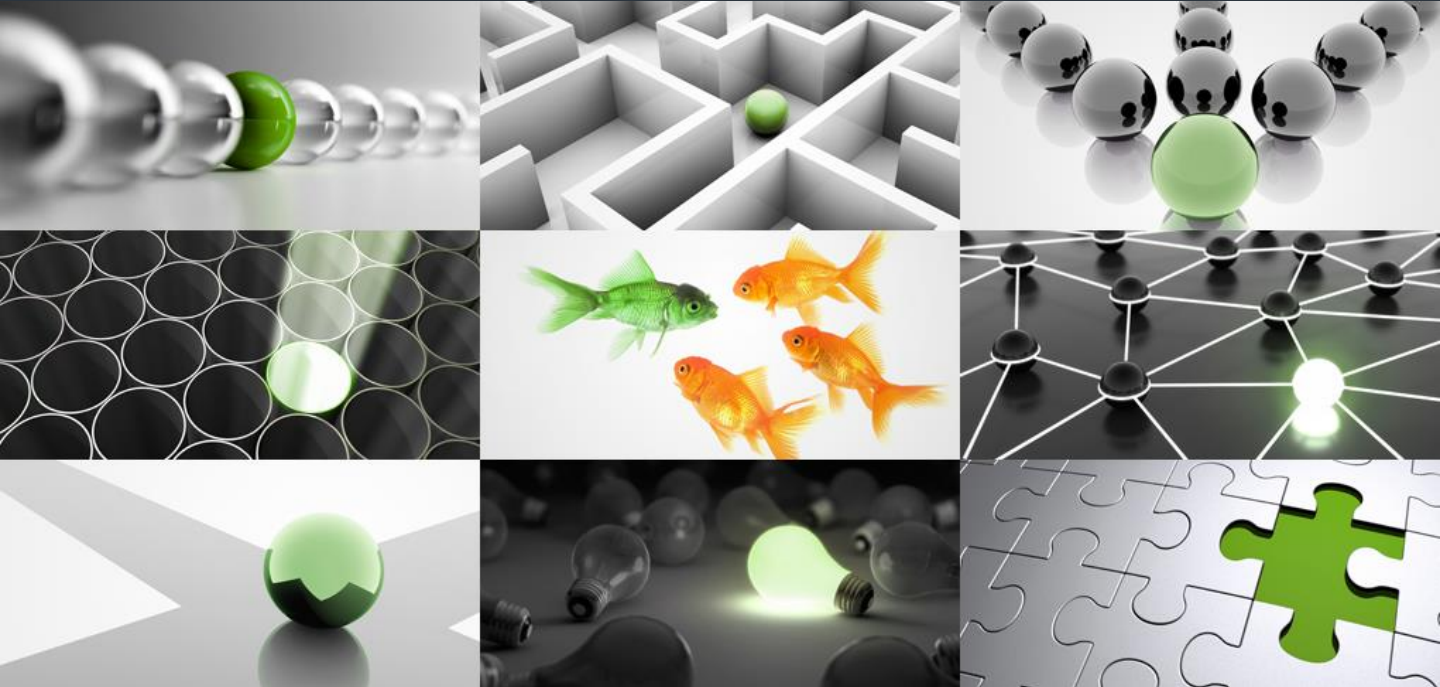


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# Rialto White Paper: The Digital Imperative

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# 1. The Digital Imperative

Today's customers and markets are vastly different from five, let alone 10 years ago. The sheer pace of change, digital transformation and disruption of traditional models and markets are among the factors that are radically altering the world of enterprise. Leaders have to respond to them and ensure their organisations and workforces can adapt to these new demands more readily than competitors. And they need to ensure they have the agility to continually react and respond to the changes as their growth and bottom line depends on it.

So-called 'digital disruption' is already wreaking havoc in a number of markets. The research analyst IDC predicts that one third of organisations in the top 20 of each industry will be disrupted by competitors that have succeeded in digitally transforming themselves.

Indeed, when outlining his vision of the future in a final keynote address, last year, outgoing Cisco CEO John Chambers warned that digitisation would determine tomorrow's business winners and losers. Two fifths of today's enterprises would not exist in a "meaningful way" in 10 years, he said, contending the survivors will be those that transform into digital and techie versions of themselves. But he predicted many will fail trying: 70% of companies will attempt to go digital but only 30% of those will succeed.

If we consider the impact disruptive business models such as the taxi app and ride-sharing company Uber and Internet television network provider Netflix have had on their markets, it is plain to see how the dire prophecy may come true.

Key for organisations going forward is to identify what they need to do which will secure them an unassailable lead in their market(s). In many cases, this demands complete re-invention of business models, a major step up in capability alongside deep-rooted changes to operations, processes and culture.

The first step towards achieving this revolves around getting closer than ever to consumers and fully understanding their aspirations, expectations and viewpoints. Organisations must learn how to shape and personalise their products and services to meet their needs in this digital marketplace. What's more, there is a new breed of customer, who is also continuously evolving.

The magnitude of the challenge that leaders have ahead of them cannot be underestimated. Some will even need to find their own disruptive advantage and then put a strategy in place to action it. They will also need to transform the performance culture to ensure the workforce is aligned with the vision of the leadership team and fully committed to the organisation's future.

All of this requires bold and courageous leadership. Yet, most concerningly, some experts have pointed to a 'digital leadership void', suggesting many of those at the executive level aren't equipped to spearhead the required innovation nor drive the level of transformation that must accompany it. If this isn't addressed, organisations will stagnate and soon be left behind by market competitors.

This white paper sets out to show leaders some of the areas and issues they need to consider to ensure their organisations have the agility and adaptability to remain ahead of the curve and their competitors in the digital age.

## 2. Business at the speed of technology

Ideas, innovation, competitive edge all have significantly shorter shelf lives. Digital is changing everything and leaders must increasingly understand the new dynamics and implications of this for every area of the business and learn how to continually evolve and adapt to such changes successfully.

High performing businesses appreciate the need for the right leadership to be in place to increase agility to respond to this faster cycle and continuously innovate. Many organisations, though, lack the energy, ideas, focus and engagement required to adjust to the digital world, much less exploit the opportunities it brings. They need to be more agile and outward-looking and their workforces to be more fluid. They need to learn the lessons from industries which are already being disrupted and acknowledge that this could happen to their own. It isn't just about protecting their future but identifying how they can play a key part in the digital age and win more customers and business.

The only aspect that we can be certain of in the digital age is that there will be no let-up in the speed of change. According to Accenture's global technology survey of more than 3,100 IT and business executives, the vast majority (86%) believe the pace of technology change will increase either 'more rapidly' or at an 'unprecedented rate' in their industries over the next three years.

Making sure you are part of the digital economy rather than left behind it means finding a digital advantage. And this effectively begins by making idea creation a priority and embedding a culture of fit-for-purpose innovation into the organisation. It requires risk-taking and accepting failure as part of the process, which many traditional leaders might find difficult. It may also involve launching a product or service that may not be the finished article but which can be further refined by customers and users. This brave new digital world may also mean having to work more collaboratively with competitors.

Speed of response to consumer demand and much faster turnaround times when it comes to product development and service delivery are essential. Workforces have to be equipped with the necessary skills and know-how to meet these expectations. And they need to be supported by robust new processes and a digital infrastructure. Organisations which persist in supporting old-style legacy systems will wither in the era of data-driven decision-making and analytics.

In its global technology report, Accenture points to the need for data to become 'pervasive' and 'readily available' so that it supports insight-driven decision-making throughout the enterprise and makes the shift away from what the professional services firm calls the 'HiPPO principle' (which is the highest paid person's opinion is paramount).

While an organisation's future survival and competitive edge depends on technology and adopting a more data-driven approach to its operations, it also depends on cultural transformation, too. Leaders must ensure the right performance culture is in place to foster innovation and respond to the demands of the digital age.

While the importance of culture has long been discussed in leadership and management it has remained a nebulous concept to some organisations. Earlier this year though, the Financial Reporting Council's Corporate Culture and the Role of Boards report made the most emphatic link yet between a healthy corporate culture and long-term business success.

The central message from Sir Winfried Bischoff, chairman of the FRC, was that a healthy corporate culture leads to long-term success by both protecting and generating value in the UK economy. He also underlined the importance of having 'a consistent and constant' focus on culture rather than wait for a crisis before paying attention to it.

Embedding a culture of innovation requires a number of steps and begins by leaders articulating their vision. "The vision incorporates this sense of innovation and the need for disruption," says George Mystkowski, Associate Director of Rialto, who adds that leaders must also form an 'innovation management team' which can apply 'parallel thinking' towards this idea of new solutions and new ways of doing things.

Mystkowski also recommends promoting the use of reverse mentoring, whereby younger and less experienced members of the workforce mentor more senior people. The so-called Millennials are the first generation to grow up with social media. Not only can they help older colleagues with practical digital skills but by applying their thinking they can identify opportunities, new ways of working that wouldn't be apparent to those more senior in age and authority.

A leader's role in transforming the organisation's culture to make it fit for the digital age can perhaps be summed up in four key traits: inspiring a vision; challenging process; unblocking obstacles; and enabling/empowering people.



### 3. New kinds of relationships, value creation and consumption

Most enterprises will maintain that they always put the customer centre stage but a cursory glance through the reviews on TripAdvisor and Trustpilot highlights this simply isn't the case. They would also claim to 'understand' their customer. While many businesses have invested in focus groups and satisfaction surveys in the past, they need to be more reactive and responsive mechanisms to keep pace with the changing habits and behaviour of today's consumer.

There is no hiding from customers or escaping their judgement and views in the digital arena. Organisations must seek to exceed customers' expectations in terms of product and service delivery and to do this they must understand what makes customers in the digital age different.

**They are always present:** the always on, 24-7 world means they could buy, consume, use your products and services at any time of day or night. They want solutions and services which are completely integrated, more intuitive and which function in real-time. In short, the store never closes and organisations must develop a similar mindset.

**They have the power:** they are able to rate and rank your services and products like never before. The old adage that a reputation can take years to build but a minute to damage has never been more true. Digital word of mouth is far more damaging than the physical form, spreading across continents rather than just communities.

**They are more discerning:** this doesn't only mean in terms of quality of product or service but also of what is its 'back story'. They want to know the provenance of goods and be assured that the supply chain is ethical. They want to see company boards behave well and the organisation to be socially responsible.

**They are more demanding and less loyal:** today's customer has become used to switching suppliers to get a better deal or service. So regardless of whether it is an energy provider, bank or wine retailer, if they are dissatisfied they will go somewhere else.

To serve this new breed of customer, organisations have to fundamentally change the nature of the relationship they have with them. They need to be more communicative and collaborative as well as personal.

Technology such as machine learning and artificial intelligence gives organisations an opportunity to treat customers as individuals with personalised messaging, while social media provides a two-way channel to nurture and inform them. Similarly, data and analytics can provide great insight into buying habits, behaviour and preferences to acquire a far better understanding than previously.

It is vital, though, to have the right people and processes behind these technologies to tailor, shape, monitor and measure all of this activity. And once again that means having the right culture and leadership in place.

Whether in the business-to-business or business-to-consumer sectors, senior leaders must ensure their workforce is educated in this new breed of consumer/customer. Moreover, while it is important to discuss customer service and satisfaction at a generic level, organisations have so many touch points in the 24-7 world that it can be easy to overlook areas of poor performance or low standards of delivery. The rate at which negative messages can travel across social media means that if left unnoticed even for minutes, brands can be damaged.

Leaders must ensure therefore that their senior, middle and junior managers all understand their responsibilities in the digital world as well as what happens at each point of interaction between their organisation and client across every function. An organisation may be receiving five star ratings for customer service at its call centre but scoring lowly when it comes to physical delivery of goods.

The customer journey must be mapped at all stages from inception to end. Figure out where potential pain points or issues might arise and, again, data and analysis tools could be deployed to do this. Once problem areas have been identified, Alistair Denton, Associate Director of strategy and customer experience at Rialto, underlines the importance of intervening to rectify any problems and upgrade standards. “Drilling down to achieve this level of understanding will also enable organisations to explore how processes can be redesigned or to institute new ways of working to further elevate the customer experience and in doing so heighten competitive edge,” he says.

Denton advises organisations to shift towards a target-based operating model to encourage function heads to take greater ownership of customer service. As part of this exercise they should self-assess their strengths and weaknesses in this area and objectively rate their departments out of 10. The next step is to quiz clients about what they think via tailored customer surveys. Questions need to be carefully designed so that they align with the customer experience expected from each different function. For instance, for operations, it could be along the lines of 'how did we fare when we first contacted you to talk about our products and services?' Similarly, ask them to give each function a rating. Any mismatch between external and internal ratings will provide an accurate indication as to whether a problem exists.

Delivering service excellence in the digital age also relies on leaders fully engaging their people with the strategy to deliver higher performance. They must feel deeply committed and care passionately about what they do. "This is more likely to happen if they can see that the business is putting customer service and satisfaction programmes at the top of the agenda," says Denton.

In many instances such initiatives are in response to a crisis or something that has gone wrong. Perhaps the organisation has been slated for customer service through digital word of mouth. Businesses need to institute proactive programmes that aim to improve performance and move them towards operational and service excellence. This won't happen overnight so efforts need to be sustained. And in some cases will be achieved by marginal gains rather than huge improvements, but they will count.

## 4. Permission to think differently

The digital revolution is impacting organisations in a number of ways. For some industries, disruption is the new norm and many would do well to heed former Cisco CEO John Chambers' clarion call to business leaders: "Either we disrupt, or we get disrupted."

On the spectrum, disruption may lie at the extreme edges but regardless of where an industry or organisation sits on the digital transformation scale, they need to apply some fresh thinking to what they do and how they do it. Examining some of the new business models and innovation that has been spawned by online enterprise can help re-set leadership thinking and kick-start the process of idea creation for their own organisations.

One of the biggest disruptors of the digital age is Uber, whose ride-sharing and hailing app has upturned the traditional world of taxi services. Travis Kalanick and Garrett Camp came up with the idea on a snowy night in Paris in 2008 when they had trouble hailing a cab. They came up with the simple idea of 'tap a button, get a ride'. What began as a simple app to request premium black cars in several cities has grown into a multibillion-dollar company, effectively making Uber the world's largest taxi firm that doesn't own any cars. Forbes magazine pointed out that in a mere 5.5 years, Uber has surpassed the valuation of General Motors, one of the world's largest automakers which is 107 years old.

It isn't only the application of technology that is fundamental to Uber's success though but also an unflinching focus on the customer. As it states on its website: "We use technology to give people what they want, when they want it." It also serves as a superb example of perfectly aligning its teams around the world behind the mission of creating 'opportunities for millions of people' and 'improving the way' for 'people to get from A to B'.

Equally as disruptive has been Airbnb, the community marketplace that allows people to list and book unique accommodation around the world. It began in one of the co-founders' San Francisco flat and has grown into more than 2 million listings, 60 million guests in 190 plus countries. Its founders were all entrepreneurs at an early age.

What has made Airbnb so successful is that it is a global community marketplace built on trust; no mean feat when your product and the people who deliver it are spread across the globe. Hence it has created robust 'standards and expectations' based on safety, security, fairness, authenticity and reliability and all of its hosts must have complete clarity on these. They exist to convey the organisation's values and guide behaviour. Airbnb describes this as a 'living document' as it constantly rethinks its approach as it learns from the community.

In common with Uber, Airbnb is part of the new sharing economy and both business models are not only about providing opportunities for themselves and customers but a third group of people: with Uber it is drivers and in Airbnb's case, the hosts. Uber drivers can set their own schedule but are provided with 24-7 support and tools to help them make more fares. Similarly, Airbnb hosts are well supported and in addition to being able to showcase and monetise their free space, they too can also learn from other members of the community.

While Uber and Airbnb were both established within the last decade, another disruptor Netflix first emerged in 1997 to offer online movie rentals. The entertainment company serves as an excellent example of an organisation that has continuously evolved. One year after launching it set up the first DVD rental and sales site, Netflix.com; it debuted a monthly subscriptions service in 1999 and a personalised movie recommendation system in 2000. Streaming was introduced in 2007, followed by partnerships and global expansion. Today, it is the leading Internet television network, with more than 83 million members in 190 countries.

Netflix's current service offering is completely aligned with the needs and wants of the 24-7 customer: allowing them to watch as much as they want, anytime, anywhere. Members can play, pause and resume watching, 'all without commercials or commitments,' it states.

All three companies understand that in the same way they have disrupted, another good idea could be just around the corner ready to usurp their own models. Consequently, innovation remains high on their agendas. Take Uber, for instance, it has positioned itself at the forefront of autonomous vehicle development, working with many major players in the automotive world. It has also set up its own Advanced Technologies Centre in Pittsburgh to make 'self-driving Ubers' a reality.

Even if an organisation is not bidding for all-out disruption, there are many lessons to be learned from the leadership of these companies. All leaders wishing to stay ahead of the curve need to adopt similar mindsets and instil a culture of innovation and re-invention as well as a degree of disruption in their workforces.

This is easier said than done, especially in traditional organisations, but it is achievable as long as leaders are prepared to be courageous. According to Mystkowski they have to be entirely comfortable with risk-taking and accept that mistakes will be made and even failure along the way. “There are leaders out there who want to hear about the mistakes rather than the successes,” he says. “They take the view that this reassures them that boundaries are being pushed. “Leaders should devote as much time as they can to encouraging discussion and debate around failed initiatives as that has real value when it comes to building a creative/disruptive culture,” he adds. He also recommends optimising the decision-making process by removing hurdles and obstacles so new ideas can be rapidly tested and ratified. “That process of validation should take place as speedily as possible,” he says.

Leadership teams should give people at all levels in the organisation the chance to contribute fresh thinking and ideas and they should also be incentivised. “Once a person makes a contribution, link it very much to business goals and objectives and reward that contribution.”

Mystkowski concludes that fostering a culture of creativity and innovation can be in direct competition with some aspects of how a business normally runs in terms of control. But leaders must find the right balance if they are to exploit the potential opportunities of the digital world.

## 5. Conclusion

Never before has the phrase ‘threats and opportunities’ better summed up the next few years for UK leaders. Many organisations are going to find themselves under pressure to bring radical changes to what they do and how they do it. Those companies which confront the challenges head-on though, and turn digital to their advantage, have far less to fear though than those who believe they can simply ride out the storm.

The digital leadership void highlighted by experts must be bridged at both organisational and country level. And leaders in senior management positions need to recognise that it will hold their organisations and UK plc back if ignored.

Innovation and ideas generation has to become a priority even if it means taking risks and making mistakes on occasion. A first time round idea that doesn’t work out could be what gives the organisation competitive edge once it is developed a stage further.

Invite ideas and input from not only employees at all levels but also customers and suppliers who may bring a different take on how a market may be developing and reshaping.

The over-arching task of business leaders is to ensure their organisation is positioned and equipped to be the one that gains digital advantage whether it be by full-blown disruption with a radical new business model or evolution of existing products and services that precisely meet the need of both today’s and future customers.

Not everyone has to be an Uber or Airbnb but leaders do have to think and act like one. Here’s a checklist to help you.

■ Understand the new, always on, 24-7 customer and map customer journeys in the digital to world, paying great attention to detail.

■ Explore some of the stories behind successful disruptive business models and organisations. They may be entirely different from your own but learn from them.

- Adopt a data-driven approach for decision-making and explore additional ways of exploiting data in the business. How can it help you better understand your customers and improve service delivery?
- Make idea creation a priority and foster a culture of innovation. Transform the performance culture of your organisation.
- Make heads of department directly accountable for customer service and service levels.
- Make it clear that service excellence is the number one priority on the organisation's agenda.
- Clearly articulate the vision to the workforce and make sure everyone is aligned behind the mission.
- Adopt a risk-taking mindset and encourage debate about why a project failed or mistakes were made.
- Optimise the decision-making process so there are fewer obstacles to bringing ideas to fruition, testing and validating them.
- Establish a reverse mentoring programme so younger members of the organisation can impart digital and social media acumen to more senior people.
- Be vigilant about your brand online and offline. Keep in mind that your products and services could be reviewed, rated and/or slated at any time.



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