A digital catch-22: after the crisis, who’s betting on digital transformation?

Many organisations attempt digital transformation, but failure is five times more likely than success. Digital transformation is not a piece of cake. It requires redesigning the whole organisation and involves large-scale change. Being slow to adopt digital technologies may reduce risk in the short term but builds growing business risk and reduced competitiveness in the long term. And this trend will be repeated and magnified by the growing adoption of automation and ‘AI’ over the next five years. ***Leslie Willcocks*** *writes that there are ways out of the digital catch-22, but senior executives responsible for digital transformation will need to take a much bigger view of the change process, if the potential business value of digital investments is going to be realised.*

Today’s organisations are facing a digital catch-22. On the one hand, digital transformation is difficult and costly, and short-term investment may be needed elsewhere to where it’s really hurting. On the other hand, today’s organisations cannot afford not to become tomorrow’s digital businesses. In this article I will point up the dimensions and intractability of this digital catch-22, before suggesting some ways forward.

But not so fast; firstly, what is **digital transformation**? Digital transformation requires **digitisation** – converting something non-digital (e.g., a health record, an identity card) into a digital format that can then be used by a computer system. Digital transformation also requires **digitalisation** – enabling, improving, or changing business operations, functions, or activities by utilising digital technologies and using digitised data to create management intelligence and actionable knowledge. All three—digitisation, digitalisation, and digital transformation—are needed to build a digital business. Digitisation and digitalisation are necessary but insufficient. My academic colleague George Westerman put it rather well: When digital transformation is done right, it’s like a caterpillar turning into a butterfly, but when done wrong (or we might add, incompletely), all you get is a really fast caterpillar. Digital transformation must focus on the whole organisation, and large-scale change. It involves radical redesign, then deployment of business models, activities, processes, and competencies to fully leverage the opportunities provided by digital technologies. I would guess you already have some idea of why it is so difficult.

Let’s find some evidence for the high level of challenge. It is notable, firstly, that organisations are surprisingly slow into digital transformation, given that this has been on many executive agendas since at least 2010. Many organisations digitise, digitalise even, but this does not add up to digital transformation, though many might think it does. The reasons for the lack of speed are complex, but failure is five times more likely than success. The high failure rate is indicative of the large number of stumbling blocks and can be very dissuading for others. Our work suggests that slow progress reflects how ‘siloed’ many organisations have become. What we call the ‘seven-siloed organisation’ points to the barriers to change inherited from older business models. The siloes include processes, technology, data, culture, structures, skills sets, and managerial mindsets. When it comes to digital transformation, any organisation with all these siloes is severely hamstrung from the start.

Yet there is another side to the digital catch-22. What happens if, putting it colloquially, you fail to sail? There are relatively few best performers on digital transformation. These are getting disproportionate gains, recording markedly higher profitability and revenues, accelerating away from the others, and may well establish a competitive advantage that becomes irreversible. What are they achieving? According to one study, they had increased the agility of their digital-strategy practices, enabling first- mover opportunities. They had taken advantage of digital platforms to access broader eco-systems and innovate new digital products and business models. They had used mergers and acquisitions to build new digital capabilities and digital businesses. A significant feature was that they had invested ahead of their competitors in digital talent.

Our own work (here and here) suggests that the best performers on digital transformation add up to around only 20% of organisations, all recording up to a 30% increase in revenues as a part outcome of their digital technology investments over the previous four years. They come from most sectors and regions of the world and are not limited to the obvious hi-tech US and Chinese firms. To add even more urgency, our evidence, consistent with other studies, shows that being slow to adopt digital technologies may reduce risk in the short term, in terms of cost, talent and time, but builds growing business risk and reduced competitiveness in the long term. And this trend will be repeated and magnified by the growing adoption of automation and 'AI' over the next five years.

So, there is plenty of evidence for a digital catch-22, but is there an unlikely saviour here in the form of the pandemic and economic crisis? This has undoubtedly accelerated corporate moves toward digitisation and digitalisation – primarily to survive in the short term, establish resilience, and to maintain competitiveness. But we found motives mixed, capabilities variable, and planning horizons mostly short term. That said, a McKinsey survey suggests that COVID-19 has pushed companies over a technology tipping point. Between January and October 2020, the digitisation of customer and supply-chain interactions and of internal operations had accelerated by three to four years. The share of digital or digitally enabled products in corporate portfolios had accelerated by seven years. Nearly all respondents had put in place quickly at least temporary solutions, to meet many of the new demands on them. Funding for digital initiatives increased more than for anything else. Moreover, the largest shifts in the crisis were also the ones most likely to stick – think changing customer needs and expectations, more remote working/collaboration, cloud migration, customer demand for online products and services, and increasing spend on security. Those who had invested heavily into digital technologies over the previous three years also reported a range of facilitating technology-related capabilities that others lacked in the crisis. This meant they were better prepared for the crisis.

Did COVID-19, then, make digital transformation easier? Well, the evidence is that the digital catch-22 has not gone away. Digital technologies are gaining a higher profile amongst the executives who make the key decisions, but the difficulties and complexities of large-scale organizational change on many fronts are not easily circumvented, and there remain many other pressing matters to deal with, distracting executive attention. Moreover, it is one thing to have a burning platform driving needed organisational change, but the particular emergency conditions during 2020 and into 2021 may not be repeated. The spectre of fading competitiveness may not be sufficient motivation for all too many organisations. Clayton Christensen's 'innovators' dilemma' could kick in once again.

There also remains the management question. For many years, in study after study, we have found that when it comes to introducing information, communication, and now digital technologies into organisations, the majority of challenges and issues – up to 75% – are managerial and organisational, not technological. For digital transformation, the major challenge we have identified is getting to understand and develop competencies for large-scale radical organizational change shaped by disruptive technologies. Michael Wade and Jialu Shan's research is consistent with this in pointing to past failures coming from unrealistic expectations, limited scope, poor governance, and underestimating cultural barriers. They found that, in success stories like Cisco, Unilever, DBS bank, ABB, Nike and Disney, they all had precise, clear, unambiguous, realistic, succinct, measurable objectives that included everyone in the company.

Other studies add to this. From their findings Gerald Kane and colleagues identify the need for a whole organisation approach, but also stress the neglected role of people in digital transformation. They point to the importance of transformative leadership, developing a digital talent mindset, and making the organisation a digital talent magnet. It is a useful reminder that no technology is a silver bullet, a fire-and-forget missile or plug-and-play – despite the widespread use of these misleading metaphors. Jeanne Ross and colleagues recognise that for an established organization, existing organisational structures, legacy systems, and embedded habits are significant obstacles. They suggest an evolutionary approach of gradual componentisation of parts of the business, producing digitised business operations and units that fit together over time, building towards creating a digital business. They offer the example of Carmax, a $20-billion-dollar used car retailer and wholesaler that benefited between 2015 and 2020 from gradual, but radical redesign of its systems, processes and people. Meanwhile, Jacques Bughin and colleagues suggest several practices for organisations in catch-up mode: make your strategy process more dynamic; lay out clear priorities; invest early and aggressively in requisite capabilities and talent (especially at senior executive level); invest the time and money – this will only happen if becoming digital is a top priority amongst corporate leaders; redefine how you measure success; and empower people. Digital transformations were more likely to be exceptionally effective when companies gave people clear roles and responsibilities and put an "owner" in charge of each transformation initiative.

All this suggests that there are ways out of the digital catch-22, but senior executives responsible for digital transformation will need to take a much bigger view of the change process, if the potential business value of digital investments is going to be realised.

In summary, there are several interesting features to the long trend of moving to digital business. By 2015 most large organisations were espousing digital business strategies. But by 2021, if you exclude the 'born digital' and the obvious hi-tech companies, few had become digital businesses. This highlights first that organisational change can take a very long time. Secondly, it underlines the importance of execution capabilities, without which strategy means very little. The third point of note is how an ostensible support activity—IT—can move to the core of the business and become not just a strategic weapon, in terms of cost efficiency and differentiation, but a fundamental platform for operating. The fourth observation is that the 2020-21 crisis accelerated the adoption of digital technologies and the moves to digital business but left much work to be done if organisations are to enhance competitiveness, streamline operations, improve organisational resilience, and become digital businesses.

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Notes:

- *This blog post is based on research for the author's forthcoming book Global Business: Management (SB Publishing, Stratford) – available from www.sbpublishing.org in January 2021.*
- *The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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