BORN-DIGITAL

SECRETS FROM BORN-DIGITAL BOARDROOMS

Many of the companies born in the digital age are private, which makes it hard to gain insights into how their boards of directors operate and learn of their boardroom best practices. Our research examines what really happens behind closed doors at born-digital businesses. The secrets we uncovered point to four common pitfalls that boards at those companies are particularly vulnerable to. The more that born-digital management teams and company boards understand the pitfalls, the better they can work together to avoid them—and the better both parties can serve stakeholders.

WHAT'S THE DIFFERENCE?

BORN-DIGITAL

Born-digital businesses were typically founded after 1995. Their operating models and capabilities center on using internet-era information and digital technologies to achieve competitive advantage and drive fast growth.

STRENGTHS

- Agility
- Speed
- Direct and continuous customer accessibility
- Automation
- Extended workforce and openness to external partners

CHALLENGES

- Difficulty scaling up
- Need for leaders to learn on the job
- Nonexistent or immature governance processes
- Limited experience in scaling operations while managing risk
- Diversity

BORN-TRADITIONAL

Born-traditional companies arose from the working principles of the Industrial Age, pre-internet economy. Their operating models and capabilities center on using physical assets and focusing on product development to gain a competitive edge.

STRENGTHS

- Governance
- Business processes
- Regulatory knowledge
- Risk management
- Operational expertise

CHALLENGES

- Vulnerability to the pace of change driven by digital technologies
- Separation of IT from the business
- Slow product development
- Cultural inertia at odds with agile innovation
- Legacy systems

ABOUT ALIXPARTNERS' BORN-DIGITAL STUDY

Given born-digital companies' unique blend of strengths and challenges, AlixPartners set out to research these enterprises' most pressing needs and areas they should focus on to sustain their success. Our study comprised several key components:

- **INTERVIEWS.** We conducted 12 in-depth interviews with C-suite executives and board members from born-digital companies. The companies represented were based primarily in the United States.
- **ONLINE SURVEY.** We executed an online survey of C-suite executives from both born-digital and born-traditional companies; primarily from companies based in the United States, and split almost evenly between the two types of companies.
- **CLIENT PROJECTS.** We drew on insights gained from decades of experience and projects we've done with both types of companies.
- **SECONDARY RESEARCH.** We conducted extensive secondary research to include publicly available data (such as SEC filings), industry reports, and media content.

The interviews and the online survey explored a rich array of topics—including what respondents saw as their company's top strengths and challenges; where their enterprise focused its resources and efforts; how they approached partnerships with other companies; and how they managed crucial activities such as talent development, operations, and alignment of top executives with the company's strategy.

“We’ve always been big fans of having a diverse, independent, robust set of board members: people who are from the industry—but are willing to engage in real substance—and have the specific domain and occupational acumen to help make a company better. I think the evidence is extraordinarily compelling that when you do that, it has a ton of value.”

— Founder and partner of a private equity firm

SECRET #1

UNICORN IPOs ARE INFORMING PRIVATE VALUATIONS

What could be higher priority for boards than increasing company value? Because the board members of born-digital companies are typically private equity or venture capital investors, developing the right exit strategy is also an important consideration for those stakeholders.

Although taking a company public is not the predominant exit strategy for investors, recent highly visible initial public offering (IPO) misses are influencing not only public offerings but also private valuations. Complex tech unicorns are notoriously hard to value, so the business world is starved for examples to follow.

Of course, there are always exceptions, but a couple of the notable tech unicorn IPOs from 2019 and 2020 show that a trendy buzz and a coolness factor are not enough to outweigh business fundamentals. A higher gross margin is not a guarantee of success following a top valuation, but a lower gross margin can be a major sign of trouble, causing born-digital boards to rethink valuations. Those companies need to be evaluated and valued based on the industry in which they reside versus valuing them compared with other tech or software companies.

> "The market is now bringing private valuations around to reality, as skittish Wall Street investors have been punishing billion-dollar-plus IPOs with questionable balance sheets or paths to profitability."
>
> — Dan Primack, Business Editor, Axios

SECRET #2

WHETHER THEY KNOW IT OR NOT, THE MANAGEMENT TEAM NEEDS HELP

We heard from born-digital boards that they spend a large portion of their time seeking to build the right management team—even well after the launch of the company. Understandable, and given the start-up nature of born-digital companies, it's not surprising to find gaps in the top team's expertise. But boards must close those gaps early on—not keep fiddling with the issue when they should be focused on growth and scaling. Otherwise, shortfalls in the team's expertise can haunt—and hurt—the company long after it has ramped up operations.

"Sometimes it's their first rodeo and they're working through all the issues that young entrepreneurs work through in building the management team."

— Founder, private equity firm

Boards of born-digital companies should also tread lightly when it comes to making management changes, because every management change raises the risk of disrupting the company's culture and its growth trajectory. Inserting leaders with extensive management experience in traditional corporate operations into a start-up is a tricky balancing act—one that usually triggers resistance from both founders and employees. Indeed, boards may have such strong fears of disruption that they're willing to live with deficits in the management team in order to stay in good favor with the founders. Moreover, the current members of a born-digital company's management team may bristle at the notion that 'corporate types' brought in by the board from outside will destroy the entrepreneurial culture that they value so much.

"Those people take pride in their individualistic environment, and they react against those new organizational constraints. They tend to characterize them as 'Big Corporate' has arrived, and that's precisely what they didn't want to be in."

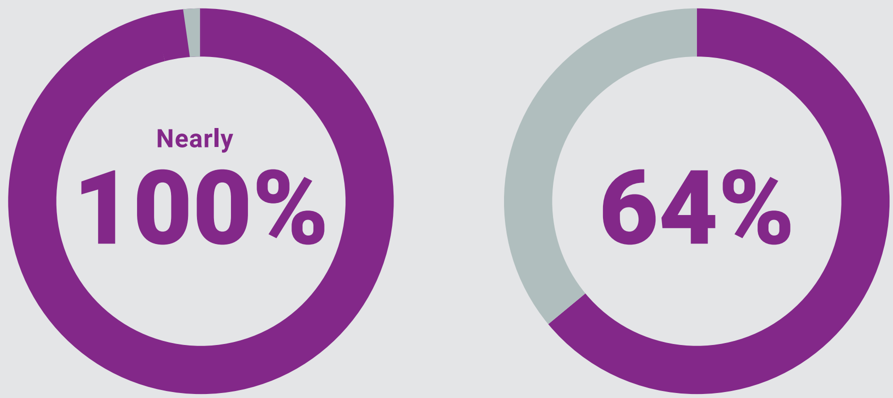
— Chief marketing officer, born-digital company

SECRET #3

TOO MUCH FOCUS ON OPERATIONS, NOT ENOUGH OVERSIGHT

Findings from our study show that the boards of born-digital companies get much too involved in the day-to-day running of the business—for example, financial planning and analysis processes, marketing approaches, or helping negotiate supplier relationships. What's more, the younger the company is, the more pronounced the problem.

BORN-DIGITAL BOARD INVOLVEMENT IN SUPPORTING THE MANAGEMENT TEAM IN OPERATIONS AND STRATEGY EXECUTION



COMPANIES UNDER 10 YEARS OLD

COMPANIES OVER 10 YEARS OLD

However, born-digital companies of any age still have boards that are heavily involved in operations, suggesting that they don't have much time left over for assessing the company's overall direction.

Born-digital boards' desire to involve themselves in their companies' operations is perhaps understandable. After all, many born-digital companies do have real gaps in their management teams' levels of expertise. But that overinvolvement sometimes occurs even though the directors themselves may not have the right operations expertise. Instead, the directors tend to know much more about the area of investment—which calls for a decidedly different skill set.

"We had a board of investment specialists... I had six people with exactly the same skill sets and exactly the same backgrounds. For venture capital boards, you need real operators; and private equity boards need the same thing."

— Chief executive officer, born-digital company

TRADITIONAL COMPANY BOARDS PLACE A HIGHER EMPHASIS ON RISK MANAGEMENT

Survey response: The top three objectives of our board are:

BORN-DIGITAL	BORN-TRADITIONAL
INCREASE VALUE	INCREASE VALUE
ENSURE SOUND FINANCIALS	ENSURE SOUND FINANCIALS
CLARIFY AND FOLLOW STRATEGY	MANAGE RISKS TO STAKEHOLDERS

When directors who lack expertise in operations nevertheless consistently have their hands in their companies' everyday goings-on, it can exacerbate the problem rather than solve it.

If born-digital boards are spending too much time involving themselves in their companies' daily operations and in installing a winning management team, what responsibilities are they shirking? The answer is risk oversight. Today's digital waters are fraught with complex threats that can destroy unwary companies overnight—from cyberbreaches to artificial-intelligence ethical gray areas, to data privacy scandals. Born-digital companies need more help from their boards when it comes to risk management than born-traditional companies do because born-digital companies operate in a space characterized by immature or even nonexistent laws and regulations.

But there's cause for hope. Even though born-digital boards spend less time on risk oversight than their born-traditional counterparts do, our study shows that born-digital boards see the value of actively managing risks to their company's reputation.

The good news:

93%

of our born-digital respondents strongly agreed that their boards were more attentive to safeguarding their companies' long-term reputations over achieving short-term goals.

Such a long-term perspective is important, but born-digital boards have to follow that up with action—specifically, by allocating sufficient time to oversight, governance, and the development of policies that will enable the company to thrive in the face of daunting and diverse risks. Boards that set up for their companies—early on—the right management teams that include members with operational expertise can free up the time needed to devote to risk management.

SECRET #4

DIGITALLY SAVVY BOARDS RULE

Just because a company is born-digital and has a highly technical management team doesn't mean it automatically has a digitally savvy board. In fact, born-digital boards can be at a distinct disadvantage when there's a deep divide between the executive team's understanding of technology and the board's. According to MIT, being digitally savvy means knowing what the impact of emerging technologies on the business will be during the next 10 years—a tall order unless one has gained such knowledge through a career's worth of education and experience. The recruitment of board members with extensive knowledge and expertise in the use of digital strategies and tools in business can be difficult. But tackling that challenge pays big dividends.

Despite the compelling benefits of having a digitally savvy board, only 24% of companies actually do today.[1] As a result, those companies are missing out on important advantages because adding digitally savvy board members is one of the most proactive and measurable actions a board can take to improve its impact.

WHEN IT COMES TO DIGITAL, THE THREE KEY AREAS A COMPANY MUST ADDRESS ARE:

STRATEGY

Identifying opportunities and responding to threats from digital that could impact the company's business model

OVERSIGHT

Monitoring spending and progress on major digital projects

DEFENSE

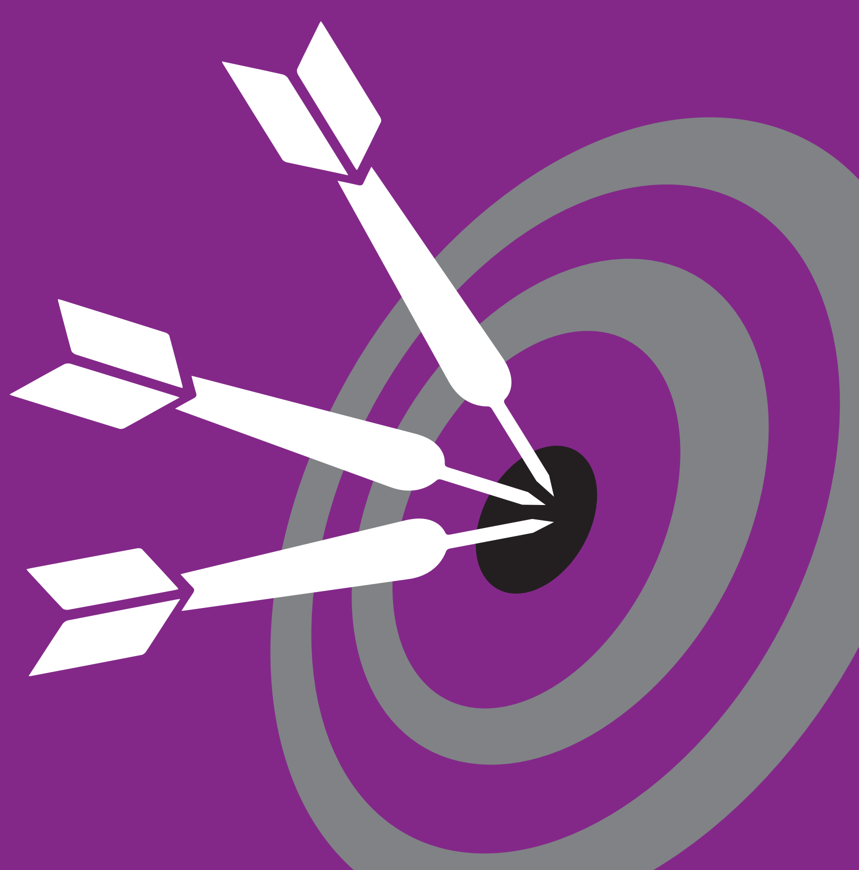
Overseeing data and privacy ethics and protecting the company from cyberthreats

Digitally savvy board members bring a lot to the table, but they can't go it alone.

In addition to adding technologist board members, it's critical to educate the entire board and executive committee in the area of digital in a nonthreatening, inclusive way so that everyone has at least a foundational level of knowledge about how to best apply emerging technologies to the business.

1. Peter Weill, Chairman and Senior Research Scientist, MIT Sloan School of Management Center for Information Systems Research; Gary Scholten, Executive Vice President, Chief Information Officer, and Chief Digital Officer, Principal Financial Group; and Stephanie Woerner, Research Scientist, MIT Sloan School of Management Center for Information Systems Research. "Working with Boards on Digital." MIT Center for Information Systems Research. Research Briefing XIX(9), September 2019
2. Ibid

Companies with three or more digitally savvy board members have at least **34% higher performance** in market cap growth, revenue growth, and return on assets.[2]



LEADERS' TAKEAWAYS

1. Reality-check your private valuations with lessons learned from recent tech unicorn IPOs.

2. Close experience gaps in the management team early on, and guide board members' attention away from overinvolvement in operations. Expand the horizon for regularly assessing the company's direction.

3. Examine your company's inflight and planned strategies and risks, including cyberbreaches, the use of artificial intelligence, and data ethics and privacy. Take a proactive approach to your digital strategy, oversight, and defense.

4. Assess your board's digital savvy, adding expert directors and educating existing directors and executive team members as needed to strengthen that savvy.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.