



Catching the Digital Wave of Change

Introduction

A digital revolution is currently taking place that is transforming the world we live in. Over the next few years, many organizations will need to go through radical change programs and, in some cases, completely reinvent themselves to remain relevant and competitive. The risks associated with disruptive innovation are now high on the board agenda. This is not always translating into a coherent strategy and many organizations do not fully understand the potential risks and are not demonstrating a sense of urgency.

Much has been said in recent years about digitalization and the impact it is having on our world. Many digital initiatives have been focused on new ways to engage with customers, taking advantage of and/or responding to risks arising from social media and considering creative approaches to use mobile devices and location services to engage with customers in different ways. Most businesses are still trying to work out how to use these basic technologies in the right way to deliver enhanced value to customers and to the business. The impact has been extreme in a few industry segments and may be perceived to have been marginal in many others.

We can all cite examples of businesses adversely impacted by disruptive technologies, whether it is businesses such as Amazon and eBay revolutionizing retail; Netflix, Spotify and Apple transforming the

way we consume media content; TripAdvisor, Expedia and, most recently, Airbnb changing how we plan our travel; or PayPal, Apple Pay and, to a lesser extent today at least, Bitcoin impacting the means by which we pay for goods.

The impact of these changes has been dramatic, and many long-established household brands have disappeared in the process. The examples are, however, no longer isolated. Depending on your perspective, the exciting or worrisome truth is that the digital revolution is only just getting started and the pace of change is accelerating rapidly.

The first wave of change came with the dot-com boom at the turn of the century. Mass adoption of technology by consumers, combined with the digital-native generation growing up into consumers with

discretionary spending capacity and a different set of expectations, along with global capital to invest following the banking crisis and the global economic downturn, have created an environment requiring nearly every business to transform or wither on the vine.

No industry is immune. Wearable technology, driverless cars, the Internet of Things, robotics, blockchain, biometrics, drones and nanotech are but a few examples of the technologies which leaders of the future are finding creative ways to use today. Some might say that this is akin to Darwinian evolution: These initial early adoptions will morph over time into real-world disruptive applications that will ultimately reinvent the way we interact as a species and deepen our interrelationship with and interdependence on technologies.

In less than three generations, the application of robotics and artificial intelligence will fundamentally change how governments collect taxes from corporations, compared to how they have done so over the last few hundred years. The entire way in which wealth is distributed across the dominant species on this planet will be impacted.

It is always difficult for business leaders, many of whom are focused on the challenges of today and the next set of quarterly results, to plan for an uncertain future. Even when executives are aware of emerging technologies that obviously have potential, it is often difficult to have the vision or foresight to anticipate the nature and extent of change.

One of the biggest risks any business faces today, however, is complacency when it comes to the digital revolution. Business leaders need to recognize what is happening and react. It is increasingly said that organizations need to “innovate or die.” Leaders must think about how they can embrace the opportunities which emerging technologies present. Failure to do so will leave businesses very exposed to competitors or new start-ups disrupting the status quo.

It is ultimately about survival of the fittest.

Responding to Digitalization Opportunities

Formulating a digital strategy

Whatever your perception is of digital technology and what it means for your industry, somebody at the very top level within the organization must take responsibility for understanding the competitive landscape, the opportunities emerging technologies present and the threats to existing revenue streams. Organizations need to make a conscious decision about whether they are going to be the disruptor and try to take a lead as a transformer or whether they are going to play a waiting game, monitor the competitive landscape and react only when they need to defend market share. For many, the answer may be somewhere between the two.

There is no right or wrong digital strategy, apart from burying your head in the sand and praying for the world to stop spinning so you can jump off, because the pace of change is too great. The decisions taken to develop a digital strategy will reflect the organization’s culture, risk appetite and ability to invest. The one certainty is that it does need to be a conscious decision. Digital strategy-setting and review needs to be a business-as-usual activity. The executive team should ensure that it is receiving regular briefings from the team responsible for the organization’s digital strategy. It is important to analyze the markets in which the business is operating, the competitor landscape, and research to formulate scenario plans.

Governing digital transformation

Any strategy is only as good as its execution. Many papers have been written on the consistent failure of organizations to deliver on business-change programs and, in particular, those dependent on technology. Many of these reports cite success levels at well below 50 percent, if success is measured in terms of cost, timeliness of delivery and, most importantly, realization of benefits.

It is also important to understand the distinction between digital transformation and innovation. Innovation adopts an approach that can be

encapsulated in “Test, learn and, if it is going nowhere, fail fast.” Digital transformation is the journey to achieve an agreed-upon strategy to reposition the business.

For most organizations, execution of the digital strategy will be the most important initiative over the next few years, failure of which could have a very visible and lasting impact on brand perception, not to mention the bottom line and the ability of the organization to survive and thrive. Success rates at the levels to which we have become accustomed are simply unacceptable in an initiative of this importance.

To make matters worse, when starting out on digital-transformation programs, the end game will be uncertain and the goal posts will keep moving. Lack of clarity with regard to the end state is often cited in traditional programs as one of the biggest causes of failure. Transformation programs are not a matter of “Aim, fire, forget and cross your fingers.” They need steering, mid-course corrections, and clearly defined primary and secondary targets.

It is essential for the executive team to understand the impact that the digital revolution could have and take all the steps necessary to ensure that the digital-transformation program and/or projects which are started are set up for success. One especially important key is ensuring that the right people are working on the projects. This may require leaders to make some difficult decisions and to take some of the best people out of their current operational roles, accepting that this may have consequences in the short term, to enable them to focus a significant amount of time on the digital transformation programs. If positioned correctly, these programs could provide a platform to develop the leadership team of the future.

Perhaps more difficult is acknowledging that you may not have the right people in your business to reposition and transform your business. Who is able to envision tomorrow if they’ve spent the last 10 to 20 years stuck in their current mindset? You need to balance outside-the-box thinking and challenge with the practical considerations of repositioning the business.

It is also essential that organizations take the time to put in place the appropriate governance structures, with active participation of the executive leadership team, to ensure digital transformation programs receive and maintain the necessary focus.

Building a culture of innovation

Another key challenge for many businesses is cultivating an innovation culture. As noted earlier, the leaders of the future are evolving already, innovating in creative ways with exciting new and emerging technologies. In many cases, they may not necessarily have clarity of vision as to how these technologies will generate a return. In fact, they may have nothing more than a gut feeling that the technology they are experimenting with will have a significant influence on the future. Some innovation-related initiatives will succeed, others may fail. However, it is impossible to be a disruptor and achieve clarity of vision without a willingness and even an eagerness to experiment with the unknown.

This is a world that is very familiar to some organizations, including but not limited to technology pioneers, venture capital firms and many operating in the scientific communities. For many years, pharmaceutical companies have invested huge sums of money in innovation, with the expectation that at least a majority of their research projects will result in failure. The key has always been to have a portfolio of active projects and to measure success in terms of the portfolio as a whole. Incubator funds, investments and acquisitions of smaller life science companies are also very much a part of the risk management approach.

This world of experimentation and failure is alien to many organizations. In fact, many are quick to view organizations like Google, Microsoft, Apple and Facebook with bemusement when they make huge investments in companies with no obvious immediate return. Within these organizations, however, the view is much different. In the minds of their executive teams, there undoubtedly is some disruptive play that will come to fruition at some point in the future.

Consider the recent hype around autonomous vehicles. This is not new. The U.S. military, for example, has been investing in and trialling this for years. This is simply the application of U.S. military research dollars to the commercial world. That's how the internet was born in the early 1960s via the Defense Advanced Research Projects Agency (DARPA).

Cultural change is extremely difficult, and as a result, for most organizations, this change is going to be an evolution as opposed to a revolution. This will start with understanding the barriers to innovation, often encapsulated unintentionally in policies, procedures and reward structures. Typically within a non-innovative, risk-averse culture, high-risk projects are rejected, as they do not comply with project governance requirements. Vendor due-diligence policies preclude doing business with technology start-ups. IT policies and standards, and in particular security policies and standards, make it very difficult, if not impossible, for employees and product teams to experiment with new emerging technologies. Perhaps most importantly, association with a failed project may be seen as a significant career-limiting move which many top employees will therefore avoid.

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To foster a culture of innovation, executive leadership must begin to shift these standards in their organizations. High-risk projects should be encouraged, with an understanding that projects and experiments that fail to pan out are not failures. The organization should encourage building relationships with third-party technology firms that are at the forefront of digitalization. IT policies, standards and procedures should be re-evaluated to assess whether they adequately embrace new and innovative approaches by employees. And above all, your people must feel safe and empowered to think creatively and innovate, without fear of penalty or limited career growth when some ideas inevitably do not succeed.

Achieving functional transformation – start internally

When developing your business strategy, it is important to remember that there will be significant digital transformation opportunities within the organization with no direct, visible customer impact. Initially focusing on some of these opportunities may, for some organizations, be a more comfortable way to start to think digital and help embed an innovation/digital culture.

A good place to start is thinking about how technology is used internally to improve employee engagement, simplify and/or automate repetitive processes, collaborate better, or simply make internal processes that are perceived to be painful (e.g., completing an expense report) easier. The way organizations embrace technology can help change how employees and customers perceive the organization.

There are many ways to work smarter in almost all organizations, and, if challenged, employees will not be short of ideas. For example, consider how you can use mobile devices more creatively: Take advantage of location services, cameras, voice recognition and character recognition to engage with applications in different ways; replace laptops with tablets and embrace tools such as OneNote and Office 365 to work collaboratively; and conduct video calls using tools such as Skype for Business and, in the process, move away from impersonal conference calls.

Other opportunities to begin the digital transformation journey include the next generation of data-analysis and data-visualization tools to enhance management information. Dynamic reporting on touch screens — for example, replacing static reports in board packets — can have a transformational impact.

These are just a few basic examples. Re-engineering business processes using the latest technology can have a huge impact on employee engagement, particularly with younger employees, and on the bottom line. Interestingly, research shows that the most significant driver for investment in digital solutions is now operational efficiency, not new ways of engaging with customers.

In Closing

As most businesses should understand based on other efforts in their histories to achieve significant change, digital transformation is more about the journey than the destination. Why? Because with digitalization, as soon as you reach one goal, many more will emerge on the horizon. The most important step organizations should take now is to start that journey, rather than sit on the sidelines. They also need to begin their journey with the right foundational elements in place — a sound digitalization strategy, a well-understood governance structure that includes bringing in the right people to focus on and execute the strategy, a culture that nurtures innovation, and a commitment to achieving early digitalization wins with internal initiatives.

By taking this approach, organizations will catch the digital wave of change and better position themselves to face the future with confidence.

Contacts

Jonathan Wyatt
Managing Director
+44.207.024.7522
jonathan.wyatt@protiviti.co.uk

Ed Page
Managing Director
+1.312.476.6093
ed.page@protiviti.com

Tyrone Canaday
Managing Director
+1.212.603.5435
tyrone.canaday@protiviti.com

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Whether the key driver is to improve customer engagement, digitize products and explore new business models, improve decision-making, or simply drive operational efficiencies, we are helping our clients make their digital strategies a reality.

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