The Digital Transformation PACT

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FUJITSU

Digital transformation – the four ingredients for success

The introduction of new technology into a business has always called for balance: balance between new and old, balance between investment and return, and balance between short-term disruption and long-term productivity.

As the pace of technological change continues to gather, though, balance has never been more important. Organizations around the world want to make the most of digital technology and many have invested in it with some already reaping the rewards. But many businesses are struggling to truly maximize the potential of this technology. From financial services to manufacturing and utilities, we speak to business leaders every day who know that digital is not yet delivering as it should be. But they struggle to see why this is, and what needs to change to address that issue.

Our answer to them is that to digitally transform and see returns from that process, it is no longer enough just to have the best applications and devices; without talented and capable people to use them, they are meaningless. You may have the brightest and most progressive people, but they will flounder in a culture that stifles innovation. And no business – no matter how big, how influential or powerful – can hope to stand alone and succeed in the world of tomorrow.

People, Actions, Collaboration and Technology – PACT. Only by bringing equilibrium to those four vital ingredients can organizations hope to thrive in this digital era.

Doing so is far from easy. As part of this study, we drew up a range of criteria that would define 'excellence' in each of the four PACT categories. Of the organizations that we surveyed, fewer than a fifth hit the mark in any one category. Less than one percent demonstrated excellence in all four.

If this sounds like an indictment of those businesses, it is anything but. There is no quick fix for digital transformation, no shortcuts, only a strategic approach, hard work and perseverance. Digital opens up a world of possibility but its impact often won't be felt immediately and it's the ability of organizations to adapt, re-assess and re-plan that will ensure long-term success.

The good news is that businesses no longer need to face those challenges alone. Organizations of all kinds are coming together to deliver a better, smarter and more engaging digital future for their customers and themselves. By balancing their – sometimes differing – needs and priorities, they are helping to create something much more than just the sum of their parts.

Digital transformation will always be about balance but, as many companies are now finding, turning a strategy into digital success is about working together to adapt, share and build innovation into the heart of a business. People, Actions, Collaboration and Technology must be aligned if digital is going to reach its potential.

Duncan Tait

Corporate Executive Officer, SEVP and Head of Americas and EMEIA at Fujitsu.

Contents

"No business – no matter how big, how influential or powerful – can hope to stand alone and succeed in the world of tomorrow."

Taking control of Digital Transformation

Over the last couple of years, digital transformation has begun to redefine the way that countless organizations operate – giving rise to everything from new practices and processes to entire new business models and revenue streams.

For many, digital transformation is now a core pillar of their business and a vital part of their future success. As such, expectations around what digital projects will deliver are being scrutinized ever harder. While digital transformation can be a hugely positive process, business leaders know that it is a major challenge which, if it's going to be successful, requires dedication, planning and clearly structured execution.

In our two previous studies exploring the state of digital transformation – Walking the Digital Tightrope report and Fit for Digital – we found that organizations around the world were dealing with the reality of digital disruption becoming part of day-to-day life. 98% of business leaders around the globe told us that their organization had been disrupted by digital in the latter of those two studies, and it was clear that more change was coming.

Key findings

- Almost half (46%) of all organizations have already delivered digital transformation projects and seen outcomes delivered from these.
- Customers (58%) are the biggest drivers for digital transformation.
- The 'Actions' taken by a business, i.e. having the right processes, attitudes and behaviors within the organization, is the most important criteria for achieving digital success (32%).
- Digital transformation is expected to deliver both operational and financial results within 18 months on average.
- A third (33%) of organizations have cancelled a digital transformation project in the past two years.
- The average cost of a failed project is more than € 500,000.

46%

Half of all organizations have already delivered digital transformation projects

One year on, the consequences of digital disruption are being keenly felt across all industries. Change is still occurring at breakneck speed, but as the ripples continue to spread, many businesses have wrested control over their digital destinies and are using the transformative power of new technology to shape the future of their company.

This becomes never clearer than when looking at the current state of digital innovation. Almost half of those surveyed (46%) state that not only has their organization already implemented a digital transformation project but that outcomes have been achieved too. Around a third (29%) say that they have digital transformation projects underway, while a good number (18%) are testing or developing proof of concept for digital projects. In total, fewer than one in ten (8%) are yet to take any action at all.

When we look back to our Digital Tightrope report two years ago, these latest findings are particularly enlightening. Back in 2015, 70% of business leaders told us that digital transformation was still seen as a gamble by their organization, and one third were concerned that they were investing too much time and money into it. While those concerns might not have been completely eradicated quite yet, the progress that has taken place is too stark to ignore.
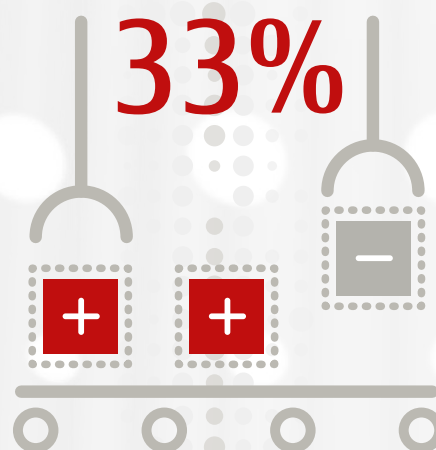
33%

A third of organizations have cancelled digital projects in the past two years

General attitudes around digital are not the only ones to have changed, however. Comparisons with last year's Fit for Digital study also shed new light on the overall impact of digital transformation. Asked to state the primary meaning of digital transformation within their organization, an almost identical number answered that it was concerned with either business models or revenue streams (31%), or operations and processes (30%), down (from 37%) and up (27%) respectively from our 2016 survey.

The biggest change in comparison to the last two surveys, though, surrounds the customer. Less than a quarter of respondents said that digital disruption meant transforming customer relationships or service (23%) in our previous study. Today, the customer focus ranked highest amongst business leaders (32%) indicating that digital is something the customer expects and in fact demands from organizations.

'Now, the need for smart processes and talented people is coming to the fore.'

Customers, more so than any other group, are seen to be the most influential drivers of digital transformation. Well over half (58%) of respondents said that their customers are the main driver for digitalization, although competitors (44%), partners and third parties (31%) and new entrants into the sector (26%) also have a role to play. This focus on the customer represents a significant increase from 2016's study (in which 45% cited the customer as having the greatest influence on digital strategy).

This renewed influence from the customer means that while organizations can learn much from their competitors and strive hard to improve their services and products via digital transformation - those actions ultimately need to be in service to the people who buy the goods and services on offer. Not only are organizations now progressing at pace with digital transformation, they are doing so with a keener understanding than ever of how those projects need to fulfil customer expectations and enhance the customer experience.

Actions speak louder than words

If customers come first when it comes to digital transformation, respondents are equally transparent about the factors they believe have the greatest impact on the success of a digital project.

Asked to select which of the four 'PACT' factors they feel is most important in terms of realizing their digital strategy, two factors immediately stood out: Actions and People. Around a third say that actions (32%) defined for this study as 'applying the right processes, attitudes and behaviors', or people (31%) 'having the right skills in the organization', are perceived to be the most significant contributing factors when seeking to ensure that digital transformation projects are successful. Technology (20%) and Collaboration (16%) follow.

These findings seem to point to a realization amongst business leaders that technology in isolation will not deliver the results they need from digital transformation. Fit for Digital revealed that almost two-thirds of organizations were investing into new technology to help them respond to the challenge of digital disruption – and in this year's survey far more said they were addressing their organizational strategy or investing in talent and skills. Now, the need for smart processes and talented people is coming to the fore.

This shift is likely the result of two things: the fact that technological investment has already occurred and the fact that organizations are now playing catch-up with their skills and processes. This is leading to an increasingly sophisticated approach to digital transformation. By diversifying their priorities in this way, organizations will be better prepared for the challenges ahead.

The cost of failure

Customer-focused, people-driven and with the right processes and behaviors in place: this seems to be the basis of digital transformation today. But what does success look like? And what happens when things go wrong?

'Technological investment has already occurred and organizations are now playing catch-up with their skills and processes.'

Success criteria undoubtedly vary from organization to organization, changing dramatically to reflect everything from the scale of the company to the nature of its customers. But every digital transformation project can ultimately be judged by one overall factor – the speed with which it delivers a positive impact on the business.

To ascertain views around this, we asked respondents to consider how quickly they would expect to see the benefits of digital transformation, both from an operational perspective and in terms of financial returns.

Operational benefits are expected to manifest slightly more quickly than financial, though most business leaders expect to see both within one to two years of commencing a digital transformation project. The acceptable timescale for both appears to be around the 18-month mark, with operational benefits expected at a mean of 1.45 years, with financial results following soon after at a mean of 1.6 years.

There are, of course, some exceptions. Public sector organizations are particularly hungry for impact, with a quarter (24%) expecting to see financial benefits realized within just six months. A fifth (20%) of the overall respondents are prepared to wait for three to four years to reap the financial gains, with a similar number (16%) stating the same about operational benefits.
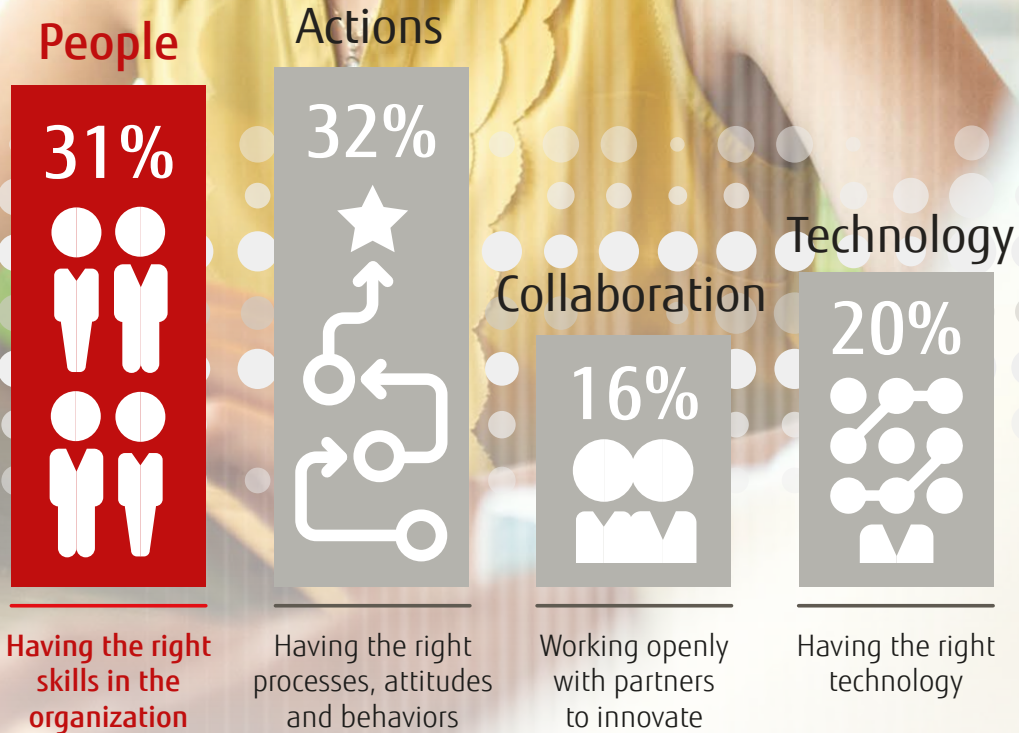
These protracted timescales may be a contributing factor to the high number of failed or cancelled digital transformation projects. A third (33%) of organizations say that they have cancelled a digital project in the past two years, while a quarter (28%) have seen one fail within the same timeframe.

Those failures and cancellations are not without cost though, and organizations spend over half a million Euros on the average project that doesn't come to fruition. The average investment lost for a cancelled digital transformation program is € 423,534, while the cost of a failed venture is higher still at € 555,388.

For some, these costs are too much to bear: two-thirds (66%) of respondents say that the expense of failed digital transformation projects has put their organization off pursuing them in the future. Though admittedly, all of the organizations surveyed are undertaking some kind of digital project, showing that the potential ROI is encouraging them to invest.

Recommendations

- That many businesses identify the end customer as the most influential figure in digital transformation is – on the surface – a positive result. At the same time, there is an important distinction to be made between leading the customer and being led by them. If organizations are to deliver true innovation, they need to be able to both predict what those customers will want tomorrow and also respond to the demands of today.

- There should also be a note of caution surrounding failure and cancellation costs. At present, we see a relatively low rate of project failures and cancellations in tandem with hazardously high average costs. In an ideal world, these numbers would be reversed; numerous agile and low-cost projects being used to gain insight without breaking the bank when they fail. Businesses need to fail fast, fail forwards and make it cost efficient to do so. This means creating agile digital strategies and indeed business plans that can be easily and quickly adapted if a project is not progressing as expected.

People

31%

Having the right skills in the organization

Actions

32%

Having the right processes, attitudes and behaviors

Collaboration

16%

Working openly with partners to innovate

Technology

20%

Having the right technology

According to the respondents, these are the factors having the greatest impact on the success of a digital project.

Turning a digital vision from a grand plan into a practical reality is about much more than wise technology investments or putting best practices in place. It's about making sure that you have the right people with the right mix of skills across your business.

Without the right skills in place, businesses will struggle to implement digital seamlessly and reap the rewards effectively.

No matter how grand the vision or sophisticated the technology that powers it, every organization needs people with the relevant skills to help it along the digital transformation journey. Without people who can leverage and deploy new technology to its maximum potential, who have the skills and enthusiasm to thrive in a culture of innovation, any attempt at digital transformation will likely vanish.

'The emphasis is clearly on development of current employees.'

A great many organizations are only too aware of that need. Nine in ten (90%) of those surveyed said that they are currently taking measures to try and increase their access to digital skills and expertise, both within and outside their organization.

This overwhelming push towards a continual expansion of digital skills is encouraging and positive, but it seems to be essential too: 70% of respondents say that there is a clear lack of digital skills in their organization as it stands today.

That approach doesn't always take the form of bringing new skills in via recruitment. We also see a strong focus on upskilling and the cross-pollination of existing knowledge. Over half (56%) of respondents say that they are investing in training programmes to boost the skills of current employees, while more than a third (39%) are using networks to help share expertise across the business.

While a significant number (46%) of organizations are looking at new hires as a way of broadening their organization's digital skillset, the emphasis is clearly on development of current employees.

Key findings

- Nine out of ten organizations are taking steps to broaden their base of digital expertise.
- Over two-thirds (70%) say that their organization is currently lacking in digital skills.
- Training programs (56%), recruitment (46%) and sharing of expertise (39%) are seen as the best ways to help combat that shortfall.
- Artificial Intelligence (83%) is expected to transform the kind of skills required within three years.
- A culture of innovation exists in many organizations (87%), but fear of failure (68%) is a hindrance to digital transformation projects.

90%

Nine out of ten organizations
are investing in digital skills

'More than nine in ten say that upskilling current staff will be vital to their organization's success.'

Leading from the top?

Upskilling existing personnel goes beyond simply ensuring that they are prepared for a digitally pervasive future according to most businesses. More than nine in ten (93%) say that upskilling current staff will be vital to their organization's success in the next three years, indicative not only of the knowledge gaps present in their business today, but likely also of the increasingly fierce battle for digital talent as time moves on.

If executives are concerned about a lack of digital skills across their organization generally, those worries tend to end at the boardroom door. More than four in five (84%) respondents say that they believe their organization's leadership team has the skills and knowledge required to drive digital transformation projects forward, with a near identical number (82%) testifying that they personally have the expertise needed to lead their organization into the future.

That executives seem so confident in their own digital abilities while readily pointing out wholesale gaps within the wider organization's knowledge is, at best, jarring. While we see plenty of evidence that organizations are committed to fostering and expanding the digital skillsets of their employees, it is hard to escape the sense that business leaders may be a little too self-assured in their personal competencies.

Similarly, as you will read in more detail later in this report, a high number of digital projects are failing. As such, while there is no hard evidence to prove that this is the case, the possibility of some over-confidence seems likely.

Digital natives and future skills

One thing is clear: attracting people with the right digital skills remains a paramount concern. Nine out of ten (87%) respondents say that bringing 'digitally native' staff into their organization will play a key role in the company's success over the next three years.

A large number (86%) of organizations have a digital skills strategy that stretches out beyond the next 12 months, particularly when we also consider the views that respondents have around important topics like Artificial Intelligence (AI) and cyber security. The clear majority believe that AI will revolutionize the kind of skills needed within their organization by 2020 (83%), while a near identical number (80%) say that a lack of skills is hampering their company's ability to address cyber security issues.

While upskilling and hiring will undoubtedly go some way to addressing those issues, business leaders are equally focussed on the idea of culture. Many say that there is a culture of innovation within their organization (87%) and that they are taking measures to support collaboration between different locations and across age groups (also 87%).

'A large number of organizations have a digital skills strategy that stretches out beyond the next 12 months.'

With a quarter (28%) of digital projects having failed within the past two years, this presents a challenge. Organizations can bring in the very best people and create the most collaborative and inspiring environments, but if digital projects are held back by concerns over failure then that effort will ultimately be for nothing. The importance of failing fast, learning lessons and spreading risk across a portfolio of small digital projects once again rises to the top.
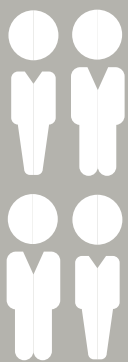
Recommendations

- That almost three-quarters of organizations say that there is a 'clear' lack of digital skills across their organization is worrying, particularly when so many respondents believe that the level of expertise needed is going to increase again when technologies like AI become commonplace. Hiring can go only so far towards plugging gaps in knowledge and, while a focus on training and upskilling is to be commended, organizations also need to look at how they can turn external expertise to their advantage.

- Fear of failure has an inhibiting effect on innovation. While a culture of innovation seems to be present in many organizations, there is a very real risk that it is being undermined by high profile – and high cost – project failures. Such failures will always occur, however, the challenge for businesses now lies not in trying to limit the number of projects that fall by the wayside but the cost, scale and point at which they fail. Turning a fear of failure into a culture of constant learning needs to be a major priority.
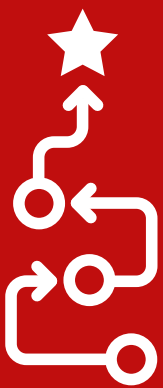
People

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The Digital Transformation PACT: Focus on Actions

Fostering the right processes, attitudes and behaviours is integral to successful digital transformation. Organizations need to lay the ground for an environment in which people and technology can work together in harmony, and digital projects can fail fast and fail forward.

Actions – or the way that an organization 'behaves' around digital – are about more than just using new technology to its fullest potential. Much of the work that governs success around digital transformation happens long before a project even begins. Today, ensuring that any digital program is well-communicated, accurately evaluated and closely aligned to a cohesive strategy has as much to do with its success as the quality of the technology.
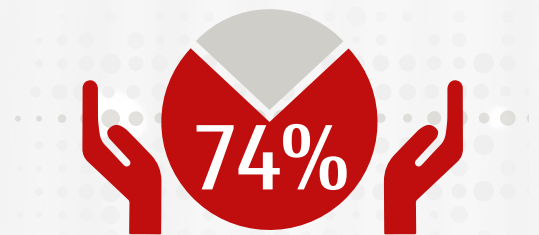
'The majority (90%) say that they have a clearly defined digital strategy.'

This all, of course, has to begin with the strategy itself. For projects to have a true positive impact, they need to line up behind a clear digital vision that is communicated to and recognized by the wider organization.

Broadly speaking, most businesses are confident that they have this in place. The majority (90%) say that they have a clearly defined digital strategy, and that the business understands what this strategy entails (82%). In most cases, the organization's leadership team has a clear view of proceedings: nine in ten respondents say that senior management has full oversight of all digital transformation projects (88%) and that they are actively involved in the planning of those projects (87%).

Those projects tend mainly to be focused on the creation of new digital processes that sit alongside existing ones (59%) or used to augment those original processes (58%). Only a third (37%) result in the creation of entirely new ways of doing things, which shows that organizations have a strong focus on ensuring that the disruption caused during implementation is minimized (87%).

At first glance, this seems to be something of an utopian environment for digital transformation. Projects are transparent, benefit from senior input and are well-aligned to an overarching strategy.
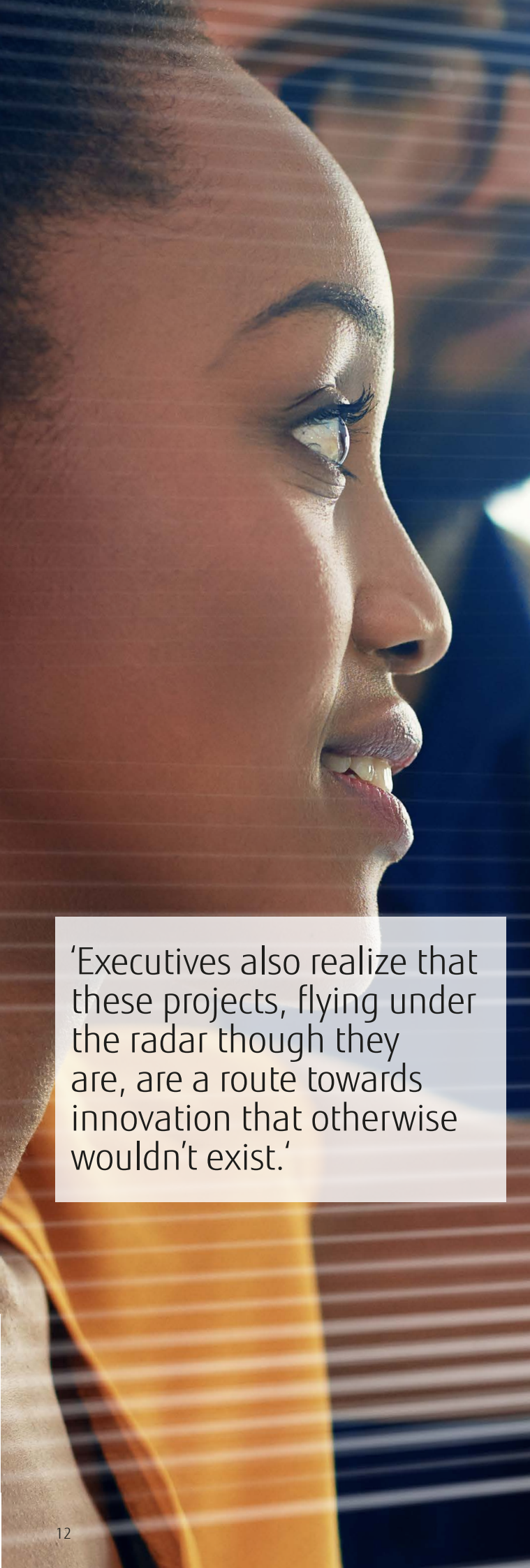

74% of organizations admit their digital projects aren't linked to an overall digital strategy

Peer a little deeper, however, and these assertions fail to ring true. While business leaders say that they have visibility of every digital transformation project, this seems only to apply to those that are actioned through official channels. Consequently, a secondary layer of unsanctioned digital projects exists – one that three-quarters (74%) of respondents say aren't linked to the overarching digital strategy, and more than two-thirds (69%) believe present a serious problem for their organization.

Key findings

- Nine in ten (90%) organizations have a clearly defined digital strategy.
- The majority of businesses feel that the leadership team has a clear view of all digital transformation projects (88%).
- However, three-quarters (74%) say that digital projects are often not linked to the overarching digital strategy.
- A similar number say that shadow digital projects are the only way for parts of the business to deliver innovation (72%).
- New digital projects tend to sit alongside (59%) or augment (58%) existing organizational processes.

Under the radar

This is worrying, even more so when we consider that a large number (72%) of respondents say that these 'shadow' digital projects are the only way that some parts of their business can achieve meaningful innovation, even though the presence of these silos within their business are a serious hindrance to achieving their digital vision (also 72%).

Organizations are clearly torn, pulled in two different directions by the paradoxical nature of shadow IT. On the one hand, it represents a clear threat to the stability of their overall digital strategy. The tendrils of largely invisible, potentially risky and almost certainly costly projects are undermining the foundations of a digital vision that most business leaders say has been clearly outlined.

On the other side, executives also realize that – in some unique instances – these projects, flying under the radar though they are, are a route towards innovation that otherwise wouldn't exist.

The exact reasons for these projects needing to be run in secrecy aren't clear: budget, security restrictions or worries about the cost of failure are just a few of the issues that instigators might be hoping to avoid. What is apparent though, is the need for business leaders to understand and address the causes, and seek to bring those projects back under their overarching digital strategy without losing sight of their potential benefits.

Creating an environment in which innovation can thrive is one thing; creating one in which employees feel that they need to circumvent an existing framework in order to deliver it is entirely another.

'Executives also realize that these projects, flying under the radar though they are, are a route towards innovation that otherwise wouldn't exist.'

12

The fine line between success and failure

There are plenty of reasons to try and bring those projects back within the reach of the organization's overall digital strategy, but the ability to evaluate them effectively is undoubtedly one of the most compelling.

Evaluation is something that the greater number of businesses take seriously when it comes to digital transformation. Almost every respondent to this study (91%) said that their organization has a clear process in place for evaluating projects while they are still underway, though this of course means that one in ten organizations has no ongoing record of how a digital program is progressing.
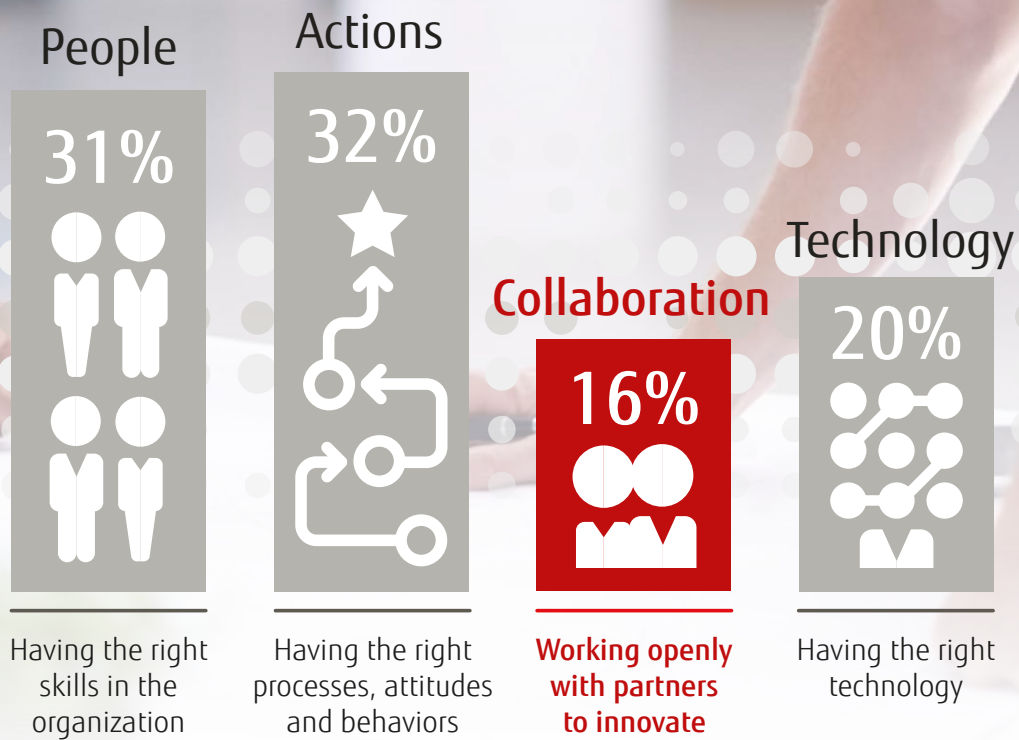
When evaluation procedures are in place, they help to limit potential losses when projects go awry. Two-thirds (66%) of respondents say that failing programs are quickly refocused, with a quarter (25%) noting that they are either cancelled outright or are subject to funding cuts.

'One in ten organizations has no ongoing record of how a digital program is progressing.'

Continual benchmarking like this is a positive sign, though the spectre of shadow IT rears its head again here. If projects of that kind are moving ahead with no central oversight, there is little to no chance that they are subject to the same degree of scrutiny as 'official' programs. This means that failure and cancellation rates – and the corresponding costs - around digital transformation are likely being underreported as well.

Recommendations

- There is a dangerous disconnect between business leaders' perception and reality around digital transformation. Their conviction that they have a clearly defined and well understood digital strategy falters in the face of shadow IT, and the sheer volume of failed or cancelled digital projects is a serious threat. Identifying and evaluating these rogue projects is only one part of the battle – understanding why they happened in the first place is arguably the more important. This means organizations must communicate with their teams across the business to really understand what forced them to turn to shadow IT. With this knowledge, the business can address those issues and ensure that IT is working to support employees and drive innovation.

- The fact that one in ten organizations have no in-progress evaluation process for digital transformation projects is troubling. The pace of change in digital is such that alterations 'mid-flight' can have a major impact on the success or failure of a project. At worst, programs that are likely to miss their mark entirely can be brought to an early conclusion – at a cost of more than €500,000. At best, constant refinement could lead to something even better than originally envisioned.

People

31%

Having the right skills in the organization

Actions

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Having the right processes, attitudes and behaviors

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According to the respondents, these are the factors having the greatest impact on the success of a digital project.
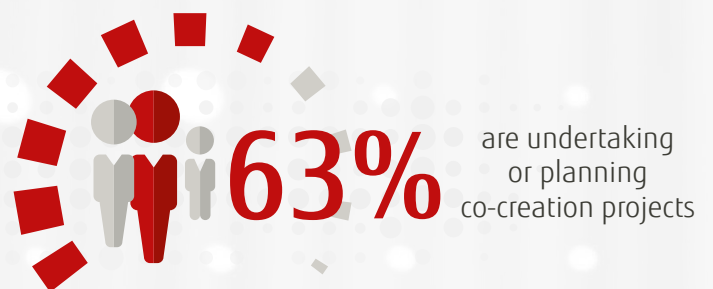
There isn't an organization on earth too big or too powerful to learn lessons from others. A new age of co-creation is dawning, one in which the full potential of digital transformation is being fuelled by the open sharing of knowledge and expertise.

Co-creation – the pooling of knowledge, ideas and resources to create more powerful digital programmes – was a key theme in our 2016 report Fit for Digital. More than two-thirds of respondents to that study (67%) said that not only was co-creation a valuable approach, but that their organization's future performance would be dependent on its ability to find the right partners to thrive in a digitally disrupted world.

'A third of organizations are prepared to work with potential competitors.'

Today, that belief is beginning to be realized. A new age of collaboration seems to be dawning, one in which almost two-thirds of businesses (62%) are either already in the process of running co-creation projects with a partner, or are planning to do so in the future. Of the remainder, only around one in ten (8%) have yet to decide whether such an approach is right for them.

This tendency becomes more readily explicable when we look at the partners that organizations are choosing to work with on co-creation projects. Technology companies top the list, selected by almost two-thirds (64%) of respondents. Existing customers (42%), start-ups (37%) and companies outside their own industry (also 36%) are also likely candidates, but one group in particular points to the powerful draw of co-creation. Around a third (30%) say that they are pursuing co-creation projects with companies from within their own sector, their competitors.

63% are undertaking or planning co-creation projects

The strength of this sentiment shouldn't be underestimated. Co-creation is subtly different from collaboration in that it is not just two organizations working together to achieve a shared goal (as would be the case on a joint venture), but the proactive sharing of valuable - and potentially sensitive - knowledge and expertise.

That a third of organizations are prepared to work with potential competitors in this way speaks volumes about the perceived – and actual – value of co-creation as an approach to digital transformation.

Key issues
- The majority of businesses (63%) are embarking on or are already running co-creation projects with partners.
- Technology experts (64%), customers (42%) and start-ups (37%) are amongst the most popular choices for partners.
- But some (30%) are also looking to co-create with their own industry competitors.
- Four in five (79%) would be willing to share sensitive business information as part of a co-creation project.
- Three-quarters (73%) say that a partnership would be ended if it failed to deliver results quickly enough.

The new dynamics of partnership

As co-creation continues to grow as an accepted method for developing digital projects, some organizations are looking beyond the immediate results of those programs and are instead introducing entirely new commercial models to further strengthen their partnerships. An overwhelming number (78%) of respondents say that they have seized that opportunity, implementing practices such as benefits sharing and co-ownership of intellectual property in order to elevate the value of their co-creation work.

That value is seen to be great enough that many organizations are willing to overcome the instinctive – and understandable – need to safeguard information that would normally be well defended. More than three-quarters (78%) say that they would be prepared to share a range of information with an external partner as part of a co-creation project, including items such as business plans, product pipeline and R&D data. Of those, more than a third (35%) say that they are 'completely' willing to do so.

In many ways, sharing in this way and to this extent goes against 'traditional' ways of doing business. Knowledge is widely conflated with power, and the thought of providing external parties with access to this kind of information would have been unthinkable to all but the most forward-looking organizations even just a decade ago.

It is testament to the growing complexity and pace of change around digital transformation that organizations are increasingly aware that they cannot expect to conquer its challenges by themselves.

'In many ways, sharing in this way and to this extent goes against 'traditional' ways of doing business.'

Rushing for results

Co-creation, while gaining widespread recognition as a way of navigating the challenges of digital disruption, does not come without its own challenges. Chief amongst these is the apparent sense of immediacy that partnership creates and the consequences that result when that demand fails to be met. Three-quarters (73%) of respondents admit that a lack of success in a short timeframe when embarking on co-creation would result in the end of that strategic partnership.

This is perplexing, particularly when we consider the lengths that some organizations are willing to go to in order to move towards a co-creation model in the first place. There is a sense of incongruity that having decided to partner with another business in this way - so to share information, resources and expertise, perhaps even to have developed new commercial models around that partnership - that such a relationship would be terminated simply because results were not forthcoming in a limited space of time.

'Three-quarters of respondents admit that a lack of success in a short timeframe when embarking on co-creation would result in the end of that strategic partnership.'

If this is the case – and these results certainly suggest that to be the case – then organizations may need to work at projecting and embracing the longer-term benefits of such kind of relationship.

Recommendations

- The increasing acceptance of the concept of co-creation is evident. Respondents to our 2016 Fit for Digital study were adamant about the value that it can bring, and that pooling their knowledge with like-minded partners would be key to their future success. With so many organizations reporting a deficit of digital skills and uncertainty about being able to deal with a new wave of transformational technology, the expert support that co-creation can provide will likely be invaluable – something that one third of organizations yet to factor this into their plans should consider.

- Patience isn't always a virtue: righting the course of a failing digital project is infinitely preferable than leaving it to fail, for instance. A long-term view is absolutely fundamental in ensuring the success of a digital project. But with three-quarters of business leaders saying that a co-creation partnership would be brought to a halt if results failed to manifest in a short space of time, there is a clear need for expectations to be set early and in agreement with everyone involved.

People

31%

Having the right skills in the organization

Actions

32%

Having the right processes, attitudes and behaviors

Collaboration

16%

Working openly with partners to innovate

Technology

20%

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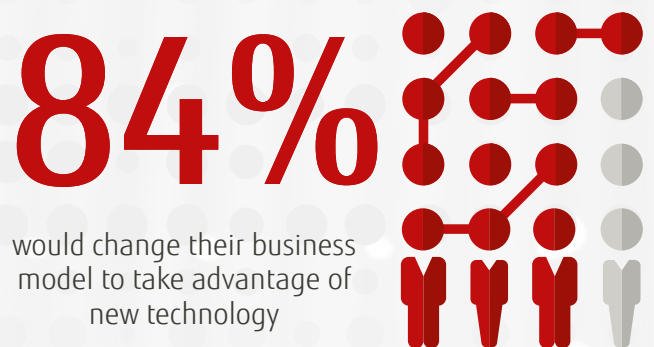# The Digital Transformation PACT: Focus on Technology

At the heart of any digital vision, new and emerging technologies are beginning to give organizations incredible power with which to achieve their goals. But as that power grows, so too does the need for organizations to adapt and evolve in order to harness it successfully.

Technology is the cornerstone of any digital transformation program. People, actions and collaborative partnerships have an impact on how it is deployed, but technology sits at the heart of digital transformation. In our 2016 study Fit for Digital, business leaders identified technology as the most influential factor when responding to digital disruption – three-quarters (73%) saying that technology will govern their ability to thrive in the years ahead.

As part of the digital transformation 'PACT', 'Technology' featured below both 'People' and 'Actions' in terms of the elements that organizations feel are most vital to realizing their digital strategy: one in five (20%) respondents cited technology as the defining factor today.

While this might feel like a shift in perceptions from just one year ago – that technology has somehow dwindled in significance – the more likely explanation is that of a broadening scope on the part of business leaders. The question is no longer just about what technology they will use to address their digital challenges, but how their entire organization will leverage that technology to ensure its success. Technology was arguably the very first step, and the first focus area, for businesses looking to transform. Now that new technology such as AI is available, the focus shifts to ensuring the organization is set-up to make the most of it.

The prospect of remodelling their business around new digital technology is not an unwelcome one for most respondents. More than four in five (84%) stress that their organization would be ready to change its business model in order to adapt to digital technology, with a similar number (86%) suggesting more generally that their organization is ready to adapt to technological change within the next five years.

84%

would change their business model to take advantage of new technology

Key findings

- One in five (20%) say that technology is the most important factor in realizing their digital strategy.

- Many (84%) would change their business model to adapt to new technology, for example changing internal processes or adapting their sales channels, in order to capitalize on digital.

- More than half of organizations plan to invest in cyber security (52%) or Internet of Things (51%) related technologies in the year ahead.

- At the same time, almost three-quarters (71%) are worried about their organization's ability to adapt to those technologies.

- A similar number (76%) say that it is 'impossible' to tell who their organization will compete with in 10 years' time – signifying the impact of digital disruptors.

Moving with the times

For most, this ability to change and adapt is more than just a way of furthering their digital offering – it is a prerequisite for their survival. Much as was the case in **Fit for Digital** when a vast number (91%) of respondents told us that their organization needed to evolve in order to thrive in a digitally disrupted world, a similar number (86%) today see their company's ability to change as being crucial to its success in the future.

That change, according to respondents, will likely come in the form of a range of new digital technologies that organizations plan to invest in over the next 12 months. Cyber security solutions (52%), and Internet of Things (IoT)-related technologies (51%) are the most frequently cited, but organizations are also looking to cloud computing (47%), Artificial Intelligence (AI) and machine learning (43%) as well as big data and analytics platforms (37%) to help drive digital transformation.

Expectations are high about the potential benefits of this investment, both financially and operationally. Respondents say that cyber security (51%), cloud (48%) and AI (46%) are likely to be 'very' important to the financial success of the organization. Two of those three are recognized once again for their potential contribution to operational efficiencies, as well: cyber security (52%) and cloud (48%) this time flanked by big data and analytics (49%).

'That change will likely come in the form of a range of new digital technologies that organizations plan to invest in over the next 12 months.'

Looking ahead to an uncertain future

Here, an interesting dilemma begins to manifest. Although the majority of respondents demonstrate a keen understanding of the potential disruption that new technology will have on their sector in the next five years (86%), confidence about their organization's ability to employ those tools is in short supply. Despite their organization planning for the impact of technology beyond the next 12 months (86%), around three-quarters (71%) say that they are concerned that their business will not be able to adapt to emerging technologies like AI and the IoT.

For many business leaders, these doubts are the first domino in a chain of issues that have the potential to spell trouble ahead.

'All of this... signifies a growing threat for those running behind the competitive curve.'

Respondents are acutely aware that their customers 'expect' them to be more digital (84%) and that they hold innovation in high regard (86%), but most also believe that they already lag behind their competition in using digital to deliver for those customers (71%) and that digital transformation will cause them to lose business relative to their rivals as a result (66%). All of this, combined with the suspicion that respondents don't even know who they will be competing with in a decade's time (76%), signifies a growing threat for those running behind the competitive curve.

Business leaders have a comprehensive idea of where they need their organization to be from a technological standpoint, but they also seem to have serious doubts about its ability to get there.

Recommendations

- The readiness that organizations demonstrate to change their business to make the most of new technology is promising. At the same time, other results in this study demonstrate that many are already laboring under a widespread lack of digital skills and knowledge, creating a situation in which the arrival of new technology is outpacing the organization's ability to integrate it effectively. When technologies like AI and IoT are seen as vital to a business' success, the need for parity between the deployment of new technology and the expertise required to use it becomes ever more pressing.

- Many respondents seem to believe that their company lags behind their competition when it comes to digital. While this view is understandable, it shouldn't act as a deterrent to digital transformation. The focus for organizations that feel they are trailing their rivals should not be on playing catch-up – it should be on what their customers will want next and making sure that they are first to meet that demand. This is true innovation – the ability to predict what is coming and develop services or products that address that. It's not enough to pacify customers; to really maximize the potential of digital projects, organizations must be one step ahead of others in the market.

The Digital Transformation PACT:
The global view

While this report focuses primarily on the global response to digital transformation in 2017, we also wanted to shine a light on some of the regional variances that arise when we look at how companies in different countries are approaching digital transformation. Here is an overview of some of the biggest differentiating factors from nation to nation.

Australia

Many Australian organizations are still at the testing stage for digital transformation projects. Almost a third (29%) of projects here remain proof of concept only, with only Ireland and Hong Kong having more in the developmental phase. Much of the work that is being done is influenced by the customer base of those organizations, though academics and research institutes also have a strong pull on digital transformation in Australia – around one in ten (11%) say that these parties play a key role in shaping their output.

Actions (39%) are seen as the most important part of PACT by Australian respondents. Indeed the importance of internal culture and having the right processes in place is made even clearer with Australia's businesses also amongst the least likely to strongly believe in the presence of an innovation culture within their business (28%). Nonetheless, new ideas are highly valued: the majority of respondents (47% - the highest globally) say that digital transformation in their organization is being used to create entirely new business functions and processes.

Finland and Sweden

When it comes to completion rates of digital projects, Finland and Sweden are leading the way on digital transformation. 55% of respondents from Finland and Sweden say that they have already seen results from digital projects (only China alone has a better completion ratio).

A good number of those results will have been in the field of customer relationships according to Nordic respondents: 28% cite customers as the focus of their work in digital transformation, the highest response globally.

Despite this apparent success, many Finnish and Swedish companies have a less positive view of their internal performance. Respondents here are less likely to show confidence in the digital knowledge of their leadership team, and 10% are more likely to confess to a lack of digital skills overall.

This may go some way to explaining why co-creation is such a popular prospect for Nordic businesses – with organizations choosing to work with experts in their field – such as technology expert. 81% have partnership projects underway or are planning future ventures, representing the greatest response globally by some margin.

China

Chinese respondents shared some of the strongest views in the global study. Not only have well over half completed digital transformation projects to the point of delivering results (59%), 39% expected to see those results within the first six months – more than double that of the global average.

A fail fast attitude prevails here: 35% have seen a project fail within the past two years, while 40% have cancelled an underperforming program, but more than three-quarters (76%) say that failing projects are refocused. Consequently, losses incurred as a result are just half that of the global average, though this doesn't prevent nearly half of respondents (47%) saying that a fear of failure is acting as a hindrance to digital transformation.

Training programs aimed at existing staff are in use at more than 80% of Chinese organizations, something that comes as little surprise when 99% of those companies agree that upskilling will be vital to their success in the next few years. And where that knowledge can't be infused, it is imported – some 74% of Chinese organizations are in the business of co-creation, with technology experts (79%) being the leading choice as partners.

France

In France, collaboration is key. No other nation comes close to France's focus on working with partners for innovation purposes; the 29% who believe it to be the most important element of PACT being significantly higher than the global average. Much of this collaboration seems to be based on 'traditional' collaboration rather than co-creation however: only 55% of French businesses are exploring co-creation – a smaller number than we see at the global level – and many of the partnerships appear to take place with smaller suppliers, with almost half (47%) pursuing opportunities with start-ups.

A reticence to open the business up to third parties may help to explain this strict view of collaboration. French organizations are generally less likely to consider sharing sensitive information with partners (31% against a global average of 21% who would not), while they also have doubts about the idea of losing customers to the competition (42% disagree) and changing their business to take advantage of digital technology (24% would not).

Germany

For German organizations, the digital transformation challenge has less to do with business models and revenue streams and is instead focused on the evolution of operations and processes. German respondents are more likely than average to cite the latter when envisioning what digital could do for their company (37%). Correspondingly, they have a lower than average view on the potential to listen, respond to and even predict customer needs and demands through digital (11%).

Germany's business leaders place much greater stock in the importance of 'actions' when considering the ingredients of PACT: German business leaders are second only to Singaporeans in this area.

Admitted failure rates (20%) track well below global averages in Germany, and only Japanese respondents have greater resistance to project breakdowns. While this may seem positive at first light, there is an alarming financial burden on the flipside: the mean financial cost of a failed digital project in Germany is almost double that of the international average, standing at around €1.1m.

Italy

Digital transformation tends to have a singular focus in Italy: revolutionizing business operations and processes. Almost half (40%) of respondents cited that as their main goal for digital. Perhaps representative of this, Italy also has one of the most diverse spreads of influence when it comes to digital. While customers, competitors and partners are all influential in the development of digital strategies, suppliers (23%), consultants (22%) as well as academics and research institutes (10%) all hold significant sway as well.

In service to this process-driven, multi-faceted approach to digital transformation, Italian respondents believe that technology has the greatest role to play. More than a quarter (28%) selected technology as the most vital part of PACT, second only to China in terms of its relevance. The reasoning for this is borne out by two subsequent findings: not only are Italian organizations highly likely to believe in the importance of innovation for their customers (50%), those organizations also place a higher than average emphasis on the future relevance of technologies such as AI (58%), IoT (45%), cloud (51%) and cyber security (61%).

Hong Kong

Processes and behaviors are first order of the day in Hong Kong, where 38% of respondents say the actions of their organization have the greatest influence on its ability to deliver digital transformation. With behaviors in mind there is a clear focus on skills. One of the key paths to developing those behaviours seems to lie in the use of reverse mentoring schemes, where younger employees share their expertise with older members of staff – almost half (48%) of organizations in Hong Kong use this method of training, the highest response globally.

Hong Kong businesses demonstrate a high degree of confidence in their digital knowledge. More than half (54%) disagree with the idea that their organization suffers from a clear lack of digital skills, almost twice the global average.

Ireland

Amongst its global counterparts, Ireland tracks most closely to another island nation in terms of its approach to digital transformation. Responses from Irish business leaders closely reflect those seen from Japan, with many similar views in place. As with Japan, some 15% of Irish organizations are yet to move forward with a digital transformation project and expectations around timescales are similarly protracted.

While actions are seen to be more important than people as part of the PACT in Ireland, that doesn't seem to be hindering the quest to increase the digital capabilities of Irish organizations. 95% of businesses in the region are actively taking measures to increase their breadth of skills and expertise, with around half (47%) using external partners and consultancies as part of that process. The impact of AI is a particular concern for many, with two-thirds (65%) 'strongly' agreeing that it will transform the skills they need by 2020.

Japan

While over half (58%) of Japanese organizations have digital transformation projects that are complete or in-progress, more than a tenth (15%) have yet to even enter the planning stage. This may stem from an expectation that those projects will take many years to bear fruit – Japanese companies believe that it will be at least two years before they see benefits of any kind on average, with more than a quarter (27%) prepared for a wait of three or more years at minimum.

A positive aspect of these prolonged development cycles is that fewer problems seem to arise, as less than a fifth of Japanese digital projects fail (16%) or are cancelled (15%). Nonetheless, many of these projects seem to be at the higher end of the cost spectrum: losses incurred still exceed global averages despite there being fewer actual instances of termination. When projects do go wrong, the organizations in question tend to be left dealing with those problems in isolation. Less than half (46%) of Japanese businesses consider co-creation to be a viable approach to digital transformation, with one of the biggest sticking points being the sharing of sensitive information with partners. Fewer than one in five (17%) 'strongly' support the idea of doing so.

Singapore

In Singapore, almost half of organizations (46%) are already benefiting from the results of a digital transformation project, many of which (also 46%) will have been focused on reshaping the organization's business model and revenue streams. Competitors are the biggest influence on digital strategy, and by some margin – more than three-quarters (76%) of respondents - cite rival companies as having an impact on their digital work, the biggest response from around the world.

Digital plays a role at almost every level of Singaporean organizations. Not only is it creating new processes that sit alongside existing processes (76%), digital is also being used to augment those procedures (72%) as well as to create entirely new, digital-only systems (60%). At a partnership level, Singaporean organizations are more likely than any others to co-create digital projects with government and public sector organizations. Of the two-thirds (68%) that have current or planned co-creation projects underway, 41% cite those organizations as potential partners.

United Kingdom

Amongst the western nations, the UK is one of the hungriest for quick results from digital transformation. 25% of British respondents say that they expect to see financial results from a digital project within the first six months. When those results do come, they tend to be centred more on the customer than in other countries. 24% of UK organizations believe that digital technology is best suited for transforming customer relationships, with only Finland and Sweden holding stronger views on that subject.

The UK has an intriguing – and potentially positive – attitude around projects that are failing to deliver. While 42% of organizations have cancelled digital projects in the past two years - one of the highest responses in the study - just a quarter have seen them fail. And when these projects do fail, the financial consequences are relatively minor: British respondents are more likely than their global counterparts to keep digital budgets under €500,000.

Spain

Transforming the organization's business model and revenue streams dominates the Spanish mindset when it comes to digital. 44% of respondents state this as their focus, with only Singaporean businesses more likely to target improvements in this area. While this might prompt us to assume that Spanish organizations are more inward-facing as a result, the truth is that this rush towards new business models seems to be driven primarily by the customer: 68% of Spanish businesses are influenced by their customers.

Spanish respondents appear to have a particularly keen eye on deploying technologies like the Internet of Things and Artificial Intelligence - planned investment in these areas tracking above the global average. Perhaps in service to this, businesses in Spain are more likely to look towards technology experts for co-creation opportunities. More than three-quarters (76%) say that they are working in partnership with technology vendors to develop new digital solutions.

United States

For North American respondents, PACT is all about the people. Almost half (45%) of business leaders in the US say that their digital transformation efforts are shaped largely by the quality of the people they have on board - the greatest response globally in any category. This emphasis goes some way to explaining why US organizations are so focused on targeted recruitment (52%) and expertise networks (49%) as a way of bolstering their digital talent at present.

As well as citing people as a priority, North American respondents showcase a serious commitment to the mechanics of collaboration and co-creation. They are amongst the most likely to consider sharing sensitive information (47% strongly agree) or changing their business model (49%) as part of a co-creation project, and more than nine in ten (91%) have changed the dynamics of their commercial partnerships.

Methodology

Data for this study was gathered from 1,625 business decision makers working at financial services, retail, manufacturing and public sector organizations.

Organization size varied, but all had at least 50 or more employees, and had either already delivered a digital transformation project or had expressed an interest in doing so in the future.

Research was conducted by Censuswide, an independent survey consultancy, with respondents taking part in an online study during July and August 2017.

Sample Sizes by Country

- Australia: 153
- China: 150
- Finland and Sweden: 150
- France: 150
- Germany: 151
- Hong Kong: 50
- Ireland: 20
- Italy: 150
- Japan: 150
- Singapore: 50
- Spain: 151
- United Kingdom: 150
- United States: 150

Defining excellence in digital transformation

As part of this study, we drew up a range of criteria that would define 'excellence' in Digital Transformation and the four PACT categories. This is a snapshot of where organizations are in relation to our criteria for excellence:

Overall Approach Ratings

	Percentage of organizations
0 "Good Ratings"	75%
1 "Good Rating"	14%
2 "Good Ratings"	10%
3 "Good Ratings"	1%
4 "Good Ratings"	0%

PACT Analysis

	Percentage of organizations
"Good" People rating	18%
"Good" Actions rating	2%
"Good" Collaboration rating	16%
"Good" Technology rating	3%

Defining excellence in detail

This is the criteria that defines 'excellence' across Digital Transformation and the four PACT categories.
The questions then asked to business leaders were based around these areas.

To receive a 'good' rating in **Digital Transformation**, business leaders would answer that:

- Their organization has already implemented digital transformation projects and outcomes have been delivered.
- Their organizations has neither cancelled nor suffered a failed digital project in the last two years.
- Their organization has a clear process for evaluating digital transformation projects in progress and projects that are seen to be failing are changed or refocused.
- Their organization has a clearly defined digital strategy and the leadership team has full oversight of all digital transformation projects.

To receive a 'good' rating in **People**, business leaders would answer that:

- Their organization is taking measures to increase your access to digital skills and expertise (both inside and outside the organization) to support their digital transformation.
- Their organization has a skills strategy that lasts beyond the next 12 months.
- There is a culture of innovation within their organization and digital transformation projects always include a plan for communicating change to the organization.

To receive a 'good' rating in **Actions**, business leaders would answer that:

- They are confident that the rest of the business knows what their organization's digital strategy is.
- They believe that minimizing disruption is a key consideration when undertaking digital transformation projects.
- The IT department is a strategic partner to the business in designing the organization's digital strategy.
- Their organization strikes a balance when undertaking digital transformation - focuses on technological change alongside the skills, processes and behaviours that support it.
- Silos within their organization are not a serious hindrance to achieving their digital strategy.

To receive a 'good' rating in **Collaboration**, business leaders would answer that:

- Their organization is undertaking or planning to undertake co-creation projects to deliver digital innovation.
- With this co-creation in mind their organization has applied new commercial models to your partnership. For example, benefits sharing or co-ownership of intellectual property.
- Their organization would be willing to share sensitive information with an external partner as part of a co-creation project.
- Their organization would be ready to change its business model to adapt to digital technology but a lack of immediate success in such a relationship would not quickly put an end to it.

To receive a 'good' rating in **Technology**, business leaders would answer that:

- Their organization is ready to adapt to technological change in the next five years.
- Their organization is planning for the impact of technology beyond the next 12 months.
- They don't feel their organization has fallen behind our competitors in using digital to deliver for customers.
- And linked to this, that they don't believe digital transformation in their sector will cause their organization to lose customers relative to our competitors.

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