DETERMINING THE DIGITAL INVESTMENT QUESTION IN THE BOARDROOM

In the third decade of the 21st century, smart companies and boards across all industries recognize that the pace of technological change continues to unfold at warp speed. The question in the boardroom a decade ago — "Should we invest in digital transformation?" — has transitioned to a different question today: "How much should we invest and, more important, how fast should we invest, given our accountability to shareholders?"

The simplicity of this new question belies the underlying complexities of the strategic conversation around prioritizing resource allocation — a conversation that has huge implications to the customer experience driving revenue generation and the company's competitive position.

Discussions of digital transformation have given way to a focus on digital experience, which entails building a sustainable bridge between the customer and the company's infrastructure that is supported by the flow of information. Over 40% of companies lack a holistic digital experience strategy and instead deploy multiple digital experience capabilities through siloed point solutions. This behavior is expected of companies that are not truly digital at their core.

Another challenge emerges when companies acquire new technologies: They fail to fully utilize their capabilities. For example, only 14% of companies have significantly leveraged the full capabilities of the digital experience platform in which they have invested. This,

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again, is likely due to the lack of a digital foundation underpinning an overall strategy that is based on values.

But the real kicker lies with the revenue premium enjoyed by digitally mature organizations with a coherent digital strategy and full utilization of the capabilities in which they have invested. It ranges as high as 16% for retail, with a wide range seen across other industries — e.g., automotive and media at 3%, chemicals and life sciences at 4%, banking and industrial products at 5%, travel at 9%, insurance at 10%, and energy and utilities at 12%.[1]

Expanding on the question in today's boardroom about how much and how fast companies should invest, boards should consider:

- What is the business plan, including supporting metrics, that informs us as to whether we are investing in digital transformation of processes, products and services at a velocity sufficient to impact our digital experience and top and bottom lines?
- What are the warning signs relating to customer stickiness and security that tell us on a timely basis that we need to step up the velocity at which we invest?
- What are directors' duty-of-care responsibilities to shareholders in ensuring the companies they serve remain competitive in the digital economy?
- Are we paying sufficient attention to the supply side — e.g., supply chain management — as we focus on sustaining and increasing demand?

While finite resources often constrain the options available to respond to these questions, boards can take several steps as they assess the level and velocity of digital investment:

Make sure digitally savvy and experienced directors are at the table. Companies supported by boards with three or more digitally savvy directors report higher profit margins, revenue growth, return on assets and market capitalization.[2] Boards should look at the extent to which digital savviness is present in their oversight processes.

Every board should have access to digital experience, whether it's from a director at the table or a board adviser. That means looking at the director candidate pool for seasoned executives who have helped their companies undertake a major digital initiative, or who have served in a role requiring strong technology acumen, such as chief information officer, chief technology officer or chief digital officer (CDO).

Focus strategically on enhancing the customer experience, improving operations and securing the company's positioning within the value chain. The board should focus the digital investment discussion by asking the tough questions about what is really happening in the company and industry around the customer experience and how it's being improved both now and in the future.

The traditional discussion around understanding the overall strategy as a context for identifying the technology and other resources needed to execute it may be too introspective in today's environment. Data and metrics around customer satisfaction and loyalty, innovation, and speed to market relative to competitors may present a more insightful basis for discussion.

Think and act digitally when evaluating innovation performance. The board's primary interest is ensuring management digitizes new and enhanced products and services to

1 "Unleash Your Platform's Power: 5 Actions to Create Next-Wave Digital Experiences," Saul J. Berman, Matthew L. Francis, Carolyn Heller Baird and Anthony Marshall, IBM Research Insights, 2021: www.ibm.com/downloads/cas/6LJPA0KB.

2 "Without a Digitally Savvy Board, Your Company Is Falling Behind," by Peter Weill and Stephanie Woerner, The Hill, March 20, 2019: https://thehill.com/opinion/finance/434788-without-a-digitally-savvy-board-your-company-is-falling-behind.

strengthen customer engagement and relationships and deploys digital technologies to improve operational performance and information for decision-making. This conversation should be grounded in business realities, meaning innovation is bound in a finite way to the physical, financial and human capital available.

The chair should allocate sufficient agenda time to discuss innovation strategy and culture and encourage open discussion on direction and progress. The dialogue should be supported with appropriate innovation-specific metrics that tell the full story regarding growth strategy performance relative to competitors, feedback on the customer experience, return on innovation investments, and effectiveness of the company's innovation culture and capabilities.

Focus relentlessly on the customer experience. Customer experience plays a critical role in a company's success. Today's customers are buying based on their experiences with a company and whether a product or service aligns with their personal values, including access, inclusivity, sustainability and trust. Speed to market is paramount in the digital age. Agile organizations and cultures embrace a discipline around the customer experience — for example, blending institutional knowledge with digital perspectives to channel technology initiatives to improve the customer experience continuously by connecting the decision-making process to customer value. This, in turn, drives resource allocation decisions. The following table offers several things directors should look for in this regard:

Anchor the discussion to brand purpose	Organizations should focus on digital investments that enable, align to and help project their brand purpose. Communication channels eliciting customer feedback on brand experience to understand the most impactful customer expectations and experiences augment the discussion. This process will help prioritize how and where to invest.
Use customer insights to improve	Data offering "voice of the customer" insights is the strongest foundation for critical decision-making involving allocation of finite resources. Again, customer feedback loops help focus initiatives around improving customer experiences.
Design for customer trust	Designing technologies with a focus on anticipating future changes as technology evolves so that the customer experience is as seamless as possible will help conserve resources over time. However, efforts to integrate technology should not make a customer's experience with a company so technology-enabled that it feels robotic and devoid of the human element. Technology should add ease, flow, and time and energy savings to the process.
Enable change to realize expected value	The change process is vital to reskilling and upskilling employees; otherwise, digital automation may end up being used in an analog manner. This means wasted resources and falling short of the brand promise. Change enablement may entail implementations using an agile mindset of experimentation and failing fast, so that efficiencies and benefits to the customer can be realized quickly.
Ensure comprehensive input across the C-suite	Successful collaboration and efficient resource allocation require technology and business leaders to work together. C-suite members, along with key business unit executives, compliance leadership and the chief information security officer (CISO) and chief risk officer (CRO), should collaborate as strategic partners to make appropriate, customer-connected decisions that are sharply focused on outcomes. The board's primary interest is that the CEO is satisfied the discussion generates the needed insights.

Take steps now to maximize ROI. Optimizing return on investment (ROI) is an integral part of efficient resource allocation. The board should expect to see efforts aligned across the organization, its budgets and its priorities, with a focus on value to the customer and the customer's end-to-end journey.

For example, the CDO or chief product officer should provide a technology road map for customer-facing and growth technology that incorporates data, privacy and regulatory compliance elements depending on the industry. An agile mindset to updating software development life cycles and budgetary processes enables organizations to meet market, customer and employee needs for pace and speed around the most valued features and functions. Once again, these perspectives will help organizations prioritize their digital investments.

Finally, don't forget the supply side. There's nothing worse for a brand than to drive demand but fail to deliver. The board should ensure sufficient attention is given to managing supply constraints and avoiding supply chain disruptions, so that digital investments pay off. This may entail closer attention to inventory management and demand forecasting.

The above discussion will help companies address the challenge of investing at a sufficient pace to transform to a truly digital framework for doing business. This is a challenge that every board and the company it serves must meet head-on to sustain the viability of the business.

How Protiviti Can Help

Evolving needs and customer expectations challenge even the most agile organizations to keep up in the digital age. To survive, organizations must constantly innovate and transform.

Protiviti helps organizations think differently — from digital strategy and stakeholder alignment to solution design and implementation, our experts instill a culture of innovation and agility to help companies innovate human connections. We help clients redefine customer experience, explore new operating models, create enhanced digital channels and build the skills required to compete in today's marketplace. Our offerings include:

- Growth and digital business strategy development and business case definition
- Customer experience and journey mapping
- Customer experience strategy and design
- Digital operating model strategy and agile strategy
- Sales, marketing and service acceleration
- Culture, skills and capabilities definition and alignment
- Transformation program definition and execution
- Other services, including technology support for experience platforms and innovation advisory