

Technology industry profile

The duality of digital

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As tech companies attempt to fortify themselves against risks, they look to capitalize on digital opportunities and incorporate ESG in their value chain.

Technology is a value driver across most industries today as more sophisticated data and IP, and holistic ESG policies, drive the tech value proposition. Simultaneously, tech companies are trying to preempt cyber-attacks that threaten their digital assets and business operations, while also keeping the risk of a startup disruptor altering the industry's playing field top of mind.

Digital value and risk: two sides of the same coin

As part of a research program exploring business value and resilience, Economist Impact conducted a survey of senior business executives at companies in North America, Europe and Asia Pacific across six industries. Throughout the survey, technology industry respondents emphasized the importance of digital value, including that their organizations prioritize digital assets most for their organizations' business strategy.¹

As a result, protecting these digital assets is also a priority. Thirty-five percent of tech respondents said that data protection policies and procedures are a business-critical priority

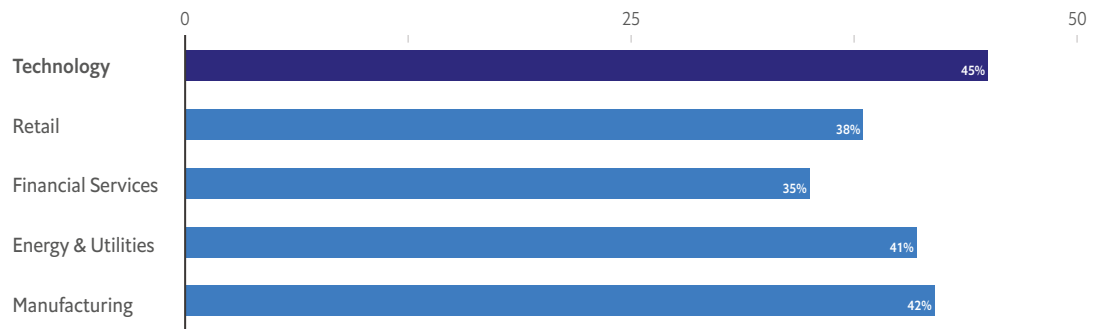
for their organization's strategy, ahead of their peers in retail and the pharmaceutical industry, and just behind those in manufacturing. Deepak Padaki, president of Catamaran and formerly the chief strategy officer at Infosys, explains that this is because for technology companies, [and companies more broadly], digital assets include a huge amount of data they're collecting that provide information about consumers. Data, he says, is their "big digital asset." Breaking it down further, Mr. Padaki adds that digital assets now increasingly include intellectual property (IP), taking the form of algorithms that run entire businesses or IP-based business models, as well as the "brand itself" being digital through digital marketing and social media. Another part of this evolving digital value chain are technologies like artificial intelligence (AI); respondents in the technology industry said that access to new technologies such as AI provides the most significant opportunity to create value in the next three years, more than their peers across other industries.²

Given the opportunity and value that the industry stands to gain, the risk of losing it simultaneously increases. Cyber risk is a genuine threat to the value proposition of technology companies, and one that they must preempt. When asked about the potential impact of cyber risk on their organizations' ability to thrive in the next three years, more technology respondents

¹ The percentage of respondents in financial services and pharmaceuticals did not rank digital assets as highly.

² The Pharmaceutical industry was the only exception.

Figure 1: Technology respondents say that access to new technologies such as artificial intelligence (AI) is the most significant opportunity to create value in the next three years.



Source: Economist Impact (Q12. Which of the following are the most significant opportunities for your organization to create value in the next three years? Please select up to 3.)

said it would have a negative impact than their peers in the pharmaceutical, financial services and manufacturing industries. Mr. Padaki says that if one considers the increasing amount of digitization and information available online, “the top risk that comes out there is information security”, as IP, data and other differentiators are at risk of theft. The other top risk becomes a regulatory question: how sensitive is the data that is collected? Are personal rights on data being breached?”

Tech braces for internal, along with external, shocks

As technology companies operate within a high-risk, high-opportunity paradigm, they also view the external environment, outside of their industry, differently. Fourteen percent of technology respondents felt that globalization will have a negative impact on their organization’s ability to thrive in the next three years, double the proportion of their peers in financial services, manufacturing and pharmaceuticals. They also are among the least wary of future effects of global pandemics. Mr. Padaki believes what’s unique about the

technology industry is the pace of self-disruption within the industry itself. “Bigger companies have been through the storm cycle many times, whether it’s in 2000/2001, 2008, with covid and now with this recession looming,” he says. But in addition to managing these external factors and shocks, they also need to manage “the disruption from younger rivals—that’s a key risk.”

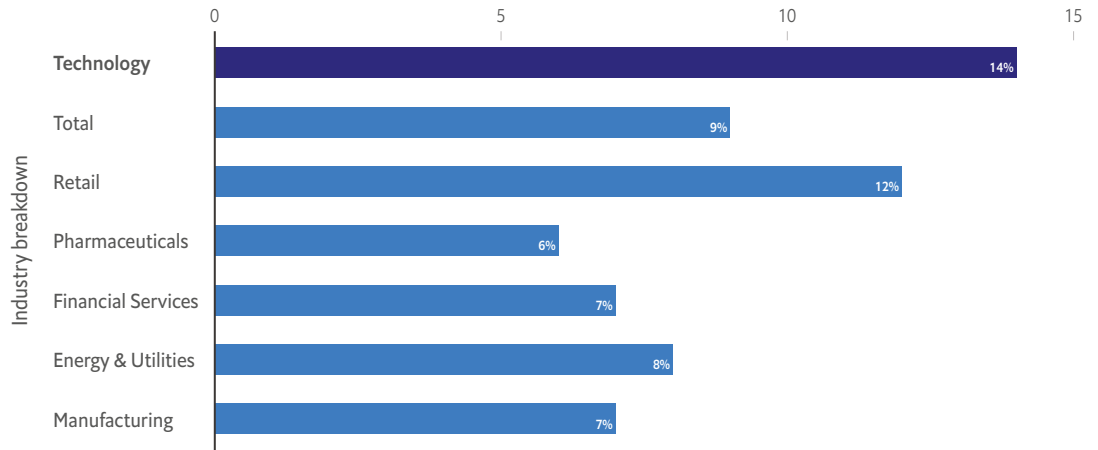
While incumbents typically fear being disrupted by a nimbler start-up, smaller companies face a different set of risks. Established technology companies have the budgets to “incubate” their own disruptive innovation or to acquire a disruptor in its infancy stages, making for a difficult playing field for smaller companies. The risk of disruption remains high for both large and small companies in the tech industry.

ESG regulations as value driver

For 42% of respondents in the technology industry, increased adoption of ESG policies was chosen as one of the top two opportunities for their organization to create value in the next three years,³ outstripping the percentage of their pharmaceuticals and manufacturing peers who expect the same.

³ The other was access to new technologies such as AI

Figure 2: Technology respondents fear the effects of globalization more than their peers across industries.



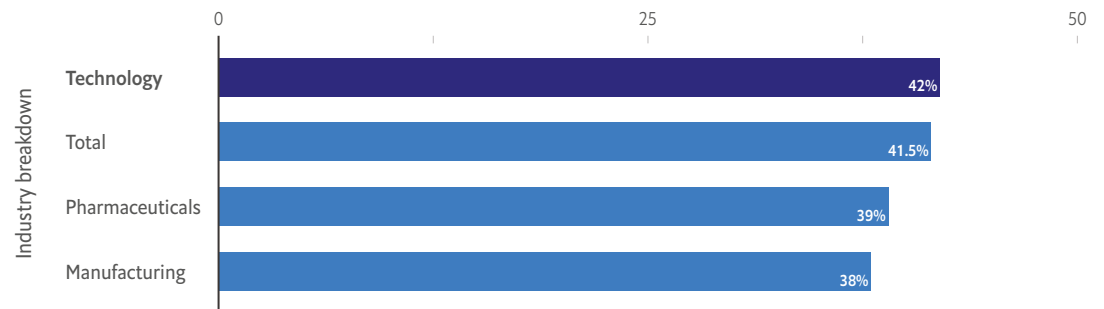
Source: Economist Impact (Question 10: What type of impact do you expect the following to have on your organization’s ability to thrive in the next three years?)

When asked about their organization’s brand management strategy, 47% of respondents chose an ESG communications strategy as the primary aspect, a higher proportion than among their peers in retail, financial services and manufacturing. The motivations for this are similar to those of their customers. Mr. Padaki

says that “similarly, for customers, it’s coming more from a regulatory perspective, because they want to show that they’re doing things in the right way and that their suppliers are also aligned.” Mr. Padaki also notes that venture funds are stressing the ESG piece when they meet tech startups: “Even though common metrics are still

Figure 3: Technology respondents felt that increased adoption of ESG policies were a top value creator, more so than their peers in manufacturing and pharmaceuticals.

% choosing increased adoption of ESG policies as a top value creator



Source: Economist Impact. (Q12. Which of the following are the most significant opportunities for your organization to create value in the next three years? Please select up to 3.)



evolving, venture funds have started reporting about the ESG impact of their portfolio—How many jobs have I created? How much of an environmental impact have I had through my portfolio companies? And so it’s being driven more from an investor perspective.”

The technology sector has a unique resilience strategy, as most of its value and risk propositions exist within the same paradigm. Even as their external operating environments are undergoing shocks, organizations in tech, by virtue of how fast the industry is evolving, must also fortify themselves against shocks internal to the industry. To capitalize on digital value like data and IP, they must also mitigate cybersecurity risks. Finally, adopting ESG values is viewed as a priority and an evolving opportunity within the industry’s value proposition, helping to promote sustainability across the tech supply chain.

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