Corporate ‘Digital IQ’ linked to performance

By Paul Taylor

For the past six years, PwC’s has conducted what it calls its Digital IQ Survey, a spot check on the digital health of companies and their progress towards digital transformation. On the eve of the publication of the 2014 report, I asked Chris Curran, PwC principal and chief technologist, about this year’s survey and what it revealed. Below is an edited version of our conversation.

What are the main findings of the Digital IQ survey?
As we do each year, we looked at how well business and IT leaders understand, value, and weave digital technology into the fabric of their business. It’s what we call their Digital IQ - and today it’s never been more important.

This year, we identified the top things that companies can do to get the most out of their digital investments. These are the five Digital IQ behaviors, and they look at the chief executive’s role, how the chief information officer and chief marketing officer work together, how the company learns about innovation, how it invests in IT, and how it develops its digital capabilities. These aren’t just nice-to-haves, either: companies in our study that adopted the five Digital IQ behaviors were more likely to be top performers in revenue growth, profitability, and innovation.

How have things changed since last year?
Last year, when we looked at the link between Digital IQ and company performance, we zeroed in on the relationships among the Csuite members and the Chief Information Officer. Those executive teams that were collaborative and had active “digital conversations” were four times more likely to be top performers.

The correlation, while a bit lower, stands in 2014. But the big news is just how critical one of those relationships is - that between the chief information and chief marketing officers. Seventy per cent of top-performing companies had strong relationships between these two roles compared to 45 per cent for the rest.

It makes a lot of sense when you consider that so many digital technology initiatives, like consumer apps, mobile sites, or customer analytics, are driven by marketing. The danger is when the chief marketing officer charges ahead without involving IT.

That doesn’t mean that IT has to take control or build the things; it means the chief information officer consults and helps the marketing organisation consider how this piece of the puzzle fits in to the broader organization. Otherwise, you might invest millions in slick solutions that are like digital islands. They can’t be connected to the organization’s other systems and are of limited value.

Were there any findings that surprised you?
Absolutely, practices around innovation were not what we expected, especially given how instrumental product and service innovation is to so many companies’ growth plans. With disruption coming from new entrants or other industries, you would think that companies would cast a wide net when it comes to innovation, tapping universities, labs, customers, and industry partners.

Yet most companies continue to look for and cultivate new ideas only from inside the organisation. Even top-performing companies only collaborated with outsiders about 30 per cent of the time.

This is in contrast to taking an outside-in approach to innovation where you look beyond the organization’s four walls and think broadly about which emerging technologies hold promise for your business or threaten to disrupt you.

There was also a surprise when we looked at the emerging technologies that company leaders said would be of the most strategic importance in the next three to five years.

Across the board, those top-five were what you would expect: data mining and analysis, private cloud, mobile customer technology, externally focused social media, and cybersecurity. Those are important, but they may not be the most disruptive to your business. Sensors, robotics, 3D printing, gamification also have a lot of disruptive potential. The concern is that businesses may be taking too insular a view and risk missing out on unexpected disruptors. At the end of the day, your top-five list of strategic technologies may look very different from our list.

What are the main lessons for companies?
Delivering on digital has to be an organisational priority and one that touches everything the business does. Developing the five Digital IQ behaviours starts with the chief executive and leadership team, especially the chief information officer and chief marketing officer, but it affects everyone in the organisation.

An important change in mindset is moving away from thinking about technology and IT as a separate function or skill. It really does have to be seamlessly woven in to the business. Business people must cultivate relevant digital skills while IT staff need to build strong business knowledge. The best performing companies use agile processes and take advantage of cross-functional teams. It doesn’t matter where the skills reside in the organisation, so long as the business has a common understanding and an effective way to leverage those resources to meet its goals.

Is it too late for companies that have not begun a digital transformation?
No. In fact, so many companies are paying lip service to digital and they’re focusing only on the customer-facing side of the equation. That’s important, of course, but as we emphasize in the study, it’s about thinking bigger. It all starts with a chief executive who doesn’t delegate digital or think of it as a distinct strategy.

Eighty-one per cent of top-performing companies in the study had a chief executive who was an active champion in the use of technology to achieve strategy, compared with 68 per cent for other companies. Company leaders need to think about how digital affects growth and cost goals, products and services, partnerships, talent acquisition and retention, operations, and more.

The chief executive’s digital leadership can spark an enterprise-wide cultural transformation. That transformation is a critical part of progressing to the New IT Platform - where the IT organisation becomes a business consultant that empowers every employee with technology. For every strategic question, that means looking at the digital opportunities and the challenges.