

Digital transformation – a topic for the boardroom

Harvey Nash / KPMG 2019 CIO Survey



In this article we will explain what digitalization is all about and why it is a relevant topic for the boardroom. Furthermore, we will present the most important results of this year's Harvey Nash / KPMG CIO Survey. You should definitely read this report if you want to:

- understand what digital transformation means
- benchmark your company with competitors and other companies
- understand what the characteristics of Digital Leaders are
- what you as a board member should do

WHY IS DIGITAL TRANSFORMATION A TOPIC FOR THE BOARDROOM?

Digital disruption is changing the world which we live and work in. New technologies have created new markets that, in turn, create new competitors. And those competitors are driving new expectations. To succeed in the digital world, businesses must not only provide superior experiences for consumers, customers, employees and citizens, but deliver on their promises in a faster, more nimble way.

But what do we understand under 'digital transformation'? For KPMG, digital transformation stands for ongoing changes to business models, business processes and operations as well as customer interaction in connection with new information and communication technologies.

HARVEY NASH / KPMG CIO SURVEY

In order to find out more about the digital transformation and current trends, Harvey Nash / KPMG conduct a yearly survey. Now in its 21st year, the survey is the world's largest technology leadership survey. With over 3,600 respondents from CIOs and technology executives across 108 countries, this year's focus is on the definition and role of Digital Leaders. What makes them stand out from the IT crowd, and how do they leverage technology to deliver tangible business value?

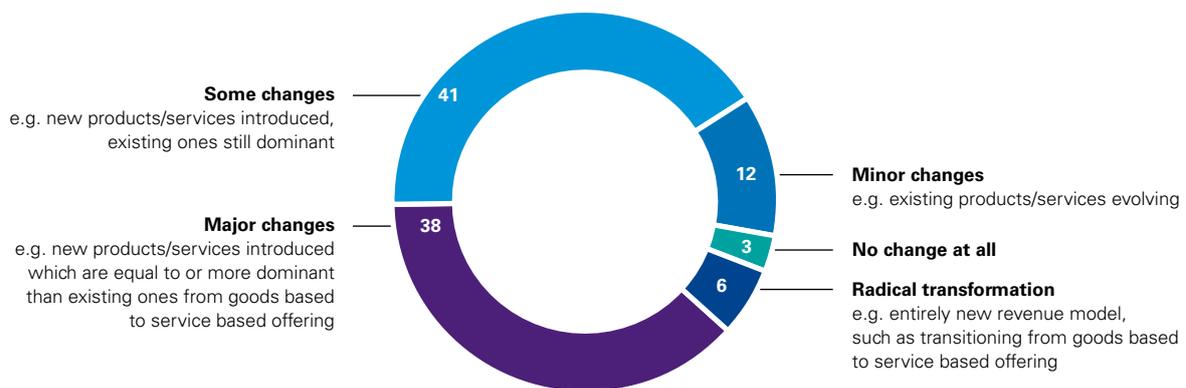




This is a clear sign that leadership in businesses across sectors recognize IT's pivotal role, not just in keeping the business functioning, but in enabling business change. Moreover, business-managed IT – where technology is managed by business departments themselves – is growing, especially in Digital Leaders.

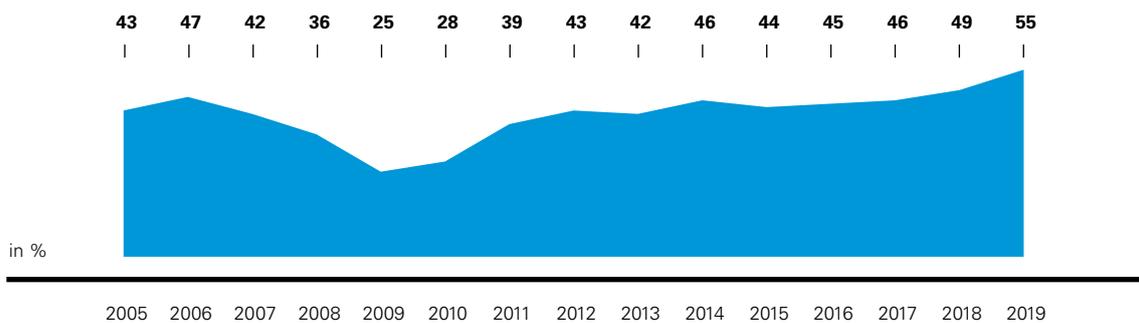
The most important findings are summarized below:

- **It's a time of massive change:** Forty-four percent of organizations expect to fundamentally change their product/ service offering or business model in the next three years. This is mainly due to digital disruption and the need to get closer to consumers. Transformation is becoming business as usual as enterprises strive to stay ahead of the game.



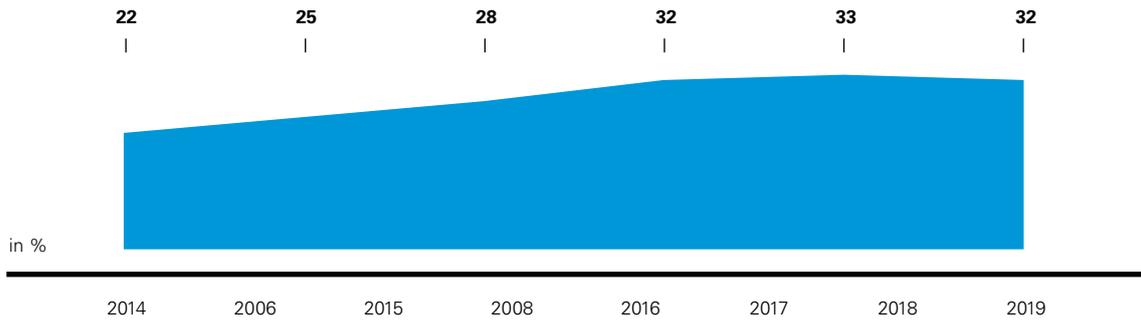
Extent to which an organization's primary business activity will transform over next 3 years
in %

- **Biggest budget increases for 15 years:** We have seen the largest proportion of organizations increase their investment in technology this year. Even at enterprises that emphasize on efficiency and saving money, investment is growing. The driving force behind much of this investment is cyber security, data analytics, AI / automation and transformation.



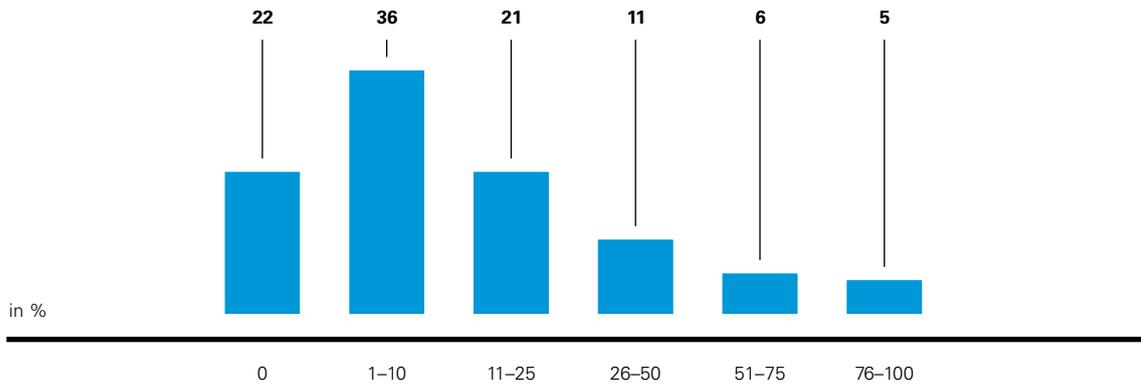


- **Technology doesn't stop evolving:** Over three-quarters of organizations are investing in cloud computing, with almost half adopting it on a wide scale. At minimum one-fifth of organizations have at least small-scale implementation of internet of things, on-demand platforms, robotic process automation and artificial intelligence.
- **Up to one in five jobs will go to robots:** Respondents expect AI and automation to replace around 10 percent of their company's workforce within five years. For one-third of respondents, that figure rises to 20 percent. Over time, organizations which don't invest in these areas can expect their cost base to be relatively higher than their AI-investing competitors. AI is expected to free up employees to perform work that requires more brainpower.
- **Relentless rise of cyber-crime levels out?** We've been tracking the growth of cyber-crime for many years, whereas confidence in dealing with the threat has been decreasing. We see the incidences leveling out for the first time this year, as confidence grows. The trend is subtle, but the size of our survey hints at it being more than a blip in the data.



Organizations experiencing major cyber attacks in the last 2 years

- **The rise of business-managed IT:** Almost two-thirds of organizations allow business-managed IT investment, and approximately one in ten actively encourage it. This requires a new relationship between business and IT. Those that get it right are likely to significantly outperform their competitors in a range of areas, from customer experience to time to market.



Proportion of tech spend managed outside the IT department

- **A new model of digital leadership:** Digital leaders are the 30 percent of organizations that are very or extremely effective at using digital technology to advance their business strategy. They distinguish themselves in the way their boards and CEOs prioritize value creation over efficiencies or their technology leader / CIO is more likely to sit on the executive team.
- **Ready for disruption:** In 2019 so far, job fulfillment is up slightly, budgets have grown, and salaries have increased. But technology is disrupting the role of the technology leader. Executive board membership, for example, is down. An explosion in new job titles and roles has occurred, from Chief Digital Officer to Chief Data Officer and beyond. Successful leaders are swapping control for influence, and stepping up how they partner with the business.



CHARACTERISTICS OF DIGITAL LEADERS

In the digital age, all organizations are striving to harness IT to transform the business and drive better performance.

But there is no doubt that some are faring better than others. The Digital Leaders identified in this year's report are putting clear water between themselves and their competitors. On average, their time to market is better, their customer experience is superior and their operational efficiency is higher. As a result, both revenue growth and profitability are higher too.

But simply investing more in IT is not enough on its own. Along with it, a significant shift is needed in the way the IT function operates in and with the business. KPMG sees six key elements that the IT function must get right to deliver business value, and in this year's survey we see Digital Leaders outpacing their rivals in these important areas:

- 1. Market speed operating model:** Digital Leaders are more effective in implementing new technologies end-to-end across functions and geographies and changing ways of working to maximize the value from technology. They use cross-functional teams (IT and business staff) and ensure business leaders work collaboratively to deliver technology change.
- 2. Dynamic investment:** Digital Leaders are more effective in reporting business outcome-based metrics for technology projects, and scaling up projects quickly if successful or stopping quickly if not.
- 3. Modern delivery:** Digital Leaders are better at integrating core business systems with newer digital solutions and bring a long-term 'product' rather than a short-term 'project' mindset to technology implementation. They employ automation in software development and maintenance and use methodologies such as agile and DevOps to speed up project delivery.
- 4. Flexible IT workforce:** Digital Leaders are better at ensuring that non-IT staff have the right technology skills, and at using both internal and external resources to access the right skills.
- 5. Data as an asset:** Digital Leaders are more effective at maximizing value from the data they hold and maintaining an enterprise-wide data management strategy.
- 6. Customer trust:** Digital Leaders are better at identifying and managing the key security and privacy issues across technology development and operations, and in building customer trust through the service delivered to customers and end users.





CALL FOR ACTION

Digital transformation impacts all companies in all industries. It is crucial that board members understand what digital transformation means and its impact on the business model of their company. Digital transformation is a topic that should be driven from the board. Otherwise, challenges and opportunities of the digitalization will be missed.

KPMG would recommend the following steps for the board to trigger the digital transformation:

- As a first step the board should start familiarizing with this topic, e.g. through reading digitalization reports / surveys (e.g. Harvey Nash / KPMG CIO survey) or engaging in discussions with digitalization experts.
- Trigger the set-up of the digital transformation initiative through the company's senior management. Ideally, board members should be involved in the digital transformation initiative, e.g. through the participation of workshops.
- Continuously track and challenge the status of the digital transformation initiative.



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