

The Digital Transformation Agenda 2016

What companies hope to achieve, and what needs to change to help them get there

Introduction

The pace of digitally-driven change is accelerating, its quickening pulse reverberating through every business, regardless of geographical location, industry sector, company size or longevity. As a result, digital transformation has become the top strategic priority for more than two-thirds (77%) of companies, as revealed by a Pegasystems-sponsored survey by The Economist Intelligence Unit (EIU).

Digital transformation is the reinvention of business practices to derive the maximum value from digital technologies such as social media, cloud computing, mobile technology and big data analytics. As a follow-up to its 2015 *Digital Evolution* report, sponsored by Accenture and Pegasystems, The EIU sought to identify which priorities would influence companies' digital transformation objectives in 2016, what they hope to achieve this year, and how they will go about doing so.

We therefore conducted a global survey of 282 business leaders from three target industries: healthcare, financial services and telecommunications. The survey reveals that business leaders see the rapid pace of change being driven by digital innovation as an opportunity to achieve competitive advantage. It shows that they are prioritising the customer experience and organisational agility in their transformation initiatives this year. And it finds that they are mostly confident that they will meet their digital transformation objectives in 2016.

But the survey also reveals some areas for improvement, most notably the extent to which senior leaders are involved in the implementation of their company's digital transformation strategy.

About the survey

This article is based on a survey by The Economist Intelligence Unit (EIU), sponsored by Pegasystems. In March 2016 The EIU surveyed 282 senior business leaders from the healthcare, telecommunications and financial services industries in North America (23%), Asia Pacific (33%) and western Europe (44%). Over half of respondents (52%) hold C-Suite positions, the others are senior vice presidents, vice presidents, directors or business unit heads. They represent a range of business functions, including 45% from the IT department.

Competition sets the digital agenda

Businesses around the world acknowledge the impact that digital technology is having on their industry and organisation. More than three-quarters (77%) of respondents to the EIU survey “agree strongly” or “somewhat” that digital transformation is their top strategic priority for 2016.

This strategic significance reflects the pace of change that executives are witnessing in their industries. Over six in ten (62%) executives surveyed report that the pace of change related to digital transformation is “accelerating significantly” in their industry. Virtually all (96%) agree that change is accelerating.

Interestingly, large companies feel this acceleration more acutely than smaller firms. Just under three-quarters (74%) of respondents from companies with over US\$5bn in annual revenue say the acceleration of change in their industry is significant, compared with 50% of those in other firms.

This accelerating change is not necessarily negative, however. Change presents opportunities, and executives see digital disruption as a chance to improve their competitive position.

When asked to identify the factors that will have the greatest influence on their digital transformation priorities in 2016, 48% of those surveyed say “areas where we can seize competitive advantage”. Again, this is a bigger factor for large organisations (55%) than for smaller companies (41%).

Far fewer respondents (25% overall) identify “areas where we face strong competitive pressure” as a major influence on their digital transformation priorities. This suggests that business leaders see digitally driven change as more of an opportunity than a threat.

Which of the following factors will have the greatest influence on how your organisation sets its priorities for digital transformation in 2016?

(% of respondents)



Source: Economist Intelligence Unit survey

Transformation objectives for 2016

Digital Evolution, a 2015 research study by The EIU and sponsored by Accenture and Pegasystems, identified evolving customer expectations as one of the most common drivers of digital transformation. This new survey shows that improving customer service and satisfaction is the most common customer-focused objective for companies' digital transformation initiatives in 2016, with 57% of respondents identifying it as such.

This is followed by improving brand perception. Interestingly, brand perception is significantly more important among organisations which consider themselves to be a "pioneer" or "leader" at digital transformation (48%)—described henceforth as being ahead of the curve—than it is among others (33%).

When it comes to internally focused digital transformation objectives, there is less consensus. The most common internal objective is process optimisation, but this is identified by fewer than four in ten respondents (38%), and by just 33% of companies which are ahead of the curve.

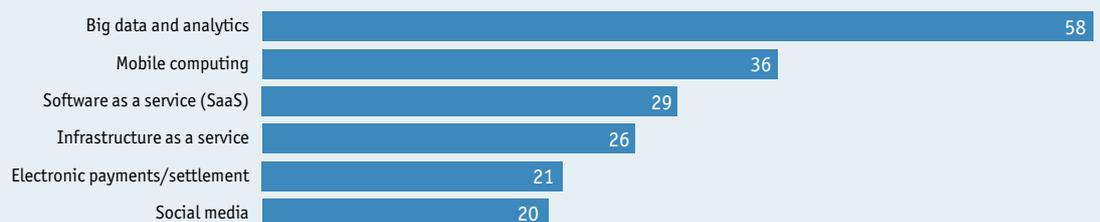
One clear trend is that operational objectives, such as process optimisation and organisational agility, are more common than employee-focused concerns. For example, only 14% of respondents count improved employee engagement among their digital transformation objectives. This suggests that companies may be neglecting the impact digital transformation could have on their employees' working experience, and therefore their productivity and loyalty.

This operational focus helps to explain why significantly more respondents expect their organisation to invest heavily in big data and analytics (58%) this year than in any other digital technology, including mobile computing (36%) and software as a service, or SaaS (29%).

This planned investment in big data and analytics is consistent across industries, but there is more variation when it comes to other technologies. Healthcare and telecoms companies are significantly more likely to invest in SaaS this year than finance firms, the survey shows, while finance and telecoms companies are more likely to invest in mobile computing than healthcare businesses. This is perhaps surprising, given the extent to which wearable fitness trackers and health-related apps have been discussed in the sector.

In which of the following capabilities do you expect your organisation to make the greatest investment in its digital transformation in 2016?

(% of respondents)



Source: Economist Intelligence Unit survey

The need for senior leadership to engage

Businesses' digital transformation initiatives were mostly successful in 2015, the survey shows, with three-quarters of respondents (75%) saying that they met their objectives for the year.

Executives are largely optimistic about this year's prospects too, with 69% saying that they will meet their objectives in 2016. North American executives are the most confident, with 78% expecting their objectives to be met, compared with 64% of European respondents.

There is considerable diversity in the measures that organisations will use to gauge the success of their transformation initiatives, however. The most common success metric is improved revenue, as identified by 40% of respondents, but other popular measures include improved customer satisfaction (34%), a more seamless customer experience (33%) and improved customer engagement (27%).

And while they are confident in their ability to meet their 2016 objectives, respondents to the EIU survey do not expect it to be easy: 61% believe their company needs to make significant changes to meet its objectives.

So what needs to change? According to 40% of respondents, senior leaders need to increase their sponsorship and oversight of digital transformation initiatives if their organisations are to meet their objectives.

This answer is especially common among companies that are behind the curve (49%, versus 34% of those that are ahead of the curve), confirming that when a company lags behind its peers, the fault lies at the top. Respondents from ahead-of-the-curve companies are more likely to identify increased funding as the key requirement for success.

Meanwhile, executives from Asia are significantly more likely to report that their organisation needs to address its willingness to update legacy systems to succeed at digital transformation (42%), compared with their peers in North America (23%) or Europe (29%).

Executives believe that if their company fails to meet its digital transformation objectives, nothing less than their own business performance will be at stake. According to respondents to the survey, if their organisation fails to make significant progress with digital transformation this year, the biggest risks it will face will be to its financial performance (42%), its business growth (39%) and its market share (35%).

Where will your organisation need to make the greatest changes in order to achieve your 2016 digital transformation objectives?

(% of respondents)



Source: Economist Intelligence Unit survey

Conclusion

The *Digital Transformation Agenda 2016* survey shows that companies in the financial services, healthcare and telecommunications industries acknowledge the strategic significance of digital technology and its impact on their business.

They see the rapid pace of change resulting from digital innovation as an opportunity to capture competitive advantage and are prioritising improved customer experience and organisational agility in their digital investments for 2016. They are largely confident that they can achieve these objectives.

But the survey also reveals some shortcomings. For example, the low priority given to the employee experience suggests that executives may be neglecting the role of digital technology in increasing the productivity and engagement of their workforce.

The fact that four in ten respondents identify the sponsorship and oversight of the senior leadership as the biggest area for improvement suggests that, while leaders acknowledge the significance of digital transformation, they are not taking as active a role in its implementation as their peers would like.

This may be because they lack confidence. Executives in senior positions today may not have had direct experience of digital technology, or the working processes and practices that are associated with it, during their careers.

But whether it is through boosting their experience and knowledge or hiring experienced colleagues, executive boards need to find that confidence—and sooner rather than later. An overwhelming majority of respondents believe that digital transformation is not a one-off job: 93% agree that digital transformation is a continuous journey. ■

For more information on digital transformation and to download the Digital Evolution report, visit digitalevolution.eiu.com.

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