Data Governance in the Tech Industry

The Bedrock of Business Success

BDO®

Data governance should never be an afterthought. It is a critical pillar of any tech company's operations, instituting and enforcing proper collection, storage, handling, use, and protection of user data.

As tech companies collect larger amounts of consumer data, the importance of sound data governance frameworks will only continue to increase — as will the compliance, reputational, and security risks brought on by failure to improve data governance processes. According to BDO's **2024 Technology CFO Outlook Survey**, 77% of tech CFOs say their companies only collect the customer data they need — meaning 23% are willing to admit they collect more data than necessary. At the same time, the **American Institutional Confidence** poll demonstrated that public confidence in tech companies continues to decline significantly in recent years. These trends indicate a divide between actual consumer sentiment toward the tech industry and tech companies' perceptions of how well they are performing.

Tech leaders cannot afford to ignore this gulf if they want to maintain and build customer loyalty. To address the gap — and to help make sure that the consumer data they collect is relevant and useful — tech companies must place a higher focus on responsible data management. A strong data governance framework can support these efforts and bring efficiency and accuracy gains to other data-reliant operations and strategies, like generative artificial intelligence (AI) integration, tax automation, and privacy compliance and operational efficiencies.

Strong Data Governance Enables Business Resilience

The 2024 Tech CFO Outlook survey showed that tech CFOs are pivoting to a resilience-focused mindset. Instead of relying on external growth drivers like M&A, CFOs are counting on internal improvements to generate profitable growth. Yet, in instances when tech companies are indeed pursuing M&A in today's market, we can see the value of having a strong data governance program in place to ensure dealmaking goes smoothly. Take this example BDO professionals recently saw: A company negotiated a deal to acquire a tech company; however, due diligence was not conducted on its data governance program. The acquiring firm stands to lose about $200 million because the due diligence process did not consider data governance risks or gaps beforehand.

As for the internal improvements CFOs are eyeing, 55% of tech CFOs said they plan to leverage AI for cost optimization in the coming year. Forty-nine percent said they plan to pursue a pricing strategy adjustment, most likely relative to products or services. But no matter the approach to building business resilience in today's market, robust data governance will prove pivotal.

Data governance is also crucial for enabling emergent technologies — specifically AI. To function effectively, AI needs data that is both representative and accurate. Attributes like age, collection criteria, and breadth of the sample datasets can affect the quality of AI outputs. Maintaining oversight and implementing controls over data will allow companies to ensure AI inputs are based on accurate, unbiased data sets, and help avoid the costly pitfall of inadvertently violating data privacy regulations. Additionally, without proper governance over input data, an AI could produce results that are at best not useful and at worst biased or harmful — to employees, customers, or the business itself. When using AI as a cost-optimizing measure, robust data governance can bring greater efficiency and increased security, both of which translate to reduced expenses.

In addition to enabling AI and business strategy adjustments, strong data governance can also bolster other core functions. Strong data governance can support:

- ▶ Enhanced compliance adherence capabilities.
- ▶ Improved risk mitigation through predictive modeling.
- ▶ Lowered costs associated with data storage and protection.
- ▶ Streamlined processes and operations that minimize the risk of costly errors.
- ▶ Effective adoption and implementation of automation, to free team members from repetitive tasks.

Companies must regularly evaluate whether have the right data to inform any new strategies, and whether they have comprehensive controls and management processes in place to ensure the data is usable. For instance, in cases where companies plan to adjust their pricing, what sort of data is informing those decisions? How is it modeled? Who is interpreting it? **The practice of answering these types of questions is the essence of strong data governance.**

GENERATIVE AI

Because generative AI relies on well-managed, reliable data to function, adhering to data governance best practices is critical to successful implementation. To help companies get the most out of their AI tools, BDO offers a suite of services aimed at helping companies understand the ways in which data supports their unique business strategy, uncover hidden insights, and better connect their business to data and AI solutions. **BDO's AI Workshop** helps tech leaders who are eager to implement generative AI verify that their data management is ready to support it. Responsible AI adoption is simply not possible without sound data governance and the infrastructure to support it.

How Data Governance Supports Consumer Trust

To combat continued trust challenges, instituting or reaffirming responsible data governance can help tech companies show consumers they are taking steps to address their concerns around privacy, security, and the ethical use of personal data.

Data governance can enhance:

▶ **Security:** By managing factors like the length of time data is stored and who can access it, companies can reduce the chances of harmful and concerning breaches that damage a company's reputation and erode consumer trust.

▶ **Ethics:** Strong data governance begets ethical data use — a high priority for consumers. Armed with a clear understanding of their total data inventory, companies can make informed decisions about what data is truly necessary, better control how and when it is leveraged, and prevent pitfalls like overcollection and redundancy.

▶ **Personalization:** Collection of consumer data is a transaction — people expect higher-quality products and services as a result. The more useful and organized the data, the better companies can deliver on customer expectations.

▶ **Transparency:** Consumer confidence grows when their access to information expands. Tech companies need to clearly communicate their data governance policies and standards to their customers. This could be in the form of regular notifications about how their data is being used, a comprehensive and plainly worded data privacy agreement, or another method. But no matter the approach, it's much easier to be transparent about data use when that data is well-scoped, trackable, and secure.

According to our CFO Survey, nearly half of tech CFOs (47%) said they plan to accelerate work on improving the customer experience, in a bid to improve revenue through customer retention and acquisition. Instituting a comprehensive and transparent data governance program, as well as related disclosure policies, must be part of any customer experience improvement strategy. A compliant and well-communicated data governance program can help build loyalty by demonstrating that the company is committed to taking appropriate measures to protect personal information and act in accordance with increasingly stringent data protection and privacy regulations. This can be a major competitive differentiator in a moment when tech companies are relying more and more on their customer bases to propel growth.

PRIVACY & DATA PROTECTION

Robust compliance protocols are the bedrock of stakeholder trust — and comprehensive data governance is the starting point of a strong privacy and data protection program. BDO can help companies develop holistic strategies to track and **secure sensitive customer data**. We can also help implement a **Data Protection by Design and Default program**, creating an organizational culture of compliance and embedding privacy at the beginning of enterprise projects, software development, and vendor onboarding.

Building a Comprehensive Data Governance Framework

A comprehensive data governance framework must be built around a specific purpose, using tailored objectives, and contain established requirements for how data is handled by those charged with using and protecting it.

There is no one-size-fits-all approach, but companies should begin by assessing opportunities and priorities. Key questions can include:

▶ Is your data inventory current and automated?

▶ How is data currently being used? How do you expect to use it in the future?

▶ Where are the biggest gaps and risks in your data management program?

▶ Where are the greatest avenues for improvement in your data management practices?

Design a data governance blueprint based on this assessment, designating milestones and defining key performance indicators (KPIs) to help ensure all stakeholders have a common definition of success. Implementation may require adopting new technologies and training, and it may be helpful to enlist external partners with relevant knowledge and experience.

Companies must remember that data governance is not a set-and-forget solution. Even after a framework has been adopted, it will require consistent monitoring and iteration to help ensure it remains aligned with stakeholder expectations and accounts for any new variables, risks, and organizational needs.

A well-implemented data governance framework can drive efficiency, win trust, and strengthen security across the businesses. Improvements could include:

▶ Enhanced efficiency due to data minimization.

▶ Lowered costs associated with data use, collection, and security.

▶ More efficient efficient and effective adoption of AI and automation tools.

▶ Increased flexibility thanks to data centralization.

▶ Mitigated ongoing compliance-related risks.

TAX AUTOMATION

As more tax leaders turn to automated processes, freeing employees from repetitive tasks and allowing teams to focus more on strategy, **instituting comprehensive data governance** is an integral step in realizing the promise of these new technologies. It can lead to enhanced productivity, smoother workflows, and more accurate outputs from tax technology tools, which includes tax engines as well as supplementary tools for gathering, transforming, storing, and visualizing data. With clean, optimized, and well-organized inputs, tax teams can drive more strategic value, adapt to regulatory and structural changes more easily, and avoid reporting-related compliance risks via streamlined controls or processes. BDO can help construct a **tax innovation roadmap** to assess opportunities across tax reporting from data to deliverable.

CONTACT

HANK GALLIGAN
National Technology Practice Leader
hgalligan@bdo.com

KIRSTIE TIERNAN
Data Analytics & AI Practice Leader
ktiernan@bdo.com

KAREN SCHULER
Global Privacy & Data Protection Leader
kschuler@bdo.com

CHRISTOPHER D'AMBOLA
Tax Automation & Innovation Managing Director
cdambola@bdo.com

BDO