

# BOARD PERSPECTIVES

ISSUE 165

## The Metaverse: The Dawn of a New Generation of Capabilities

The metaverse has the potential to be a disruptive, expansive and transformative force, even to the point of spawning its own economy. Every board has a fiduciary duty to evaluate that potential for its company's future.

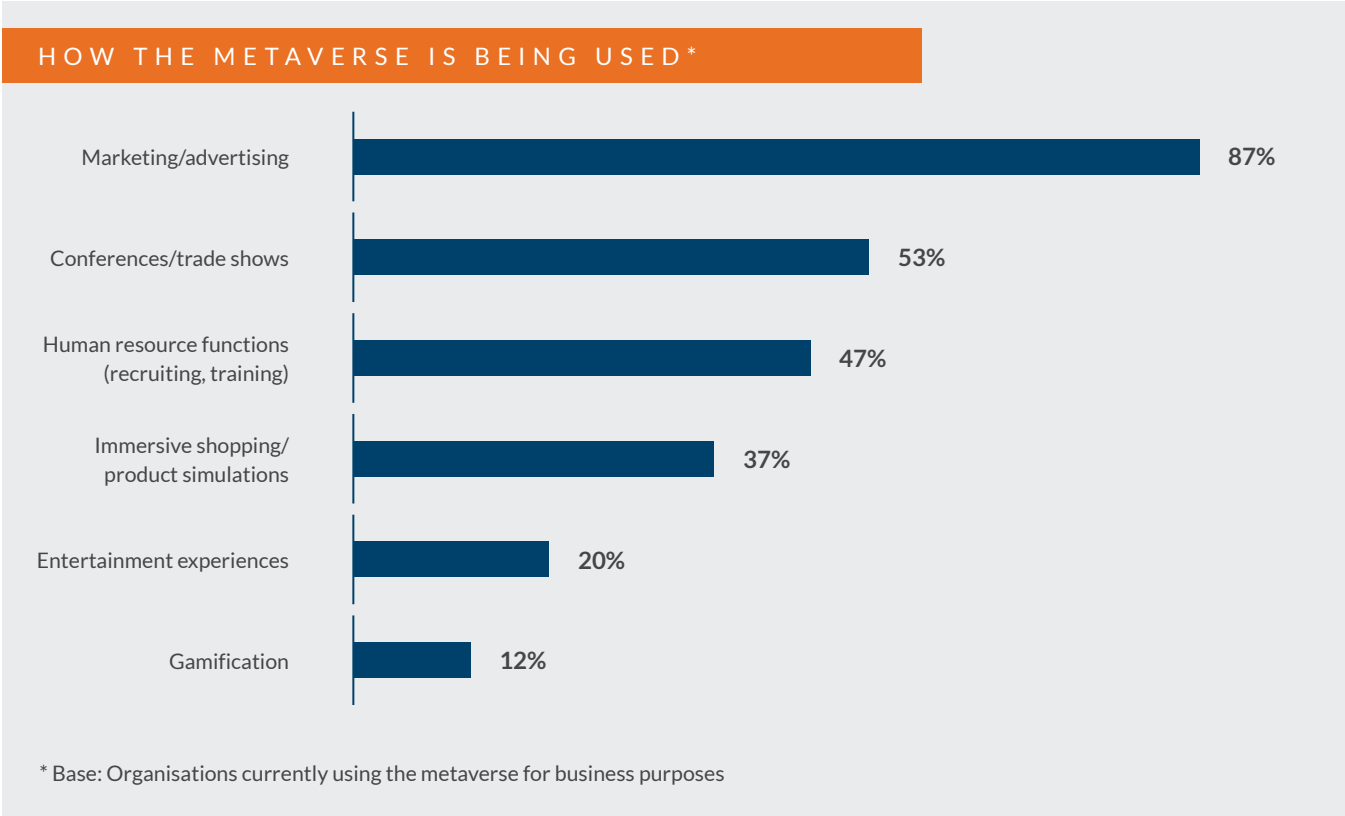
We define the metaverse as “a collective of virtual-reality shared spaces, where users interact with a computer-generated environment as well as other users, typically represented as avatars, in an interconnected network of 3D virtual worlds.”<sup>1</sup> Much more than connecting people to information, the metaverse in the future connects people, places and things, sometimes in a fully virtual environment.

According to a survey of 250 global business leaders, the metaverse has the potential to dramatically alter the future of the human experience.<sup>2</sup> Among the findings are insights regarding the metaverse's expected influence and applications. Almost all survey participants expect a “moderate to significant impact” on the global economy 10 years out and believe that the metaverse will be “moderately to extremely important” to business success. While views of the metaverse may vary, more than two-thirds of business leaders across the globe believe that something impactful is emerging in the market. It might even be a technological and societal shift similar to the advent of the internet age.

<sup>1</sup> *Executive Outlook on the Metaverse, 2033 and Beyond*, David Howard, Nigel Mehdi and Vlad Mykhnenko, University of Oxford and Protiviti Survey, April 2023: <https://vision.protiviti.com/insight/protiviti-oxford-survey-global-leaders-place-bets-metaverse-north-america-goes-all>.

<sup>2</sup> Ibid.

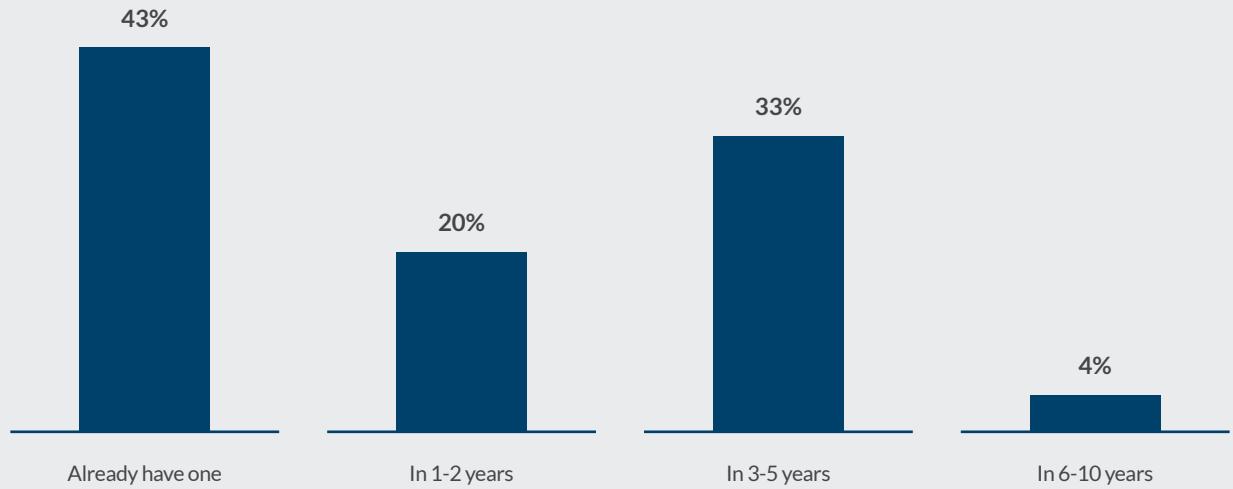
According to the survey, a majority of organisations (55%) are already deploying the metaverse in various areas of the business. Thus, the metaverse is penetrating the wider world of commerce well past mere gamification, which was the focus over the last decade.



Given almost all organisations believe that, over the next 10 years, the metaverse will prove to be “moderately to extremely important” to the customer experience and to sustaining customer loyalty, it is no surprise that they expect a “moderate to significant change” in their product and service offerings in 10 years’ time.

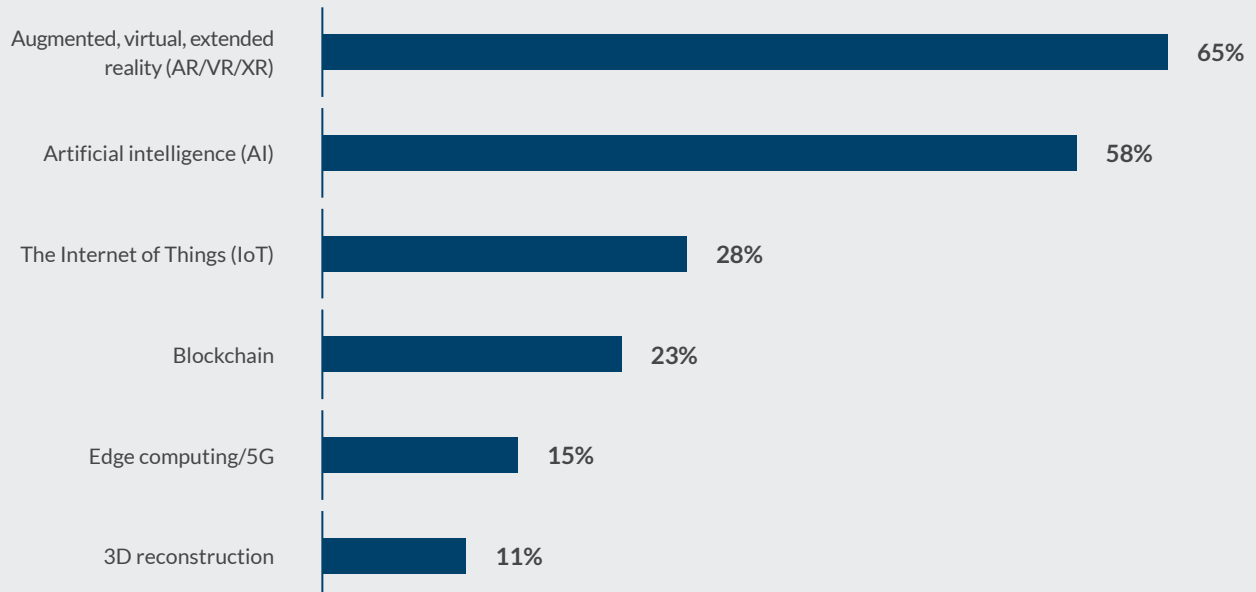
This is the dawn of a new generation of technological capabilities, as more than two in five organisations already have a tangible metaverse strategy, while among other organisations, a majority will have such a strategy in place within five years. Moreover, a majority of organisations (59%) have immediate or short-term plans to develop apps, products or services for the metaverse to enhance connectivity with customers.

WHEN, IF AT ALL, WOULD YOU EXPECT YOUR COMPANY TO HAVE A TANGIBLE METAVERSE STRATEGY?

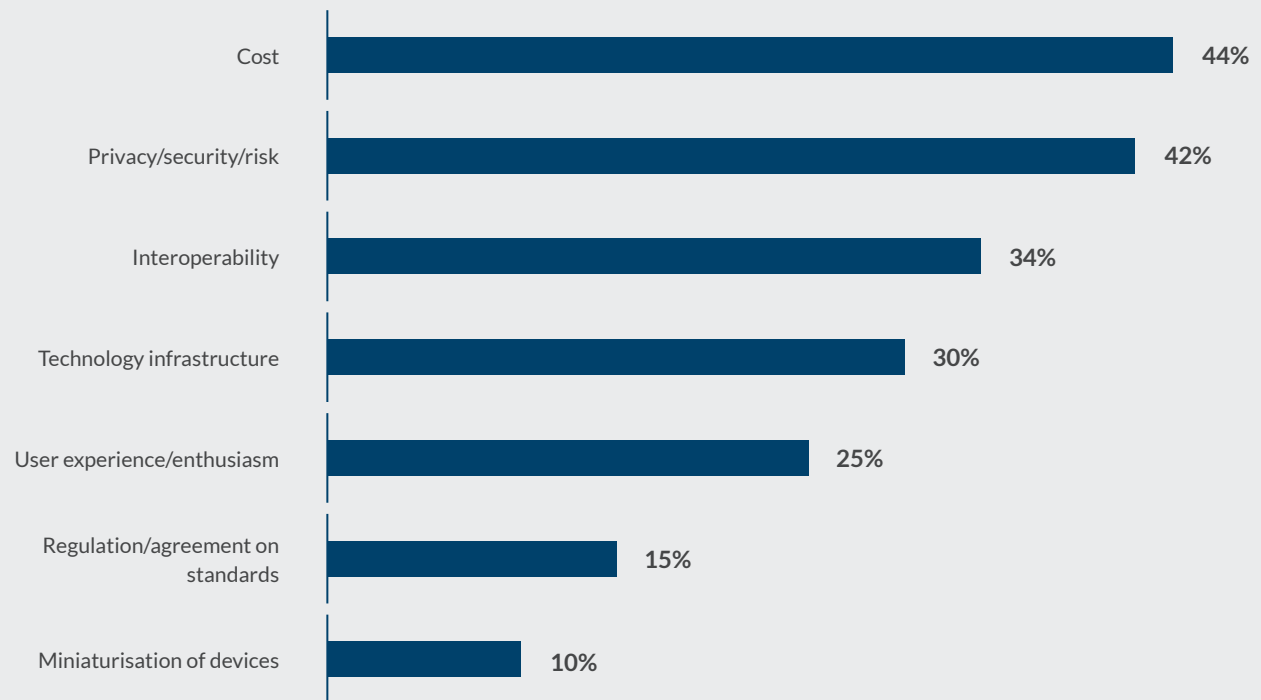


Metaverse technologies that organisations are most excited about include augmented, virtual and extended reality, as well as artificial intelligence (AI). Enhanced branding and consumer experiences as well as digital twinning to simulate actual performance of assets and processes are also opportunities. But leaders see significant roadblocks as well, including cost, privacy and security risk, and interoperability (the ability of computer systems or software to exchange information and operate in conjunction with each other).

WHAT METAVERSE TECHNOLOGIES ARE YOU MOST EXCITED ABOUT?



## BIGGEST ROADBLOCKS TO THE METAVERSE'S MATURATION, ADOPTION AND USE



What is the board's appetite for this new age thinking? Detractors point out that no one can say for sure what the metaverse will look like in 10 years and that a fully realised metaverse – however one chooses to define it – requires orders of magnitude more computing power than what is currently available. Networks need to become much faster, with less latency, so that experiences are not impeded. Skeptics also question how much a company can prudently invest given the uncertainty over the length of time it will take for the metaverse to become commercially viable.

Proponents counter that at the turn of the 21st century, no one could have predicted the full impact of today's internet. Projections of the potential dollar value of metaverse-related activity vary wildly – in large part due to the unknown ways the metaverse will mature over the next five to 10 years. Yet, estimates of the size of the overall global impact tend to be massive, ranging from \$5 trillion to \$13 trillion, averaging around \$8 trillion. Even if the metaverse generates just a fraction of these projected values, it merits attention in the boardroom as powerful use cases continue to appear across a diverse collection of industries.

According to the aforementioned research, respondents envisioning the greatest economic impact a decade from now represent the technology, media and telecommunications (TMT), consumer products and services (CPS), healthcare, and financial services industries – in that order. These same groups rank highest in viewing the metaverse as the “new internet” (all at least 75% “strongly

agree” or “somewhat agree”), with CPS and TMT the highest (51% and 47%, respectively) in viewing it as a game-changer in a decade. Thus, more than a few organisations across multiple sectors are giving the metaverse close attention.

It is the classic “too big to ignore” dilemma compounded by uncertainty over the time horizon for evaluating return on investment (ROI). These business realities present a challenge to any business case, particularly for companies averse to moonshot projects. Given the risk, the good news is that companies don’t have to be first adopters. Perhaps the safest strategy is to wade into the shallow end of the investment pool rather than jump headfirst into the deep end. To that end, following are relevant action steps for boards.

**Get up to speed on emerging technologies.** This is square one for all directors as they engage the digital world. Bring outside experts into the boardroom to keep the board apprised of relevant technology trends, how they affect industry fundamentals, and specific market opportunities and use cases germane to the company. Identify and lean on expert resources inside the organisation – regardless of the function they support. When seeking guidance from management, advisers and others, insist on getting it in plain, practical terms.

Also, share relevant articles from publications with strong technology content presented in practical ways. With respect to the metaverse, an approachable thought leadership asset is *VISION by Protiviti*,<sup>3</sup> which offers content from luminaries and experts explaining what the metaverse is and how it might evolve, illustrating compelling use cases, outlining enablers that must be in place for the metaverse to realise its full potential, and much more.

**Protiviti’s research indicates that seven in 10 organisations (69%) believe technical debt has a prominent impact on their ability to innovate.**

**Address technical debt<sup>4</sup> with intention.** With emerging, disruptive technologies driving the need for agility, a focus on technical debt is a safe play. For many organisations, technical debt has accumulated slowly and insidiously to the point where it has become the proverbial ball and chain that constrains an organisation’s ability to keep pace with agile and “born digital” competitors. As emerging technologies continue to create market opportunities, competitive threats and expanding customer demands, it is time for many organisations to pay the piper.

<sup>3</sup> “Into the Metaverse,” *VISION by Protiviti*: <https://vision.protiviti.com/>.

<sup>4</sup> “Technical debt” is the cost and magnitude of additional rework caused by the accumulation of legacy systems and application solutions that were easier to implement over the short term but not the best overall solution for the long term, thus resulting in a legacy infrastructure that is difficult to maintain and support.

Protiviti's research indicates that seven in 10 organisations (69%) believe technical debt has a prominent impact on their ability to innovate.<sup>5</sup> Accordingly, to help ensure their organisation can adapt its business processes and systems to a rapidly changing world becoming only more digitised, directors need to understand the nature and extent of technical debt and ask management where they are in formulating a plan to modernise legacy applications.

**Begin with the right mindset.** Boards should view technology as a strategic enabler rather than something implemented for its own sake. Directors should not buy the hype or the backlash. They should keep an open mind in focusing on the metaverse as an integral part of a strategic conversation in which long-term goals, the technological innovation needed to reach those goals, the capital deployment ramifications, and the related upside opportunities and downside risks are all considered. The risk equation is as much about the risks of late entry and opportunity costs as it is about innovation failure and lackluster returns.

**Understand the strategic implications of metaverse technologies.** No company can ignore the possibility that the metaverse offers an opportunity to participate in the construction of the future. The board should engage management in strategic conversations regarding the playbook for seizing opportunities as marketplace-disrupting technologies emerge. Many technology companies already have this capability, leading them to place huge bets on the metaverse while developing new offerings related to many of its components. As for other companies, the strategic emphasis will vary by industry.

Following are questions that boards should consider when engaged in these conversations:

- Do we understand the potential use cases for our industry and have a point of view regarding the impact of the metaverse? For example, will it improve operating efficiency, create immersive experiences for customers, enhance brand image and offer new revenue streams? Does our strategy consider these impacts?
- What criteria are we using to evaluate the supporting business case for each metaverse initiative, including fit within our strategy?
- Do we understand the level of investment that will be required to make an impact, and are we prepared to commit to that investment?
- What governance structure is in place to manage the efficacy and reliability of investments in emerging tech (e.g., executive sponsor, initiative owners, appropriate stakeholder involvement, accountability for results, success measures, pilots that break initiatives into discrete manageable activities to reduce project risk and facilitate progress, fail fast and learning, and user feedback loops)?

<sup>5</sup> *The Innovation vs. Technical Debt Tug of War*, Protiviti, March 2023: [www.protiviti.com/us-en/global-technology-executive-survey](http://www.protiviti.com/us-en/global-technology-executive-survey).



- Do we have to be a first mover to be a winner in the metaverse? Do we know what our competitors are doing with respect to the metaverse (e.g., their strategic focus, use cases, and current and planned investments)?
- Are we sufficiently focused on how the metaverse can affect the customer experience? Have we segmented our future customers to evaluate how they will embrace the metaverse? For example, children are already immersed in the technology as they hang out in a virtual world with a virtual currency on Roblox instead of shopping malls.<sup>6</sup> Digital natives, including Gen Z, are different from their parents and grandparents in terms of being receptive to a virtual marketplace.
- Do we have the talent we need to address the technologies we choose to pursue as we evolve toward and prepare for our vision of the metaverse? Do we have a talent development strategy in place to acquire and skill the talent needed to leverage these technologies?

**Apply a risks lens.** In approaching the future, risk management is key in evaluating potential use cases. The risk of investing in metaverse technologies as well as the risk of late entry and missing the wave of opportunity are relevant considerations. As with all emerging technologies, boards can expect the usual cybersecurity, data privacy and regulatory discussions. The metaverse will spawn new threats such as the cloning of voice and facial features, the hijacking of video recordings using avatars, and invisible-avatar eavesdropping.<sup>7</sup> No doubt, there will be issues around disinformation and protecting children. Additional risks to the strategy will also arise if the metaverse is akin to the “Wild West” without rules, regulators or guardrails.

In summary, boards should evaluate the potential of the metaverse to the organisation with a focus on management’s capabilities for monitoring emerging technologies, evaluating potential threats and opportunities, and developing use cases to reality-test opportunities and identify risks. With the significant market opportunity of the metaverse and the sizeable amount of investment capital flowing into the space, this is a smart thing to do. Directors should invest time with senior management to understand and envision the possibilities and prepare for the future. Even if the metaverse does not fully materialise to what some believe is its full potential, it will open up many new possibilities and encourage companies to consider different and creative ways to engage markets, customers and employees.

<sup>6</sup> “Kids Fill Their Piggy Banks With Robux, Not Cash,” by David Vendrell, TheFutureParty, December 5, 2022: <https://futureparty.com/robux-roblox-kids-virtual-currency/>.

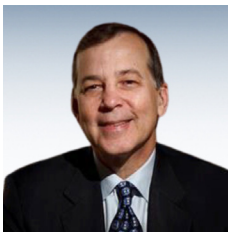
<sup>7</sup> “The Metaverse: A New Frontier for Cyber Attacks,” CSA Editorial, Cyber Security Asean, March 7, 2023: <https://cybersecurityasean.com/blogs/metaverse-new-frontier-cyber-attacks>.

## How Protiviti Can Help

Organisations that do not take advantage of new and emerging technologies will find they are outdated and in danger of extinction. However, jumping on the innovative technology bandwagon without a strategy, road map and business alignment can lead to diminished returns and exposure to technology risks.

Protiviti's emerging technologies team helps organisations embrace new technologies to support business strategies, optimise business processes and mine data to bring innovative solutions to market and gain competitive advantage. We help companies identify use cases, invest in the right emerging technologies, and manage risk and compliance as companies reap the benefits of digital technologies and evolve to digital leadership.

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Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on <https://blog.nacdonline.org/authors/42/>. Twice per year, the six most recent issues of *Board Perspectives* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at [protiviti.com](http://protiviti.com).