

TRANSFORMING FOR TOMORROW

**Preparing incumbents
for digital disruption**

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PROLOGUE

This report is brought to you jointly by Savannah Group and PA Consulting, informed by the results of a National Digital Benchmark of 425 senior leaders. Our joint thanks go to those who took the time to complete the survey and provide detailed insight into how prepared UK incumbents are for digital disruption.



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FOREWORD PREPARING FOR A DIGITAL FUTURE

How can organisations transform from a focus on protecting today's revenue to become agile digital organisations creating value for tomorrow?

New technologies, business models and customer expectations are disrupting how organisations create and capture value. Gone are the days of organisations adding value to goods or services to captive customers. In its place is a fast-paced environment where digitally connected consumers sacrifice loyalty in favour of price, speed of availability and personalisation.

Every mature organisation is at a tipping point. Leaders must balance the need to maintain current performance while anticipating and adapting to ensure value tomorrow. Experimenting at the edge with digital risks missing vital opportunities and leaving money on the table. Meanwhile, bolder players will seize their chance to dominate the new landscape by acquiring the talent needed and quickly reinventing their organisation and ways of working to reach out to new markets, segments and geographies.

Becoming 'Total Digital' is the only way to defend today and win tomorrow. Total Digital organisations are built not just to last but to continuously adapt. Those who embrace technological change, data collection and the use of data-driven insights to produce actionable results will unlock a competitive advantage. And they'll be able to free up the ingenuity of their people to tackle their most pressing and complex challenges and create a positive human future – providing leaders are bold enough to empower them.

Every day, we work with leaders taking perfectly achievable steps towards becoming Total Digital by learning the lessons from digital players, developing or acquiring the required digital talent and by embracing a 'think big, start small, scale fast' mindset to experimentation. We know the steps needed but all too often leaders tell us they're not sure where to start or where their time and investment is best placed to make swift progress.

This is why we joined forces with global executive recruitment firm Savannah Group to see the pace at which large incumbents are becoming Total Digital and where they most need direction. Our National Digital Benchmark survey of 425 senior leaders from a wide range of sectors shows how their organisations compare to others and how they can unlock the opportunities of digital transformation.

Our thanks go to all those who took the time to complete our benchmark survey and to Savannah's Vicky Maxwell Davies, who was instrumental in the production of this research. Thanks also go to Professor Venkat Venkatraman, whose book, *The digital matrix: new rules for business transformation through technology*, informs both the benchmark and the way many organisations understand and undertake digital transformation.¹

At PA, we bring ingenuity to life. Our experience and insights are enabling organisations to recast their core businesses and bring new value to their customers, neutralising the threats and seizing the opportunities of our digital age. Becoming Total Digital is the only way to safeguard your present and supercharge your future, and all with a few simple steps. In doing so, you'll enable your people to work quicker, faster – solving challenges and creating new value.

The future's here, so now's the time to discover how your organisation measures up and how you can position yourself to thrive in a digital age.



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INTRODUCTION

Every day brings a slew of media stories about digital technologies upending traditional business models. The headlines portray a world where traditional and innovative ways of working combine in a controlled, coordinated fashion, as clear-minded leaders deliver to their customer bases while ensuring their company grows and remains profitable in the future.

“We are as much a tech company as we are a pizza company,” Patrick Doyle, CEO of restaurant chain Domino’s Pizza, said in 2017.² His words created a vision of organisations swiftly adapting to fast-changing consumer habits in the era of big data collection, data analyses, automation and artificial intelligence (AI).

So, how prepared are the UK’s incumbent organisations for the challenges they face?

Our understanding and analysis of the issues involved was informed by PA Consulting’s experience and expertise in digital transformation, Savannah Group’s insight from working with companies and brands globally ranging from Fortune 500 and FTSE 250 firms through to public, private equity backed and privately-owned organisations, and the work and ideas of Professor Venkat Venkatraman.



Professor Venkat Venkatraman is the David Jr Professor of Management and Past Chair of the IS Department at the Boston University Questrom School of Business, and author of *The digital matrix: new rules for business transformation through technology*.

As Venkatraman notes in his book, organisations must engage in digitally transforming their business to survive in the short-term and prosper in the mid to long-term. This, he says, is likely to mean embracing three different phases of transformation, often at the same time.

Experimentation at the edge, where digital experiments are far removed from current realities and take place in parallel with existing business models.

Collision at the core, when digital rules challenge traditional industry practices, and where there’s tension between existing and new digital ways of doing business.

Reinvention at the root, where business models are reinvented and digital solutions are delivered in ecosystems across multiple industry boundaries.

These phases take place at three levels: with digital giants, with incumbents (traditional competitors) and with digital entrepreneurs.

The National Digital Benchmark

Using the National Digital Benchmark survey, created jointly by PA and Savannah, we asked 425 senior leaders — mostly board level and from across UK business sectors, including media and communications, banking, publishing, professional services, energy, travel and retail — about a range of digital transformation-related issues.

Based on the average responses to questions relating to three phases of digital transformation, our Digital Matrix (shown in Figure 1) shows the extent to which digital transformation is taking place.

Our questions covered leaders’ awareness of the threats and opportunities of digital transformation, how engaged they are with the process of digital transformation and whether their senior leadership teams possess the necessary skills, knowledge and experience to navigate a business landscape reshaped by new technologies. Respondents indicated their level of agreement on a scale from 1 (strongly disagree) to 5 (strongly agree).

For more information on the methodology, see ‘Appendix’ (page 34).

Figure 1: The Digital Matrix

	EXPERIMENTATION AT THE EDGE	COLLISION AT THE CORE	REINVENTION AT THE ROOT
DIGITAL GIANTS	3.1	2.3	2.3
INCUMBENTS	3.4	3.3	2.6
DIGITAL ENTREPRENEURS	2.6	2.3	2.6
Total score: 24.5 out of 45			

Summary

Our benchmark provides a good starting point for organisations to understand and monitor the speed and scope of digital transformation over the next decade.

Each segment score of the matrix is informed by a subset of questions. From these findings, we identified three themes relating to steps organisations need to take to respond to and unlock the opportunities offered by digital transformation.

Scoring scale

Scores are based on a scale of agreement, from 1 (strongly disagree) to 5 (strongly agree).

Learn lessons from digital-first firms

While the need for digital transformation is well understood by leaders, there's little agreement about how to go about this metamorphosis. Respondents noted how digital giants are subtly adapting for the future while going about their daily business but have not yet sought to emulate them. Nor are they turning to digital entrepreneurs to find new ways to disrupt their existing models.

Grapple with the digital talent challenge

Organisations across all sectors are struggling to adapt their workforces and cultures for the digital age. Few leaders were confident their HR departments have planned and prepared to either develop or acquire the required digital talent. And at a time when strong leadership will be essential, leaders do not yet believe their teams have the necessary skills to adapt for tomorrow.

Embrace an experimental mindset

One of the greatest challenges facing incumbents is deciding how to begin the process of digital transformation. Too many organisations look to bolt-on digital technologies rather than deliver true disruption, with others finding innovation is scuppered by using outdated and long-winded approaches to planning and conducting experiments.

In response, organisations should utilise a 'think big, start small, scale fast' approach to quickly identify the art of the possible, while balancing an experimental environment with clear lines to commercial success.

Together, our findings demonstrate the difficulty of achieving the mindset required to successfully engage with digital transformation. As Venkatraman says: "Success reinforces a continuation of the status quo. When faced with two alternatives — invest in what has made us successful in the past, versus investing in what might make us successful in the future — most managers choose the former. It is familiar."

We're averse to partnering in areas where we do not have dominant competencies
2.8/5

Our HR department has reframed the type of talent we need for our digital future
2.6/5

We've conceived/planned/launched a new service/division as though it were a self-standing born-on-the-web business. We'll develop it going forward as a fully native digital business
2.6/5

Our acquisition of digital start-ups is increasing
2.2/5

Our workforce and culture are adapted for the digital age
2.8/5

We are joint venturing with a digital giant to create shared new customer opportunities
2.2/5

Our leadership team has been recalibrated so that they now possess digital skills and competencies
2.7/5

We're more comfortable adopting digital technologies to enhance our current business models than disrupting our current business model
3.7/5

In response, organisations must look to learn lessons from digital-first firms. They'll need to develop a distinctive digital mindset to imagine how they can disrupt their own business, with a focus on: putting customer outcomes first; transforming through acquisition; learning to experiment; and balancing the transition from a traditional to a digital firm.

To prepare for and respond to the digital talent challenge, leaders must ensure they have the right talent in place at every level of the organisation, recalibrating teams at all levels, including their leadership and Non-Executive Director (NED) capabilities. Along the way, leaders must embed boldness and agility and create a culture where transformation is 'business as usual'.

LESSONS FROM DIGITAL-FIRST FIRMS

Understand the need to transform

While Domino's Pizza may be digitising the food industry, our research found many incumbents have not yet responded to its CEO's call to embrace the tech era wholeheartedly. Instead, our research suggests many respondents are still in the early stages of working out how to respond to digital disruption.

Most told us they'd considered the threat that digital giants pose and many are leveraging available platforms, but they're yet to radically redefine what their future business might look like or to form partnerships with digital giants and start-ups.

Digital disruption does not respect industry boundaries and acting now, in a digitally savvy way, will better prepare incumbent businesses for disruption

We've adapted our governance and policies for the digital world
2.8/5

Our research finds many businesses are yet to experience direct competition from digital giants or lose market share to them. As Professor Venkatraman, author of *The digital matrix*, says, the impact of platforms such as YouTube, Amazon, Apple and Google has been felt mainly in 'asset-light settings', such as media, entertainment, music and telecoms. Organisations in these segments were understandably more aware of the threat that digital giants pose to their operational models than others. As such, many incumbents are still figuring out how to respond to digital disruption.

Venkatraman warns: "Incumbent organisations ignore digital giants at their peril. But while the impact and influence of the digital giants and digital start-ups is inevitable, it's not a foregone conclusion that existing organisations will lose out."

We discovered, too, that awareness does not necessarily translate into preparedness. Leaders are yet to adapt their governance procedures and policies for the digital world, with many admitting they had over-invested in "what we're good at today" and under-invested in "what we should be good at tomorrow". While understanding the significance of digital disruption, they lacked the organisational commitment to transform proactively.

Awareness was higher in sectors like banking, where European Union regulations have provided better access for fintech disruptors, and travel, where businesses such as Airbnb, TripAdvisor and Expedia are having a powerful impact.

More sectors will soon face digital competition. Digital disruption does not respect industry boundaries and acting now, in a digitally savvy way, will better prepare incumbent businesses for disruption.

"The next phase will be disruption in 'asset-heavy settings'," says Venkatraman. "We are seeing Google in autonomous cars, Amazon in retailing beyond e-commerce and Apple in healthcare."

He adds: "It will happen sooner rather than later. As so many businesses in history have discovered, from equestrian transportation to encyclopaedia salesmen and video rental stores, there's no escaping the reach of new technology."

So, how can incumbents respond to impending disruption?

We're averse to partnering in areas where we do not have dominant competencies

2.8/5

We over-invest in "what we're good at today" and under-invest in "what we should be good at tomorrow"

3.3/5

We're losing market share to a digital giant

2.0/5

Put customer outcomes first

You have to understand what you bring to the ecosystem that is truly distinctive from what others may bring

Technology enables digital disruptors to bundle the fragmented products and services offered by incumbents. Digital platforms coordinate unstructured markets, initially co-opting incumbents as participants, then marginalising previously dominant players while they capture an increasing portion of the value pie.

Organisations need to overcome 100 years of thinking to get to grips with this change in mindset. Incumbents need to ask ‘what customer problem am I trying to solve?’ and think about what they’d do differently if they had a map of customer outcomes rather than sectorally defined products.

By starting with customers’ pain points and working backwards, businesses are converting traditional individually bought products, which have a defined lifespan, into subscription services that deliver the outcome the customer wants as efficiently as possible. In return, these subscription services build customer loyalty and retention for the manufacturers.

As an example, look at how car buying could change in comparison with today’s business model. Instead of just owning a car, a customer outcome might be ‘mobility as a service’, which packages the different elements of vehicle ownership into one seamless, ongoing transaction, such as purchase finance, servicing, MOTs and cleaning. These different moving parts need to be considered as outcomes rather than as goods and services provided by rival operators. Making this shift may mean cooperation with others, even competitors, across different sectors.

“There’s a huge difference between a customer outcome and a feature of a product or a service,” says PA’s Alex Wright, a digital expert. “Unfortunately, the historic marketing customer experience language of ‘customer needs’ doesn’t help. What really matters to customers, both B2C and B2B, is the achievement of an outcome. Nothing else.

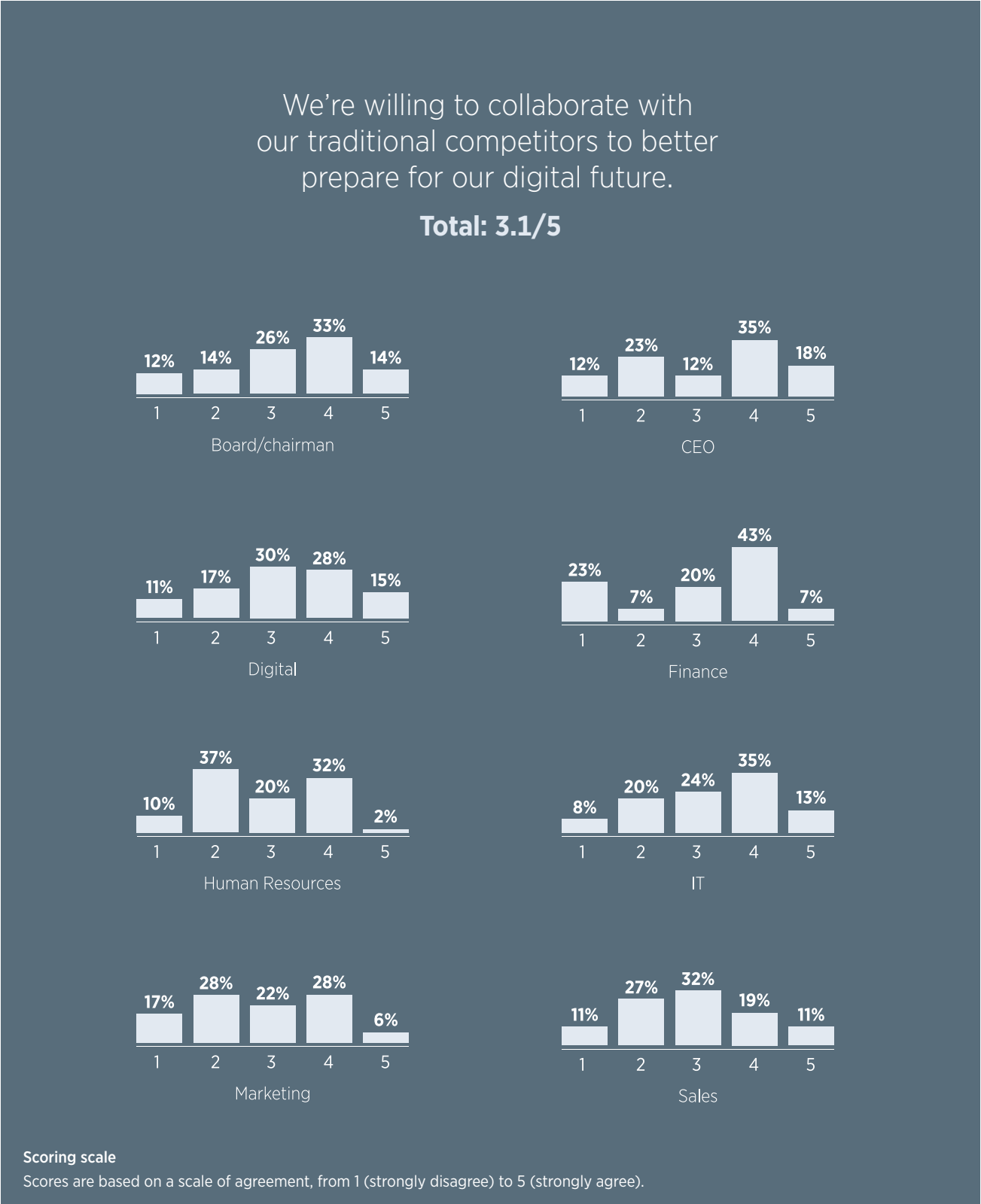
“Digital technology allows organisations to digitise and capture granular consumption behaviours and see how consumers and B2B clients use a particular product or service. This helps customers achieve outcomes in a more profound way than was possible before. The opportunity for organisations to map the outcomes the client wants to achieve is much higher.”

Customer outcomes are paramount in the digital economy and incumbent organisations need to re-evaluate their position in the value ecosystem to find how best to contribute to them. Successful businesses will be those that create value chains for consumers that transcend industries. Often that’ll mean collaborating with other organisations across different sectors, even competitors.

“As industries digitise, traditional organisations find themselves competing and partnering with digital natives. In those ecosystems, you may partner with traditional competitors to create joint offerings to compete against digital natives or find yourself participating in ecosystems orchestrated by digital giants such as Apple, Amazon, Alphabet or Alibaba,” says Professor Venkatraman.

“Here, you have to understand what you bring to the ecosystem that is truly distinctive from what others may bring. What makes you irreplaceable in the digital business world?

“If you are solving problems that involve digital platforms, then you have to work with others in the ecosystems to co-create value and earn a fair share of it.”



Transform through acquisition

One area incumbents seem to be missing out on is transformation through acquisition. Alphabet, Google's parent company, for instance, is already planning to operate across a range of business models traditionally run by single incumbents. When it sees a promising business, it acquires or merges with it. Since 2014, it has purchased 27 companies.³

Snapping up promising emerging technologies has become a priority for digital giants. It enables them to enter new markets rapidly with significant impact.

Despite this, our respondents revealed a relative lack of interest in transformation through acquisition. This may be because of investment limitations in some cases, but a brief glance at digital giants' acquisition rates should persuade incumbents to look again at their strategy. Even if acquisition is beyond their reach, strategic partnerships and lesser forms of investment may pay dividends.

A lack of interest in M&A from incumbents may well cause them problems in the future. By allowing the private equity market to profit from calculated bets on the success of emerging technologies, for example, start-ups could become successful in the future and so more expensive to acquire.

An additional risk may be that, by allowing start-ups to obtain the funding they need to grow rapidly, they may become a threat to incumbents. After all, monopolies acquire start-ups to stifle the competition as well as to grow.

Venkatraman suggests organisations should seek ways to promote "investment in the future". He adds: "Develop an outside-in perspective rather than an inside-out perspective."

Leaders should "look at it from a customer point of view... With the availability of digital technologies, what could you do differently? How might a digital giant step up to solve the problem (for example, Amazon's cashier-less Go store), or what have venture capitalists bet on that could disrupt you? The outside-in or future-back approach allows organisations to test resource allocation patterns."

Venkatraman also suggests leaders conduct "a thought experiment within their company with their management team — how could digital giants impact and influence your industry as it digitises? What new digital-based business competencies could they bring into your sector to disrupt your ways of working and capture value?"

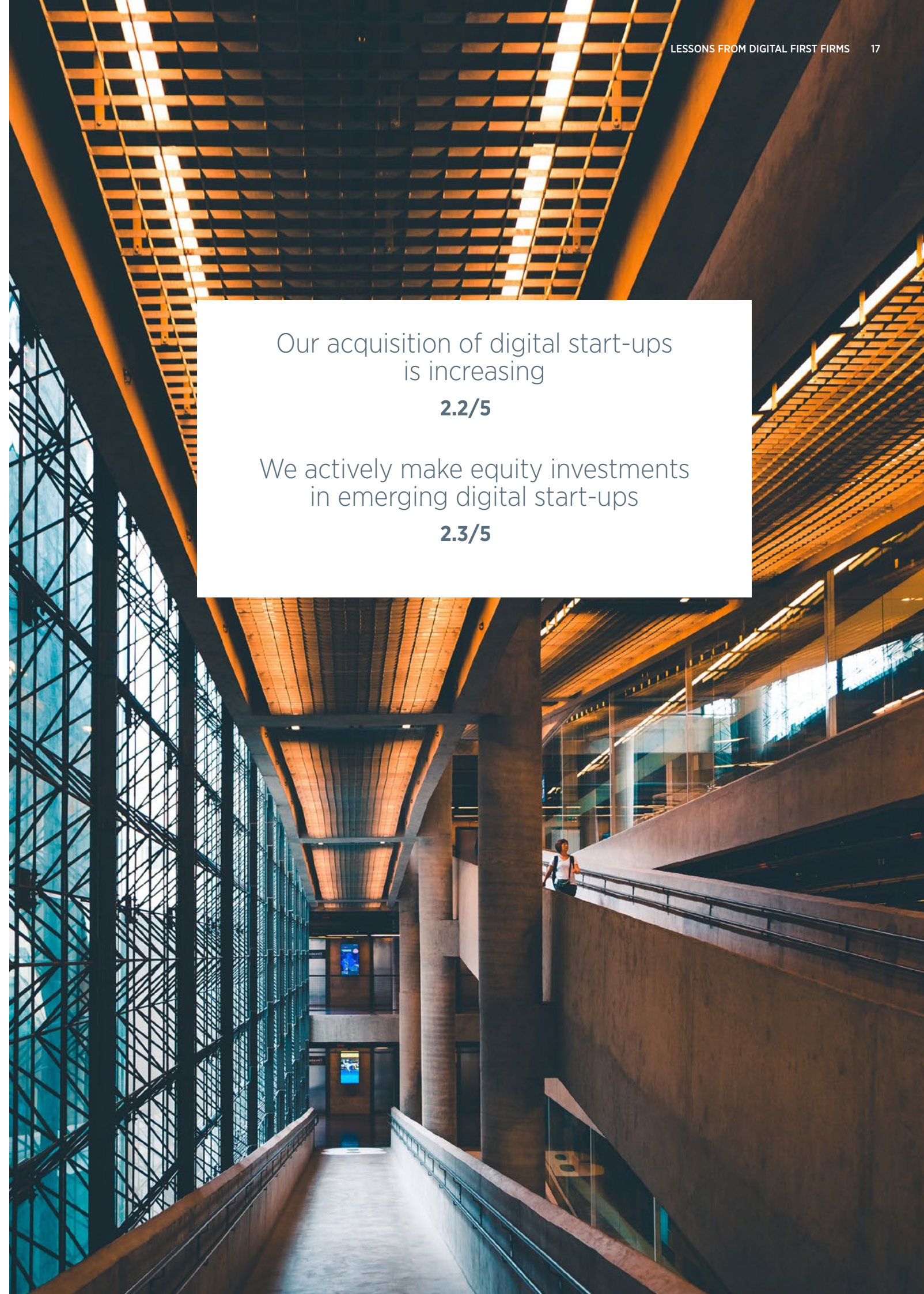
Look at it from a customer point of view... With the availability of digital technologies, what could you do differently?

Our acquisition of digital start-ups is increasing

2.2/5

We actively make equity investments in emerging digital start-ups

2.3/5



We're increasingly developing and filing technology-based patents

2.1/5

AI handles a significant amount of repeatable tasks within our business to free up our human talent to work on more critical tasks

2.1/5

We've conceived/planned/launched a new service/division as though it were a self-standing born-on-the-web business. We'll develop it going forward into a fully native digital business

2.6/5

Master experimentation

Our findings reveal the kind of incubation, risk-taking experimentation inherent in risk-taking start-ups and digital giants is only occurring at low, early stage levels among incumbents. Yet the ability to take such risks is a key driver of digital transformation, which is essential to both their survival and the preservation of future shareholder value.

While big data and data analytics seem to be some of the earliest to be adopted by incumbents, most of whom were positive about their use to aid strategic decision making, these are also the least likely to cause initial disruption.

Automation and AI, potentially far more disruptive technologies, are further down incumbents' agendas. Additionally, while a frequently talked-of AI benefit is that it will enable the workforce to be more productive, our research suggests organisations are yet to understand how to harness this technology.

The clearest signs of experimentation were in sectors such as banking, travel and retail, where incumbents are responding to the challenges of fintech and online shopping. But there's no indication that experimentation is driving an increase in technology patents or has translated into standalone fully web-based or digital business lines.

PA has identified four stages of experimentation organisations need to go through to develop digitally:

1. Hothousing: the organisation, not knowing exactly what it is looking for, gets smart people from diverse backgrounds and lets them dream up possible business ideas.
2. Incubation: the business idea is nurtured and developed to see if it has potential.
3. Trial and proof of concept: the organisation takes an idea from the incubator and tests it with statistically meaningful samples to see if it'll make money.
4. Scale: the idea is made real and it expands in a profitable way.

True innovators excel at all four steps and they collaborate with other players, mainly in steps one and two.

The good news from the survey is that leaders indicated they have room to be more adventurous. Venkatraman adds that organisations should think in terms of a portfolio of experiments that examine different possible transformation trajectories, while engaging with partners such as start-ups or digital giants to collaborate on, and co-design, experiments.

Morph to digital



One view, expressed most strongly by IT leaders and those in disrupted areas like retail and travel, is that businesses are finding tensions between their traditional methods of working and the digital world. This means that, while some parts of their operations are starting to digitise, others have yet to adapt. This is particularly pronounced in sectors grappling with disruption and therefore most impacted by the consequential tensions.

The challenge is to move from a model where the digital and traditional businesses co-exist. This can be accomplished in a two-stage process. In the first stage, leaders must allocate enough resources to make digital experiments happen and simultaneously manage the core business while designing the new.

“That balancing act is the leadership challenge,” says Venkatraman. “You can create a separate team, but they should have the autonomy to experiment in new ways — even if they challenge and cannibalise the old model.

“The more important guidance for leaders is that the new digital model supersedes the old model. Ultimately, that means they must dramatically reallocate scarce resources — financial, human, management attention and time — away from the old to the new. Managing for today is necessary but not enough. You must design the future and migrate. And that is the second stage — to morph.”

According to PA's Jiten Kachhela, a digital expert, there are four dimensions required to develop the right mindset for digital transformation:

1. Shift from transformation bursts to 'transformation as usual' — an ongoing process rather than a supplementary activity.
2. Understand that technology is no longer a discipline based on system integration; in the digital age, all capabilities can be software defined.
3. Think in terms of value streams that cut across the organisation, rather than individual processes and suppliers.
4. Allow data to speak and inform decisions, become genuinely data-driven and move away from experience and gut instinct.

The question is whether today's leaders can step up to create the necessary capabilities to migrate to a digital future.

LEADERSHIP: GRAPPLING WITH THE DIGITAL TALENT CHALLENGE

Recalibrate your teams

If digital transformation is to succeed, it must be driven from the C-suite and the boardroom. But our findings suggest that while some organisations, especially those facing the most digital disruption, are focusing on specific nuts-and-bolts roles such as programming, their new digital expertise does not extend to leadership roles such as Chief Digital Officers (CDOs) or more digitally savvy NEDs.

Leadership teams haven't been recalibrated to equip them with the digital skills and competencies they need. Imagine instead if firms had the right people in place able to take a strategic view of digital transformation across the company, join the digital dots and decide where to prioritise.

Organisations across all sectors are grappling with the digital talent challenge. Few leaders were confident their organisation's HR department had properly considered the type of talent needed for their digital future. Organisations can take positive steps to address this, including bringing in fresh thinking and encouraging best practice by hiring outside their sector.

Respondents did, however, seem more prepared to use external expertise, with leaders across all sectors, particularly banking, travel and energy, receiving strategic external guidance about the future of their industries.

Ensuring the right mix of digital abilities is in place across the organisation is crucial, particularly when it comes to the skills and character traits leaders need to navigate transformation successfully.

Strong leadership and stakeholder management are essential, as is the ability to innovate and being able to demonstrate new, original ways of thinking that differentiate the organisation from its competitors.

And the strategic digital vision needs to be as pronounced among a company's NEDs as its leaders, and here our research indicated an opportunity to improve NEDs' knowledge and perceptions of the digital future.

Our findings show that many NEDs are out of step with other senior leaders. They were the most optimistic about their organisations' awareness of the external environment in terms of digital threats and opportunities, markedly more so than finance or marketing leaders, and were more positive about organisational preparedness.

While the role of NEDs is to bring a more impartial, diverse, external view of the world to strategic decision making, such a divergence from the opinions of other leaders will only be beneficial if their perspectives reflect reality. Widening NED talent pools, including the industries, skills, ethnicity, gender and age profiles from which they are drawn, will help sharpen the insights they provide.

We've added new digital leadership roles to our business, e.g. CDO or digitally-minded NEDs
3.0/5

Our HR department has reframed the type of talent we need for our digital future

2.6/5

Our workforce and culture are adapted for the digital age

2.8/5

Embed boldness and agility

For leaders to succeed, they'll need to be prepared to throw things up in the air and do them in a different way

So, how can organisations bolster their ranks and equip themselves to succeed in the face of digital disruption?

Poaching top technology talent from businesses like Netflix and Spotify is unlikely to provide the transformational leaders incumbents need. For a start, despite legacy leaders' beliefs, the talent often isn't available for hire. Nor would such candidates necessarily be right for such a task.

"Taking a legacy type environment, disrupting it, and turning it into something new is a very different challenge to working in a 'greenfield' digital environment," says Savannah's Maxwell Davies, one of the firm's founding Partners and a member of its Technology practice. "For a start, you need to understand the legacy technology challenges as well as the importance of the operational side.

"The challenges every organisation faces — the competition from the digital giants, the measures it has already taken and the factors that are constraining it from creating new business models — are different.

"It's important the senior team can articulate these elements and for external advisors to understand and appreciate them."

For leaders to succeed, they'll need to be prepared to "throw things up in the air and do them in a different way". "This will require a combination of boldness, the right risk appetite, sound judgement, and the ability and agility to make decisions quickly."

Leaders must be bold enough to take necessary risks based on sound judgement and agile enough to make decisions quickly. But these talents have not always been highly prized, especially if the organisation's technology is primarily focused on legacy IT that keeps the lights on and minimises system failures. In such scenarios, organisations do not necessarily want to do things differently.

Such firm leadership will, however, provide a clear direction for employees at a time of wider uncertainty and change, allowing workers to focus on the tasks that need doing rather than worrying about their futures or that of the company.

All of this comes at a time of great change in how people view work and expect to be treated by their employer. Getting this right can be tricky for leaders whose inherited management style tends to be directive rather than nurturing and enabling. It's all too tempting to try to create an agile way of working by focusing on new tools and methods without giving enough consideration to people.

Culture is the hardest and slowest aspect of your organisation to change — and the biggest driver of opportunities when you get it right. According to PA's research on organisational agility, the top 10 per cent of businesses by financial performance are almost 30 per cent more likely to display the characteristic of liberating their people.⁴

These organisations make a conscious effort to focus on their people, creating a work environment that's dynamic, encourages collaborative work practices and where employees are empowered at all levels.

Agile leaders create a vision and inspiration to connect their people to purpose, and environments where people are committed, energised and empowered to work with autonomy and respond to the opportunities of digital.

Transform your leadership

As well as having the right talent in place to guide the transformation, organisations also need to ensure day-to-day technological systems operate smoothly. Due to the importance of both tasks, recruiting someone to act as both CTO and CDO would be a high-risk strategy. Few people have the right blend of a strong technology background coupled with experience of turning a legacy organisation into a digital one.

Vicky Maxwell Davies says: “The CDO is very much a transitional role that lasts until an organisation has undergone transformation and has a new digital business strategy, model and mindset in place. Then digital is just business as usual and the organisation will still have a Chief Technology Officer (CTO) providing technology to support delivery of the new business strategy.”

Senior leaders need to understand it's not the Chief Information Officer (CIO), CTO or CDO who 'owns' the digital transformation. Having hired the person or people to change the business, the rest of the senior team cannot sit back and expect the organisation to automatically become a digital company.

Every C-suite leader, and everybody on the executive committee, should be thinking with the mindset necessary to make digital 'business as usual'. It's all-embracing and involves new technologies, new mindsets, reimagining or inventing products and services, and new ways of operating to create a better customer and employee experience.

For this to happen in traditional incumbents, a wider cultural shift must first occur. Checking how your organisation measures up against the five features of an agile business — centre on your customer, speed up time to value, design for simplicity, build to evolve and liberate your people — will help you assess how much work you must do and provide further insights into digital-age transformation.⁵



Every C-suite leader, and everybody on the executive committee, should be thinking with the mindset necessary to make digital 'business as usual'

EMBRACE AN EXPERIMENTAL MINDSET

Think big, start small, scale fast

We know from our benchmark survey that one of the biggest challenges in handling a digital transformation can be deciding how to begin the process, which is a part of the wider cultural change businesses need to undergo. Speed is essential but many leaders waste time — often between one and two years — developing plans that span years and take forever to start.

Developing an understanding of what you're trying to achieve can be relatively simple and focused and take days and weeks, rather than months or years. One way to do this is with a 'think big, start small, scale fast' mindset.

Thinking big is about re-imagining the way that value and competitive advantage is created in the digital age. Henry Ford famously said most of his customers, if asked what they wanted, would have opted for faster horses. Instead, he envisaged an entirely new way to deliver to their needs.

Once leaders have imagined how to disrupt themselves, it's about starting small, says Kachhela.

"Smaller experiments are easier to start, fund, learn from and to either tweak or stop as necessary. And because they're smaller, you can run more of them at the same time.

"And having figured out what ideas have potential, it's time to scale fast. This is how you move from innovation to monetisation.

"At the same time, you're creating robust capabilities and the momentum and confidence to continue innovating."

It's vital innovation is seen as an ongoing, iterative process. Kacchela adds: "People often talk of how many innovation projects they've completed.

"They're assuming there's a start and an end. There is no end. It carries on and continuously evolves."

Build the essential components to encourage innovation

Successful experimentation is critical to encouraging technological innovation and depends on having or developing the right culture, the right environment for innovation and a clear 'line of sight' to a concrete business result.

You need to create a culture where the cost of paying for experimentation is perceived as smaller than the value of the lesson learned from failed experimentation. This involves balancing freedom to experiment with the oversight needed to ensure someone will step in should the cost of failure become too high.

Creating an 'experimental workbench' environment is a key element of this. While employees need to be given reasonable autonomy and flexibility to deliver a digital technology, software or capability, there should be enough contact with leaders to ensure these experiments are commercially grounded and successful ones can be scaled fast.

The right level of freedom, combined with executive oversight, will ensure the experiment produces a concrete business result.

PA's Alex Wright adds: "The problem with many of these experiments is not that they fail technically, but they're not implemented in a way that closes the loop with the business result, so they don't get integrated in the business. It's only when an experiment is understood and linked to a result that businesses see its value and create a groundswell of support for it."

Developing an understanding of what you're trying to achieve can be relatively simple and focused and take days and weeks, rather than months or years

CONCLUSION

Our National Digital Benchmark provides a set of actionable insights on the steps UK incumbents need to take to survive in the digital era.

First, using the lessons from digital giants and natives, you need to develop a distinctive digital mindset to imagine how you should disrupt your own business. You'll need to use an outside-in perspective to challenge and change your traditional culture to a more digitally native one. And by partnering with organisations across other sectors, including traditional competitors, you'll be able to co-create value and redefine your place in the ecosystem.

Key to any development, however, is ensuring you have the right talent in place across your company, from programmers through to CDOs/CTOs and NEDs. Looking outside your traditional candidate pools will be an essential part of creating the cultural shifts needed to ensure you're paying shareholder dividends well into the future.

The ability to experiment and quickly implement the results of such endeavours will be crucial to your success. This will require the right culture, the right environment for innovation and a clear line of sight to commercial results. Adopting some of the habits from others in the ecosystem — such as acquiring nimble start-ups or cross-collaboration with entrepreneurs, digital giants and traditional competitors — will further assist you in making the successful transition from a legacy organisation to a digital business that is sustainable, growing and able to adapt to the shocks and changes in technology and consumer tastes that tomorrow will bring.

The ability to experiment and quickly implement the results of such endeavours will be crucial to your success

SEE HOW YOU COMPARE

Benchmark and track your digital transformation progress by participating in the survey at:

<http://bit.ly/digital-benchmark>

Participants receive a personalised report which compares your score with others in your industry, function and business size.

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APPENDIX

Methodology: Behind the benchmark

The research for the National Digital Benchmark, created jointly by PA Consulting and Savannah Group, was conducted via an online self-assessment.

We asked 425 senior leaders — mostly board level and from across the UK business sectors, including media and communications, banking, publishing, professional services, energy, travel and retail — about a range of digital transformation-related issues.

Our 52 questions included: how aware of the threats and opportunities are UK-based organisations? How engaged with the process of digital transformation are they? Do their senior leadership teams possess the necessary skills, knowledge and experience to navigate a landscape reshaped by new technologies?

Each question was scored from one to five (based on a Likert scale of agreement, with one being ‘strongly disagree’ and five ‘strongly agree’).

We produced nine benchmark segments based on representative questions, totalled the scores and then produced the average score for that section.

For example, when looking at how firms experiment at the edge with digital giants, we produced a score of 3.1 out of 5 for this segment by focusing on three questions:

- we’ve thought through the opportunities and threats the digital giants present to our traditional business
- we’re already talking to one or more digital giants about unique opportunities for collaboration
- we’re extracting the maximum amount of value out of the various platforms the digital giants have to offer.

Endnotes

1 *The digital matrix: new rules for business transformation through technology*, LifeTree Media, 2017

2 *As the man who put domino’s in motion, Patrick Doyle wants to keep the momentum going*, Forbes, Jul 2017

3 *If you can’t build it, buy it: Google’s biggest acquisitions mapped*, Wired, Nov 2017.

4 *The evolution of the agile organisation: old dogs. Ingenious new tricks*, PA, 2018

5 Ibid



About PA

We believe in the power of ingenuity to build a positive human future in a technology-driven world.

As strategies, technologies and innovation collide, we create opportunity from complexity.

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About Savannah Group.

Savannah Group is a global executive search and interim management firm specialising in board appointments, functional C-Suite appointments and key-sectors.

Founded in 2002 and re-branded as Savannah in 2017, more than 600 of the worlds leading brands have chosen to use us and 85% of our revenue is from repeat business.

We understand the transformation that digital technologies allow businesses to achieve. And even more, we understand and can evaluate the new types of executive leadership capabilities that those organisations need to be successful.

Wherever businesses are on their transformation journey, we empower business leadership teams by helping them acquire proven leaders that enable and deliver short-term and long-term transformation.

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