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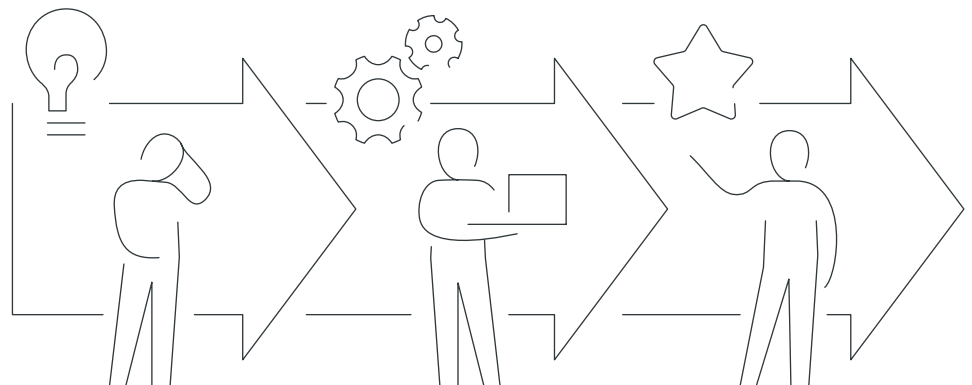
Why digital transformations fail — and what to do about it

Digital transformational trends in 2024

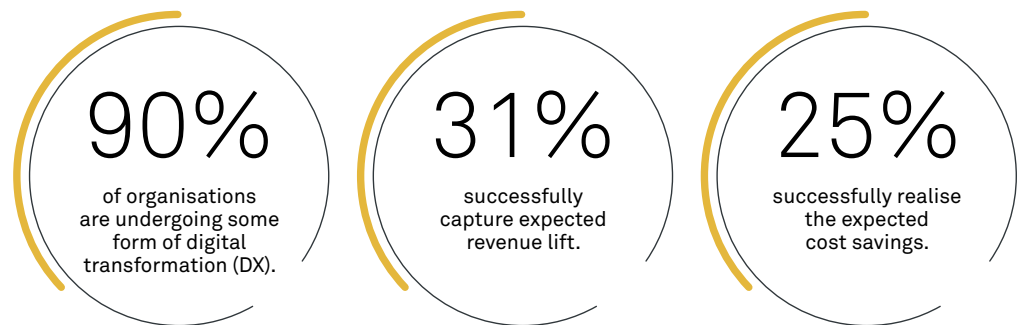# Table of contents

The notion of *digital transformation* has been a buzzword for years and consistently a top strategic priority for organisations across industry, as it is a key enabler of growth and a license to play to sustain a competitive position by driving down unit costs.

Everyone is currently going through some form of digital transformation, yet only few will successfully realise the benefits

90%
of organisations are undergoing some form of digital transformation (DX).

31%
successfully capture expected revenue lift.

25%
successfully realise the expected cost savings.

Almost every organisation is currently undergoing some kind of digital transformation. And while the scope for digital solutions and how they are being developed have changed over the years, and huge investments have been made, the success rate has stayed depressingly low.

Any organisational transformation is hard, but digital transformations have proven relentlessly difficult with a success rate of roughly 30% and only few organisations realising the objectives they set out to achieve.

However, certain organisations continuously succeed in creating and capturing value from digitalisation. Numerous research studies by various thought leaders have identified a set of common characteristics that digital transformations have in common. This article is intended to consolidate these perspectives across various sources – coupled with Implements' vast experience of advising organisations on digital transformation in distilling a set of recommendations to successfully launch and drive digital transformations in 2024.

1 Why digital transformations fail [1][2][3]

Every digital transformation is unique. Yet there are a number of common characteristics that apply to the majority of the transformations that fail.

These characteristics can be boiled down to six key pitfalls:

#1 Lack of a shared vision
- Lack of a shared understanding of the digital future of the industry.
- No clarity on where the business aims to compete and what gives the right to win in that future.
- Missing alignment across enterprise on roles and responsibilities.
- Leaders have different understandings of digital and talk past each other.

#2 Lack of experimentation and learning

- Long plans and business cases and projects lack flexibility and are too focused on delivering what has initially been approved.
- Leaders focus on pet projects that do not deliver much value.

#3 Lack of growth priorities

- Only digitising current business processes.
- Unclear which customer problems to focus on.
- Too focused on technologies rather than the problems to solve.
- Transformation is run by technologist and lose support from business over time.

#4 Transformation is scoped incorrectly

- Some organisations start out too small with too little at stake and with too little value to be realised and lose commitment.
- Others go too big with a scope that is spread out with investments spread too thinly.
- Scope is too complex with too many dependencies across initiatives, making transformation too slow and taking too long to prove its value and thus being shut down.

#5 Unfit operating model

- Traditional silos and reporting lines and budgeting dominate and challenge efforts to grow beyond the core of the business.
- Unable to staff up cross-functionally and deliver on new opportunities fast.

#6 No change in capabilities

Technology
- Legacy remains in place with only fixes and workarounds to the enterprise architecture.
- IT systems are inflexible and continuously reinforce silos in the organisation.

Talent
- Lack of internal capability development.
- Strategic capabilities remain positioned with third parties.
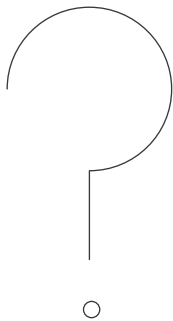
Culture
- Top down-driven culture and transformation.
- Wait-and-see mindset.
- Disengaged employees.
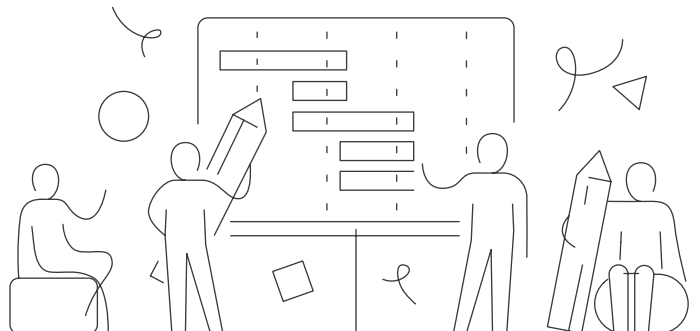
2 Decoding how today's digital leaders do it

Based on our experience and backed by numerous new and extensive research studies, including a systematic assessment of 200+ large-scale digital and AI transformations by McKinsey, whitepapers by leading digital analysts and new books by various digital transformation thought leaders point towards a multitude of elements critical to both strategising and delivering a digital transformation. Several elements have not changed significantly, e.g. the importance of working cross-functionally and applying an agile delivery model, yet there are also new winds blowing and trends that are proving to be valuable to succeed.

So what is it that the most successful digital leaders do differently than the laggards enabling them to build their digital moat?

2.1 Shared vision for digital transformation

Digital leaders define an inspiring vision that aligns their organisation towards a common goal. They treat this journey as a never-ending but continuous transformation clearly articulating the future vision and timing and quantifying the value.

As a digital leader, you must train and build a muscle that enables you to continuously adapt your digital strategy as new challenges and opportunities emerge. The more dynamic your industry, the greater the need for a "North Star" that clearly defines where you are heading so your organisation can align on its roles and push decision power into the teams – yet ensuring a common direction[4].
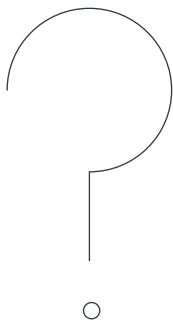
The vision needs to set business goals as well as financial goals and define how the organisation intends to win and capture value and, finally, the strategic business capabilities being transformed and the digital capabilities to enable the transformation.

Ask yourself: Is your executive team aligned on a common vision and able to clearly articulate how technology will enable their business vision?

2.2 A prioritised capability focus and balanced portfolio

Digital leaders apply a harsh prioritisation on the specific business capabilities to transform. The prioritisation is based on the potential value and the feasibility, considering both development and implementation. Optimally, the transformation targets 2-5 key business capabilities that can be transformed without too many enterprise-wide dependencies.

In any digital transformation, a customer-centric view needs to be applied, and customer-facing capabilities need to be prioritised, unless there is overarching value in back-office efficiency improvements. It is key to make the transformation small enough to succeed yet with enough impact to be prioritised among other initiatives in the portfolio. When the road map is fully implemented, it should have the potential to improve EBITDA by +15%.

Furthermore, it is important to ensure a balanced road map consisting of both short-term benefits and long-term strategic capabilities and a mix of improvements to the current business model with +50% of the transformation value generated from top-line initiatives[5] and investment into innovation outside the core of the business for long-term business sustainability.

The most robust road maps address all three dimensions:
1. New digital solutions to realise benefits and aspiration.
2. Enabling initiatives to reach maturity and support future business capabilities covering tech stack and data.
3. Organisational change management for the full transformation.

Ask yourself: Is your top priority digital initiatives targeting the business capabilities with the highest potential for your business to build a sustainable competitive advantage?
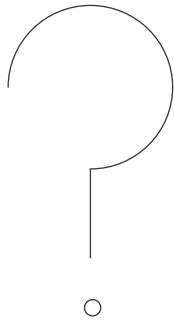
Ask yourself: Do you have well-defined business cases in place for each digital initiative in your road map, including clear business and financial goals, and are benefit owners committed and ready to realise benefits at launch?

2.3 Attractive business case

Digital leaders enable continuous investment into the transformation based on clear financial goals and a business case prioritised ahead of other strategic initiatives. Given the risk profile of a digital transformation, an initial return-on-investment estimate should multiply the investment by 4-5 times. This leaves a buffer for the added cost elements and a delay in benefits realisation, which are frequent.

All benefits should be owned by benefit owners in the business, and a clear benefit plan that is tied to existing operational KPIs should be in place. Tracking the benefit map is much more critical than following up on the classic project plan. Quick wins and realisation of the benefits should lead to reinvestment into the following phases.

Investment should be part of a governance with funding based on benefits realisation to focus all teams on the critical element and a road map which is fully flexible in terms of being changed as learnings are captured throughout.

2.4 Agile delivery model

Digital leaders realise that transforming an existing and complex business with technology requires close collaboration across commercial, operational and IT functions. Implementing autonomous teams and delegating decision power to become nimble and able to change course at speed is a key competitive differentiator to build and nurture[6].

A key role in orchestrating strategic decisions and prioritisation at the team level is the product owner. This is a critical role that is responsible for driving the product vision and road map and lead the prioritisation. To be successful, the product owner needs a good eye for the design thinking and customer experience. In addition, the product owner needs to understand the industry and competitors, technical acumen and understand the development ways of working and finally be able to manage stakeholders and lead the team. Few organisations can allocate such profiles, and upskilling on white spots is a necessity.

Much has been written on agility in the past, and many organisations have also been highly challenged on their agile transformations. Yet succeeding in adopting an agile delivery model is essential, as it is a superior development approach delivering better results[7].
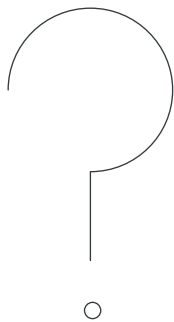
Ask yourself: How many of your digital teams are headed by a highly competent product owner empowered to steer the digital products and the teams towards higher value creation?

27%
productivity increase

30%
lower schedule slips

-70%
fewer residual defects
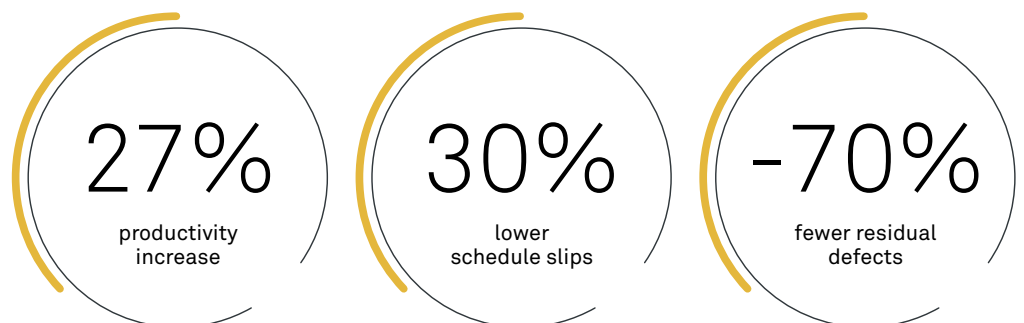
2.5 Technology built for speed and innovation

Digital leaders prepare their organisation for constant digital change, as the technology stack consistently needs to be modernised. A challenge for many organisations is the lack of interoperability of legacy platforms, killing all agility and impacting time to market of new solutions. Research shows that there is a clear correlation between ability to bring down technical debt and business performance[8][9].

Seeking a 50/50 split on investing in new tech and in modernising legacy is often required to sufficiently decrease technical debt.

In addition the moving towards a decoupled and composable architecture where products can be changed at speed with limited dependencies, many organisations have invested heavily in large data lake initiatives but seen little benefits, and transitioning to a data mesh architecture can be a means to fast-track value[10].

Decoupling the architecture by transitioning from point-to-point integrations towards API-based integrations, enabling flexibility to modify applications and transform in iterations. This reduces the complexity for the development teams that do not have to assess impact on the different layers in the stack.

Further setting the development teams up for success by investing in platforms to enable automation of provisioning, providing efficiencies and reducing errors, and taking a value-based approach to cloud adoption and strengthening FinOps capabilities to stay in control of costs.
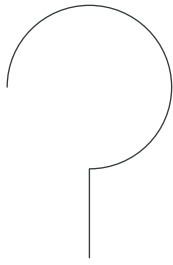
Ask yourself: Do you have an overview of the percentage of development capacity you need to allocate to foundational initiatives to reduce technical debt?

2.6 Leadership commitment

Digital leaders anchor the transformation at the top and enforce leadership commitment. We are starting to see a change in the leadership of digital transformations with the CEO in more cases taking the lead and actively engaging and leading. This is proving to be a strong lever for success to ensure prioritisation and allocation as well as enforcing commitment across the management team.

Another key element is for the leadership to develop their technology literacy and allocate time for upskilling to build insights and a common language. Less than 20% of board members have the digital literacy required for today's world[11]. Enabling leaders to role model their behaviour in digital upskilling, adopting and prioritising the support of the digital transformation and taking ownership of benefits realisation.
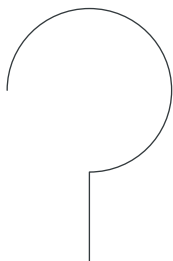
Ask yourself: Does your top management team invest sufficient time in building digital literacy, and is it able to articulate the opportunities that technology represents in its domains?

2.7 Make it about people

Digital leaders acknowledge that digital transformation is more about people than technology. To successfully transform and digitalise a business, the best people need to be allocated to make the right prioritisations and solution designs that will drive a competitive edge and enable value capture.

It requires new talent and capabilities, and a key element to succeed is the ability to attract and retain new digital talent. Many succeed in ramping up expertise with external advisors to scale and get access to experience and to build differentiating capabilities. However, it is essential that the organisation invests in building up the capability internally in parallel and to insource the capability midterm for own competitive advantage and to avoid overly relying on externals that are out of the control of the organisation. Having own dedicated tech staff enables true collaboration with business and enables more frequent development cycles and attractive time to market of new solutions. Top performers are better than others at integrating (and retaining) new hires in tech roles – a critical advantage as tech talent has only become scarcer in the past two years .

As a rule of thumb, the target is to have approximately 80% internally staffed and 20% externally staffed once the transformation programme has matured.

> " You cannot outsource your
> way to digital excellence."

Attracting digital talent and scaling up new technical capabilities is a challenge for many organisations that are suddenly competing for the same talent with companies across industries. This tends to steer all the focus of the people function to talent attraction, yet the most successful organisations manage a dual focus to also cater for making the digital talent highly effective once they start. This requires a change for many organisations in terms of managing technology talent, ensuring career paths and building the capability to segregate between different proficiency levels of e.g. an AI developer.

Developing a capability plan becomes as important as the technology road map and needs to be carefully managed, as this easily becomes the critical path to deliver. Building capabilities is not only about attracting new talent but actively seeking to upskill employees that have critical experience and knowledge and can be a key asset in the future organisational setup.

To steer a complex transformation across business units and borders and setting up a transformation office enables transparency and control.

The transformation office should lead:

Transformation office responsibilities
- Road map development
- Benefit tracking
- Financial management
- Change management
- Risk management
- Transformation administrative support
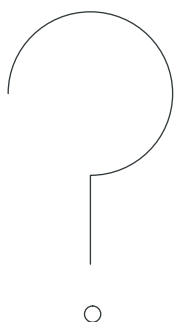
Ask yourself: Do you have a clear view of the skills that are key to your competitive differentiation, and do you have a detailed capability road map to hire, contract or reskill talent to close this capability gap?

2.8 Focus on organisational change

Organisations succeeding with digital transformations plan for organisational change to be the most complex task. They invest as much time designing and planning the change management journey as they do designing new solutions.

They define a change management strategy and drive and lead it with a relentless focus on capturing learnings and adapting approaches to ensure optimal conditions for benefits realisation.
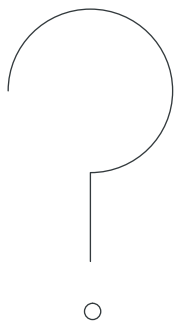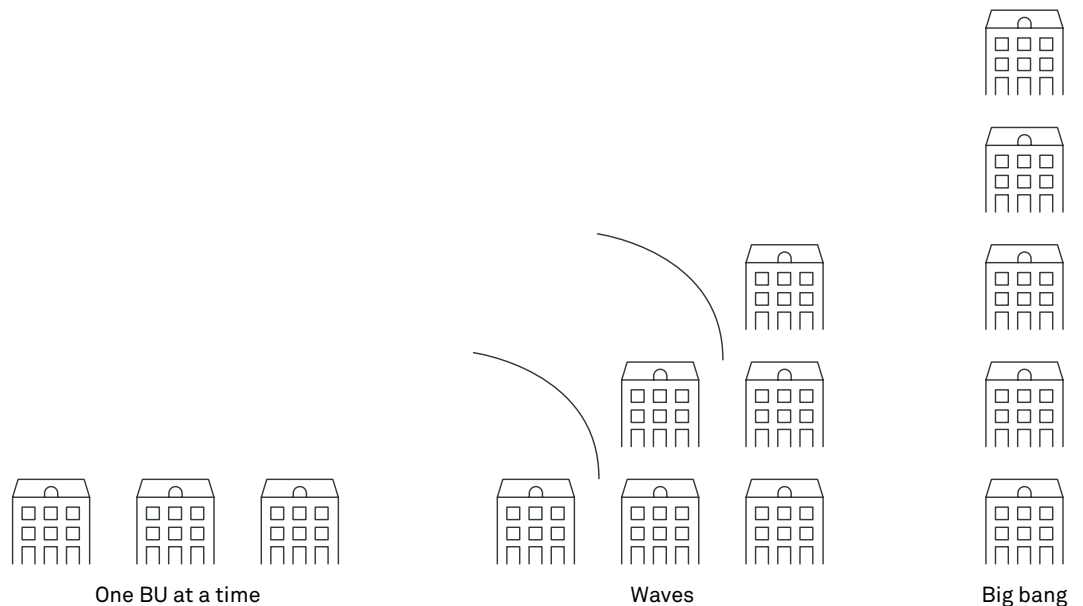
The strategy needs to define the scaling approach – whether to implement one business unit at a time, exponential waves or delivered as a big bang.

Scaling approaches

One BU at a time   Waves   Big bang

Ask yourself: Are you applying the right focus on adoption and scaling of new solutions and preparing your organisation and building your culture for a world of constant digital change?

Finally, these successful digital leaders actively nurture a culture throughout the organisation that instils customer centricity, collaboration across functions and a sense of urgency to respond quickly to changes in the environment.

Cultural traits to enable digital transformation
- Customer focus: keeping the customer at the heart of everything we do.
- Sense of urgency: prompt action and response, recognising the importance of swift movement.
- External awareness: continuously gleaning insights from other companies, partners and the broader ecosystem.
- Experimentation and growth: cultivating a culture of rapid experimentation, valuing insights over mistakes.
- Data-centric: driven by a relentless pursuit of data-driven insights.
- Empowerment: delegating decision-making authority to front-line staff, fostering an environment of autonomy.
- Impact-driven: prioritising tangible results and swift value delivery.
- Collaboration: facilitating seamless cooperation across business units and functions, bridging the gap between business and IT.

The six steps to create a digital strategy

1

Define a shared vision
Establish a common understanding of the business and financial objectives through a shared vision. Clarify roles and responsibilities to ensure success in achieving these goals.

2

Pick the problems that matter most
Clearly define the business problem that needs to be addressed, such as unmet user needs or process pain points. Identify the specific improvement lever that needs to be activated in order to solve the problem.

3

Identity solutions and use cases
Identify the digital solutions and their corresponding use cases that are needed to address the "problem to be solved".

4

Define tech and operating model requirements
Evaluate the data landscape and technology stack in comparison to the target solution architecture. Identify any gaps and necessary investments.

Define the capabilities and operating model elements required to succeed.

5

Establish impact and investments
Estimate the potential impact of these solutions by outlining how each lever/KPI could contribute to improvement. Provide a rough estimate of the necessary investments.

6

Design road map and plan implementation
Specify the change management requirements needed to fully realise the value and develop a sequence for implementation. Clearly define leadership roles and accountabilities and define the transformation delivery model.

3 Perspective

In conclusion, the journey of digital transformation is both complex and critical for organisations navigating the ever-changing landscape of the digital age. While the failure rates of such transformations remain high, there are clear pathways to success that can significantly enhance the odds of achieving desired outcomes.

Several characteristics of successful transformations have not changed significantly, yet a new and emerging tendency of anchoring the digital transformation with the CEO is interesting and restates the criticality of succeeding with digitalisation.

The cross-functional teaming and emergence of the product manager role in acting as a mini-CEO in many organisations is also new because of shorter planning horizons and a need for more frequent deployments and value potential of improving time to market and deploying ahead of competition.

Finally, the transition towards modular architectures and advancements in the ways of organising the data is evolving rapidly and enables organisations to take faster steps towards becoming truly data-driven and operate at speed despite increasing complexity.

In many ways, digital transformation has transitioned from an explorative "innovation" project taking place on top of the business-as-usual IT agenda towards a more strategic transformation with clear benefit expectations and requirements to deliver.

It has become crucial to work on the dual digitalisation agenda of not only constructing capabilities to identify and realise value through new digital solutions for customers and business but also to invest in creating organisations with capabilities enabling them to continually change at pace with the changes around it ahead of competetion.

By addressing the common pitfalls outlined earlier and embracing the key characteristics of successful digital transformations, organisations can improve their odds of enabling digital change readiness capability and succeed with their growth and efficiency objectives.
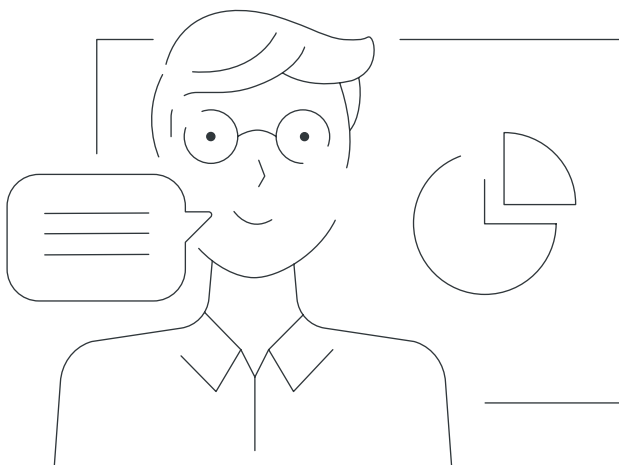
As we navigate the trends and challenges of digitalisation in 2024 and beyond, it is imperative for leaders to recognise that digital transformation is fundamentally about people, not just technology. By investing in talent development, upskilling internal capabilities and driving organisational change with firm commitment, organisations can pave the way for a future where innovation thrives, value is continuously realised, and customer needs are met with agility and responsiveness.

In essence, the journey of digital transformation is not just a destination but a continuous evolution – a journey where organisations must continually adapt, learn and grow to stay ahead in the digital age.

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Notes

[1] The Digital Transformation Roadmap: Rebuild Your Organization for Continuous Change

[2] Rewired: The McKinsey Guide to Outcompeting in the Age of Digital and AI

[3] Why Digital Transformation fail, Tony Saldanha

[4] The Digital Transformation Roadmap: Rebuild Your Organization for Continuous Change, David Rogers (2023)

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[11] Why Digital Transformation fail, Tony Saldanha

[12] Three new mandates for capturing a digital transformation's full value, McKinsey (2022)

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We believe that great organisational impact leads to great impact for humanity. Implement was created to help turn true expertise into real change.

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