

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 in-depth interviews with C-suite executives and board members from born-digital companies. The companies represented were based primarily in the US.
- **ONLINE SURVEY.** We executed an online survey of C-suite executives from both born-digital and born-traditional companies. The survey was fielded primarily with companies based in the US 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.
- **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 born traditional 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 not prioritized certain topics related to digital ethics and data privacy. As a result, they risk unwittingly facilitating unethical (and sometimes even illegal) behaviors in their management ranks, workforces, and users.

Events during the COVID-19 pandemic have shown how quickly digital ethics can take center stage. Take video conferencing giant Zoom. The company had to scramble to restore its reputation after cybersecurity glitches erupted while usage of the technology soared during the COVID-19 pandemic. Additional examples include questions that have arisen about how to balance individual data-privacy rights against public health. The use of technologies to facilitate contact tracing or to track people’s movements to see who’s following shelter-at-home orders are just a few cases in point. And with many more people working from home and the possibility that remote work will persist long into the post-pandemic era, employers and employees alike wonder how much visibility a company should have into employees’ actions at home.

Given these new realities, born-digital businesses will have to work even harder to excel at digital ethics and data privacy—if they hope to mature into market leaders. Keys to success will include putting digital ethics and data privacy at the center of product and service design, closely monitoring and rigorously complying with changing regulations, and managing data in ways that benefit customers and employees as well as the business

PUTTING DIGITAL ETHICS AND DATA PRIVACY AT THE CENTER OF PRODUCT DESIGN

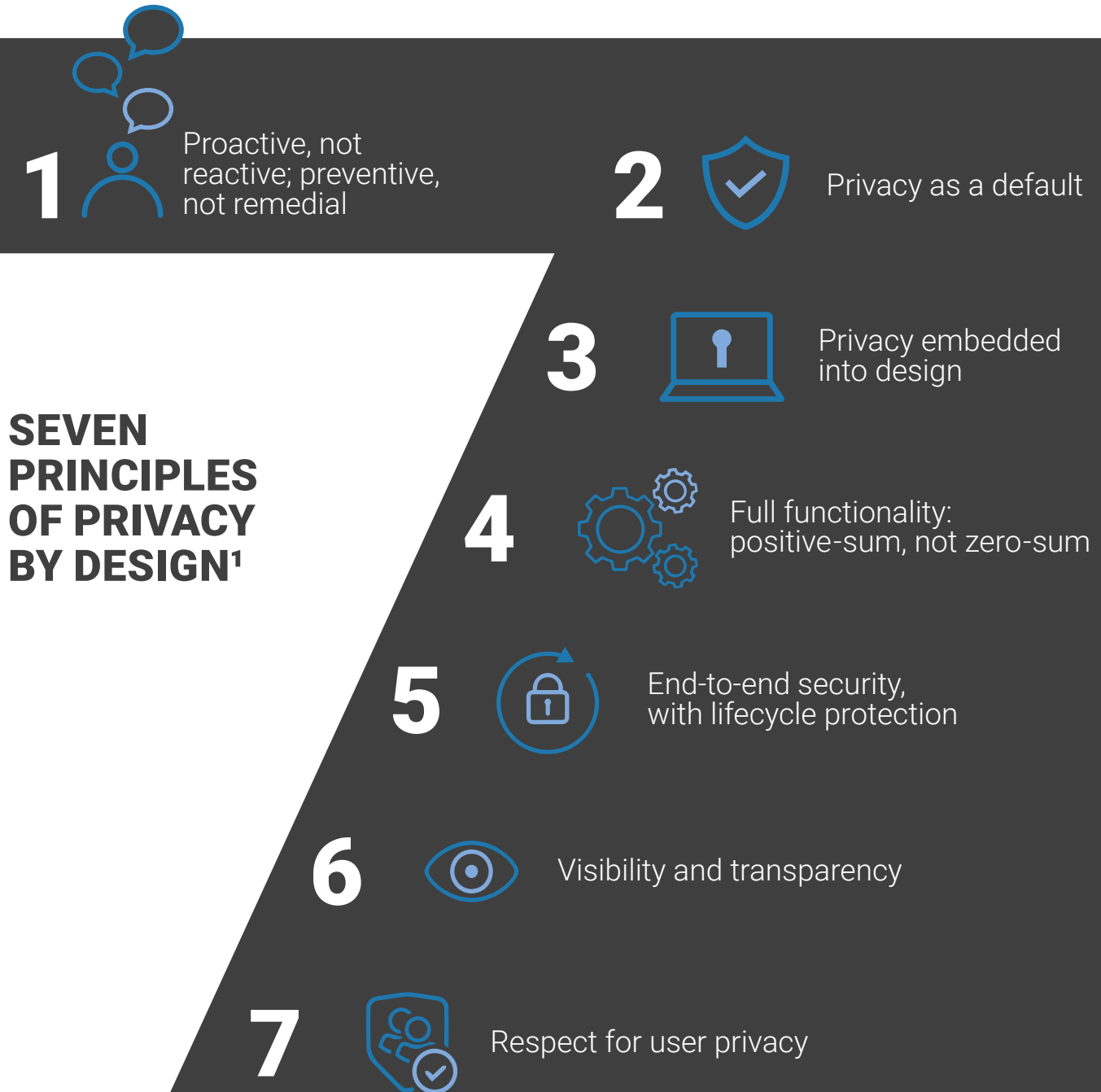
Born-digital companies have to be nimble so they can drive changes in or swiftly adapt to customer expectations. But to build a company that lasts, leaders must also establish digital ethics and data privacy protection standards through consensus. That way, people throughout the organization understand what’s expected, and they feel accountable for adhering to those standards. These standards define expectations on multiple fronts:

- Access to private data
- Use of data
- Accuracy and completeness in the collection of data about individuals or organizations
- Data subjects’ legal rights regarding access to and ownership of their data
- Rights involving inspecting, updating, or correcting data

Company leaders should also encourage wide adoption of the established standards throughout their organization. Doing so sends a clear message about which behaviors are acceptable—and which are not.

Equally important, the standards focus managers’ and employees’ attention on supporting the company’s long-term objectives, such as developing products that meet requirements related to transparency and trust. With customers paying more attention to data privacy than ever before, companies should put digital ethics at the core of their product or service design, rather than treating it as merely an add-on or a compliance measure.

Privacy by design principles can help companies proactively meet this imperative. What's more, these principles reduce any temptation to cut corners to reach short-term goals, such as releasing a new product without proper security measures in place to accelerate speed to market. The discipline that digital ethics and data privacy standards encourage can help companies avoid the kinds of problems that have blindsided more-careless enterprises.



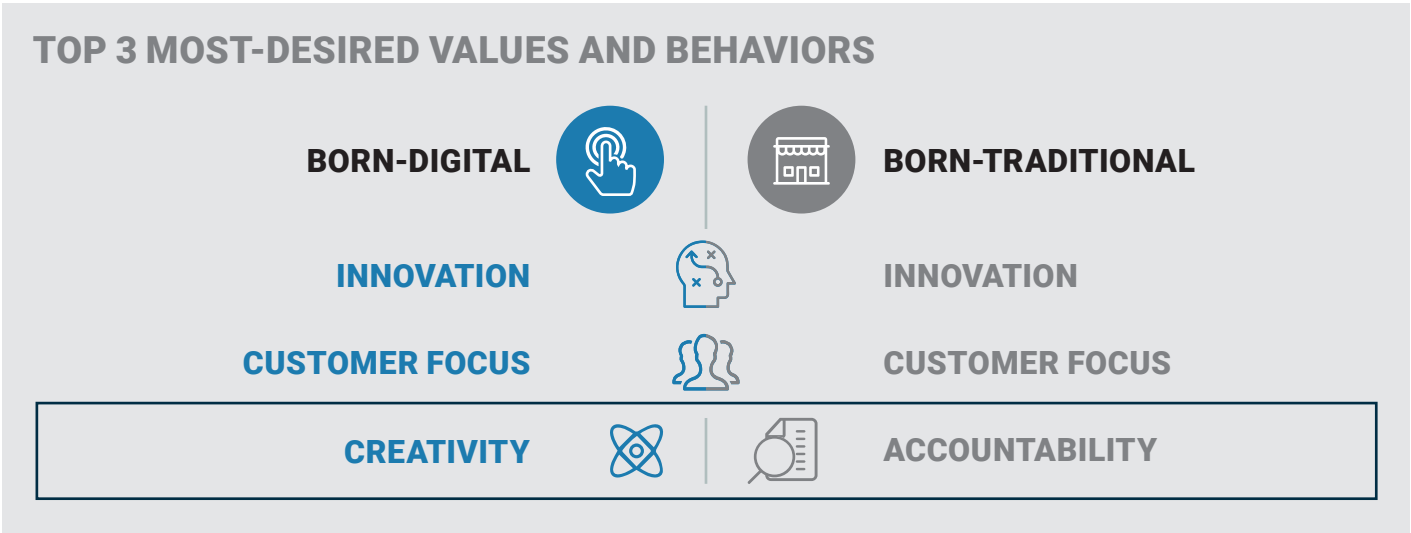
1. First introduced by Ann Cavoukian, former Information and Privacy Commissioner of Ontario, Canada

NAVIGATING DISRUPTION STEMMING FROM REGULATION

It's no surprise that to stay ahead in their fast-changing markets, born-digital companies must keep investing in technology and proactively monitor their competitors' moves. 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.

Even now, regulators haven't yet fully outlined the rules of the digital-business game. Born-digital exemplars have been operating in gray areas for a while. In the latest digital industries, products have been so novel that sometimes there are no pertinent regulations in place at all. Uncertainties around regulation related to social media censorship is an apt example.

This situation may in part explain why born-digital respondents in our study prioritized innovation, customer focus, and creativity—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. The upshot? Born-digital companies must 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 Vice President, 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. But they're also increasingly demanding to know more about what data companies are collecting from them, how organizations are using the data, and who is accountable if the data gets used for nefarious purposes. Employees are asking such questions, too.

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 (by requesting 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.

Such changes have shifted the burden of compliance to private companies. And that presents new challenges for enterprises in all industries.

To overcome these challenges, born-digital businesses must move from digital ignorance to digital enlightenment—including forging a quid pro quo relationship between themselves and their customers and employees regarding data.

Insights from regulatory shifts can help. For example, born-digital companies can incorporate into their data management practices two tenets that are becoming widely adopted by global privacy regulations:

- **Minimization:** Collect and retain only the minimum amount of data needed for an intended purpose.
- **Proportionality:** Ensure that the data collected is proportional to the scope of services being offered.

To illustrate, for a personal health and wellness app, data collected should be limited to only that relevant to personal general health, such as age, gender, and diet. It should not include information on a user's complete medical history.

In addition, companies must follow transparency and disclosure rules. For example, they cannot link customers' personal details to disparate data sets, use those details for marketing purposes, or sell the information to a third party without adequate disclosure and consent.

A company's culture—like an individual's character—is defined by how executives, managers, employees, and teams behave when others aren't watching.

HOW TO PREPARE FOR THE CHANGING LANDSCAPE

For many born-digital businesses, attending to digital ethics and data privacy 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 recovering more quickly in the post-pandemic era and scoring strong returns on investment through savvy risk mitigation.

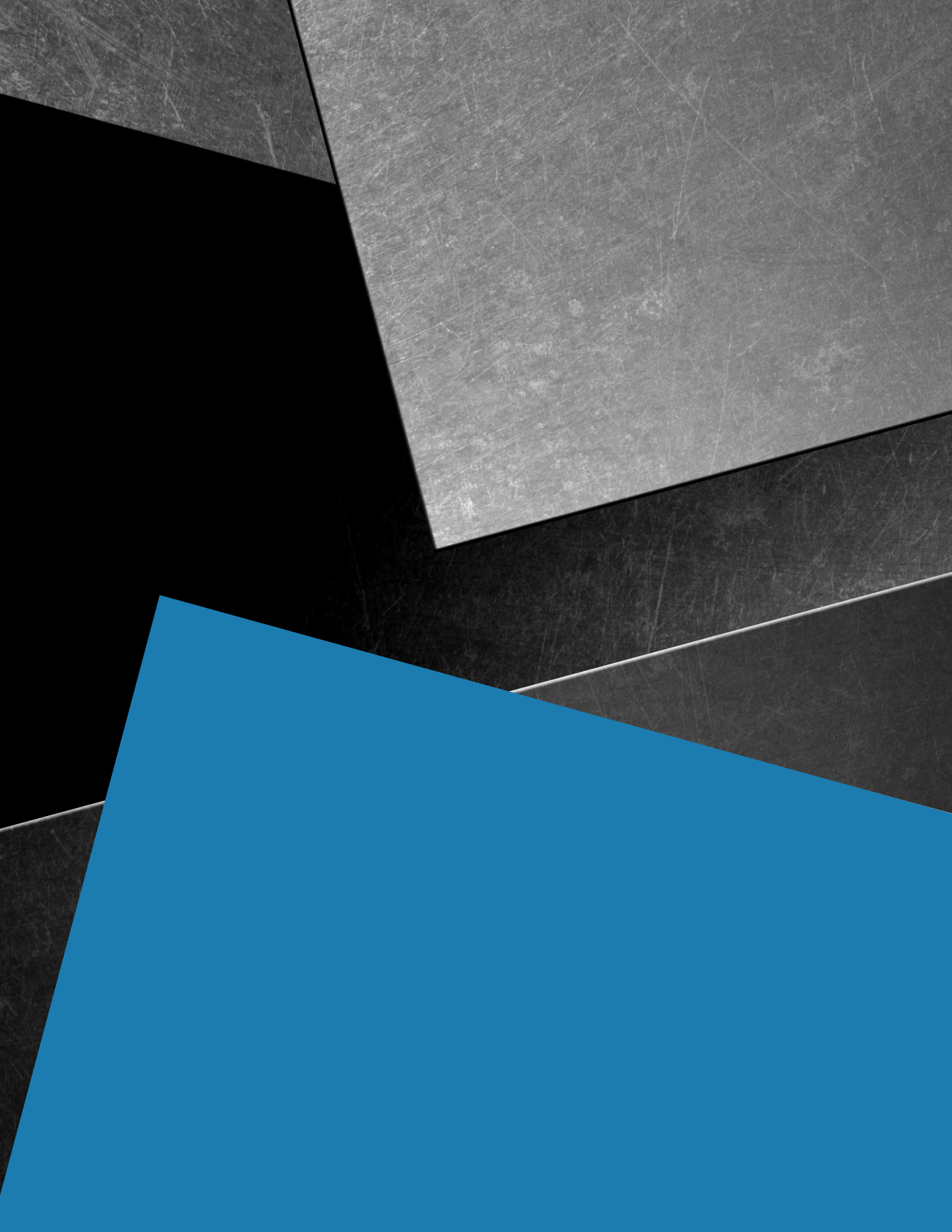
How to start achieving those advantages?

Explore these crucial questions.

Companywide engagement on these questions can help ensure that everyone understands what's expected of them and that those who demonstrate the right behaviors get rewarded, not punished:

- 1** In what ways might the pandemic's impacts permanently change how we manage digital ethics and data privacy?
- 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?





LEADERS' TAKEAWAYS

- 1** **Assess the degree** to which people in your company prioritize fast growth over attention to digital ethics and data privacy.
- 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 the tenets of minimization and proportionality in collecting and managing customer and employee data.
- 3** **Create opportunities for managers and employees** to candidly discuss questions like which 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 in which 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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