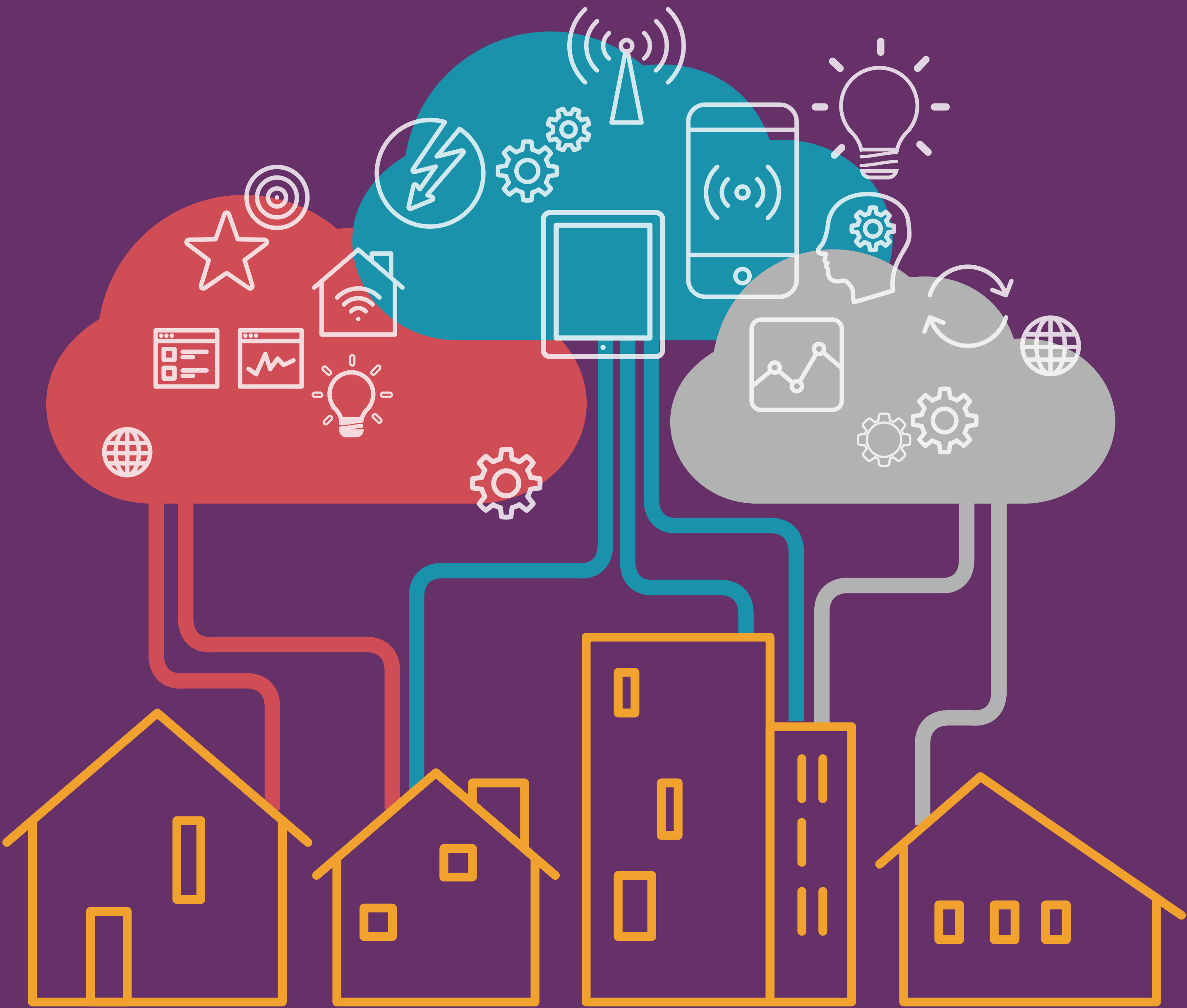
Future Gazing
Future Shaping

A series of research reports exploring innovation, transformation and the future of housing delivery

Report 2: **How the sector is approaching innovation and transformation**

November 2016



Contents

Introduction

Assessing innovation and transformation

In September 2016, Altair and 3C launched a sector-wide research project which asked sector leaders to provide their views on what the future looks like and identify how their organisations were currently working to bridge the gap. In particular, we sought to identify and determine:

- The key drivers for transformation in the sector
- What the typical housing organisation will look like in 2025
- How organisations are tackling those drivers by transforming their businesses
- Best practice approaches being adopted by providers
- Innovative thinking that could be applied from outside of the sector

The main aims were to provide a snapshot of the sector at present, and also to give a valuable source of information to help inform organisations thinking about how they can effectively transform their services for the future.

This work has been developed using a number of activities:

- A sector wide survey – which attracted over 70 responses from organisations across the sector
- (including England, Scotland and Wales)
- Follow up interviews with Executives from over 20 organisations
- Desk top research to identify best practice, innovations and transformation activities.

Rather than provide the answers on exactly how housing providers should be transforming, each of these reports are intended to stimulate discussion and debate on the possibilities for the future.

Based on the outputs of this review we have developed a series of three reports. This is the second report of the three and focuses on identifying how organisations are working towards achieving the vision for housing in 2025, as outlined in our first report.

Our next report will outline what can be learnt from the transformation and innovation activities currently being implemented by others.

Laggards, Leaders or Transformers

What providers are doing now to deliver the 2025 vision

The first report in our future gazing future shaping series showcased the predictions of sector leaders in relation to how housing providers will operate and deliver services in 2025. In this future, our respondents stressed that the environment for housing will be very different to today. This will lead to organisations transforming their approaches in terms of their overall business model, and there could be even more diversity in the sector than there is at present.

They also anticipate that competition for customers will be the norm and that deregulation will allow new entrants into the sector. This will provide the potential to disrupt existing business and operating models and, as a result, organisations will increasingly need to provide responsive services that customers want, while operating more efficiently. They'll also need to create a diverse range of products that cater to niche customer markets, including millennials and Generation Z.

Most will have flexible workforce with agile working and project-based contracts. Digital interaction with customers will also be the norm. With this, some predict that traditional contact centres and even housing officers could become a thing of the past. Resources will also be more effectively and efficiently directed to those in need via data analytics and customer insight.

The 'Internet of Things' - where homes can self-diagnose and raise issues automatically, like a leaky tap or a boiler breakdown – will also become a core part of how services and resources are directed and delivered.

Against that view of the future context, this report has been designed to identify how organisations in the sector are currently transforming and innovating. This includes identifying the proportion of Laggards, Leaders and Transformers, as well as the drivers for transformation and the content of change programmes being implemented.

Innovation and the housing sector

'Innovation' means different things to different people. The dictionary definition is "the process of generating and implementing new ideas; adapting to changes in the operating environment or market". But when you search on the internet there appear to be countless numbers of different and often contradictory results.

More often than not when people describe innovation, it's frequently made synonymous with disruptive forces such as Amazon, who reinvented the way we shop, or Uber who have changed the way we order taxis. However, the mantra "disrupt or be disrupted" does not always apply when considering the need to innovate. As one our interviewees put it "...innovation in what we do is how we can best assemble and exploit the new technologies and ideas that are emerging from other sectors".

It therefore appears that on the whole organisations do not need to disrupt in order to stay ahead of the game. Very simply innovation seems to be about organisations staying relevant, and this journey to staying relevant can take many different paths.

For housing providers, in particular, the need to innovate is becoming increasingly pertinent. It's crucial to continuing success and conversely if organisations do not innovate they risk getting left behind. Given the predictions about the housing providers of 2025, without innovation, it seems unlikely that the sector will be able to 'own its future'.

Diffusion of innovation in the sector

Diffusion of innovation is a theory that seeks to explain how, why, and at what rate new ideas and technology spread. In our survey, we therefore decided to ask how innovative respondents perceive their organisation to be using the 'diffusion of innovation' scale below.

Innovators	We are often a trailblazer and the first organisation to adopt an innovation.
Early Adopters	We are often opinion leaders and are similar to innovators in how quickly we adopt, but we are also as concerned about managing performance, reputational and other risks as we are about being ahead of the curve on new ideas.
Early Majority	We adopt an innovation but only after it has gathered momentum within the sector.
Late Majority	We approach an innovation with a high degree of scepticism and tend to make changes to our approach only after the majority of the sector has adopted an innovation.
Laggards	We are the last to adopt an innovation and typically tend to be focused on 'traditional' approaches to service delivery.

How would you describe your organisation’s approach to transformation and innovation?

13%	38%	24%	8%	4%	13%
Innovators	Early Adopters	Early Majority	Late Majority	Laggards	Other

We found that most leaders consider their organisations to be ‘early adopters’. This was followed by those who see themselves in the ‘early majority’. Only a minority saw themselves as being in the less innovative categories of ‘late majority or ‘laggards’.

Some (13%) felt they didn’t fall into any of the categories. Of these respondents, most saw their organisation as transitioning or moving between the different types of innovator, either over time or during different contexts or situations.

Our findings are both interesting and encouraging. They also seem to corroborate recent findings from analysis recently undertaken by Inside Housing and Dolphin Index who sought to determine the social landlords with the most innovative working cultures across the country. Their index found that the housing sector is significantly more innovative than UK organisations as a whole; 61 social landlords outperform the typical UK workplace in terms of providing an environment that fosters innovation.

Being an ‘innovator’ is not necessarily an approach that all organisations should take. There is sometimes value in waiting for others to invent, and then adopt their practice once the outcomes are proven. Yet, there remains a need for a few to take the lead for innovation to take root. And the sector is sometimes guilty of being viewed as failing to adopt innovations at a sufficient pace - for example, sharing services, developing online platforms and adopting more flexible ways of working are things that have already been adopted more widely by other sectors.

Organisations can often face barriers to innovation due to cultural or other issues. This can mean organisations ‘lag’ and eventually get left behind. Research has found that those who are successful at innovating ensure they reduce the level of disconnect between their leadership teams and employees.

Some organisations, both in and outside the sector, have developed interesting innovation governance structures where staff are given the platform to pitch their ideas (e.g. the ‘Innovation Lab’ at Bromford) – so long as they fit within the context of the corporate strategy. This also ensures that innovation doesn’t just become about ideas, but is about action too.

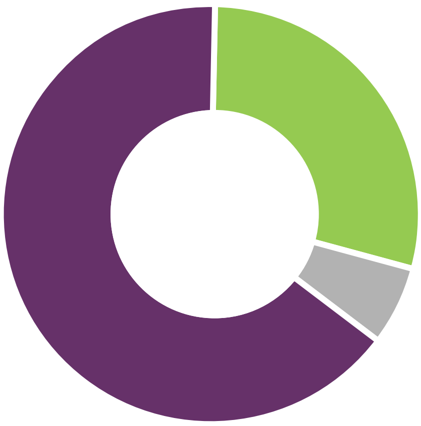
It therefore seems that while housing providers are generally receptive to diffusing innovation, there is space for the sector to be bolder.

Why are organisations transforming?

Being receptive to innovation is one thing, actually executing ideas and meaningful change is another. To identify and share good practice, we therefore wanted to understand what organisations in the sector are actually doing to transform their services now. There is an increasing recognition that incremental improvements or tweaking around the edges will not be sufficient to enable organisations to meet the challenges of today's operating environment, let alone the future landscape.

We found that 65% of organisations are currently undertaking a change / transformation programme, and that a further 29% are currently planning a similar programme. This means only 6% of organisations surveyed are not transforming or planning to transform their services.

Is your organisation currently planning for or implementing a transformation programme or similar organisational change programme?



65%
Yes, we are currently implementing our programme

29%
Yes, we currently in the process of planning our transformation programme

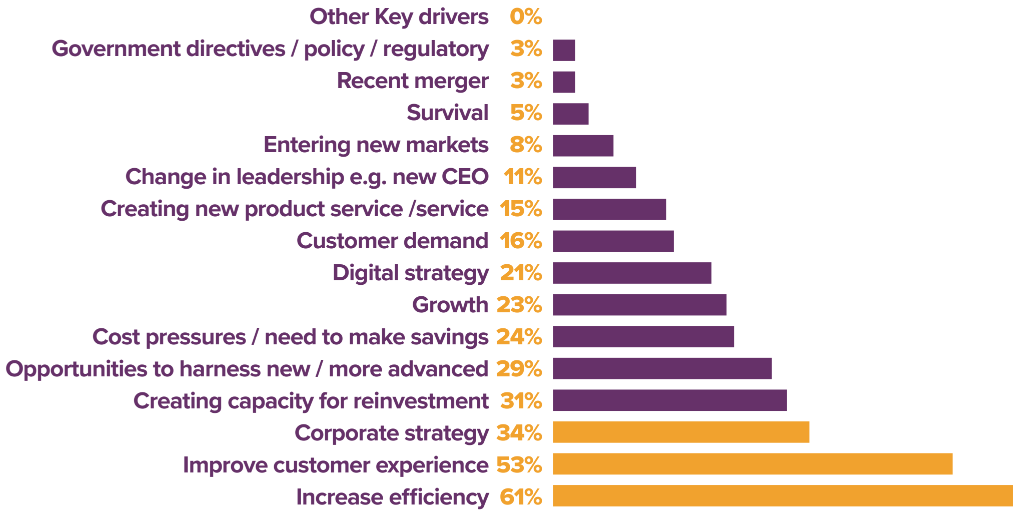
6%
No, we are not planning for or implementing a programme

The vast majority of those we surveyed are therefore proactively acting now to adapt, alter and improve their services. Beyond the buzzword, transformation therefore seems to be a mainstay for the sector rather than a passing trend.

Based on the survey results, the three key drivers for undertaking these transformation programmes were cited as being an organisation's corporate strategy (34%), improving the customer experience (53%) and increasing efficiency (61%).

These drivers are unsurprising given that the sector needs to make significant savings and efficiencies as a result of the rent reduction and the increasing pressure on incomes due to welfare reforms. The Regulator has confirmed that providers are forecasting making materially greater cost savings over the coming five years (HCA, 2016) and recent research undertaken by Altair (September 2016) into the activities being undertaken by associations in the West Midlands found that many in that region have concluded that they need to deliver savings equating to 10- 15% of annual turnover.

Select from the list below the top 3 key drivers for transformation/change at your organisation?



Moreover, in general terms customer expectations are rising at a dramatic pace. Customers now expect a personalised, swift, simple and consistent experience. This was highlighted by a recent IBM Institute for Business Value report which found:

- 76% of consumers expect organisations to understand their individual needs
- 81% of consumers demand improved response time
- 68% anticipate organizations will harmonise consumer experiences

Housing providers are therefore aware that their empowered customers are starting to take for granted that their landlord will know and understand their individual needs. In the future this is only likely to be strengthened if the predictions on enhanced customer choice come to fruition.

How are organisations transforming?

- 69% Processes
- 66% Digitalisation
- 61% Culture
- 58% Customers
- 55% Organisational Design
- 53% People
- 45% All of the above
- 27% Service delivery models

As part of the survey we wanted to understand what organisations were included in their transformation programmes to address the drivers outlined above.

Perhaps most significantly we found that the majority of organisations are developing their transformation programmes to support digitalisation; with 69% of organisations transformation programmes including reviews of processes and 66% looking at digitalisation. This was closely followed by transforming organisation culture (61%).

We live in an increasingly digital world. The rate of adoption of digital services increases with every year that passes and this is a reflection of the fact that customer behaviour is changing. Smartphones have overtaken laptops as the most popular device for getting online, with record ownership and use transforming the way we communicate. The Office for National Statistics reported in May 2016 that in the UK 87.9% of adults in the UK (45.9 million) had recently (in the last 3 months) used the internet, compared with 86.2% in 2015.

Some digitally focused businesses that didn't exist a decade ago are now amongst the most successful in the world. The digital age is therefore accelerating the changes seen in customer behaviour and organisations need to change themselves to keep pace with this trend.

Many in the sector are therefore increasingly looking to take advantage of the benefits of increased digital engagement with their customers by becoming a digital business. We therefore asked survey respondents to describe their organisations approach to digitalisation on the scale below:

29%	**Digirati** Understand how to drive value with digital transformation and have invested in & have carefully coordinated our digital initiatives
24%	**Digital fashionista** Have implemented or experimented with digital applications. Some of these initiatives may create value, but many do not
34%	**Digital beginner** Have done very little to digitalise services but are investigating their options
3%	**Digital conservatives** Tend to favour prudence over innovation and are typically sceptical of the value of new digital trends
10%	**Other**

We have found that 34% respondents consider their organisations to be 'digital beginners', while 24% and 29% consider themselves to be 'digital fashionistas' or 'digirati' respectively. This suggests that while there are some organisations who have taken active steps to implement digital applications, for a significant minority there is a substantial opportunity to harness and invest in technology to become a more digitalised organisation. It has also become a necessity for organisations to embrace the benefits of a digitally focused business strategy. This appears to be recognised by a number of organisations, evidenced by the fact 70% have developed a digital strategy, however 27% do not currently have one in place and 36% do not have a target in relation to the proportion of transactions they are hoping to shift online.

Does your organisation have a digital strategy?

70% Yes | 27% No | 3% Not sure

In addition, we found that a 'digital by default' relationship with customers was highlighted in our survey as one of the central facets of how housing providers are likely to deliver services in 2025. While technology doesn't drive change, it does provide the opportunity for organisations to do things better.

Our survey has identified that there is a significant "push" toward digitalisation amongst our survey respondents' organisations; with over 85% focussing on looking at ways of working and developing customer access channels. 76% are also looking at how to automate customer transactions and 73% are likewise reviewing how they undertake document management. Back office processes is an area that appears to be seen as less of a priority in the sector, with only 56% considering them as part of their digitalisation approach. This is however an area which has significant potential for efficiencies to be delivered.

What areas are you prioritising for digitalisation (if any)?

Ways of working e.g. flexible, mobile and home working	Customer access channels e.g. CRM, customer portal webchat etc	Automation of customers transactions e.g. self service	Document management storage and workflow	Back office Processes
85%	85%	76%	73%	56%

We have seen examples of organisations who are advanced on their digital journey, both inside and outside the sector. They have developed impressive digital approaches to transformation which we have described in the following section of this report. Nevertheless, most RP's are still at an early stage in this process.

The recent research report entitled 'Digital by Default 2016' confirmed that the cost and complexity of integrating digital inclusion services with existing back-office systems is the most important factor hindering housing providers' digital activities. This was closely followed by concerns about how more 'digital by default' services might affect vulnerable tenants. Legal restrictions, such as the possible need to send rent change notifications via the post, are also a significant hurdle for many housing providers.

A recent Altimeter report "the 2016 State of Digital Transformation" also highlighted that only half of the companies studied, which included 500 digital transformation strategists and executives, have mapped or are mapping their customer's journey. Moreover, they found just 20% of digital transformation leaders are studying the mobile customer journey. There is therefore a need for organisations to focus their programmes on mapping and understanding the different customer journeys across multiple channels and touchpoints so they can evolve to best meet their customers' needs.

We also found that for 32% organisations not having sufficiently skilled staff can also be a barrier to implementing such change. In particular, a recent report by the Government Department for Business, Innovation & Skills highlighted that a shortage in suitable digital skills for digital jobs persists in the UK labour market. Currently, 72% of large companies and 49% of SMEs are suffering tech skill gaps. They concluded that this remains a major risk to business growth, innovation and broader societal development.

Our organisation's staff have sufficient skills to deliver our transformation/change programme

Strongly agree	Slightly agree	Neither agree or disagree	Slightly disagree	Strongly disagree
11%	42%	15%	26%	6%

These findings came from our survey. When speaking to organisations directly, individuals did identify a specific gap at executive and board level in terms of the IT skills needed to drive transformation forward. During the interviews this was identified as a major barrier and challenge for organisations to overcome.

Preparing for digitalisation – 13 golden rules

Despite there being a number of barriers, the recipe for successfully achieving digital transformation is far from new and those that complete the journey are likely to flourish.

3C have therefore developed thirteen golden rules that will aid the sectors transformational journey to support organisations to successfully embed a truly digital approach. These are summarised below and are available in full at the end of this report.

01	**Leading from the top**	Change needs to occur across the business, transcending departmental silos, so leadership from the top is critical.
02	**Benchmarking**	Targets and objectives need to be agreed and their success measured
03	**Don't recreate the wheel**	Learn from the mistakes that have been made by your predecessors to set achievable targets and milestones
04	**Create the Digital Vision**	Produce and publish your digital strategy.
05	**Return on investment and prioritise**	Create a defined list of projects along with their expected outcomes, providing the foundation for a project plan.
06	**Digital by choice**	Ensure solutions and processes have customers in mind
07	**Automate**	Ensure where possible all process involve truly automated, self-service
08	**Smartphone first**	Anything designed for customer use must consider use via this medium first.
09	**Digital assist**	Many who struggle initially will embrace digital channels with time, they just need help and encouragement.
10	**Incentivise and motivate**	Never assume that if you develop something it will be used, regardless of how wonderful it might be
11	**Analytics**	Use online tools, such as Google Analytics, to quantify what is being achieved
12	**Data is king**	It is essential that your data is accurate, available and secure.
13	**Cultural transformation**	For digital services to achieve their true potential, cultural change is required

Summary

Housing providers appear receptive to diffusing innovation within their organisations. However, there is increasingly a recognition that the sector is lagging behind others. To tackle this and to ensure innovation can take root, research suggests that organisations should develop formal and effective decision making processes for innovation that prioritise and allocate time and funding to innovation projects.

We found that only 6% of organisations surveyed are not transforming or planning to transform their services, while a significant chunk of organisations (45% of those surveyed) are ensuring their change programme involves looking at all aspects of delivery, from culture through to the way services are delivered to customers.

Digitalisation is viewed as a major facet of how housing services will be delivered in the future. Yet, a significant minority have not included digital in their change programmes (34%). Moreover, 34% consider their organisations to only be ‘digital beginners’, 27% do not currently have a digital strategy in place and 36% do not have a target in relation to the proportion of transactions they are hoping to shift online. This means there is a significant gap between current arrangements and the future landscape, with many providers still needing to harness and invest in technology to become a more digitalised organisation.

The impact of ‘going digital’ will have ramifications for organisations beyond just IT. The 13 golden rules outlined in this report should therefore go some way in supporting organisations who are embarking on digital transformation.

Preparing for digitalisation

The golden rules

Golden rule 1: Lead from the top

In addition to a clear leadership vision, cultural change will be critical to the transformational process. Change needs to occur across the business, transcending departmental silos, so leadership from the top is critical.

The CEO does not need to directly manage the transformation process, but if not, they need to guide and provide their full support to those who do, assisting and challenging all stakeholders along the journey.

Golden Rule 2: Benchmark

In order to measure and celebrate achievement, you need to understand and quantify your current position. Targets and objectives can then be agreed and their success measured.

Interview management, staff, customers and stakeholders as part of this process. This will provide an insight to the challenges and how processes can be improved, whilst also involving those interviewed from the very start of the process.

It is not uncommon for early, unexpected and valuable improvements to be achieved as part of this process.

Golden rule 3: Don't recreate the wheel

Many mistakes have already been made by your predecessors. Achievable targets and milestones can be set once you have established what successful transformation looks like.

Interviewing consultants who have worked with organisations that are advanced in their transformation process may not provide you with specific detail, but can provide a relatively quick and simple way of discovering who the successful pioneers are and what cost effective, proven and reliable solutions are available. In some cases, particularly around initiatives that create social return on investment (SRoI), you can relatively easily raise grant funding that will significantly improve the financial return on investment.

Golden rule 4: Create the Digital Vision

Once you have an understanding of what you want to achieve, produce and publish your digital strategy. Specific objectives are not necessarily required at this stage, but the strategy will help ensure that stakeholders understand your vision and appreciate what ultimately is to be achieved.

Golden Rule 5: Return on investment and prioritise

Use this information to identify projects and develop an implementation plan, considering the return on investment from each in terms of economies, improving service and solving current challenges. Once this is understood, prioritise in which order to address them for greatest short to medium term gain.

Quick wins will often be identified and these in themselves can often fund any investment made in creating the digital strategy. The output of this phase should be a defined list of projects along with their expected outcomes, providing the foundation for the project plan.

Golden rule 6: Digital by choice

If a customer feels that digital services provide a quicker and easier method of achieving their goal, they will select digital by choice. Solutions and processes must have customers in mind and promote online, 24x7 self-service, whilst ensuring that non-digital channels remain available for those who need them.

Golden rule 7: Automate

Ensure where possible all process involve truly automated, self-service. The necessity for manual involvement must be removed. Digital services can be carried out manually, but it does not work the other way around. Manual involvement at just one point in the process can completely defeat the object of what is trying to be achieved.

Golden rule 8: Smartphone first

Experience indicates that the majority of your customer engagement will be via their smartphone. Ensure that anything designed for customer use considers use via this medium first.

Golden rule 9: Digital assist

Channel shifting services online will liberate staff for other duties and they can then assist and train those who need support to use digital services. Many who struggle initially will embrace digital channels with time, they just need help and encouragement.

Golden rule 10: Incentivise and motivate

Never assume that if you develop something it will be used, regardless of how wonderful it might be. To achieve adoption, it needs to be promoted and the motivation of those targeted considered. Both a carrot and stick approach is usually required. Financial incentives and penalties are often introduced and other channels of communication are commonly made less attractive.

Golden rule 11: Analytics

Use online tools, such as Google Analytics, to quantify what is being achieved. If analytics show that specific services or web pages are not being used, then change or dispose of them. If changes are made or digital initiatives are promoted, use analytics to evidence what improvement is achieved.

Analytics can also provide a wealth of information about those that engage with you; their demographic; the device they use; how long they take to perform tasks and any key search words that they may use.

Golden rule 12: Data is king

To succeed, it is essential that your data is accurate, available and secure. This is not only a fundamental component of digital engagement, but will also help provide both the information you need to run your business and ensure that you are compliant with security legislation.

- Ensure your data is complete and accurate – data cleansing support and tools are available for this.
- Ensure data held in multiple systems is consistent so that there is just one version of the truth – map the data and gather it into a single location if need be.
- Ensure that data is held in the right place and in the right format – review your data, complete an audit of data sources, provide data definitions and standards and create a strategy for data management.
- Ensure that you have reports that give you valuable information – carefully consider and specify your reporting requirements and only then develop the reports.

Golden rule 13: Cultural transformation

For the introduction of digital services to achieve their true potential, cultural change is required. Ensure you involve those that are important to the success of projects, particularly if there is a fear that they will resist change.

Celebrate success wherever possible. This will counter the challenges you will inevitably encounter, promoting what is being achieved and recognising and rewarding those that have been fundamental in its success.

For more information about how Altair and 3C can support your transformation programme, please contact:

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