

Will 2020 'black swan' event finally tip enterprises towards digital transformation?

Harsh Vardhan / theedgemarkets.com

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Despite much hype and chest-thumping in recent years, the promise of true digital transformation — a mindset shift as much as digitalisation of data, assets and processes — has eluded the majority of enterprises across Asia.

Corporate leaders have dazzled themselves with the prospect of a brave new world of automation, machine learning and a gold mine of opportunities from artificial intelligence waiting to be discovered. But very few outside the tech world itself or larger MNCs have embarked on this transformation — until the sudden shock, we have all been faced by the Covid-19 pandemic.

In a matter of months, not one but two problems have paralysed the world — the sudden collapse of oil prices and the Covid-19 health pandemic. These global “black swan” situations have dealt a sharp blow to the way we live and work. They have laid bare the sad truth that the majority of corporations — particularly small and medium enterprises (SMEs) — have been kicking the can down the road with regard to digital transformation.

Corporate decline or death was a distant prospect if the team worked hard and had an established customer base. The digital transformation was postponed time and again, with only patchwork additions for functions like video conference, cybersecurity and piecemeal mobile applications, while moving non-essential workloads to the cloud.

Boardroom tussles over budgets revolved around allocating resources for ‘front-end’ customer experience to increase revenue and “back-end” productivity solutions. The net effect was that the dialogue was reduced to who needed the budget more rather than the big but overdue strategic shift.

True digital transformation, which must be both lasting and impactful — be it in processes, in harnessing new applications and in a deep cultural shift among all employees — was ignored, until the gathering of these two life-changing events in early 2020.

Suddenly, we have a crippling reset of business models. On the demand side — we are faced with a serious pandemic that has strained every public healthcare system around the world, near-total suspension of air travel, lockdowns that have left cities deserted and a supply chain dislocation that may take years to repair. On the supply side, the price war in oil markets has had a major impact on energy and financial markets.

For CEOs, the boardroom debate has taken an unexpected turn. The demand side has virtually evaporated as many economies slide into a recession, despite stimulus programmes unleashed by governments. The pie has shrunk significantly and may not grow for several quarters at least.

Corporations that do not embark on immediate transformation will not be able to compete with those that do once the storm has passed. Old habits, old processes and dependence on old technology will leave many outdated, uncompetitive and on the verge of extinction.

True digital transformation will require de-layering of decision-making and work processes. Cash conversion cycles must compress, impacting receivable and payable days. Assets have to be digitalised and enhanced so depreciation is better managed. Capex must give way to opex more than before.

But where and how do we start? Eight laws will determine success or failure for digital transformation:

First, digitalise every transaction, event, asset as far as possible at source. Reduce or remove human intervention to allow anticipatory computing and true mobility. The sad fact is that many “tech-savvy” organisations have moved many processes to the cloud but a large number of day-to-day activities still require human intervention.

Second, intelligent systems can only function if all information is available democratically and securely. The systems must be able to access all data to predict, propose options and make decisions.

Third, transformation requires total digitalisation of core functions assisted by artificial intelligence and machine learning, as well as automation of supporting functions.

Fourth, the definition of an asset must change beyond balance sheet terminology — existing tangible assets must be digitalised to enhance their useful lives and impact depreciation positively; at the same time, new digital assets in the form of data, processes and IP must be established and nurtured.

Fifth, by replacing legacy systems with digital processes, a corporation can increase its capacity — for output of services or products — exponentially, thereby redefining growth opportunities.

Sixth, how close you are to your customer depends on the degrees of separation you have with him or her; eliminating or reducing these degrees will bake in customer intimacy.

Seventh, without empowerment, true digital transformation cannot be achieved.

Finally, digital transformation requires total commitment from the CEO as the chief agent of change, without which these efforts will fizzle away.

The brave new world requires CEOs to step forward and lead the transformation decisively. There is no longer the luxury of time or alternatives in a world after Covid-19.

Harsh Vardhan is president of the Digital Transformation Platforms Business of Ramco Systems, a leading next-gen enterprise software specialist that has been helping several organisations achieve digital transformation worldwide.