

What makes digital leaders

A full C-suite perspective



Written by

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Economist**

Intelligence
Unit

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About this research

What makes digital leaders: A full C-suite perspective, a survey conducted by the Economist Intelligence Unit and sponsored by DXC Technology, explores links between digital technologies and strategic success, current investments in IT and how companies plan to use digital technologies going forward. This report's analysis is based on a sample of 514 respondents comprising CIOs and senior executives at companies across a range of industries and regions. The breakdown by role is as follows:

- 61 CIOs
- 100 other senior IT executives
- 200 C-level executives with other functional specialties
- 52 senior finance executives
- 51 senior marketing executives
- 50 senior operations executives

Respondents span regions and industries, and their companies were nearly evenly split between those above and below \$500m in annual revenues.

We would like to thank the following individuals for their insights:

Rajan Anandan, vice-president and managing director, South East Asia & India, Google

Pat Gallagher, CEO, Arthur J. Gallagher

Kathy McElligott, CIO, McKesson

This report was written by Scott Leff and edited by Josselyn Simpson.

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Foreword from DXC.technology

Welcome,

Digital disruption is accelerating the pace of change for all industries. CSC and HPE Enterprise Services are better acquainted with this disruption than most other companies – for not only have we undergone wholesale transformations over the past few years, but we have also leveraged that experience to help our clients with their own digital transformations.

These parallel journeys have led us to combine our companies to form DXC Technology, designed from the ground up to drive digital transformation – with streamlined operations and processes, a collaborative workforce, and analytics in the forefront. We are now in an even better position to lead our clients as they undergo their own transformations into 21st century digital enterprises.

In the midst of this shift, we commissioned The Economist Intelligence Unit to develop a more comprehensive picture of how other companies are dealing with digital disruption. Are they embracing change? Are they open to next-gen technologies? Are they developing the talent they need to go digital?

The Global Digital Enterprise Survey was able to answer these questions and more, and it identified companies around the globe that are not just coping with change. These organizations are developing a clear vision of the opportunity that change presents, and they're putting the people and resources in place to fully capitalize on it.

Here are a few results from the survey that make the point:

- **“Going digital” is dominating the agenda.** More than half of the survey respondents (54%) say they are becoming more digital to operate more efficiently, while others (35%) see cost-cutting as their primary goal and 27 percent are going digital to keep up with competitors.
- **Next-generation technologies are rapidly becoming now-generation.** Nearly half of all respondents say they will begin to adopt cloud applications or increase their use over the next three years, while investments in on-premises servers and desktop PCs will decrease.
- **Digital leaders are coming to the fore.** These are enterprises that, according to their executives, are entirely digital across all major functions. They are more often globally integrated than other companies and frequently report higher financial performance; 37 percent indicate that their financial performance was much higher than that of their competitors' in the past fiscal year.

Whether you're still developing a digital vision or actively executing on a strategy, this study offers insights into the actions that digital leaders are taking now – not just to keep up with change, but to thrive on it.

Enjoy the report.

Cheers,

Dan Hushon
Chief Technology Officer
DXC Technology

Introduction

What makes digital leaders: A full C-suite perspective

Digital technologies, such as cloud computing and mobile applications, are fundamentally transforming the way businesses operate. Companies realise they must go digital and are increasing their spending on technology accordingly. For example, IDC estimates that total global expenditures on IT products and services will reach more than \$2.7trn in 2020, a compound annual growth rate of 3.3% from 2015.¹

Despite such increasing investment, most companies have not fully taken advantage of newer digital technologies. In fact, many companies still tend to see IT as operationally helpful but not a strategic differentiator, according to a survey of more than 500 C-level and other senior executives both inside and outside of the IT function. The survey, conducted by the Economist Intelligence Unit (EIU) and sponsored by DXC Technology, also shows that many companies haven't made the links across their organisations that would enable technology to empower the business. However, nearly half of respondents expect their organisations to become even more digital, integrated and collaborative going forward.

Some companies, however, have already made the leap: The survey identified 41 “digital leaders”—enterprises that, according to their executives, are entirely digital across all major functions. Digital leaders enjoy several key benefits. They are more often globally integrated than other companies and much more often effective at sharing information across functions and regions. The majority of executives at digital leaders view IT as crucial to meeting their companies' strategic goals. And digital leaders' executives also more often report higher financial performance: 37% of their executives indicate that their fiscal performance was much higher than competitors' in the past fiscal year, compared with just 11% of respondents at other companies.

Important to note: The mix of respondents in this “digital leader” segment mirrored the survey sample as a whole—it represents all sizes, regions, and industries—suggesting that digital leaders are pursuing a truly distinct path from other companies rather than being influenced by their particular industry, region or budget size.

As businesses seek to become more digital, they must overcome a number of challenges, including, executives expect, constrained budgets and a lack of qualified talent. Companies intent on developing an IT strategy for the fully digital future could gain valuable insight from the approaches that have worked well at digital leaders.

¹ “Worldwide IT Spending Forecast to Reach \$2.7 Trillion in 2020 Led by Financial Services, Manufacturing, and Healthcare, According to IDC,” IDC, August 29, 2016 (<http://www.idc.com/getdoc.jsp?containerId=prUS1699316>).

Investing in IT to drive better performance

Since technology drives every facet of the business, a company's investments in digital tools can be an indicator of its priorities and overarching strategy. Our analysis of the global group of respondents suggests that executives on the whole see investments in digital technologies as a way to boost operational performance rather than as a strategic move. More than half of respondents (54%) indicate that they are becoming more digital to raise efficiency—for example, by providing employees with tools to streamline daily tasks. Meanwhile, 35% see cost-cutting as their primary goal. Slightly more than one-quarter view going digital as a way to keep up with new, fully digital companies, while just 10% pursue technology as a way to surpass competitors.

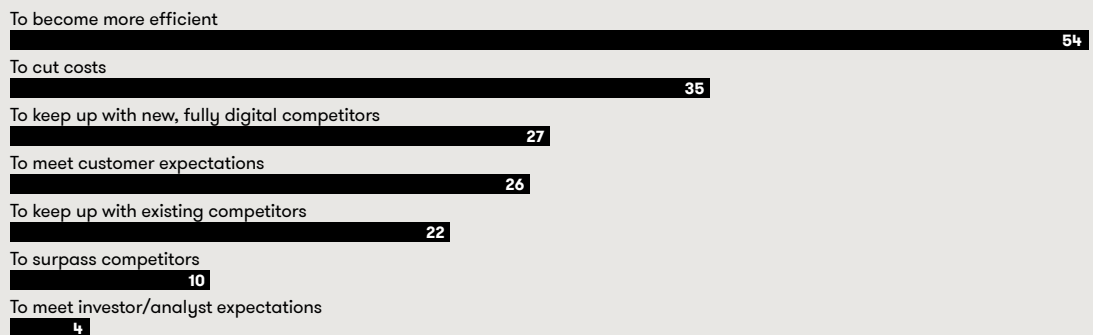
Even with these mostly operational goals, the survey found that companies are planning a clear transition from legacy technologies to emerging ones: Overall, executives expect to invest in more cloud and mobile technologies over the next three years while reducing their reliance on traditional technologies such as PCs and on-premise servers. Whereas proprietary software used to be a competitive differentiator, many companies see the latest cloud-based technologies as table stakes.

Arthur Gallagher, a global insurer with more than \$5bn in annual revenues and locations in 32 countries, understands the imperative to keep pace with the competition. CEO Pat Gallagher notes, "Everybody's connected; everyone wants information at their fingertips every second. And you'd better be able to put it on an iPhone or a tablet."

Kathy McElligott, the CIO of McKesson, a pharmaceutical distributor and healthcare information company with more than \$40bn in annual revenues and 68,000 employees, has guided McKesson on the path to digital technologies. "We began to virtualise our systems to use fewer physical servers in our data centres," she says. "Since then, we've implemented our own private cloud offering and are

Why go digital?

What are your company's primary goals in becoming more digital?
[% respondents]



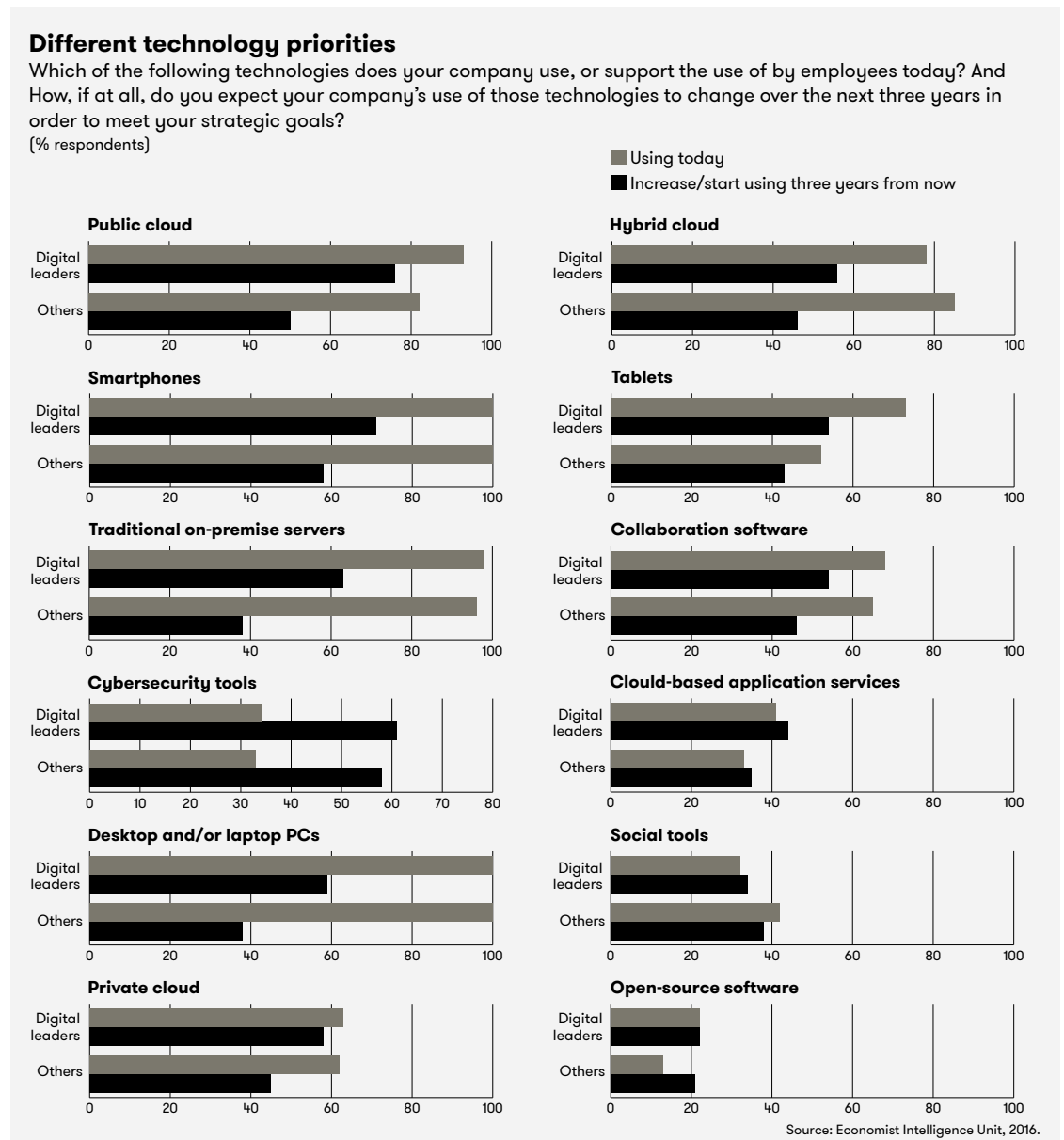
Totals do not add to 100% because of rounding and because respondents saying "don't know" are not included.

Source: Economist Intelligence Unit, 2016.

moving toward a private-public hybrid offering to increase the speed of our development and provide the ability to leverage lower-cost computing and storage.”

Following the same path, nearly half of all respondents say they will begin to adopt cloud applications or increase their use over the next three years, and around 48% plan to boost their spending on collaboration software. These investments are likely to provide employees at global organisations with the tools they need to work more productively. Further, 1 in 7 respondents (nearly 16%) indicate that their companies will reduce the use of on-premises servers, and 12% plan to cut spending on or stop using PCs altogether.

Digital leaders, meanwhile, are out ahead of other companies in prioritising investments in the public cloud, in collaboration software and in cloud-based application services. “The reality is big decisions can get made very quickly because of collaboration platforms,” says Rajan Anandan, vice president and managing director of Google, South East Asia & India. “What makes companies like



Google and other technology companies very special is when you add these technology-enabled collaboration platforms to very flat management structures where anybody can talk to anybody, decision-making speed goes up dramatically. For example, we can set up a meeting with 10 leaders from different parts of the world 5 minutes before the meeting starts. After 15 or 20 minutes, we can make a decision and move on.”

Further, 63% of digital leaders indicate that they plan to increase their overall IT spending somewhat or significantly in the next three years, compared with 52% of other companies. Notably, around 60% of digital leaders also indicate that they will increase use of traditional technologies, such as on-premises servers and desktop and laptop PCs over the next three years—perhaps a reflection of their greater overall IT spending. (Just 40% of other companies will increase use of these traditional technologies during the same period.)

Surprisingly, spending on cybersecurity is lagging far behind investments in other tools despite regular headlines about cyberattacks and security breaches. More than one-third of the respondents say they plan to start using cybersecurity tools in the near future. This may suggest that the rapidly evolving nature of cyberattacks has simply outpaced the ability of many organisations to make targeted investments to safeguard themselves. Ms McElligott notes, “The cyber landscape is incredibly dynamic and increasingly sophisticated, and companies must continue to invest in the space.” Investments in cybersecurity vary by region: 50% of respondents in Asia-Pacific say they will increase or start using cybersecurity tools, a figure that jumps to 56% in North America and 61% for EMEA, where privacy concerns are at the forefront of public concern.

The fast track to a digital future

Looking ahead, executives understand that investments in technology alone won't make a company entirely digital; talent has a vital role to play as well. Overall, respondents indicate that IT will need to improve and expand its skills over the next three years, with the most focus on managing big data analytics (38%) and application modernisation (37%). Data analytics will be critical to identifying new market opportunities, serving customers more effectively and managing risk, while application modernisation reflects an emphasis on bringing proven applications into the digital age.

Interestingly, though, digital leaders emphasise slightly different priorities. Respondents at those companies are looking mostly at application modernisation (49%), collaboration (44%) and mobility (39%)—all investments to empower the mobile workforce—along with investments in cybersecurity tools (39%).

Executives cite several barriers they will need to overcome to improve performance and support business strategy. Budget constraints are the primary obstacle, cited by nearly 40% of survey respondents. Just 17% of executives say their companies plan to increase their IT budgets significantly over the next three years. Other challenges include IT budgets that are consumed by existing IT workloads and difficulty finding talent with the requisite skills to support IT's

mission. Despite these concerns, respondents remain very confident in their IT function's ability to deliver the technology and capabilities needed to support the business.

Digital leaders are far more confident than those at other companies regarding IT's ability to deliver on both the technology (88% of respondents compared with 55%) and capabilities (85% v 47%). In the coming years, these respondents believe their companies will collaborate very effectively across regions and business units and with customers.

This optimism might stem from the fact that nearly 4 in 10 digital leaders expect IT spending to increase significantly in the next three years, compared with just 15% of other companies. Looking at spending expectations more broadly, 53% of all respondents expect some increase in spending over the next three years, which is in the mid-range of reported spending increases from prior DXC surveys. In 2013, for example, 46% of companies reported spending more on IT than in the previous year; in 2015 that number rose to 64%.¹

Mr Gallagher makes a direct connection between IT investments and performance. "We've taken our margin up about 4.5 total points over the last five years. We've just gotten better and better and better at all the other operating expenses. And a large part of that's been driven by tech."

¹ The CIO's new role: Core strategy enabler, CIO Barometer 2013, DXC, 2013.

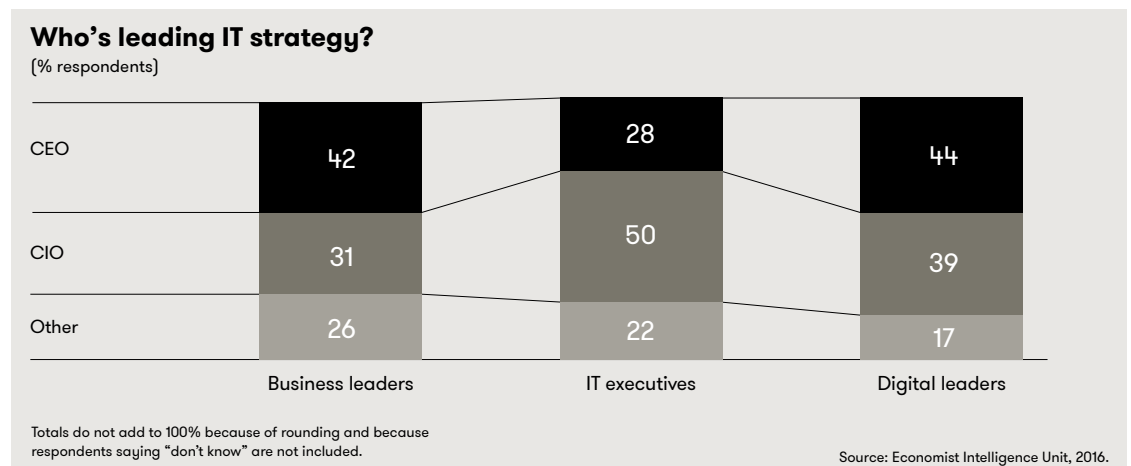
What sets digital leaders apart

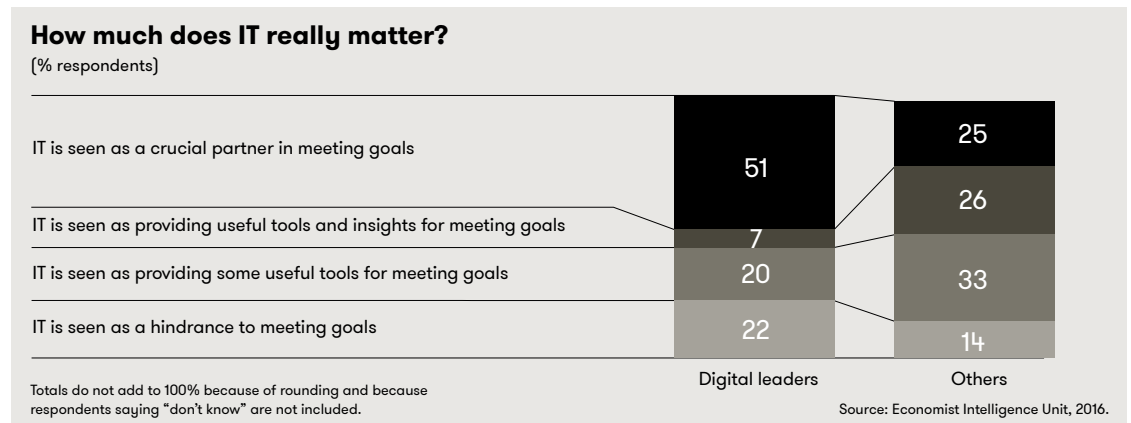
A company's progress on the digital journey can vary markedly depending on who controls IT and its budgets, the specific IT investments an organisation makes and how the function is perceived in the company. Comparing digital leaders with other companies highlights these differences and suggests possible implications.

Primary driver of IT strategy

When asked to identify the executive who is the primary driver of IT strategy, respondents split evenly between CEOs and CIOs, at 37% each. That the vast majority of respondents say one or the other of these two executives leads IT strategy—not the strategic planning group, another C-level executive or other corporate leader—reinforces how central IT has become to business. McKesson's Ms McElligott notes that at her company, "The CIO/CTO role is a direct report into our CEO and is an active member of our executive committee. This means that technology is not limited to the CIO/CTO organisation but is imbedded throughout our company."

At digital leaders, 44% of respondents indicate that the CEO is the primary driver of IT strategy. This result might suggest that many of these companies place additional emphasis on the importance of technology in achieving business goals, with ultimate authority resting with the CEO but informed by the CIO. Google's Mr Anandan believes that CEOs must be deeply involved for a fundamental reason: "You have to identify the set of problems and opportunities you're trying to capture. So business strategy basically leads to a digital strategy that then leads to an IT strategy."





IT's role in business strategy

Digital leaders, the survey shows, are more likely to put a high value on IT's contribution to the organisation. Just over half of executives at digital leaders say that IT is a crucial partner in meeting strategic goals, compared with one-quarter of other executives. Mr Gallagher notes, "The whole goal of IT is to make sure that the expertise, wherever it's located in the world, can be at the point of sale or point of need for a client 24/7 anywhere we are."

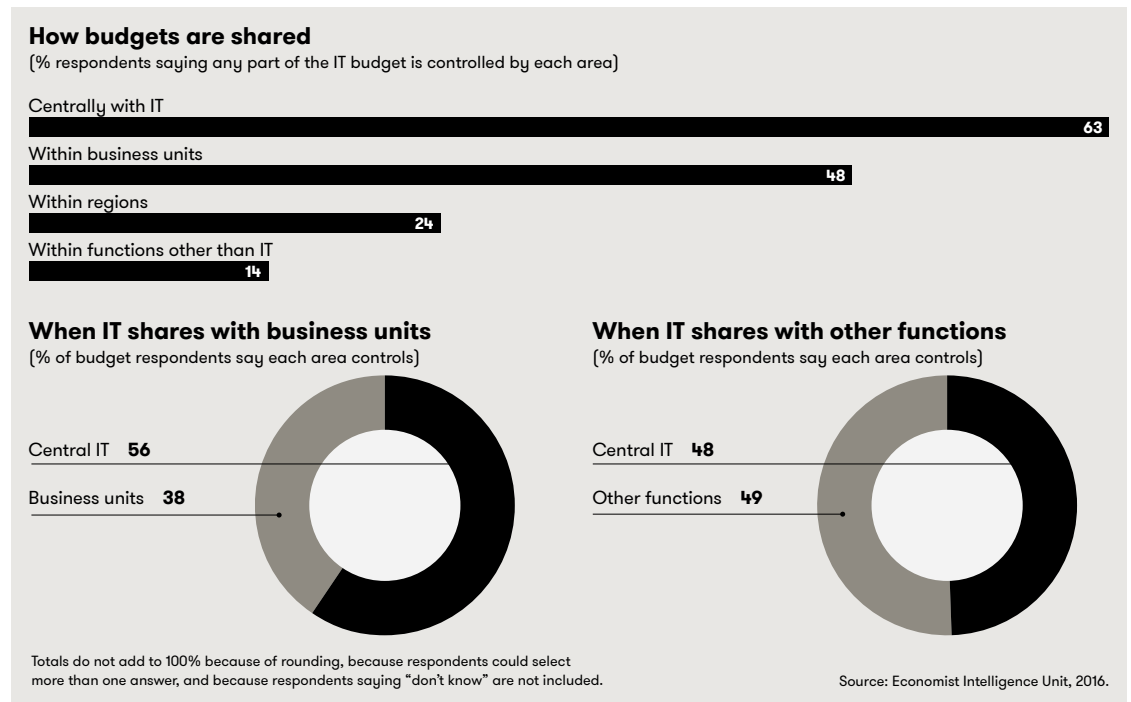
Fourteen percent of all survey respondents, however, view IT as a hindrance, perhaps indicating rising expectations, IT functions that have failed to keep pace with evolving business needs or reluctance among end users to embrace new tools and systems. Unsurprisingly, IT executives are far more likely than other business executives (37% v 23%) to see IT as playing a crucial role in shaping business strategy.

IT executives' perception of an important strategic role for their function—and other executives' varied perceptions—has been a pervasive element in the dialogue about IT's role over the years. In DXC's 2013 survey of IT executives, for example, respondents assessed the related question of where IT's value comes from. Sixty-five percent of those respondents cited IT's value as stemming from innovation and value creation, key goals of effective business strategy. That compares with a finding from DXC's 2012 survey that business managers more often saw IT as a cost centre (43%) than as a collaborative partner, suggesting that the gap in perception is entrenched.

Budgetary control

At digital leaders, 85% of executives say that the central IT function controls at least some of the IT budget, which may signal a more unified digital strategy across the enterprise than the global results, in which 63% say that central IT controls at least some of the budget. That said, centralised control can benefit greatly from the input of IT employees throughout the organisation. According to Ms McElligott, "We utilise the CIO/technology leaders of each of our business units to validate and contribute to our strategy and agree on specific priorities across the company. This allows us to obtain full leverage of our size as we set enterprise agreements."

In many companies, IT continues to handle enterprise-wide procurement and systems integration, but business units are increasingly purchasing cloud solutions, among other forms of technology, without involving IT. For all companies, IT has seen waning budgetary control and the survey results reflect that. Overall, 63% of respondents indicate that at least some part of their IT budget resides



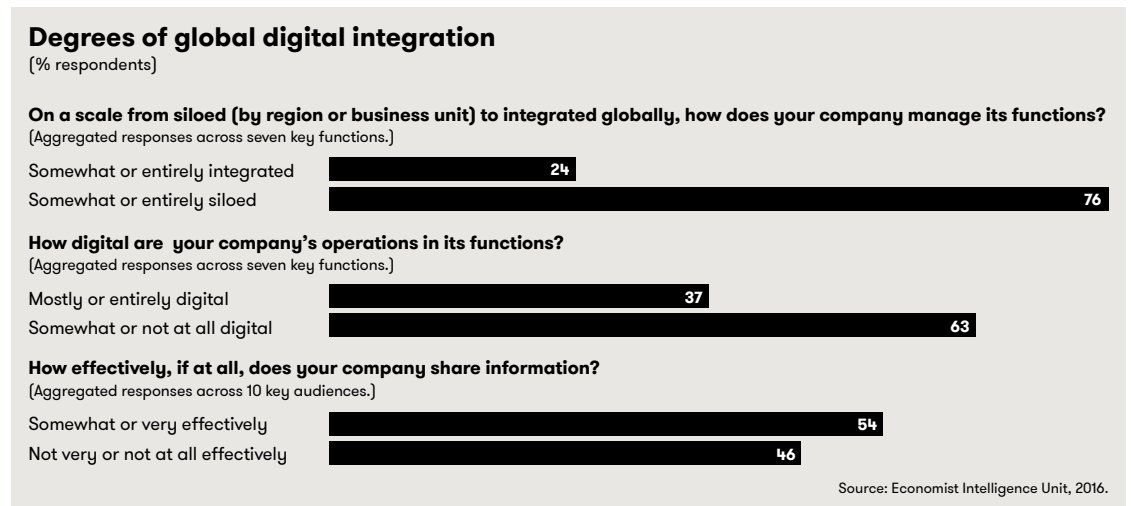
with the central IT department; nearly 48% say business units have at least some control of IT investments. Google’s Mr Anandan notes, “Increasingly, what you’re seeing is functional leaders who are very engaged in how they can leverage digital technologies to dramatically improve the performance of their functions.”

The average share of budget in each area, executives say, varies widely depending on which combination of budget locations a company uses (see graph on following page). Such distributions may reflect the growing influence of business units on IT purchasing decisions as well as the proliferation of cloud-based applications tailored to functions (such as CRM for sales) and their role in supporting foundational operations.

Collaboration

On the whole, companies appear to be making strides in collaborating more effectively, with a majority of respondents indicating that their company has achieved some proficiency in this area. However, three-quarters of all companies still struggle with siloed organisations, and more than 6 in 10 must make progress to become mostly or entirely digital. While digital technologies are a core element of collaboration across the enterprise, companies must also overcome organisational obstacles to harness these tools and drive greater collaboration.

Digital leaders excel across all three of these categories; their functions are entirely digital, and they exceed other companies on organisational integration (28% say their functions are somewhat or entirely integrated) and collaboration (93% say they share information somewhat or very effectively). Mr Anandan believes that younger companies have a natural advantage in collaboration. “Most digital businesses tend to be very open and nonhierarchical. They tend to thrive in sort of cross-functional environments. Any company that has been founded in the past 20 years, I think by definition is more collaborative, tends to operate much more in a cross-functional kind of way.”



Notably, IT executives far more often perceive their organisations as having globally integrated functions than do business executives—perhaps the result of IT departments' typically cross-functional engagement. Equally notable, the differences of opinion are far smaller on how digitised functions are or how well companies share information with a range of important stakeholders. Even with the divergence of opinion, nearly half of respondents overall expect their organisations to become even more digital, integrated and collaborative in the coming years.

Going digital all the way

In general, all companies are moving down the path of closer alignment between digital technologies and business strategy. And most expect to become more digital, more globally integrated and better at sharing information over the next three years. Anticipated increased spending on cloud and mobile technologies will help support further integration and collaboration across functions and regions.

Digital leaders offer a glimpse of the way forward as executives seek to coordinate IT spending with business needs to support more efficient operations and contribute more effectively to business strategy. These companies:

- More often say the CEO leads the IT strategy
- More often say the IT budget is controlled within IT
- Are focused on increasing use of collaborative technologies—and more often say they expect to increase investment

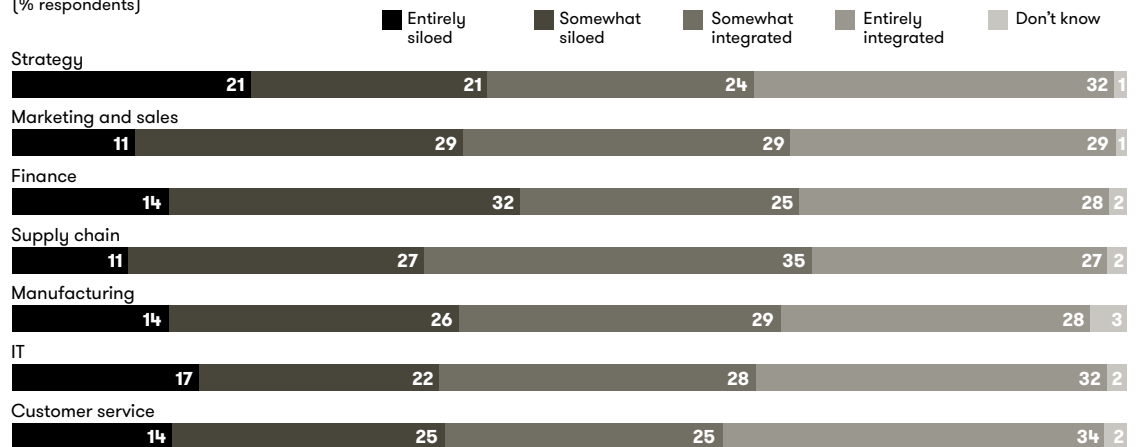
As technological advances offer greater capabilities, it will be even more critical for executives to take a cue from digital leaders to develop more effective digital strategies.

Appendix: survey results

Percentages may not add to 100% owing to rounding or the ability of respondents to choose multiple responses.

How does your company manage each of the functions below, on a scale from siloed (by region or business unit) to integrated globally?

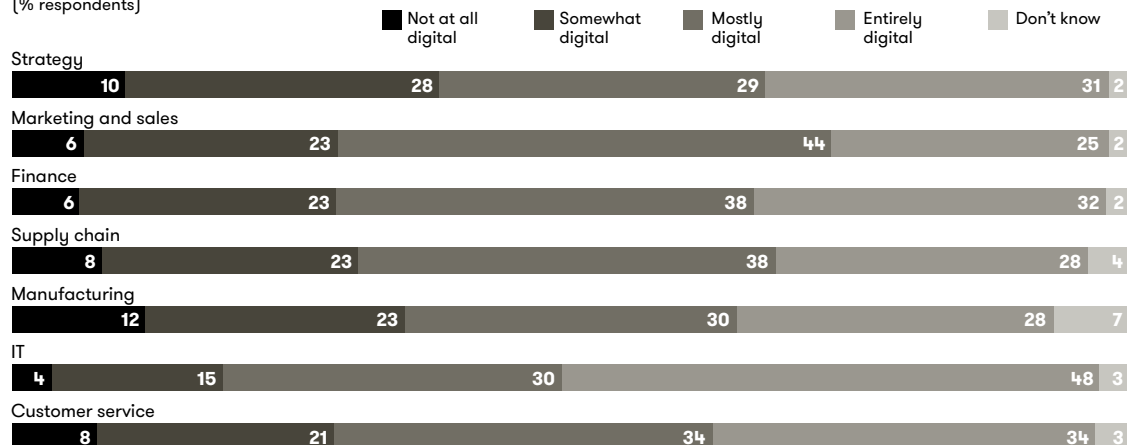
Select one in each row.
(% respondents)



How digital are your company's operations in each of the functions below?

For the purposes of this question please define "digital" on a scale from common use of PCs in your daily operations (somewhat digital) to common use of apps and mobile devices (mostly digital) to common use of the cloud (entirely digital).
Select one in each row.

(% respondents)

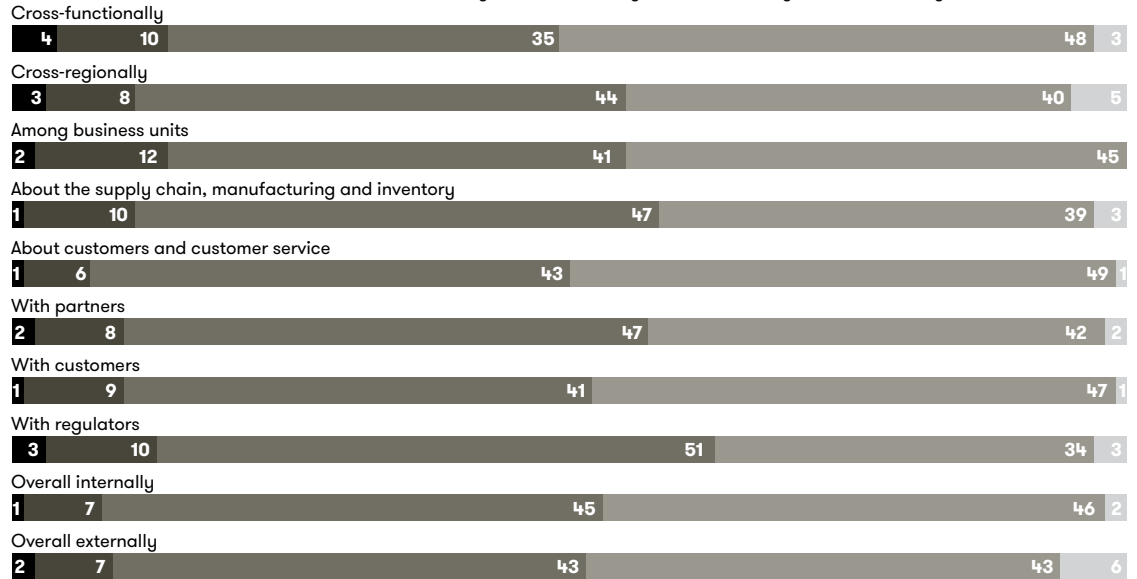


How effectively, if at all, does your company share information in each of the following ways?

Select one in each row.

(% respondents)

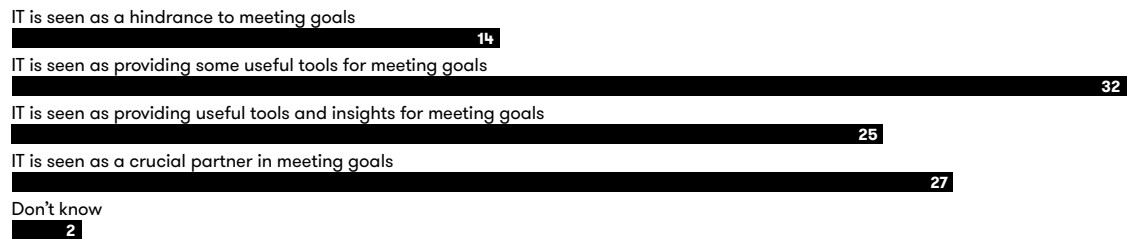
Not at all effectively
 Not very effectively
 Somewhat effectively
 Very effectively
 Don't know



Which of the following, if any, best characterises the perception across your company of IT's role in meeting the company's strategic goals?

Select one.

(% respondents)



Where do your company's IT budgets sit?

Select all that apply.

(% respondents)



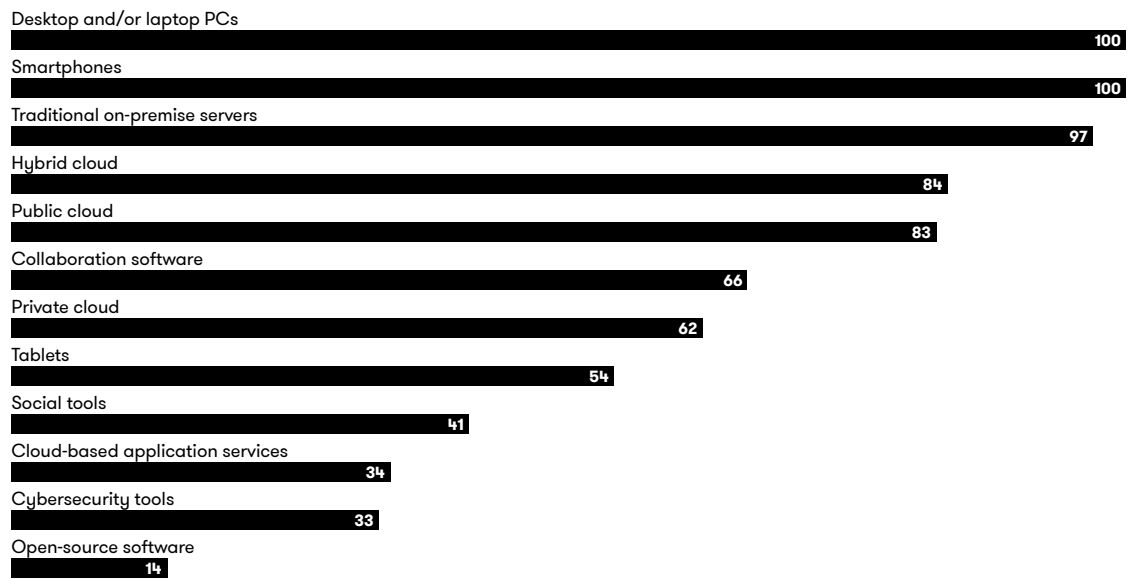
Who is the primary driver of your company's IT strategy?

Select one.
[% respondents]



Which of the following technologies does your company use, or support the use of by employees, today?

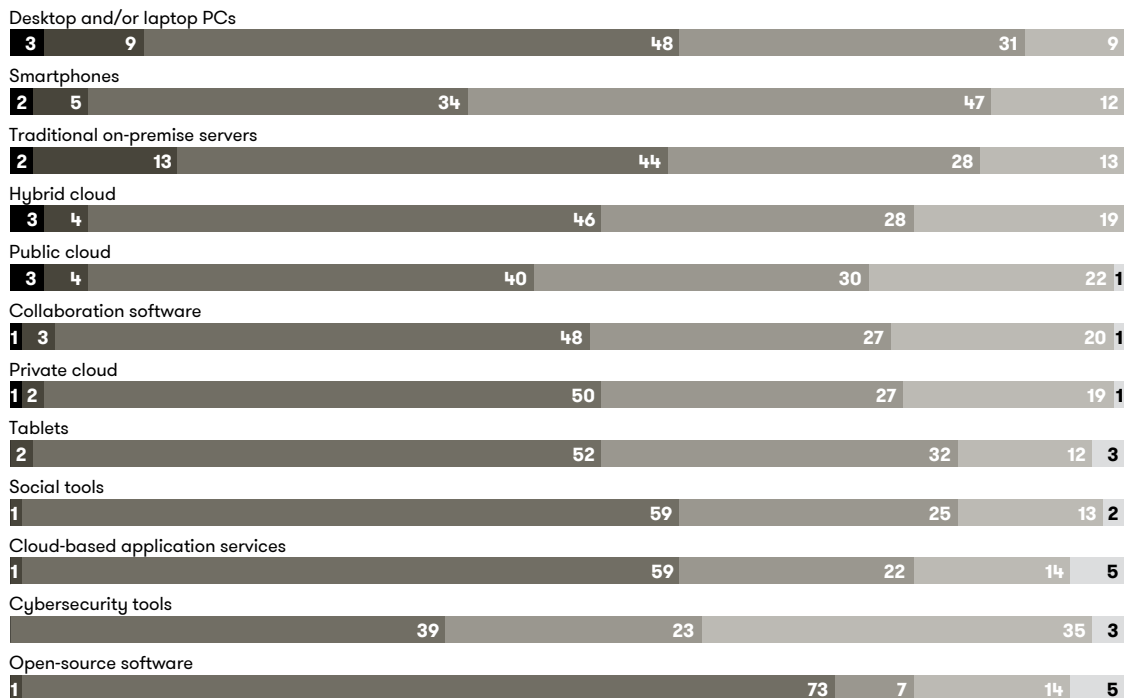
Select all that apply.
[% respondents]



How, if at all, do you expect your company's use of each of the following technologies to change over the next three years in order to meet your strategic goals?

Select one in each row.
(% respondents)

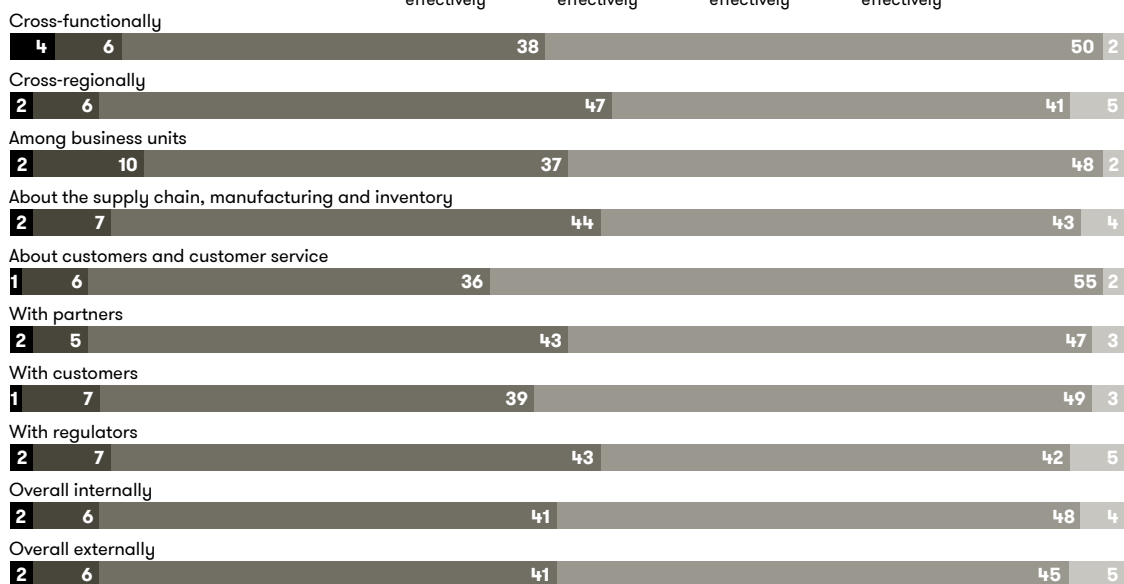
Stop using
 Reduce use
 No change
 Increase use
 Start using
 Don't know



Three years from now, how effectively, if at all, will your company need to be sharing information in each of the following ways in order to meet your strategic goals?

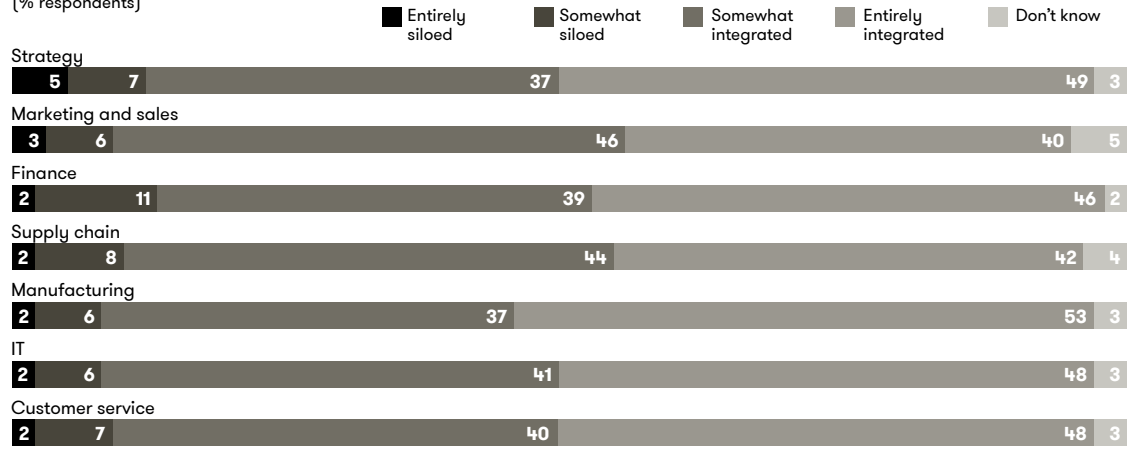
Select one in each row.
(% respondents)

Not at all effectively
 Not very effectively
 Somewhat effectively
 Very effectively
 Don't know



Three years from now, how do you expect your company to be managing each of the functions below, on a scale from siloed (by region or business unit) to integrated globally?

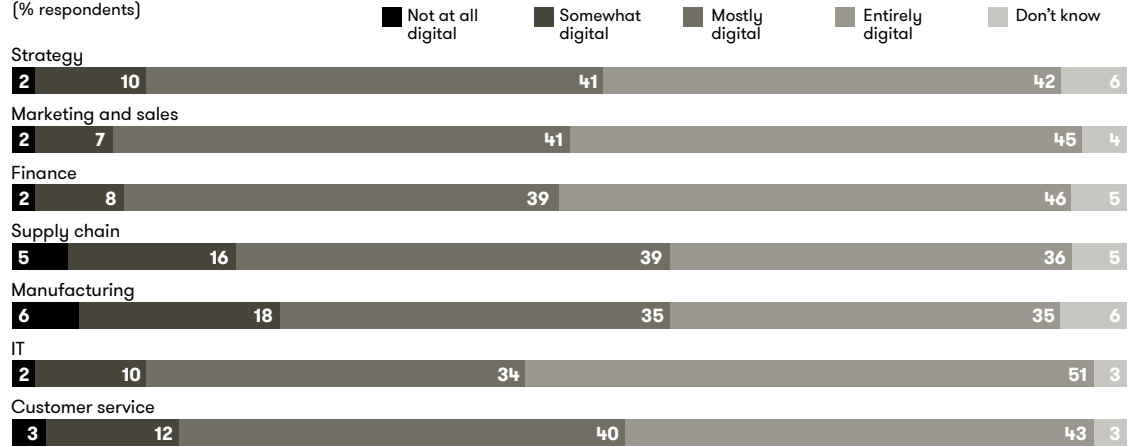
Select one in each row.
[% respondents]



Three years from now, how digital do you expect your company's operations in each of the functions below to be?

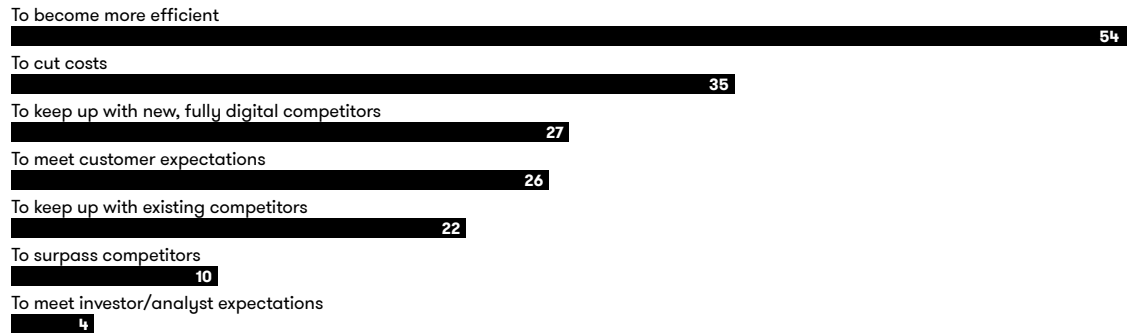
For the purposes of this question please define "digital" on a scale from common use of PCs in your daily operations (somewhat digital) to common use of apps and mobile devices (mostly digital) to common use of the cloud (entirely digital).

Select one in each row.
[% respondents]



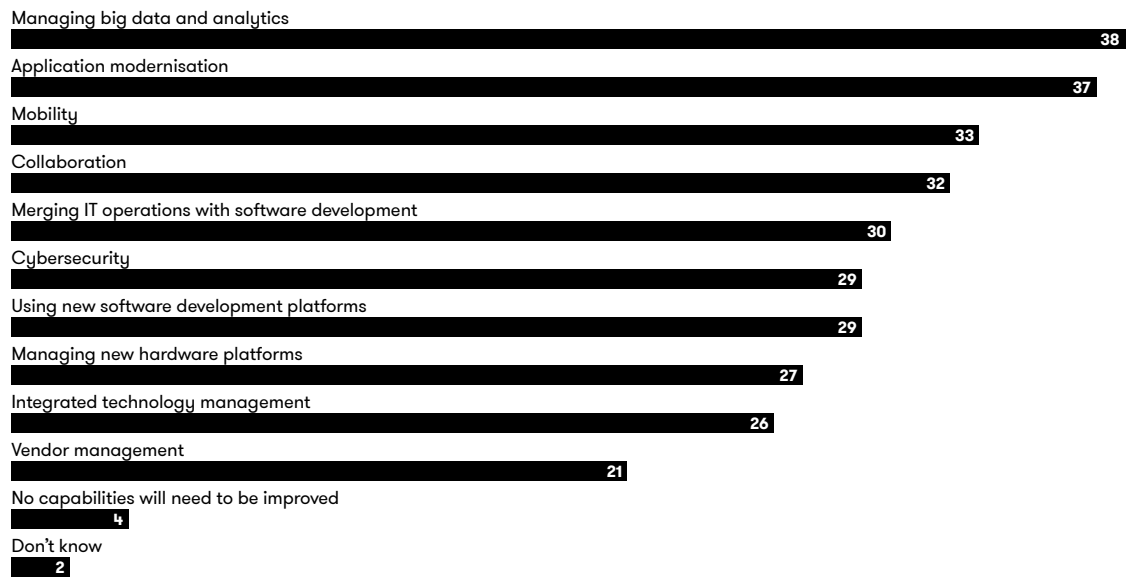
What are your company's primary goals in becoming more digital?

Select up to two.
[% respondents]



Which capabilities will your IT function need to improve over the next three years in order to meet your strategic goals?

Select all that apply.
[% respondents]



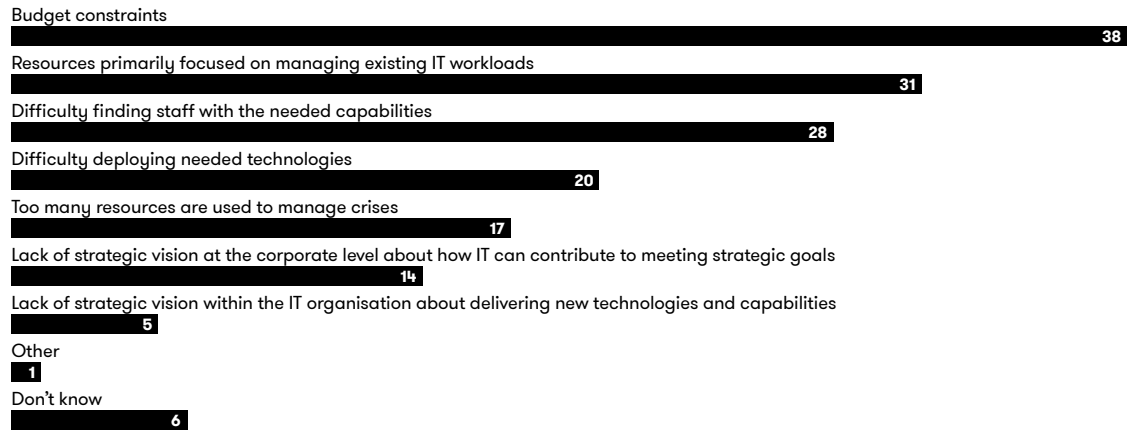
How confident are you that your IT function will be able to deliver the technologies and capabilities the company will need in order to meet its strategic goals?

Select one in each row.
[% respondents]



Which of the barriers below, if any, do you expect to be the most significant IT will face in delivering the technologies and capabilities the company will need in order to meet its strategic goals?

Select up to two.
(% respondents)



Three years from now, how, if at all, do you expect your company's overall investment in IT to have changed?

Select one.
(% respondents)



Three years from now, how, if at all, do you expect the share of your company's overall investment in IT that is controlled by the IT function to have changed?

Select one.
(% respondents)



What new capabilities will employees outside IT need to develop over the next three years to make the best use of IT innovations?

Select all that apply.
(% respondents)



How confident are you that your company will be able to develop those capabilities among employees?

Select one.
(% respondents)



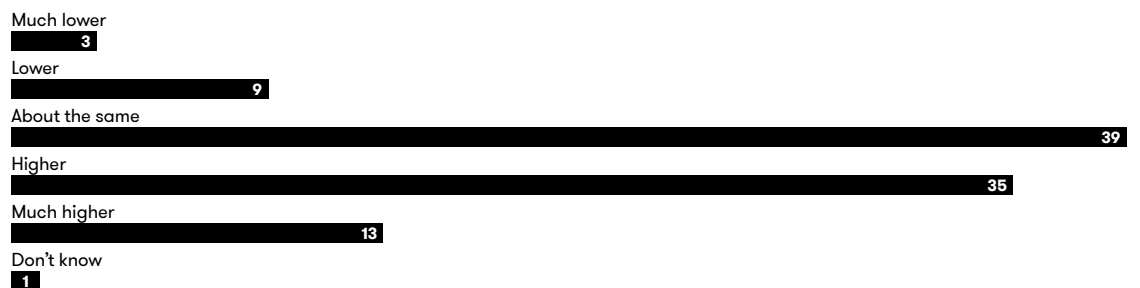
Which of the following, if any, do you expect to characterise the perception across your company three years from now of IT's role in meeting the company's strategic goals?

Select one.
(% respondents)



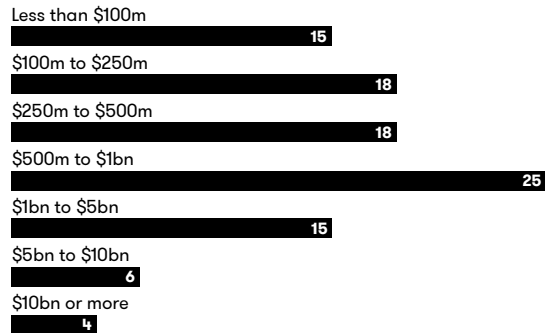
Compared with your competitors, how would you rank your financial performance in the past fiscal year?

Select one.
(% respondents)



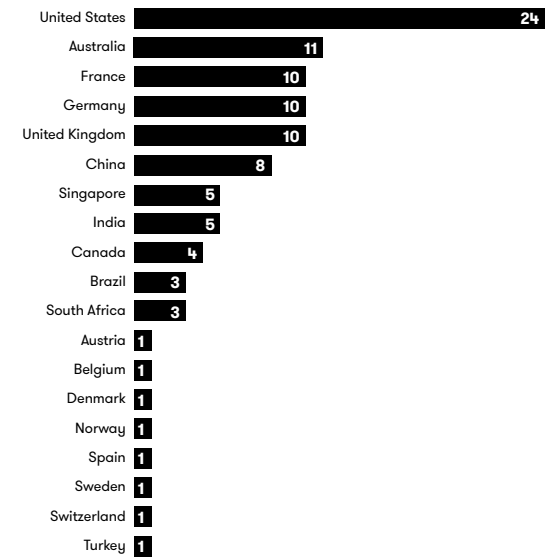
What are your organisation's global annual revenues in US dollars?

Select one.
(% respondents)



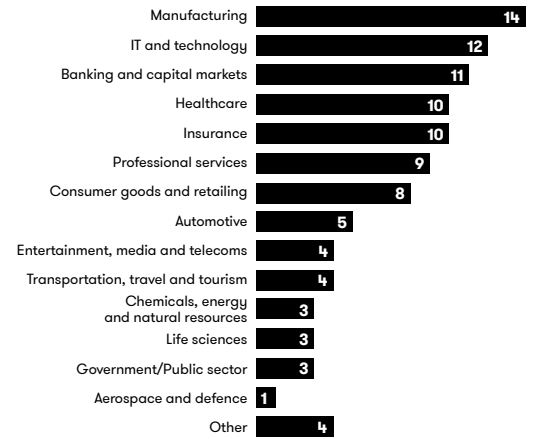
In which country is your company's headquarters located?

Select one.
(% respondents)



What is your company's primary industry?

Select one.
(% respondents)



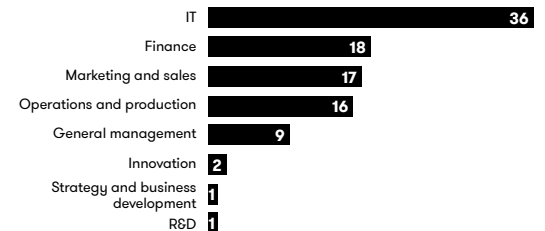
Which of the following best describes your title?

Select one.
(% respondents)



What is your main functional role?

Select one.
(% respondents)



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