EY showcases the difference between doing digital and being digital

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Summary

EY recently held its Technology Analyst Summit in Toronto to provide some detail on its digital strategy and transformation capabilities, which are increasingly used internally as well as externally. Digital transformation can never really be a stand-alone offering because it rapidly becomes simply the way that projects are delivered.

EY Canada hosted the event. It is a geo that is leading AI work globally for the firm, and has established itself as second only to Google as the brand that Canadian graduates want to work for.

The 451 Take

EY Advisory is rapidly evolving its digital transformation capabilities in terms of building out product engineering and global service delivery to support the assets it is developing. Internally, it is ramping up its use of advanced technologies for its own operations, as well as for its clients. Crucially, it is beginning to transform the appeal of its brand among new graduates. It is choosing to position itself for digital transformation around the risk management of a client's organizational capital, especially around the vendor technology landscapes or ecosystems that the client is using. This is a smart move, and clearly differentiates it from competitors that do not have the firm's competency in tax, compliance and auditing. However, the regulations that mandate that non-auditing parts of the business must not work with audit clients will continue to constrain business development in the increasingly fluid digital environment where company boundaries are blurring.

Context

EY's Technology Advisory capability was showcased at its Toronto wavespace. Advisory employs 54,000+ people globally, and EY has acquired more than 50 tech-centric companies with 2,000 staff over the past four years in order to develop its capability in areas such as cybersecurity, digital architecture and DevOps, as well as adding specialists in SAP and Microsoft technologies.

At the event, Dan Higgins, Global Technology Consulting Leader for EY, talked about some of the changes demanded by pivoting from a pure-play professional services to a professional services firm with product. For example, EY has developed a product engineering group, and has recognized that this type of team needs a different career path from that offered by the traditional consulting career route.

As part of this change, EY has set up a Technology Academy with a badges program so that engineers can be recognized for their ability to learn new skills and stay current as technology requirements evolve.

Strategy

EY Technology is now beginning to move into dynamic venturing with clients by, for example, setting up a digital factory to help them innovate. Clients now expect EY to arrive with people, data and assets that can help accelerate the execution of the project. In order to deliver on the people dimension, the firm is refining its ability to manage a gig economy of contractors to complement its in-house capabilities. It is using its own GigNow portal to inject external talent into teams.

As part of its dynamic venturing, EY is using its CogniStreamer open innovation software platform, which provides a crowdsourcing portal, a patent flow module to support the workflow to move ideas through to a patent, and deal flow that enables the management of investment proposals around ideas. This platform is now used across EY's wavespace sites as well as with clients. EY is supplementing this with the use of the Nimble Bee platform, which is integrated with CogniStreamer and brings the academic community into the innovation source pool.

The firm is also beginning to cluster adjacent sectors that had stood separately, as a reaction to the blurring of industry boundaries – so, for example, the distinctions between insurance, banking and capital markets are shifting as fintech becomes more influential. In this context, EY is adding value by running events that take people out of their daily environment to connect with peers in other industries, and experience innovation in a different way by discussing, say, the future of health.

The IP that EY develops is driven by account teams working with clients. Then the platforms that the firm is using, such as CogniStreamer, provide consistency in the way that ideas are captured and accelerated. This new way of working is already being recognized by EY's partners such as Microsoft (for which EY has developed a blockchain offering to manage third-party developer royalties) as well as by clients in the public sector.

A differentiator for EY is that it can help its clients raise capital and co-invest in a partner ecosystem, while also addressing regulatory, risk, compliance and legal requirements in a way that EY's pure-play IT service competitors cannot. This becomes more important as the project sales model changes to a digital approach where money needs to be invested up-front. EY can create more liquidity for its clients' businesses because it has the balance-sheet knowledge to hold the CEO or CFO conversation to find funding solutions for transformational projects.

EY is also bullish about its Alliances with technology partners on the basis of this deep customer intimacy, and can lead with business issues and co-innovate with partners to service accounts in a way that the majority of competitors cannot. Typically, when working with technology partners, IP will be harvested from a single project, and then EY collaborates with a partner to industrialize the solution under its governance. This approach is, according to EY, leading to disproportionate growth from its Alliances.

Technology

As EY changes its culture to understand minimum viable product as a concept, it is retooling. EY's Global Technology Officer for Advisory, Michelle Unger, said the new Client Technology Platform takes advantage of containers and micro-services to enable more rapid and efficient development of client products, as well as to enable more sharing internally at EY. It also uses state-of-the-art automation for easier provisioning of new clients for capabilities such as cyber as a service.

EY can create MVP on that same platform using designers, and then the MVP can be shared with the client technology team, which has access to a global resource pool so that product management can be managed in a professional way. In the last year, EY transformed its internal IT organization by introducing three distinct business units: Enterprise Workplace Technology, its internal IT group; Client Technology, which includes those running the client platform and client-facing products; and Information Security, covering both internal and client-facing technologies.

This move to build a professional software capability has been a learning process for EY and its workforce. This has benefited from the creation of the badges training programs, which are helping the workforce keep up with emerging technology areas. The firm has also developed a chat-bot called Sofia to help workers find the information they need about new technologies for projects.

Digital transformation agendas need trust baked in for the client to move forward with confidence, which is an area where EY is hoping to distinguish itself. For example, EY has been working with a bank around agile development, where risk and compliance hurdles meant that the bank was not able to deliver software any faster than in the days of the traditional waterfall software development approach.

EY has been working on an agile development mindset that builds in risk mitigation and risk optimization by design, while also being aware that the risk function needs to disrupt itself for the digital age. One way EY is doing this is to use RPA, analytics and AI to create a risk governance foundation that can streamline basic compliance testing.

EY also has a proactive program in place to meet with regulators around cybersecurity. One example is its support for the global delivery of TruSight's third-party risk management assessment offering. TruSight, a consortium composed of leading financial services companies, was formed to establish industry-leading practices and streamline third-party risk assessments for the collective benefit of financial institutions, their suppliers, partners and other third parties.

TruSight offers a wide range of services, from an online questionnaire to virtual and on-site reviews that validate that a given vendor's protocols, processes and practices are operating as designed and described. TruSight then stores vendor data on a secure platform that financial institutions of all sizes — such as investment banks, wealth management firms, asset managers, credit card companies, insurers, and community and regional banks — can utilize to assess and manage relationships with third-party service providers. Each institution then uses the information to make its own vendor risk and engagement decisions. EY is involved in a number of such regulatory technologies, or regtech, projects, including helping Estonia set up a national AI framework.

Competition

EY Advisory's closest competitors are the other members of the Big Four: Deloitte, KPMG and PwC, each of which has chosen to establish separate digital businesses. While a separate digital business creates both an internal and external focal point for innovative projects that can be helpful, it also creates problems by enabling a siloed approach to digital innovation that can lead to internal squabbles over digital areas of expertise. EY is hoping to avoid this by pursuing an approach to 'be' digital as its business evolves.

At the IT service consultancy level, Accenture, IBM and Capgemini compete with EY, although unlike these competitors, the firm has a distinctive lens to solve the client's balance sheet problem – for example, by finding ways to get tax credits to fund projects. This type of balance sheet outcome is not so readily in the purview of pure-play IT service providers.

SWOT Analysis

Strengths	Weaknesses
EY continues to make progress in changing its operational model to suit the digital age, and is able to demonstrate cultural change to back up its target to be digital in the way it works. Its strategy to bring its core competency around compliance and governance to play in the wild west of the digital transformation market is differentiating. Furthermore, its success in playing an independent role in pioneering 'regtech' initiatives shows a lot of promise.	EY has more work to do to persuade clients that it is the right company to operate and manage the services it is creating, since this is a relatively new departure for the firm. Part of the challenge is the language: managed services tends to refer to the ability to operate infrastructure at scale, whereas in EY's vocabulary, it refers to the management of niche digital business processes.
Opportunities	**Threats**
EY has plenty of opportunities in the regtech space, and is also developing a strong capability in vendor risk management as enterprises look to take advantage of innovative new entrants in the tech sector. The firm is also working on intriguing ways to service the SMB sector via its EY Virtual Advisor capability. Additional opportunities are unlocked through EY's innovation ecosystem management approach, and product co-development with Alliance partners.	The challenge that every one of the Big Four management consultants have is not allowing auditing to become too entwined with the corporate reimagining of their advisory arms. In particular, the pursuit of balance sheet outcomes by advisory arms flies ever closer to the responsibilities of the auditing businesses.

Source: 451 Research, LLC