How the Digital Revolution Is Transforming the IT Hierarchy

By L. Felipe Monteiro , INSEAD Affiliate Professor of Strategy

The ability to adapt and learn quickly helps smaller IT companies compete against industry heavyweights.

How will the digital revolution transform the IT sector?

As firms focus on the need for business-driven technology solutions for their own transformation, little thought is given to how the digital revolution is transforming the very industry they rely on for help.

But with the ever-present threat of change coming from unlikely directions and affecting organisations in unthought-of of ways, the IT sector is facing a shakeup. Companies find they have to be swift to adapt if they are to meet their clients' evolving needs.

As competition heats up smaller IT companies, those which are fast to learn and quick to act find growing opportunities in the sphere previously held by the sector's big guns: Tata, IBM, Accenture, Infosys and their ilk.

A model for success

The company leading the charge is Stefanini, a Brazilian IT firm which has developed a business model it believes could triple its revenues over the next five years, increasing its EBITDA five-fold and doubling its staff to 50,000 world-wide.

While it is not yet in the same league as IBM, Stefanini is no small player. As one of Brazil's truly global companies, it has a presence in 41 countries and revenues of more than US$800 million, 60 percent of which come from projects outside Brazil.

Its model, encapsulated in the company's Vision 2022, detailed in my case study, **"Stefanini and the Digital Revolution: Transforming and Being Transformed"** (co-written with Gabriel Rozman, a former Vice President for Tata Consultancy Services) is based on flexibility and close customer-relationships. The model includes the transformation of the company's sales and delivery processes, with the aim to expand its global footprint in developing countries and the mature markets of Europe and North America.

The concept of Vision 2022 dates back to 2014 when firms around the world began to realise that the digital transformation is as much about people as it is about new technology.

Stefanini's founder, CEO and sole owner, Marco Stefanini, recognised that while the digital revolution brought business opportunities and substantial new sources of revenue for the IT sector, a significant source of its earnings was under threat as budgets for legacy IT jobs migrated to new digital projects. The only way for a business to survive and grow was to change with its customers.

"Digital transformation is creating a critical moment where everybody has to rethink not only the way they do business, but the way their customers, partners and competition are changing as well," Stefanini noted during a visit to INSEAD in September 2017.

To stay ahead, IT companies have to come up with new services and solutions to challenges not yet thought of. In this climate, being big is not enough. Success requires companies to adapt, learn fast, change with conditions and provide flexible solutions quickly.

The strength of reinvention

Stefanini's background, adapting and transforming to survive the ever-changing economic, financial and political conditions in Brazil, has helped build up the "muscles" necessary to be flexible.

It is this now ingrained flexibility which is helping the company compete against the big players.

"I've always been convinced of the importance of our leaders having a 'flexible mindset' where we keep trying, never give up and learn from feedback," its founder noted.

A flexible mindset, an idea **first developed** by Stanford's Professor Carol Dweck, is the willingness to learn and try new things. Its opposite is the fixed mindset of companies or individuals that focus on improving what they already know.

While Stefanini's flexible mindset has helped it reinvent itself in the past, today's challenge has been made even tougher by the fact that sudden change is being forced on its clients too. In this climate, the company's preparedness to embark on many individual journeys with different organisations at different levels gives it the edge.

"I'm not saying we know how to do this or that we will be the winners...but I don't believe Tata or IBM have figured it out either," said Marco Stefanini. "All of us are still learning and trying to come up with a solution."

The entrepreneurial edge

As part of the learning process, Stefanini's founder travels incessantly, flying across the globe talking to companies, customers, new talent and start-ups, continually asking what is going to happen next.

One way of accessing specialised knowledge is by investing in partnerships with start-up companies. While these players are much in demand, Stefanini's entrepreneurial culture means the likelihood of it successfully melding with these firms is much higher than well-established, autocratic competitors in which bureaucracy is rife and processes take time to adopt.

Size is only one element of success

Stefanini is not the only digital star in the emerging markets. A lot of action is happening in Brazil and Latin America where several companies create,

adapt and use technology in new ways every day to solve problems which, in many cases, clients don't yet know exist.

The IT sector's future lies in taking on jobs which are not well defined and which will continuously change.

Capturing the market has become an urgent race where size is only one element of success. And companies find that in the process of seeking knowledge to transform their clients, they transform themselves.

[Felipe Monteiro](#) is Affiliate Professor of Strategy at INSEAD.

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About the author(s)

L. Felipe Monteiro is a Senior Affiliate Professor of Strategy at INSEAD and the Academic Director of the **Global Talent Competitiveness Index**. He is the Programme Director for INSEAD's **partner programme** with Fundação Dom Cabral, Advanced Management Program.