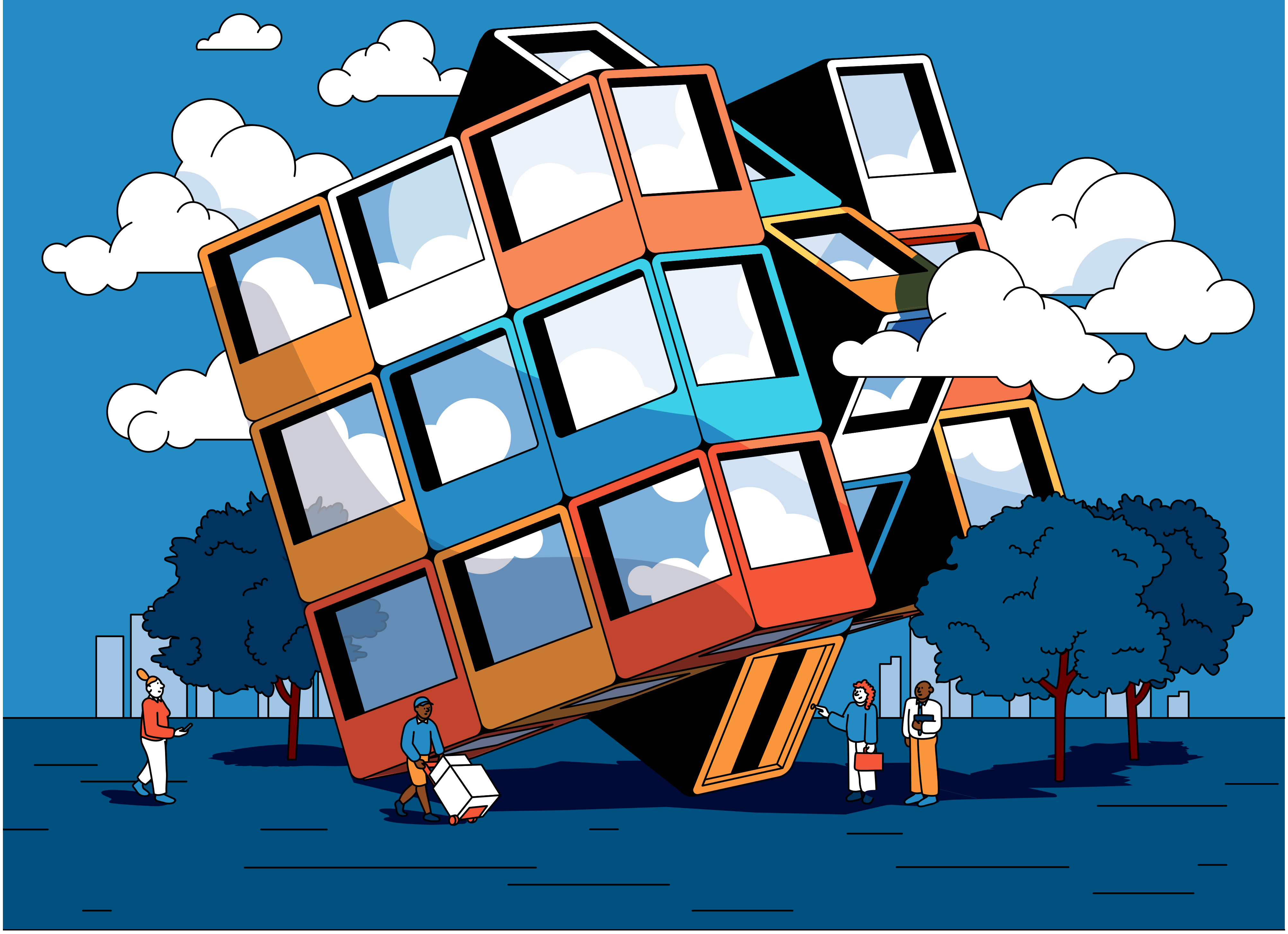
BUSINESS TRANSFORMATION



BUSINESS TRANSFORMATION

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ORGANISATIONAL BEHAVIOUR

How to prevent an outbreak of change fatigue syndrome

People will grow sick of seemingly endless reorganisations. Employers therefore need to take measures to keep staff as engaged and motivated as possible through the disruption

Cath Everett

Change fatigue among employees is becoming a problem for significant numbers of firms. In extreme cases, it can even end up derailing a transformation.

Large-scale change projects undeniably remain a strategic priority for many businesses, but a key threat to their success is that people can only take so much upheaval, particularly since the Covid crisis. Research by Gartner suggests that the tolerance of most employees for further disruption has already been stretched to the limit. The consultancy conducted two employee surveys, in 2016 and 2022, that asked a similar set of questions. It found that the average respondent had experienced two planned workplace changes in 2016. Such changes included departmental reorganisations and the introduction of new working methods. In 2022, that total shot up to 10. Nearly three-quarters (74%) of respondents to the 2016 survey had expressed a willingness to embrace change. In 2022, that total plunged to 38%.

A survey of almost 1,000 US workers by online marketplace vendor Capterra last year produced similar results. It asked them: "How much do you agree or disagree with the statement 'I'm overwhelmed by the amount of change that has taken place at my job'?" Only 23% said that they disagreed to any extent.

Nearly half (48%) of the respondents reported being stressed and tired at work as a result of change fatigue, while 32% felt that it had made them less productive. Of those who reported experiencing such fatigue, 54% were considering a change of employer.

Clearly, such outcomes are the opposite of what most transformation projects are trying to achieve. What's going wrong and, more crucially, what feasible measures can employers take to combat change fatigue and its pernicious effects?

A 2011 US research report entitled *Change Fatigue: development and initial validation of a new measure* characterises the condition simply as a "perception that too much change is taking place". But Karen Jansen, professor in leadership and change at Henley Business School, offers a more specific description.

"This is about frequent and urgent high-intensity changes, granting very little downtime to recover," she says. "There was so much change during the pandemic. When we came out of the Covid crisis, people were suffering from burnout. That was followed by a lot of geopolitical and economic instability. It's been a perfect storm."


Delmaine Donson via Getty

Sophie Seex, managing consultant at talent management specialist Talogy, agrees. She says that change fatigue is becoming more problematic because the world has entered "a permacrisis situation. People are already in a high-threat state owing to what's happening externally, so they're likely to experience change fatigue more quickly than they might have done in the past."

The syndrome typically manifests itself in two ways among those it affects. The first is the onset of weariness and lethargy. The second is a decline in engagement with work, often resulting in a deterioration in performance and the withdrawal of discretionary effort. Sufferers will also tend to become more cynical about their employer's stated intentions and resistant to further change.

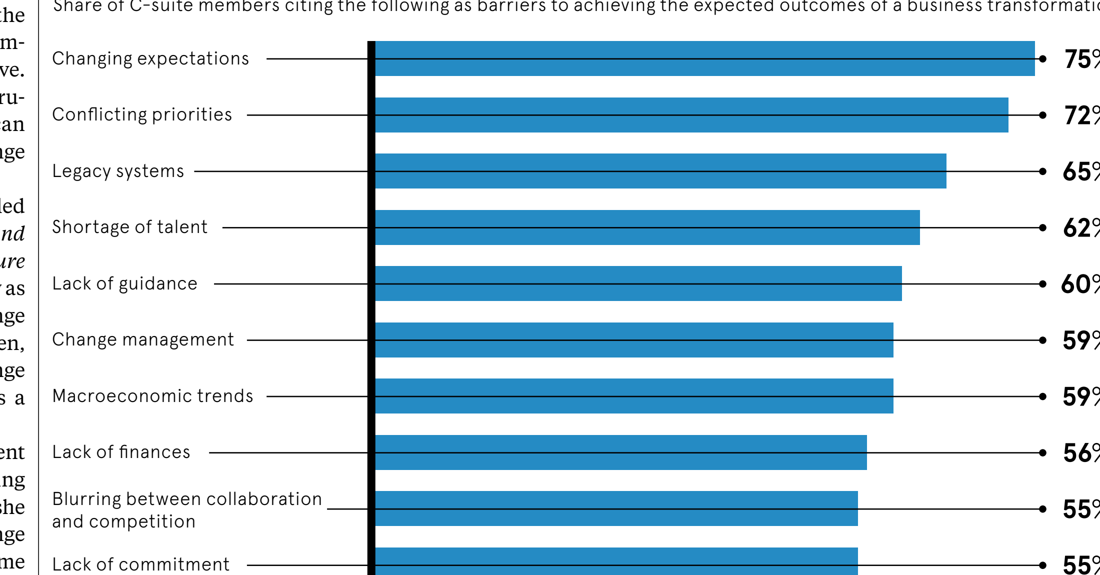
"There's some commonality with burnout in the fact that they're both about overload," says Seex, who is also an occupational psychologist. "Some of the symptoms might therefore be similar, such as people feeling stressed, withdrawing and going off sick. But the causes are different."

The main difference between the two is that burnout concerns physical and mental exhaustion at a personal level, usually resulting from the individual's prolonged exposure to excessive stress. Change fatigue, on the other hand, is generated at an organisational level – although it can lead to burnout too, as Seex explains.

"Our brains love stability. We may struggle if conditions are disruptive and psychologically unpredictable, because that feels threatening to us. It takes more energy to do things ➔

CHANGING EXPECTATIONS AND CONFLICTING PRIORITIES PLAGUE MANY TRANSFORMATIONS

Share of C-suite members citing the following as barriers to achieving the expected outcomes of a business transformation



Deloitte, 2022

differently and deal with whatever may come as a result. That's when burnout can occur," she says.

Ben Collins, partner at business transformation consultancy Oliver Wight EAME, highlights some other telltale signs that change fatigue may be sweeping an organisation.

"A common one is that employees start asking the same questions over and over, as they don't understand why certain changes are taking place and can't buy into them," he explains. "Another is that you're ending up with more long, painful projects that go on well past their deadline as people lose commitment and become less productive."

One way to make transformations more sustainable is to ensure that everyone knows why a big change is occurring and what's ultimately in it for them. So says Pat Lynes, founder and CEO of change consultancy Sullivan & Stanley.

Successful business leaders work hard to ensure that everyone is pulling in the same direction, from directors to front-line workers, he stresses. "They're all aligned with the organisation's vision, purpose and intent. Everyone operates as one team."

Business leaders therefore have a key role to play as "storytellers of change", Seex says, because how they position a narrative can make the difference between "people wanting to join the party or leave the business".

They would also be wise to encourage people to share their views (anonymously, if necessary) about the transformation plan, at the very least to understand possible hidden flaws and potential areas of resistance to it from employees.

Another way to mitigate the risk of change fatigue is to ensure that all of the company's change projects are considered in the round rather than treated in individual silos, as is typically the case. They should also be clearly aligned with the overall corporate strategy.

gorodenkoff via Getty

"You need to look at change projects holistically and ask: 'will these move the needle of business performance?'" Collins stresses. "If they will, they should then be evaluated centrally to better understand whether the right resources and capabilities are in place to ensure that they're all successful."

Projects that are deemed unlikely to move the needle should be scrapped so as not to put extra pressure on a change-weary workforce for little chance of meaningful gain. They should also be prioritised, so that employees don't become confused by conflicting requirements.

Seex notes that "people are more likely to feel excited and see your inspiring vision if you put more resources in to help, but many organisations ask a lot of them without creating the right conditions."

Creating the right conditions includes ensuring that employees are given the guidance, training and coaching they need. It also entails forming the appropriate psychological foundations to make sure that they have an "open rather than defensive mindset, which is all about fight-flight", she adds.

A widely accepted model for influencing and collaborating was proposed in 2008 by David Rock, co-founder of the NeuroLeadership Institute. It's known by the acronym Scarf, which stands for five key "domains" that influence people's behaviour in social situations. These are: status (how valued you feel by the group); certainty (your ability to predict what will happen); autonomy (your sense of control over what's happening); relatedness (how comfortable you feel with others); and fairness (your sense that people are interacting equitably). Change can have an impact on any of these five domains, potentially making you feel anxious or even threatened.

Seex explains: "People like a bit of change if they've chosen it, as they generally enjoy some variety and freshness. But, in an ongoing change situation, leaders must find ways to manage the disruption that can generate by minimising threats using emotional intelligence to create feelings of psychological safety."

That entails being empathetic, reliable and consistent in your behaviour, offering a point of continuity and "stability in a storm", she says.

Another important consideration for those trying to prevent change fatigue is to manage the amount of effort required across the whole workforce to adapt to an ongoing transformation. It can help to create what Jansen calls "energy maps" based on aggregated input from employees to understand where any problems might be occurring. These maps can be used to visualise fluctuations in energy at the individual, team or wider organisational level and so pinpoint where and when recovery time needs to be factored in. Energy maps can also be used in conjunction with heat maps, which depict how much change is going on in various parts of the organisation.

"Once you can see what's happening in different teams, you can start saying 'let's build in regular downtime there and there'," Jansen says.

Adopting this kind of sustainable approach to risk mitigation is vital, given that another tech-driven revolution has started to sweep the business world, Seex warns.

"We're facing the biggest potential change we may experience in our lifetime with the emergence of generative AI. This will cause a lot of disruption and anxiety," she predicts. "With that in mind, the time to get good at managing this is now."

10

The number of planned enterprise changes the average employee has experienced in the past 12 months

74%

of employees expressed their willingness to support organisational change in 2016

But only

38%

expressed willingness to support organisational change in 2022

Gartner, 2023

Case study: making change less of a right hassle

Phil Wilding was appointed managing partner at Wright Hassall in 2022, just when the law firm – established in 1846 – had been through some big changes. As well as introducing new methods, it had replaced its practice management system, which was a core piece of IT. Soon after Wilding took over, he added a cultural change programme to the list. To this end, he reorganised the business and took on three new managers.

"Even before Covid came along, there was change fatigue here, as we'd had a to-do list as long as your arm that kept being added to," Wilding recalls.

To address the situation, he sat down with his team to define the firm's vision and goals. Top of the list was to make Wright Hassall an "exceptional" place to work and improve employee retention.

"Whenever we do anything new, we first consider exactly what we're trying to achieve with it and how that will contribute to our wider objectives," Wilding says. "This is about everyone working towards the same goals, knowing that they all have a part to play."

To do this effectively requires genuine two-way communication, he stresses. That entails both ensuring that everyone understands why a change is needed and listening to their feedback.

Wilding also advocates democratising project delivery. While managers set the framework, their teams now decide how to implement any given initiative.

"Treating people like grown-ups is empowering," he says. "It makes a real difference to engagement."

Is there ever a case for pausing a project?

Unless a temporary break has been planned into a business transformation initiative, it can be tricky to implement. In the case of compliance projects, for instance, deadlines tend to be fixed and the ramifications of missing them can be severe. This means that pressing pause becomes "near impossible", says Ben Collins of Oliver Wight EAME.

But the same is not always true of lower-priority initiatives if a hiatus is deemed necessary to tackle or, ideally, prevent an outbreak of fatigue. In such cases, it's possible that deadlines can be pushed back, employees temporarily stood down and freelancers brought in to fill any gaps, if budgets allow.

"It depends on the kind of initiative," Collins says. "But there may be ways to reduce pressure on people and be flexible with resources. You need to consider whether it's a firm deadline and ask yourself: 'Could we redeploy or retrain staff, or build in resilience by, say, giving people time away from the project for the first week of each month so they can focus on their day jobs?'"

To make this approach work, it's important to take an overview of all the changes taking place across the organisation and understand the cadences of the teams affected.

"If you can ease down the pressure on them at certain times of the month, it'll help to build resilience," Collins says. "These tactics are important, as the relentless nature of it all won't change. That is why planning and building in mitigation factors early on is so vital."

Beyond costs: measuring the value of data

At a time when big investments are under scrutiny, how can organisations take control of data costs and focus on value?

Being 'data-driven' has become a bit of a buzzword, but for many organisations, a data strategy is still in development. Data innovation is often also stifled by budget limitations or by organisations not knowing how to get the most out of the tools and technology available to them.

It can therefore be difficult for leaders to understand the return on investment for data platforms. They may know there's immense benefit in gleaning insights into their business and customers, but getting to that point and quantifying that value is more challenging.

Investment in data isn't slowing down, with data leaders expecting to invest 63% more in existing data and AI platforms and 69% more in new platforms by 2025, according to the Databricks and MIT CIO Vision 2025 report. So how can they justify the costs and enable the shift to a culture that recognises data's potential for profit?

How should organisations approach costs?

One metric used to understand the overall value of an investment in a service or platform is the total cost of ownership (TCO), a financial estimate of the total cost of a product across its whole lifecycle.

Sebastian Wedeniwski, chief technology officer at Deutsche Börse since April 2023, suggests that TCO for data platforms should be categorised into three primary areas. The first area is infrastructure costs, including the initial investment, operational costs, energy consumption and labour costs. The second area is the cost of downtime, which is difficult to measure but includes factors such as reputational damage. The third area is hidden costs related to the efficiency and value of the data.

"How much of the data is copied?" he asks. If there is duplication and redundancy, "you'll have a higher infrastructure cost, higher maintenance costs and higher energy consumption costs."

Kate Harrison, senior manager, business value consulting at Databricks agrees about the importance of expanding the scope of TCO beyond infrastructure costs: "If we're taking a point of view that data is an asset, it's maybe a bit more than just the infrastructure costs that are tied to the total cost of owning and using that data."

Understanding the business value of data

Yann Lepant, Europe data and AI delivery lead at Accenture, says one of the biggest issues organisations face is looking at how to go from data being a by-product of IT to it becoming a business asset.

"The hard bit we see with a lot of our clients is learning how to build the right strategy on how you're going to exploit data and measure the value," says Lepant. "With a number of clients, we work with CFOs to turn that data into something you can put in a balance sheet – suddenly, you're building business cases you can actually report on."

> You need to have the right data strategy, or rather a data and AI strategy, because AI is increasingly at the centre of what operations are trying to scale up

At the core of making the most of, and quantifying, the value of data is a robust data strategy. "You need to have the right data strategy, or rather a data and AI strategy, because AI is increasingly at the centre of what operations are trying to scale up," says Lepant.

Harrison notes the contradictory objectives data teams face when they have to justify costs and do more with less, as well as drive the most value from data. "Data needs across the business are growing, and the outcomes data is meant to be driving are increasing. But, all of a sudden, you're meant to do everything just so much cheaper than you are currently. And there's a tension there." She stresses that cutting corners is not the way to go. There's no point investing in cheap data that's barely going to make a difference to business outcomes.

The case for simplification and consolidation

Another challenge for organisations is complexity. Harrison says: "What we've seen over the past 10 years is this explosion of tools and partners. All these elements have ended up creating really complex ecosystems for making data available in the business and then being able to move it around."

She continues: "One of the things that I think is key, and a big shift we're going to start to see in the industry, is around consolidation and simplification."

For large, complex organisations, simplification will mean reducing the tech stack and moving towards more efficient, self-service architectures. Enabling agility with adaptable and scalable tools is also crucial, says Harrison. "You might not be doing data science now and being predictive, but you know that's going to come down the line. So how are you creating an environment that will give you the agility and speed to be able to upskill quickly when those capabilities become relevant to your business?"

Expanding the data ecosystem

While some organisations are still refining their basic data strategy, others are starting to look to developments on the horizon around data decentralisation and emerging technology. As a leader in a highly-regulated industry, Wedeniwski sees great potential in data and artificial intelligence being used to simplify and automate time-consuming and complex work. For example, it could allow architects to stop spending too much time on governance issues and focus more on creative and strategic tasks.

Wedeniwski believes it is important to move beyond silos, both internally and across the whole business ecosystem, to find opportunities for data sharing. However, he notes that there are questions to be answered around data ownership and who is ultimately responsible for how data is being shared and used.

Harrison agrees that there can be a mutual benefit in data exchange between partners and customers. This works best in non-competitive relationships. For example, sharing information may be useful in manufacturing to manage the uptime of equipment, but less so in retail, where information about consumers is a competitive advantage.

Lepant concludes: "I think the next step could be interesting to see, where data is itself the product and is being augmented across the ecosystem to be enriched at the end, not just by one party, but as a chain."

It's all new and exciting territory. And it's clear that, despite a gloomy economic outlook, the sheer value of data as a currency makes it a key area to invest in. It's an important time for organisations to get a handle on their data and foster a culture of innovation.

63%

increase expected by data leaders to invest in existing data and AI platforms in 2023

Databricks and MIT, 2022

ORGANISATIONAL STRUCTURE

Why mutable enterprises may prove most suitable

A seemingly endless stream of layoffs is signalling the emergence of a new kind of lean enterprise – one where most people must find their place as flexible freelancers

MaryLou Costa

Another month in British business and the redundancies keep coming. Among the latest in the line of layoffs are BT's and Vodafone's plans to shed more than 60,000 jobs collectively over the next few years, representing headcount reductions of about 42% and 12% respectively.

This does not look like a temporary cyclical slump from which the market will eventually recover. The key factors behind this drastic downsizing trend – automation and the need to simplify operations – point to the emergence of a new kind of organisation.

So what will this company of the future look like? Growth numbers recorded by freelance hiring platforms and predictions from futurists suggest that it will take the form of a small core of leaders and managers engaging and overseeing teams of skilled operators working on a flexible, third-party basis.

Richard Skellett is the founder of Globalution, a group of consultancies working in fields ranging from IT and research to HR and marketing. The adjective he uses to describe this new organisational model is "mutable". Mutable enterprises are ditching the traditional model of headcount as a cost and converting it to an outcome-based asset that comes with a direct return on investment, he says.

Skellett and his colleagues have helped many big companies to restructure themselves so that they become more outcome-focused. A fully mutable enterprise, he says, has entered a "permanent state of reinvention", which represents the ultimate business transformation.

"We tend to look at transformation as the digital piece that is enabling business to be conducted differently, but what's missing here is a resource transformation," explains Skellett, who adds that a new tech architecture lacking the resource architecture to match "becomes a big problem. Looking at the transformation programmes that are running at the moment, we have a wonderful opportunity to make this the final transformation and to have organisationally, as well as individually, an operating model that enables this permanent state of reinvention."

> We have a wonderful opportunity to make this the final business transformation

He believes that mutability is a universal model that will eventually apply to all organisations across all functions once two distinct workforces – AI and human – have established their roles.

"Everything will be affected," Skellett predicts. "We're already seeing the formation of organisations where there are few people in the business because they're so automated. The investment community expects to see the emergence of businesses that can achieve 90% profit margins with very little human interaction."

He stresses that the human workforce won't necessarily lose out in this situation. People will need to alter their own operating models as the idea of pursuing a portfolio career becomes more realistic. One benefit of this, Skellett suggests, is that firms may be able to free up more funding for projects that they previously considered 'nice to do' but inessential enough to leave on the ideas page. As a result, many people may get the chance to do more rewarding work.

Platforms specialising in hiring freelance workers – for instance, Catalant, Freelancer.com and YunoJuno – have reported a surge in demand as employers seek a more agile way to staff their projects and people seek to operate more on their own terms, with compensation to match.

Catalant has more than 80,000 independent consultants on its books. In 2021, it saw a 42% year-on-year growth in the number of businesses using its marketplace of freelancers, thousands of whom had been staffers at big consultancies such as McKinsey and Bain. Many of them work regularly on projects for blue-chip companies, with several earning more than $500,000 (£400,000) a year, according to Catalant.

Between July and September last year, 296,000 freelance jobs were posted on Freelancer.com, which saw a particular growth in demand for people skilled in app development on the Android mobile operating system.

As long ago as 2015, the platform started working with the US government and Nasa to find people for complex projects in fields such as electrical engineering and data science. The most recent of these developed an augmented-reality display for emergency first responders. Freelancer.com is also working on an innovation challenge with the US National Institutes of Health on human gene editing, where scientists worldwide will compete for $6m in prizes.

Freelancer.com's VP of managed services, Bryndis Henrikson, reports that she's seeing more and more businesses structured around a small internal team augmented by a rotating cast of freelancers.

"This is one of the biggest transformations of the nature of large business in history, fuelled by the advance of generative AI and AI-powered freelancers," she says.

Shib Mathew, YunoJuno's founder and executive chairman, has observed a similar shift in recent years. He reports that the ratio of permanent employees to freelance workers in many companies has changed to such an extent that entire project teams are being led by freelancers.

"What we see more often these days is a core team setting the direction of a project and engaging much more specialised skills in an agile way," Mathew says.

Skellett believes that the next step on the way to mutability will concern how people develop their skills to maximise their freelance earning potential. They may need to expand into new fields – more a case of lateral skilling than upskilling.

He stresses that, once mutability becomes the organisational standard, "it's no longer going to be about someone on 40 hours a week being paid at a certain rate. They'll be able to go off, look at the outcomes they can deliver with their own value proposition and work to a more portfolio-based model."

39%
of the US workforce was composed of freelance workers in 2022

51%
of those freelancers were working in the knowledge economy

49%
were educated to at least degree level

Upwork, 2022

Commercial feature

Multi-brands must flex their tech muscles to survive

Those daring to embrace change – in their mindset and their tech stack – will stand the test of time

Many of the world's most profitable companies are multi-brands: that is to say, businesses with a portfolio of products with different brand names, all owned and managed by the same company.

As a rule, these multi-brands have worked their way to the top with money and muscle, their significant advertising spend having guaranteed the acquisition of customers.

But times have changed. Big tech has shown that a different path is possible – and potentially more powerful. In this new economy, experience is everything.

However, experience can only be cultivated, not bought. To survive and stay relevant then, multi-brand businesses should take their cue from big tech and embrace the power of technology to unlock experiences. It's a change which will urgently require a shift in both mindsets and tech stacks.

A unique set of challenges

Part of the problem, of course, is that multi-brands are uniquely decentralised. Revenue, decision-making power and go-to-market strategy often sit away from the corporate core.

For brands with a portfolio of hundreds or thousands of different products, isolated decisions around technical strategy and tech stacks can result in an intricate web of siloed architectures. This creates little opportunity to maximise investment or find synergy between brands with feature/functional similarity.

So, to break free of existing silos and the inflexible organisational structures preventing growth, multi-brand businesses must move away from the 'digital transformation' mindset and commit to becoming a fully 'digital enterprise' instead. They must then select the technologies that will provide scalability and consistency of experiences, without compromising on differentiation or innovation.

According to Joacim Jeppesen, chief growth officer at Valtech, all brands will have to become digital enterprises to deliver on customer demands and seal their long-term futures. He warns that failure to do so will "spell the end of those businesses unwilling or unable to evolve".

"Some of the world's most modern, resilient and adaptable businesses, regardless of size or industry, are digital enterprises," he explains, adding that this is not simply down to the technology. "It goes much deeper than that, into the very heart and culture of the organisation. It's about the business being laser-focused and obsessed with customer experience and working as one to continuously drive towards excellence."

The era of the digital enterprise

Experience sits right at the heart of a digital enterprise. Brands can no longer afford to simply transact with audiences. Instead, they should be striving for relationships.

Creating this connection and long-term loyalty requires a business to unchain itself from traditional silos and embrace a more flexible, nimble approach to technology. That approach, Jeppesen advocates, is "composable".

Such composable architectures (also known as composable commerce) are a relatively new concept, challenging the traditional 'off the shelf, one-size-fits-all' technology model.

These architectures enable a unified digital experience through a modular approach to technology. Think of it like children's building blocks, each representing different tech components. The business can stack these together in a bespoke and unique way, tailored to the requirements of the wider organisation and its individual brands.

By easily adding or replacing components without disrupting the entire technology stack, multi-brand companies can quickly adapt to changing needs, market trends and brand-specific requirements, helping them get closer to customers.

This approach also reduces duplication of effort and resources, making it faster and simpler to expand operations, add new brands or enter new markets. Suddenly, coordinating marketing, sales, operations and other functions across multiple brands seems effortless rather than a headache.

The benefits of composable commerce

"When you build your own tech stack as a multi-brand, you're forced to consider key elements of your business as a whole," says Casper Rasmussen, group senior vice-president for technology at Valtech. "You're rallying your brand portfolio to co-exist in one digital ecosystem; one in which your brands will benefit wherever there are points of commonality. This value-led approach enables you to maximise the 'greater good' opportunity hidden within the organisation."

The benefits of a composable approach to future-proofing customer experiences are clear. For one thing, composable tech can drive an organisation towards a multi-channel, multi-brand, multi-market, multi-currency and multi-region future – all while accounting for autonomy and innovation.

Global multi-brand organisations are already taking the leap towards becoming digital enterprises, guided by composable principles. For the last 30 years, Valtech has helped brands including L'Oreal, P&G, and Dolby to become digital enterprises. With more than 6,000 employees across five continents, it combines strategy, experience design, data, software engineering, and marketing to enable change at scale. And confectionary giant Mars is a great example of its recent work in the composable commerce space.

> With the right focus and investment, the future of composable is promising. At Mars, it has helped us assemble niche capabilities to transform customer experiences

Together with commercetools, Valtech has enabled Mars to embark on a journey which has resulted in the world's most comprehensive example of composable commerce for multi-brand enterprises going direct-to-consumer (D2C).

All of Mars' brands are now able to grow under one unified digital system, with the necessary flexibility for an omnichannel world. Mars can now provide better, more engaging and differentiated customer experiences across its brands and channels, while still being able to adapt and innovate whenever needed.

"With the right focus and investment, the future of composable is promising. At Mars, it has helped us assemble niche capabilities to transform customer experiences. So, for a snacking business like M&M'S, it's now much easier to build and launch new experiences across multiple digital touchpoints, without having to completely reinvent the tech wheel," says Will Beery, vice-president and global CIO at Mars Wrigley.

According to the MACH Alliance, many businesses are already spending up to 50% of their budget on technology upgrades. Composable tech can ensure they avoid getting stuck in these cycles. Shubham Mehrish, vice-president for digital and platforms at Mars, says that as it attempts a company-wide digital transformation, composable is perfect for delivering "bite-sized capabilities that can be flexed or reconfigured depending on the needs of the wider business or individual brand".

He adds: "While we initiated it with a D2C mindset, this approach can be applied to any business model looking to get closer to the consumer… faster. This model should also inspire other organisations to accelerate their own journeys to great experiences through composable."

Finally, Jeppesen believes that to survive in today's modern commerce environment, multi-brand businesses must challenge the status quo. Composable methods enable "superior customer experiences fit for the standards of today, while leaving room for the expectations and developments of tomorrow", he argues.

"It's a game of leapfrog or be leapfrogged," he says. "Those organisations that dare to change, evolve and take calculated risks are the ones that stand to gain."

For more information please visit valtech.com

Valtech

Commercial feature

How leaders orchestrate harmonious transformation

Where disruption goes, transformation follows. But how do businesses set up conditions for success that make change less of a challenge?

In an economy characterised by high volatility, organisations are under immense pressure to transform at an ever-increasing pace. The speed at which businesses need to adapt to change is acutely accelerated where sustainability projects, operational risk management and digitalisation are concerned.

Most industries are cognisant that they need to hasten the upskilling and reskilling of their leaders to be better equipped to manage their business transformation, ensuring their organisations remain competitive and successful.

Sebastien Planche, EMEA director at dss+, a global leader in providing operations management consulting services, points to "new leadership skills provision" and "time to autonomy acceleration" — the time needed to upskill and reskill leaders to become fully impactful to deliver results — as the key areas where businesses are pivoting in response to economic instability and geopolitical machinations.

There's a problem, though: the precedent for responding to sustainability performance trends, global operational risks or emerging digital technologies on this scale hasn't been established yet.

"Take sustainability, for example," says Planche. "Most organisations have initiated their journey to achieve net zero emissions, and some are more effective than others. Nevertheless, it's not something you can find the benchmark for and say, 'Let's replicate what they did.' The benchmark hasn't been set.'"

Even with clear goals, decision-makers often feel ill-equipped to pilot those transformations, especially if they don't have the in-house skills to respond rapidly to uncertainty at pace.

"This is especially noticeable within our recent projects on digital literacy and data-driven decision-making," says Planche. "Companies are struggling to train leaders from the top to the frontline. They aren't always comfortable with digital technologies such as artificial intelligence, machine learning, and data analytics."

He adds: "These tools are now essential for most industries. A leader's ability to analyse data, interpret insights, make informed decisions to drive sustainability transitions and manage their operational risks is also critical."

Businesses may be tempted to hire for these skills in the market. However, not underpinning this with a coherent learning and development strategy for upskilling middle management and above with the capabilities to manage transformations effectively means this is often just a short-term fix, even if they can find the talent with the right skills.

"Too often, companies concentrate on immediate challenges such as addressing difficult-to-fill positions, dealing with an ageing workforce, and mitigating the loss of technical expertise, rather than focusing enough on accelerating the new leadership skill development," Planche explains.

However, traditional learning and development models might not be fit for purpose given the pace required to keep up. Planche cites the energy industry as an example. New engineers are typically expected to reach autonomy in a leadership position within four years, 40% faster than was required in 2020. For business-critical concerns such as health and safety, the timeframes are even shorter.

"With serious injuries and fatalities, companies don't have the luxury of waiting several years to have leaders who can autonomously transform the culture and performance of their teams," says Planche. "Our experience shows that a 24-week upskilling and reskilling programme enables you to stop the bleeding, reverse the trend of declining safety performance, and reach the necessary autonomy for sustainable results."

Planche says 75% of autonomous managers are the critical mass required to impact cultural and business transformation.

He emphasises the importance of these leaders possessing the necessary qualities and capabilities to initiate and lead successful change initiatives effectively. This concept acknowledges that successful transformation relies on strong leadership and underscores the need for a substantial majority of leaders capable of driving the desired changes.

Creating change also relies on leadership from the top of the organisation. Planche recalls a project that dss+ worked on alongside a French train infrastructure operator, addressing several high-potential safety incidents during their first year of operations.

After assessing the company's safety culture, staff received support to bolster risk management capabilities and increase awareness and mitigation skills. Senior leadership engaged in specialised coaching to increase buy-in across the organisation. This demonstration of a culture where all parts of the organisation are engaging in transformation is a crucial part of the process, says Planche.

Successful operational transformation at scale requires a strategy that effectively addresses all dimensions of a business. This can be particularly difficult in multinational organisations, with managers that often have different solutions and cultural expectations across their locations.

To achieve this, dss+ recommends businesses focus on specific areas of the organisation individually to streamline and accelerate the transformation process. Each project is labelled as an 'area of transformation' or an AoT.

"AoT refers to the identification and focus on specific business segments that require change to achieve the broader transformation objectives," Planche explains. "An AoT can be a particular business process, a technology, a team, or even an entire department or production site."

Identifying the processes to transform urgently can be led by regulation; if a business is failing on health and safety provisions, that's the place to start. Beyond that, organisations should prioritise areas for transformation that align with their immediate strategic goals and can deliver the most value for the company.

From there, companies can formulate a tailored strategy for each AoT, allowing them to manage the transformation on a more granular level and making it easier to monitor progress and adjust strategy as needed.

Once successful transformation is achieved within that area, the next step is to scale it up to create a roadmap that can be adjusted and applied across the organisation.

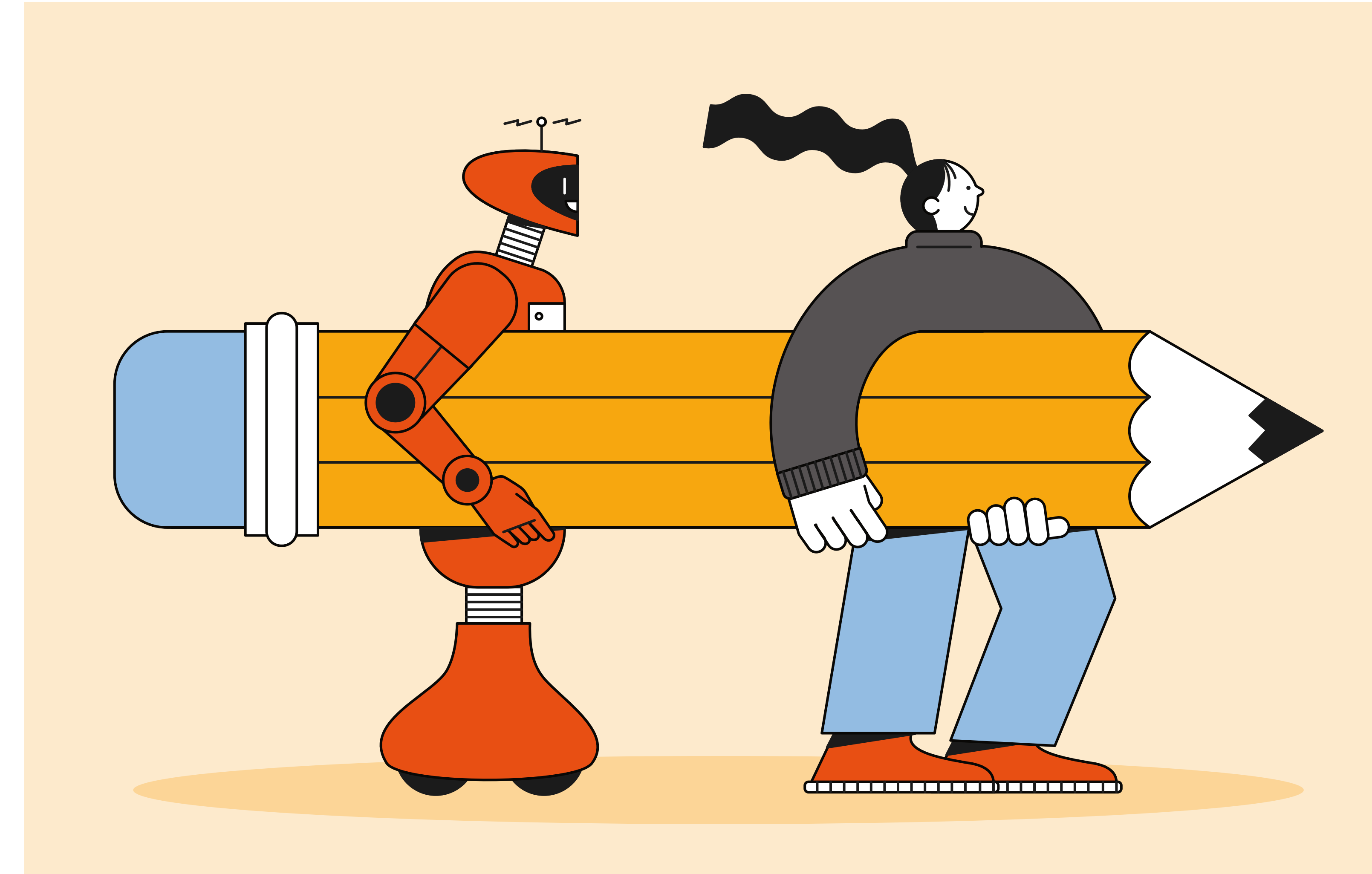
Scaling also involves evaluating the organisation's readiness for change. Companies must assess whether they have the necessary resources, capabilities, and culture to support a broader transformation.

For example, to benchmark a company's safety culture maturity level, dss+ uses its proprietary Bradley Curve to understand the gap between where the company is now and to define further steps towards corporate transformation.

By these standards, companies that don't have the necessary commitment to keep their people safe record more incidents and suffer worse business performance as a result.

"If you look at how organisations are driving business transformation, they are moving away from silos to a more interdependent approach addressing key issues across sustainability, operational risk management and digital, or risk the change fatigue if the priorities are not clear," Planche concludes. "Managing operational risk allows you to integrate your transformations and to focus the efforts in the priority areas to effectively address talent shortages and make the biggest impact on the resilience of the business."

> Companies don't have the luxury of waiting several years to have leaders who can autonomously transform the culture and performance of their teams



OPINION

Artificial artistry: the case for embracing AI

Naysayers argue that the advance of artificial intelligence could lead to a decline in human creativity, but really the tech offers a wealth of options for enhancing our output

Bernard Marr

The critics of AI have been warning that the emergence of generative tech such as ChatGPT, Bard and Dall-E 2 could usher in an era of declining human creativity.

AI-generated art and literature can hardly be described as inspiring, moving, thought-provoking or even very entertaining – the hallmarks of great art. It is mostly bland, formulaic and, somewhat inevitably, robotic. But we're still very much in the early days.

One school of thought holds that, as the technology evolves and better learns to 'understand' the creative process, it will become able to produce increasingly sophisticated work. If AI eventually were to create images as awe-inspiring as those of Michelangelo or poetry as moving as that of Wordsworth, where would that leave us? Would we have any need (or motivation) to express ourselves creatively?

It's a depressing thought, but it certainly isn't one I subscribe to. Rather, I believe that AI will amplify and augment our creative abilities in all sorts of amazing ways. Here's why.

There is magic in human creativity. What I mean by that statement is that human creativity transcends the mundane. What is it that makes a great artist – a writer, poet, painter, sculptor, musician or even a film director or video game designer? We can't know for sure, but the best answer is "everything that makes them human". It's the interplay of talent, creative spark and drive (the burning need to express themselves creatively) of the artist's values, beliefs and even political leanings – and of many other qualities that machines can't yet emulate.

But it also requires many more mundane qualities that are much easier to automate. These include the ability to think in a structured way to plan and deliver a work of art, time management, attention to detail, quality control and even commercial acumen. After all, many artistic endeavours of the past 100 years may never have come to fruition if someone hadn't seen the potential to make money and stumped up the cash to make them happen.

Think how many great artists over the centuries might simply never have had their chance to shine because they lacked these everyday skills. Now that these can be automated or delegated to our robot friends, it could cease to be an obstacle for many.

Additionally, AI can process huge amounts of data, drawing together knowledge from thousands of sources and making it quick and easy to access. This means that human artists have more information from which to take inspiration, leading to new ideas that they simply may not have had without this collaborative partnership.

The flipside of this is just as intriguing. Humans who lack the mechanical skills of creativity – the ability to paint well or write the code for the video game that so far exists only in their head – might also find themselves unfettered. Now anyone who simply has a good idea can have AI flesh it out and bring it to life. Even if they don't want to put out something created by AI as their finished product, it can help with getting to the prototyping, first-draft or pencil-sketch stage, which may previously have been impossible.

Moreover, even when a computer does generate the finished output, it's the human input that differentiates a simple picture, sound or piece of text from a work of art.

Tools such as Stable Diffusion and Dall-E 2 can create technically proficient images – a picture of a horse that is recognisably a horse, say, and ChatGPT can write a story about a horse. But a human creator is still required to give it meaning and artistic value. Is the image supposed to simply show us what a horse looks like, or is it meant to convey equine beauty and power, as in the work of George Stubbs or Alfred Munnings? Is a piece of writing simply meant to educate us on the qualities of a horse, or tell us an exciting adventure story such as *Black Beauty*? The human makes such decisions and, in doing so, defines the artistic creation.

It therefore seems clear to me that AI's role is not to replace human creativity but to aid it, by handling the mundane and/or technical elements of creativity, it can free the artist to focus on the elements that they excel at and love doing.

Another factor is that, just like other tools, AI can be thought of as a way to hasten work that the artist would be able to do unaided if they had enough time. This allows humans to explore a wider range of creative ideas and opportunities in a shorter period. There's no reason to believe that Shakespeare would have been any less creative if he'd had AI to help him, but he might have written hundreds of plays rather than a mere 39.

AI can also be used as a hammer to smash through creative blocks, a torch to ignite the creative spark or a shovel to unearth buried sources of inspiration.

Of course, any exploration of the ways that AI will affect humanity must account for some ethical considerations. It might lead artists to unknowingly infringe copyright, as the sources of information that are included in its output are not always clear. There is also the question of attribution. At what point does the artist assign authorship to the AI? Is the initial spark enough to claim that the finished work is a product of the creator's artistry? Or should a portion of the credit (and royalties) go to the creator of the AI or the source of the information on which it was trained?

And how can we ensure that access to the democratising impact of AI is available to everyone and not the preserve of a privileged, tech-literate social elite? That could lead to further inequality and growing societal divisions.

Answers to these problems are likely to emerge as AI's impact on the world becomes clear over the coming years. But, overall, my belief is that human creatives will find it an increasingly useful ally.

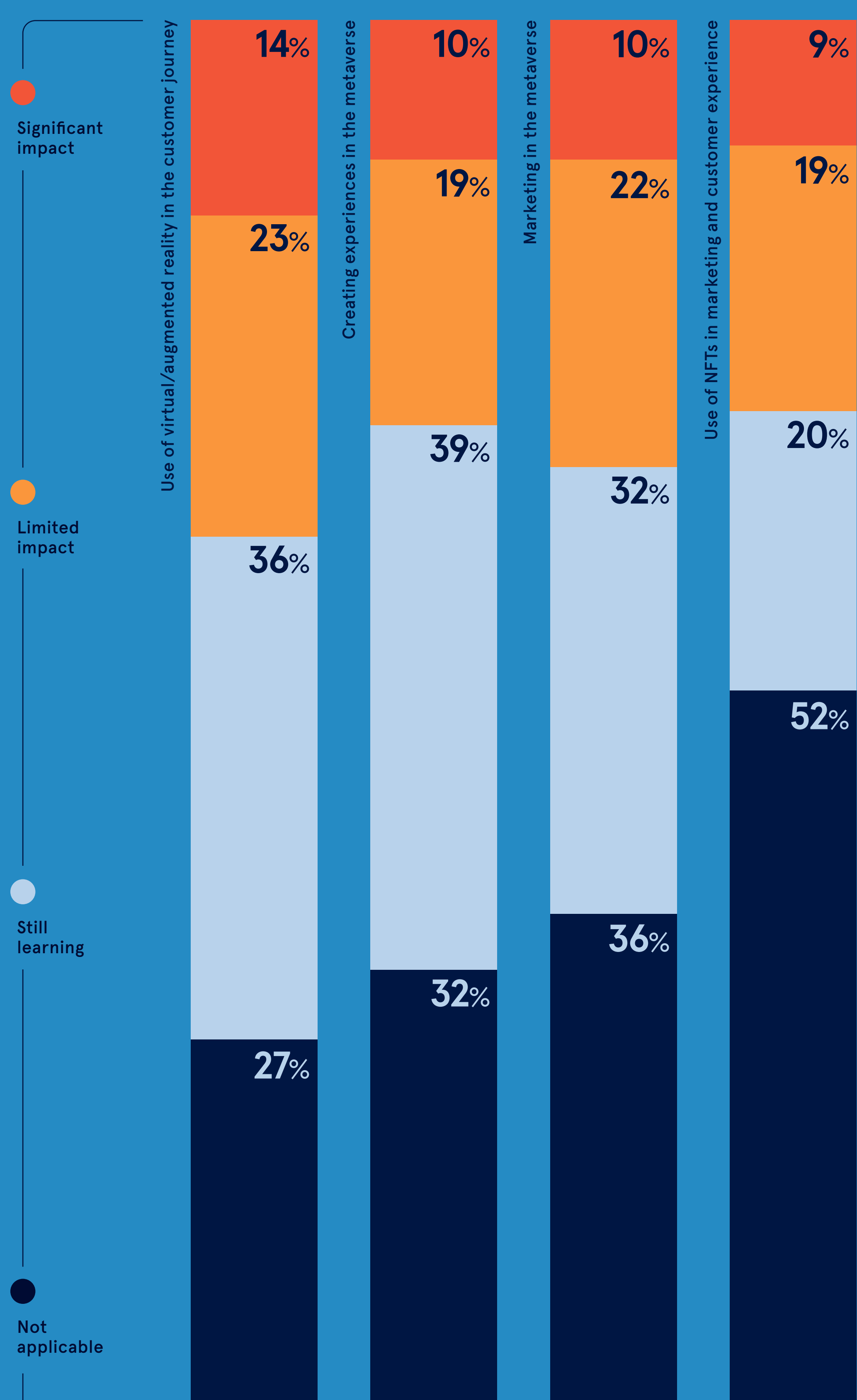
> AI can be thought of as a way to hasten work that the artist would be able to do unaided if they had enough time

CATERING TO THE DIGITAL CUSTOMER

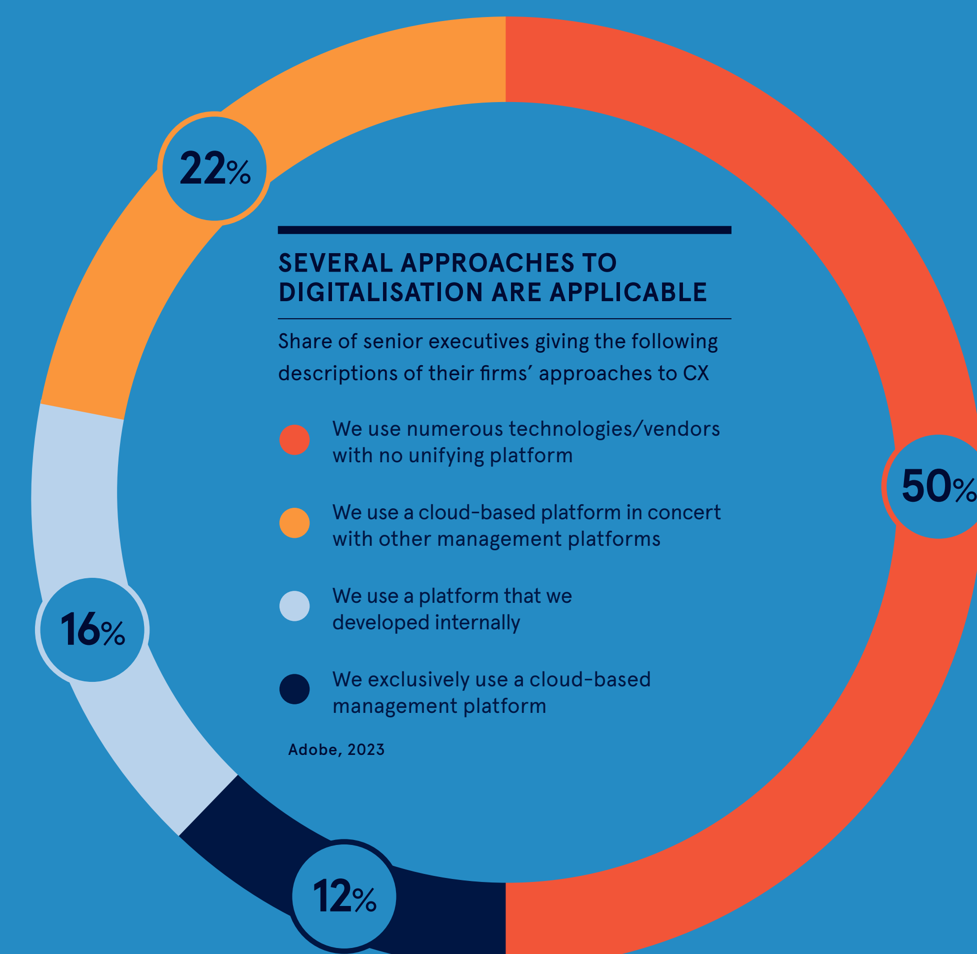
Many companies say that offering customers a smooth, convenient digital experience is a high priority. Despite this, only 39% of senior executives believe that their firm's online CX capabilities are meeting or exceeding users' expectations. How can they improve their performance in this area?

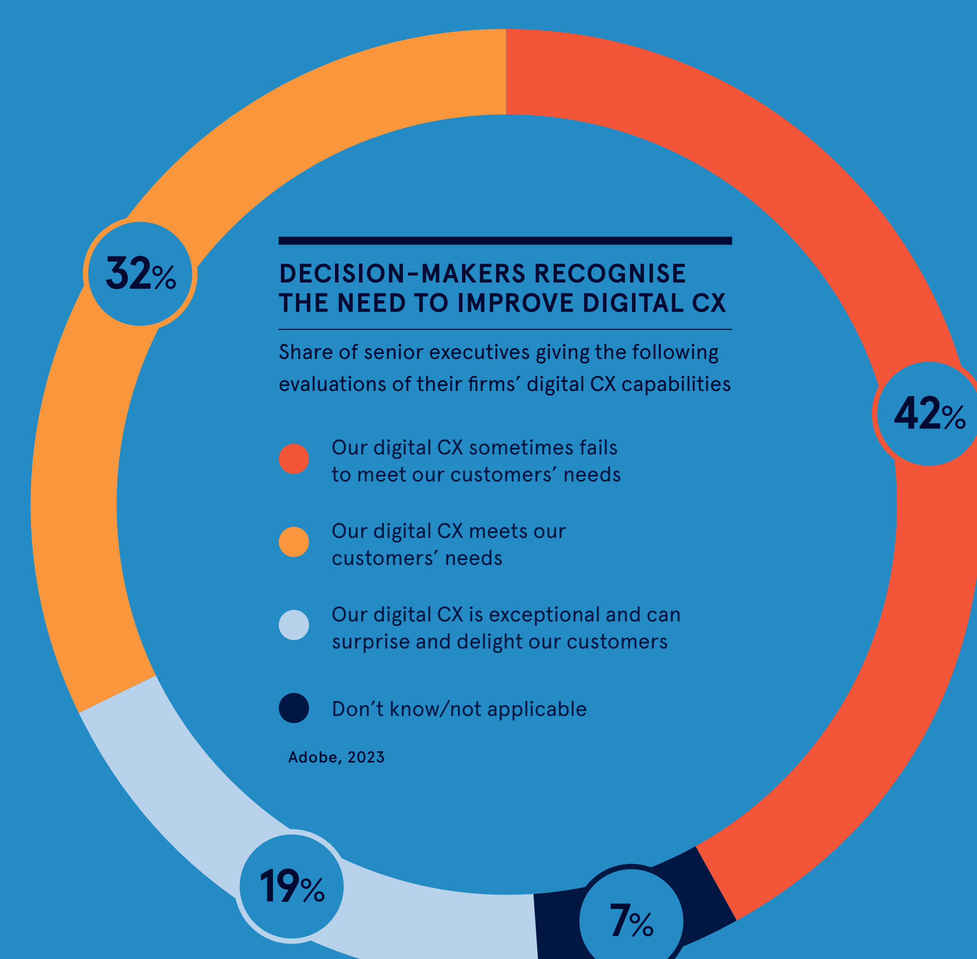
HOW IMPORTANT ARE EMERGING TECHNOLOGIES TO DIGITAL CX?

Share of senior executives giving the following responses when asked to rate the impact of selected tech trends on the customer experience provided by their firms



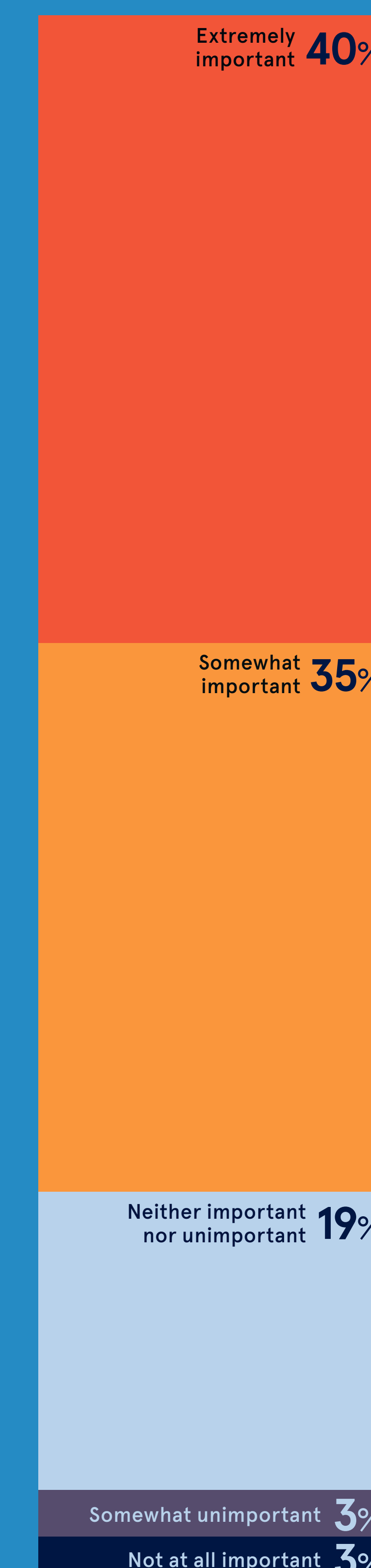
Adobe, 2023





MOST CONSUMERS CONSIDER A GOOD DIGITAL EXPERIENCE TO BE IMPORTANT

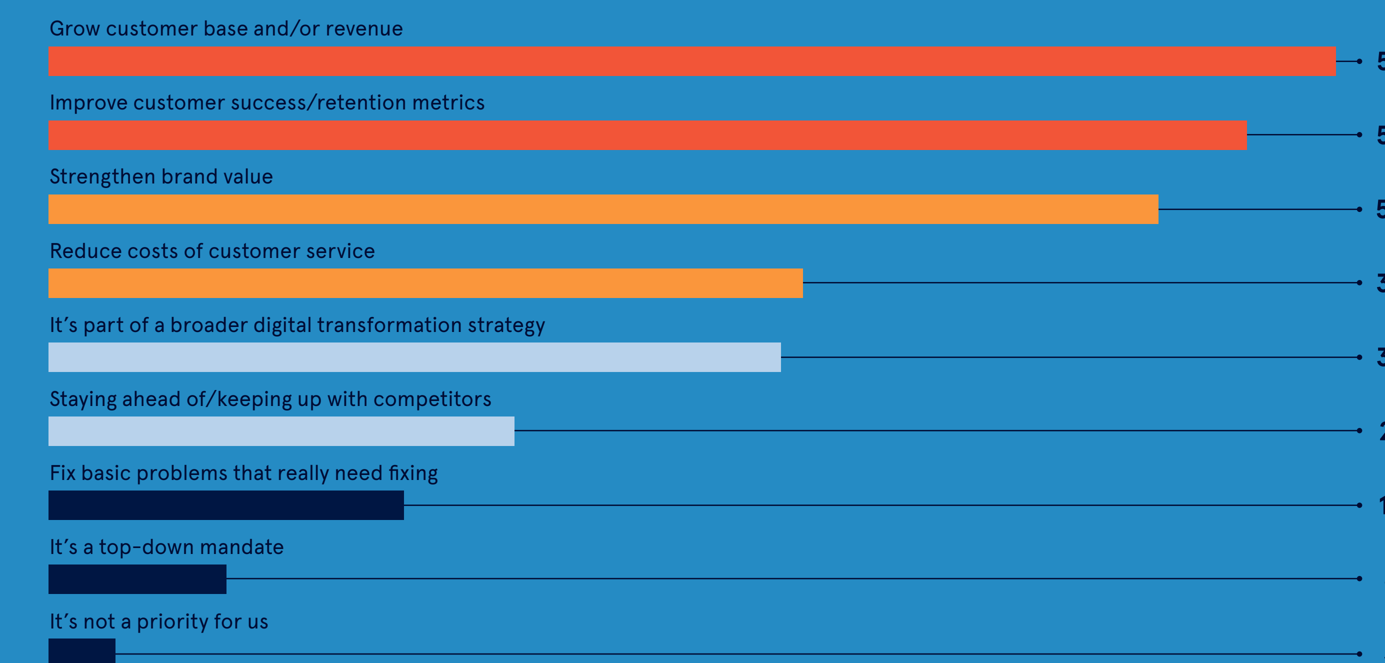
Importance of good digital CX according to consumers



Verint, 2022

WHY FIRMS ARE PRIORITISING THE CUSTOMER EXPERIENCE

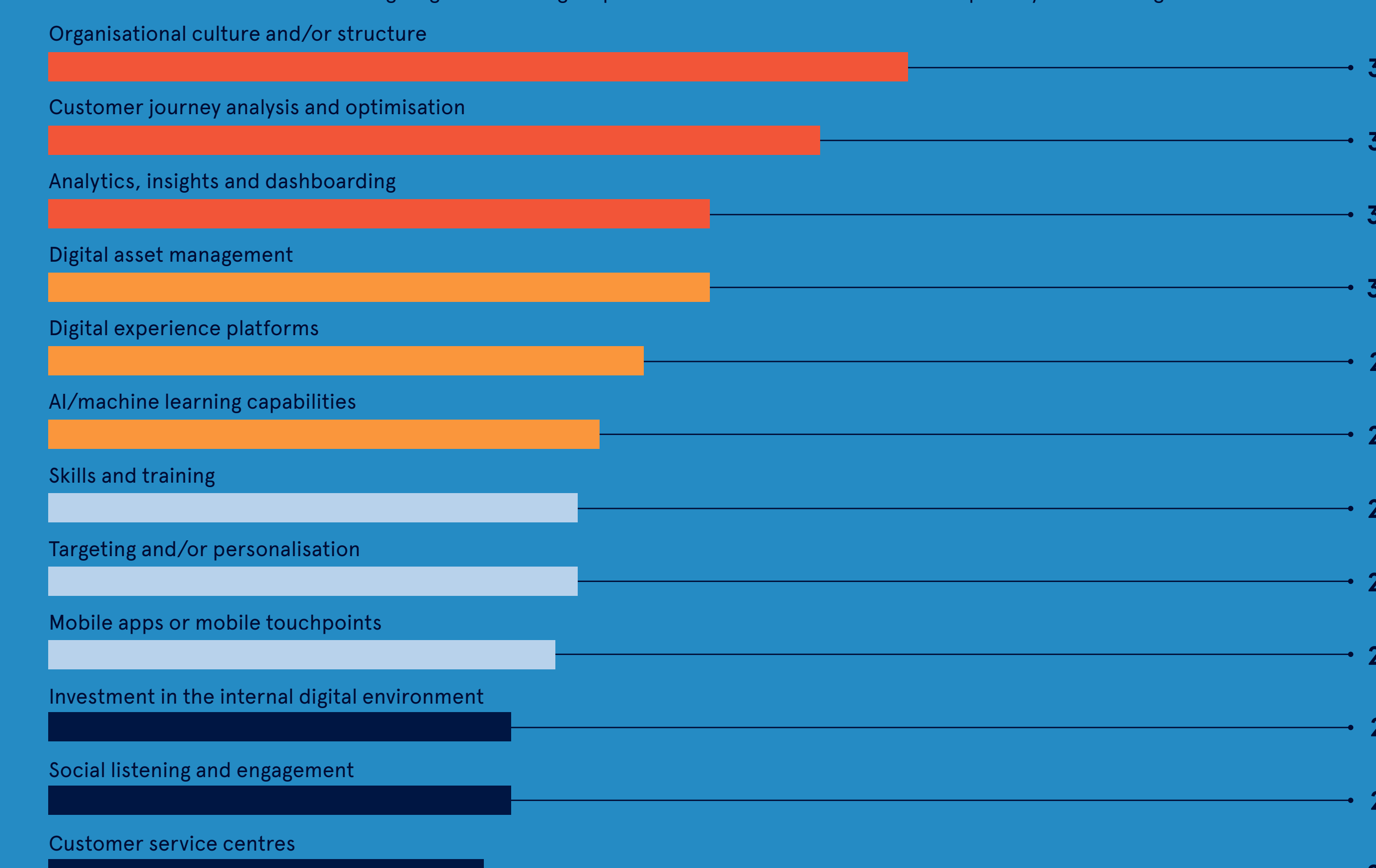
Share of business decision-makers citing the following aims when asked why their firms had given a high priority to digital CX



CMSWire, 2023

WHERE INVESTMENTS IN DIGITAL CX ARE BEING FOCUSED

Share of business decision-makers giving the following responses when asked to cite their firms' priority areas for digital CX investment



CMSWire, 2023

INTERVIEW

'Only a holistic view makes sense'

The World Business Council for Sustainable Development is working to hasten the systemic changes required for a carbon-neutral future. Its president, **Peter Bakker**, explains how he wins sceptical boards over

Oliver Balch

Peter Bakker has encountered many raised eyebrows in boardrooms over the years – and more than his fair share of derisive putdowns. Such is life for the brave few who, like him, work to convince business leaders of the importance of sustainability.

Fortunately, he's a resilient sort. And it helps that he has sat on the other side of the table, first as finance chief and then as CEO of logistics giant TNT.

Over the decade that he's served as president and CEO of the World Business Council for Sustainable Development (WBCSD), Bakker has seen an improvement in the private sector's grasp of the strategic importance of environmental, social and corporate governance (ESG) issues.

"Before, many business leaders were saying: 'I don't know why I need to listen to this guy,'" he says. "Now, you see them sitting up and thinking: 'Shit, I didn't realise that things were this urgent.'"

What's behind this general improvement in attitude? And how can the council (a not-for-profit body counting nearly 200 global companies as members) help them to start the transformation demanded by the ESG challenges facing their firms?

First, key global events have helped the WBCSD's cause in recent years. Before the United Nations' landmark Paris accord in 2015, the questions of whether the world was warming up and, if so, whether anthropogenic CO_2 emissions were the main cause, were still being debated. Since then, the climate scientists' findings have been widely accepted. Moreover, the stark ramifications of global warming for business have become far clearer.

Bakker cites the case of German chemicals company BASF, which was forced to pause production in the summer of 2018 after a drought lowered water levels in the Rhine so drastically that supply barges were prevented from reaching its riverside manufacturing facilities. The temporary stoppage cost the firm an estimated €250m (£214m).

"You can't pick up a newspaper these days and avoid reading about climate change or weather impacts," he says. "These topics are very much on the minds of everyone now – including boards."

Bakker is not shy of playing the environmental doomsday card when faced with scepticism. Fail to slow global biodiversity loss, he warns, and the world will soon face "massive systemic risks" including famine owing to crop failures, military conflict owing to water scarcity and mass migration owing to desertification.

He adds that social inequality represents a key threat to big business in particular: if the gap between rich and poor is left to widen even further, we can expect societal cohesion to weaken and conflict to flare up.

> **Large multinationals will be the first to get bricks through their windows, because they will be seen as the face of what's no longer a fair system**

"Large multinationals will be the first to get bricks through their windows, because they'll be seen as the face of what's no longer a fair system," Bakker says.

While some boards may rationalise such scenarios away, with some arguing that technological advances will solve most problems, the threat posed by market disruptors is harder to dismiss, according to Bakker.

He recalls attending a board meeting for a large automotive company five years ago. For every mention of Mercedes in the discussion, there were eight references to Tesla – "and that was back when the electric car firm was a relative minnow".

The flipside of disruption, of course, is opportunity. Smart boards are generally quick to see the commercial potential of being first to the market with greener, fairer products and services, Bakker notes.

"If you're the first to get it right, you'll have the kind of growth opportunity that you simply never would have had within your incumbent model," he says.

On the few occasions that his audiences remain unconvinced these days, Bakker takes a more direct route. Like it or not, he tells them, ESG issues aren't going away and neither is regulatory scrutiny. The need to comply with reporting requirements often proves the clincher to his argument. Six years ago, the G20-backed Financial Stability Board published a report stating that large companies might need to disclose their climate-related risks. Today, that 'might' is fast becoming a 'will'.

The common first response of many boards is to ask how much taking the appropriate action will cost their companies. Bakker will reply that it will be "much less than the cost of inaction".

Once an audience has accepted his arguments, Bakker will deftly change his persona from preacher to adviser. His first move then is to warn against dealing with ESG issues in a piecemeal way.

To this end, he advises boards to make an integrated assessment of all their ESG risks as an initial step. As he points out: "Once you have a handle on these, you can start trying to design solutions. If you address one in isolation, you'll find that you have many other interdependent risks still around. Only a holistic view makes sense."

There is no single transformation blueprint that will work for every organisation. Each company has a unique combination of risks and opportunities to address. That said, some basic tenets of future-proofing apply to all enterprises. The WBCSD set these out in its 2021 report *Vision 2050: time to transform*.

A crucial first step is forming a clear idea of what a truly sustainable version of your business and/or industry might look like in the longer term. The next is planning how to achieve that. Here, the council suggests "transformation pathways" for 10 key sectors, from energy and transport to healthcare and financial services. In each case, boards are encouraged to look beyond their own four walls and ask themselves two core questions. The first is: what factors are preventing the system in which they operate from being more sustainable? The second is: what levers can their businesses pull to help transform that system?

> **If you're the first to get it right, you'll have the kind of growth opportunity that you simply never would have had within your incumbent model**

67%

of S&P 100 companies spread ESG oversight over two or more committees

54%

of FTSE 100 companies have some kind of ESG committee at board level

International Federation of Accountants, 2022

Take the construction industry, for instance. All too often, the built environment reduces biodiversity, emits a lot of greenhouse gas and harms people's health. The solutions include planning with regeneration in mind, prioritising people's health and wellbeing needs at the design stage and making full use of recycled materials and energy-efficient tech.

Bakker cites Nestlé as an effective exponent of visualisation and planning. The Swiss food giant recently published a detailed account of how it will reshape its operations and product portfolio to prepare for the realities of a low-carbon economy.

"Nestle's climate transition plan not only details precisely how the company is going to decarbonise; it also spells out how people can hold the firm accountable," he says.

Board members themselves should adopt a new way of thinking, Bakker adds. He suggests that they start working to the "three Rs": reinvention (get ready to ditch business as usual for a more sustainable, inclusive alternative); regeneration (actively consider how to help the planet and its inhabitants to thrive); and resilience (train yourself to better anticipate and embrace change).

He would also urge senior leadership teams to spread the word and encourage other stakeholders in their businesses to join the ESG effort. Sustainability is too broad and business transformation is too complex to leave to the few to deal with, however able and willing they may be. That may well mean retraining employees, reorientating supplier relations and rethinking communications with consumers.

Business leaders must clearly "embody the desire to transform", Bakker argues. "But all functions in the organisation need to be educated on what this transformation means for them. This cannot simply be left to the sustainability team."

Or to the board, for that matter.

Commercial feature

How to ensure cloud and net zero ambitions align

If approached correctly, cloud operations can support organisations towards their sustainability goals

Everyone needs to play their part in reducing carbon emissions if the world is to have any chance of meeting IPCC targets. That said, it is businesses, not individuals, that have the most control over the planet's sustainability efforts. Just 100 companies have been responsible for around 70% of all global emissions since 1988, and regulatory pressures to adopt greener processes are only likely to increase.

One way of improving a corporate carbon footprint is through digital transformation. As Johan Hanekom, principal for sustainability and innovation at Amazon Web Services (AWS), says: "Moving to the cloud can help companies curb their environmental impact by reducing energy consumption, promoting renewable energy, reducing travel by enabling remote work and promoting paperless operations."

By and large, those changes are great for the green economy: they mean fewer trees being cut down, fewer cars on the road and more efficient work practices. However, going green isn't black and white, and businesses have to modernise in a responsible way. A digital transformation isn't enough. Businesses need to aspire for a sustainable digital transformation.

Part of a successful sustainable digital transformation lies in taking responsibility for current and future emissions. This is something that requires a joint effort between organisations and suppliers. For example, Amazon Web Services (AWS) takes responsibility for the sustainability of its infrastructure, while also providing organisations with tools to help them take responsibility for their own sustainability efforts.

AWS offers a carbon footprint tracker which helps customers evaluate emission trends as their use of the cloud evolves. Businesses can use this to test the impact of their digital assets, such as assessing unruly data sets and needlessly large files. Armed with this knowledge, they can take positive steps to optimise resources within the cloud and only use the computing capacity they really need. The tracker also estimates the carbon emissions businesses have avoided by using cloud services rather than an on-premise data centre.

And how are the cloud providers ensuring they meet their end of the bargain? AWS "has taken steps to reduce its environmental impact. It has already reached 85% renewable energy across its businesses, and is implementing energy-efficient technologies and reducing waste," says Hanekom.

Multiple studies by 451 Research show that AWS's infrastructure is 3.6 times more energy efficient than the median of US enterprise data centres surveyed and up to five times more energy efficient than the average in Europe. Research by the same company also found that AWS can lower customers' workload carbon footprints by nearly 80% compared to surveyed enterprise data centres.

"AWS has also committed to achieving 100% renewable energy usage for its global infrastructure by 2025 [five years ahead of its original commitment] and being water positive by 2030," says Hanekom. Some of those sustainable steps include novel data centre designs, new cooling techniques and advanced modelling methods. With access to cutting-edge technology, including custom-built servers and innovative chip design, large providers such as AWS can help organisations of all sizes become far more efficient than they could on their own.

Many aspects of cloud technology are set to become even more sustainable in the coming years. Progress will come in the form of greater energy efficiency in data centres, resource optimisation within the cloud and the advent of green computing and green coding initiatives to implement more efficient computing processes.

But underlying and motivating all these technical choices, there also has to be a deeper, more substantial shift in mindset. Service providers must "design around first principles for the circular economy for all the components used in cloud technology," says Hanekom. That way a sustainable digital transformation can become the norm, not just a nice-to-have.

To find out more, visit aws.amazon.com/sustainability/

aws

Stigur Mar Karlsson/Heimsmyndir via Getty

INVESTMENT

The point of slow returns

Struggling businesses might understandably be wary of committing precious cash to a transformation. But it's likely that the benefits will outweigh the initial expense, uncertainty and disruption – eventually

Rich McEachran

Having had to issue a string of profit warnings between 2012 and 2020, education company Pearson has been busily reinventing itself in recent years, with some success. The purveyor of university textbooks has converted itself into a digital-first business.

In a trading update in March 2021, less than half a year into the turnaround, CEO Andy Bird noted: "We no longer buy CDs; we listen to Spotify. We no longer buy DVDs; we watch Netflix. How we learn is also changing, driven by technology and new consumer habits."

Under the leadership of the former Disney executive, who joined in October 2020, Pearson has started to see digital sales growth and improved margins. A key factor in the FTSE 100 company's recovery has been its ability to persuade key stakeholders to back its rejuvenation plan.

It was telling that the same trading update featured a contribution from Amazon CEO Andy Jassy, who at the time was in charge of AWS, Pearson's cloud partner.

"There are a lot of companies who talk about transformation, but not all of them succeed. Fortunately for us, Pearson really gets it," he said, adding that the company had "made a ton of progress".

Pearson serves as an exemplar of what can be achieved when there's a shared vision and full commitment to the process of realising it – in the full knowledge that patience will be required. Anyone who imagines that a transformation will be an overnight success is likely to be in for a big disappointment.

The degree to which CEOs are willing to start digital transformations and persevere with them can be influenced by the large amount of tangible capital expenditure these typically require and the knowledge that they'll have to wait to see a financial return on that investment.

When FTI Consulting surveyed 600 business leaders in the UK, France and Germany at the beginning of 2023, it found that only a quarter of the 31% who had reported completing a transformation deemed it a complete success. But they were expecting their businesses to grow organically by an average of 27% over the year, compared with the 18% mean growth rate forecast by those who had yet to complete a transformation.

Some leaders may be finding the upfront costs and complexities of implementing a digital strategy too daunting to contemplate, given that there are no guarantees that a transformation – successful or otherwise – will deliver growth quickly. That's the view of Jon Priestley, MD of FTI Consulting's strategic communications business.

"A digital transformation can feel incredibly complex," he says. "Do you start with the tech required, the finance you need or the people to execute it? Business leaders are under pressure on several fronts, so it can be all too easy to focus on more immediate challenges and put a transformation to one side."

The cost-of-doing-business crisis is likely to have made firms even more wary of committing to big-ticket, long-term investments of any kind. It would be understandable for a struggling company to put transformation plans on the back burner while it focuses on cost control – perhaps even by cutting its IT budget – to ensure its short-term survival.

Paul Edwards is chief of technology evolution at transformation consultancy AND Digital. He argues that, while it "can be hard to predict the commercial benefits" of a transformation, "business leaders need to move away from a cost-centred mentality and start looking at it as a value stream enabler."

Edwards believes that prioritising a transformation is likely to pay off in the medium to long term. He points to the potential gains to be made when a business is optimised to receive feedback faster, learn faster and see results faster.

"This step change allows businesses to tap new revenue streams that they may not have been aware of previously. It opens doors and creates possibilities," Edwards says.

> "Only when a business is structured in a way that empowers teams – with the right people, skills and tools – will you see profound changes

Clare Hickie, EMEA technology chief at software-as-a-service firm Workday, agrees. Her view is that any short-term pain experienced in a transformation project should be outweighed by lasting gains achieved through improvements in resilience, agility and decision-making.

"The capacity for scenario planning and what-if analysis, for instance, can offer business leaders a strategic playbook for handling future disruption," Hickie suggests. "This will then equip them with a data-led plan amid the uncertainty."

Edwards stresses that firms must first understand that a digital transformation is not simply about adopting new technology if they are to stand any chance of maximising the return on investment over the medium to long term.

"This act will be meaningless if the business hasn't set itself up in a way that makes the best use of that technology," he says.

Take the uptake of generative AI, for example. While it may be a powerful technology, it will prove far less effective in the hands of an organisation that has yet to jettison old-fashioned structures and attitudes, such as the silo mentality.

Edwards compares that situation to "sitting in a traffic jam in a Ferrari, thinking that your vehicle of choice will get you to your destination faster".

In a hierarchical structure, each employee has a clearly defined role, but there can often be a lack of communication through all the levels. As a business grows, the hierarchy can deepen, exacerbating the communication problem.

A particularly vertical structure makes it hard for leaders to rally support among the rank and file for a transformation. Successful project management also requires fast decisions to be made. All this demands a flatter structure, which can open lines of communication and ensure that all staff are aware of all the goals of the exercise.

The right structure should foster a culture and ways of working that encourage learning and innovation. This should in turn ensure that the business extracts the maximum possible bang for its technological buck, Edwards argues.

"Only when a business is structured in a way that empowers teams – with the right people, skills and tools – will you see profound changes that drive true value," he says.

Part of setting the right structure in place entails establishing a self-perpetuating positive feedback loop. This will inform the transformation constantly and push it in the direction it needs to go.

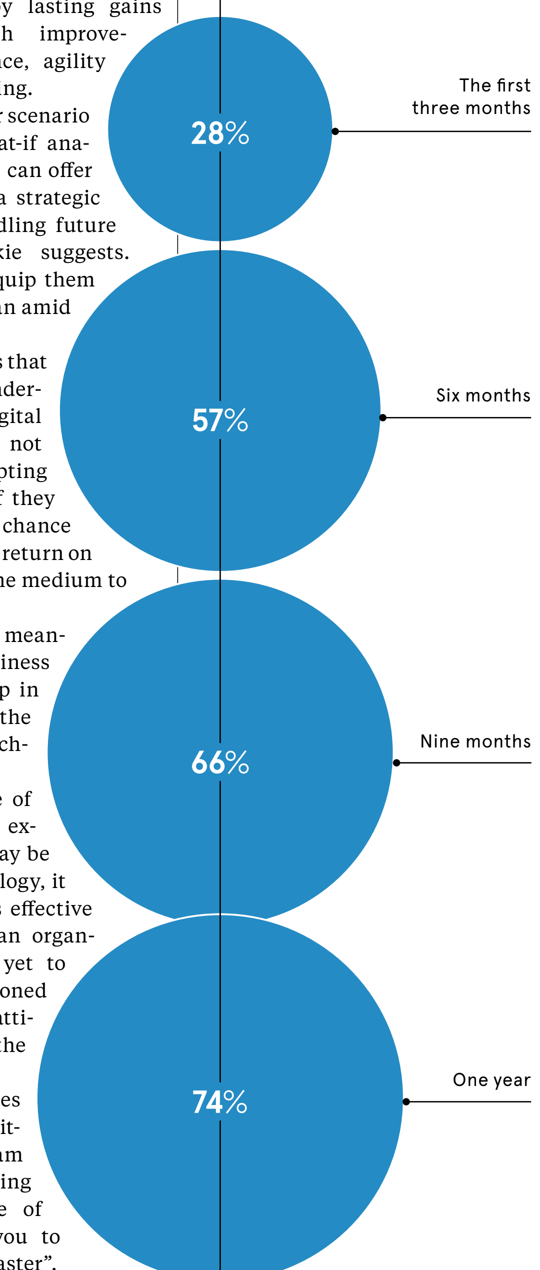
The FTI Consulting survey found that those leaders who'd reported successful digital transformations were more than twice as likely as those who hadn't to cite the use of feedback as a success factor.

What's more, while the cost of adopting systems such as machine learning may seem excessive to struggling firms, such automation promises to deliver efficiency savings by streamlining functions. Moreover, the insights that could be gleaned from this tech could cut the cost of implementing digital solutions further down the line.

For any business thinking about deferring its digital transformation because of the high upfront costs and the relatively long payback period, Hickie offers these words of warning: "The world is evolving rapidly – and the cost of not transforming can be far greater, potentially leading to missed opportunities and decreased competitiveness."

WHAT TO EXPECT FROM A DIGITAL TRANSFORMATION IN THE FIRST YEAR

Average share of transformation value achieved by top-quartile companies over the first year of a transformation



McKinsey, 2019

Commercial feature

The e-invoicing revolution is coming

Governments are getting serious about closing the VAT gap. Should businesses be prepared for a revolution in e-invoicing?

In its 2022 report on the issue of the value-added tax (VAT) gap, the European Commission found that EU member states were short an estimated €93bn in VAT revenues in 2020. A shade under the joint GDP of Latvia and Lithuania, the sum is as staggering as it is concerning.

With this figure overhead, governments across the continent have been quick to address the tax gap, recognising the tangible difference reducing it could make to the 451 million people living in the EU.

One way of doing this is by introducing standardised e-invoicing, says Alex Baulf, senior director of e-invoicing at Avalara. "Tightening up on e-invoicing ensures that tax authorities can see every transaction," he explains. "Over 60 nations have now mandated e-invoicing. France, Poland and Spain are the latest countries in the EU to announce their plans to bring in mandatory B2B e-invoicing regulations next year." Latin American countries such as Brazil and Argentina started this revolution a decade ago by introducing tax data collection at the point of billing, according to research published by Avalara.

"The pace and quantity of new mandates are unprecedented and are causing a huge headache for multinational businesses," says Baulf. "Tax and finance functions now need to look at e-invoicing and live reporting of transactional data strategically. This is no longer a local compliance issue – it's a critical global business issue."

Digitising invoices brings greater visibility, transparency, accountability and governance to tax collection. But that's just half of it. "The problem is that while tax authorities all over the world might see the inherent value in e-invoicing and tax digitalisation, compliance is never uniform," says Baulf.

He continues: "Different tax authorities have different requirements, formats, models and platforms, which companies must be able to navigate seamlessly and accurately, or risk falling foul of individual tax authorities."

> "Reducing the tax gap is one thing, but businesses should be harnessing the wider benefits that digitalisation and increased automation bring

But e-invoicing – the sending of digital documents with structured data, is not just about tax compliance. Indeed, it becomes a business-critical issue; how businesses exchange invoices between their trading partners. If a business is unable to issue or receive an e-invoice meeting the local requirements, it is unable to get paid and ultimately do business in that country.

Baulf argues that organisations now need to take a strategic look at e-invoicing to meet international standards, investing in a single global e-invoicing solution that can standardise processes at scale. One such solution is Avalara's cloud-based global invoice and tax compliance platform, which helps companies comply with e-invoicing regulations in more than 60 countries.

"We designed our scalable e-invoicing solution with a single application programming interface (API) to connect businesses to a multitude of different e-invoicing systems, platforms and networks. This seamless accessibility enables them to meet local regulatory standards and the requirements of tax authorities, including those that require digital signatures and QR codes quickly, effectively and efficiently."

If migrating to e-invoicing checks so many boxes, it begs the question: should companies with global reach be digitising their procurement processes regardless of regulation?

"Absolutely," says Baulf. "From a regulatory perspective, it makes sense. But there's also a business case for implementing an industry-leading e-invoicing platform. It streamlines processes, cuts costs and provides businesses with more granular data, giving procurement departments greater visibility over spending." He explains: "Reducing the tax gap is one thing, but businesses should be harnessing the wider benefits that digitalisation and increased automation bring."

This increasingly common realisation, shared by many forward-thinking businesses, tax authorities and countries, is quickly leading to a sweeping shift in the way invoices are processed and VAT is reported.

"E-invoicing is now the clear direction of travel for tax authorities. If a country does not have e-invoicing today, it will tomorrow," Baulf concludes. So, while regulators establish a means for universal adoption, organisations should be primed for change.

ARTIFICIAL INTELLIGENCE

Five go on an adventure in generative AI

Over recent weeks, FTSE 100 firms have shared revealing insights about what breakthroughs in generative AI mean for their businesses. Here's what some have had to say


Annasmithphoto via Getty Images

Mark Walsh

The startling advance of generative AI, embodied by tools such as ChatGPT and Midjourney, has created tremors that are being felt well beyond the hi-tech sector. The technology's far-reaching implications are forcing firms across the board to consider how they and their sectors will be affected, for better or for worse.

Big business certainly isn't immune to the impact of this transformational tech. Indeed, senior executives from numerous blue-chip companies have discussed the effects of AI in recent weeks, in forums ranging from earnings calls to industry conferences.

Here's a look at how a small but diverse selection of FTSE 100 constituents are approaching the leap forward in generative AI, based on recent public comments by their senior executives.

1 BT Group

Speculation about the impact of AI on jobs became more concrete in May when BT announced plans to eliminate 40,000 to 55,000 roles by 2030 in its automation drive. The giant telco's workforce could shrink by more than 40% as a result.

Most of the downsizing will happen as the construction of BT's full-fibre broadband and 5G infrastructure tapers off and the company stops running double networks such as 3G and 4G, requiring less labour-intensive maintenance. But other job cuts will result from the digitisation of operations and the automation of customer-service processes. This will push consumers towards web- and app-based tools rather than call centres. BT already uses a support chatbot.

CEO Philip Jansen highlighted the importance of AI to the group's automation plans during its full-year earnings call on 18 May. He said: "We will be a beneficiary of AI, unequivocally, because we're a volume business with some 30 million customers. We have lots of people and lots of activity. AI can help us to do that more efficiently."

Jansen also hinted that further advances in generative AI and large language models (LLMs) would prompt more innovation.

"We've got a few ideas, but it is very early days," he said, adding that their development needed to be "treated with great care".

2 WPP

The multinational advertising and PR group made its intentions clear back in August 2021 when it acquired London-based AI specialist Satalia, naming the firm's CEO, Daniel Hulme, as its first chief AI officer. That move looks especially prescient given the surge of interest in generative AI in recent months.

During WPP's first-quarter earnings call in April, CEO Mark Read noted that the company had been using AI for years, mainly in its media segment for targeting audiences and optimising campaigns.

"I think what has really changed over the past six months is the application of AI into the creative process of the production of language, video imagery and so on," he said. "That's really allowed us the opportunity to use it much more creatively."

That includes a recent campaign by its Wunderman Thompson agency on behalf of the Iran Democracy Council, a group of female lawyers and activists of Iranian descent. This used OpenAI's foundational model GPT-4 to create a digital book imagining a brighter future for oppressed women in Iran.

> **What has really changed over the past six months is the application of AI into the creative process**

One analyst on the call suggested that the increased use of AI in creative campaigns, while making these more profitable through efficiency savings, might also reduce the fees that WPP could justify charging its clients for the content produced.

Read rejected this notion, saying: "I don't think AI is going to make people suddenly more creative or shorten that process."

3 Pearson

The digital learning specialist has revealed its focus on AI perhaps more than any other FTSE 100 member lately. Given the potential threat to its business model posed by popular free tools such as ChatGPT, that's hardly surprising.

On 1 May, US rival Chegg reported a 5% decline in subscribers and suspended its full-year guidance, citing the impact of ChatGPT. The next day, Pearson's stock price fell by 15%, even though the company had reported a quarterly revenue gain of 6% only a week earlier, surpassing its own expectations.

Stressing that 80% of its profits come from outside the higher education sector, Pearson was quick to distance itself from Chegg's situation. To further reassure shareholders, it announced a generative AI strategy update on 9 May, revealing plans for harnessing the technology to enhance its services.

Those plans include the addition of AI-generated tests and quizzes to its Pearson+ subscription service and the use of LLMs to construct predictive algorithms providing career recommendations.

During the conference call, CEO Andy Bird said that generative AI was "a significant positive opportunity for Pearson" rather than a threat. But he added that the company had been taking legal action to prevent its intellectual property from being used by third parties to train AI models.

"We take great efforts – and will continue to take great efforts – to protect our IP," he said.

4 Unilever

Since the Covid crisis, Unilever has been no stranger to snarl-ups in the supply chain. When necessary, the consumer goods giant has been using AI to help it source alternative ingredients without affecting the end product. But that's only one of about 300 uses of AI across the business, whose brands include Ben & Jerry's, Hellmann's and Vaseline.

Alessandro Ventura, Unilever's CIO and vice-president of analytics and business services in North America, spoke about an AI tool called Alex in a recent interview with CIO.com. This system manages incoming emails, efficiently filtering out spam and phishing bait from genuine consumer correspondence. It will then suggest responses for employees to send.

Ventura revealed that another AI application, Homer, uses the GPT API and can generate online product listings that capture the right tone for each brand.

Last year, the company even used AI to develop a limited-edition deodorant, the Lynx AI Body Spray. The tech helped it to analyse 6,000 ingredients and 3.5 million scent combinations. While that particular product might seem like a marketing gimmick, Unilever's aptitude for discovering useful AI applications appears to be paying off. The company reported a 10.5% year-on-year gain in underlying sales in Q1 2023.

5 Compass Group

Even companies that don't appear at first sight to be directly affected by AI have got it on their radars – and for good reason. Take Compass Group, the world's largest food service provider. It earns a large proportion of its revenue from managing corporate cafeterias through its business and industry (B&I) division.

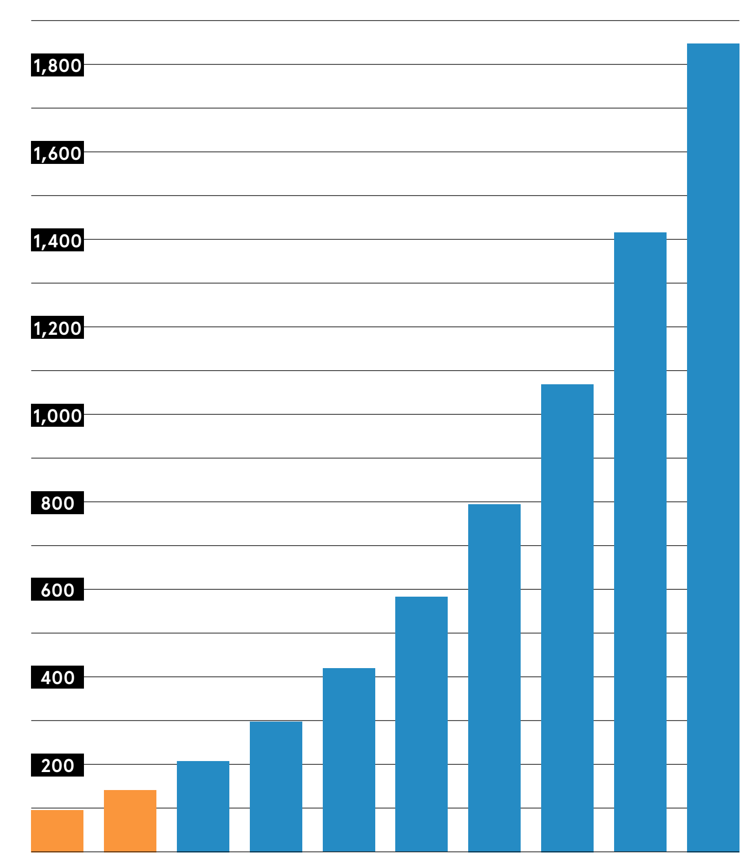
According to a Morningstar analyst report in May, the Covid lockdowns and the rise of remote working have actually strengthened Compass Group's position in its market because some smaller rivals have been forced out of business. But, if the adoption of generative AI by its clients reaches such an extent that it slashes the number of people who need feeding on their premises, that would be a real blow to the firm.

When asked about the long-term indirect impact of generative AI on the B&I division during the company's most recent earnings call, CEO Dominic Blakemore indicated that the business was diversified enough to mitigate the risk. He added that Compass Group was still working out how best to approach AI.

"We're in considerations and conversations with a number of partners to understand how it can improve our processes," Blakemore said. "It may create opportunities for roles within the tech sector. It may diminish roles in others."

THE BUSINESS OF ARTIFICIAL INTELLIGENCE IS BOOMING

Actual and forecast value of the global AI market from 2021 to 2030 ($bn)



Next Move Strategy Consulting, 2023

Commercial feature

Why operational resilience starts with better data

As service disruptions start producing long-term damage, the stakes around operational resilience are rising. Firms should take several critical steps to protect their operational capabilities

Business continuity and disaster recovery have long been an important focus across a whole range of industries. However, amid evolving customer expectations and shifting economic conditions, severe and complex threats continue to emerge rapidly, requiring a more proactive, agile and effective approach to crisis response.

Financial services regulators are driving change too, with their increased stringency intended to avert systemic disruption. Institutions must therefore meet enhanced demands in relation to ensuring key service stability, monitoring interdependencies (including in the supply chain), improving reporting and response capabilities, and proactively remediating vulnerabilities.

Increasingly, other industries are voluntarily addressing the same issues, drawing data in from across their organisations and fully mapping the end-to-end customer journey as a form of best practice.

"The impact of financial regulations is being seen across the board, with organisations prioritising resilience-driven investments as a matter of competitive advantage," notes Kate Needham-Bennett, Fusion Risk Management's senior director for resilience innovation. "Organisations are beginning to understand the impact of intolerable harm to their customers and the broader markets when their services are disrupted."

Across all industries, organisations must mitigate risks, ranging from energy outages to cyberattacks, supplier disruption, geopolitical fallouts and inaccurate data – all of which can have severe consequences. For instance, in financial markets, simple errors can leave customers facing irreparable losses, while interruptions to organisations providing critical infrastructure can have extreme societal effects.

So, faced with multiplying risks but limited resources, organisations will need to sharpen their approach to resilience. "They need to first focus on a distillation of their most important services and the scenarios that could cause the worst impacts," explains Steve Richardson, Fusion Risk Management's chief resilience innovation officer. "The response must be built right into the design of their operations and models, with clear allocation of who will be responsible for resilience and who will govern the associated processes."

For heavily regulated organisations with mature resilience programmes, orchestrating the totality of simultaneous changes – and reducing duplicated effort – is essential. "They need to regularly have all the right people at the executive table and ensure that operational resilience is discussed holistically alongside financial resilience. By doing so, they can more consistently make the right, unified decisions," Richardson explains.

> **Resilience must be built right into the design of organisations' operations and models, with clear allocation of responsibilities**

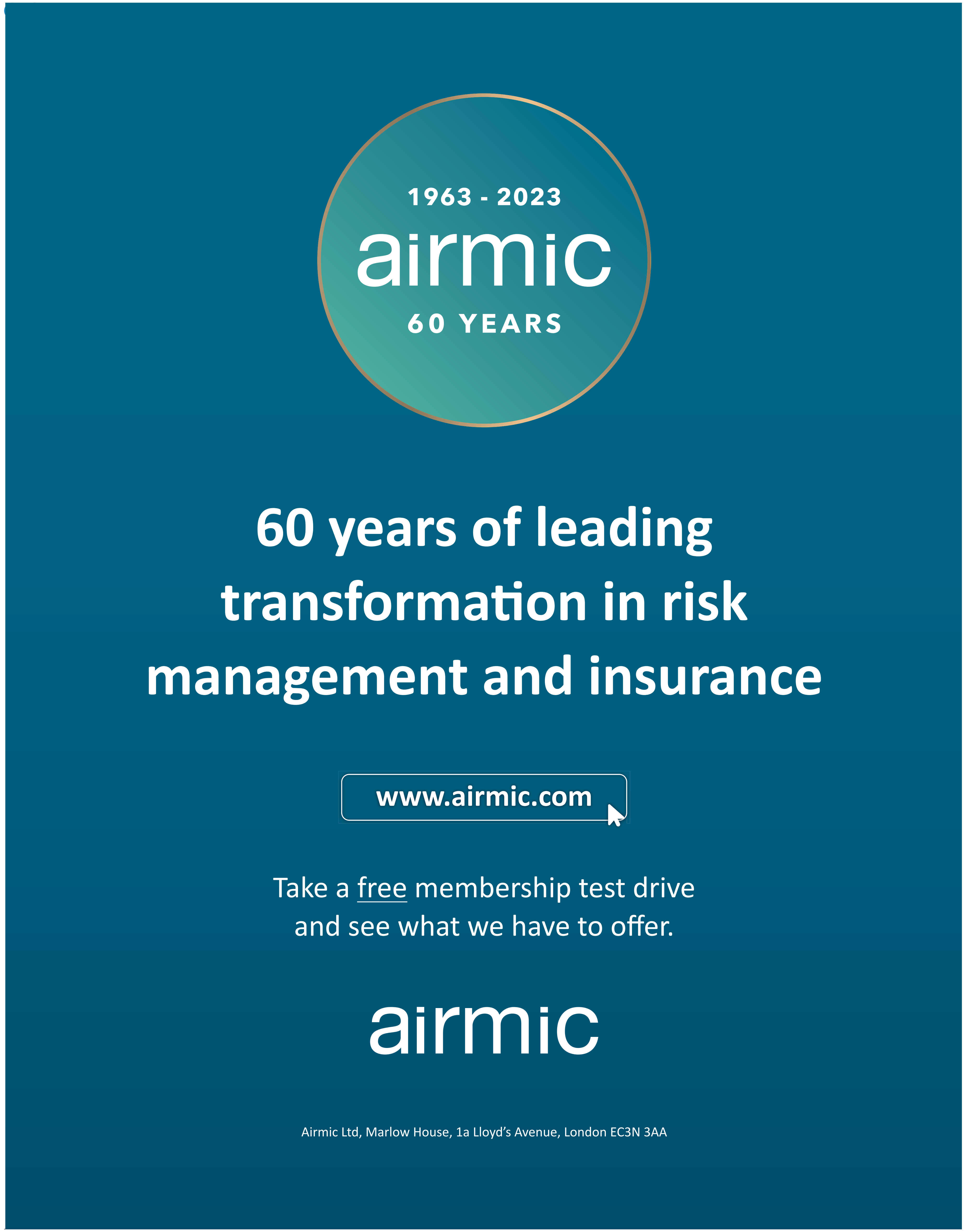
At the heart of all resilience decisions should be excellent data collection and rapid insight actionability. "Organisations should evaluate if they are asking the right questions and if the data that is being collected answers these questions," explains Needham-Bennett. "It is critical that they continually pull in real-time, relevant data while empowering their staff to proactively investigate and remediate matters quickly."

Given the need to accomplish this quickly, organisations must adopt a tough stance internally, acting as their own auditor. This means asking questions such as when their resilience systems were last tested, how long services would really take to recover, and what the knock-on impacts might be of severe disruption, Needham-Bennett notes.

To meet these challenges, global organisations are turning to specialist firms like Fusion Risk Management, which can provide them with sustainable, connected, real-time insights from across their operations. This is crucial in gaining a holistic overview of the business, its functions, its friction points and its vulnerabilities. The resulting insights allow organisations to have clarity over current and potential risks, while also guiding any immediate responses, as well as longer-term steps that deepen their resilience.

Financial services firms managing their resilience in this way are moving away from siloed business continuity documents towards a holistic, real-time, data-driven approach with specified resilience workflows. Meanwhile, retailers and manufacturing distributors with geographically dispersed operations have been among those implementing Fusion Risk Management's platform, to provide centralised risk assessments and to shape rapid targeted responses.

As organisations increasingly recognise the intolerable harms that could be caused by disruptions to their critical services, integrated operational resilience technology will be ever more essential to their ability to understand and mitigate impacts, preserving their agility and bolstering sustainable growth.

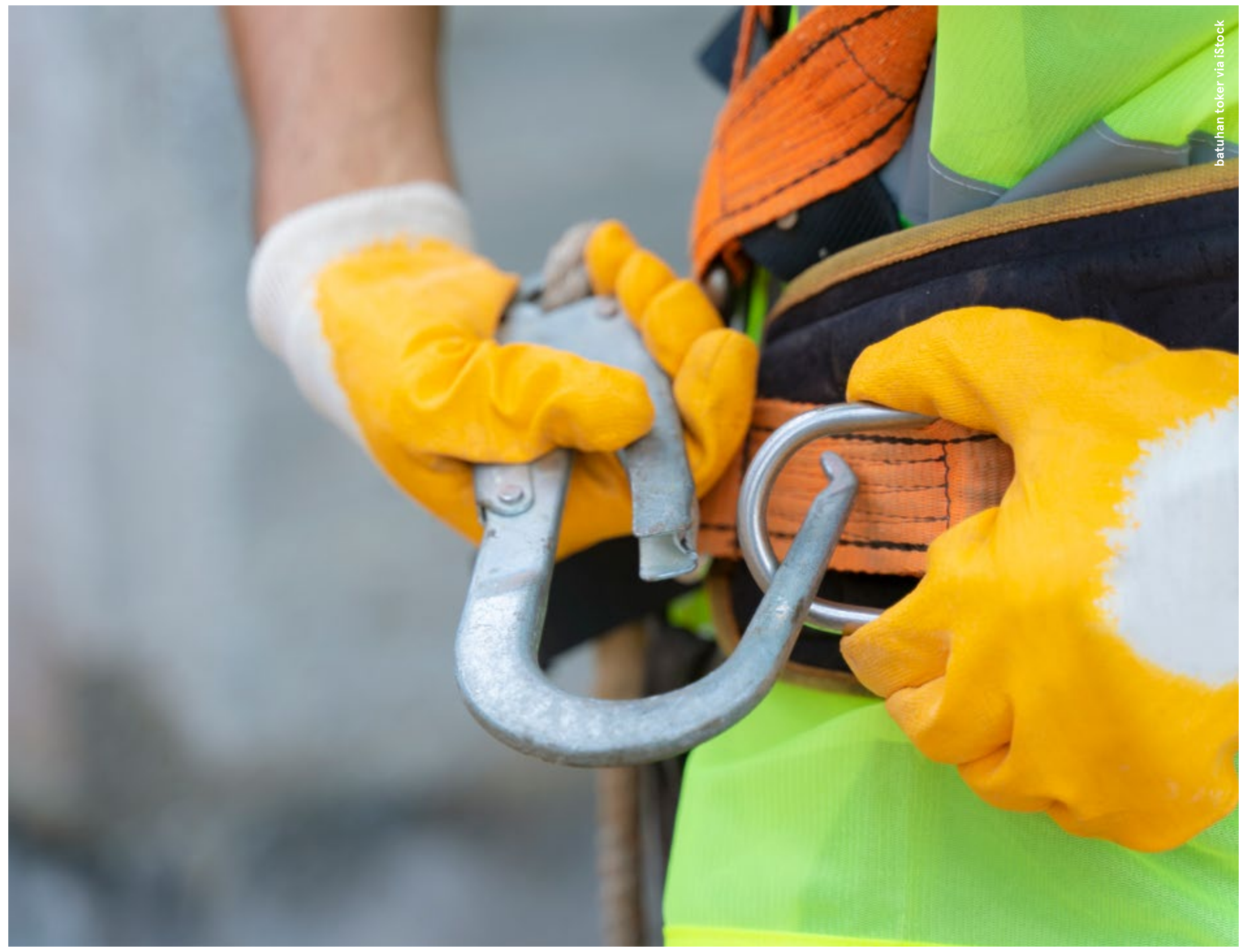


RISK MANAGEMENT

Risk-aware, not risk-averse

No transformation is without its pitfalls, but it's crucial to remember that these are far outweighed by the dangers of inertia

Daniel Thomas



Transformations are risky at the best of times, but they have become a whole lot harder since the Covid crisis. Firms overhauling tired legacy systems still have to splash out on the latest technology; manage the costly and complex process of implementing it; ensure that business continuity is maintained; and get the whole organisation to embrace the new way of doing things.

Now have to do this against a particularly unstable and unpredictable economic backdrop, where weak demand and rising operating costs are squeezing profits.

Managing all the associated risks can feel like "building a plane while it's in flight", according to Sabrina Feng, group head of technology, cyber and resilience risk at the London Stock Exchange Group. But she adds that, while the associated risks may appear daunting to some organisations, they need to consider the risks of either not transforming or approaching the task in a disorderly way.

"Without a structured and considered programme, change can be haphazard, with the potential to create more issues for the organisation," Feng says.

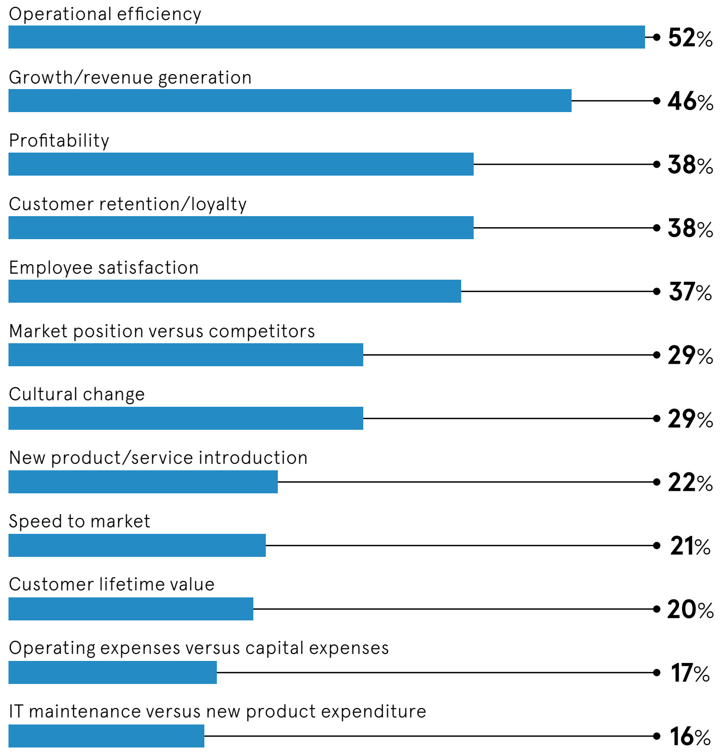
Some business leaders face a challenge in convincing the risk management function in their organisations that the benefits of transformation will surely outweigh the risks. But in tough times, how can that be done, and how can companies give themselves the best chance of making the project a success?

Connie Chan, a senior managing director in the business transformation practice at FTI Consulting, says that firms undertaking a transformation project need a "completely different way of managing risk". They also need to review how they plan, budget and operate, especially if they are global businesses with highly complex supply chains.

Chan believes that firms should adopt a "crisis, semi-restructuring mindset". Her advice is to take a rigorous, data-driven approach to transformation; establish tighter business controls; refocus sales and marketing activities; optimise cost categories; and manage the supply chain aggressively.

MITIGATING OPERATIONAL DISRUPTION IS THE TOP PRIORITY

Share of managers and executives citing the following KPIs when asked how their companies measure the effectiveness of business transformations



Harvard Business Review, 2022

"Managing a transformation effort in these times is challenging, as the business needs a comprehensive approach and an ability to course-correct swiftly as and when circumstances change," she says. "Businesses need a more hands-on and proactive approach, with frequent monitoring of financial and operational performance."

The first big challenge of any business transformation is to secure support for the plan from across the business, which can be more difficult when economic conditions are tough.

Jon Lucas is a co-founder and director at Hyve Managed Hosting, which helps organisations to migrate legacy tech into the cloud and build and deploy new systems. He thinks it is crucial to ensure that everyone in the business understands all the desired benefits of the transformation. If that doesn't happen, there is a greater likelihood that corners will be cut and core operations harmed as a result of budget constraints and inadequate infrastructure.

Various departments also need to be on the same page to ensure that the transformation doesn't become siloed, which often leads to system integration failures.

"It's important to showcase and communicate the transformation's value to the entire business," Lucas says. "For example, benefits such as the centralisation of processes, the sharing of resources and the utilisation of data analytics can all show how it can provide a competitive edge."

Senior leaders have a vital role in selling the concept to the wider company and should lead from the front. So says Philip Songhurst-Thonet, senior director of risk management consultancy Control Risks. Transformation is founded on cultural change, he stresses, and convincing people to break old habits and develop new ways of working is key. "Setting the tone from the top and linking objectives to clear outcomes will support the case for change."

Companies also need to invest in appropriate governance and processes before the start of any transformation, Songhurst-Thonet advises. Such projects are usually complex, fast-paced and uncertain, meaning that any midstream change of scope can cause time and cost overruns. As such, it's vital to devote time beforehand to understanding cost estimates, their assumptions and uncertainties.

A transformation will nearly always disrupt business-as-usual tasks, leading to a reduction in overall organisational performance. For instance, if a large retailer starts a project to modernise payment handling, it could lead to a temporary loss of revenue and severe reputational damage if it encounters serious glitches during the move to a new platform. Similarly, banks could find that customers cannot access their finances if there is unplanned disruption during the implementation of a core banking platform.

Control Risks advises its clients to take a "stage-gated" approach, so that the risks and rewards of the transformation are continually assessed and challenged throughout the project. Songhurst-Thonet also thinks that, while leaders should be "communicating broadly" and keeping the wider company up to date on the project, formal engagement should be limited to a smaller group, allowing the organisation to focus on core business.

> Setting the tone from the top and linking objectives to clear outcomes will support the case for change

Dynatrace is one of a crop of companies helping organisations to mitigate the risks of digital transformation by harnessing artificial intelligence and automation tech. Greg Adams, regional VP of its business in the UK and Ireland, advises companies to put an "observability strategy" at the front and centre of their planning.

"This enables the teams delivering a business transformation to monitor and manage the customer experience before, during and after the transition to new systems and processes," he explains.

WalkMe helps businesses to see how well their new tech is being used and ensure that employees are getting the most value from it. This can overcome any obstacles to adoption, says its digital transformation officer, Vivek Behl. The firm also helps clients to target their technology investments and ensure that staff have a consistent experience across all applications.

While there are many tools and strategies to aid a smoother transformation, no project will ever be risk-free. That said, Feng believes that firms can greatly mitigate against unforeseen threats if they ensure that people are "risk-aware" and are using all the right data to inform their decisions.

"Every transformation is different. If done right, they will drive efficiency, make the firm more profitable and enable better risk management," she says. "The role of the risk function is to enable risk-aware decisions and enable safe growth. This is not about avoiding all risks."

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