Board Matters Quarterly

Issue 3, 2022

Building a better working world

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Board Matters Quarterly offers thought-provoking perspectives and insights into leadership and governance issues for boards and audit committees, supporting them to navigate the increasingly complex business environment.

1

Why reimagining your workforce strategy is critical to win the race for talent

2

How to yield higher returns on digital investment through your transformation strategy

Why reimagining your workforce strategy is critical to win the race for talent

The COVID-19 pandemic has reimagined the way of working for employers and employees, and the consequences from this event have caused a tidal shift in how we put forth our priorities and prospects in daily life.

The Great Resignation, rising inflation, calls to commit and action on environmental, social and governance (ESG) issues are further taking shape on the workforce landscape that we are all trying to navigate with new lenses. This terrain is new and laden with opportunities and context of the how, what and why of work.

According to the *EY 2022 Work Reimagined Survey*, employees around the world, including those in Malaysia, now hold more sway in the job market. More than one-third (36%) of Malaysian respondents say they are likely to quit in the next 12 months – driven mostly by a desire for higher total pay, better career opportunities and flexibility amid rising inflation, a shrinking labor market and an increase in jobs offering flexible working.

The survey shows:

44%

of Malaysian employees say pay increases are needed to address staff turnover, **while only 16% of employers agree**

16%

of Malaysian employers say they want employees to come back to the office five days a week, but **95% of employees want to work remotely for at least two days a week**

81%

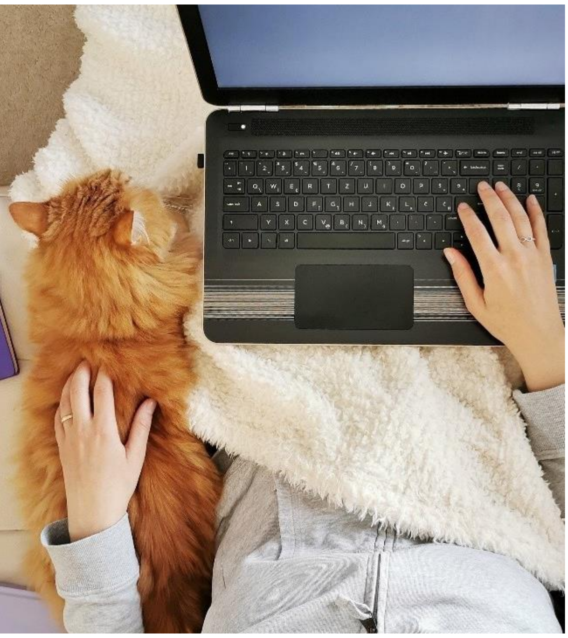
of Malaysian employees perceive increased productivity from new ways of working, **while only 46% of Malaysian employers agree**

The *EY 2022 Work Reimagined Survey* – one of the largest of its kind – canvassed the views of more than 1,500 business leaders and over 17,000 employees across 22 countries, including 50 employers and 250 employees in Malaysia.

It shows that, as many countries emerge from the COVID-19 pandemic, employees have gained significant influence over their employers and that their "wish lists" of potential employers have changed.

1. Pay increase over the desire for flexibility
44% of employees say pay increases are needed to keep them from leaving

Almost half of the Malaysian employees (44%) want a better remuneration package to prevent them from leaving their organizations. While this may positively impact employees, reviewing and adjusting compensation at this point of time will, however, impact the cost of doing business. At a time where businesses are recovering, increasing operational costs may not be the right business decision. Furthermore, increasing wages may only serve as a short-term measure to retain employees because it is a perpetual effort and cannot be given to everyone without justifiable reasons.



2. Hybrid work model
95% of employees voted to work remotely twice a week

Although 95% of Malaysian employees say working twice a week remotely was an ideal arrangement, in last year's survey, having flexible working arrangements was the determining factor for employees to stay or leave an organization. Now, only 16% of them opt for remote-work flexibility and this could be due to the reason that many employers are already offering some form of work flexibility. This aligns well with the sentiment from employers with only 16% of them saying that their employees should return to the office full-time. This demonstrates that the majority of both employers and employees want hybrid work arrangements established in their organizations, and they have grown accustomed to remote work arrangements, but there is still value in face-to-face interactions in the office, especially for collaboration and engagement with fellow colleagues.

3. Increase in work productivity?
81% of employees say new ways of working increase productivity

Although the majority of employees (81%) felt that work productivity has increased since shifting to the hybrid work model, employers' confidence has eroded with less than half of Malaysian employers (46%) perceiving increased productivity. This disparity may be due to the reason that employers want employees back in the office more often while employees prefer working remotely. Having part of the team in office, and part of the team virtually may be impacting confidence levels on productivity.

Another diverging view observed in this study is on the improvement of organizational culture. While 72% of employees believe their organizational culture has improved since the start of the COVID-19 pandemic, only 30% of employees agree. This, again, is because employers expect employees to return to the office and employees seek to work remotely. Employees feel their organization's culture has improved but employers feel a lack of engagement and collaboration.

Five actionable insights for organizations to consider to attract and retain their talent

1

Operationalize hybrid work models

Establish guidelines and policies for employees to have a clearer understanding of working on a hybrid basis.

2

Reinvent the workplace

Rethink how to utilize the workplace more effectively to promote collaboration among employees.

3

Create a work-technology experience

Stay up-to-date with collaborative tools to ensure employees continue to be productive.

4

Reshape and optimize reward programs and career frameworks

Revisit talent attraction and retention strategies and plans. Appreciate aspects that employees give importance to and adopt measures to retain talent.

5

Define culture and organizational networks

Be clear on behaviors and cultures you want to drive within your organization, and leverage formal (training and performance management) and informal levers (leadership role modelling and internal influencer networks) to drive the desired behaviors.

In conclusion, employees and employers see flexibility and hybrid work as the new normal, though further details reveal divisions. Employees are still willing to leave their jobs to advance their career and pay potential. If companies don't address pay equity between internal and external labor markets, then efforts toward improving culture, productivity and diversity, equity and inclusion (DE&I) will be neutralized by turnover. By acting with intentionality, leaders can build trust and orient their organizations toward an optimistic future.

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How to yield higher returns on digital investment through your transformation strategy

Digital investment is a key factor that drives growth for organizations and economies around the world. The EY-Parthenon 2022 Digital Investment Index (DII) reveals that companies worldwide continue to invest money into digital transformation efforts, with many planning to up spending again this year. In Malaysia, the Malaysia Digital Economy Corporation (MDEC) announced a five-year plan focusing on five key thrusts aimed at attracting investments and advancing Malaysia's Digital Economy Blueprint or MyDIGITAL[1].

The Digital Investments Future5 (DIF5) Strategy targets the following by 2025:

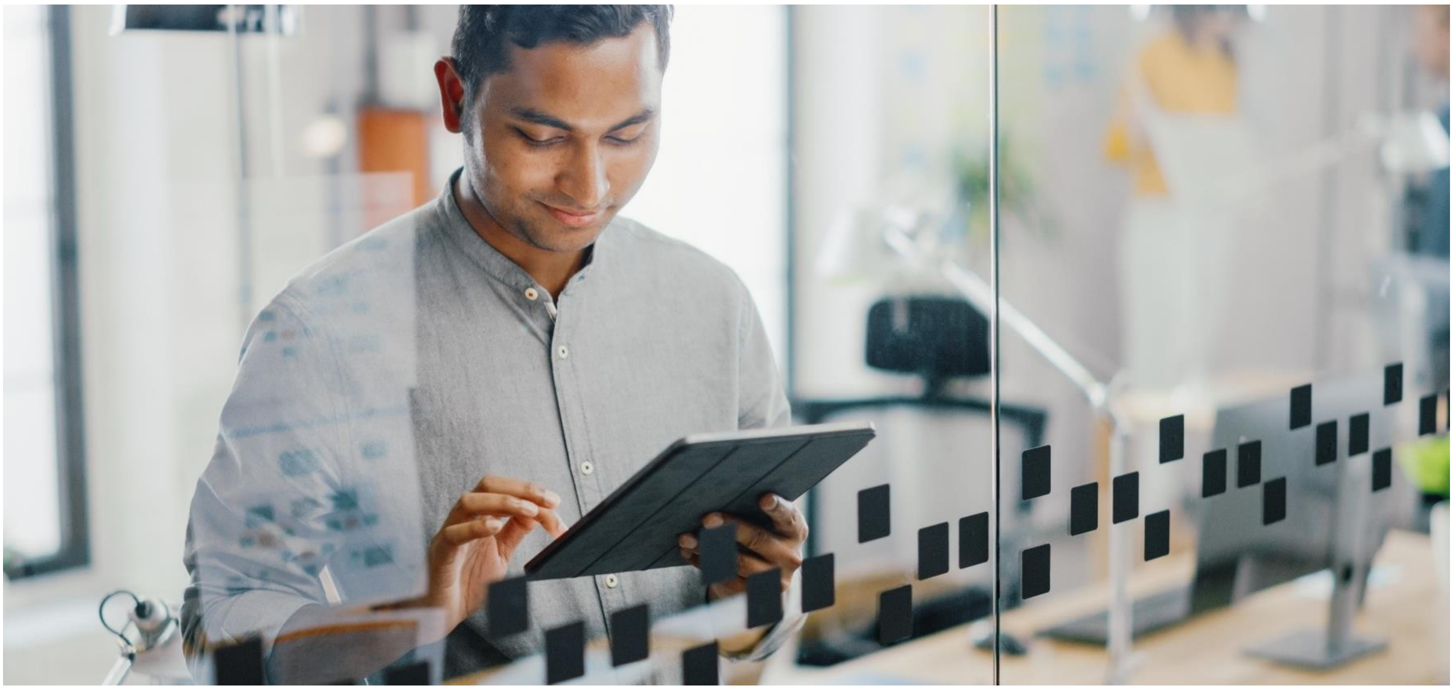
1. RM50 billion investments in the digital economy
2. Focus on five key industry sectors, five focus technologies, five emerging technologies and digital global business services
3. Attract 50 Fortune500 tech companies to land and expand in Malaysia
4. Establishment of five Unicorns
5. Creation of 50,000 high-value jobs in the Multimedia Super Corridor (MSC)

It makes sense for companies to begin accelerating their digital spending.

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.

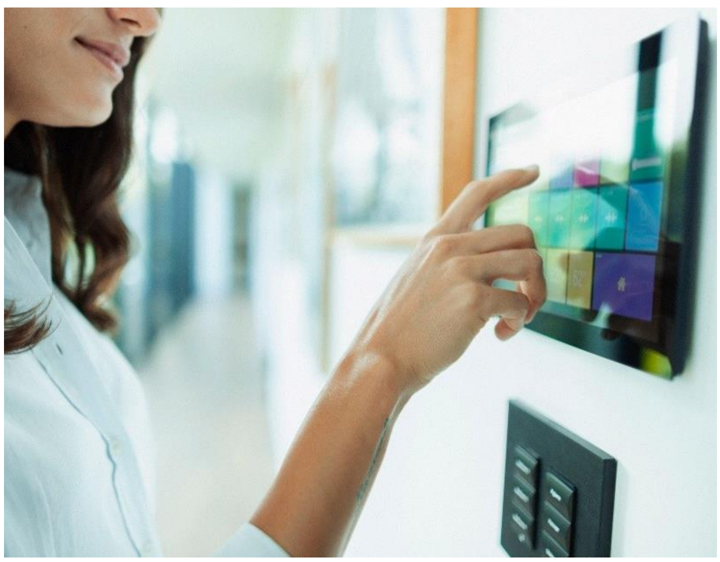
For a company with RM10b in revenue, for example, this would mean an increase from RM350m to RM560m in digital spending. This is in response to mounting pressure to quickly bring technology-enabled products and services to market and achieve efficiencies.

The EY CEO Outlook Survey 2022 also highlighted that CEOs in Malaysia and Southeast Asia are looking at reframing their investment strategies for growth and cited boosting capabilities in technology as one of the key steps.



Increasing digital spending is inevitable and measuring returns of digital investments (RODIs) is imperative to ensure money spent brings value to the organization. But DII pointed out that only 43% of companies track their RODI. Measuring RODI is not easy as many organizations struggle to measure how much they had spent on digital expenditure in the year before or the value that has been yielded thus far.

Companies need clear digital transformation strategies to steer in the right direction and accelerate growth.



Here are three ways in which boards could help define digital investment strategies that would yield higher returns:

1. The right mix of investment vehicles

Whether they are built on internal capabilities or use inorganic investments, companies must ascertain their innovation goals. To do this, organizations must go back to the drawing board to understand and break down silos, synchronize their various investment types, or make ‘buy or partner’ decisions that are aligned with their corporate objectives. Over half (57%) of the leaders in Southeast Asia are expecting to actively pursue inorganic investments or acquisitions in the next 12 months, according to the EY CEO Outlook Survey 2022. The DII also pointed out that 54% of the respondents were contemplating corporate venture capital (CVC), merger and acquisitions (M&A), and partnerships instead of building internal capabilities to drive innovation.

Inorganic investments could translate to easier access to capital, and enhanced quantity and quality of technology targets that could expedite access to new technologies. The right investment mix should be determined on whether to build internal capabilities, acquire, partner or CVC because depending on the approach and digital initiative, the outcome of the RODI may differ. Breaking down silos, identifying the executives’ strength, getting the right executives to work on developing in-house capabilities and leading M&A, are effective ways to form an investment strategy.

2. Establish strong governance to measure the success of digital investment

Eight in 10 digital leaders who responded in the DII have a formal program to monitor, measure and report their performance on digital investments. Furthermore, 87% of them have centralized governance and an oversight approach to measure benefits and related costs. Like any business performance or even talent management, companies must have a robust governance model that is based on a set of metrics or key performance indexes (KPIs) to assess the impact on portfolio value realization so that the necessary adjustments can be made in every cycle or within a stipulated timeline.

Some of the best practices adopted by companies in the DII include setting up a temporary and cross-functional center of excellence to specifically look at the transformation needs and progress of their organizations.

3. A conducive culture

An organization's culture determines what employees consider appropriate behavior and how they interact with one another. It influences how individuals, working groups and the organization plan, execute and manage their work. Having an appropriate culture is vital, but changing the organizational culture is challenging. 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 leaders naturally possess the acumen to frame flexible strategies that can be adjusted when disruptions arise.

Boards should work closely with the management to derive an innovative culture that endows digital investments with greater agility. Assessing whether the management has what it takes to empower team leaders or agents of social change to champion digital projects is one way that boards could explore. Setting the right tone and direction also means identifying the right behavior and incentive structure. More than ever, companies need a clearly defined digital strategy that allow them to succeed in the post-pandemic world and weather future disruptions.

Making heavy digital investments bets is certain, but selecting the right mix of investment vehicles, measuring RODIs and creating a culture that works towards digital transformation are factors that must be addressed.

Questions for boards to consider:

- Are there a robust governance model and KPIs that measure digital transformation plans and RODI?
- Has the company set a clear digital strategy that displays the company's current and forecasted digital spending, technological requirements, and a roadmap to roll out its initiatives?
- Have the sources of funding for digital investments been identified and are the right interventions of the 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 the allocation of digital capital, taking into the account corporate strategy goals, the technology portfolio and impact on the business?

Adapted from *How to get more out of your digital investment strategy*

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