

The Rise of the Digital Century

Digital disruption is here to stay – and for organisations to survive, let alone thrive in this new ‘world order’, they will need to adapt in fundamental ways

The digital age is overwhelming in the scope of change it is engendering. That change is silent, and it is fast. It has overtaken how we live, and will transform how we work. This era coincides with transformative trends underway also in the geopolitical and regulatory domain. The hype around disruption is often focused on a few companies – such as Uber, Airbnb, Amazon – whose business models and digital platforms are disrupting and reshaping industries. Yet today, every enterprise is (or at least should be) concerned about digital disruption. Moreover, for nearly everyone, including established, successful, and high-tech organisations, ‘digital transformation’ is about much more than mere operational issues. Instead, it goes deep into the realm where systems, people and ‘things’ connect digitally. This pervasive approach to digitisation, in turn, opens up new strategic options and opportunities, and demands a call to action internally to create a winning edge for business, and perhaps, industry.

THE NEW FACE OF DISRUPTION

In this digital age, businesses face multiple strategic risks, including ones around reputation, data security, and the complete disruption of business models. Clayton Christensen came up with the idea of digital disruption 20 years ago, but today, it is not only one of the most widely-used terms, but also one of the most misinterpreted. Many believe that the companies that get disrupted are ones that are poorly managed. In fact, it is often the best-managed companies that are the first to be in the line of fire. This is because, while they may be good at delivering value to their existing customers, they sometimes fail to look around the corners to understand how customer needs are changing. IMD Business School’s campus in Lausanne has a whole ‘graveyard’ of the ‘well-managed’ companies of their time – including Kodak and Nokia – that no longer exist today.

If earlier, excellence in product and service were key to driving value creation, in a disruptive environment, they contribute only about a third of total value. Today, in addition to product excellence, ‘customer experience’ is the most crucial factor of success – and something that cannot be entirely planned in the Boardroom. Dollar Shave Club is a great example of a new entrant using digital to enhance the customer experience in a market previously dominated by a ‘traditional’ company – Gillette. This suggests that both now and in the future, success will come to those companies flexible enough to leverage technology to engage with customers

Contrary to popular belief, it is often the biggest, the best-managed, and the least ‘technology-oriented’ players that face the biggest disruption risks



in deeper and more meaningful ways. Another widely-held misbelief is that industries other than technology are 'safe' from disruption. In fact, it is the most 'non-digital' industries – energy, transportation, and manufacturing – that face an onslaught of a technological change. Simply put, every company will need to be a 'technology company', no matter what product or service it provides.

Nor does scale offer any insurance against disruption. Today, 'small' companies like Airbnb are able to overcome entry barriers to challenge established players like Marriot. Disruptors do not play by the old rules: they prioritise growth over profitability, speed over size, and cash flow over EBITDA margins. No longer does disruptive innovation begin life as some 'inferior' replacement of an existing product. Rather, they offer product improvements, at lower prices, right from the start. Many also believe that disruptors who manage to gain substantial market share through better, cheaper products and services cannot be slowed down. In fact, regulators often push disruptors to play by the same rules as their traditional rivals – something that has impacted upstarts such as Uber and Tesla.

SUCCEEDING IN A DISRUPTIVE ENVIRONMENT

To sustain long-term success in the current environment, disruption and innovation need to be part of an organisation's DNA. The key to success is changing the game internally. This involves experimenting and asking tough questions about how the company is navigating its path, forming new ecosystems, setting the tone at the top, reskilling leaders, building strategic optionality, and creating a balanced portfolio of skills.

Asking difficult questions

Every company faces disruption of one form or another. Before taking action, however, it should be asking itself critical questions that help to better understand the situation, and to then drive a sense of internal urgency. The first question should be, 'Is my industry

A crucial starting point, for any company that faces disruption, is to ask itself critical questions that help to better understand the situation, and to then drive a sense of internal urgency



getting disrupted today?' If the answer is 'No', then the organisation clearly is not thinking hard about disruption – because statistically, there is a 50% chance of an industry getting disrupted at any given point in time. Second, it should ask, 'Will my industry get disrupted in the future?' (There is a 60% likelihood of that.) Cross-analysing the current level of disruption – low versus high – and the likely timelines of disruption – today versus future – can reveal strategic insights, as well as help shape a call to action. For instance, in an industry such as mobile phones, which faces both high levels of disruption and a high likelihood of future disruption, businesses need to constantly innovate and look around corners. On the other hand, an industry that is currently low on disruption but has a greater likelihood of future disruption will need to make different sorts of decisions about technology adoption.



Setting the tone at the top, partnering for growth, building 'strategic optionality' and rebalancing the internal skills portfolio, are all essential 'asks' today



A third path, for companies that expect little disruption either now or in the future, is to drive strategies that sustain cash flows. More generally, companies should constantly question their strategy, business models, levels of flexibility, methods and processes, and risk-taking ability.

Setting the tone at the top

To stay relevant in a rapidly changing world, people are expected to learn, unlearn and relearn on a constant basis. To achieve this, and to effectively lead their digital transformation, leaders need to set the tone, both by constantly learning, and by embracing new technologies. Leaders also need to ensure that 'digital' is not restricted to a single department, but instead, that it has a pervasive impact across the organisation, by pushing employees to be digitally savvy. This requires a mindset shift, and demands that leaders establish trust through constant employee engagement, and regular and transparent communication.

Building 'strategic optionality'

Rapid change calls for swift action, and for that, it is critical to have a pipeline of options – a set of desirable, feasible and strategically-viable opportunities that are ready to be executed when the market call for it. This requires a systematic workflow to evaluate and sort through numerous opportunities that get identified within the scope of strategic intent. The objective is to have a ready list of options to be implemented with a high-level of predictability.

Partnering for growth

Ecosystems leverage the power of collaboration and collective intelligence to create shared value. To survive in

a disruptive environment, companies need to partner aggressively and explore opportunities to build dependent growth models. A case in point is the mutual funds industry, where players have come together to create an ecosystem that collectively drives people towards investing in mutual funds.

Balancing the skills portfolio

Upskilling internal staff might make up for key skills gaps, but it may also fall short of creating a balanced set of capabilities that are required to effectively straddle the disruptive environment. To overcome this challenge, many organisations opt for a 'hybrid' solution by hiring external experts and using them to reskill internal staff. Going forward, the 'digital ratio' of most jobs – the extent of the role executed through a digital medium – will increase significantly. Jobs that are repetitive, transactional and iterative in nature have a higher probability of getting replaced by technology, while those requiring a human touch – such as intuition, creativity, relationship building, coaching, or caring – are less likely to be automated.

With new technologies emerging all the time, and given the ever-shortening lifespan of companies (to less than 15 years currently), talent management is the only sure-shot way of effectively riding the disruption wave. In the future, people are expected join established brands, stay for the culture, and quickly move on to new opportunities. Organisations, therefore, should embrace this new reality by looking beyond the technology hype to become the 'most desirable places' to work, built around a strong culture of ownership. ■

This article is based on discussions between Anish Shah, Group President Strategy and Member of the Group Executive Board, Mahindra Group, D Shivakumar, Group Executive President - Strategy and Business Development, Aditya Birla Group, and Radha Ahluwalia, Managing Director of IMA India, in the lead-up to the Doing Business Globally conclaves hosted by IMA India and Baker McKenzie in Mumbai and Bangalore in April 2018