DIGITAL TRANSFORMATION: CHALLENGES AND POTENTIAL PITFALLS

Gaurav Sharma – *Principal, consultant- Analytics Consulting, Infosys.*

Abstract

Digital Transformation has altered the face of business today. Foraying deep into the technological, business, and cultural aspects of an organization, it has refashioned the customer experience, business model, and operations. Despite the earnest need for digital transformation in organizations today, its success rate is significantly low. Businesses need to redefine and reinvent themselves consistently to evolve and burgeon. But as the data shows, it is a hardship to execute and sustain the changes. Hence, awareness of potential pitfalls may help leaders to devise their contingency strategies. The pitfalls may be relevant to many businesses depending upon the maturity and degree of transformation but, with varied solutions for all.

Infosys®
Navigate your next

Digital Transformation

Digital Transformation, or DT as we know it, has altered the face of business today. Foraying deep into the technological, business, and cultural aspects of an organization, it has refashioned the customer experience, business model, and operations. New era envelopes DT as the decisive strategy for the survival of many businesses in the cannibalistic global corporate scaffold. Digital technologies are key to metamorphosing industries, ergo, several companies are pursuing large-scale changes to stay relevant. So much so that many business leaders defined it as their most critical focus for 2021 (Forbes).

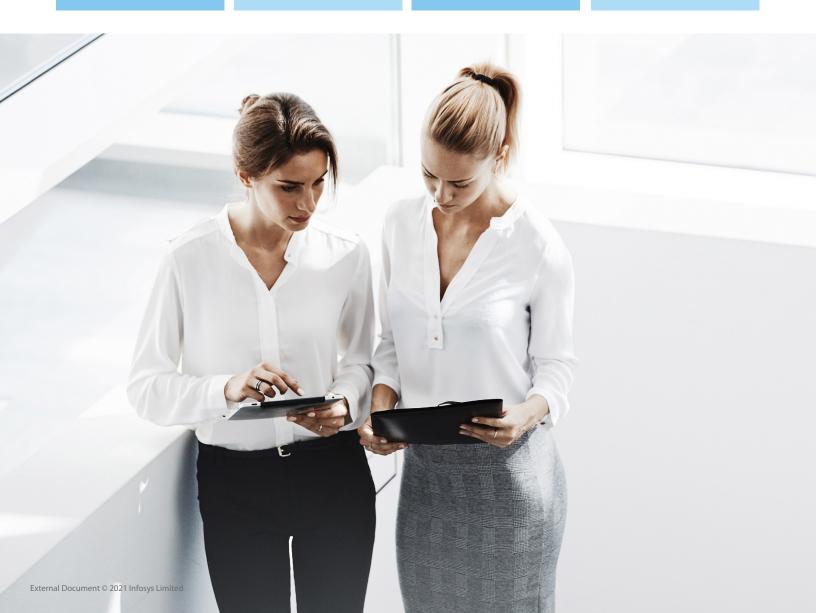Despite the earnest need for digital transformation in organizations today, its success rate is significantly low. This number goes as low as 26% in digitally savvy industries like media & telecom, high tech, etc. as stated by McKinsey. At the same time, industries like Oil & gas, Infra, Automotive, Pharma succeed at a meager 4 to 11%. Dialogues with industry leaders, CDOs, and CTOs, elucidate that it is exacting, **Digital is tough but Transformation is more arduous.**

This is again confirmed by many of the studies below:

Research shows that 70 percent of complex, large-scale change programs don't reach their stated goals (Source: Mckinsey)

Just 16 percent of executives say their company's digital transformation efforts are succeeding. An additional 7 percent say that performance improved but that those improvements were not sustained. (Source: McKinsey)
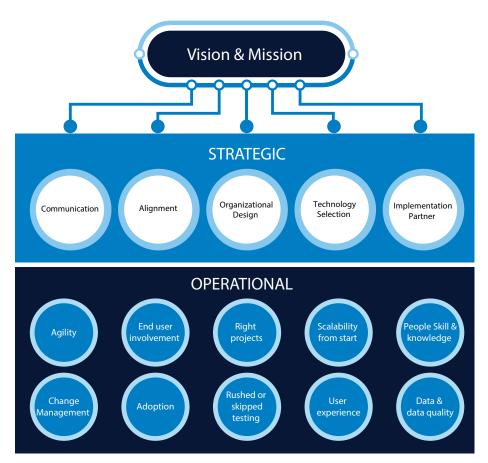
Seventy-two percent of strategists say their company's digital efforts are missing revenue expectations (Source: Gartner)

Just 5% of those companies involved in digital transformation efforts reported that they had achieved or exceeded the expectations they had set for themselves (vs. a success rate of 12% for conventional transformations) (Source: Bain)
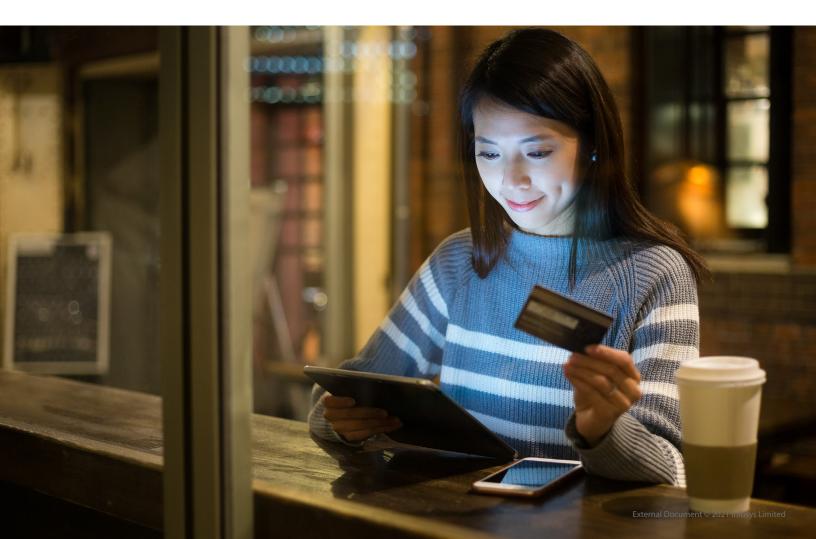
Digitizing/Transforming the business model is the most cited objective of Digital Transformation. However, its degree may include incremental or radical change of business model; the transformation of individual business elements; or the entire value chain. Regardless, the end goals will always revolve around the following:

- Engaging better with the Customers/ other external partners

- Improving the business operations involving multiple units or company as a whole

- Enabling and empowering employees

Businesses need to redefine and reinvent themselves consistently to evolve and burgeon. But as the data shows, it is a hardship to execute and sustain the changes. Hence, awareness of potential pitfalls may help leaders to devise their contingency strategies. The pitfalls may be relevant to many businesses depending upon the maturity and degree of transformation but, with varied solutions for all.

Vision & Mission

STRATEGIC

| Communication | Alignment | Organizational Design | Technology Selection | Implementation Partner |

OPERATIONAL

| Agility | End user involvement | Right projects | Scalability from start | People Skill & knowledge |
| Change Management | Adoption | Rushed or skipped testing | User experience | Data & data quality |

Stages of Digital Transformation

Strategic Pillars

Strategic failures are expensive, and they directly impact the shareholder's value. Remember Kodak, Motorola, Blockbuster or Microsoft OS dominance in PC market, but not in mobile sector. The challenge is that failures are retrospective and the few things that we can keep in mind for digital transformation include

Defining the vision: Digital vision and strategy form the top tier of the Transformation pyramid. This genesis in the form of vision guides the teams for planning and is determinant at crossroads. Listing down few common obstacles below:

- Failing to define a vision or the clear purpose of the vision

- Ambiguity in defining success, while the teams have a vague interpretation of results

- Vision limned as output rather than outcomes

- Vision not customized in accordance with the company's core competencies leading to disparity of objectives and plans

Communication of the vision & the outcomes: Transformation can fail simply because it doesn't get communicated to all the stakeholders. The gap between creators and execution of vision needs to be bridged with the right message and constant reminders. Some common issues enterprises can face are:

- Missing the strategic narrative acknowledging the business journey, which, defines the company's vision, communicates the strategy, and embodies the culture

- Lack of communication, distortion of information - Right message is not delivered in a common language 'consistently' across the organization

Alignment: Lack of alignment within the organization, which can happen between senior leadership, between mid-management & Senior leadership. Some pain points that enterprises experience are:

- A consensus on DT does not limit to an agreement on purpose but also includes prioritizing the projects, providing the right resources to support it.

- The disagreement between senior leadership (or corporate executive) and Mid managers (or regional center) can be a major divergence provenance. Mid management believes that they are more perceptive of the field situation, while senior leadership is remote and not as sensitive. Or, the information flow is unidirectional top-down. As a result, there is a lack of trust in the plans by the mid-management which consequentially does not contribute to the execution. A state of cultural inertia and lack of synergetic efforts make it tricky when driving changes at the internal user base and the stakeholders.

- Lack of alignment also comes in because of mismatched goals. The managers are focused too much on improving their ratings rather than successful attainment of change goals.

Organizational design: OD supports laying the framework for the execution of the transformation. A single design may not be congruent to all organizations and one cannot pronounce a design to be flawed. However, few things should be considered while tapping the layout. The core strengths of the organization and the blueprint of DT should be the basis for the design. Accordingly, trying to change the core DNA of the organization would not only be exceedingly complex but may also lead to failure. Some commonly ignored fundamentals are:

- Organization design not considering the local or regional or market-level interactions. The end-users of the DT should be included right from the design phase.

- CDO organization is not functioning with a service mindset. It should use technology for the business needs and not just for the sake of using it.

Technology selection: It is undoubtedly a cardinal decision, which traditionally was owned by CTO/CIO organizations. But, for

DT, now the lines between CIO & CMO or COO are blurring. Where technology should act as a tool, it becomes the fulcrum for pivotal strategy transformation where leaders from across the functions should work in collaboration. Some common challenges in selecting the right technology are:

- Decisions are based on the latest available stack; resource availability is not considered; not earmarking time for people to get trained in new technology.

- Failing to assess the impact on other systems or integration with the systems that are crucial to business, and are not being replaced.

- Multiple technologies across different functions resulting in resource scarcity, integration snags.

- Taking decisions based only on the upsides and excepting the drawbacks.

- Not considering data security, and risk assessment as part of technology selection.

Partner selection: Technology partners have been salient affiliates over several years for most of the organizations. The alliance and its evaluation criteria have evolved significantly over time. Some pitfalls worth looking at:

- Failing to involve Partner at the outset, or apprising him while developing the company's agendum.

- The piecemeal approach across partners leading to unaccountability on the projects, misalignment of the goal, and underutilized potential of partner.

- Some technology partners may excel in a particular domain, but it's a flawed presumption that the excellence percolates in entirety and this could very well lead to a disaster.

- Discrepancy in aligning organization design and partner strength during selection leading to inadequacy in mapping partner potential with business needs.

- Not considering "Support" SLA & cost as part of evaluation criteria.

Operations & Execution building blocks

Do expect digital transformation execution to be complex and challenging. Arguably the biggest challenge faced by Executives today in "Execution", and the company's success rests on its ability to implement strategy

Agile Mindset: Even if the Agile terms and Agile methodology are not formally adopted, an agile mindset helps the team to efficiently manage itself. To cultivate this outlook, agility should feature as a part of the organization's culture. Some deadfalls may include:

- Failure to inbuild the process techniques for experimentation and rapid prototyping.

- Not having provision to accommodate the constantly evolving needs in the way of working to align with the business goals.

- Not doing the course correction, because too much time or resources have been already invested.

Validation & testing: It is an integral element and skimming validation & testing are unjustified.

- Often, the shinier the project is, the higher is the pressure for its hasty exhibition. This influences validation and testing as exception testing is circumvented or rushed.

- Lack of transparency in processes set for validation and testing. Even if the systems are in place they should also be in use.

Data challenges: Data is the backbone and one of the major enablers for transformation. We have advanced considerably in capturing and storing data (big data), yet the conundrums exist still. Some of the challenges remain unperceived and overlooked:

- All the data, Now!: a fallacy of having all the data first before the journey starts. DT is a journey, and it's an unrealistic expectation to start will all the data. Data and data needs evolve with time, and data need should be evaluated concerning the business objective.

- Data quality: Low performance on the data quality dimension likes Accessibility, Availability, Timeliness, Uniqueness(de-duplicate), Completeness, Validity, Accuracy, Consistency, Granularity.

- Data Privacy: Not having policies for ethical use of data internally may lead the teams to a combat area. It's not just about preventing hackers to get hold of data but also how the data is internally used. Without systems and processes to anonymize, and lack of control of Personally Identifiable Information (PII) and Sensitive Personal Information (SPI), will not only put the DT but also the organization at risk.

End-User Interaction: The end users are diverse individuals with different needs, work styles, strengths, and challenges.

- Not understanding the user personas and their needs. If problems & challenges are not addressed as per different personas, then the solution will never be adopted

- Not developing the sense of ownership with end users may result in substandard solutions and will have high-risk of non adoption or buy-in to the strategy.

User experience (UX): User experience encompasses not only the customer experience (which is the center of DT, and can enable customer engagement), but also, internal stakeholders' user experience, for the adoption of DT. Even advanced technologies are redundant if the user experience is inferior. Some common challenges faced are:

- Not involving UX since inception.

- Not having metrics to track the UX.

- Dearth of regular feedbacks on the experience or lack of A/B testing framework for UX design.

Change management: it is part of the strategy as well as operations. The change does not encompass just the technology, it goes deep right to the very root of the organization from people to operations to culture, etc. Issues may arise if:

- Focusing solely on adopting new ways of working. Not confronting the fear of missing out or losing the job. For people, it is challenging to adapt to new roles and responsibilities.

- Scarcity of dedicated resources for change management varying across functions, geographies, etc.

Right Project: deciding upon the course of DT is significant. Let's understand why.

- Alignment of the project: it's the incongruity of project and company's DNA. The goals of the project do not suit the broader purpose of the organization. Teams end up performing aimless actions leading to poor performance and apathy amongst the stakeholders.

- Identifying the current maturity, while keeping a forward-looking approach. Not understanding the existing capacity and maturity of the organization, leading to attempt of overzealous and over-ambitious projects which fail to be implemented. Not evaluating the DT objectives correctly over time hence, losing sheen of the transformation milestones achieved so far.

Don't lose sight of Talent: Skilling and reskilling is a no brainer, and most companies do focus on training and developing talent, but some things that may get under the carpet and can result in failure

- With the use of multiple technologies in an organization, need more skilled persons to manage them all, or higher cost on cross-training.

- Not having the ability or means (translators) to bridge the gap in expertise between technical teams, made up of data scientists, data engineers and software developers, and business stakeholders. Data translator / Analytics translator are new roles that focus exactly on these gaps.

Scalability: Allocating piecemeal work across partners may lead to successful pilots but may not result in a scalable solution. Scalability needs the vision for end-to-end mapping, and piecemeal does not provide an incentive for partners to think about scalability or retaining the best resources for scalability.

- Having a structured framework for operationalizing the projects with required tollgates.

Conclusion

There is a plethora of other reasons which take a company down while attempting DT, and the above-mentioned are but few captured. There are more pieces to the puzzle and the right tool, company culture, and leadership can glue all together. Well yes, a DT penetrating only at the upper echelons of the organization and not skin deep to its people is bound to fail. Similarly, DT is not the responsibility of tech teams only, a lone wolf mentality will not lead to an accomplished DT journey. Keeping the Digital Machine on the move should help in achieving the business goals and objectives but as always "It's easier said than done". It's hard and it's not just you...

Sources

How to scale your digital transformation | McKinsey

How to scale your digital transformation | McKinsey

Thank You - Executive Guidance Business Model Transformation (gartner.com)

Orchestrating a Successful Digital Transformation | Bain & Company

The 'how' of transformation | McKinsey

For more information, contact askus@infosys.com

Infosys®
Navigate your next

Infosys.com | NYSE: INFY

Stay Connected