

## DIRECTOR ADVISORY

## DIGITAL TRANSFORMATION

# Navigating the Metaverse: A Brief Guide for Boards

By Jaymin Kim

The metaverse, estimated to be an \$800 billion global market by 2024, has been making major headlines this year. JP Morgan Chase & Co. purchased digital real estate and launched a virtual lounge to pursue banking in the metaverse. Walmart is building out immersive, digital shopping experiences. CVS Health filed for a trademark to sell virtual products and offer health-care services in the metaverse. Public sector entities in Seoul, Dubai, and Santa Monica are actively exploring how metaverse technologies can help engage and serve their residents and businesses.

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Organizations are racing to capitalize on new business models made possible by today's disruptive metaverse technologies. The metaverse is an emerging reality where physical and virtual worlds are becoming one and inseparable. Originally coined in a science-fiction novel in 1992, "Metaverse" became a popular Google search term only as of October 2021, coinciding with Facebook's rebrand to Meta Platforms.

### TECHNOLOGICAL ADVANCES ARE POWERING THE METAVERSE

Advances in existing and new technologies are creating previously unimaginable forms of work, life, and play. These technologies include:

- Artificial intelligence (AI), machine learning, and 3D reconstruction technology that create digital environments that react to actions in real time.
- Blockchain technology that records data that cannot be deleted or changed easily.
- Augmented reality, virtual reality, and haptics technology that enable access to immersive experiences.

Since the 1980s, information technology has necessitated that organizations transform as e-commerce, digital supply chains, and cybersecurity quickly became normalized. Today, organizations are confronting yet another technological disruption, potentially bigger than the advent of the Internet.

### DIGITAL TRANSFORMATION IS NECESSARY TO CAPITALIZE ON THE METAVERSE

Digital transformation is becoming increasingly important as metaverse technologies are changing the competitive landscape. There is already demand for metaverse experiences and assets, as reflected in a recent study by Oliver Wyman, *Renaissance 2022: The New People Shaping Our Future*. In the coming months and years, boards and management will need to assess when and how to embark on digital transformation journeys, leveraging metaverse technologies.

Here are three actions boards can take to effectively navigate the emerging technological disruption.

**1. Ensure metaverse technologies are part of the board's strategy discussions.** Deciding to build an online presence in the 1990s and 2000s was a strategic business decision for brick-and-mortar organizations. Similarly, choosing to build a presence in the metaverse today needs to be driven by business strategy.

Boards should first strategically assess how metaverse technologies can unlock new sources of value for their organizations. For some, early adoption may be advantageous. For others, waiting to see lessons learned from their peers may be more strategic—in which case, organizations should choose, as opposed to inadvertently become, a second mover.

Guided by the strategy, boards should then work with management to evaluate what metaverse technologies to leverage and how

to undertake required digital transformation. Today, early movers are leveraging metaverse technologies as a strategic means to drive revenue growth in two primary ways:

- a. purchasing digital real estate and establishing a commercial presence in the metaverse as a customer engagement strategy, and
- b. building new lines of business leveraging metaverse technologies, such as digital assets enabled by blockchain technology.

Some companies are doing both. For example, Nike has launched NIKELAND, a metaverse space through which Nike engages fans in immersive, digital brand experiences and launch events. Nike has also launched a new line of business selling Nike-branded non-fungible tokens (NFTs) enabled by blockchain technology: virtual Nike sneakers.

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**2. Be informed about the competitive and threat landscapes emerging with metaverse technologies.** The entertainment, gaming, retail, and financial services industries have been some early movers commercializing digital real estate, virtual fashion for avatars, and NFTs. To facilitate metaverse commerce, new marketplaces and digital currencies are emerging. Some industries, such as fashion and gaming, are converging. For example, Gucci and Roblox partnered in 2021 to create digital and physical assets and experiences that merge high fashion, gaming, and multimedia.

The metaverse will bring many risks, including data privacy, cyber, and reputational risks. Metaverse users will inevitably provide significant volumes of even more personal data than before, such as biometrics data reflecting real-time reactions to virtual experiences. More digitalization means expanded threat surfaces exposed to increasingly sophisticated cyberattacks. Organizations will need to proactively mitigate against potential reputational harms caused by

third-party acts, such as physical abuse of avatars in an organization's metaverse space.

Boards should keep track of the emerging regulatory landscape related to metaverse technologies. For example, current data privacy regulations such as the General Data Protection Regulation do not explicitly address privacy risks posed by using AI. Meanwhile, legal definitions and use cases for digital assets are still being debated and have direct implications for monetizing metaverse technologies.

Boards may want to bring on external expertise to help educate themselves and ask the right questions. As with any nascent, disruptive field, there is much noise surrounding the metaverse; the challenge will be to differentiate between value and hype.

**3. Secure the right talent required to successfully undertake digital transformation leveraging metaverse technologies.** The competition for talent is the top concern among both public and private company boards according to the 2022 NACD public and private company *Board Practices and Oversight Survey* reports. The competition for technical talent is particularly acute and has worsened during the COVID-19 pandemic as remote and hybrid work models accelerated the world's pace toward digitalization.

Board members should work with management on enterprise-wide technical and business talent development strategies to enable a successful digital transformation leveraging metaverse technologies. For instance, establishing a virtual commercial presence requires both technical knowledge to choose from existing metaverse platforms and strategic analysis of how virtual commercial presence will drive business. The challenge will be finding talent who can ask the right technical and strategic questions to navigate through uncharted waters.

### KNOWING WHAT QUESTIONS TO ASK IS CRITICAL

Metaverse technologies can be expected to disrupt 21st-century organizations, mandating further digitalization—at the risk of being left behind. In this uncharted era in which digital and physical realms are becoming one, boards must ask the right strategic questions to guide organizations through the latest technological disruption. **D**



Jaymin Kim is a director at Marsh McLennan and drives global commercial strategy focusing on technology and cyber issues. She is a strategic advisor on blockchain technology, digital assets, and the metaverse.