



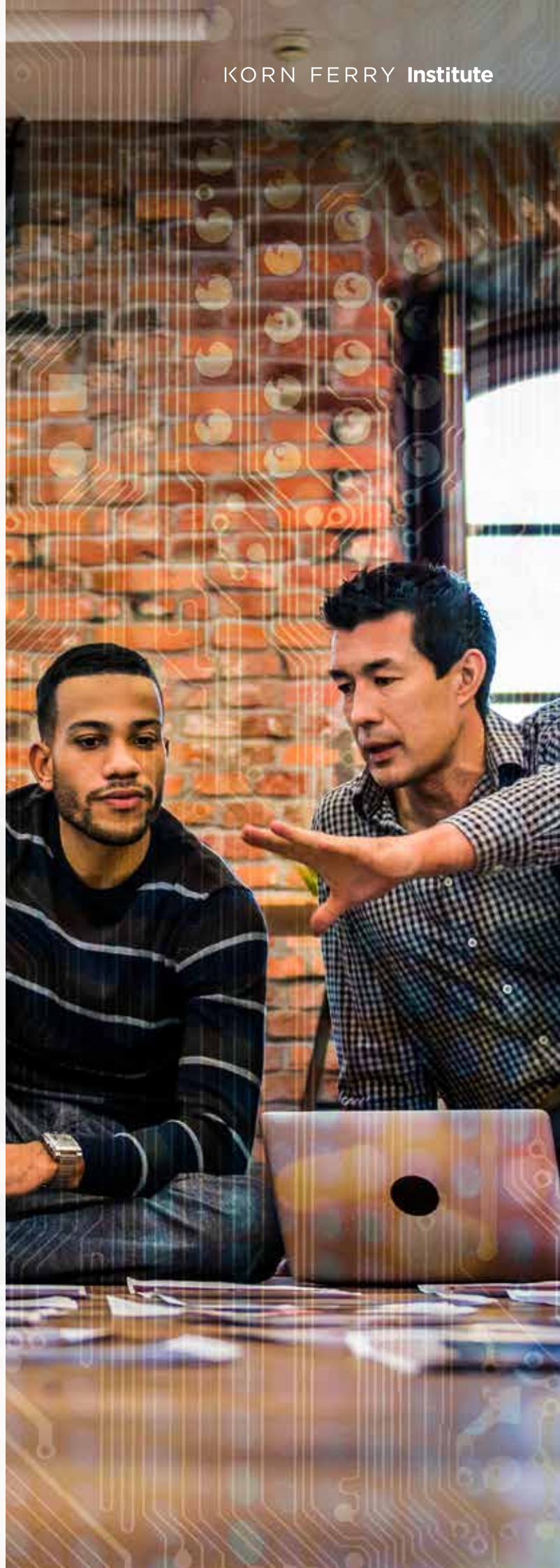
# The Korn Ferry Digital Sustainability Index 2017

Continuous transformation in the digital economy.



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# Foreword

## DIGITAL SUSTAINABILITY

An organization's ability to continuously adapt and thrive in the digital economy.

Organizational transformation used to be a destination, and success was a formula that could be replicated. But the systems, processes, and ideas that brought prosperity to so many of the world's largest corporations are now set to be their downfall. With new products, services, and brands entering the market at lightning speed, transformation is needed not just once but over and over again. The future of work belongs to those who can continuously adapt.

Can complex, matrixed, international businesses with decades of legacy infrastructure ever become such agile organizations? It is possible, and critical, but the revolution required to respond to today's reality is not about simply introducing digital technologies — it requires seismic change in how we organize, lead, attract, develop, and engage our people.

For traditional organizations, it means bringing better products, services, and experiences to market faster than ever before. It means helping employees embrace consistent change and attracting sought-after talent of all demographics from across the world. It means engaging directly with customers on an ongoing basis. It means keeping up with — or even overtaking — pure-play digital leaders. It means developing the capacity to continually transform and thus achieving digital sustainability.

The Korn Ferry Digital Sustainability Index (DSI) sets out to support business leaders on their ongoing journey of digital sustainability. By defining the dimensions needed to foster ongoing success, the DSI reveals how companies operating in this disrupted world can thrive by building the ability to adapt not once but continually. Singular successes are not enough. Even leaders in hyperconnected countries like China and vanguard industries such as Technology must take significant strides to create the digital-era cultures and structures their people and customers need.

Leaders have, for some time, understood the need for this constant transformation. What this study now proves is that what got you here — hierarchies, traditional rewards, static teams — will not get you where you want to go. It simply will not sustain organizational performance in the future of work. The compelling commercial imperative for becoming a highly flexible, digitally sustainable company is clear: the Index proves that high performers in the dimensions of sustainable transformation see a 5.6 percentage point increase in profit margin (earnings before interest, tax, depreciation, and amortization — EBITDA<sup>1</sup>) versus the low performers. For a mid-cap company with revenue of \$7 billion, this could potentially represent a difference of \$392 million.

**Melissa Swift, Global Leader for Digital Solutions, Korn Ferry Hay Group**

<sup>1</sup> This figure is calculated controlling for industry, inflation, and differences in GDP growth rate.

## Executive Summary

Digital disruption has emerged as the defining business issue of our age. Yet, despite its ubiquity, organizations across the world struggle to manage digital change and create the conditions required to assure long-term success in the future — the ability to transform continuously.

There is no one-off fix, and digital maturity is not enough. Today, true digital sustainability demands constant reinvention. Repeating yesterday's successes is futile; what got you here will not get you where you need to be. Companies must be built to change, forever iterating.

While many leaders have focused on the “hardware” of digital change — such as introducing new technology and systems — it has proven a great challenge to create the “software” needed to alter culture and improve employee engagement and alignment. But businesses must focus on this complex area to sustain success in the future of work. Even in a digital world, people power performance.

To enable business leaders to respond to this demand for continual innovation, we examined the traits of a digitally sustainable business. Based on in-depth meta-analysis, the product of this investigation is the Korn Ferry Digital Sustainability Index (DSI), which ranks 362 organizations across five industries and 14 countries on the five dimensions of digital sustainability. Each industry and country is ranked based on its DSI score out of 100 — reflecting its overall digital sustainability and performance in each dimension.

Among the DSI's core findings:

- DSI scores (0-100) measure the extent to which businesses are set up to adapt continuously and achieve lasting success. Moreover, the Index provides the financial justification for doing so — a 10-point rise in DSI score is associated with a 1.5 percentage point increase in profitability margins (EBITDA).
- Empowerment & Alignment, which measures how well employees understand their contributions to the business's journey, is the dimension most closely correlated with overall DSI score, demonstrating that people are the lynchpin of digital sustainability. Employees are at the heart of the transformation challenge, and if they do not know what the future holds, organizations will be unable to achieve digital sustainability.
- Digital sustainability within the Industrials, Technology, and Life Sciences & Healthcare industries is being held back by poor Connectivity. Businesses must focus on effective ideas-sharing — internally, between industry peers, and across borders.
- Companies in all industries are struggling to create lasting sustainability, but Financial Services leads the pack, topping the industry Index by some margin. Outperforming even Technology firms, the industry achieves a low score in Agility but excels in all other dimensions.

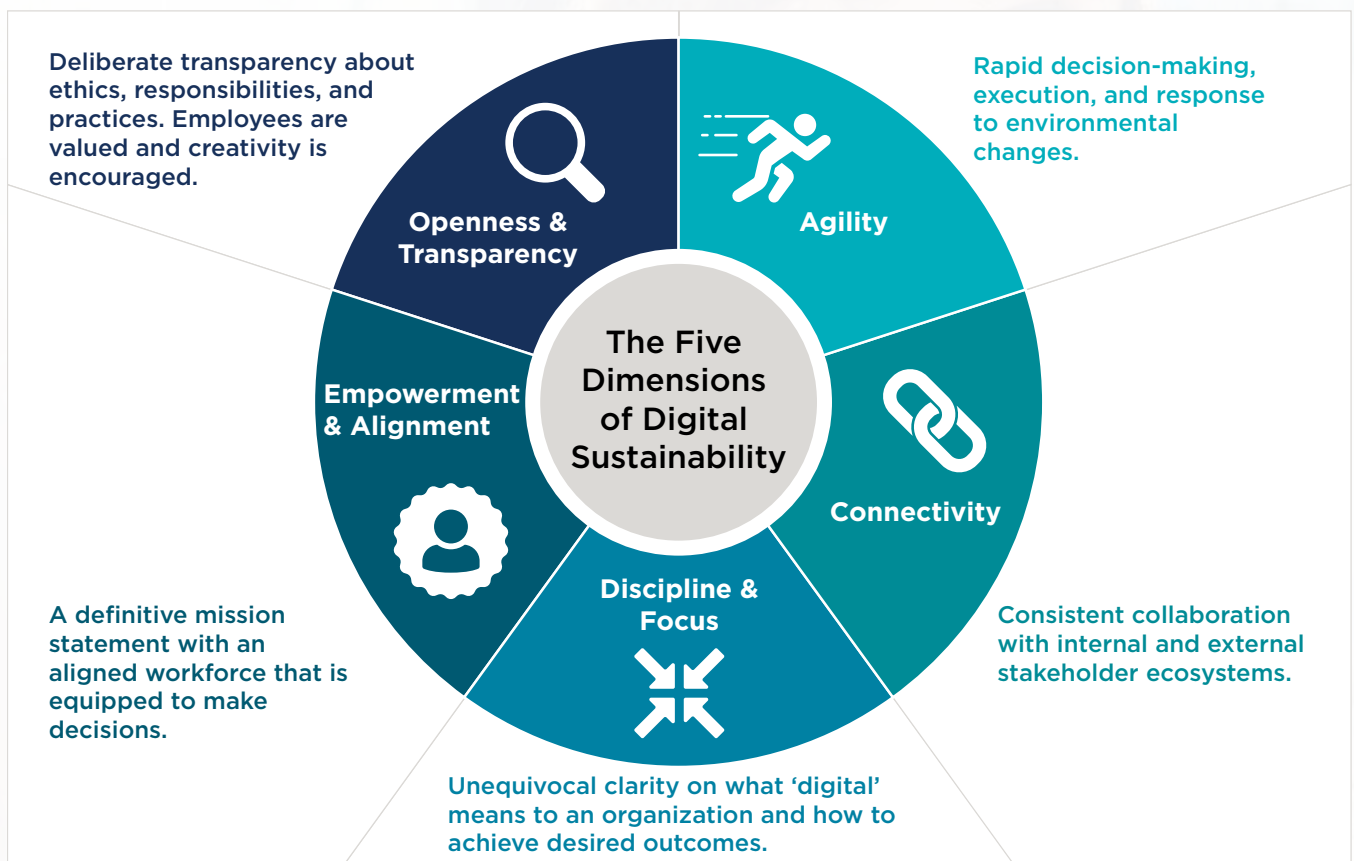


- With poor scores across four of the five dimensions, Consumer places last among the industries measured, despite recent, well-documented moves to adapt to disruption by embracing e-commerce and digital supply chains.
- US companies are the most digitally sustainable, with consistently strong performance across the five DSI dimensions. The UK (second) and the Netherlands (third) complete the top three nations, while Mexico (12th), Brazil (13th), and Turkey (14th) place at the bottom.
- The top-performing company in the DSI comes from the Technology industry, leading all other companies by a wide margin of 12 points. Showing high performance is possible in any industry, the top three companies are all from different industries — Consumer, Industrials, and Technology.

This report reveals more on these highlights and areas for concern for key industries and countries. It also offers solutions for leaders who are intent on securing the future success of their organizations.



# The Five Dimensions of Digital Sustainability



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Built on nearly five decades' experience and data developed to help the world's leading companies change, Korn Ferry has identified the five key dimensions that enable organizations to transform time and again to respond to change: Agility, Connectivity, Discipline & Focus, Empowerment & Alignment, and Openness & Transparency. These transformative dimensions, along with in-depth economic analysis, inform the dimensions of the Digital Sustainability Index.

**Agility.** Agile businesses are designed to move quickly in decision-making and execution, and they rapidly adapt to market and environmental changes. Structurally, this means reporting lines are streamlined to optimize fluid collaboration and speed input on planning and delivery. People in agile organizations take risks, are customer-centric, and continually acquire new skills to perform in an ever-changing climate.



**Connectivity.** Connected businesses create ecosystems made up of networks of people from inside and outside the organization. Without defined roles or traditional organizational constructs, people in connected organizations actively collaborate with, and contribute to, the outside world, and even co-develop solutions with clients, partners, and competitors to accelerate delivery.

**Discipline & Focus.** Organizations that successfully transform for a digital world are clear about what digital means to them. Disciplined organizations define their desired outcomes and focus relentlessly on achieving them. They are disciplined about execution. They decide quickly on what to invest in, then draw upon their strengths to implement decisions efficiently, effectively, repeatedly, and at scale. As a result, employees are inspired by their leaders and their forward-thinking approach.

**Empowerment & Alignment.** From the board to the front line, empowered organizations are clear on four things: what the business stands for; what it's trying to achieve; how to execute its strategy; and how the strategy is being implemented. Employees know what their future holds within the business, how they can contribute, the skills they need to achieve their goals, and what support is available. They are enabled to make the right decisions in the moment without the need for continuous guidance. At the company level, this is the dimension most correlated with overall DSI score.

**Openness & Transparency.** Open organizations understand that the digital economy means brands are public property, so they are deliberately transparent about their ethics, responsibilities, decisions, and practices. Everybody in an open organization has a voice and is encouraged to collaborate, solve problems, and think creatively to meet customer expectations.



# The Financial Case for Digital Sustainability

Digitally sustainable firms are in a stronger position to transform continuously over the coming years, as demanded by the rapidly changing digital world. While future success depends on digital sustainability, companies that already embrace it are experiencing the benefits in their financial performance today.

The Korn Ferry Digital Sustainability Index, which analyzed almost 400 leading organizations from across the world, reveals a clear link between digital sustainability and profitability.

The Index proves that high performers in the dimensions of sustainable transformation see a 5.6 percentage point increase in profit margin (EBITDA) versus the low performers on the Index. For a mid-cap company with revenue of \$7 billion, this could potentially represent a difference of \$392 million.

Regression analysis of the results reveals that a 10-point rise in the DSI score is associated with an average 1.5 percentage point increase in operating performance (EBITDA).<sup>2</sup>

For a mid-cap company with revenue of \$7 billion, this could represent an increase in EBITDA of \$105 million — hugely significant at a time when margins are under pressure.

Further financial analysis of the DSI impact on industries found that every 10-point increase in the DSI is associated with significant increases in EBITDA in the Consumer industry (3.2 percentage point increase) and in Life Sciences & Healthcare (3.9 percentage point increase). For a company with revenue of \$7 billion, this could potentially represent an increase in EBITDA of \$224 million in the Consumer industry and a potential increase in EBITDA of \$273 million for a company in the Life Sciences & Healthcare industry.





# Digital Sustainability Index: Industry Rankings

## DSI Rank Key

(Rank 1 = best, 5 = worst)

INDUSTRY	OVERALL DSI RANKING	DSI DIMENSION RANKINGS				
		Agility	Connectivity	Discipline & Focus	Empowerment & Alignment	Openness & Transparency
Financials	1	4	1	1	1	3
Technology	2	2	5	2	5	1
Life Sciences & Healthcare	3	1	2	3	2	5
Industrials	4	3	3	4	4	2
Consumer	5	5	4	5	3	4

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## Employees' hands tied

Korn Ferry's study *The trillion-dollar difference* (Crandell et al. 2016) revealed that, far from becoming obsolete in the future of work, people will remain critical to success. The true value of human capital is \$1,215 trillion — 2.33 times higher than physical capital, including technology. The Digital Sustainability Index also finds people are the heart of digital sustainability: Empowerment & Alignment of people is the dimension most correlated (at a company level) with overall DSI scores.

When employees feel empowered and are working toward a shared goal, change happens. However, a lack of Empowerment & Alignment is one of the biggest issues holding the Technology, Industrials, and Consumer industries back from being digitally sustainable. Technology performs particularly poorly in this dimension, achieving a score of 9 and ranking last.

Demonstrating that any business is capable of addressing this issue, the companies that perform best for Empowerment & Alignment are from across industries, with the top three including Financial Services, Technology, and Consumer firms.

### THE COMPANY VIEW

The top-performing company in Empowerment & Alignment (scoring 96 for this dimension) is a Financial Services organization that places a strong emphasis on its vision and employee training.

The second- and third-place organizations in Empowerment & Alignment also take two of the top three places in the overall Index, underlining the importance of this dimension to digital sustainability.



In organizations with low Empowerment & Alignment scores, employees are not free to make decisions that enable businesses to embrace the digital world. The decades-long buildup of complex sign-off processes and corporate structures prevents anyone but those at the very top from taking any level of empowering responsibility.

Add to that a lack of a clear vision to follow and little idea of what the future holds individually, and it is unsurprising employees are left with no momentum and little impetus to push through new ideas. This all combines to make even subtle advances seem an impossibility. When constant change is needed, such inertia incapacitates organizations. Until employees are given a sense of what the future holds, and their place within it, it's impossible to be digitally sustainable.

## Innovation blocker

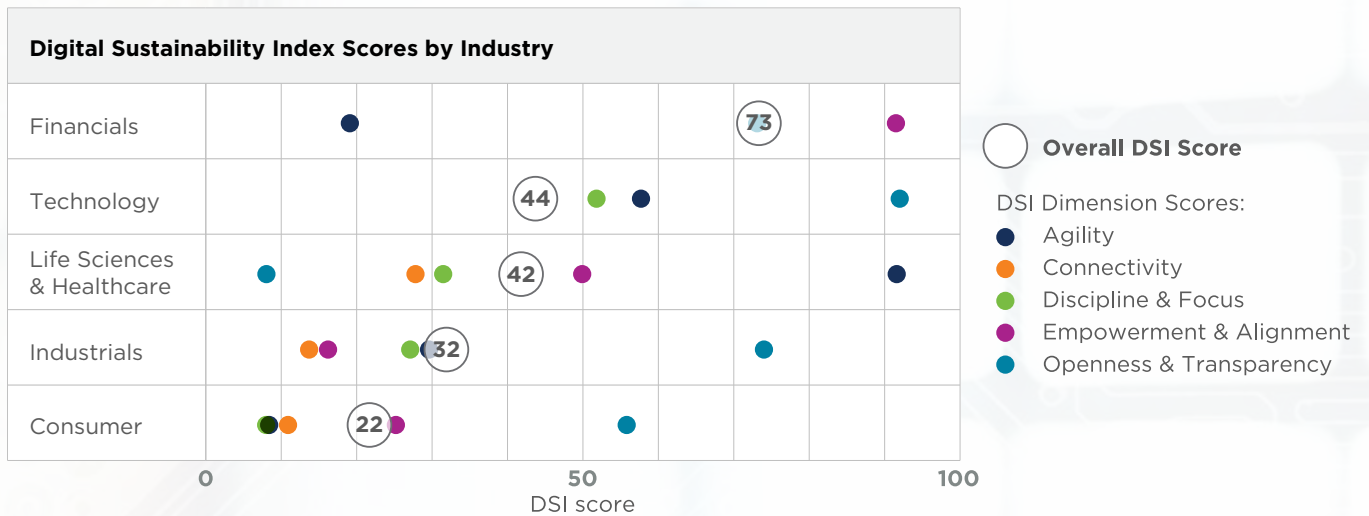
Connectivity is one of the dimensions that many industries are grappling with and therefore an area in which leading companies can set themselves apart. Effective networks are a vital component of a digitally sustainable business, ensuring close collaboration and ideas-sharing both internally and with the wider world. Only with these constructs in place can businesses keep up with the pace of change needed today.

With their international outlook and newly developed ability to innovate rapidly, even in the most traditional firms, Financial Services companies may offer us many lessons in Connectivity. This industry scores by far the highest in this dimension — 64 points above the second-place industry, Life Sciences & Healthcare.

### BEST PRACTICES IN EMPOWERMENT & ALIGNMENT

1. **Say goodbye to the “heroic leader.”** In a fast-moving and disrupted environment, leaders who seem to know it all — and solve every problem themselves — can be appealing. But “heroic leaders” are steadily bleeding empowerment out of the workplace. Taking the extra step to invite others on a problem-solving journey and having the humility to sometimes kick off that journey with an “I don’t know” can breed empowerment at scale and digital-speed.
2. **Understand what real risk is — and what just feels risky.** Organizations have rightly sought to remove risk from any number of business areas over the last decades, often by dictating processes and structures that detract from individual decision-making. In the digital age, the same organizations must take a step back and disaggregate real risk management needs from activities that simply detract from the feeling of risk. For instance, quality control in product components carries real risk, whereas involving technologists in product materials decisions may just feel risky. Where real risk doesn’t exist, decision rights should migrate to individuals at the front line — accelerating the process to deal with issues as quickly as possible.
3. **Rethink rituals.** Looking at unofficial but highly culturally embedded rituals can meaningfully move the needle on empowerment. For instance, if leaders’ days are constantly packed with meetings, they may feel disempowered by their lack of ability to engage other leaders on the fly as issues arise. Creating a full accounting of the informal rituals that pervade the workday is a useful next step toward driving empowerment.

## How does digital sustainability differ by industry?



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### Financial Services: The surprise frontrunner

The virtuoso performance of Financial Services firms reflects that the industry – under pressure from expensive regulation, cheap competition, and rising customer expectations – has embraced digital ways of working to kick-start a revolution. With an overall DSI score of 73, Financial Services tops the Index (see page 10), ranks first in three out of five dimensions, is the only industry to achieve a DSI score above 50 out of 100, and beats its closest rival by a staggering 30 points.

Financial Services companies have, for some time, had the compelling commercial drive to shift culture, processes, and practices – seeking to protect market share and meet new customer and talent demands. Increasing global investment in fintech, the significant rise of transformative technology – such as blockchain – and

intense competition from fintech hybrids have also triggered definitive action.

Such focus needs to continue. Though they are leading the pack now, they need to continue to find ways to create adaptability in their people and organizational practices. With both the Financial Services and Technology industries expected to experience the highest levels of new digital disruption in the near future (Grossman, 2016), organizations in these industries must remain focused on digital sustainability, despite their relatively good performances.

Agility poses by far the biggest problem for Financial Services firms, with the industry placing second to last in this dimension, and a DSI score of just 19. With this in mind, swift decision-making and an emphasis on continual improvement and innovation are key areas to address.



**THE COMPANY VIEW:  
FINANCIAL SERVICES**

The top-placed Financial Services firm in the Index is one of the world's largest banks, with assets of more than \$2 trillion. Its clients include many of the largest corporations and governments in more than 100 countries. Sitting in ninth place with an overall score of 67, the company exhibits consistent performance across the DSI dimensions.

“Companies within the financial services ecosystem have been among the first and fastest to respond to digital disruption. Traditional firms have built highly effective ecosystems and partnerships to bring new ideas, product innovations, and customer-centric technology in from the fintech world — harnessing the supersonic growth many hybrid companies are experiencing. To continue on the path to true digital sustainability, financial players must now limber up to a more agile way of doing business.”

***Michael Franzino, President, Global Financial Services Market, Korn Ferry***



## Technology: Struggling to enable people and networks

Contrary to expectations, Technology is not the most digitally sustainable industry — falling considerably behind the Financial Services industry in all but one dimension. This second-place overall finish underlines a finding by the Index (see page 10): digital products, infrastructure, or maturity do not always equal digital sustainability. In fact, it is people who will ensure lasting success, helping Technology companies develop the ability to adapt again and again.

The industry is not only made up of the Googles, the high-growth ‘unicorns,’ and the disruptors of the world, but also decades-old legacy tech giants in need of reform. The more traditional firms — once pioneers of the industry — now need to overhaul their structure, culture, strategies, and work processes to ensure future survival.

Technology suffers most from a lack of Connectivity and Empowerment & Alignment, with DSI scores below 10 out of 100 in both dimensions. Connectivity here does not mean connected technology, but networks of people and organizations. Much can be learned from the leading Technology organizations in their approach to co-developing solutions with clients, partners, and even competitors to accelerate delivery. With weaker networks and lower levels of external collaboration, traditional companies could see themselves falling behind their less isolated rivals. Combined, this lack of empowerment and collaboration could put the brakes on the Technology industry’s digital sustainability.

Encouragingly, Technology excels in Openness & Transparency with a DSI score of 92, outperforming every other industry. This suggests leaders know their brand is answerable to its people and the public, and that anything but an ethical, open approach will be scrutinized.

### THE COMPANY VIEW: TECHNOLOGY

Technology firms have a strong showing at the top the Index, with organizations from this industry coming first, fourth, and eighth. The top-performing organization’s success has been gained through high scores in Connectivity (97) and Empowerment & Alignment (92), whereas the fourth-place organization — an early leader in the digital revolution that retained a dominant position despite many challengers — leads when it comes to Openness & Transparency (96).

“While many technology companies are providing clients with products and services that enable them to be digital, they are not consistently institutionalizing cross-functional collaboration and flat hierarchies in their own organizations. This is an opportunity missed, and technology leaders can’t afford to be complacent. A strong stance on the digital future needs to be communicated, bringing employees on the continuous path of digital transformation that will lead to survival and growth.”

***Werner Penk, President, Global Technology Market, Korn Ferry***



## Life Sciences & Healthcare: Opportunities threatened by a lack of transparency

While the Life Sciences & Healthcare industry is known for placing significant focus on R&D and innovation, it has been unable to make the adjustments necessary for the future of work. Its mid-Index position (see page 10) demonstrates that a digital focus is just one piece of the digital sustainability puzzle.

A third-place ranking and a score of just 42 overall is partly explained by an important challenge that Life Sciences & Healthcare organizations face: being transparent with employees and customers to the extent required in the digital world. While regulation can be a limiting factor in this, the industry is the worst-performing one in this dimension, with a DSI score of 8 out of 100. Transparency about ethics, responsibilities, decisions, and practices are increasingly vital for brands that can be held to account by the public and suffer resistance from disillusioned employees. There are lessons to learn from the Financial Services industry, which has overcome regulatory burdens. A balance can be achieved that protects business-critical intellectual property but still allows innovation through collaboration.

The Life Sciences & Healthcare industry is by far the most agile, with a DSI score of 92 in the Agility dimension. With such speedy and efficient decision-making possible, the required shifts are both necessary and feasible. As innovation is so crucial in this industry, and products need to make it to market faster, market-leading ideas fueled by collaboration will help power success.

### THE COMPANY VIEW: LIFE SCIENCES & HEALTHCARE

With the exception of two companies that ranked fifth- and seventh-place overall out of 362 organizations, other Life Sciences & Healthcare companies do not feature at the top of the company rankings. And while the industry as a whole struggles with Openness & Transparency, both these top 10 companies perform well on this dimension, placing third and sixth of all companies analyzed. Each also has its own strengths, with one placing second overall in the Discipline & Focus dimension, and the other placing sixth for Empowerment & Alignment.

“While many Life Sciences & Healthcare firms have innovation at their heart, more can be done to fully embrace the role employees have to play in the digital economy. Only when they are aligned and empowered can businesses create the momentum needed to continuously change and keep pace with disruptions.”

***Naomi Sutherland, Global Head of Life Sciences, Korn Ferry Hay Group***

“Leaders also need to work to place ethics and transparency at the heart of decision-making. A cultural shift like this cannot happen overnight, especially in such a traditional industry often stymied by legal and regulatory fears. Change must be led from the top and systematically embedded in every action and communication throughout the organization. Survival depends on it.”

***Gregory Button, President, Global Healthcare Services Market, Korn Ferry***

## Industrials: Struggling to adapt across the board

Sitting in fourth place on the Index (see page 10), large Industrials businesses are struggling to keep up with the rapid changes associated with the digital economy, and are in danger of being swallowed up by disruptive forces.

The impetus to become digitally sustainable may not have hit the industry yet, with Industrials firms experiencing the lowest level of market disruption of the industries covered in this research (see page 18; Grossman, 2016). However, this is likely to accelerate as the Internet of Things, automation, driverless cars, and 3-D printing become widespread and manufacturers seek new ways of scaling production and efficiency.

With an overall DSI score of only 32, action is needed. The Industrials industry struggles with four of the five dimensions and ranks near the bottom in each: Discipline & Focus (fourth), Empowerment & Alignment (fourth), Agility (third), and Connectivity (third). Although the factory of the future will be digital, it will be nothing without an aligned workforce behind it.

### THE COMPANY VIEW: INDUSTRIALS

A number of Industrials companies excel in the Index with one leading light coming second overall — outperformed only by a top global Technology company. Other high performers come in sixth and 11th. Their scores are driven by different strengths, with one large conglomerate, pan-industry organization performing consistently across the dimensions, while others — including a US-headquartered, multi-national, manufacturing and aerospace company — are pulled up by impressive scores in Agility, and in the case of one multinational automobile organization, Discipline & Focus. A future-focused and creative approach to digital sustainability is also noteworthy at one conglomerate with a heavy engineering focus that leads the company Index when it comes to Discipline & Focus (96).

“Digital transformation in the industrial market is a split picture. In the past, the industry has pioneered organizational innovations such as *lean*, and automotive and aerospace firms — which tend to be closer to the customer and more sensitive to evolving market demands — have had to become more agile and adapt to survive in the digital economy.”

“However, there are industrial players that have, to date, faced the change with no real solution to engage the necessary transformation. The unknown creates barriers and limitations for people and organizations that need to be resolved. Digital disruption waits for no one, and all companies in the industry are on a journey to truly thrive — not just survive — as they reinvent themselves for the fourth industrial revolution.”

***Yannick Binvel, President, Global Industrial Market, Korn Ferry***



## Consumer: The shocking low scorer

With its rapid adoption of digital supply chains, online shopping, social media customer service, and more, the Consumer industry is the shocking low scorer of the Digital Sustainability Index (see page 10), placing last overall. Consumer companies achieve low scores in three of the five dimensions — Discipline & Focus (8), Agility (8), and Connectivity (11), demonstrating once again that digital maturity and digital sustainability are not equivalent.

Its last-place position can, in part, be explained by the far steeper digital disruption curve in Consumer compared to other industries. Customers and employees have high expectations of retailers and consumer packaged goods (CPG) companies, and the platforms they use to browse and buy — from Snapchat to Pinterest — change incredibly quickly. But it's often more difficult than might be imagined for Consumer companies to make efficient change happen, due to highly dispersed footprints.

Scores are hampered by complex decision-making structures, a lack of internal and external collaboration, and confusion over what digital means for businesses and how to achieve it. This triple-pronged challenge will dramatically impact an organization's ability to drive sustained digital transformation in the long-term.

The area in which Consumer businesses score best is Openness & Transparency (56). This suggests that moves to put customers at the heart of organizations and to manage ethical supply chains are having a positive impact, but there is still more to do to ensure digital operations meet ever-rising expectations and that employees are brought along on the journey. With the Consumer industry still expecting some of the highest disruption levels of all (Grossman, 2016), there is no time to lose to refine and align with best practices for digital sustainability.

### THE COMPANY VIEW: CONSUMER

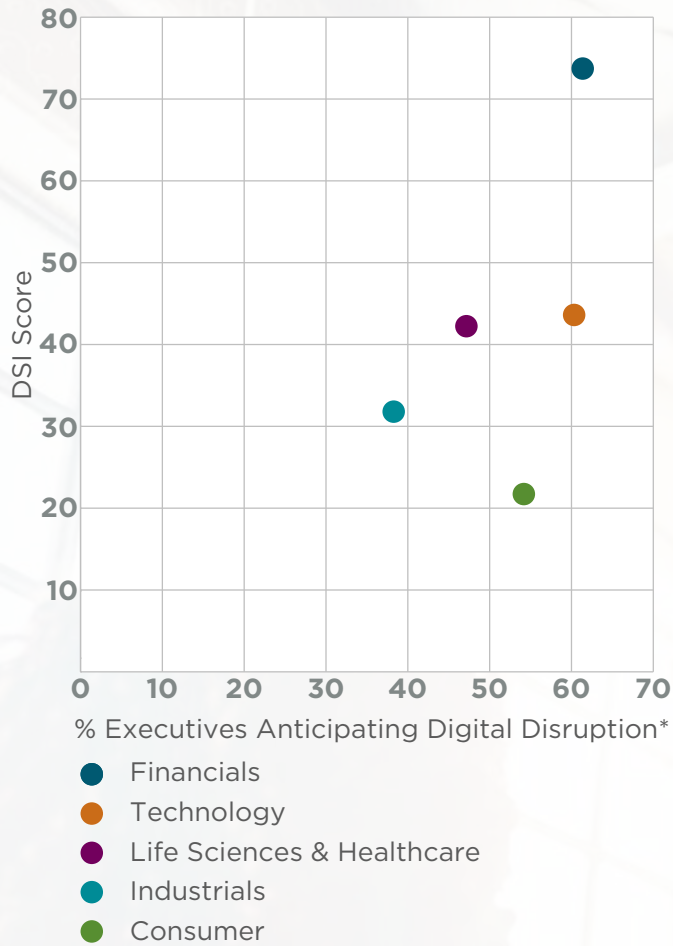
Performing particularly well in Discipline & Focus, Empowerment & Alignment, and Openness & Transparency, one industry heavyweight leads the Consumer scores, placing third overall in the Index. Another strong scorer is a top beauty retailer, which finishes 10th. Both have managed to work toward digital sustainability, despite complexities of size and scale and geographic challenges.

“Consumer companies are at a crossroads. They have one foot in the digital world and one foot in the traditional storefront. Companies have adapted to e-commerce and have reduced time to delivery, but many are still playing catch up rather than anticipating what customers will want next. Leaders need to look way beyond the now. But if you become a monolith, how do you shift an entrenched culture, fast?”

“Constant skills development across the world is vital and an area where even digital teams struggle. In an always-on market and with increasingly demanding, savvy customers, consistency is key to drive meaningful and lasting digital change — getting ahead of the game. What is worrying is that many think that they have completed their digital transformation — but of course, they have only just begun.”

***Craig Rowley, Senior Client Partner,  
Consumer, Korn Ferry Hay Group***

## Digital Disruption by Industry



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\*Executives who anticipate moderate or massive digital disruption in the next 12 months.







MARKETING

MARKET ANALYSIS  
CONSUMER BEHAVIOR  
TIME TO MARKET  
BUDGET  
RISK

\* SWOT ANALYSIS

- STRENGTH
- WEAKNESSES
- OPPORTUNITY
- THREATS

# Digital Sustainability Index: Country Rankings

## DSI Rank Key

(Rank 1 = best, 14 = worst)

COUNTRY	OVERALL DSI RANKING	DSI DIMENSION RANKINGS				
		Agility	Connectivity	Discipline & Focus	Empowerment & Alignment	Openness & Transparency
US	1	2	1	1	2	2
UK	2	1	3	3	1	4
Netherlands	3	3	4	5	3	1
Australia	4	4	6	2	6	3
Germany	5	5	5	4	4	5
France	6	6	10	6	7	6
Middle East	7	9	2	7	11	8
Japan	8	7	8	12	5	13
India	9	12	9	9	9	7
Russia	10	13	7	11	8	10
China	11	10	12	8	10	14
Mexico	12	14	11	10	12	9
Brazil	13	11	13	13	13	12
Turkey	14	8	14	14	14	11

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## How does digital sustainability stack up around the world?

The Digital Sustainability Index shows a world split in three. The top part of the table comprises consistent performers with no bottom-of-the-table scores in any dimension. In the middle, erratic scores show countries that excel at areas of digital sustainability

to the detriment of others. Countries at the bottom of the table struggle in all dimensions, though each experiences at least one higher ranking that can be leveraged to gain momentum.

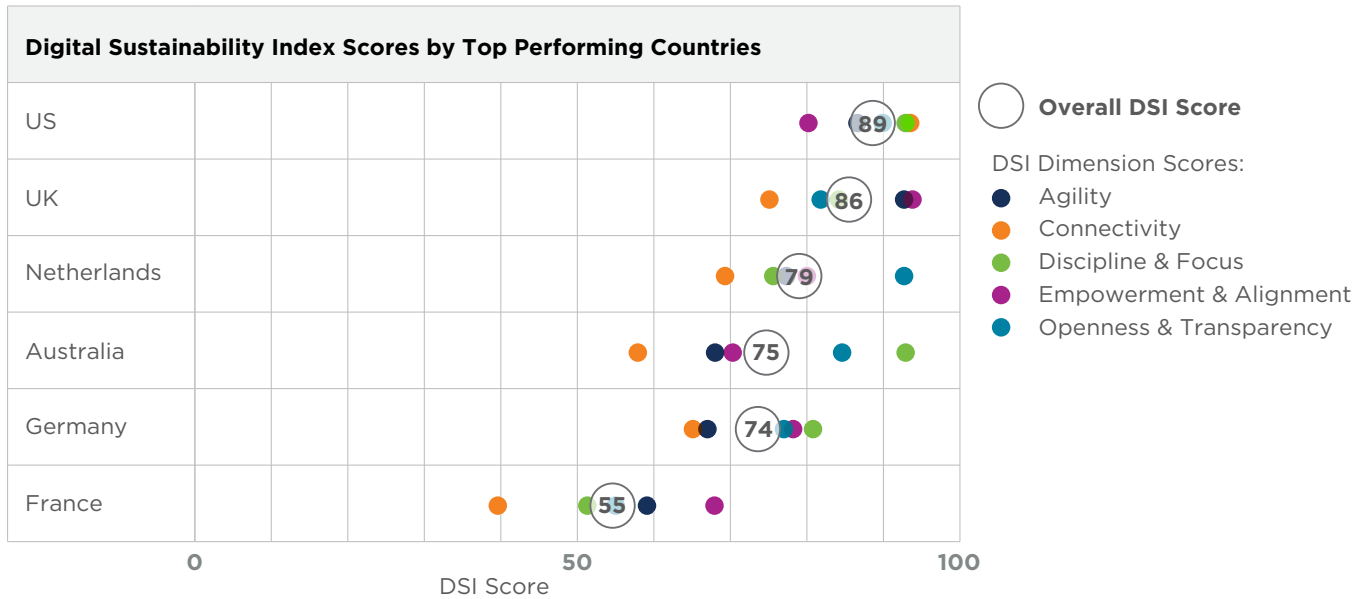


## BEST PRACTICES IN AGILITY

- 1. Nurture entrepreneurial ecosystems, not just small-business growth.** No entrepreneurial venture springs up — or grows — in isolation. By thinking holistically about entrepreneurial ecosystems (which encompass businesses, labor forces, capital, facilities, infrastructure, and even elements such as availability of training courses or childcare), countries can create the large numbers of smaller experiments necessary to build agility against a wide array of future scenarios.
- 2. Champion innovative companies — but help check their darker impulses.** Countries should have companies with life-changing technology very much on their radars and be prepared to remove structural obstacles to healthy growth. However, as new categories are created, the potential for monopolistic or extralegal behavior skyrockets. The challenge is to maintain a balance between the positive effects of disruptive expansion and potential fall-out from changes to the underlying structure of business competition or customer protection.
- 3. Pay focused attention to non-traditional components of the workforce.** The growth of contingent workforces will be a tremendous factor in building agility at the country level and is a key trend in the future of work. Enabling this growth, though, will require countries to hone in on segments of the workforce that they've traditionally neglected — specifically, the informal workers who are likely to become technology-enabled contingent workers. Without protections for these workers, allowing for seamless contingent work integrated into the mainstream economy, such workforces cannot scale up.



## A strong showing: US, Europe, and Australia



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The scale of the changes required to adapt to a digital world may feel overwhelming, but digital sustainability is not beyond reach.

With impressive overall DSI scores above 80 (US and UK) and 70 (Netherlands, Australia, and Germany), the Index’s top five countries are pulling away from the rest of the world. With no rankings below sixth place between them, consistent performance across all the Index’s measures drives digital sustainability in these countries.

France (sixth) struggles with building networks and collaboration, placing 10th in the Connectivity dimension. However, action is being taken to become more digitally sustainable, with venture capital and private equity firms investing in making the country a

true digital hub. As a result, the country is now highly dynamic and achieves strong scores across four dimensions, ranking in the top half of the Index (see page 20) and ensuring Europe overall is a leading light.

Recognizing Australia lacked digital and innovation skills, the government backed digital agencies to drive connected work across global players, start-ups, incubators, and labs. Action has also been taken within the country to hire from across the globe and develop digital skill sets. These recent moves, matched with long-established openness and a willingness to share ideas, mean Australia has a high showing in the Digital Sustainability Index, in fourth position overall.



**US: WARNING SIGNS FOR THE FUTURE**

The US sits atop the Korn Ferry Digital Sustainability Index, gaining an impressive overall DSI score of 89. Outperforming the UK by 3 points, there is still room for improvement. While the country performs well across the board, topping the global rankings for Discipline & Focus and Connectivity, it receives its lowest score for Empowerment & Alignment, a key indicator of the performance of its people.

“Without motivated and engaged employees who understand their long-term future, staff turnover will be high. A lack of understanding about how individual and team goals are tied to organizational goals will impact productivity and the bottom line. US organizations must focus on improving the people aspect of their business operations if they are to continue as digital sustainability leaders and gain the long-term financial advantages associated with it.”

***Karin Lucas, President, North America, Korn Ferry Hay Group***

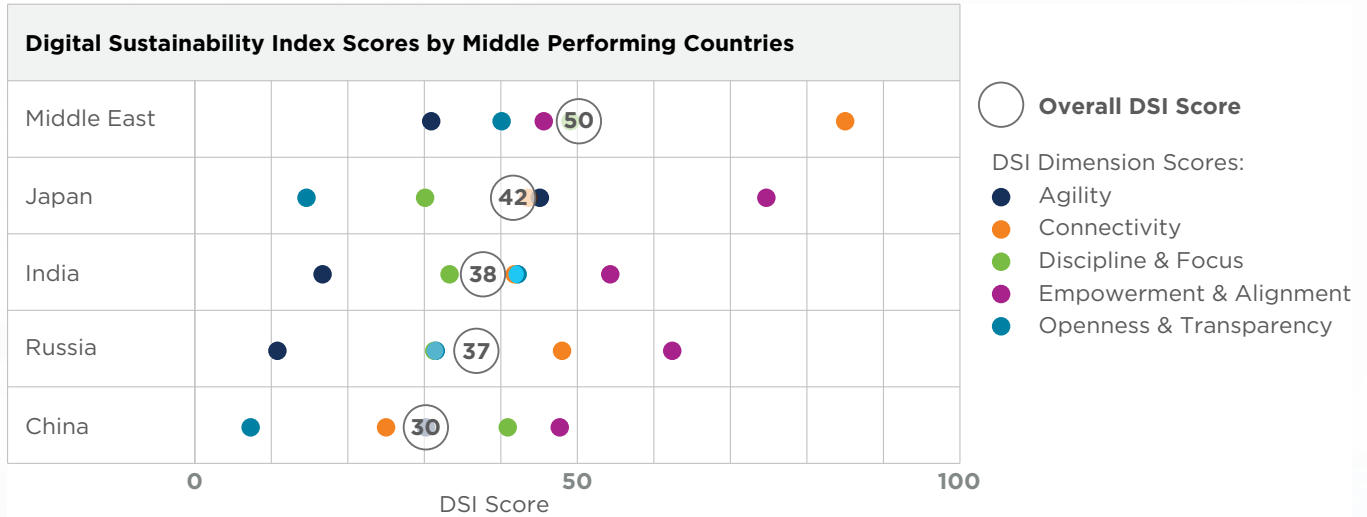
**UK: URGENT FOCUS NEEDED FOR ‘BREXIT BRITAIN’**

The UK places second on the Digital Sustainability Index, but its weakest category, Connectivity, will raise concerns in the context of Brexit and a move to tighten borders. Could a failure to focus on close working relationships, knowledge-sharing, and cross-border collaboration result in the country falling further down the rankings?

“The traditional dominance of the UK as a digital economy leader could be under threat from rising global players, unless steps are taken to invest strategically, build a skilled, specialist workforce, and develop enviable networks at home and abroad. Indeed, the government needs to consider increasing connections beyond its borders, now more than ever, to drive partnerships, strengthen trade, and share ideas and innovation.”

***Matt Crosby, Senior Client Partner, UK, Korn Ferry Hay Group***

## Patchy performance: Middle East, Japan, India, Russia, and China



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The Middle East is a tale of two halves, placing a respectable seventh overall (see page 20) but with widely varying performance between the dimensions. The region climbs as high as second for Connectivity and falls as low as 11th for Empowerment & Alignment. The value of aligned employees to organizations’ digital journeys is far from being fully realized and is an area in need of attention if the Middle East is to rise through the ranks.

There are highs and lows too for Japan (eighth), India (ninth), and Russia (10th). A clear focus for the future in Japan is improving

Openness & Transparency — adapting now-traditional working practices in some of the world’s original digital companies — whereas for India and Russia, Agility will be key.

Despite its current status as an economic and digital superpower, China is among the mid to low performers across all measures of digital sustainability (particularly Openness & Transparency, placing last with a score of 7), raising questions for the long-term digital dominance of the country.



## CHINA: A LONG WAY TO GO

Perhaps unsurprisingly due to the hierarchical nature of many organizations in the country, Chinese firms place last when it comes to Openness & Transparency. This, together with low rankings for Connectivity (12th), Empowerment & Alignment (10th), and Agility (10th), sees China take 11th place overall in the Index. Strong digital infrastructure and maturity do not add up to digital sustainability without the supporting culture, people, and structures needed to unleash the ability to transform again and again.

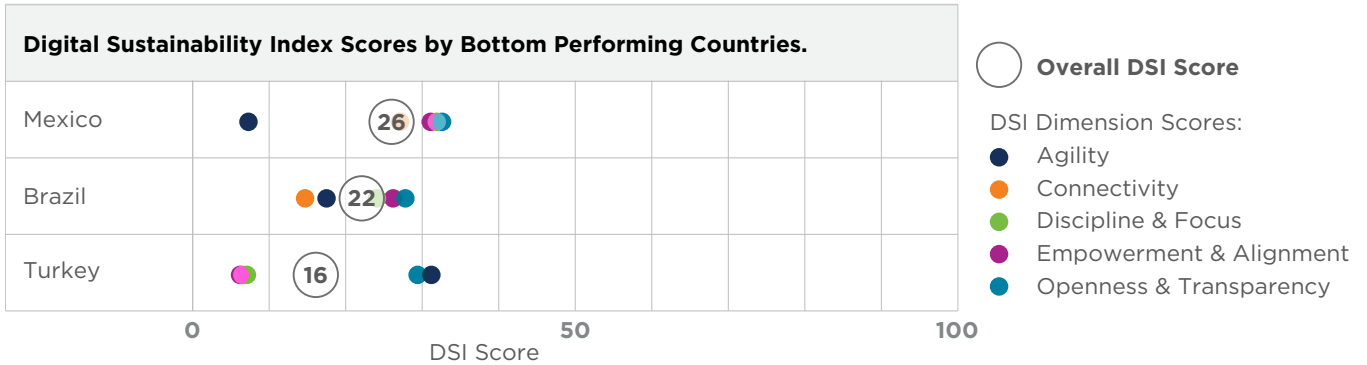
“Chinese businesses are performing well below what many would forecast for digital sustainability, so how can its international dominance be maintained? The country needs to focus on empowering people and transforming organizational structures and cultures. This is not a task to be underestimated; it is the only option given the expectations of today’s international customers and employees.”

“At the same time, China’s superpower status relies on developing capabilities in each of the basic building blocks of truly digitally sustainable organizations — being well-connected, agile, and with aligned employees.”

***Grace Chen, Managing Director, China,  
Korn Ferry Hay Group***



## Improvement essential: Mexico, Brazil, and Turkey



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All the BRIC countries place in the bottom half of the Index (see page 20), with Brazil following India, Russia, and China near the very foot in 13th. The hierarchical structures and the immaturity of the systems and processes that enable digital transformation are holding back the BRIC nations’ digital sustainability.

Despite having the Index-leading US as its biggest trading partner, Mexico struggles with digital sustainability, scoring less than a third as many points as its neighbor and placing 12th. Its bottom rank in the Agility dimension suggests the country’s hierarchical corporate cultures are stalling collaboration and ideas-sharing, and preventing a move toward a more digitally sustainable way of doing business.

Turkish firms struggle the most, coming in last place overall, as well as for Connectivity, Discipline & Focus, and Empowerment & Alignment. A glimmer of hope comes from its eighth-place ranking for Agility, suggesting it has the potential to adapt to market and environmental changes, and timely decision-making and execution. With such a high proportion of the population being made up of digital-savvy under-35-year-olds, there is clearly an opportunity here to rapidly adapt, both to the wants of consumers and the skills of employees. But organizations need to put the right strategies in place to pursue maturity, as well as overcome regulation and macroeconomic issues.



## BRAZIL: POCKETS OF EXCELLENCE COULD POWER IMPROVEMENTS

Placing 13th for digital sustainability out of the 14 countries covered in the study, Brazil has a way to go to prepare itself for success in the future. An overall score of 22 reflects low DSI scores in each dimension, the highest for Openness & Transparency (28), and the lowest for Connectivity (15).

“The recession means that focus for Brazilian businesses has not been on the long-term but on short-term results, short-term investment, and short-term regulation. One of the consequences of this is that Brazil’s ranking is disappointing. There are pockets of excellence, however, that other companies can learn from. The Financial Services industry, for instance, is performing relatively well, with the top five banks — most of which are still Brazilian-owned — experiencing ongoing strong results.”

“Action is needed across the dimensions of digital sustainability, and while Brazil is already on the journey, the pace of change and innovation must speed up if businesses are to keep up with the rest of the world.”

***Jairo Okret, Regional Market Leader, Digital and Technology, LATAM, Korn Ferry***

“People are central to digital sustainability progression in the country, and already a diversity movement is taking place to find talent with a wider variety of education and backgrounds. There is also a strong drive for greater learning opportunities within business.”

***Antonio Mendonça, Senior Client Partner, Digital and Technology, LATAM, Korn Ferry***

## Conclusion

The future belongs to the digitally sustainable

The only constant of the digital economy is continued and accelerating disruption. The technology innovations tearing down barriers to entry are also creating a highly competitive business environment in continual flux. Digital transformation is not a box-ticking exercise: it never ends.

Mastering nonstop change is not only critical from a commercial perspective — with more digitally sustainable firms shown to enjoy stronger financial performance — but also in terms of building organizations that are uniquely positioned to thrive in the digital economy. Those that get this right will achieve the seemingly impossible, improving performance both now and in the future.

This means taking an outside-in approach to designing organizations; understanding what customers want and how to deliver it; innovating where it matters and not being afraid to fail; embracing partnerships and building ecosystems to propel industries and markets forward; and creating an environment where people are organized into the right roles and paid fairly and competitively — a place where performance management has shifted to better mirror new and different ways of working. It is about empowering the engine of the digital economy: talent.

While technology is, of course, key to digital sustainability, it is nothing without aligned, empowered, and engaged people to power it.

There is no one-size-fits-all approach to becoming digitally sustainable; the Index demonstrates that countries, industries, and organizations each face individual challenges to achieving it — excelling in some dimensions and struggling in others. Overall, interacting with and empowering employees and customers, embracing technology faster, adapting to digitally enabled ways of working, and harnessing innovation are ever more important to success. Foremost, it is people who are the key to creating this future.

Those leaders who understand the barriers most affecting them can spot opportunities to meaningfully bring digital practices and the ability to constantly adapt into the fabric of their businesses. They can flex how they operate to respond to the ebb and flow of the market, and so set themselves on the path to achieving continuous and sustainable business transformation. It is these people-centric leaders who will reap the greatest rewards.

**Mark Arian, CEO of Korn Ferry Hay Group**



### THREE STEPS TO BUILDING A DIGITALLY SUSTAINABLE BUSINESS

1. **Promote, develop, and hire “misfits.”** In *Barking Up the Wrong Tree*, Eric Barker tells the story of the making of the mega-grossing Pixar movie *The Incredibles* and how its director, Brad Bird, deliberately assembled a team of “misfits.” In fact, the versatile leaders needed for digitally sustainable organizations often seem like “black sheep,” featuring strange-seeming or nonlinear career transitions as well as unorthodox approaches to business challenges. They seem wrong somehow, and yet their agile thinking and deep curiosity perfectly position them to lead companies through the rocky digital age with confidence.
2. **Move from incubation to integration of innovation at digital speed.** Digital efforts often need to be nurtured initially in separate, nimble units outside of the organization’s business-as-usual processes. Yet companies today are tripping up by remaining stuck at the incubation stage and not allowing much-needed innovative thinking to pass into overall business strategy. Digitally sustainable companies will navigate this two-path model, deploying a number of people, process, and technological “bridges” to keep innovation flowing back into the strategic center.
3. **Define what the organization does and doesn’t do.** Every dimension of the Digital Sustainability Index requires sharp attention on what to do, as well as what not to do. Those that scored highly on the DSI (overall, as well as the separate dimensions) are better able to discern pressing details from the constant stream of change. Agility, for example, is achieved not by chasing every single possible goal, but by letting go of outdated modes of thinking. Discipline & Focus comes from deprioritizing some objectives. Empowerment & Alignment are critically dependent on selectivity around end results. Even Connectivity and Openness & Transparency rely on tough choices around what information is important — otherwise, these traits are impossible to operationalize. Accordingly, digitally sustainable organizations go on the journey without a lot of baggage. The old adage that strategy is about what you don’t do is true a hundred times over in the cluttered, crowded environment of the digital age.

### THREE STEPS TO BECOMING A DIGITALLY SUSTAINABLE LEADER

- 1. Limber up.** It is fundamental that leaders are agile. They must learn to understand how to protect the core business but shift it as quickly as possible. Insist on rapid cycle-time experimentation and fast, complete decision-making. This is a world characterized more by exploration and quickly letting go.
- 2. Create tension.** Make the ability to manage productive conflict and tension a core skill, because it will encourage a more diverse set of people to create the kind of creative and productive tension needed to resolve digital sustainability issues.
- 3. Look externally.** Talk to others who are on this journey. Spend time with those who are experimenting and figuring out the path forward. Leaders who only focus internally will get left behind.

### PARTNERS IN DIGITAL SUSTAINABILITY

Digital-era organizations need a newly skilled workforce, faster ways of operating, and a shift in leadership style. Korn Ferry can help you identify the barriers to transformation in your organization, the gaps that need to be addressed, and how to accelerate change to become digitally sustainable. To discuss the findings of this report and how they apply to the future success of your business, contact: [insightsglobal@kornferry.com](mailto:insightsglobal@kornferry.com).









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# Appendix I: Research Methodology

The Korn Ferry Digital Sustainability Index is based on economic modeling commissioned by Korn Ferry, and designed by the Korn Ferry Institute and Oxford Analytica. This meta-study redefines transformation in the context of significant and ongoing digital change, and establishes digital sustainability — an organization’s ability to continuously adapt and thrive in the digital economy — as a critical driver of financial success, now and in the future.

The study combines proprietary Korn Ferry and publicly available data to quantify digital sustainability. It benchmarks 362 companies across five industries and 14 countries on the

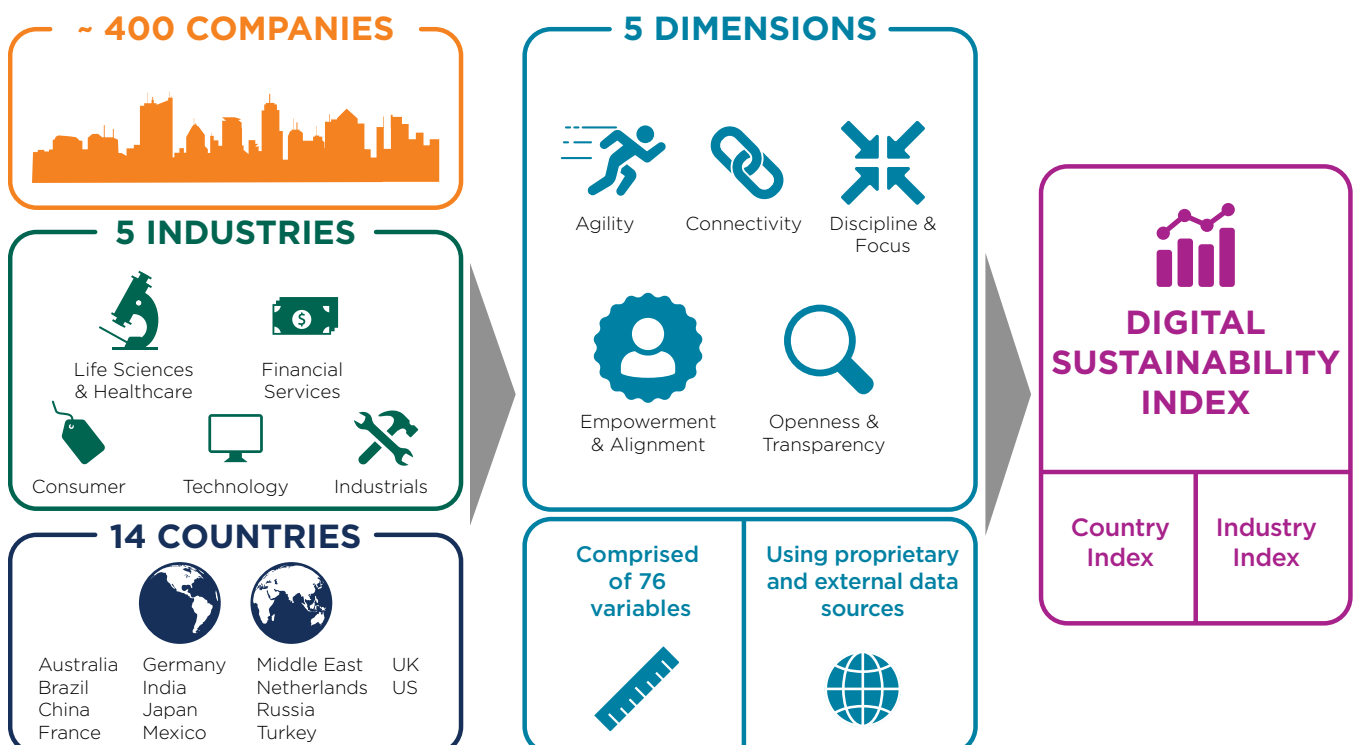
five dimensions that drive digital sustainability. Each industry and country is ranked based on its DSI score out of 100 — reflecting its digital sustainability and performance in each dimension.

**Industries:** Consumer, Financial Services, Life Sciences & Healthcare, Industrials, Technology

**Countries:** Australia, Brazil, China, France, Germany, India, Japan, Mexico, the Middle East, the Netherlands, Russia, Turkey, United Kingdom, United States

**Dimensions:** Agility, Connectivity, Discipline & Focus, Empowerment & Alignment, Openness & Transparency

Data was collected and analyzed in 2017.





The Digital Sustainability Index was built in four stages:

- 1. Defined the dimensions of digital sustainability.** We assembled an expert panel to determine the drivers of digital sustainability, based on a detailed literature review and Korn Ferry's five decades of experience and proprietary data. Multiple dimensions were discussed, stress-tested, and condensed to arrive at the five dimensions of digital sustainability.
- 2. Identified Index variables for measurement.** We developed proprietary variables (sample variables outlined in Appendix II) and supplemented Korn Ferry data with industry data sets from robust, publicly available sources that typically include: corporate annual reports, corporate websites, World Economic Forum, World Bank, global indices, financial databases (including environmental, social, and governance indicators), Google Trends, Harvard Business Review, Thomson Reuters Eikon, Facebook, LinkedIn, Twitter, and Glassdoor. Objective global data sources ensured consistent measurement without cultural bias. Variables were compiled at the company, industry, and country levels based on the ideal conditions for digital sustainability in each. Therefore, individual indices should not be directly compared.
- 3. Built the Index.** Company-level variables average a series of data points for approximately 26 companies per country, or approximately 72 companies per industry, to augment a selection of country- or industry-level variables. For industry findings, company-level variables were averaged at the industry level. For country findings, company-level variables were averaged at the country level. In all cases, variables are standardized to units of standard deviations, and these standard scores are reversed for variables where higher numbers are less desirable (e.g., tariff rates). The country rankings are made up of bottom-up company level data and country level-only variables. The same applies to industry Index construction. Countries, companies, and industries cannot be compared against each other, as it has been necessary to use different variables in each.
- 4. Validated the business case for digital sustainability.** We carried out a financial regression analysis to explore the explanatory power of the Index. EBITDA margin (%) was regressed against the overall Digital Sustainability Index score, plus indicator variables to control for industry, along with inflation (and the square of inflation) and real GDP growth in the country of headquarters. This model explains a 44% variation in EBITDA margin across the 310 companies (after excluding outliers) that had available profit margin data (out of 362 overall).

## Appendix II: Sample Digital Sustainability Index Variables

AGILITY	
Company level variable(s) and rationale	Source
<p><b>Flexible work arrangements:</b> Measures availability of innovative styles of working (e.g., flexible schedules, telecommuting, etc.), which allow organizations to be more versatile and organize their work and their talent/people more fluidly in the new economy.</p>	Public data source
Industry level variable(s) and rationale	Source
<p><b>Organization responsiveness to changes in the business environment:</b> Survey data response to ‘How responsive is your organization to changes in the business environment?’ Measures agility of the organization in responding to business changes.</p>	Proprietary Korn Ferry database
Country level variable(s) and rationale	Source
<p><b>Effectiveness of anti-monopoly policy:</b> An effective anti-monopoly policy regulates company market share to encourage competition. Competition promotes economic efficiency and agility in the country.</p> <p>Dutz, M. A., &amp; Hayri, A. (2000). Does more intense competition lead to higher growth? (Vol. 2249). World Bank Publications.</p>	Public data source
<p><b>Patent applications per million population:</b> Patent applications at the country level reflects national innovation capacity.</p> <p>Audretsch, D., Lehmann, E., Meoli, M., &amp; Vismara, S. (Eds.). (2016). University evolution, entrepreneurial activity and regional competitiveness. Springer International Publishing.</p>	Public data source

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CONNECTIVITY	
Company level variable(s) and rationale	Source
<b>Social media network:</b> On social media platforms, what is the ratio of an organization’s followers to employees? A higher ratio indicates higher connectivity/interactions with social media members. This helps to promote an organization’s brand awareness.	Public data source
Industry level variable(s) and rationale	Source
<b>Internal collaboration:</b> Survey data response to ‘Is there effective sharing of ideas and resources across the company?’ Positive response reflects consistent internal collaboration within the organization.	Proprietary Korn Ferry database
Country level variable(s) and rationale	Source
<b>Mobile cellular subscriptions:</b> Ratio of cellular subscriptions per 100 people demonstrates the country’s infrastructure capability for providing high-level information and communications technology accessibility.	Public data source

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<b>DISCIPLINE &amp; FOCUS</b>	
<b>Company level variable(s) and rationale</b>	<b>Source</b>
<p><b>Digital positions on top team:</b> Assessment of top team commitment to digital strategy by examining the presence of a Chief Risk Officer in the leadership team and customer-oriented leader in the senior management team.</p> <p>Customer oriented roles include: “Chief Customer Officer,” “Chief Data Officer” (CDO), “Chief Information Officer” (CIO), “Chief Information Security Officer” (CISO), “Chief Experience Officer” (CXO). C-suite positions include: data scientist, digital security master, experience marketer, journey product manager, journey strategist.</p>	Public data source
<b>Industry level variable(s) and rationale</b>	<b>Source</b>
<p><b>Corporate governance scores:</b> This variable uses standardized environmental, social, and governance reports, to measure an organization’s commitment and effectiveness towards following best practice corporate governance principles.</p>	Public data source
<b>Country level variable(s) and rationale</b>	<b>Source</b>
<p><b>Political stability:</b> Political stability and absence of violence in a country measures perception of the likelihood of political instability and/or politically-motivated violence. According to academic research, political stability is usually a prerequisite for economic growth and thus digital focus.</p> <p>Zablotsky, E. E. (1996). Political stability and economic growth: a two way relation (No. 109). CEMA.</p>	Public data source

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<b>EMPOWERMENT &amp; ALIGNMENT</b>	
<b>Company level variable(s) and rationale</b>	<b>Source</b>
<b>Culture of empowerment:</b> Culture contributes to the identity of company and a strong company culture aligns people to an organization. This variable was measured using a five-point scale from publicly available employee review data.	Public data source
<b>Industry level variable(s) and rationale</b>	<b>Source</b>
<b>Empowered and aligned workforce:</b> Survey data response to ‘In the company, are decisions generally made at the lowest level appropriate?’ Used as a proxy to measure degree of autonomy that enables the workforce to make relevant decisions.	Proprietary Korn Ferry database
<b>Country level variable(s) and rationale</b>	<b>Source</b>
<b>Employee rights:</b> The ITUC Global Rights Index assess where workers’ rights are best protected, in law and in practice. Proxy for quality of employment conditions and rights.	Public data source

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<b>OPENNESS &amp; TRANSPARENCY</b>	
<b>Company level variable(s) and rationale</b>	<b>Source</b>
<b>Diversity score:</b> Measures a company’s commitment and effectiveness in ensuring equal and fair employment opportunities are provided to everyone regardless of their race, color, religion and gender.	Public data source
<b>Industry level variable(s) and rationale</b>	<b>Source</b>
<b>Shareholders score:</b> Measures a company’s effectiveness towards equal treatment of shareholders and the use of anti-takeover devices.	Public data source
<b>Country level variable(s) and rationale</b>	<b>Source</b>
<b>Talent attraction:</b> Proxy for mobility of talent internationally including number of working age expatriates. A high score means that the country is open and able to attract best and brightest talents from around the world.	Public data source

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The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books, and a quarterly magazine, *Briefings*, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth, and success.