

Why digital transformation is no longer a luxury for your business

Heidi Custers, Deloitte Digital Transformation Strategy Leader

Digital transformation is no longer a nice-to-have, it's critical to the survival of your business.

When the economy and business landscape is in a period of growth and prosperity, organisations can be forgiven for thinking that digital transformation is a luxury, something they can experiment with that doesn't need to affect the core of their organisation.

Unfortunately, in South Africa the economy is under extreme pressure, and many businesses are fighting for their lives. For them the choice is a stark one: shut up shop or invest in large scale digital transformation.

No industry is immune. Many companies have yet to explore the full potential of Industry 4.0 and digital transformation as a growth driver. Companies seeking digital transformation as a vehicle for growth must first define the markets and segments in which they choose to play, the services and solutions to offer and the ways those offerings can be monetised.

Digital transformation in business has two basic parts to it - the external customer-facing element and the internal organisational aspect. Digital transformation is essentially the digitisation of both internal and outward-facing processes using technology to help a business improve operations and combat the growing threat of disruption.

Customer expectations and demands are creating critical challenges—as well as opportunities—for employees across sales, services, support, and product functions. To successfully ride this wave of change, companies need to continuously evaluate how digital disruption is changing customer behaviour, rethink their customer engagement model to leverage disruptive technologies, and redesign employees' roles to form customer success (CS) capability that maximises value for customers and enables an enhanced experience for them.

Organisations that will win in this disruptive market are ones that will be able to make customers feel like their journey is unique and that their trusted supplier/partner knows what they want before they need to ask. To realise this, the core of the business needs to be adaptable and open, and scale at will without increasing cost-to-income ratios. To convert the traditional core architecture, the organisation needs to adopt an agile strategy, governed by a set of sound and interconnected digital principles – essentially become digital at the core.

Over the past five years, MIT Sloan Management Review and Deloitte have investigated digital maturity, focusing on the organisational aspects of digital disruption rather than the technological ones. We've examined companies at the early, developing, and maturing stages of digital transformation and have seen increasing signs of separation between more and less mature organisations.

This year's research found that the gaps can often be explained by a company's approach to innovation. Digitally maturing companies are not only innovating more, they're innovating differently.

This innovation is driven in large part by the collaborations established externally through digital ecosystems and internally through cross-functional teams. Both ecosystems and cross-functional teams increase organisational agility. Additional findings from the research include:

- Digitally maturing companies innovate at far higher rates than their less mature counterparts. Eighty-one percent of respondents from these companies cite innovation as a strength of the organisation, compared with only 10% from early-stage companies. Maturing organisations invest more in innovation and constantly drive toward digital improvement in ways that less mature companies do not. Notably, innovation happens throughout digitally maturing enterprises; it isn't caged in labs or R&D departments. Digitally maturing companies are more likely to participate in digital ecosystems, and their employees are often organised in cross-functional teams.

- Employees of digitally maturing organisations have more latitude to innovate in their jobs — regardless of what those jobs may be. Nearly five times as many survey respondents from maturing companies as from early-stage companies report that their organisations provide them sufficient resources to innovate. This year's research also found a strong relationship between a company's rate of digital innovation and its staffers' confidence that the organisation will be stronger in the future, thanks to digital trends.
- Digitally maturing companies are far more likely than their less mature counterparts to collaborate with external partners. While 80% say their organisations cultivate partnerships with other organisations to facilitate digital innovation, only one-third of early-stage companies do the same. The nature of collaboration also differs depending on maturity level. Digitally maturing organisations tend to form alliances that involve less formal, controlled relationships; they rely more on relational governance and less on detailed contracts. Formal partnerships can still serve a vital role in collaboration and often exist as part of larger business ecosystems.
- Cross-functional teams are another important source of digital innovation. Not only are digitally maturing companies more likely to use cross-functional teams, those teams generally function differently in more mature organisations than in less mature organisations. They're given greater autonomy, and their members are often evaluated as a unit. Participants on these teams are also more likely to say that their cross-functional work is supported by senior management. For more advanced companies, the organising principle behind cross-functional teams is shifting from projects toward products.
- When asked to predict whether their company will be stronger or weaker moving forward, respondents from digitally maturing and early-stage companies showed striking differences. The former believe their organisations have the power to adapt to changes wrought by digital disruption and expand their capabilities, while the latter see disruption as a result of market forces they cannot control.

It should be clear by now that digital maturity is not just about technology and it is not just about what technology enables. Digitally maturing organisations are able to adapt and align their strategy, workforce, culture and technology to meet ongoing digital advances in a way that other organisations struggle to achieve.

Yes, this poses challenges. But it also offers enormous opportunities. The fourth industrial revolution is making it possible, for the first time in history, to simultaneously reduce operating costs, grow revenue and improve customer experience. In tough times, the businesses that will win are those who win on all three fronts, not those who 'batten down the hatches' and think that they will survive the storm by doing what they have always done.