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How Companies Should Leverage Digitization

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NEW YORK – It is no secret that rapid digitization is upending firms' operations, systems, and entire business models. Whether companies can both manage the risks and also reap the massive rewards that digital technologies can deliver depends significantly on the actions they take in five key areas.

First, digitization should enable managers to allocate the company's capital and labor better – in real time. Efficient companies regularly review and upgrade their operations in at least three ways: streamlining existing processes, adopting best practices from outside their organizations, and identifying the most productive use of their assets. Digital technology can enhance all of these activities.

Movie-theater companies, for example, already deploy human capital based on real-time demand trends: in the United States, information about ticket sales and social-media reviews following releases on the East Coast will shape staffing decisions on the West Coast. Similar approaches can be implemented (or enhanced) in a wide range of sectors, boosting efficiency and productivity. The benefits will grow progressively, as companies adjust their hiring practices to target candidates with the relevant expertise.

But, just as fast-growing stores of data can aid management teams, they also risk complicating the picture. Fortunately, digitization can help managers to organize and collate data to enhance decision-making. This is the second key area.

Traditionally, management teams worked with far less information. Businesses tended to operate within one or few jurisdictions. And company decision-makers would hear the perspectives of a sub-set of stakeholders, such as shareowners (at annual general meetings or in smaller-group conversations) and employees (through internal surveys).

Today, businesses increasingly operate across multiple jurisdictions, and hear from a much broader set of stakeholders – including customers and community members – especially through social media. Public pressure is already forcing corporations to divulge more details about their products' provenance, including working

conditions, average wages, and environmental metrics, such as the amount of water used and carbon dioxide emitted. With employees able to air their grievances on digital platforms outside the company's purview – such as Glassdoor, Blind, and TheLayoff.com – there is nowhere for firms to hide.

In such an environment, managers must be able to organize and interpret data for themselves, identify broad economic, geopolitical, and social trends, and use the insights they glean to adapt their strategies quickly. To this end, they should foster productive engagement with all stakeholders and leverage digital technologies – and the data they provide – to root out inefficiencies, eliminate redundancies, and simplify burdensome processes.

The third way organizations must apply digitization is to enhance organizational flexibility in responding to external threats and opportunities. For example, trends underpinning de-globalization – including protectionist policies, cross-border capital controls, and tighter immigration rules – may affect where and how companies sell their products, how they fund themselves and deploy investment capital, which talent pools they can tap, and how reliable their supply chains are.

In particular, escalating tensions between China and the West have raised the specter of balkanized trade, technology, and currency regimes. We may even see the emergence of a “splinternet,” characterized by two competing digital environments, led by the US and China, with different IP protocols. This would pose a serious challenge for many companies, which are set up to operate in a single globalized system, with centralized financing, procurement, and hiring systems.

Amid rapid social, economic, and cultural change, organizations need to build flexibility into their business models and operations. Digital technologies can provide that flexibility in a cost-effective way, reducing friction costs and mitigating downside operational risks, while enabling firms to trade, raise and deploy capital, and hire in a balkanized or bifurcated system.

Digitization can also enable firms to tailor their offerings – and prices – to individual consumers. This is the fourth priority area.

Life insurers have long priced the policies they offer on the basis of individual factors, such as health status, lifestyle, and actuarial tables. As gathering and analyzing high-quality data about consumers becomes easier, a wider range of companies will be able to take a similarly personalized approach to pricing.

Some industries already have a relatively tailored approach. Consider financial products, such as mortgages and car loans. Today, a group of people with broadly the same set of attributes would be charged the same interest rate. With greater digitization, individual customers can be charged an interest rate that is better aligned with their specific risk profile, including a range of metrics from assets to life

expectancy.

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If corporations design and execute effective digitization strategies in these four areas, they will both boost revenues (by getting more goods and services into the hands of customers faster) and reduce costs (by streamlining hiring, manufacturing, production, and logistics processes). Rethinking how to distribute the increase in profits resulting from digitization is the fifth priority area.

Companies typically divide profits among debt reduction, reinvestment, and payouts to shareholders in the form of dividends and buybacks, or store them for long-term strategic purposes. But as shareholder capitalism gives way to stakeholder capitalism, a broader range of interest groups – such as employees and local communities – will expect benefits. Companies' growing roles in areas like education, health care, and infrastructure – as well as the impending rise in structural unemployment owing to automation and digitization – will reinforce this expectation.

As the COVID-19 pandemic has underscored the fragility of many business models, it has also intensified the race to adopt cutting-edge technologies. But adoption is only the first step. How these technologies are applied across the five priority areas described here will determine who reaches the finish line – and when.

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