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The Digital Transformation Journey
Lessons from a CIO's Perspective

Part 1 – The Challenges Faced by Organizations

Understanding the challenges faced by organizations is crucial for forming and aligning a Digital Transformation strategy to support business objectives and enable enterprise growth. CIOs, with their oversight of technology and insight into the business, are in a unique position to drive an organization through their digital transformation journey, addressing fundamental business challenges, and reshaping how businesses operate.

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Digital Singularity, the point at which human experience and technological omnipresence converge, has changed the paradigms of global interconnectedness, business operating models and customer empowerment. Enterprises are undertaking significant transformational exercises to become digitally relevant and strengthen competitive differentiation. The transition of organizations to digital enterprises is the biggest transformational wave to hit the industry, fundamentally reshaping how businesses operate.

Digital transformation (DX) presents an opportunity for organizations to enhance competitiveness and create a foundation for outperforming rivals. Failure to respond and embrace change will, for many industries, increase the likelihood of becoming irrelevant for the customers they have fought so hard to nurture.

To therefore stay relevant in this fast-paced business environment, companies have to reimagine themselves, and pursue transformation in an agile manner. Enterprises must leverage the digital pre-requisites to rethink every aspect of their business and align their operating model with an objective to deliver compelling and seamless customer experiences.

> " *The digital business imperative is forcing businesses to imagine how they will use the digital ecosystem in a manner that drives better value for the individual.* "
>
> *- Kevin S. Parikh*
> *Global CEO, Avasant*
> *Author, Digital Singularity – A Case for Humanity*

Challenges Faced by Organizations

Technology increasingly offers new opportunities for organizations to evolve and improve their operating models, enhancing competitive differentiation, and overcoming core challenges which hinder enterprise growth. Over the last decade, thousands of organizations globally, both large and small, across various industries, have either invested in, attempted, or successfully executed DX projects to address common business challenges, and reduce risk of falling behind. Based on experiences through numerous client engagements and DX initiatives, some of these challenges include:

Increasing Costs

Despite the ever changing scope of an organization's business functions, operating systems, etc. all driven by technological advances, cost reduction remains a constant, and crucial priority necessary to enable profit maximization and growth. Throughout the ages, businesses have always redefined strategies and integrated new mechanisms into operating models to support cost savings, which is enabled today by digitization and technology.

A study which polled 200 business executives, 72 percent cited cost savings as the primary driver for digital transformation[i]. Other studies found that DX can reduce costs by anything from 8 percent to 34 percent while increasing revenue by 23 percent to 34 percent[ii].

Siloed Environment

Digital Singularity brings with it an advent of interconnectedness, and interrelatedness across people, process and technology. Technology is omnipresent in our daily lives, impacting all levels of the business ecosystem, from producers, distributors, consumers, etc. Given these interdependencies, it is not surprising that a successful digital strategy requires a collaborative effort from all divisions of an organization, despite differences in processes, systems, and cultures.

Organizations are not culturally prepared to allow seamless flow of information. The silo mentality has prevented stakeholders from designing and implementing appropriate technology solutions. To maximize margins, manage business processes, deliver customer satisfaction and retain customer loyalty, organizations should consolidate disparate operations to deliver unified experience by leveraging new digital technologies and platforms. Harmonization of all aspects and divisions of business operations will ensure that the organization is more flexible and agile for the future.

Prevalent usage of legacy applications

Legacy systems presents a major challenge for many organizations in their transformation initiatives. 50 percent of senior DX stakeholders in the UK, cited legacy systems as the biggest barrier to digital transformation[iii].

Prevalence of Legacy Applications

Many large firms are being disrupted by small technology startups, with legacy systems inhibiting growth for more established organizations. A survey with 4,000 businesses found that 78 percent of respondents identified that digital start-ups pose a threat to their organization, with 41 percent indicating this is because they are more agile in nature and free of legacy technology[iv].

As the organization evolves, the cost of retaining legacy applications will continue to grow. As technology evolves and transforms, organizations should define strategies to update legacy systems and implement new business models to adapt to the current times.

Insufficient Funds

When undertaking any large transformation projects, funding can become particularly nettlesome. 33 percent, of 4,000 businesses, identified that a lack of budget and resources were key barriers to digital progress[v]. Legacy modernization, redefining the business model as well as investments in talent all require funding to successfully roll out a digital strategy. Organizations must look beyond initial capital costs and consider the long term cost savings and operational efficiencies to be derived from investments in a digital transformation strategy.

Business vs Technology Mismatch

Technology has become integral to core business operations, for each industry vertical, enabling efficiency, productivity, reduced costs, etc. Despite this, digital strategy is not aligned to business strategies, being considered as an addendum, rather than forming an integral part of it.

It is imperative for business executives to not only understand how technology will drive organizational development, but to align technology strategies to their business strategies. With extensive experimental and innovative technology solutions, executives are faced with an ever increasing number of technology options to choose from. Avoiding common pitfalls of technology decisions in an enterprise is critical to staying ahead of this innovation curve.

Lack of a clearly defined digital strategy
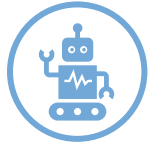
Lack of Defined Digital Strategy

It is imperative for businesses to define and adopt a digital strategy, which supports their digital transformation objectives and aligns with strategic business goals. A global study of the digital business environment found that only 15 percent of companies in the early stages of going digital have a clear digital transformation strategy[vi]. Further, 50 percent of companies identified that the biggest obstacles to becoming digitally mature is the lack of a digital transformation strategy.

Successful DX requires effective planning, execution and governance of implementation of the digital strategy. Organizations will have to form their digital strategies to foster growth. With a clearly defined strategy and implementation, digital enterprises will see the business benefits not only in terms of improved efficiency but also in terms of robust top & bottom-lines.

Lack of organizational innovative culture

Lack of Innovative Culture

Innovation encourages creativity, flexibility and enhanced competitiveness. 90 percent of executives believe the long-term success of their organization's digital strategy depends on their ability to innovate and develop new ideas. Further, 90 percent of organizations which focused on developing an innovative culture reported strong financial performance in DX initiatives.

A culture of innovation within the organization will:

- **Support an effective growth strategy** - Companies with a digital innovation mindset have an agile mindset. They can adjust to the market using technology
- **Create new Markets and Revenue streams** - Businesses can create new products and services to create new revenue streams to capitalize on new markets previously out of reach
- **Enhance traditional business models** - Ensures continuous growth as companies have to continuously improve their business processes/ systems to remain competitive
- **Innovators are Disruptors** - Innovation enables companies to disrupt as opposed to being disrupted

To support an innovative culture within the organization, managers must curate and create a digital experience for employees, and implement systems which can effective measure employee performance, and assess their impact on innovation.

Conclusion

Digital transformation of an enterprise is a complex program with multiple stakeholders and myriad challenges. Most organizations are just beginning their digital journeys and do not realize the importance and impact of digital transformation on enterprise growth.

Business leaders and C-level executives must understand that DX affects core businesses, can open new frontiers, and hence requires a foundational change. While DX does not come without challenges, organizations must approach these challenges head-on to create seamless experiences that meet their business goals along with customer expectations.

[i]   https://www.cloudcomputing-news.net/news/2018/jan/10/cost-savings-primary-driver-digital-transformation-so-why-are-cios-not-measuring-it/

[ii] https://www.inverto.com/en/publikationen/digitization-and-cost-pressure/

[iii] https://www.information-age.com/legacy-barrier-digital-transformation-123465151/

[iv] https://www.delltechnologies.com/content/dam/delltechnologies/assets/promotions/resources/Digital_Future_Research.pdf

[v]   https://www.delltechnologies.com/content/dam/delltechnologies/assets/promotions/resources/Digital_Future_Research.pdf

[vi] https://www2.deloitte.com/content/dam/Deloitte/fr/Documents/strategy/dup_strategy-not-technology-drives-digital-transformation.pdf

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About the Author

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Louise McCarthy is an Avasant Fellow, with twenty years' experience in executing successful transformation roles, covering IT commercial sourcing, organization design SMART store digital, IT innovation, major cost reduction, sourcing strategy, strategic objectives and performance management, IT cost transparency recharges, PMO, global portfolio and investment management.

About Avasant

Avasant is a leading management consulting firm focused on translating the power of technology into realizable business strategies. Specializing in digital and IT transformation, sourcing advisory, global strategy, and governance services, Avasant prides itself on delivering high -value engagements through industry focused innovation and flexible client based solutions.

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