

BORN-DIGITAL

**FAST FINISHER OR BUILT TO LAST:
HOW BORN-DIGITAL COMPANIES
CAN EXCEL AT DIGITAL ETHICS
AND DATA PRIVACY**

Born-digital businesses that relegate digital ethics and data privacy to the back seat in favor of driving fast growth could end up crashing and burning instead of enduring.

WHAT'S THE DIFFERENCE?



BORN-DIGITAL

Born-digital businesses were typically founded after 1995. Their operating models and capabilities center on using Internet-era information and digital technologies to achieve competitive advantage and drive fast growth.

✓ STRENGTHS

- Agility
- Speed
- Direct and continuous customer accessibility
- Automation
- Extended workforce and openness to external partners

? CHALLENGES

- Difficulty scaling up
- Need for leaders to learn on the job
- Non-existent or immature governance processes
- Limited experience in scaling operations while managing risk
- Diversity



BORN-TRADITIONAL

Born-traditional companies arose from the working principles of the Industrial Age, pre-Internet economy. Their operating models and capabilities center on using physical assets and focusing on product development to gain a competitive edge.

✓ STRENGTHS

- Governance
- Business processes
- Regulatory knowledge
- Risk management
- Operational expertise

? CHALLENGES

- Vulnerability to the pace of change driven by digital technologies
- Separation of IT from the business
- Slow product development
- Cultural inertia at odds with agile innovation
- Legacy systems

ABOUT ALIXPARTNERS' BORN-DIGITAL STUDY

Given born-digital companies' unique blend of strengths and challenges, AlixPartners set out to research these enterprises' most pressing needs and areas they should focus on to sustain their success. Our study comprised several key components:

- **INTERVIEWS.** We conducted 12 indepth interviews with C-suite executives and board members from born-digital companies, in the second and third quarters of 2018. The companies represented were based primarily in the United States.
- **ONLINE SURVEY.** We executed an online survey of C-suite executives from both born-digital and born-traditional companies. Conducted in the fourth quarter of 2018 and the first quarter of 2019, the survey generated 73 responses, primarily from companies based in the United States, and split almost evenly between the two types of companies.
- **CLIENT PROJECTS.** We drew on insights gained from decades of experience and projects we've done with both types of companies, working side-by-side with leadership teams, boards, and investors. We further analyzed a subset of 100 engagements with born-digital companies.
- **SECONDARY RESEARCH.** We conducted extensive secondary research to include publicly available data (such as SEC filings), industry reports, and media content.

The interviews and the online survey explored a rich array of topics—including what respondents saw as their company's top strengths and challenges; where their enterprise focused its resources and efforts; how they approached partnerships with other companies; and how they managed crucial activities such as talent development, operations, and alignment of top executives with the company's strategy.

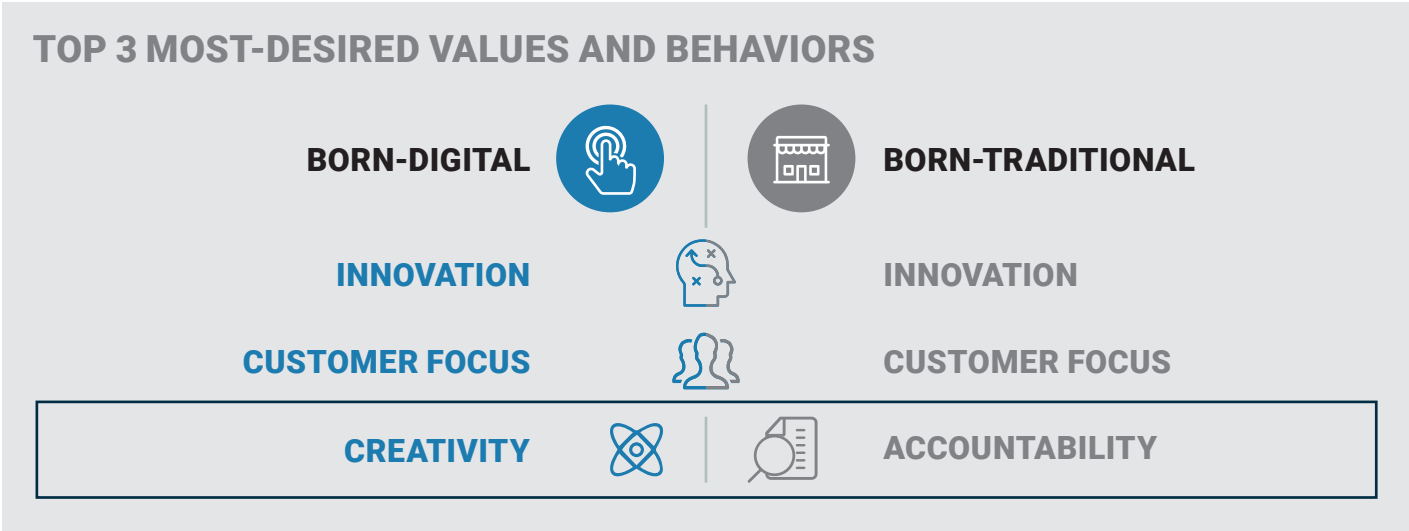
“Most culture statements or value statements end up sounding very banal and very similar. Ultimately, it's not about what's publicly stated. It's about what's publicly rewarded.”

— C-level executive of a born-digital company

Driving fast growth has come to define many born-digital businesses—and the transformative disruptions they leave in their wakes—compared with their traditionally born counterparts. The tech-start-up mantra ‘Move fast and break things’ says it all. By getting innovative products to market at breakneck speed, born-digital companies have birthed brand-new, multibillion-dollar industries.

But in their pursuit to define the next big product category or reach the next big customer segment, many born-digital enterprises have relegated to the back seat certain topics related to digital ethics and data privacy because those topics strike them as mundane. As a result, such companies risk unwittingly facilitating unethical and even illegal behaviors in their management ranks, workforces, and users.

As more and more born-digital businesses mature into market leaders, they'll have to buttress their strategies, processes, systems, and cultures so that they excel at digital ethics and data privacy—if they hope to endure. That buttressing will require that they foster the right values, that they monitor changing regulations and comply with them, and that they make data privacy an imperative across their entire organization.

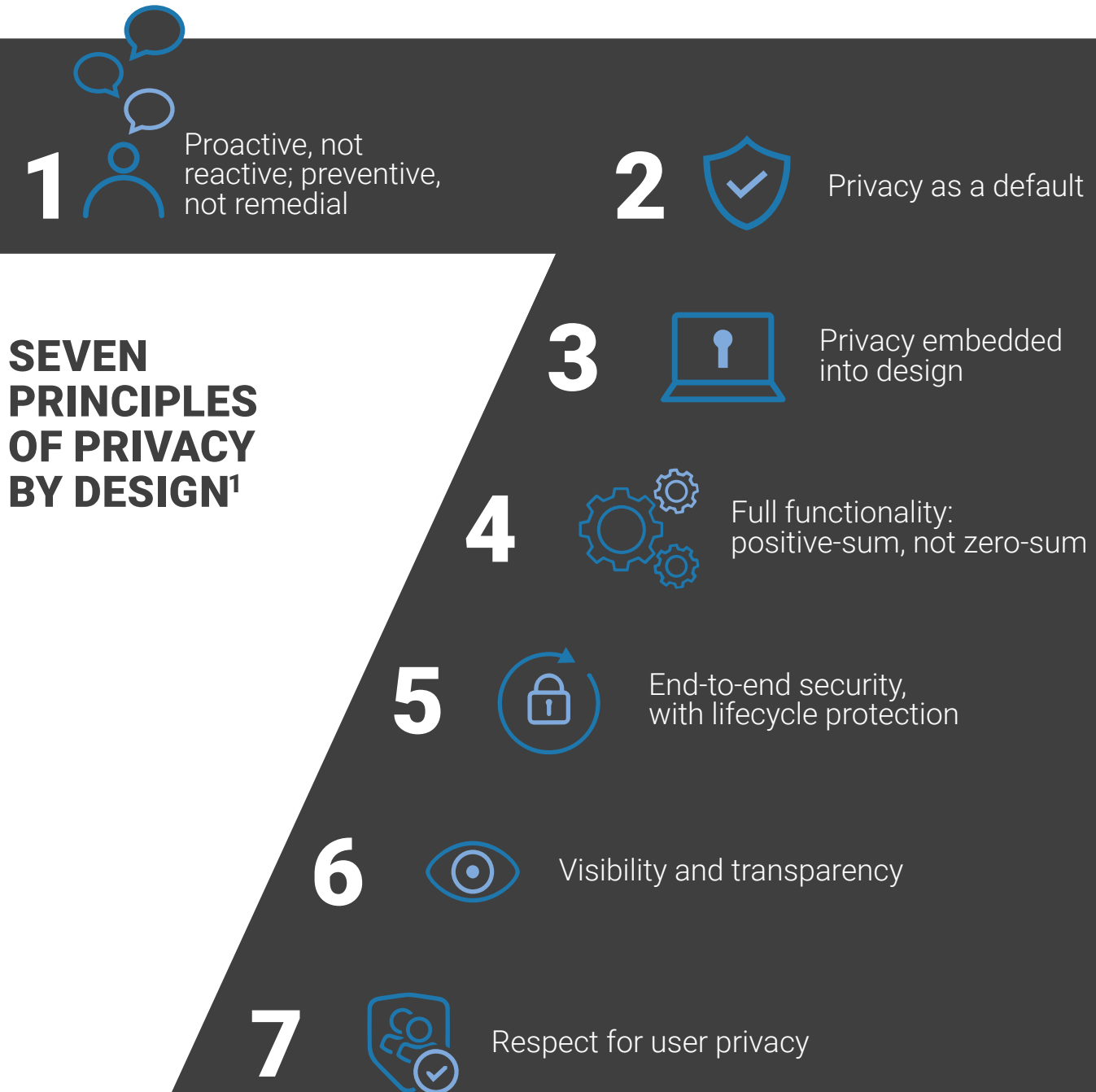


WHO'S RESPONSIBLE FOR CULTURE?

For born-digital businesses, overemphasis on growth and speed can come at the expense of efforts to establish the right culture. Of course, born-digital companies have to be nimble so they can either drive changes to, or swiftly adapt to customer expectations. But to build a company that lasts, its leaders must also establish digital ethics and data privacy protection standards through consensus—so that everyone understands what’s expected and everyone feels accountable to adhering to those standards. Such standards define expectations with regard to access to private data, use of data, accuracy and completeness in the collection of data about individuals or organizations, data subjects’ legal rights to access and ownership of their data, and rights involving inspecting, updating, or correcting data.

Company leaders should also encourage wide adoption of those standards throughout their organization. Doing so sends a clear message about which behaviors are acceptable—and which are not. Equally important, the standards focus both managers’ and employees’ attention on supporting the company’s long-term objectives such as developing products that meet requirements related to transparency and trust. The fact that customers are paying more attention to data privacy than ever before supports the notion that digital ethics should be core to the fundamental design of a product or service, as opposed to being an add-on or a compliance measure.

Privacy-by-design principles ensure a proactive approach to data protection and privacy, and they help reduce the temptation to cut corners to reach short-term goals, such as releasing a new product—without proper security measures in place—in order to go to market quickly. The disciplines that digital ethics and data privacy standards encourage can help companies avoid the kinds of problems that have blindsided more-careless enterprises.



1. First introduced by Ann Cavoukian, former information and privacy commissioner of Ontario, Canada

The early, Wild West days of the ride-sharing industry offer an apt deterrent example. One ride-sharing company monitored riders and tried to block or manipulate the app's features for certain individuals—including regulators—so they could skirt local and regional laws against private taxi services in order to grow market share. Such moves spawned an organizational culture wherein harassment and abuse were acceptable, which ultimately led to the downfall of the CEO.

An HR platform company is another relevant case. In an attempt to achieve its ambitious revenue targets by selling products and being able to operate in California, the company let some employees skip the training required to sell products in the state. Indeed, some individuals allegedly engineered a browser extension that could automate training activities that would typically be

done manually so that employees wouldn't have to actually take the training. Those violations came at a steep price: a \$7-million fine by the state of California, an investigation by the US Securities and Exchange Commission, and changes in the firm's high-profile senior leadership. Not surprisingly, the business press jumped on the story. The new leadership team responded quickly with the release of a detailed memo to all employees, outlining big changes in expectations for employee behavior and company culture.

To avoid those kinds of scenarios, born-digital companies must build organizational cultures that root themselves in clearly defined values. And they have to actively monitor and, even more important, reward adherence to those values.



83%

of born-digital companies less than 10 years old view their products and/or services as being 'at high risk of disruption from new entrants'

DISRUPTION—THROUGH REGULATION

Of course, born-digital companies must keep investing in technology and must proactively monitor competitors' moves so as to stay ahead in their fast-changing markets. But technologies and competitors aren't the only disruptors companies have to worry about. We're increasingly seeing warning signs of a different type of disruption: regulation.

Until recently, regulators had yet to fully outline the rules of the digital-business game. Born-digital exemplars like PayPal, Airbnb, Lyft, and Grubhub have all operated in gray areas for a while. In the latest digital industries—like the recent micromobility craze—new entrants, including electric-scooter players Bird and Lime, introduced a product so new that many cities had no pertinent

regulations in place at all. That may offer some explanation for the reasons that born-digital respondents in our study prioritized innovation, customer focus, and creativity—all of them values focused on growth and products—over ethics-related values like social responsibility and accountability.

But the regulatory winds appear to be moving away from self-regulation and toward more oversight and governance, as indicated by increased levels of attention in the business press and by new regulations being discussed to protect consumer data. It's therefore in born-digital companies' best interests to closely monitor such developments and then define their own internal best practices for complying with digital ethics and data privacy legislations as they emerge and evolve.

“Data privacy has become something that is not just for the lawyers anymore. At LinkedIn... it’s really the responsibility of everybody at the company. As a data-driven company, that’s an important thing for every employee to understand and get a sense of. So, a lot of the work that we do here at LinkedIn is to make sure everyone feels that culture of privacy.”

— Kalinda Raina, Head of Global Privacy and Senior Director, LinkedIn

MANAGING DATA FOR MUTUAL BENEFIT

As more and more businesses have shifted from the physical to the digital world, consumers have grown comfortable with sharing data about themselves to get the products and services they want. Still, many consumers have done this with only a surface-level understanding of what they've agreed to. Recent events, including the 2016 US presidential election, have turned that dynamic on its head. Increasingly, consumers are demanding to know more about what data is getting collected from them, how it's getting used, and who is accountable if the data gets used for nefarious purposes.

Laws around those issues have proliferated—most notably, the European Union's General Data Protection Regulation (GDPR), which many observers say best embodies the current global standard. The GDPR was one of the first regulations to garner international media attention by including significant consumer protections such as the right to access one's personal data and the right to be forgotten (the right to request erasure of personal data). In the United States, the California Consumer Privacy Act goes beyond the GDPR in its definition of personal data to include information at the household or device level, as well as data derived from information given to create an individual's profile that reflects characteristics like a consumer's preferences, behaviors, aptitudes, and psychology. Those changes have shifted the burden of compliance to private companies—thereby presenting new compliance and risk-management challenges.

Born-digital companies can take proactive measures to ease those concerns. Two foundational concepts that are becoming widely adopted by global privacy regulations are minimization and proportionality. Those two tenets assert that companies should collect and retain only the minimum amount of data needed for an intended purpose and that the data collected should be proportional to the scope of services being offered. Data provided for a personal health and wellness app, for example, should be limited to data relevant only to personal general health such as age, gender, and diet and should stop short of collecting a user's complete medical history. In addition, transparency and disclosure have to be followed, and customers should not be surprised to find out later their personal details got linked to disparate data sets or got used for marketing purposes or got sold to a third party without adequate disclosure and consent.

Clearly, consumers are focusing on those issues, and the stakes are high. Attention-getting examples like the \$170-million settlement YouTube reached with the Federal Trade Commission and the New York State attorney general for violating the Children's Online Privacy Protection Act serve to only increase regulatory pressure and oversight on data privacy issues.

The move from digital ignorance to digital enlightenment presents born-digital businesses with a new imperative: to define a quid pro quo relationship between themselves and their customers regarding data. To meet that imperative, companies will have to (1) establish clear guidelines for ensuring compliance and consistency of operations and (2) define best practices for data collection, use, retention, and sharing.

HOW TO PREPARE FOR THE CHANGING LANDSCAPE

For many born-digital businesses, the work of operationalizing internal processes and ensuring compliance with digital and data regulations may not seem nearly as exciting as driving topline growth by launching hot new products. But companies that embrace this effort can set themselves apart from their less-stringent rivals—including the achievement of a strong return on investment that is gained through savvy risk mitigation.

To start achieving those advantages, born-digital leaders should answer the following simple but crucial questions:


- 1 What values should define our organization?**
- 2 How will rapid growth affect key elements of our culture, such as whom we hire, what products and services we offer, and where we operate?**
- 3 What commitments can we make to our stakeholder community—customers, employees, investors, regulators—with regard to digital ethics and data privacy?**
- 4 In what areas of digital ethics and data privacy can we anticipate regulatory changes, and how can we proactively design our processes to meet them?**
- 5 What ethical and privacy standards will our customers expect us to adhere to three to five years from now, and how well positioned are we to meet those expectations?**

Born-digital leaders can gain even more valuable insights by encouraging managers and employees, too, throughout their organizations to explore those questions. Such companywide engagement on the issues can help make sure that everyone understands what's expected of them and that those who demonstrate the right behaviors get rewarded, not punished.

After all, a company's culture—like an individual's character—is defined by the behaviors of executives, managers, employees, and teams when others aren't watching.

When it comes to digital ethics, born-digital enterprises that take the lead on culture, compliance, and data privacy stand the best chance of surmounting the challenges that will inevitably arise from their rapid growth and the disruptions reshaping their industries.





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LEADERS' TAKEAWAYS

1 [Assess the degree](#) to which people in your company prioritize fast growth over attention to digital ethics and data privacy issues.

2 [Take stock of your company's current digital ethics and data privacy policies and standards](#), and identify potential gaps or weaknesses that should be addressed; for example, implement privacy-by-design principles, and adhere to minimization and proportionality concepts for the data you collect.

3 [Create opportunities for managers and employees](#) as well to candidly discuss questions like what behaviors are acceptable and not acceptable, how regulations related to digital ethics and data privacy are changing, and what those changes imply for the ways your company operates.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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