LAYING
THE FOUNDATIONS
OF DIGITAL
TRANSFORMATION

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ABOUT THIS REPORT

THE MANY FACES OF DIGITAL TRANSFORMATION

In the last decade digital technology has emerged as a disruptive force that impinges on more areas of life, more industries and more business functions than even its most enthusiastic advocates would have predicted 20 years ago.

By its nature, therefore, the term digital transformation—defined for this report as the reinvention of business operations in order to draw maximum possible benefit from digital technology—covers a diverse range of initiatives. The three companies represented by the interviewees for this report reflect this range.

CSAA Insurance Group, for example, provides insurance for American Automobile Association (AAA) clubs in 23 states and Washington, DC. It separated from the automobile club in 2011 but can trace its history back for a century. The principal focus of CSAA Insurance Group's digital transformation is its relationship with customers.

Digital services vice president, Michael Cross, arrived in 2012 to build a digital team from scratch to establish new, unified systems for insurance quoting, member relationship management and online access to policies and other information. Back then there was plenty of room for improvement, recalls Mr Cross. "We even made it hard for people to pay us. That is something every insurance company wants to make very easy for your policyholders to execute."

CSAA Insurance Group's three-year digital transformation plan, which ended on December 31st 2016, stressed the importance of the user interface and the overall user experience (UI/UX). "I'd urge anyone who's starting their digital transformation or is in the middle of it to make sure they have a concise strategy around their UI/UX, so you're reaching out to your users for continuous feedback," he says, so the work is focused on customer friction and aims of users. "That's been a big thing that's bound this whole digital transformation together."

For Japanese pharmaceuticals company Takeda, digital transformation comes in direct support of its mission to strive towards better health and a brighter future for people worldwide through leading innovation in medicine. It is therefore focused on looking for solutions that can accelerate the development of innovative medicine to serve the needs of patients, wherever they are. Led by chief digital officer Bruno Villetelle, Takeda's digital transformation has seen it establish a digital accelerator programme. Modelled as start-up accelerators which incubate and mentor technology entrepreneurs, the programme allows employees to pitch digital projects to win funding and helps them maximise connections with external partners to bring their ideas to life.

Takeda staff who wish to join the digital accelerator programme are grilled on their plans by an expert jury, some from outside the company, in the manner of television

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programmes such as the American *Shark Tank* and Britain's *Dragons' Den*. "The programme has an inherent people-development component. You're dealing directly with a level of seniority that you might not have been exposed to before. And you get a chance to develop your idea as 'an entrepreneur in residence'," explains Mr Villetelle. If they get through that, then they get time and support to develop their plans into a minimum viable product to prove the underlying hypothesis. Some have since become responsible for scaling up their ideas globally. "These people see the opportunity to grow themselves while further helping to address the company objectives at large," he says.

Takeda's digital accelerator programme currently has more than 40 projects covering ways in which digitisation can improve patient solutions, patient engagement, clinical efficiency, real-world data collection, augmented and virtual reality and wearable devices. There are also several projects focused on artificial intelligence in areas ranging from drug discovery to chat-bots that can answer salespeople's questions.

Technology company Ricoh Europe has a more operational focus for its transformation strategy. Chief financial officer Nicola Downing says that for over a decade the group has been cutting tens of millions of euros in costs from its operating companies across Europe, the Middle East and Africa (EMEA) by deploying a common enterprise resource planning (ERP) platform and four shared service centres in Germany, South Africa, Spain and the UK.

"We had 23 teams doing pretty much the same thing," says Ms Downing of the previous situation.

Now the national operating companies focus on sales, while three of the shared centres cover administration for groups of countries and the South African centre handles certain areas, including accounts payable and product meter-reading. The shared service centres are based within the national operating companies and use their office space, but their staff report centrally to Ms Downing. "The key objectives were to standardise what we were doing, have the ability to leverage where work was done, and also to simplify what we were doing," she says.

These are three very different initiatives, all under the "digital transformation" banner, and yet the executives share some common insights into how companies making similar journeys can ensure success.

OWNERSHIP AND LEADERSHIP

So far-reaching are the implications of digital transformation that every section of the business must be engaged and included. At the same time, it is likely to encounter organisational inertia and therefore needs a clear leader. Executives leading digital transformation at their organisation must find a way to balance these requirements.

"Anything on this scale needs a leader," says Ms Downing. As Ricoh Europe's chief finance officer, it is unusual for someone in her position to run a digital transformation initiative, but her responsibilities include those of the company's chief information officer. "Ultimately one person does need to be accountable for it, and I think that does fit well with the CFO or, for organisations that have it, a CFO-CIO combination, which is really what my role is," she explains.

In the final analysis, though, "I don't think it matters where the accountability sits, it just needs to be somewhere where it's clear and that that person is supported by other members of the board to drive the change. It's not the sort of thing you can do on your own."

Indeed, the involvement of other departments is vital. "It needs to be a joined-up effort," she says. "It's absolutely critical that finance is not the only party to the show." According to Ms Downing, the HR function is one that is often overlooked in programmes of this kind but has a crucial role to play, especially if job cuts and changes are involved.

CSAA Insurance Group's Mr Cross agrees with Ms Downing that it makes sense to base a digital transformation initiative in one department, with one person responsible for delivering the plan to budget. "Many companies bifurcate digital across their organisation, which I think causes a lot of challenges," he says.

But he also agrees that it is vital to build strong connections to other departments. Had digital transformation been dominated by technologists alone, "that would have caused some misalignment with the business", he explains. "Instead I established relationships with business stakeholders across the different business departments." As well as setting up this digital steering committee, he also held a digital summit at an early stage to explain digital strategy and ideas to board members and executives.

Even with the strongest leadership and clearest vision, there will be differences of opinion along the digital transformation journey. Happily, some of the techniques of digital development allow discussions to be rational and evidence-driven.

At CSAA Insurance Group, for example, some executives felt uncomfortable with the agile style of development and the fact that things changed very quickly. By employing user research—in which new systems in development were tested with users—Mr Cross was able to demonstrate the benefits of this approach.

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"Over time, we proved the value of this methodology in terms of speed of delivery, high quality and the ability to pivot and iterate when things aren't done exactly right. Many of our business stakeholders have embraced the changes, especially the user research component," he says.

Recently, one executive looking at a redesigned insurance quotation process asked why it didn't include certain content, Mr Cross recalls. "We actually did try what he was asking for, but the users did not like it." Instead, the process includes "gamification"—presenting material in the style of a computer game that allows users to play with it. "He felt comfortable that the users were the ones who ultimately win out on that decision."

KEY SKILLS

Not every executive will have all the experience and skills required to lead their organisation's digital transformation, but that should not discourage them from taking the initiative. "Don't be afraid to acknowledge where you've got a skills gap and potentially hire to fill it," is Ms Downing's advice.

"With the breadth of my role, I don't pretend to be an expert on all the areas I have ultimate accountability for, and it's about having strong people in teams around you, so hiring the right people for projects or transformational activity is key."

That said, a degree of cross-industry experience has stood the interviewees in good stead. "When we get a little stuck, sometimes I say, 'Forget you work for an insurance company'," says Mr Cross. "When you're developing great software, you should be able to do that agnostic of industry." He previously worked for healthcare provider Kaiser Permanente and has brought ideas across, such as putting the best engineers in a laboratory environment, where they can test new ideas and technology.

Ms Downing, who has also worked for UK supermarket giant Tesco and a law firm, says this experience helps her when thinking laterally about process design and optimisation. Mr Villetelle, who worked in a number of industries, says cross-industry experience provides helpful perspectives. "Some of the approaches to being successful at driving digital transformation can be leveraged from one industry to another," he says, citing the lean start-up methodology used by both start-ups and a number of large organisations that provides a robust framework for creating and managing transformative ideas and getting a desired product into customers' hands faster.

As with any major change initiative, communication is arguably the most valuable skill for executives leading their digital transformation. Ms Downing says that communicating both good news and bad has been vital to the success of Ricoh Europe's transformation initiative.

"We acknowledged when things went well, but we also acknowledged when things went badly, what we could do differently and what we could learn from it," she says. "It's about keeping communication lines open and being honest with your staff."

Indeed, some surprisingly direct communication between Ms Downing and frontline staff has led to some rapid improvements. "People are sometimes a bit nervous if you plonk yourself down next to them and say, 'Hi, I'm the CFO, I'm the person responsible for this'," she says, but such meetings have resulted in significant improvements to systems. "I had a sales order person sitting next to me one day, and together we made a change to the system after that session that got implemented."

Mr Cross says good communication helped tackle cultural differences between those working on the digital transformation project and the rest of the business. "I'll admit that

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> *Takeda Pharmaceutical Company*

in the digital space, where I've met a lot of colleagues across our industry and other industries, there can sometimes be a little arrogance," he says. "You have to be humble and open when you come into this, especially in a new company." A culture of trust between CSAA Insurance Group's senior executives helped a lot, he adds.

Another key capability is prioritisation, Ms Downing notes. "You can't do absolutely everything at the same time without necessarily failing. So it's prioritising, then making sure people understand what you're doing, and why."

WORKING LIKE A START-UP

Many companies look to start-ups as the blueprint for their digital transformations. Certainly, it is in the start-up community where many of the working styles and practices associated with digital technology have evolved. But to what extent is it possible—or even desirable—for big companies to imitate these small, fast-growing digital businesses?

It depends on the nature of the transformation. For Takeda, achieving the agility and flexibility of a start-up is an explicit aim of its transformation strategy. "Takeda has gone through a major transformation over the last few years, from a Japanese-based pharmaceutical company into a truly global pharmaceutical company, and I think it's fair to say digital has been and continues to be one of the drivers of this transformation," says Mr Villetelle. Through this transformation the company aims to become "an agile, smart and fast 33,000-person start-up".

Ms Downing, meanwhile, is keen that Ricoh Europe does not lose sight of what kind of organisation it really is. "There has to be a balance in a large organisation between good corporate governance and reputation protection and the kind of free-for-all, blue-sky thinking that a start-up allows."

What is important, however, is to ensure that the often rigid hierarchies of large organisations do not stifle innovation, she says. "Good ideas often do come from lower down in the organisation, people who are every day at the coalface working on particular things that you're trying to change."

At CSAA Insurance Group, Mr Cross says he is "100% committed" to nurturing a start-up-like culture, "with a couple of 'watch-outs'".

"To attract the right talent, I've got to emphasise that start-up mentality." That means business casual dress and video screens with meaningful content in the digital departments. But he also needs to ensure his staff remember that they are working for an insurer with the traditional values of the AAA brand. "We never want to give the appearance we're just off doing our own thing and we're not aligned with the business priorities," he says. "That always takes effort, [and] it's something we're always working on."

CONCLUSION

The three projects highlighted in this report represent the diversity of digital transformation initiatives that are currently under way across the world. Every organisation's transformation will take its own individual form and will therefore require its own organisational measures to ensure success. However, some common themes emerge in this report.

● **Someone needs to take the lead on digital transformation.** It does not have to be the most obvious candidate, such as the CIO or chief digital officer, but to overcome resistance to change someone needs take ownership.

● **That leader must be sure to include the rest of the organisation.** Digital transformation is not an IT project; it has implications for every department, and without their involvement it will run into trouble.

● **Communication is the most valuable capability.** Digital transformation will have its ups and downs; it will bring different working cultures together; it will impact people's jobs and livelihoods. Effective communication is vital for each of these.

● **Let the results speak for themselves.** Digital development techniques, such as user research, allow executives to see the impact—for example of design decisions—relatively quickly. This can help to address differences of opinion.

● **Remember who you are.** The tools and working practices developed by digital start-ups can certainly be used effectively by larger companies. But established businesses have different priorities and responsibilities from start-ups, and any digital transformation which ignores that will alienate the organisation at large.

Digital technology is prompting companies the world over to rethink some of the core assumptions that underpin their business model. This means conceiving new ways in which people, processes and technology can deliver value to their customers and making them a reality by transforming their organisation. This will take time and patience. These principles will help the executives who oversee that transformation to keep their organisation knitted together and focused on a common goal amid the upheaval.

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