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A key to revenue growth in Big Tech era is missing at most companies

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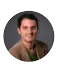

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KEY POINTS

- JP Morgan chairman and CEO Jamie Dimon recently said he was “scared s---less” of fintech, and he should be, according to new MIT research, which finds only 12% of executive management teams in the financial services sector are digitally savvy.
- Lack of digital skills is common across sectors and not even half of chief technology and chief information officers are found to be “digitally savvy” according to the MIT researchers.
- The MIT Sloan Management Review reports that companies with digitally skilled management teams generate as much as 59% of revenue from recent innovations versus less than 20% at lagging peers.

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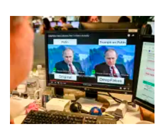

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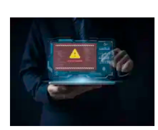

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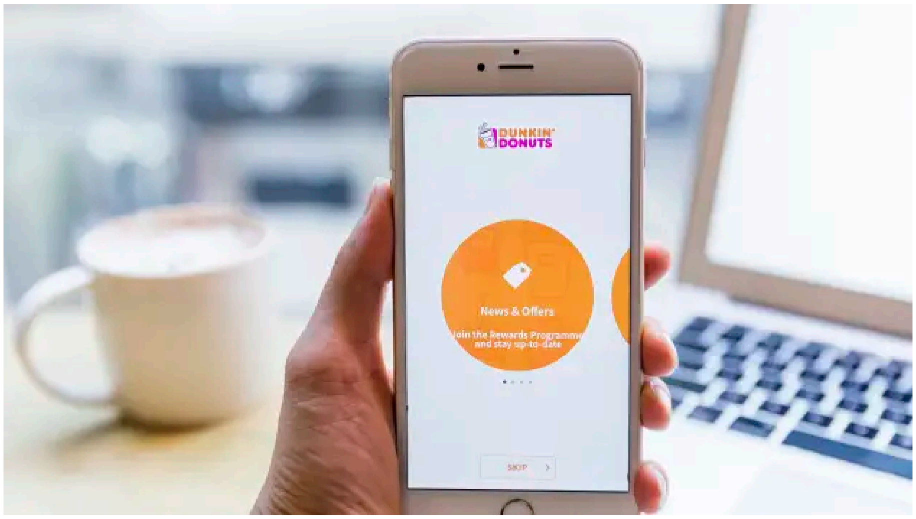

Digital transformation at brands like Dunkin has resulted in rapid innovation that can generate as much as 59% of revenue, according to new research published in an MIT journal, but a majority of management teams continue to lag on digital skills.
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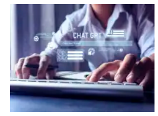
JP Morgan chairman and CEO Jamie Dimon recently captured headlines when he said his Wall Street management team should be “scared s---less” of the fintech threat. A new study from MIT researchers of management teams at near-2,000 companies globally with $1 billion or more in revenue supports the J.P. Morgan chief’s view: the majority of corporate executives are not “digitally savvy” and it is costing them in terms of revenue potential from innovation and cross-selling, as well as a slower pace of digital transformation.

In financial services, specifically, the MIT Sloan Management Review report published on Wednesday finds that only 12% of teams are meeting the mark digitally, but it is not even the worst among sectors as a majority of public companies struggle to compose senior teams with digital DNA.

Only 7% of all companies were rated as being “digitally savvy,” and those companies outperform peers by as much as 48% on revenue and valuation, as well as 15% on net margin. Top “digitally savvy” companies generate 59% of revenue from innovations introduced within a three-year-period.

In an era during which the tech sector has created multiple trillion-dollar-plus market cap companies, moving quickly is critical, and the MIT researchers say it is not too late. Investments, if large enough and made soon enough, can help close the gap and improve financial performance.


Shadow AI in the ‘dark corners’ of work is becoming a big problem for companies


How A.I. can help create jobs for humans, not just automate them

How digitally savvy top teams drive performance

The most digitally savvy top teams are far more likely to produce results through innovation and empowered workforces than the least savvy teams.

RESULTS		Top 25% of Savvy Top Management Teams	Bottom 25% of Savv Top Management Teams
	Innovation (% of revenues from new offerings in the past three years)	59%	18%
	% of revenues from **cross-selling**	53%	15%
	% complete on **transformation**	69%	30%

Source: "Does Your C-Suite Have Enough Digital Smarts?" By Peter Weill et al., MIT Sloan Management Review, March 2021
sloanreview.mit.edu/x/62320

If companies execute on the challenge properly, the MIT team says, within a decade we will no longer be talking about "digital transformation" or "digitally savvy" executives. As the opportunity grows exponentially, the skill set and corporate mentality will become core to successful operations.

"In Australia, supermarket chain Woolworths' CEO Brad Banducci was recently quoted saying it won't be long before the number of visits to digital will be more than in-store and that's a stunning change," says Peter Weill, senior research scientist and chair of the Center for Information Systems Research (CISR) at the MIT Sloan School of Management, and one of the authors of the new study. "But it is here to stay. The word digital will disappear. It will just be the way of doing business," Weill says.

[A previous study conducted by the MIT researchers in 2019 of over 3,000 U.S.-listed companies with $1 billion-plus in revenue found that only 24% of corporate boards of directors made the "digital savvy" cut.]

CNBC recently conducted an interview with two of the lead researchers on the study, Weill and Stephanie Woerner, research scientist at the MIT Center for Information Systems Research. It has been edited for clarity and length.

CNBC: Were you surprised by the relatively poor numbers the study revealed?

Woerner: I was surprised to see the information as low as it was, but it is a global number, for public traded companies across the globe, so there may be some regional differences, but this is a call to arms. We need executives to be thinking about what digital can do for their company and how can you educate yourself on the opportunities and challenges.

Weill: There is still a lot of variation. Take media, software and telecom, which ranked highest among sectors, with one-third of executives being rated as digitally savvy. Even a third is really differentiated. The way to think about it is, what is the opportunity and where should we focus talent.

CNBC: Does the fact that your study found only 7% of teams are digitally savvy mean there is a risk only 7% of companies survive?

Weill: If you don't change anything, then this is an existential threat. Amazon and WeChat and the "winner takes most" model is so good that regulators are now being asked to help. But I think there is a good opportunity and we are seeing companies invest heavily in increasing digital savvy of boards and teams and it can be done quickly. At Cemex [Mexican building materials giant] it went from zero to 50% of revenue in two years from digital transformation.

Woerner: Companies can also rely on having existing digitally savvy members of management teams guide them. The need for this is a pressing need, and companies can rely in some cases on the existence of digitally savvy executives already there.

Weill: It does take a critical mass of executives. When we studied boards of directors, we found that when the first director with digital skills was hired, the board was happy, but no one listened to them. So they hired another digitally savvy director, and they talked to each other, and no one understood their language. The guidance became successful only when the board got to three, and for management teams, like at Cemex , the number needs to be higher.

CNBC: Is this a situation in which firms will be forced to acquire more start-ups to gain the digital skills and services?

Weill: The most important thing is to not focus on specific project risk, whether an acquisition or an in-house build — the 'should we do it?' question— but on whether the company needs to change the business model.

I was recently at a session of a board at a financial services company and the conversation was all about how to add more value to core products already being sold. The margin on most products in financial services is going down, so companies need to create markets for not just their own products but complimentary products, and through a single sign-on. It's what we hear boards talking about the most, not just fintech, but the margin on most products in financial services is going down so they have to find substitution.

Woerner: Our digital savvy board members say being savvy allows the team to evaluate the risk of not doing something. Often they have evaluated acquisitions in terms of compliance and security [in financial services], but these teams are asking if deals are good for what will be able to do as a result, and the cost of not doing it, looking at the big picture.

CNBC: You note in your study that management teams often fall into a 'not my job' mentality when it comes to digital. Why, and what is the risk of continuing that way?

Weill: My sense is that middle management is looking for guidance on how to behave differently and very willing to change, but there is lots of resistance at the power level to make these kinds of changes. It means organizational upheaval, and there are winners and losers.

If the executive team doesn't change, managers don't change, the only options will be acquisition of other business models or starting a new all-digital unit, such as car companies have done with mobility or banks have done around online mortgages.

The Most — and Least — Digitally Savvy Executive Roles

Our research found a notable dearth of digital savviness across all executive roles, even those that typically feature high levels of technological expertise, such as CTO and CIO.

TITLE	% DIGITAL SAVVY
CTO	**47%**
CIO	**45%**
Unit President/Geography President	**35%**
COO	**24%**
President	**24%**
CEO	**23%**
Head of Marketing	**23%**
Head of Corporate Development	**23%**
Head of Human Resources	**21%**
Head of Sales	**15%**
CFO	**12%**
Head of Corporate Communications	**11%**
Chief Legal Officer	**8%**
Chief Compliance Officer	**8%**
Head of Investor Relations	**6%**

Source: "Does Your C-Suite Have Enough Digital Smarts?"
By Peter Weill et al., *MIT Sloan Management Review*, March 2021
sloanreview.mit.edu/x/62320

CNBC: You also allude to a lack of supply of digitally savvy executives. Are there enough in the world to staff these management teams even if they fully embrace the concept?

Weill: There is a huge talent shortage and lots of competition for talent and the price of talent is going up. One solution is hiring a few key individuals to lead innovation and working hard then to use new ways of working to develop agile teams.

Woerner: You need to have buy-in from the top. Think of banks, like UBS, where they wanted to find alternate sources of talent so they started doing hackathons and got the entire bank involved, had everyone mapping the customer journey and thinking about the customer voice. That kind of approach also gives younger employees a chance to shine and pairs people up in new ways.

Weill: We did a program for Standard Bank Group , 17 boards across the African continent, and paired up directors with digitally savvy young workers in the company on projects. Reverse mentoring is very effective and hands-on.

CNBC: I found it surprising that even CTOs and CIOs, less than half, are digitally savvy. Did you?

Weill: CTOs and CIOs are very focused on operations. It's not just cybersecurity but data and uptime and whenever something breaks they get dragged back from anything else to focus on it. When we did a study on keywords in biographies of senior technology leaders, there were two categories. One was understanding the impact of technology on the business and the other was having the experience to make changes at enterprise scale. Lots of CTOs and CIOs don't have both, but they can grow into it, or hire more to broaden their focus and have a whole team be digitally savvy.

CNBC: There are many names at the top of the ranking that will not surprise people, like Adobe, Apple and Alphabet, but Charles Schwab, Dunkin' Brands, Ovintiv (formerly Encana) and Marathon Oil also scored highly. Why?

Weill: All the major oil companies have enterprise scale operations and are used to dealing with challenges of scale. We want to see more than pet projects and energy companies go into new countries and set up operations from scratch all the time, and are good at getting scale to drive value.

At Dunkin' [acquired last year by Inspire Brands], they really saw what digital could do for them and really changed the business model from just a supplier selling donuts and coffee which didn't know its end customer to really learning about them and cross selling. Dunkin' really jumped on it, building over time. Before Covid they went from zero to 14% of sales on mobile and now it's a very different model, with the loyalty program to look at what is selling and not selling. [In 2020, digital sales made up 23% of total transactions, according to Dunkin'.] And because it is a franchise organization it mostly would not have gotten that data before. It took a big increase of focus across the whole management team.

CNBC: You mention Covid and it has been a time of rapid acceleration of digital for many companies. How important is this moment relative to your research?

Weill: It is a fork in the road for companies that reacted well to Covid and figured out how to do delivery and digital. That is a good predictor of future financial performance, but if it was just an add-on and they go back to business as usual, they are in for a hard time. The hard part is pushing further down the road, stop doing what a company did before and asking how does it push further into digital and innovation, cross-selling and transformation, and automation. That's where we will see the difference continue to be made.

CNBC: Your research found that among digitally savvy teams as much as 59% of revenue comes from innovations introduced within three years. Was that surprising?

Weill: It should be even more stunning for the bottom companies than the top companies. The reason is customer expectations are going up because of their experience with tech companies, and when firms get a hit with customers it takes off like wildfire. This is exponential. For companies, it requires rapid learning of digital techniques, testing and learning. To do that, you can't be in a traditional command and control management structure. It takes too long. Companies need to move to coach and communicate.

Woerner: The numbers on cross-selling [53% of revenue for top digitally savvy teams versus 15% for bottom teams] and digital transformation [69% complete for top teams versus 30% for bottom teams] shows these digitally savvy management teams are moving much faster and achieving more progress, and in terms of digital transformation, we define it as step changes on performance in customer performance and efficiency.

CNBC: You found that the top companies make their 'crown jewels' available internally and externally to be turned into innovation and digital services. You discuss the importance of core capabilities of top companies as being enabled by APIs. What does this mean in non-technical terms?

Weill: An API is just a way for computer to computer partnering to occur. French telecom company Orange and Singapore's DBS Bank are examples of firms that brought on partners [in Orange's case for an accelerator program] and made their 'crown jewels' available to partners to use as a component for offerings. The idea of taking what you do best and making it available at least internally for innovation, as well as externally for partnering ... It is huge. All the companies we mention do this. If you take it back to the role of senior executives, they have to understand what the crown jewels are in the first place, and they struggle with that.

Woerner: It is certainly easier to make more APIs available internally than externally, and it is a really strategic decision to decide what you can open up and what needs to stay proprietary think. We find about 50% to 60% of crown jewels are open internally and maybe 35%-40% available externally for partners to use. And we are finding that is one of the most surprising things in the research: the ability to take a core capability and make it available to partners and internally to employees is really a strong predictor of financial performance, revenue growth and other financial metrics.

Think of Paypal as an example and deals it has with Chevron at gas stations and Walmart to make it easier for customers, to give customers more options for payment, and then Paypal has options to see data that comes out of those partnerships.

Top 'digitally savvy' firms in MIT study

The following companies were top-ranked by MIT as having above average digitally savvy top management teams and top performance financially — in the top quartile of both net margin and revenue growth, adjusted for industry.

1. Adobe
2. Alphabet
3. Analog Devices
4. Apple
5. Applied Materials
6. Booking Holdings
7. Charles Schwab
8. eBay
9. Ovintiv
10. Facebook
11. InterActiveCorp
12. Lam Research Corporation
13. Marathon Oil
14. Microsoft

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