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Shifting culture to sustain innovation

Success in tech requires aligning engineering with business goals.

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Key drivers of change

In today's hypercompetitive technology industry, success is a group endeavor that requires all functions to align fully with key business objectives. This is particularly true for engineering functions, which have traditionally led company progress by pursuing somewhat autonomous paths to innovation. Fast rising company valuations historically supported this autonomy with sizable budgets for experimentation, often leading engineering functions to strive for and achieve moonshot goals. Three distinct trends are now forcing a change in approach to experimentation, balancing innovation with corporate and social responsibility.

A focus on profitability

Product companies must now deliver value at scale while being cost-efficient. This requires engineering organizations to justify costs and be more rigorous with proving their value. Economic uncertainties and market fluctuations often lead to tighter budgets and a focus on cost-cutting measures. Engineering teams must therefore prioritize projects with clear return on investment (ROI), improve operational efficiency by reducing overheads, streamline processes, and eliminate non-essential expenses. The increasing use of generative artificial intelligence (GenAI) in software development is further accelerating development, testing, and time-to-market timelines—engineers still QA and approve GenAI-generated code, but the introduction of AI in the engineering lifecycle is driving productivity gains.

Consumers expect companies will protect them and their data

As investments are channeled into technologies such as GenAI and agents, consumers now expect companies to protect their data and privacy. In response to this expectation, some tech companies are starting to incorporate ethical guidelines into their development processes, fostering transparency and inspiring trust among their stakeholders. We see examples of this in various companies' approaches to privacy.[1] For example, a recent study showed that organizations with less developed privacy practices took an average of 16.8 weeks to close sales, while those with more advanced practices took just less than 3.5 weeks.[2] This suggests that investments in privacy can enhance a company's reputation and customer trust, which ultimately has a positive impact on the bottom line.

Regulatory requirements are becoming more stringent

Tech firms and their engineers must increasingly contend with legislative and executive actions that regulate their activities. Regions, countries, and states are passing laws to balance innovation with ethical and risk management concerns. Regulations are expanding, affecting areas from the marketplace to user content and innovative technologies, including GenAI. For instance, the European Council recently approved the Artificial Intelligence Act, imposing stricter rules on high-risk systems and recognizing the government's role in responsible technology use. Engineers must design with these regulations from the start, ensuring outcomes meet regulatory objectives and obligations.

[1] Soham Sharma "Incorporating ethical considerations into product development," Product-Led Alliance, August 8, 2023

[2] Robert Waitman, "Privacy's impact continues to grow, but more remains to be done," Cisco Blogs, January 24, 2023

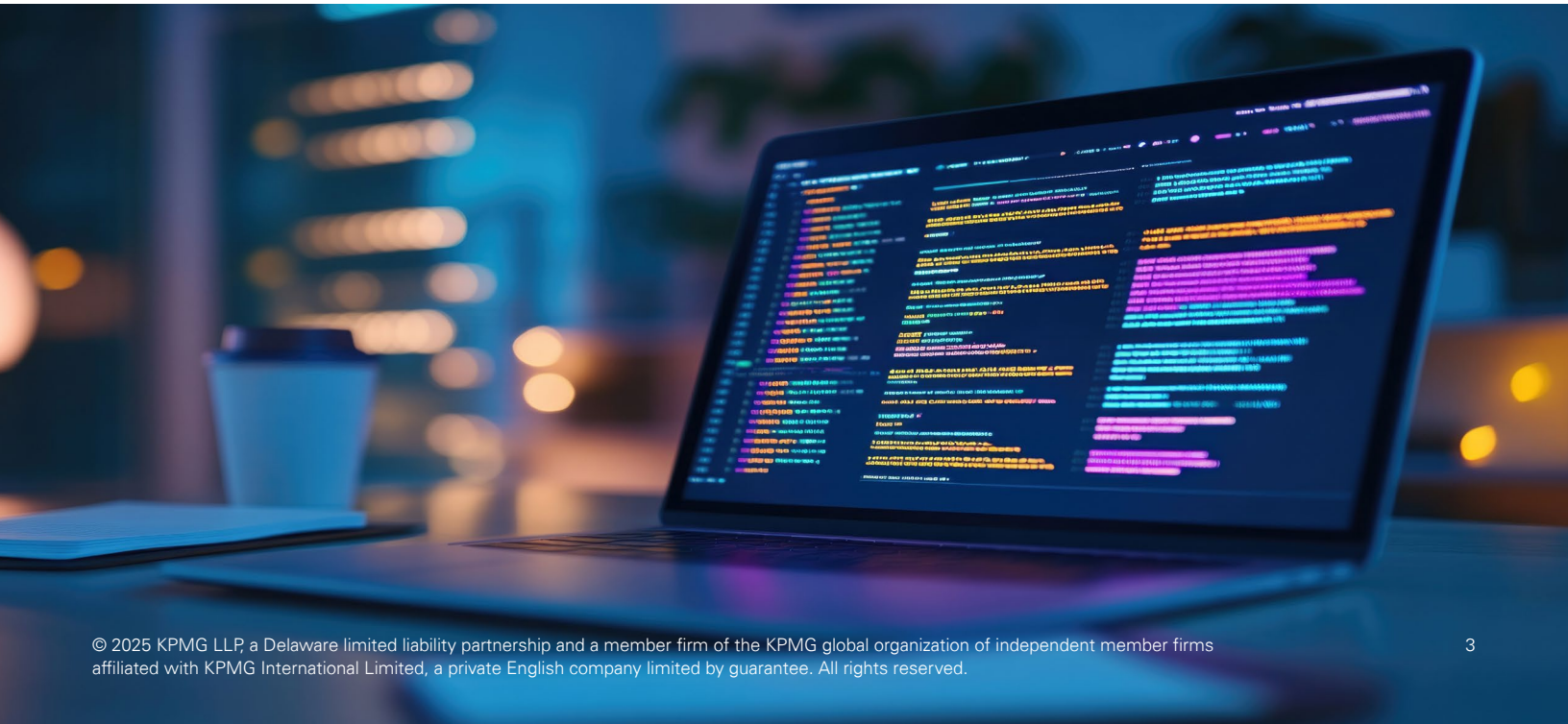
Changing mindsets, behaviors and culture

To drive ambitious organizational outcomes and activate a culture of innovation, nothing is more important than changing mindsets and behaviors. Engineering teams must understand the bounds of their work, the organization's strategic direction, how success will be measured corporately, and how their expertise will help build sustainable value for the enterprise. Companies need to provide robust education and training programs, foster cross-functional collaboration, and balance innovation with clearly defined business outcomes.

1 Empower engineers with custom education and training

Engineers need educational resources to confidently navigate this new landscape. With greater emphasis now placed on regulatory and cost constraints, engineers may feel a loss of autonomy. Nonetheless, it is critical to keep the engineering function motivated to meet its evolving responsibilities. To do so, companies must articulate the "why" behind the change and explain "what's in it for me" to make an inspirational, convincing case for shifting mindsets. This is best achieved through a customized approach to culture transformation, including a detailed training plan to refresh knowledge of regulations, user impact and experience, cost management and their specific responsibilities across these dimensions.

Training engineers for the new environment demonstrates a commitment to responsible practices and concern for their professional growth. Engineers need new knowledge and skills to work efficiently amid changing regulations and business environments. Companies that provide tailored learning programs strengthen these skills and increase employee loyalty.



2 Foster cross-functional collaboration

Engineers benefit from understanding how regulatory and economic constraints are managed across the enterprise. In an environment that promotes the open sharing of ideas across teams, they can find value through cross-pollination. Some companies recognize that in a rapidly evolving tech industry, they gain a competitive advantage by uniting leaders and teams around clearly defined business objectives. Instead of working in silos, they must learn to collaborate across functions like legal to harmonize creativity with feasibility.

In addition to leadership reinforcement, some companies are driving collaboration through incentive structures and job performance metrics. This could include prioritizing business cases co-authored by multiple functions and awarding higher performance ratings for collaboration. They now recognize and reward individuals for demonstrating collaboration, breaking down silos, and sharing approaches to funding innovation.

3 Innovation focused on value and strategy

Successful innovation will be measured by the value delivered to customers and the organization, not merely the volume of new features or "limitless innovation" ideas. Rather than chasing grand innovation projects, companies now need to prioritize and develop work based on its targeted value, aligned with corporate strategy and market needs. To produce real value for their businesses, engineers must understand potential constraints and view them as opportunities for focused innovation. Balancing their ambitious ideas with realistic timelines, budgets, and compliance demands will be paramount to innovation.

These transformational shifts in engineering mindsets and behaviors are fundamental to driving sustainable business outcomes. The question companies must raise is "How do we get there?"

A human-centered approach to shifting culture

Sustained success requires human-centered approaches to balance innovation with responsibility, leadership with strategy, and education with training.

Create and deliver the right learning program and assets

Establishing the right learning program is crucial to ensure that engineers understand the need for change, familiarize themselves with relevant regulations, and adapt to innovative ways of working. A comprehensive learning program should aim to upskill engineers and drive a cultural transformation that aligns with the company's strategic objectives and desired business outcomes. This involves clearly articulating the company's strategic vision and explaining how long-term goals necessitate new ways of working within the engineering function. Providing insights into industry trends and drivers for change, such as economic pressures, shifting consumer expectations, and regulatory landscapes, helps engineers see the bigger picture and understand the forces at play.

Developing training modules that cover current and upcoming regulations affecting the technology sector, including data privacy laws, AI ethics guidelines, and

industry-specific compliance requirements, is essential. Meeting teams where they are by implementing interactive tools like e-learning platforms, webinars, and workshops led by legal experts ensures a deeper understanding of how to navigate regulatory requirements effectively.

Co-create key performance indicators (KPIs) and success metrics

Including the engineering function in prioritizing and planning processes is crucial. Engaging them helps align accountabilities and ensures a clear understanding of the KPIs used to track progress. This may include variables such as speed to market, ROI, defect rates, customer retention, net promoter score, and other performance indicators. Establishing transparent success measures helps accelerate outcomes as teams better understand their level of accountability. Assembling a team with representatives from various functions, such as research and development, marketing, finance, operations, information technology, and human resources, ensures comprehensive perspectives, buy-in, and accountability from different parts of the organization.

Redesign business processes and roles around innovation

Technology companies can effectively redesign their business processes surrounding product or service innovation by conducting a comprehensive audit of current state processes to identify inefficiencies, redundancies, and areas requiring alignment with new strategic objectives.

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Using value-based inputs to prioritize and sequence innovation projects is essential. Developing a strategic plan with roadmaps, milestones, and dependencies to guide efforts, and assigning clear ownership for each element of the value chain, fosters a sustainable and innovative culture.

Focusing on people can accelerate this shift. A human-centered approach is essential for driving adoption, reducing risk, and realizing a positive return on investment. It establishes new habits and norms for engineers and helps align them more closely with company objectives.

How KPMG LLP can help

Technology companies engage firms like KPMG for transformation and change management experience, including defining strategic visions, conducting assessments, and implementing frameworks for compliance and accountability.

KPMG helps clients align leadership with future visions and organizational outcomes. We facilitate cross-functional sessions to define strategic goals, including innovation, regulatory compliance, operational efficiency, customer satisfaction, and market positioning. We assist leaders in addressing industry trends, technological advancements, social responsibilities, and emerging market opportunities, highlighting the crucial role of engineering.

KPMG identifies the right behaviors and learning paths for teams, integrating ethical considerations into the innovation process. We offer training on responsible AI practices and ethical development, fostering a corporate culture that values learning, collaboration, and continuous improvement.

We establish cross-functional innovation frameworks and governance, using design thinking to drive user-centered innovation. Workshops on empathy, problem definition, ideation, prototyping, and testing promote responsible innovation.

Our change management and learning programs are tailored to different roles and expertise levels, covering technical skills, regulatory knowledge, and innovation capabilities. Mentorship and peer learning further support knowledge-sharing and collaboration. To sustain innovation, KPMG implements continuous skill assessments, feedback mechanisms, and personalized learning recommendations.

Organizations that commit to shifting their innovation approaches become more agile in adapting to constraints, foster more responsible innovation, and achieve structured, regulated outcomes that enhance long-term growth and trust.

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Christopher is a managing director in the KPMG Human Capital Advisory practice and has more than 20 years of management consulting and industry experience as an organizational effectiveness professional. His specialization includes corporate strategy, organizational change management, talent management, workforce development and organization design to transform and modernize clients across multiple industries. He is a thought leader on the KPMG GenAI task force, and is responsible for developing approaches to help clients optimize adoption of GenAI tools, by transforming the workforce, and redefining the employee experience.

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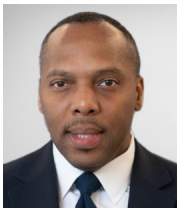

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