How to get more out of your digital investment strategy

Written by

Joongshik Wang
EY-Parthenon Asean Leader; EY Asean Technology, Media & Entertainment and Telecommunications Sector Market Segment Leader

In brief

- Many companies face the challenge of measuring returns on digital investments as they increase digital spending.
- Boards must work with executives to find the right mix of investment vehicles to help realize higher returns from digital transformation.
- Establishing robust governance and KPIs as well as creating a conducive culture for digital transformation are also crucial.

Boards can help companies to realize higher returns from digital transformation by addressing key areas such as the investment mix.

Companies are increasing their digital spending this year, driven by the pressure to bring new products and services to market and achieve efficiency. According to the *EY-Parthenon 2022 Digital Investment Index (DII)*, Southeast Asian companies plan to allocate 5.6% of their revenues to digital spending this year, compared with 3.5% in the 2020 survey. For a company with US$10b in revenues, for example, this would mean an increase from US$350m to US$560m in digital spending.

With the increased spending, firms have also stepped up their efforts to measure returns on digital investments (RODIs). Forty-three percent of the Southeast Asian respondents currently track their RODI. Even then, many companies still struggle to measure their RODI and don't know how much they had spent on digital operating or capital expenditures the previous year or what value has been yielded.

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Companies that have transformed digitally and are in tune with the performance of their digital investments are well placed to accelerate growth and revamp business models. Boards need to set out a clear digital vision to help the business navigate its digital-transformation journey. There are three ways that boards can steer the digital investment strategy for higher returns.

Get the right mix of investment vehicles

To meet their innovation goals, companies need to decide whether to build internal capabilities or use inorganic investments. This will affect how quickly they can bring products and services to market and deliver their RODI. To achieve an optimal mix, firms should break down silos, synchronize the various investment types as well as align build, buy and partner decisions with their corporate objectives.

Inorganic investments offer many advantages. These include easier access to capital, enhanced quantity and quality of technology targets as well as a faster pathway to access new technologies and fill key capabilities and skills gaps. Unsurprisingly, the DII found that 54% of Southeast Asian respondents are opting for inorganic investments — such as corporate venture capital (CVC), M&As, and partnerships — rather than building capabilities themselves to accelerate innovation.

When deciding which inorganic investment vehicle to use, 45% of global survey respondents prefer CVC for its ability to support new market expansion and allow companies to have early access to forward-looking technology or assets. Thirty-four percent would opt for partnerships to gain financial returns with lower capital investment, while 32% prefer M&A to access new technology and products more quickly.

The board should seek to align executives on the right investment mix of "build, buy, partner or corporate venture" and drive an integrated approach to accelerate digital initiatives. Depending on the digital initiative, build, buy or partner may lead to different RODIs and implementation speeds.

A successful investment strategy requires alignment at the board level so that there is accountability when directing those investments. Breaking down organizational silos and playing to executives' strengths (e.g., relying on chief digital officers and CEOs to develop in-house capabilities and lead on M&As respectively) are the best ways to develop a successful investment strategy.

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Establish strong governance to measure success of digital investments

Companies should have a robust governance model to measure the success of their digital investments. This should include setting metrics, reviewing KPIs, assessing the impact on portfolio value realization and making necessary adjustments.

The DII findings suggest that digital leaders are more likely to monitor their performance on digital investments, produce greater financial impact than others and mature their digital investments faster. Eight in 10 digital leaders who responded to the global survey have a formal program to identify, measure and report digital investment outcomes. What's more, 87% of these digital leaders have a centralized governance and oversight approach to measure benefits and related cost outlays.

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Overlapping responsibilities can lead to teams "hiding behind" the organizational structure and systems. Some companies even create a temporary and cross-functional center of excellence to look at the transformation needs of the organization.

Create a conducive culture

Digital leaders distinguish themselves from their peers in another important way — they consider culture changes when devising digital strategies. Forty percent of digital leaders who responded in the DII survey said they have a fail-fast culture that encourages employees to experiment and allows for greater agility and speed. These digital leaders tend to develop flexible strategies that can be adjusted when disruptions arise.

The board should work closely with the management to provide a clear vision from the top and set the tone for an innovative culture that integrates digital investments with greater agility. The board should also assess if the management empowers team leaders or change agents to socialize and champion digital projects that require more scrutiny.

The board can play a role by identifying the right behaviors and creating incentive structures to reinforce them. For example, executive compensation, including senior executive performance metrics, should be aligned to the behaviors or culture needed by the business.

More than ever, businesses need a clearly defined digital strategy that enables them to succeed in the post-pandemic world and weather future disruptions. As companies continue to make heavy digital investment bets, selecting the right mix of investment vehicles, measuring RODIs and creating a favorable culture for digital transformation are crucial. Boards have a pivotal role in steering their teams on a calibrated digital journey with a focused and holistic strategy.

Boards should consider the following questions:

- Does the company have a robust governance model and KPIs to manage digital initiatives and measure the RODI?
- Is there a clear digital strategy that sets out the company's current and projected digital spending, technological requirements, and a roadmap to roll out its digital transformation?
- Have the sources of funding for digital investments been identified and are the right interventions for proper usage of funds in place?
- What is the company's strategy for hiring and retaining top talent to support its digital-transformation journey?
- Are there clear guiding principles to drive the organization's strategy for allocating digital capital, taking into account corporate strategy goals, the technology portfolio and impact on the business?

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