THE TRANSFORMATION IMPERATIVE

Understanding the Role of Digital Across the Organization

CORPORATE BOARD MEMBER®

RSM
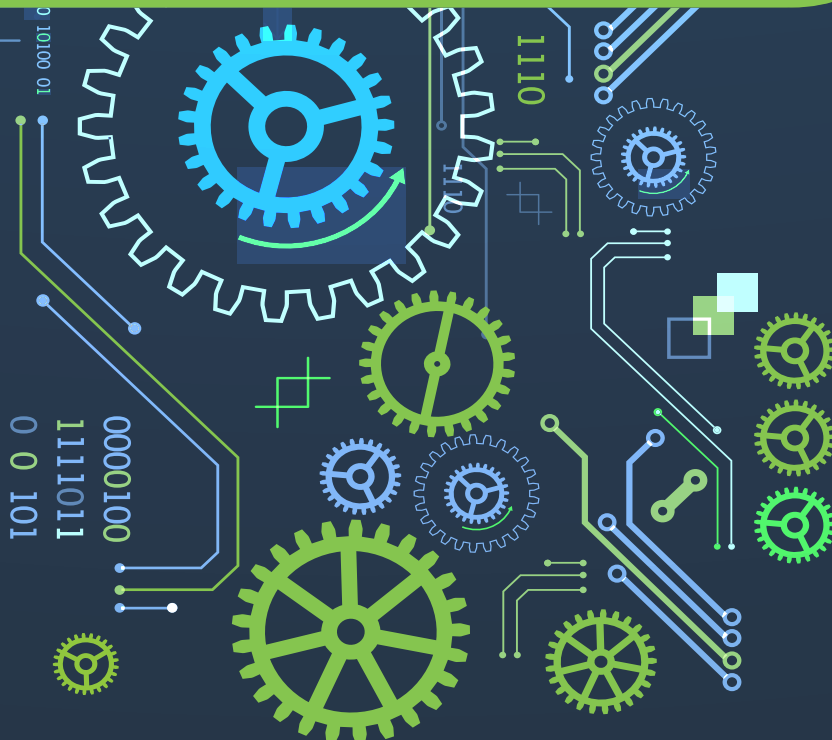
MORE THAN TWO YEARS into the pandemic, it's become clear that companies that are not embracing digital in their strategy will be left behind. Industries are changing at a rapid click, pressed on one hand by emerging technologies and competition and, on the other, by changing consumer habits and preferences.

To better understand how boards were tackling the digital imperative as part of both their risk and strategy discussions, Corporate Board Member and RSM US LLP partnered from November 2021 to January 2022 to survey 223 U.S. public company board members on the issue. This report presents the key findings.

KEY FINDINGS

Developing new products/services ranks as most important to growth in 2022

Data analytics continues to rank as most important "technology" in driving growth

Companies are doubling down on their ability to utilize data to inform strategy: 64 percent say their companies' effort to collect customer insights increased over the past two years

Two-thirds of directors say their companies' ability to improve customer experience depends on their success leveraging new technologies

The shortage of skilled labor has been the main barrier to growth over the past 18 months, having delayed or posed additional challenges for 70 percent of companies
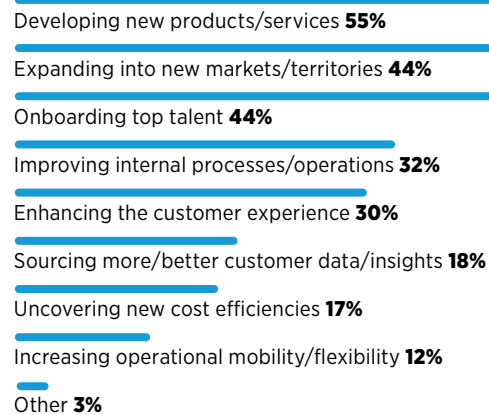
The majority of companies have either already implemented or discussed implementing new technologies to improve their tax/accounting processes

DIGITAL AS A GROWTH ENABLER

A majority of directors say that developing new products and services will be key to growth in the coming years, with 55 percent listing it as the most important aspect of their company's strategy. For some, this means identifying new or underserved segments of the market that weren't visible or accessible before the advent of digital. For others, it means improving on the customer experience and product/service delivery by finding out directly from those customers what they really want or where they'd consider going if given the opportunity—another avenue made possible by digital technologies.

Either way, directors say a lot of the expansion—whatever shape it takes at individual companies—stems from their ability to tap into insights afforded by their use of new technologies, with automation as a driver for early consideration and, ultimately, Covid as a propellant for adoption.

Which of the following do you believe is most important to the success of your company's growth strategy?

Developing new products/services **55%**

Expanding into new markets/territories **44%**

Onboarding top talent **44%**

Improving internal processes/operations **32%**

Enhancing the customer experience **30%**

Sourcing more/better customer data/insights **18%**

Uncovering new cost efficiencies **17%**

Increasing operational mobility/flexibility **12%**

Other **3%**

*Respondents were asked to select top three.

The data highlights four key focus areas for boards:

1. **Innovation:** new products, services, markets and territories

2. **Talent:** bringing in the right people to help understand and execute digital initiatives

3. **Technology:** creating efficiencies

4. **Customer:** enhancing customer insights and experience.

With innovation at the center of digital transformation, according to the survey, board diversity becomes key to driving successful digital strategies. Younger people use new technology and generate a lot of new ideas from those capabilities, but leadership often tends to skew toward more conventional approaches. Less-experienced people typically don't make it onto leadership teams, and boards should discuss how that paradigm could shift among their leadership team to ensure some innovative voices aren't being muffled. When thinking about product and service strategy and the future of the company in general, having the new generation involved is a very wise decision.

Knowing how to gather the right insight is also extremely important in steering digital decision-making. In addition to making sure leadership is properly injecting itself and listening to the right people, board members need to ask the right questions to ensure resources are dedicated to new things versus improving what they already have. Chances are, the company is not going to come up with new ideas from the same people that have been looking at the same things for years.

- Is leadership bringing in the right talent?
- Are they dedicating enough resources to new products and services?
- Are they getting the right perspectives to implement successful innovations?

Board members should also be learning. If there is a relevant technology that's affecting the industry, the board needs to understand it. Taking the time to evaluate new strategies and solutions in board meetings is critical to remaining relevant in the future.
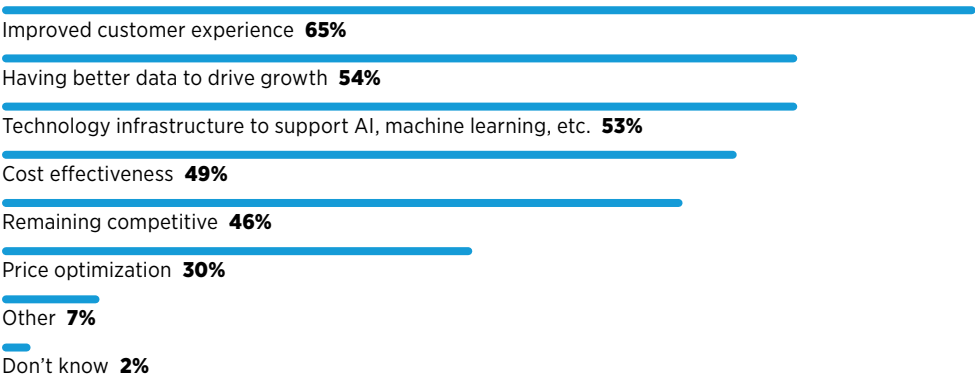
DIGITAL AS A DRIVER OF CX

According to the survey data, companies leverage new technologies primarily to improve the customer experience (65 percent) and collect better data (54 percent). The two objectives go hand in hand because to enhance the customer experience, companies need data. For board members, this means understanding who the customer is, the path to purchase, the pain points, etc. All of it in detail, and a lot of that is dependent on data.

Data is becoming central to the digital theme. In fact, 54 percent say among all technological capabilities available today, from AI to automation to IoT, "data analytics" is most important to their organization.
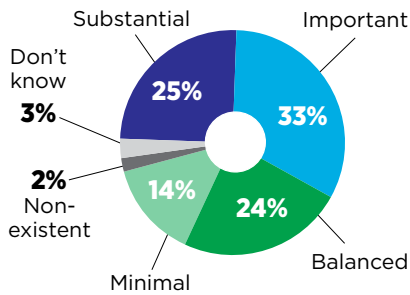
Which of the following objectives relies on your company's ability to leverage new technologies?

Improved customer experience **65%**

Having better data to drive growth **54%**

Technology infrastructure to support AI, machine learning, etc. **53%**

Cost effectiveness **49%**

Remaining competitive **46%**

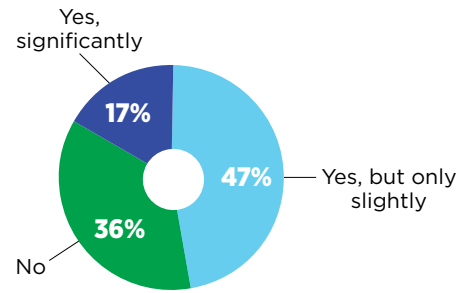Price optimization **30%**

Other **7%**

Don't know **2%**

Respondents were asked to select all that apply.

Every business should have its own learning engine, presenting what they think customers want, listening to customers digitally and using data to learn and adjust. Whether that encompasses marketing messages, feedback on products or services, or data from lead generation activities, this engine can provide direct insight into what things are working and what might be missing. To know how successful innovation strategies are, one of the best ways is to listen to customers. And it all comes back to data— it's the only way to understand the customer experience.

How would you rate your company's efforts to collect customer data/insights to inform the growth strategy?

- Substantial **25%**
- Important **33%**
- Balanced **24%**
- Minimal **14%**
- Non-existent **2%**
- Don't know **3%**

Has that changed in the past 18 months compared to pre-Covid-19?

- Yes, significantly **17%**
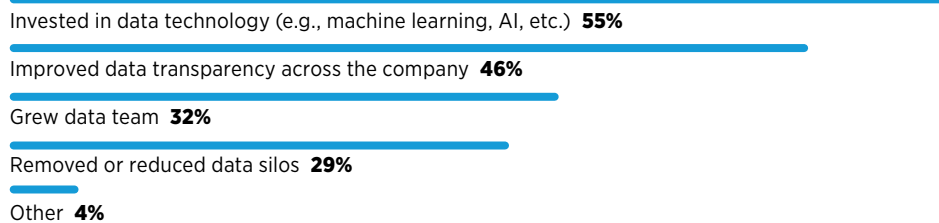- Yes, but only slightly **47%**
- No **36%**

Percentages may not add up to 100 due to rounding.

Sometimes finding the right technology to connect with a customer requires experimentation, and those decisions often require trust. On the board, it's all about trusting people to show what they are going to do. If you have the right people in place, and you think someone has presented an innovative idea, you can allocate a portion of the budget toward it. But while you may have leadership that is willing to make bold decisions, you must know that an idea is worthy before fully rolling it out. Initiating a pilot program or similar experimentation to understand how it can change the business may be a great way to proceed. Once again, however, it's the data that will show whether an idea is worth moving forward with or not.

Surveyed directors say their companies have been doubling down on their ability to utilize data to inform strategy: 58 percent say their company's efforts to collect customer insights is important to substantial, and 64 percent say that's increased over the past 2 years—to varying degrees.

What, if any, are some of the changes your company has made in that regard?

Invested in data technology (e.g., machine learning, AI, etc.) **55%**

Improved data transparency across the company **46%**

Grew data team **32%**

Removed or reduced data silos **29%**

Other **4%**

Among the changes brought on by the pandemic, directors say they've boosted investments in data technology (55 percent) and improved data transparency across the company (46 percent).
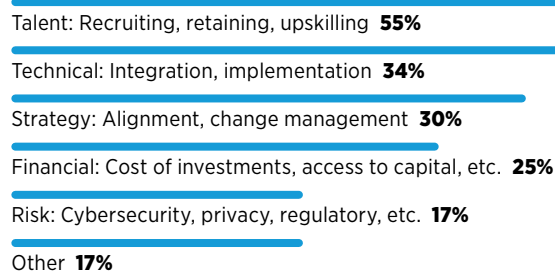
Some questions boards should be asking as part of their discussion with management include:

• How has our customer path to purchase changed, is digital now a part of that—and should it be?

• Who are we losing to and what are our competitors doing?

• Are our business and operating model fit for purpose for this new reality?

DIGITAL AS A TALENT BUILDER

Over the past two years, companies have had to circumvent more obstacles at once than ever before. Of those that have impeded growth, talent tops the list, with 55 percent of directors surveyed listing it as a barrier for their organization in the past 18 months. Forty-two percent say the skilled labor crunch has, in fact, delayed their timeline, and 28 percent say that while it has not delayed them it has posed a significant challenge.
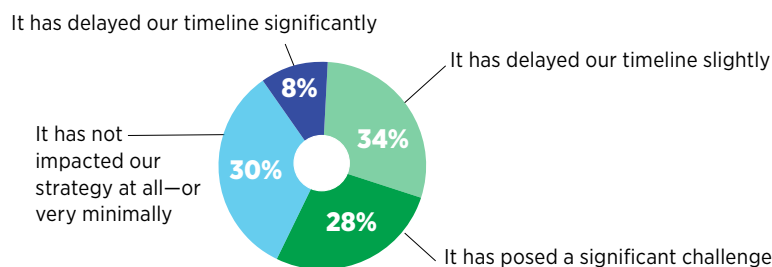
Which of the following have been barriers to your company's growth strategy in the past 18 months, if any?

Talent: Recruiting, retaining, upskilling **55%**

Technical: Integration, implementation **34%**

Strategy: Alignment, change management **30%**

Financial: Cost of investments, access to capital, etc. **25%**

Risk: Cybersecurity, privacy, regulatory, etc. **17%**

Other **17%**

Respondents were asked to select top three.

While leadership at many organizations has traditionally focused on how innovation can enhance the customer experience—and with good reason—now, more attention must be paid to how technology can be implemented and leveraged to improve the employee experience. It's really two sides of the same coin; both customers and employees want the visibility and efficiency that innovation can provide.

How has the skilled labor shortage affected your company's strategy?

It has delayed our timeline significantly

It has delayed our timeline slightly

8%

34%

It has not impacted our strategy at all—or very minimally

30%

28%

It has posed a significant challenge

It has allowed us to outpace our peers and accelerate our plan **0%**

How companies embrace innovation is a key differentiator when people evaluate their current and potential jobs. What tools are in place that can help them do their jobs better, make work more enjoyable by eliminating or streamlining menial tasks, and ultimately put them in a more favorable position to succeed? If modern solutions are not already in use or planned, and regularly refreshed, it will be difficult to attract and retain skilled employees.
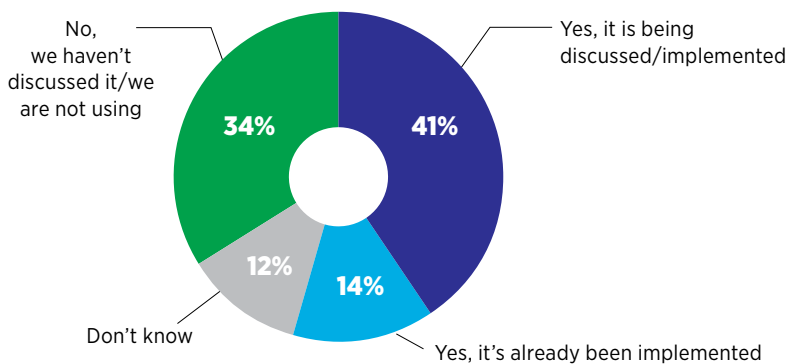
To help ensure that the employee experience is taken into consideration, the board should assess the impact that new technology will have on internal people when considering making investments. In addition, ensure that leadership is engaging with employees to understand what technology is popular within the organization, what may not be well liked and what available solutions may contribute to their success.

DIGITAL AS A MITIGATOR OF RISKS

The move to digital is typically associated with growth and the customer experience through an external-looking lens. Where technology used to be regarded as an efficient means to an end, companies have since turned to advanced technologies to explore new markets and distribution models.

But along this transitional journey, the finance and tax departments are often left behind. In our survey, only 14 percent of respondents report having implemented new technologies to improve the tax and/or accounting processes, and 34 percent say they haven't discussed doing so. This can be a significant missed opportunity—and significant added costs—when considering the implications of relying on shadow accounting systems still today.

Has your management team discussed using new technologies, including AI, to improve its tax and/or accounting processes?

- No, we haven't discussed it/we are not using — 34%
- Yes, it is being discussed/implemented — 41%
- Don't know — 12%
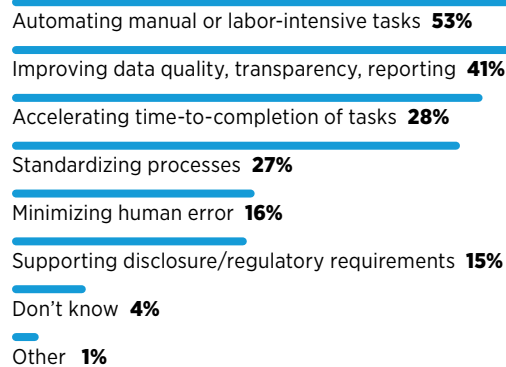- Yes, it's already been implemented — 14%

And of those who say digital is being implemented in their tax systems, the majority say they're focusing on automating manual or labor-intensive tasks. Yet, the greatest opportunity in digitizing the tax department starts with how it can support the company's disclosure and compliance with regulatory requirements—which only 15 percent of directors selected.

We continue to see companies' finance and tax departments working in silos, exacerbated by the virtual working environment brought on by Covid-19. Breaking down these silos is a critical starting point of an organization's transformation journey to avoid communicating conflicting data to reporting authorities, thus triggering audits or sometimes larger tax bills than necessary. For instance, direct tax and indirect tax are often assessed and reported by two different teams and data coming from two different systems that don't actually speak to one another. While that may have worked decades ago, companies today need to ensure their information aligns prior to remitting to both the income tax authorities and the sales and use tax authorities because as we all know, in 2022, these tax agencies are communicating and comparing notes.

Companies that operate on a global scale have an even great risk of conflicting data. Global companies must put care into designing and architecting their systems to enable access to information despite differences in currencies, year-ends, GAAP vs. Non-GAAP, and US GAAP vs. local GAAP. Connected systems that allow teams to pull information for their own unique reporting and analysis needs enable greater insights and less time spent reconciling data across various systems. Tax teams that have the access to the data they need, when they need it are more likely to have greater impact and the ability to position themselves as strategic partners to the business.

Which of the following objectives is a top priority for your company's tax/finance function when leveraging new technologies?

Automating manual or labor-intensive tasks **53%**

Improving data quality, transparency, reporting **41%**

Accelerating time-to-completion of tasks **28%**

Standardizing processes **27%**

Minimizing human error **16%**

Supporting disclosure/regulatory requirements **15%**

Don't know **4%**

Other **1%**

*Respondents were asked to select up to 2

When approaching digital transformation at the tax or finance level, companies should focus on the manual, labor-intensive processes that often have teams thinking "there has to be a better way." However, obvious as this seems, less obvious is the time and effort teams continue to place on managing and executing these labor-intensive processes, ultimately pulling their focus away from the automation they are trying to achieve. These resources are critical. Not only must they be involved, but their time must also be freed up to drive the change journey. Building new efficiencies on a broken foundation, or one that hasn't been optimized or modernized, is a recipe for disaster.

- Don't automate what's broken
- Recognize there will never be a perfect time for change
- Adopt a risk-based approach
- Engage with business stakeholders early and often

Directors can engage tax leadership teams in discussions to develop an operating model that regularly applies concepts such as reverse audits to critical, high-profile tax concerns, thus surfacing possible challenges before others do. This is particularly important for a tax function, whose focus has historically been retroactive rather than forward-looking. Adopting this approach could result in cost-savings, highlighted in a recent example with one of RSM's clients: nearly $10 million in overpaid taxes were identified with the root cause being a break in processes between collecting and remitting sales tax.
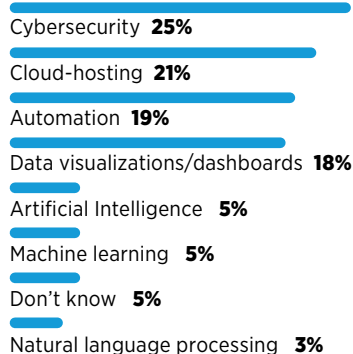
When looking at the technologies that can best support the tax and finance departments, directors are looking forward to harnessing the power of artificial intelligence (AI), machine learning, neural networks and natural language processing technologies in their upstream core business processes. Using these technologies, companies can intelligently automate their processes from the start, avoiding downstream band aids, re-work and, ultimately, lost time and money for tax. An example RSM has advised clients on is leveraging machine learning software on the front-end of procure-to-pay processes to capture all the necessary line-item expense data and detailed sales tax and jurisdiction information, instead of trying to use these tools to solve the problem on the backend.

Low-code, no-code tools, such as Alteryx, are another powerful automation tool to enhance incomplete or uncleansed data, especially when solving the root cause (e.g., through changing ERP systems) is not feasible or practical in the near term. For companies in this position, Alteryx acts as the automation "Swiss Army knife," containing all the components needed to reliably clean, map, sort and load data, replacing the countless Excel spreadsheets on which many continue to rely.
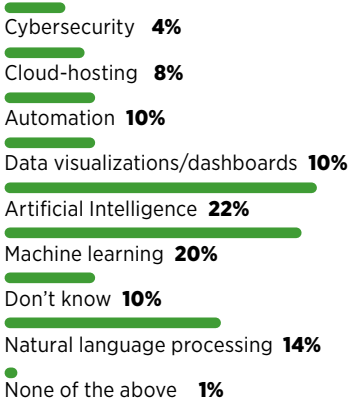
Companies may also want to assess the value of robotic process automation (RPA), a great tool for companies that have a high volume of repetitive tasks that can emulate human keystrokes.

Which technologies does your finance/tax department use or is considering using?

CURRENTLY USING

Cybersecurity **25%**

Cloud-hosting **21%**

Automation **19%**

Data visualizations/dashboards **18%**

Artificial Intelligence **5%**

Machine learning **5%**

Don't know **5%**

Natural language processing **3%**

CONSIDERING USING

Cybersecurity **4%**

Cloud-hosting **8%**

Automation **10%**

Data visualizations/dashboards **10%**

Artificial Intelligence **22%**

Machine learning **20%**

Don't know **10%**

Natural language processing **14%**

None of the above **1%**

Some questions to consider bringing up at the next board meeting include:

• What business priorities have a tax impact that we might not be completely looking into because we lack access to quality information?

• What level of investment can we commit to make now to explore digital transformation opportunities?

• How do we embed automation skillsets within our team? Is it critical that we enable our team to successfully sustain these new automation technologies after they are implemented, and if so, how will our workforce of the future look different than today?

DEMOGRAPHICS

From November 2021 to January 2022, *Corporate Board Member* partnered with RSM US LLP to survey 223 U.S. public company board members on the risks, challenges and opportunities they see as they help guide their organization's digital transformation journey.

The survey comprised 15 questions and was conducted online. Representation of participants are presented below.

TITLE

Outside director	67%
Committee chair	40%
Board chair	13%
Executive director	10%
Lead director	7%

MARKET CAPITALIZATION

Nano (less than $50M)	3%
Micro ($50M to $300M)	10%
Small ($300M to $2B)	22%
Mid ($2B to $10B)	38%
Large ($10B to $300B)	25%
Mega ($300B+)	2%

SECTOR REPRESENTATION

Financial Services	21%
Technology	15%
Consumer Products & Retail	15%
Life Sciences	9%
Real Estate, Hospitality & Construction	9%
Automotive & Transportation	8%
Health	6%
Mining & Metals	5%
Power & Utilities	5%
Oil & Gas	3%
Telecommunications	2%
Government & Public Sector	1%
Media & Entertainment	1%

CORPORATE
BOARD MEMBER

Corporate Board Member, a division of Chief Executive Group, has been the market leader in board education for 20 years. The quarterly publication provides public company board members, CEOs, general counsel and corporate secretaries decision-making tools to address the wide range of corporate governance, risk oversight and shareholder engagement issues facing their boards. *Corporate Board Member* further extends its thought leadership through online resources, webinars, timely research, conferences and peer-driven roundtables. The company maintains the most comprehensive database of directors and officers of publicly traded companies listed with NYSE, NYSE Amex and Nasdaq. Learn more at BoardMember.com

RSM's purpose is to deliver the power of being understood to our clients, colleagues and communities through world-class audit, tax and consulting services focused on middle market businesses. The clients we serve are the engine of global commerce and economic growth, and we are focused on developing leading professionals and services to meet their evolving needs in today's ever-changing business environment.

RSM US LLP is the U.S. member of RSM International, a global network of independent audit, tax and consulting firms with 51,000 people across 123 countries. For more information, visit rsmus.com, like us on Facebook, follow us on Twitter and/or connect with us on LinkedIn.