk and fraud detection via the application of exploratory and predictive techniques, as well as through the automation of routines that improves the effectiveness of the evaluation of risk factors.

This gives the board the ability to monitor and mitigate risks and also to detect and to deter corporate fraud promptly.

Growth strategies often depend upon insights into product and service performance, and customer and supplier relationships.

Companies can use analytics to uncover vital and valuable relationships between seemingly unrelated, large and complex data sources of customers, suppliers and products.

In volatile markets, this is particularly so for organisations which possess a wealth of unmined customer information that range from demographics to consumer spending history and patterns. Sophisticated analytics allows for predicting shifting consumer trends and anticipating competitive threats.

AVOIDING DECISION TRAPS

A good reason to push for the use of analytics in the boardroom actually has more to do with psychology than data science: helping executives to avoid the decision traps caused by lack of information to provide business insights, resulting in less than a rational approach to decision-making.

Over the past 30 years, behaviourists such as Daniel Kahneman and Amos Tversky have demonstrated that people routinely employ heuristics – rules of thumb, or mental shortcuts – to simplify and, worse, oversimplify decisions in the midst of uncertainty.

Moreover, they have shown that our choices are frequently skewed by an array of cognitive biases that are emotion-driven and the result of a subjective perception of reality, rather than based on business insights supported by data.

The board will be fulfilling its governance role if it demands that management back up its decisions with relevant data, clearly visualised and rigorously analysed.

Indeed, this is the insight behind W Edwards Deming's famous motto, "In God we trust; all others must bring data."

Boards should therefore lead in determining the direction, scale and investment in analytic initiatives.

Organisations slow to embrace the rigours of data-driven decision-making risk falling behind in a competitive landscape that is increasingly shaped by data-driven innovations.

We are in the golden age of innovation. Board members must prepare themselves to spend more time evaluating their organisation's analytics strategies and start practising business analytics in their board deliberations. ■