CORPORATE BOARD MEMBER | RSM

THE RACE TO DIGITALIZATION:

How ChatGPT and New AI Capabilities Are Putting Pressure on Companies to Accelerate Their Digital Transformation

Earlier this year, Microsoft's acquisition of OpenAI search capabilities sent Code Red alerts at reigning digital giant Google, signaling that no company is safe from disruption. While for many companies, the technology remains too nascent—and precarious—to adopt, the attention these capabilities are getting is a clear indicator that the risk of disruption is intensifying for everyone, across all industries.

Boards have a fiduciary duty to ensure the long-term health and viability of the company, and hype or not, emerging developments like DALL-E and ChatGPT are adding to both the long-term risk of external disruption and the shorter-term operational risks, whether companies use the technology or not.

Then, there's also the potential missed opportunities. In only a matter of weeks, YouTube, Meta, Snap and many others had announced significant investments in the development of new applications for generative AI. "The Hunt for Profits Begin" read one headline discussing ChatGPT and generative AI capabilities. Bank of America called it the next iPhone moment, predicting the technology's impact to reach well into the trillions by the next decade.

This may sound like another tech gold rush, but amid all the excitement, a new wave of consumers is brewing: those who expect companies to tap into these new capabilities to improve the customer experience. Meanwhile, some employees are also expecting companies to make use of AI, machine learning (ML) and automation capabilities to further streamline processes and reduce menial tasks. From these perspectives, companies that don't take advantage of new technologies aren't keeping up with the times and evolving stakeholder needs. They will be left behind.

Considering the human experience has never been more important when implementing digital transformation initiatives and designing processes," said David Hickethier, RSM principal and human-centered design practice leader. "Companies need to understand the human interactions that drive business outcomes and apply technology to enrich them. When boards increase the focus on the customer and employee experience, they can create more valuable interactions and increase loyalty to the business and strengthen the brand.

But of course, from a governance standpoint, it isn't that black and white. There are risks to assess, first and foremost. But things are moving at such an accelerated pace that directors cannot take too much time pondering the question. To get ahead of potential disruptors, seize opportunities and, yes, minimize risks, boards can't neglect to proactively challenge management on their projections for what those developments mean for the company, and their industry as a whole.

Ensuring management does not take on excess risk that can jeopardize the long-term health of the company is job number one for boards. But it's equally important to take in the pace at which digitalization is happening. Being too late to adoption can also put the company's survival at stake.

For those reasons, scenario playing—these 'what-if' exercises that help define actions in the event of a curveball—should be front and center in 2023, particularly as an increasing number of viable business use cases for these advanced technologies become more evident.

THE PACE OF DIGITALIZATION

Despite the recent onrush to ChatGPT, most U.S. public companies are conducting digitalization at a cautious pace. A survey of nearly 200 public company directors, conducted by Corporate Board Member in partnership with RSM US LLP, found 56% reported their companies were "pacing along" on their digital transformation journey—not ahead of peers, but not lagging either.

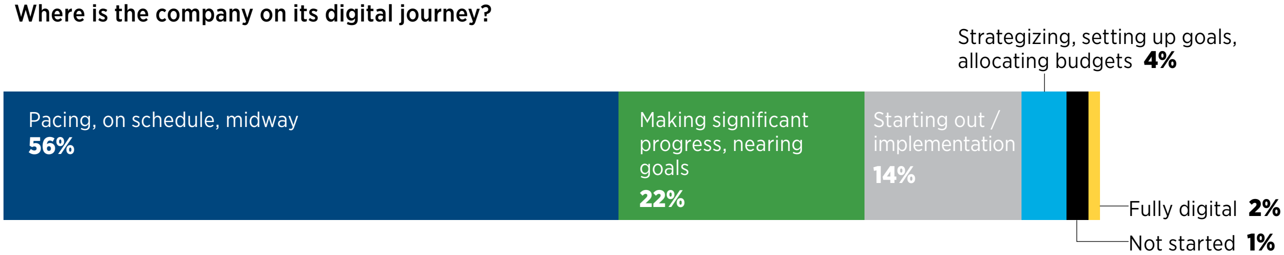
Pacing on schedule may sound like a good place to be, but for most, the digitalization timeline was established years ago, when it may have made sense to have a portion of operations automated by 2025. But advancements are coming fast and, as evidenced by the size of the investments being made, disruptors are ready to pounce. Companies that haven't revisited their road map or tightened their timelines are taking a considerable gamble.

"Even amid current economic uncertainty, companies are still spending on technology because it has become a necessity and a competitive differentiator," said Rhys Morgan, RSM technology advisory leader. "The emergence of recent innovations has demonstrated how quickly the market is moving and new customer demand on company systems and processes will quickly follow. While boards need to guide the discussion about what investments align with the strategic direction of the organization, too much hesitation can also pose a significant risk."

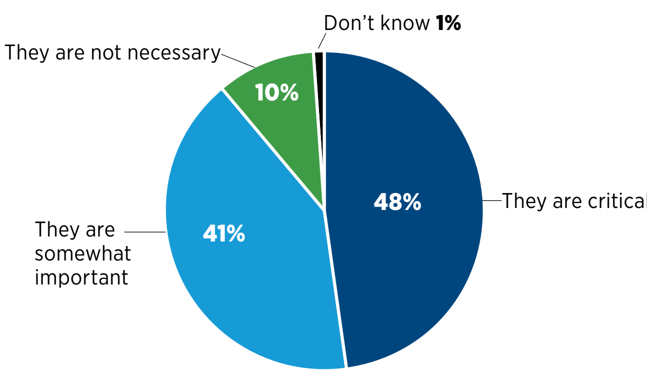
The survey shows directors are well aware of the importance of digitalization—and how pressing it is becoming. Nearly half (48%) said digital technologies are "critical" to achieving the company's growth objectives in 2023-24.

More specifically, 40% said AL and ML capabilities were key to growth over the coming year, with some industries, like life sciences, health care, financial services and oil & gas, all ranking the technology even higher on their list of primary growth drivers in 2023.

Where is the company on its digital journey?



What role do you expect digital technologies to play in helping your company achieve its growth objectives and overcome obstacles in 2023-24?



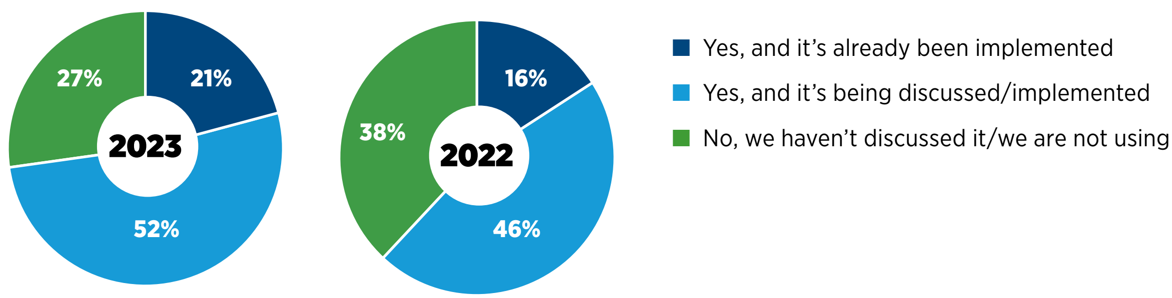
Yet, adoption remains low, and implementation scattered. For instance, of those considering AI/automation for their company, 81% said they were implementing AI to streamline operations, but only 39% said they would also use the technology to support sales and business development—and 18% said the same for tax.

In which area(s) is the company utilizing or considering automation?

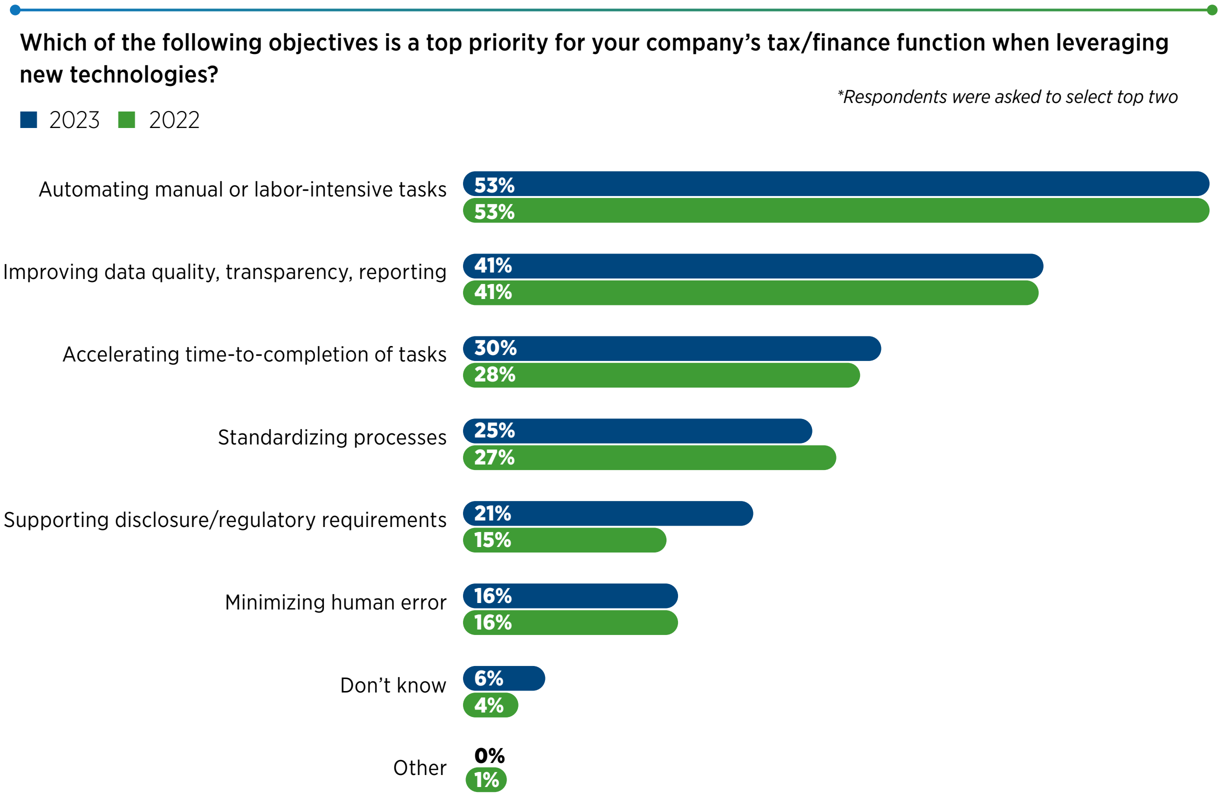
This is unfortunately a common error in digitalization journeys. Companies too often approach new technology in a trial manner, limiting the implementation of certain capabilities to certain functions without thinking through how the systems will then communicate with one another to facilitate the sharing of data and avoid duplication, errors and silos.

For instance, we noted last year in our survey findings, that along the transitional journey, the finance and tax departments seemed to be lagging. At the time, 38% of the directors surveyed said they weren't considering new technologies (automation or others) to improve the tax and/or accounting processes. While we observed a 30% decrease in that number this year, to 27%, the tax function remains a laggard on companies' digital transformation road map.

Has your management team discussed using digital technologies to improve its tax and/or accounting processes (e.g., automating resource-intensive tasks, improving reporting times, consolidating systems/data, minimizing human error, etc.)?



A good example of a glaring opportunity in digitizing the tax department includes how it can better support disclosure and compliance with regulatory requirements—which only 21% of directors selected as a reason for digitalizing the tax/finance function, up from 15% the year prior. Not prioritizing that aspect in the digital transformation process can not only lead to missed opportunities and higher costs, but it also increases the risk of working in silos, conflicting or erroneous data.



"A digitized tax function ultimately drives value by supporting an organization's decision-makers with actionable insights," said Matt Bradvica, Tax Digital Strategy Leader at RSM US LLP. "Yes, it creates efficiencies in reporting and minimizes compliance risks, both of which reduce operational costs. But, in addition to those benefits, when you have real-time data and the analytical capabilities to understand the tax implications of a decision, you are able to more confidently make decisions about growing your organization, such as establishing operations in a new location, rolling out a new product or pursuing a new investment."

The same is true across all functions of the business. And for boards, the integration of data from all parts of the organization is crucial to having a thorough picture of how the business is performing, where improvements are needed and what impacts one decision can have over other facets of the organization.

Take, for instance, the subsidiary of a publicly traded real estate company with thousands of leases across the globe. The company was using multiple massive spreadsheets to complete complicated portions of tax compliance. Special partnership allocations created an inefficient process and were very expensive, given the organization's complex structure and volume of acquisitions. Even with an internal tax department of a half-dozen professionals, filing obligations in all 50 states and internationally became unmanageable.

By deploying an allocation and tiering platform instead, the organization was able to view detailed information and respond in real time to requests. The technology enabled the comparison of data in a range of scenarios, allowing for quick visualization of the tax implications of potential transactions to support better informed decision-making in a fraction of the time it used to take.

Best practices for properly leveraging digital technologies:

1. Ask management to explain the digital solutions the company has chosen and to demonstrate how they elevate the customer experience, enhance operational efficiency and increase revenue.

2. Inquire about whether the company's integrated platforms offer a smooth handoff between customer-facing and back-office functions, and real-time automation of alerts and actions.

3. Consider an approach that embraces emerging innovation throughout the business instead of only focusing on specific areas.

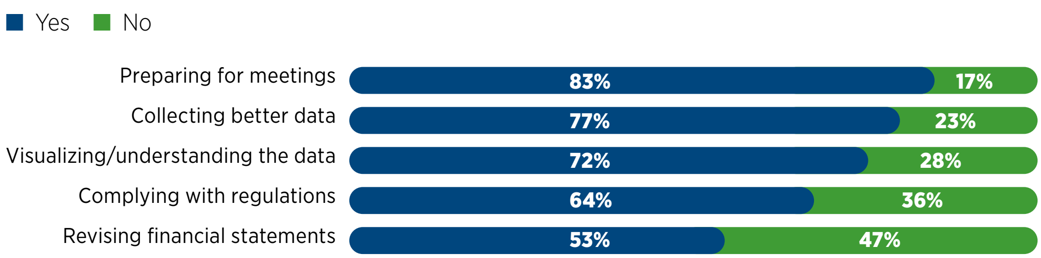
DIGITALLY TRANSFORMING GOVERNANCE

Data enables informed decision-making, and 82% of the directors surveyed said having access to digital technologies has improved the analytics made available to the board—40% of whom said it had made a "significant" improvement.

Do you find that your access to data in general, in your role as corporate director, has improved thanks to digital technologies?

The great majority of directors said digital technologies have allowed them to better prepare for meetings (83%), access better data (77%) and get a clearer understanding of the data, thanks to visual dashboards and similar tools (72%). Simplifying regulatory compliance and revising financial statements were also among the top efficiencies gained by boards.

Do you find that digital technologies have helped create efficiencies in board processes?

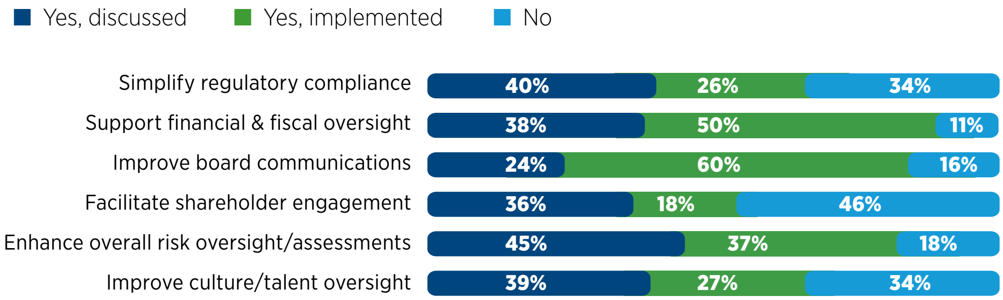


Yet, despite the benefits, boards tend to be slower to adopt digital technologies for themselves. During Covid, for instance, many viewed the shift to virtual board meetings as a large disruptor to the governance process, and approximately three-quarters have since returned to in-person meetings at least part of the time, according to *Corporate Board Member* research. Most boards still today are composed of directors who have never had to operate a business with so much reliance on technology—much less doing so virtually, so it is easy to understand why some directors remain reluctant to fully adopt technology in the oversight process.

Digital board portals are another good example of the slow pace of technology adoption at the board level. While companies are experimenting with emerging technologies like generative AI and machine learning, many boards have yet to fully endorse digital board portals, despite the security risk of not doing so. Most board books are distributed via portals today—60% of directors surveyed said their board has implemented digital technologies to improve board communications—but many directors still rely on unsecured emails and networks to share impromptu information, often sensitive in nature, outside of the formally expected communications—with convenience being the primary reason.

While boards are utilizing technology to support certain areas of the governance process—most commonly communications between directors and between the board and management—only 18% are using new technologies to facilitate shareholder communications, and only one quarter are using it to simplify regulatory compliance.

Has your board implemented or discussed using digital technology to simplify its own processes?



Compliance processes, though, do present significant opportunities for technology to provide value. For example, consider that the tax function is one of the largest consumers of financial data within a business, and that information can be maintained within the enterprise resource planning (ERP) system.

However, in many cases, ERP systems do not contain data with the level of detail necessary for tax-specific analytics. This commonly pushes a tax function to create its own data repository in spreadsheets outside the enterprise, requiring significant time and effort to bridge gaps, such as information gathering and formatting, not to mention the data governance and security issues this introduces.

Ideally, a company's enterprise data repository would be comprehensive enough to serve tax solutions, and in turn, the tax solution would return analyses that complement financial data and inform decision-makers. Short of that, however, boards that understand how data supports compliance strategies can ensure tax leaders are part of the process when enterprise data decisions are made.

This underscores the importance of data literacy throughout an organization, from the board and C-Suite down to the employees who handle data and put it to use regularly in their roles. It entails a general understanding of what constitutes data, how data is structured and how the business can use data strategically across all internal business entities.

The board does not need to be comprised of software developers or data scientists, but at the very least, directors need to have a general concept of how data is collected, stored and used across the organization's footprint. This foundational understanding is essential for board members to support their business decision-making capabilities to lead the organization in its digital transformation.

Best practices for digital data governance:

1. Cultivate a culture of data literacy: Boards should understand how the organization is using data to achieve its objectives. Management should inspire curiosity among employees and facilitate the ability for employees to pursue that curiosity by providing access to data and training employees to use data solutions.

2. Clarify how data can support business strategies: By asking management to demonstrate how the business uses data to measure success, boards lay the foundation for data-driven decision-making. This could include data visualization processes, machine learning and, in an advanced stage, predictive analytics.

3. Make sure your enterprise data systems are comprehensive: When leaders are mindful of all the business functions that depend on and support enterprise data, they can structure and implement systems that co-exist effectively and add value to the business through efficiencies and risk mitigation.

4. Demand solutions that provide real-time access to data: Make efficient use of dashboards that provide a clear view of key business metrics and focus on tools that can manage and integrate data across the organization, rather than siloed solutions for specific business functions.

SHOULD CX/EX DRIVE ADOPTION?

It's commonly been in boards' nature to believe that it's better to miss an opportunity than to make a costly mistake by acting too hastily. While most often used in the context of M&As, some of the directors surveyed say this also applies here, with the adoption of emerging technologies.

"Better be an early follower than an early adopter," said one director participating in the research, summing up the general sentiment.

The perspective is understandable; the risks are high. But there is also risk in delaying adoption too long. Today's customers and employees lack patience and loyalty. Companies that don't offer the conveniences they have grown accustomed to are likely to lose tech-savvy customers. And employees may follow the same route. The labor shortage has forced some organizations to double down on automation in an attempt to do more with fewer resources—or at least do the same with less. Employees are expecting companies to utilize these emerging technologies to streamline processes and reallocate time-consuming tedious jobs to bots, freeing humans to do more insightful and motivating work.

The survey found automation is on the rise at U.S. public companies, rising from No. 4 to No. 2 on directors' list of most important technologies in 2023, and that jump is an important reflection of today's labor market. Companies are coming to the realization that there is a war for talent that is prompting the question of how to equip employees to be more effective and focus on higher value-adding activity for both the company and the employee, like the customer experience and driving innovation.

There are pitfalls though—and proceeding with a certain degree of caution is, of course, warranted and important. The automation of customer service, for example, is creating mounting frustration among consumers. While the technology may seem to alleviate the labor situation, it has significant room to go to improve the customer service experience. Some companies, feeling customers' pain point, are reverting back to live representatives, assisted by technology, rather than the opposite. A temporary solution, no doubt, but one that is making a big difference in the consumer space.

So, the question becomes, should companies tailor their digitalization plan in accordance with customer and employee needs? RSM's stance has long been that delivering a modern experience requires a holistic approach that includes both customer facing and employee solutions.

Global forces have drastically changed customer expectations and business operations. To compete effectively today, companies must adopt transformational strategies that start with the customer. The key is gaining and accessing deep insights to inform the process from the start, bearing in mind that adjustments are likely to be needed along the way due to the rapid pace of change.

With the right set of data in hand, it becomes easier to choose the tools and technologies that can deliver on the goals. Going through the process blindly will assuredly cause friction, delays and errors that will ultimately be costly—financially as well as with respect to security, and brand image and reputation.

On the employee experience front, one error often encountered is that companies frequently fail to prioritize who will be responsible for using the new technology being implemented. Mature organizations are recognizing that EX is vital to improving CX and that

Best practices to strengthen the customer and employee experience:

1. Consider a comprehensive oversight approach that includes selecting data analytics applications that align with company needs.

2. Demand that management performs analyses that can demonstrate what's good and not so good about the current customer and employee experience and reveal any problems that require immediate attention.

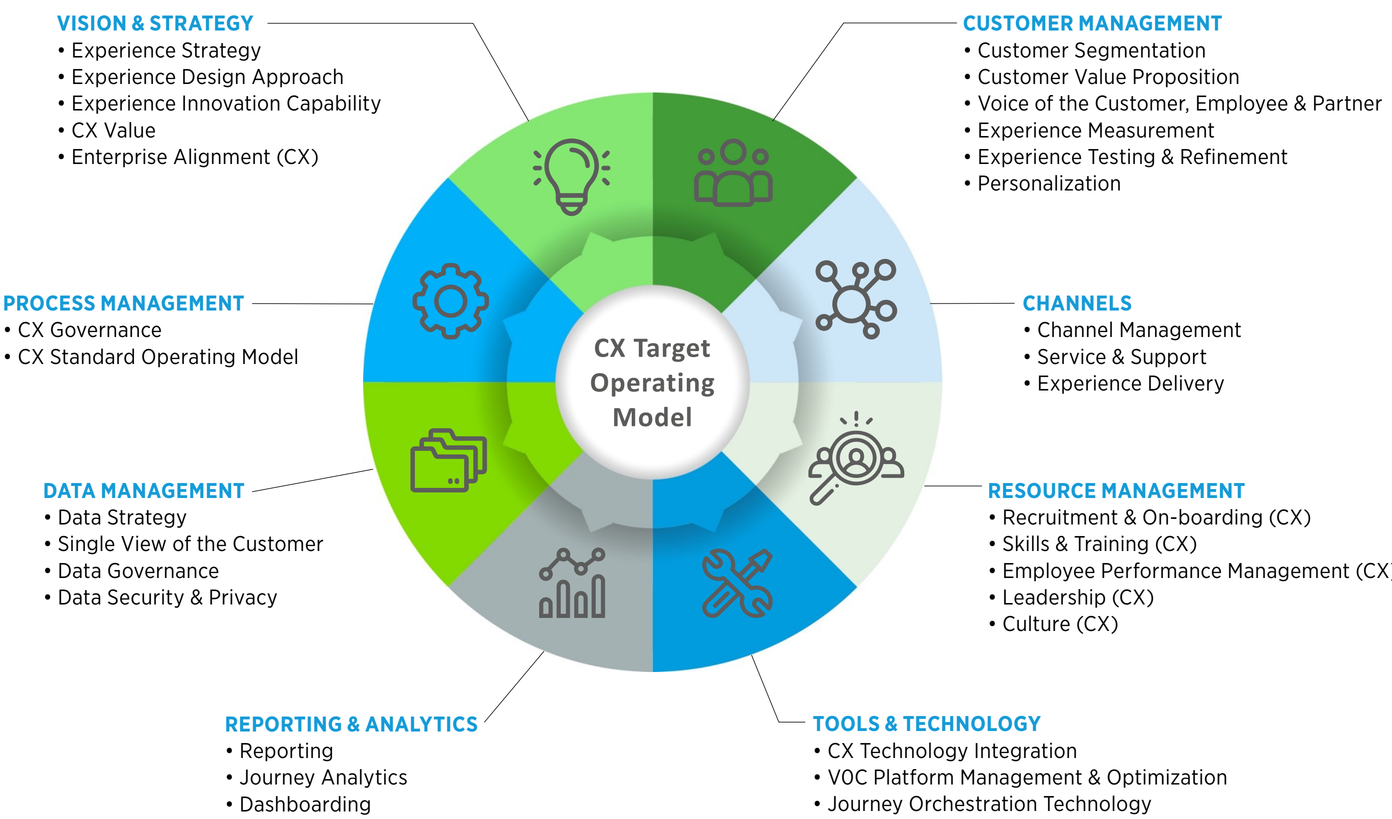
3. Ask questions about how current processes and systems align with end-goals and support changes that optimize existing and new resources.

a satisfied team of workers is behind every positive customer moment that matters. So, rather than seeing the two in silos, establishing a holistic view of both—and how they both nurture one another—is key.

Millennials and Gen Z employees have grown up with limitless data at their fingertips. They know what technology does for them at home, and they expect it to do the same at work. Asking employees to perform a repetitive task like data entry when it's unnecessary just hurts EX. Today's employees want the tools to be productive, and that includes any technology that acknowledges the value of their time and frees them up to work on higher-value enterprise tasks.

Of course, today's workplace is composed of more than Millennials and Gen Z, and change management is also critical for projects of that magnitude. Some will be eager to evolve; others may be more resistant. It's important to understand how slow-walking technological changes affects employees and their experience because that positive or negative EX, in turn, greatly affects CX.

Customer Experience Target Operating Model (TOM)



For more information:
https://rsmus.com/services/digital-transformation.html#contact

ABOUT THE RESEARCH

From November 2022 to January 2023, Corporate Board Member partnered with RSM US LLP to survey U.S. public company board members about the state of their digital transformation and the role digital technologies play in 2023-24 playbooks. The survey, conducted entirely online, received 178 qualified responses, and the representation of participants is presented below.

TITLE*

Outside director	63%
Committee chair	39%
Board chair	13%
Lead director	9%
Executive director	8%
Other	5%

**Respondents could select all that apply.*

SECTORS

Financial Services	29%
Technology	13%
Life Sciences	12%
Automotive & Transportation	8%
Consumer Products & Retail	7%
Power & Utilities	7%
Real Estate, Hospitality & Construction	6%
Health	5%
Oil & Gas	5%
Mining & Metals	2%
Telecommunications	2%
Government & Public Sector	1%
Media & Entertainment	1%
Private Equity	1%

MARKET CAPITALIZATION

Nano (less than $50M)	5%
Micro ($50M to $300M)	11%
Small ($300M to $2B)	25%
Mid ($2B to $10B)	30%
Large ($10B to $300B)	24%
Mega ($300B+)	5%

BOARD COMMITTEE REPRESENTATION

Audit	70%
Compensation	62%
Nom/Gov	56%
Other	24%
Technology	15%
Ethics	5%

CORPORATE BOARD MEMBER

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