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Are you ready yet?

Why Digital can transform the strategic value of IT and the CIO

By **Michel Krauch**,
Capgemini Consulting

With digital transformation, IT can become a part of the entire business model and not merely one business process. Indeed, this state of affairs is something that many CIOs have long been hoping for. However, some isolated cases apart, this new paradigm is not yet a reality in companies, observes Michel Krauch of Capgemini Consulting.

In 1876, Alexander Graham Bell patented the telephone. Fifty years later, it was established as a means of mass communication, with over three million connections. In February 2004, Facebook went online – after just seven years the digital network already features over 600 million users and is becoming a powerful tool across many areas, including personal, business and political.

The comparison clearly demonstrates the acceleration of innovation and the distribution of new communication technologies. Our society has entered a digital era that is online, real time and mobile. For companies, this means that at a strategic level they have to address digital lifestyles, digital markets and digital working environments – and strive towards a digital transformation. But, are companies ready for the digital era?

The digitization of our lives and work spaces creates new business opportunities. The associated business processes alter the manner in which we network, collaborate and generate value with our suppliers, business partners and employees. IT is therefore increasingly becoming part of the entire business model, no longer functioning as just an enabler of supporting business processes. This begs the question: what exactly is the business potential of IT in this new world order?

IT will fundamentally alter business models

Digital transformation is the process of transforming existing business models into digital business models. It is based on the application of digital technology to fundamentally alter the existing business model of a company. What is new is that business and IT together define the strategy at the beginning of the transformation and then put it into operation.

Although, this has long been the aspiration of many CIOs, it is rarely seen except for a few exceptions. Only with the advent of new technology disruptions, especially social media, has technology achieved such an importance for companies' innovation capability and future success.

CIOs face the complexity dilemma

However, CIOs often face a dilemma: they must keep IT complexity under control while at the same time integrating additional business requirements, which increases complexity. In our experience, over two-thirds of large IT optimisation investments are aimed at reducing the complexity of the IT architecture. However, it is often difficult to convey the benefits of such efficiency measures at senior management level. CIOs face a difficult challenge in justifying these investments which are very often simply rejected or delayed, leading to a further increase in complexity.

Very often this dialogue is missing people with adequate IT knowledge at management level. Automotive manufacture provides a good analogy of why certain expertise is important at CxO level. In automotive, you will find that eight out of ten CEOs have knowledge about engineering. They therefore fulfil a basic prerequisite for evaluation and taking decisions on proposals that can alter the business model, such as automobile platform strategies.

IT competency lacking at the board level

If we apply this basic principle to industries where IT is hugely

important, such as banking, the result is less impressive. We would say that barely two in thirty bank CEOs are well versed in IT based on their professional background. You can look in vain for an IT specialist or business information specialist among this group. The language barrier between IT and the rest of management is thus virtually hard-wired.

It does not suffice for CIOs to rely on "Business/IT alignment". An approach is needed that not only moderates the dialogue between business and IT, but also stimulates and drives it. The value-add of new technologies needs to be argued from the business side.

Three levers for digital transformation

The business value of IT defines a Digital Transformation, which starts with:

- the potential offered by new technologies for end-products/ services and primary processes

- the business' ambition for profitable growth

- a management perspective on how technology can contribute to the implementation of the corporate strategy and thus to competitive differentiation

The transformation process here far exceeds the mere deployment of new technologies. It is about the transformation of company strategies and business models using IT innovations. This comprehensive change begins with customer interaction, includes the employees of the company, and ends with the operational business processes. The intelligent use of information is also key, with the disciplines of business analytics or business insights becoming increasingly important.

Digital Transformation offers a huge opportunity for CIOs. With Digital Transformation, the strategic value contribution of IT finally becomes transparent and apparent, delivering the long-held ambition of many CIOs to secure IT's place as an end-to-end driver of business strategy and success.

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