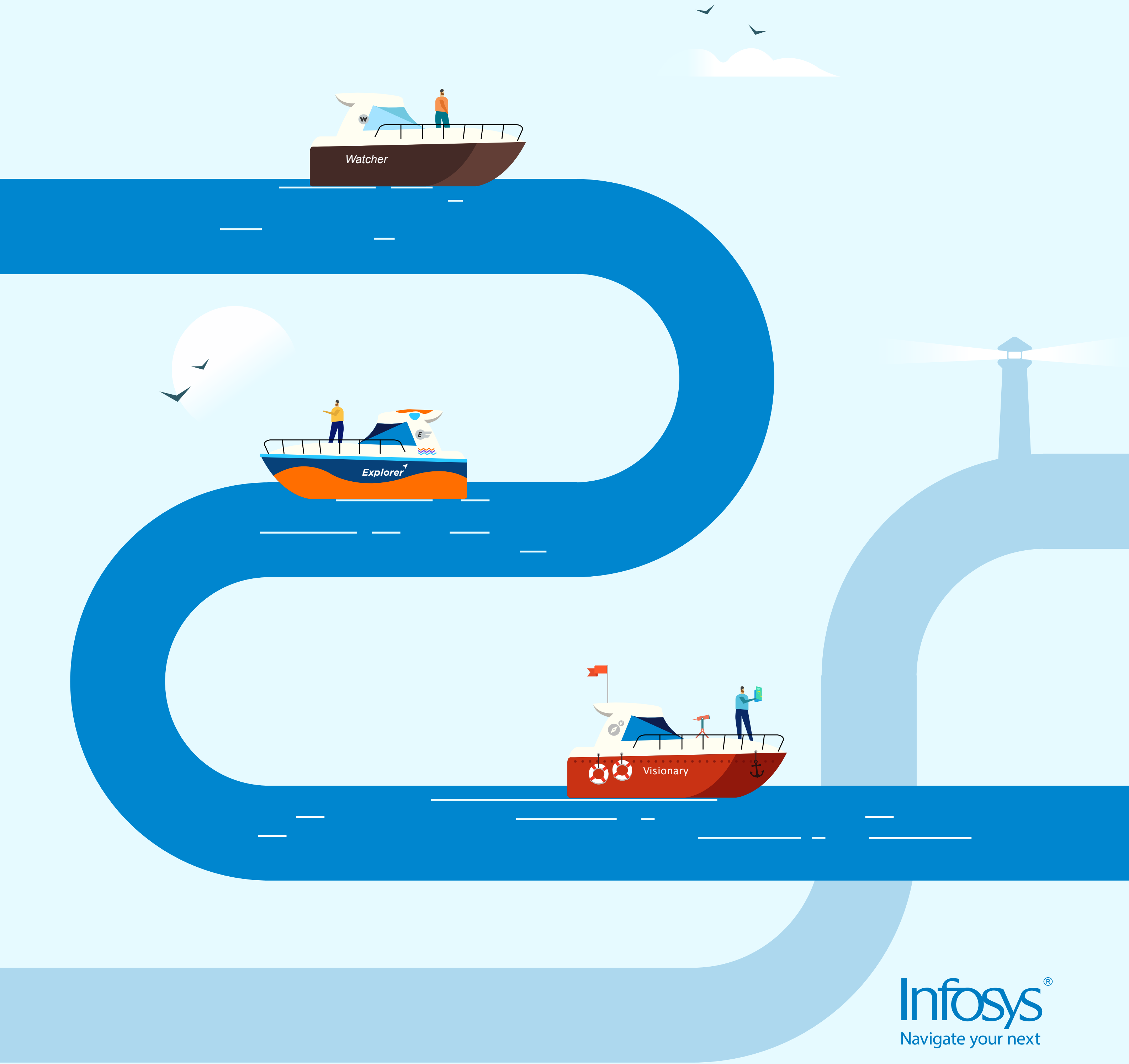
THE NEW CHAMPIONS OF DIGITAL DISRUPTION: INCUMBENT ORGANIZATIONS



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Introduction

Today, most incumbent organizations (those established before the onset of the digital revolution) in every industry are grappling with the risks of disruption with one hand even as they reach for its opportunities with the other. After years of looking the other way, and then reluctant admission, incumbent organizations have come to accept and even embrace disruption in their business. Most are responding by committing to the idea of digital transformation. But that is where the similarity ends.

> WHILE A FEW INCUMBENT ORGANIZATIONS HAVE A HOLISTIC PERSPECTIVE OF TRANSFORMATION, MOST ARE YET TO EVOLVE A SIMILAR OUTLOOK.

While a few incumbent organizations have a holistic perspective of transformation with their sights set on higher order improvements and growth along with business model- and operations-altering outcomes, most are yet to evolve a similar outlook. This distinction in the digital transformation focus of large companies is quite visible from a study of their priorities as stated in their quarterly investor briefings. Recently, when we examined these reports of 100 large companies, over two quarters, we found that while themes like efficiency, productivity, and experience dominated the narratives, there was scant mention of strategic themes like business model innovation and enterprise digitization. Refer figure 1.

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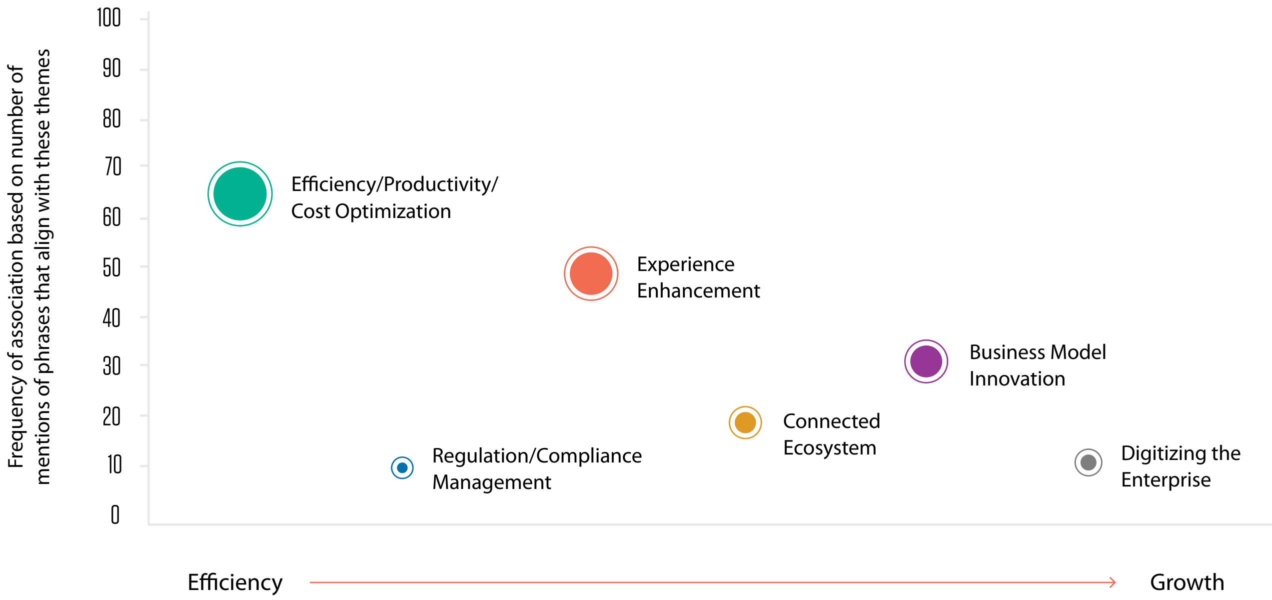

Figure 1: Top Priorities of Incumbent Organizations

What separates the companies targeting bigger and more holistic transformation outcomes from the rest? How do they overcome the challenges of transformation? Above all, how do companies, which are focusing on efficiency and experience, continue to also navigate the journey to a more evolved transformation paradigm?

Keen to explore the answers to such questions, in March-April 2018, Infosys commissioned an independent survey of over 1,000 senior management level executives from organizations with annual revenue exceeding US$1 billion, and an employee base of over 5,000. This set of organizations excluded digital natives. Overall, the respondents represented 11 industry groups from Australia, China, France, Germany, India, the UK, and the US.

Grouping the respondents into three clusters – visionaries, explorers, and watchers – based on the business objectives behind their digital transformation initiatives, we sought to understand the impact of digital disruption on their organizations and how they were dealing with it. We also probed respondents about the obstacles they faced in prioritizing and implementing their transformation goals and how they planned to overcome those challenges.

The findings show that while respondents are in agreement on certain issues – such as, the level of disruption in their business or the key transformation success factors – compared to explorers and watchers, visionaries see a much bigger picture of digital transformation and all its possibilities.

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The responses not only highlight these differences in perspective, but in comparing the approaches of the three groups, indirectly suggest a path for watchers and explorers to evolve into visionaries.

Executive Summary

- All clusters see a high level of digital disruption.
- Visionaries see disruption drivers more clearly than explorers and watchers. They even see drivers that the others don't see (the potential to create and leverage ecosystems and circumvent risks from obsolete business models).
- Visionaries see the threats and opportunities of disruption with greater clarity and are able to chart an appropriate execution path.
- Visionaries target higher order business objectives, such as new business models and culture, from digital transformation. Explorers are focused on customer-facing outcomes and watchers on efficiency.
- Digital skillset (57%), senior leadership commitment (50%), and change management (42%) are the most important success factors for digital transformation.
- Respondents say that the absence of digital skills and change management abilities is a big obstacle, but they also face challenges in executing and navigating transformation.
- Visionaries have a much broader plan to tackle their challenges that includes building alliances in their ecosystem and acquiring digital native firms, besides the usual practice of working with a transformation partner and building internal capabilities. Compared to the visionaries, a much smaller proportion of explorers and watchers have a plan, which mainly revolves around working with partners and building in-house capabilities.
- Most visionaries (83%) expect their transformation partners to prepare their workforce for digital transformation, while explorers (59%) want them to possess change management skills.
- All three clusters confirm that a partner who can generate vision and shape the path of transformation would accelerate their transformation journey.

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The Clusters

We grouped the 1,002 respondents into three clusters:

VISIONARIES

Visionaries, forming 22 percent of the respondent base, understand the potential of the digital revolution to completely transform their business. They are able to identify the opportunities that can be utilized by changing to new business models as well as transforming the business culture. They understand that digital is central to the success of their future endeavors and target higher order growth outcomes from transformation.

EXPLORERS

Explorers commit to digital programs driven by the need to enhance customer experience, enable seamless customer engagement across multiple business channels, or to increase their brand value. These respondents identify the most with 'low hanging fruit' initiatives that directly impact their clients' perceptions and experiences. For these organizations, a greater commitment to digital initiatives is on the horizon in the coming 12-24 months. Explorers make up about 50 percent of the total respondent base.

WATCHERS

Watchers still see digital transformation through the prism of efficiency. They have begun to deploy their digital initiatives but are largely focused on the efficiency-driven outcomes of digital adoption rather than on digital-led differentiation. They constitute 28 percent of the respondent base.

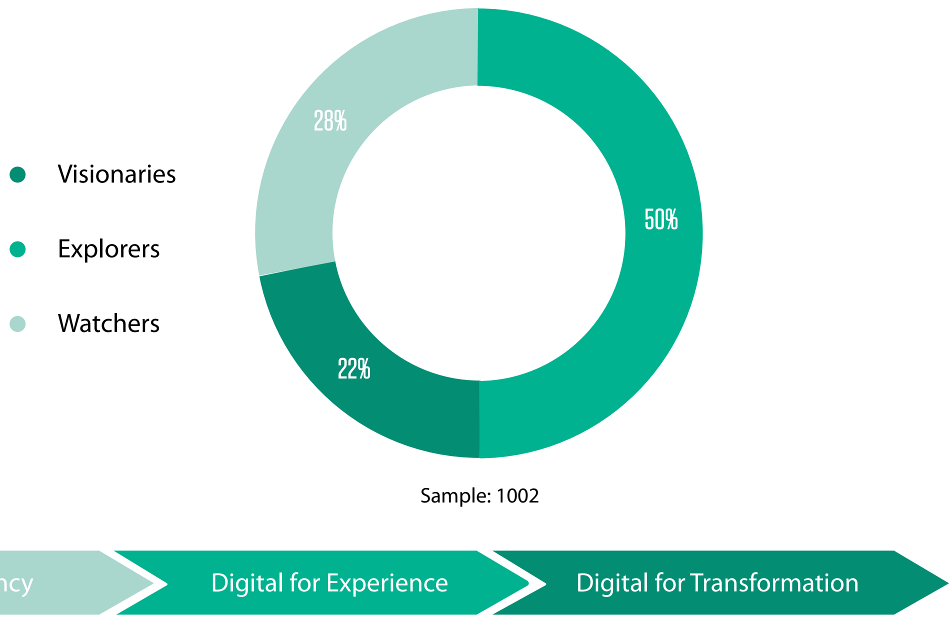

Figure 2: Half of Incumbent Organizations are Digital Explorers

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All Agree that Digital Disruption is Everywhere

There is widespread agreement among all clusters of respondents that the digital revolution is causing large-scale disruption among enterprises. Asked to rate the level of digital disruption in their industry on a scale of 1 to 5, with 1 being "extremely low" and 5 being "extremely high", 38 percent of visionaries say it is high and 28 percent say it is extremely high. Among explorers, 31 percent say disruption is high, while 23 percent say it is extremely high. The corresponding figures for watchers are 24 percent and 28 percent, respectively. Refer figure 3.

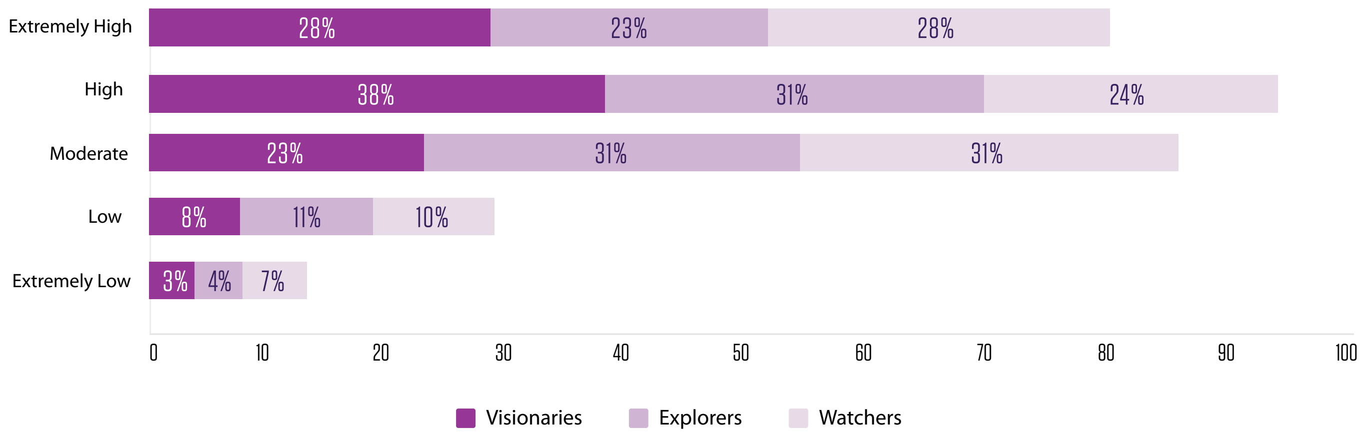

Figure 3: Everybody Agrees that Digital Disruption is Widespread

Visionaries See Disruption Like the Digital Natives Do

When it comes to identifying the top drivers of digital disruption, visionaries clearly see further than the other two cohorts. Not only do more visionaries (as a proportion) recognize the role of 'known' influencers (customers and competitors, for instance) in disrupting their business, they are also on to futuristic trends, which currently escape the notice of the other two clusters.

Visionaries say emerging technologies (86%), competitive activity (76%), and evolving end customer needs (78%) are the biggest drivers of digital disruption. Explorers name each of these three drivers at 63 percent, 64 percent, and 61 percent, respectively. The number is somewhat smaller in the case of watchers (50%, 43%, and 37%, respectively) - a pattern that repeats often. Refer figure 4.

The difference is even starker in the case of emerging strategic drivers, such as changing partner/supplier ecosystems and obsolescence of engagement models where the 63 percent and 51 percent of visionaries who named them clearly outnumber both explorers (39%, 28%) and watchers (31%, 18%). In a sense, visionary incumbents, although not born in the digital age, are learning to think like digital natives.

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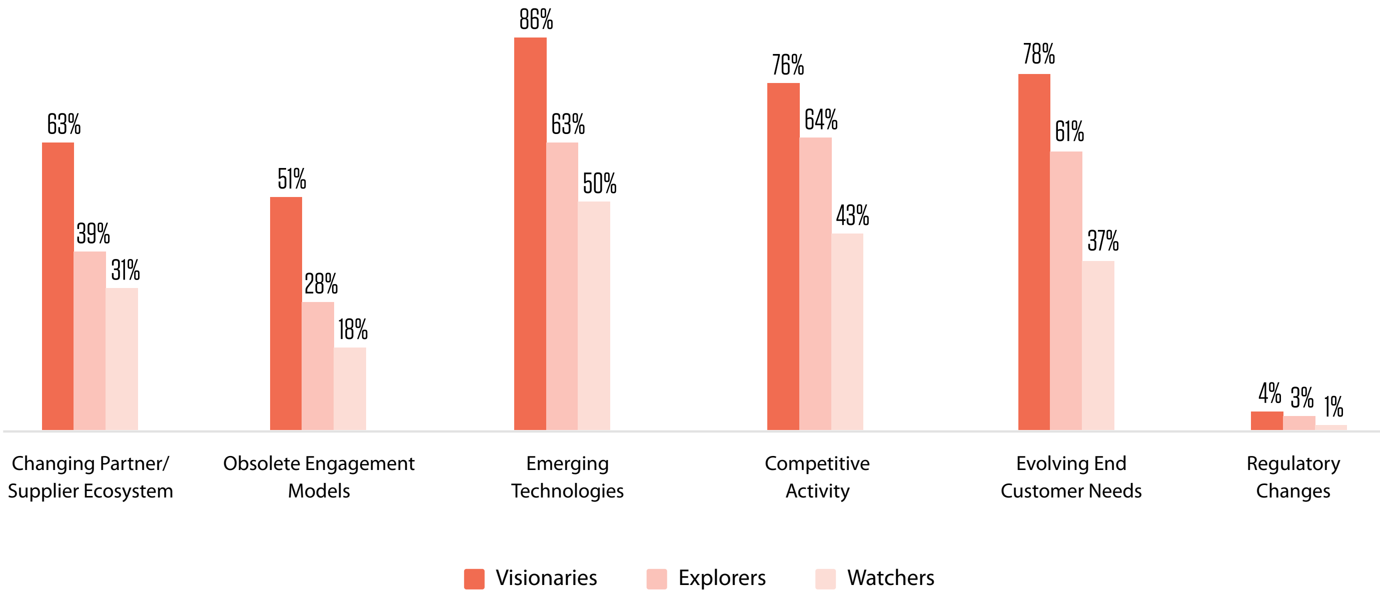

Figure 4: Visionaries Spot and Execute on Drivers of Disruption Before Explorers and Watchers Do

Disruption affects almost every part of the enterprise, be it the front, middle, or the backend. However, some areas, such as R&D, product/service management, and management information systems (MIS) are being affected more than the others and, therefore, appear at the top of the list of disrupted functions across visionary, explorer, and watcher organizations.

The difference really is in the perceived intensity of the impact. Visionaries consistently attach a higher rating than watchers and explorers. For instance, they score innovation at 4.23 on a scale of 1 to 5, compared to 3.79 by explorers and 3.63 by watchers. In the case of MIS, visionaries rate the impact as a strong 4.16, whereas explorers and watchers are more muted in their replies (3.79 and 3.60, respectively). Refer figure 5.

Could the ability of visionaries to see further afield explain this difference in ratings? Take the response on MIS, for example, which must be understood in the context of the dramatic impact of digital technologies on the old business intelligence world of dated data. Given their priorities, explorers probably see the impact of digital disruption on MIS only to the extent that it enables them to gather and act upon customer insights in real-time, whereas watchers see the impact as higher efficiency and agility as a result of their data silos breaking down. Visionaries, on the other hand, are possibly looking at a much bigger outcome – leveraging analytics, machine learning, robotic process automation, and artificial intelligence (AI) to actually transform their organization into a data-driven intelligent enterprise, and therefore rate the impact of disruption higher.

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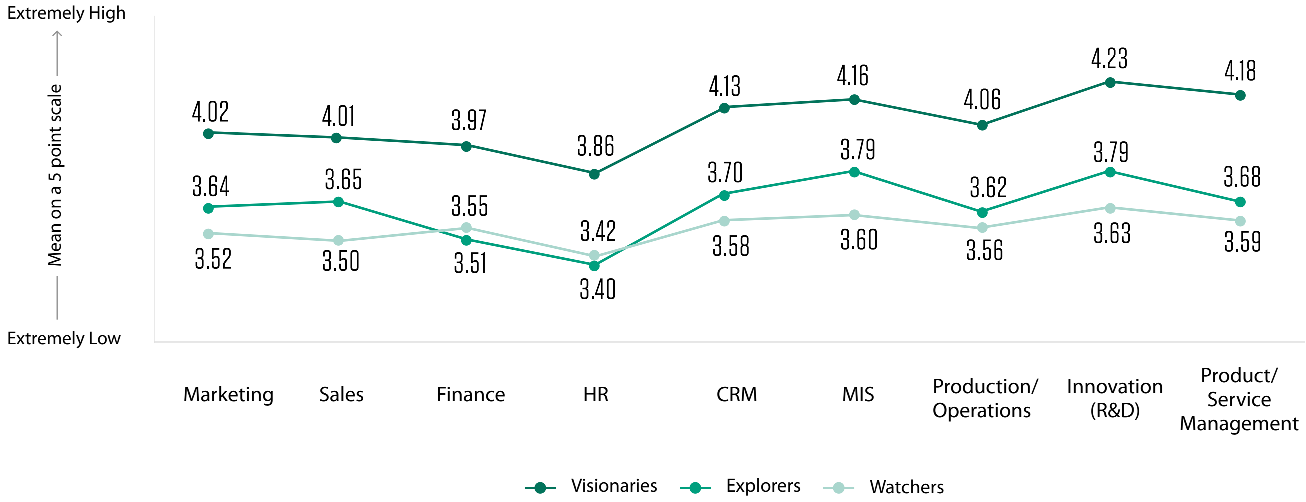

Figure 5: Visionaries Rate Impact of Disruption Higher than Explorers and Watchers

Visionaries Have a Broader, Deeper View of Digital Transformation

An important distinction between the cohorts is that visionaries recognize that true transformation is not a cosmetic fix, but rather a fundamental process that starts deep within their organizations, at their core systems. Support for this statement comes from the response to a question on technology adoption, which shows that visionaries are not only looking at emerging technologies like 3D printing (4.37), Blockchain (4.86), and AI (4.09), but are also focusing strongly on APIs, Cloud and technologies such as mainframe and ERP modernization (3.51). Refer figure 6. This is because these are the core technologies that form the foundation for adoption of new, digital technologies in the outer parts of the organization. Without digitalizing the core in the background, new digital technologies will not perform to potential and will not catalyze the transformation of the business.

> VISIONARIES ARE NOT ONLY LOOKING AT EMERGING TECHNOLOGIES, BUT ARE ALSO FOCUSING ON CORE TECHNOLOGIES SUCH AS MAINFRAME AND ERP MODERNIZATION

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Outlook on Technology Adoption	3D Printing	Blockchain	IoT Analytics	IoT Solutions	AI	DevOps and Agile	Cyber Security	Mainframe Modernization	APIs	Enterprise Cloud	Enterprise Service Management Solutions	ERP Modernization	Big Data Analytics	BPM Services	Combined Technologies: Analytics (Big Data and IoT)	Combined Technologies: Modernization (Mainframe and ERP)
Visionaries	4.37	4.86	4.12	4.12	4.09	4.07	3.25	3.83	3.7	3.66	3.57	3.45	3.32	3.24	3.94	3.51
Explorers	1.81	2.34	2.42	2.42	2.47	2.28	2.34	2.85	2.77	2.12	2.65	2.36	2.4	2.36	2.25	2.45
Watchers	1.39	1.49	1.9	1.9	1.96	1.1	0	2.38	2.4	1.64	0	2.35	2.02	2.34	1.86	2.36

Mean on a 5 point scale

Figure 6: Visionaries Believe Digital Transformation Starts Deep Within the Enterprise

When asked how clear they were on the opportunities and threats faced by their organization due to digital disruption, respondents from the visionary group are, once again, at the top of the table. A plot of the responses on a continuum where 1 (very unclear) is on the extreme left and 5 (very clear) is on the extreme right, shows how the scores progressively increase as watchers mature into visionaries. Visionaries see opportunities and threats more clearly, and in larger size, than explorers who in turn do the same compared to watchers. Refer figure 7.

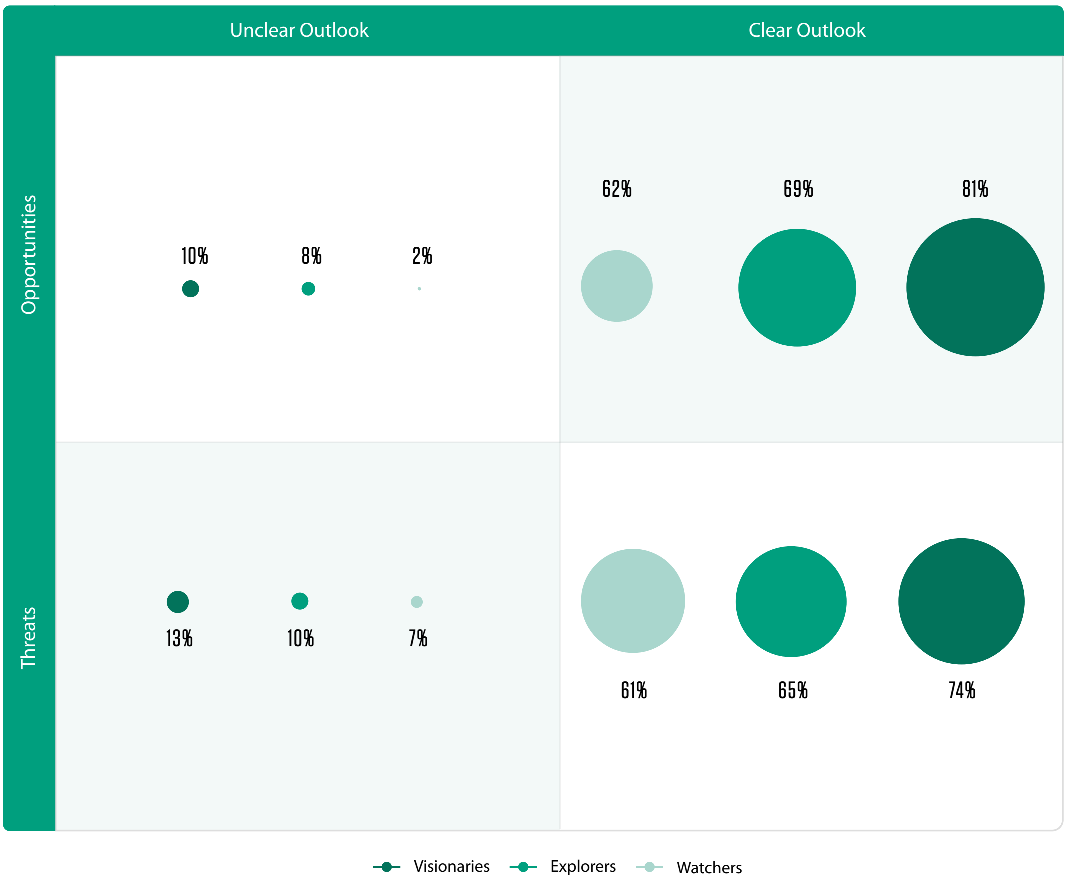

Figure 7: Visionaries Have More Clarity About the Opportunities and Threats of Digital Disruption

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As mentioned in their description, visionaries look for bigger outcomes from digital transformation, such as new business models and a conducive organizational culture. But a change in business model or culture is the compound of smaller transformation outcomes impacting any of the following: customer experience, enterprise intelligence, innovation, core systems performance, and security. Do visionaries' transformation plans check these essential boxes? Refer figure 8.

The findings suggest that they do. Using the outlook to technology adoption once again as a proxy, which shows that visionaries are invested in all important technologies of the day, one can conclude that they are well positioned to reap transformation outcomes across the board. For example, the emphasis on AI and big data shows that visionaries are focused on using insight to power business operations and decisions. Visionaries will no doubt use their investment in Internet of Things (IoT) to fire innovation. And their commitment to modernizing from the core will yield benefits, such as improved productivity and efficiencies.

Enterprise Intelligence

Outlook on Technology Adoption	AI	Big Data Analytics	IoT Solutions	Analytics* (Big Data and IoT)
Visionaries	4.09	3.32	4.12	3.94
Explorers	2.47	2.40	2.42	2.25
Watchers	1.96	2.02	1.90	1.86

Customer Experience

Outlook on Technology Adoption	BPM Services	Enterprises Service Management Solutions
Visionaries	3.24	3.57
Explorers	2.36	2.65
Watchers	2.34	0

Security

Outlook on Technology Adoption	Cyber Security
Visionaries	3.25
Explorers	2.34
Watchers	0

Core Systems Performance

Outlook on Technology Adoption	APIs	DevOps and Agile	Enterprise Cloud	ERP Modernization	Mainframe Modernization	Modernization* (Mainframe and ERP)
Visionaries	3.70	4.07	3.66	3.45	3.83	3.51
Explorers	2.77	2.28	2.12	2.36	2.85	2.45
Watchers	2.40	1.10	1.64	2.35	2.38	2.36

Innovation

Outlook on Technology Adoption	Blockchain	IoT Solutions
Visionaries	4.86	4.12
Explorers	2.34	2.42
Watchers	1.49	1.90

* Outlook on a combined front for two similar technologies

Figure 8: Visionaries are Invested Across the Digital Spectrum to Reap Transformation Outcomes (Enterprise Intelligence, Customer Experience, Security, Core Systems Performance, Innovation)

Digital Skills, Leadership Commitment, and Change Management Key to Transformation Success

When it comes to the factors seen as most critical to the success of digital transformation, visionaries, explorers, and watchers speak in one voice. More than half of all respondents (57%) rank digital skillset as the most important factor in successful transformation, followed by senior leadership commitment (50%) and change management (42%), implying the need for a conducive organizational culture.

The obvious implication is that when these success factors are deficient, they pose the biggest hurdles to digital transformation. Hence, (lack of) digital skillset and change management also featured in the top three barriers list, cited by 54 percent and 43 percent of respondents, respectively. Once again, visionaries, explorers, and watchers voted consistently. Refer figure 9.

A more interesting finding is that all enterprises struggle with navigating transformation, especially when it comes to creating a roadmap and setting priorities. When one looks at the grouping at the bottom end of this list, it is clear that all the items, such as lack of transformation roadmap/blueprint, limited operational intelligence, lack of governance structures, broken business processes, and the presence of data silos, point to enterprises' struggle with navigating transformation, especially when it comes to creating a roadmap and setting priorities. It is here, in the execution of digital transformation, that enterprises need help the most.

Ranking Order →

	1	2	3	4	5	6	7	8	9	10	11	Summation of Top 3 Ranks
Lack of Digital Skillset	32%	12%	10%	10%	7%	6%	8%	3%	4%	4%	4%	54%
Low Risk/ Experimentation Appetite	12%	19%	12%	11%	9%	8%	6%	6%	4%	8%	4%	43%
Lack of Change Management	9%	15%	19%	10%	10%	8%	5%	6%	7%	5%	5%	43%
Legacy Organizational Silos	8%	11%	14%	18%	12%	9%	6%	6%	6%	5%	5%	33%
Lack of Senior Leadership Commitment	10%	10%	9%	10%	18%	14%	7%	5%	7%	4%	5%	29%
Lack of Transportation Roadmap/Blueprint	5%	10%	9%	11%	10%	20%	11%	9%	5%	5%	4%	24%
Limited Operational Intelligence	4%	5%	7%	7%	11%	9%	22%	14%	9%	8%	4%	16%
Lack of Governance Structures	4%	5%	5%	6%	7%	6%	12%	22%	15%	10%	8%	14%
Dated or Broken Business Processes	6%	4%	4%	5%	6%	8%	7%	11%	25%	14%	9%	14%
Complexity of Data Silos	6%	5%	4%	5%	6%	7%	7%	10%	10%	26%	13%	15%
Lack of Organizational Agility	4%	4%	6%	5%	4%	6%	8%	8%	9%	9%	38%	14%

Enterprises Struggle With Navigating Transformation

Figure 9: Sparse Digital Skills, Low Risk Appetite, and Poor Change Management are Top Barriers When Transforming

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" We will drive, but need a navigator."

Prior to the quantitative survey, we conducted a dipstick qualitative study in which we spoke at length to 45 respondents from select companies. The survey reveals an interesting dichotomy in enterprises' self-perception of transformation capability. While 53 percent of respondents claim they are clear on their digital journey, 75 percent of that cohort say they would nevertheless seek an external partner to help them navigate it. Statements, such as, *"We have a good sense of the plan of action, at the moment we will seek more participation in the implementation front."* and *"We have a rough plan in place, will be happy to get inputs on fleshing it out."* suggest that enterprises know where they would like to reach but need help with charting the path to that destination. Although they realize where the opportunities and risks are, they want a partner to guide them on what to change first, and how. This was echoed in the main survey, where 54 percent of participants (82% of visionaries, 53% of explorers, and 36% of watchers) say that a partner could accelerate their digital transformation journey by generating the vision and shaping the path to it.

All Clusters Plan to Rely on External Transformation Partners

The three clusters cited the same barriers to transformation, but did they also plan to address them the same way? When they were asked the question, visionaries, explorers, and watchers react quite differently. Explorers say they would tackle the challenges of skills and execution mainly by engaging with transformation partners (66%) and building in-house capabilities (60%). The watchers who had a plan also say something similar (44%, 42%, respectively), but it was worrying that more than half of watchers seem to have no concrete solution in mind. The visionaries, however, have bigger ideas. For them, building partnerships and alliances in the ecosystem is as important as seeking out a transformation partner (80%). Building in-house capabilities is on the list of 76 percent of visionaries, who were also quite keen on acquiring digital native firms (71%), ostensibly to quickly acquire the digital skills they lacked in-house. Comparatively, the proportion of explorers and watchers looking at the acquisition and ecosystem options was quite small. All three groups are uniformly lukewarm to transforming processes for improving agility. Refer figure 10.

Here, an interesting opportunity awaits those engaging with external transformation partners who are called upon to help enterprises build in-house capabilities. Instead of merely training the client's staff, the partner could supply part of the talent value chain itself by offering to evaluate, hire, on-board, train, and deploy people with the right skills where they are needed within the client's organization.

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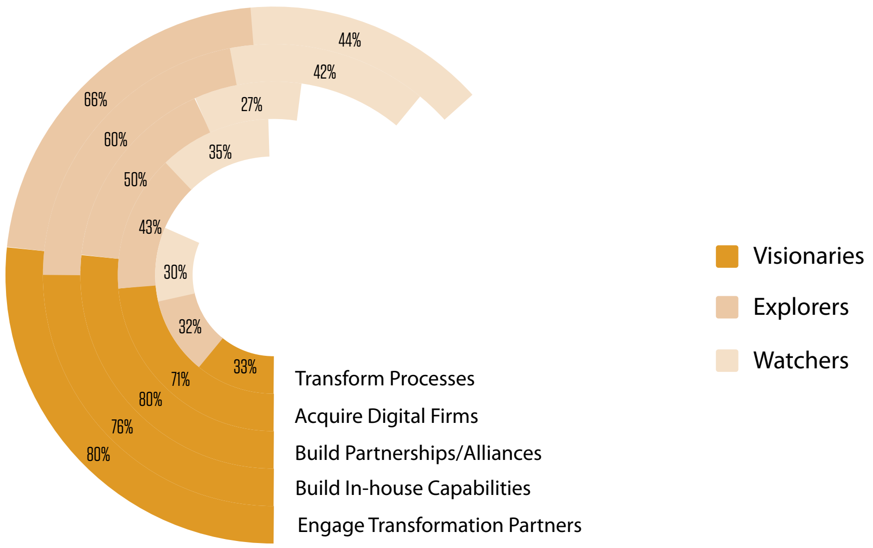
When asked to rate how important certain characteristics impacting digital transformation outcomes were to their organization, all respondents reacted more or less similarly to each option. The difference, however, was in the number of people who came out in support of the characteristics – cross industry knowledge and experiences, design thinking capabilities, knowledge on evolving and emerging technologies, and large/complex program management capabilities. Of the watchers, only about 40 percent agree that these characteristics are important to their organization; that figure increases to about 60 percent in the case of explorers, and nearly 80 percent for visionaries. Visionaries give the impression of wanting to be continuously-learning organizations. This is why they come out so strongly in support of acquiring digital skills, design thinking practices, cross industry expertise, etc. This desire to be in a continuous learning mode is also evident in their articulated need for a partner who can set them on a path of quick, iterative design, and prototyping.

PLANS TO OVERCOME CHALLENGES (%)



EXPECTATIONS FROM TRANSFORMATION PARTNERS (%)

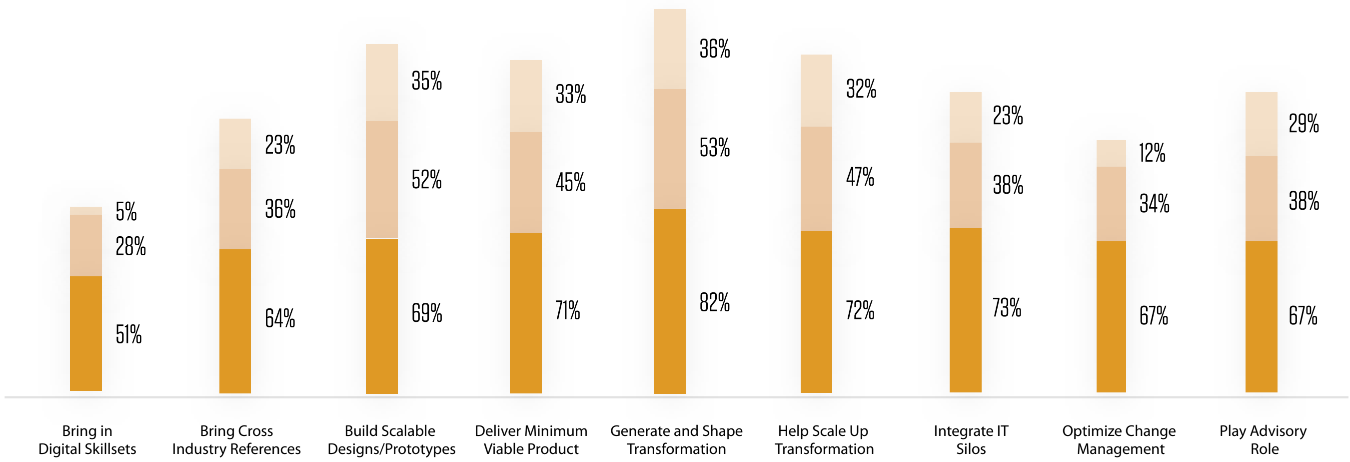


Figure 10: Strategies to Overcome the Challenges of Digital Transformation Differentiate the Three Clusters

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With all three clusters planning on engaging transformation partners to help them scale barriers in their way, one must expect them to have a list of selection criteria in place. Once again, the spotlight is on the things that matter the most in transformation, namely digital skillsets and change management abilities. More than 83 percent of visionaries expect their partners to prepare their workforce for digital transformation; explorers and watchers are possibly more concerned about managing the change, and accordingly place greater emphasis on the partner's credentials in this area (59% and 36%, respectively). Yet again, the difference in transformation-readiness between the three cohorts is in full view. Where visionaries have clear expectations from partners (apparent in the high proportion of responses), watchers come across as hesitant or undecided (just about 30% of respondents in this group seem to have a view).

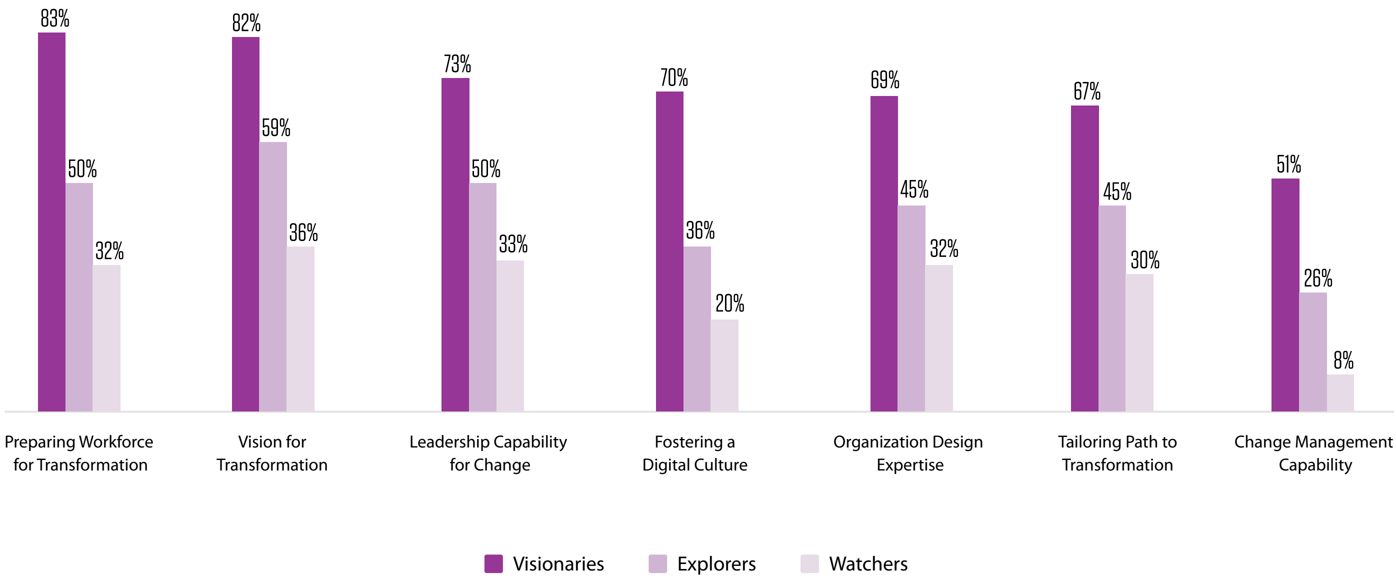

Figure 11: Visionaries are Certain About Expectations from Transformation Partners

Recall the earlier reference to the qualitative study where respondents clearly articulated the need for a partner who would help them navigate the choppy waters of transformation. Most visionaries (82%) state that a partner who could generate vision and shape the path of transformation would accelerate their transformation journey. This was also the top response among explorers (59%) and watchers (36%), although muted. Refer figure 11.

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An important observation is that 67 percent of visionaries desire a partner who can optimize change management and cultural transformation, as opposed to a meager 34 percent and 12 percent of explorers and watchers, respectively. This finding aligns neatly with the visionaries' key objective of transforming business culture. Refer figure 10.

It goes without saying that digital technologies will arguably play the most important role in the digital transformation of enterprises. All respondents were, therefore, asked to locate various technologies on the adoption roadmap of their respective organizations. The watchers plan to play catch-up in the next one to three years in the context of pretty much every technology on the list, from AI, blockchain, and 3D printing to enterprise cloud and business process management services. Explorers have advanced some of their own catch-up plans to the near term, especially in areas like cyber security. Visionaries continue to pursue advances, in the short term, in areas like data analytics and cloud that are constantly driving newer innovation and use cases. In the pursuit of these near-term goals, however, the visionaries have not lost sight of the strategic need to invest in emerging areas of technology, like 3D printing, that they believe will create new avenues of disruptive value for them in the future.

Different Journey, Different Destinations

Incumbent organizations across the board are experiencing the impact of digital disruption, which brings both opportunities and threats. Realizing that the only way to fight digital is with digital, large enterprises are embarking on a journey of transformation. However, not everyone is headed in the same direction. The more digitally progressive organizations, called visionaries in this report, are clearly aiming at higher order outcomes, such as a revised business model and culture. Explorers are focused on customer-oriented objectives, such as better experience, or superior engagement on a variety of channels. Watchers have less ambitious goals, targeting mostly efficiency, productivity, and market share for the moment.

These fundamental differences drive the transformation outlook of each group. Visionaries usually see the farthest and the clearest. They approach digital transformation from the inside-out, starting from their core systems and gradually progressing outward to include other functions. Visionaries know that transformation must impact five critical elements – customer experience, analytics and insight, innovation, core performance and security – to be really successful. Learning new technologies, techniques and skills is, therefore, key to their agenda. Perhaps there's a valuable lesson there for watchers and explorers on how to evolve into transformation visionaries.

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Infosys is a global leader in next-generation digital services and consulting. We enable clients in 45 countries to navigate their digital transformation. With over three decades of experience in managing the systems and workings of global enterprises, we expertly steer our clients through their digital journey. We do it by enabling the enterprise with an AI-powered core that helps prioritize the execution of change. We also empower the business with agile digital at scale to deliver unprecedented levels of performance and customer delight. Our always-on learning agenda drives their continuous improvement through building and transferring digital skills, expertise, and ideas from our innovation ecosystem.

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