

Why does Digital Fragmentation Threaten Growth?

The flow of information is becoming constrained as regulation tightens.
Armen Ovanessoff, Principal Director at Accenture Research, examines ways that data hungry organisations can persevere

Many companies are now preparing to adapt to a world that will be constrained by national boundaries, as policies and legislation tighten national control over cross-border flows of products, services, capital, people and data.

We call this digital fragmentation, where the free flow of resources and talent, which has powered the digital revolution, becomes more restricted and regulated when it crosses national borders. With this comes the threat of disruption to

the global business environment and the potential to inhibit companies' strategies for growth and innovation.

All this is happening at a time when global businesses (and business models) increasingly rely on the rapid and unobstructed flow of data between people, machines and devices across national borders. Moreover, future innovation and growth plans, including the Internet of Things and artificial intelligence, are fundamentally reliant on such data flows.

The number of restrictive measures adopted by G20 members since the global financial crisis almost quadrupled from 324 in 2010 to 1,263 in 2016. This means tighter controls over the flows of IT talent, products and services.

This friction between business plans and the fragmented global regulatory context is real and is forcing some business to review their plans for international expansion.

A recent global Accenture survey of 400 CIOs and CTOs found that nearly three- ➤



quarters of them believe their companies will exit a market, delay market-entry plans or abandon such plans altogether over the next three years because of increased barriers to globalisation. The figure for UK respondents was even higher, at 84 percent.

Most of these business leaders said that these barriers will compromise their ability to use or provide cloud-based or data and analytics services across national markets, and to operate effectively across different national IT standards. Even more alarming: 86 percent believe their IT strategies and systems are vulnerable to these trends.

The research suggests that UK respondents are more alert than their global peers to the risks that this fragmentation presents to digital growth. It also suggests that they are at the vanguard of taking action in response. For example, 62 percent are already in the process of reorganising their global IT architectures and governance structures in response to new barriers to globalisation, compared with 51 percent of global respondents.

This friction is only set to grow: on the one hand, global business is becoming more digital, furthering our dependence on data flows. At the same time, we can expect more rules and legislation to safeguard our rights and security in the rapidly evolving digital world. That's why it's critical for there to be constructive dialogue between the technology innovators and the lawmakers, so that those who understand the trends are involved in crafting the legislation – ensuring that when such rules are implemented, they stimulate, rather than impinge upon, growth and innovation.

The truth is that business and government find themselves with shared objectives in confronting this friction, yet there is insufficient dialogue today between stakeholders to achieve progress.

Digital fragmentation is forcing companies to make fundamental structural changes in key strategic and operational plans across a broad range of activities. These include not only global IT architectures, physical IT location strategy and cybersecurity, but also the recruitment of IT talent, as well as other global business processes that rely on the free flow of data.

With such a wide-ranging impact predicted, executives are beginning to seek ways to mitigate the impact. What executives do in the short term will determine how well they ride out this set of challenges.

There are four key actions that business leaders can take to 'recalibrate' their digital transformation as they deal with the impact of digital fragmentation:

- Add a new lens to the strategic process. Dedicate more resources to evaluating the business impact and responses. For instance, decide whether you need to reallocate investments and global functions differently across markets and jurisdictions.
- Map and de-risk data flows. Protect flows of information critical to management decisions and business operations. Assess how data regulations such as national cross-border restrictions and requirements will affect your business models.
- Build local advantage. Strike the right balance between centralisation and local investment. Organisations must become part of the fabric in the local

economy within their key markets; this includes developing local talent and cultivating relationships with local technology partners and policy makers.

- Use technology as part of the solution. Overcome challenges by using latest technologies. For example, 3D printing can help manage global manufacturing activity more flexibly. Artificial intelligence can help address restrictions on talent migration, as well as help navigate increasingly complex regulatory regimes. And blockchain technology can provide more secure, decentralised and distributed systems.

The good news is that business leaders are waking up to the realities of a more complex global digital operating environment. But the challenges ahead are not limited to boardroom decisions; they require responsible and proactive participation in constructing the rules that will govern our digital future. ■



Armen Ovanessoff
Research Fellow
& Senior Manager
Accenture

Armen Ovanessoff is a Principal Director at Accenture Research where his focus is on macro-economic and business trends. His consulting has supported the development of international business strategies and operating models for Accenture and its multinational clients across industries. Armen also helps manage Accenture's strategic partnership with the World Economic Forum, representing Accenture's point of view on global issues among leaders from business, policy and society.

Contact Armen through:
www.criticleye.com