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How technology companies are changing the way they develop and execute strategy

The pandemic has been a seminal moment for the technology sector – even for a sector used to a permanent state of disruption. The sector has been confronting disruptions on many fronts: powering an economy-wide acceleration of digital transformation driven by COVID-19, responding to changing regulatory and geopolitical environments, and undergoing its own product and business model transformation. Executives are responding with a new view of how to develop strategy, as well as well as how to address the needs of multiple stakeholders.

The EY-Parthenon team recently conducted one of the most comprehensive C-suite studies in the last decade to identify how strategy formulation and execution will evolve. The study surveyed 1,000 CEOs, CFOs and other C-suite executives with the partnership of the Economist Intelligence Unit.

Key technology findings:

84%

report that their board has a significant influence on strategy formulation, with at least 80% of executives indicating experience in adjacent markets and digital expertise as desired key capabilities for the board.

66%

believe the biggest competitive threat in the next three years will come from outside of their sector, with many believing the threat will come within the next 12 months.

2 out of 3

technology executives feel the need to moderately or substantially change their capital allocation process to maximize the value of investments.

A majority of respondents believe that customers, employees, suppliers, and the government and regulatory environment are as or more important than shareholders when formulating strategy.

01 COVID-19 and the state of the technology sector

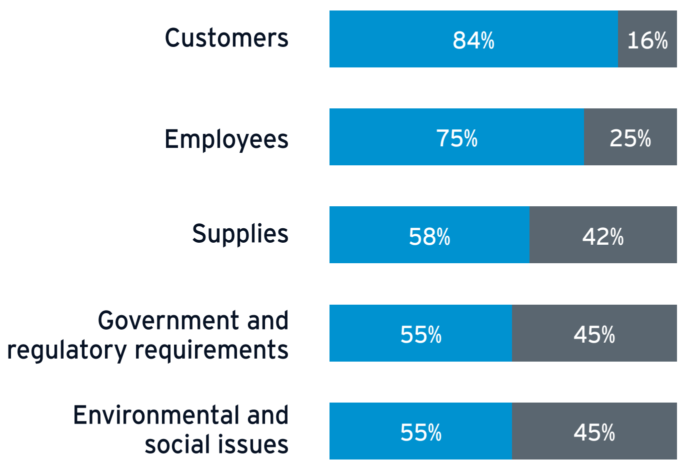
While most technology executives are adjusting strategy due to the pandemic, very few expect a drastic impact. As the pandemic has accelerated disruption across the entire economy, the contrast between the haves and have-nots within the technology sector has accelerated. Technology companies, whose businesses are enablers of a more digital, virtual, cloud and consumption-based world, have seen performance improve. In contrast, technology companies that are more focused on serving the legacy on-prem, license and physical location-based world did not. For many companies, this period has driven greater urgency in the transition of their own portfolios to be more focused on products aimed at enabling the digital, virtual, cloud and consumption-based world.

02 A greater set of stakeholders

The survey revealed that for technology companies, a wider set of stakeholders, including customers, employees, suppliers, and government and regulatory requirements are becoming as or more important than shareholders. Technology companies are also facing increased and oftentimes public scrutiny from their employees and customers. Understanding different stakeholders, objectives and mindsets are crucial to developing a successful enterprise strategy.

The headwinds facing technology companies in the form of increased regulation create complexity due to geopolitical overlap. This is not just a "Big Tech" antitrust issue. Rather, it affects the entire sector as regulators with economic, privacy and security concerns turn their eyes to the internal operations of these companies. Technology companies who once considered themselves borderless can now count on grappling with different governments around the world. Going forward, they may want to invest more resources in political risk identification and mitigation and evaluate a more complex set of factors when formulating strategy.

More important than or as important as shareholders



03 Embracing the changing dynamics of their ecosystems

Innovation in the sector is constantly driving change in the way products and services are bundled. This is likely leading to a more dynamic competitive environment. Technology companies were the only sector surveyed where most executives stated the biggest competitive threat in the past three years has come from nontraditional competitors. Four in five (81%) of technology organizations indicated that these unexpected entrants have created a material impact on their organizations. Nearly all surveyed expect the trend to continue.

To remain competitive, companies can continually evaluate and embrace the changing dynamics of their ecosystem, anticipate potential new entrants and have a plan of action.

The EY-Parthenon team recently assisted a global software company with assessing product expansion into new vertical markets. This included assessing the ecosystem within these verticals, as well as exploring partnering opportunities with incumbent providers.

04 Digital capabilities that are not just imperative but may become the norm

With the technology sector enabling accelerated digital transformation across the broader economy, the need for many companies within the sector to also digitally transform themselves can be overlooked. Thus, executives are increasingly focused on digitalizing their own organizations. We found that about half of technology executives plan to continue their digital transformation efforts by integrating new technologies, including robotic process automation (RPA), artificial intelligence and blockchain capabilities, by 2023. Additionally, a third of top-quartile technology companies plan to rapidly speed up implementation and leverage their digital maturity to take an opportunistic approach.

To maintain leadership, companies may want to implement strategic digital initiatives quickly and boldly. To accomplish this mandate, companies can add board members with desired competencies and create new leadership roles. Not surprisingly, the EY-Parthenon team found 88% of technology companies that said they have added the roles of chief digital officer and chief data officer during the past five years also indicated that these roles are significantly influencing their strategic mandate.

As an example, we have been working with a global semiconductor company on a range of digital transformation initiatives including utilizing RPA to simplify some key processes within major functional areas.

05 Rethinking the capital allocation process

Many technology companies have grown fast. They've acquired companies in record numbers but, in many cases, have not reevaluated portfolios and properly integrated new assets. Consequently, the study found that two-thirds of technology executives believe they must substantially change their capital allocation process to maximize the value of investments.

The EY-Parthenon team recommends that organizations develop an objective framework that can be consistently applied across strategic initiatives or uses of capital. The rigor and approach to measure value across strategic initiatives should be consistent across organic (capex, R&D, sales and marketing, etc.), inorganic (M&A, divestitures, partnerships, etc.) or passive minority investments. The process must be systematic and objective, supported through data and linked to strategic goals but still flexible enough to quickly respond to changing market conditions.

Reimagining strategy formulation in the technology sector

With companies experiencing so much change, we have outlined several actions tech companies can take to reimagine strategy in an era of disruption. Actions include:

1. Focus on total stakeholder return (TSR) to enhance enterprise value
2. Understand the totality of your ecosystem to effectively compete and innovate
3. Redesign your processes to enhance the value from your ecosystem
4. Rework the capital allocation process to enable swifter capital redeployment
5. Create a repertoire of playbooks to boost ROI from all types of transactions
6. Keep the digital strategy in sync with enterprise strategy to unlock the full potential
7. Build real-time, dynamic analytics and strategic planning to preempt disruption
8. Inject agility in your organization's DNA to increase adaptability

Conclusion

The pandemic has accelerated the economy-wide need for digital transformation, which is being driven by the technology sector. C-suite executives are rethinking how they develop and execute their corporate strategy. Even as some companies are increasing revenues, they may need to also streamline their portfolios and introduce agility into the organization.

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EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized — helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

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