The paradox of digital disruption
Digitization and the disruptions caused by the rise of digital technologies have created a paradox. While many organizations are aware of evolving digital solutions and their potentially positive impacts at a high level, most companies are slow to address or fully embrace these technologies. The result is a growing disconnect between the technologies’ potential and their adoption across firms and industries, as well as a widespread misunderstanding of the magnitude of the transformational opportunity digitization potentially provides.

KPMG’s 2Q 2016 Global Insights Pulse Survey, a quarterly investigation of trends and observations from the front lines of the global business services (GBS) market, took a closer look at how today’s organizations are approaching digital disruption. Results show that organizations will need to embrace digital technologies in coming years or risk obsolescence. Despite this imperative, typical organizations face many challenges in moving forward. The largest obstacles to adoption remain a lack of strategic vision for addressing digital disruption, the limits and needs of legacy IT systems, and cultural resistance to change.

Rising concern and levels of activity surrounding digital disruption

Digital technologies have long been disrupting business practices across industry lines thus providing new entrants into traditionally stable markets with an increasing market share. The pace of this disruption is continuing to accelerate. The threat of losing customers looms large in many CEOs’ mindsets, especially as customer turnover accelerates. A full 86 percent of survey respondents indicated that they had at least a moderate level of concern surrounding digital disruption and its impacts.1

However, the current level of activity to address these concerns lags behind what is needed. While respondents indicated that they expect digital technologies to be impactful over the long-term, what is less clear is how businesses will be affected, what “digital” means for core operational services, and how to begin the process of embracing these technologies.

Losing market share to competitors that are faster, more nimble, and deliver a better customer experience requires an organization to respond. Increasingly, organizations at the front end of the curve are assessing their business models and data differently and looking to collaborate across functional lines to increase efficiencies, cut costs, and improve the end-to-end customer experience. Implementing these solutions requires digital enablement.

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1 Now or Never, 2016 Global CEO Outlook, KPMG International
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Half (50 percent) of survey respondents indicated that improving operational efficiency is a key benefit of digitization. Other transactional uses of digital technology, such as automating core business processes (41 percent) and using data analytics to improve operational effectiveness (40 percent), remain clear focuses.

**Top perceived benefits of digitization**

- **50%** Improve operational efficiency
- **41%** Increase automation of core business processes
- **40%** Improve operational effectiveness
- **34%** Improve customer service/satisfaction
- **30%** Accelerate/improve decision-making process
- **21%** Better align business and IT operations
- **21%** Improve front-office channel/customer management capabilities
- **19%** Respond to competitive threats
- **18%** Better attract/retain new customers
- **16%** Support new market/market segment penetration

Source: KPMG Global Pulse Insights Survey — 2Q16

Though cost savings derived though greater efficiency is as a primary benefit of digitization, the potential for business effectiveness improvements through digital disruption go far beyond the bottom line. Other critical benefits can include improved visibility into operations, obtaining data to support a faster decision-making process, and creating a more robust and responsive customer relationship across touch points. Such efforts can be transformational; helping an organization respond swiftly to competitive threats and supporting market penetration efforts. Yet survey responses indicate that organizations are slow to perceive these opportunities despite market pressures.

Both transactional and strategic uses of digital technology are required to maximize long-term benefits and opportunities. Companies should look at the implementation of a digitization strategy as a long-term process: a shorter-term focus on driving efficiency and cost savings can free up capital to fund larger, more strategic initiatives that can differentiate the organization and drive competitive advantage.
Lack of vision, legacy IT systems, and cultural resistance primary challenges

The top barrier to digitization is a lack of strategic vision, with a full 35 percent of respondents naming it as a critical challenge. Real, lasting change is unattainable without an organization-wide plan. Companies require a top-down vision that recognizes digitization will impact every part of the organization and should identify specific transactional and strategic applications of digital technologies, as well as their desired outcomes.

The ongoing lack of strategic vision may also derive from misconceptions around what “digital” encompasses, considering that “limited or conflicted understanding of digital” was identified as another critical roadblock (29 percent). Though many individuals equate digital technology with mobile platforms and/or process automation, the true scope is far broader, encompassing cloud computing, data analytics, visualization, machine learning, and more. These technologies can be applied to help an organization go to market faster, shift into new markets or channels, and be agile.

Perception may also be limited by an understanding of only technologies used for particular functional areas without insight into a broader scope of technological advances — or how these technologies can be applied across the organization.

In some situations, the more critical barrier is the cultural resistance to new ways of doing business, which was identified as an issue by 30 percent of respondents. This aversion generally stems from a lack of skills within the organization, and from fear over how organizational change will impact individuals and their roles. Addressing this barrier needs to be part of the organization’s vision, along with determining whether the enterprise has the right people in the right roles to deliver on the digitization strategy. “Legacy people” can become barriers as much, or more than, legacy systems if their apprehension around change hinders or stalls the process.

Source: KPMG Global Pulse Insights Survey — 2Q16
Increasing trend for specialized team to lead digitization efforts

When it comes to functional groups leading digitization efforts, there is a clear trend that the drive for change comes from both business unit leads in affected areas (29 percent) and the IT group (28 percent). The strong involvement of executive management (22 percent) is a good sign, as it points to the creation of a strong vision. Support from executives is a critical component of a digitization strategy, as they need to address areas such as funding, setting the agenda, breaking down barriers, and ensuring that digitization is seen as an organization-wide priority. More hands-on involvement from executives, however, may slow down the process.

In some areas, conflicts between needs in different functional groups, or in the implementation of technology or strategy elements that do not meet the needs of other areas of the organization, create stumbling blocks to digitization. One way to address this issue is through the creation of a dedicated digitization team. As a dedicated team has a broader perspective and the ability to connect with both business leads and IT, it can accelerate the deployment of an organization-wide digital strategy.

Though only 15 percent of respondents indicated they were using this particular structure of dedicated digitization team with executive sponsorship, we expect it to become more common and will help drive successful digitization efforts.

Functional group most often leading digitization efforts

- Business unit leads in affected areas: 29%
- IT group: 28%
- Executive management: 22%
- Dedicated digitization team: 15%
- Other: 3%
- Everyone: 3%
- No one: 2%

Source: KPMG Global Pulse Insights Survey — 2Q16

"One way to address this issue is through the creation of a dedicated digitization team."
Call to action

Given the potential for digital technologies to transform business models, customer experiences, and the fundamental ways in which firms operate, organizations must be aggressive in their efforts to adopt, extend and integrate these technologies. There are three things organizations should do to start this process:

- **Develop a clear strategic vision.**
  Organizations need an integrated digitization strategy that builds on an understanding of how digitization is disrupting their industry and the potential that digital technologies offer across lines of business. This should include a clear plan for changes to the business model moving forward, how digital technologies will shape strategies across functional lines of business, and tools and methods to measure outcomes. Executive leadership must make digital change a priority and clear a path for the development and implementation of a company-wide strategy.

- **Be flexible.**
  Given the current pace of technology advancement, a detailed 3–5 year digitization roadmap will be obsolete before it can be implemented. Instead, organizations should look to remain flexible in their goals, and adapt as technologies continue to develop, while working toward the long-term strategic vision.

- **Encourage a culture of change.**
  The biggest roadblock to digitization is not necessarily the technology or its implementation, but the organization’s willingness to embrace disruption. Implementation of an effective digital strategy means new ways of doing business and using data, which require different skills and a flexible mindset at all levels of the organization. These elements need as much attention as the technology and the process.

With an effective digitization strategy, organizations will not only realize cost savings through increased process efficiencies and agility, but also differentiate the business from its competition and gain competitive advantage.