HOW TO REVERSE THE DISMAL FAILURE RATE OF DIGITAL TRANSFORMATIONS

Tony Saldanha

Companies either transform or die in industrial revolutions. Obviously, they don't die without a fight.

I bought General Electric (GE) stock for $25 per share in October 2014 when then-CEO Jeffrey Immelt boldly declared his plans for GE to become a digital industrial company. "If you went to bed last night as an industrial company, you're going to wake up today as a software and analytics company," he said at GE's third annual Minds + Machines conference in New York. For a while, Immelt's strategy and my investment prowess seemed unassailable as GE's stock hit $33 in July 2016. Alas, that assessment proved to be premature. Immelt declared his intention of retiring in October 2017 and I sold my GE stock soon after, at $24. It wasn't my finest investment decision, although it could have been much worse, as GE's stock languishes at less than half that price today.

Had Immelt been wrong all along abut the importance of digital transformation? No. But where GE fell short was in execution. GE isn't alone—70% of all digital transformations fail. Based on my work at Procter & Gamble and beyond, most digital transformations fail for two reasons: 1) their transformation strategy lacks clarity and 2) they don't choose the right processes for disciplined execution. In short, they fail at the *where* of digital transformation and the *how*.

Adventures in Transformation Wonderland

This famous exchange between Alice and the Cheshire Cat in Lewis Carroll's *Alice in Wonderland* nicely captures the quandary of *where* and *how*:

"Would you tell me, please, which way I ought to go from here?" [Alice asked].

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where…" said Alice.

"Then it doesn't matter which way you go," said the Cat.

" …so long as I get somewhere," Alice added.

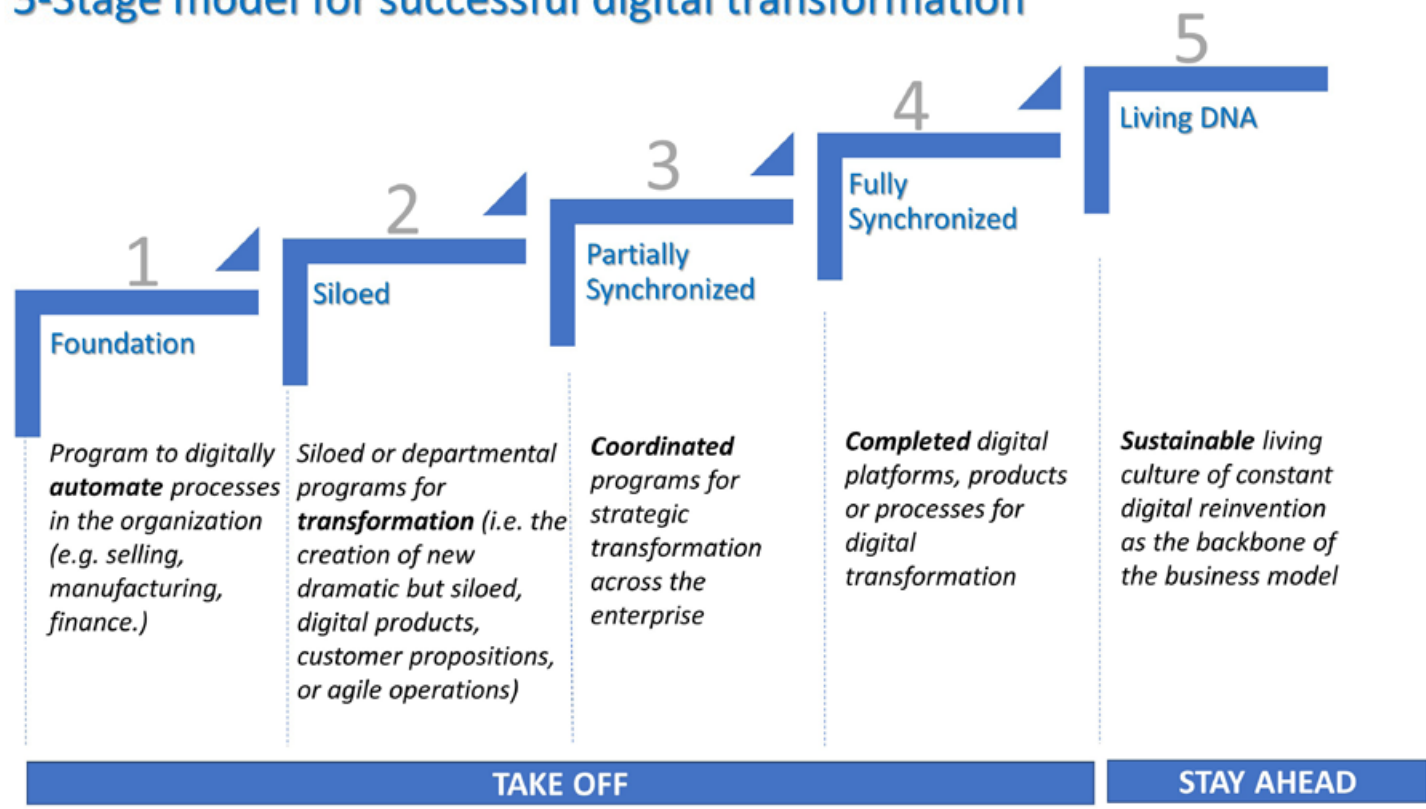*"Oh, you're sure to do that," said the Cat, "if you only walk long enough."*

The roots of the first part of the problem—the *where*—lie in the hyped-up, fuzzy interpretations of the term "digital transformation." Every new IT tool, from new communications software to the next release of an SAP upgrade, is called digital transformation. Technology providers use "herd marketing" techniques to move executives to urgent action. Strong board members, CEOs and executives understandably jump at the opportunity to lead change. This necessary and decisive push by them ironically leads to a "Ready-Fire-Fire" approach instead of "Ready-Aim-Fire."

The roots of the second part of the problem—the *how*—lie in fundamental misunderstandings of the appropriate methodology. Typically, IT projects rely on process improvement methodologies. But what's needed is a genuinely transformational approach.

Where: The Five Stages of Digital Transformation

Fuzzy, hyped-up interpretations of digital transformation aren't going away anytime soon. There's too much at stake for technology providers to self-regulate on terminology. Executives need to tune them out and focus instead on the full spectrum of transformation. First, understand this spectrum and then decide where on the spectrum your initiatives should fall. Leaders who are clear about where their digital transformation goals lie will be better equipped to deliver them.

5-Stage model for successful digital transformation

1 Foundation

Program to digitally **automate** processes in the organization (e.g. selling, manufacturing, finance.)

2 Siloed

Siloed or departmental programs for **transformation** (i.e. the creation of new dramatic but siloed, digital products, customer propositions, or agile operations)

3 Partially Synchronized

Coordinated programs for strategic transformation across the enterprise

4 Fully Synchronized

Completed digital platforms, products or processes for digital transformation

5 Living DNA

Sustainable living culture of constant digital reinvention as the backbone of the business model

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The spectrum of digital transformation ranges from simple digital automation at one end of the spectrum to new business models and agile culture at the other. It consists of five stages:

Stage 1. **The Foundation.** In this stage, enterprises actively automate internal processes, such as selling, manufacturing or finance, using SAP, Oracle, Salesforce, or similar platforms. This is more like automation (also called digitalization) than transformation, but it provides the digitalized foundation necessary for future transformation. Automating processes using digital platforms is necessary for converting manual effort into data.

Stage 2. **Siloed.** In this stage, individual functions or businesses begin to use disruptive technologies to create new business tactics. For instance, the manufacturing function may have made progress on using the Internet of Things to drive major changes in the way they manage logistics or make things. Or the finance manager, having learned about Blockchain, transforms the way intercompany accounting is handled across borders. Alternatively, a business unit within the enterprise may have used technology to created new capabilities, such as selling direct-to-consumer as opposed to retailers. However, these and other efforts remain siloed in discrete functions and there is no overall company strategy driving transformation.

Stage 3. **Partially Synchronized.** The enterprise leader, owner, or CEO has recognized the disruptive power of digital technologies and defined a digital future state. In this stage, the various parts of the organization have started rowing in the same direction. However, the enterprise has not completed the transformation to a digital backbone or to new business models. Nor has the company created a sustainable innovative culture. It was at this stage that GE's digital transformation ultimately stalled. CEO Jeff Immelt defined his vision for a digital industrial future. The entire firm started to move towards a single digital strategy. However, the new digital business model never matured to the point of putting down strong roots.

Stage 4. Fully Synchronized. At this point an enterprise-wide digital platform or new business model has fully taken root. However, the transformation is a one-time occurrence. The company remains just one technology (or business model) change away from being disrupted.

Stage 5. Living DNA. The only way to survive continuous disruption threats is to make digital capabilities and an agile innovative culture the ongoing, living DNA of the enterprise. Transformation becomes perpetual. You maintain industry leadership because you are disciplined in constantly innovating and setting industry trends. You're not just a market leader; you're a disciplined innovator.

Most digital transformations fail for two reasons … they fail at the *where* of digital transformation and the *how*.

How: The Right Processes for Disciplined Execution

If there's one thing I've learned about execution over three decades of running and disrupting large technology operations at Procter & Gamble and elsewhere, it is this: the processes needed to execute traditional automation as opposed to those for digital transformation are very different. Traditional automation requires strong, structured project management—closer to the skills required in engineering constructions. Digital transformation calls for all of those capabilities, too. But it also requires techniques that resemble the portfolio innovation methods employed by venture capitalists and the change leadership techniques employed by corporate turnaround artists.

Routine transformation efforts involve the proverbial act of changing the tires while the car is moving. But *digital* transformation is even tougher. It often needs to be done dramatically faster in the face of an existential disruptive threat. Yet, the methodologies for digital transformation in most organizations are simply offshoots of traditional automation projects. A better approach is to separate operations and their continuous improvement from disruptive innovation and use different processes for each.

Consider Alphabet's approach to disruptive innovation (called 10X, because it requires a ten-fold improvement over the current state). Alphabet maintains a separate organization called X Development (formerly Google X) that handles a portfolio of 10X projects only. Alphabet generates hundreds of intrapreneurship ideas internally and sources thousands more from conferences and crowd-sourcing. Only a small fraction of these ideas—those that have 10X potential—make it to X Development. Meanwhile, Alphabet's other businesses focus on routine operations and continuous improvements.

The winnowing down from the thousands of potential ideas into the small portfolio of 10X projects is done via a combination of hard data and the judgment of the top scientists at X. After promising ideas have been selected to become the few chosen projects, they are run iteratively in order to kill off as many low-value ideas as early in the cycle as possible. What remains after this constant winnowing is a small set of highly disruptive projects. Among these, X lists big-hitter ideas like Google Brain (which powers speech recognition, photo search and video recommendations), Google Contact Lens (which assists diabetics by monitoring glucose levels), and Waymo (self-driving cars).

Processes for transformational change rely on the portfolio effect of winnowing a large number of projects down to a few big-hitters. In contrast, traditional automation projects rely on making one or two big ideas successful. Once this fundamental distinction is understood, you can apply a practical checklist to each stage of digital transformation.
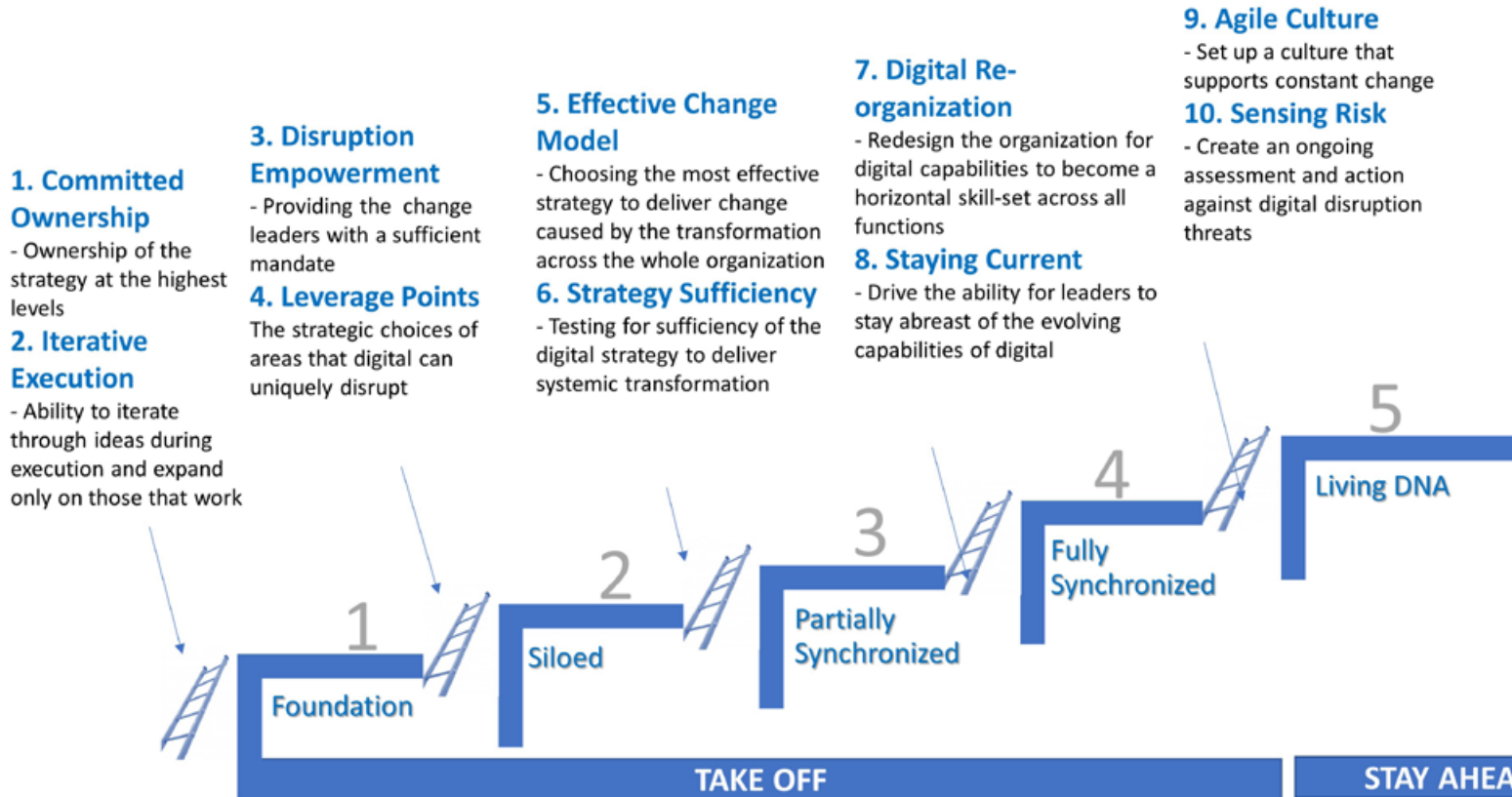
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Checklists for Rigorous Execution

The idea of applying checklist methodology to improve operational success rates originated with the airline industry. Today, 99.999999% of aircraft takeoffs are successful—a success rate that was a mere pipe dream when the aviation industry was in its infancy. You can apply similar rigor to digital transformation, where today only about 30% of projects succeed. For each of the five stages of digital transformation, there are two checklists that can help improve today's dismal success rate.

Checklist to Move up the 5-Stage Transformation Model

1. Committed Ownership
- Ownership of the strategy at the highest levels

2. Iterative Execution
- Ability to iterate through ideas during execution and expand only on those that work

3. Disruption Empowerment
- Providing the change leaders with a sufficient mandate

4. Leverage Points
The strategic choices of areas that digital can uniquely disrupt

5. Effective Change Model
- Choosing the most effective strategy to deliver change caused by the transformation across the whole organization

6. Strategy Sufficiency
- Testing for sufficiency of the digital strategy to deliver systemic transformation

7. Digital Re-organization
- Redesign the organization for digital capabilities to become a horizontal skill-set across all functions

8. Staying Current
- Drive the ability for leaders to stay abreast of the evolving capabilities of digital

9. Agile Culture
- Set up a culture that supports constant change

10. Sensing Risk
- Create an ongoing assessment and action against digital disruption threats

1 Foundation
2 Siloed
3 Partially Synchronized
4 Fully Synchronized
5 Living DNA

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Stage 1 checklists. Digital transformations fail most often at the automation stage either because teams lose sight of the intended business value being targeted or they execute poorly. You can avoid those mistakes at this stage by executing against these two checklists:

Committed ownership of the strategy at the highest levels

- Personal skin-in-the-game demonstrated by the top leader

- Hands-on ownership by top leadership to translate strategy into tactics

- Personal barrier-busting by top leadership

- Leaders with strong digital literacy

In Singapore, ranked the most digital nation in the world, Prime Minister Lee Hsien Loong has set the tone for his country's digital program, communicating his personal commitment by having the program run out of his office.

Iterative execution to avoid major implementation failures

- Splitting up the execution into a portfolio of different projects of varying risk/return

- Using metrics related to speed of execution

- Using processes such as LEAN enterprise for iteration

The initial HealthCare.gov website launch hiccup in 2013 provides an important lesson on the perils of not breaking up large projects into smaller, iterative executions.

Stage 2 checklists. Siloed transformation failures usually result from under-powering change leaders and making incorrect choices in what to transform. The two sets of disciplines that need to be checked here are as follows:

Empowerment of change leaders

- Up front definition of a massive and provocative goal

- Extraordinary empowerment of initiative leaders

- Unwavering air-cover for change leaders

The turnaround of the *Washington Post* is in no small measure due to the personal commitment and empowerment from owner Jeff Bezos in driving digital transformation.

Identification of digital leverage points

- Rigorous identification of the potential areas where digital can create disruptive opportunities

- Consideration of new business models

- Exploration of new digitally-driven products and services

- Analysis of opportunities for disruptive operational excellence

Netflix continues to transform its business models repeatedly, by being disciplined in leveraging its strengths of market agility, culture, and technical superiority.

Stage 3 checklists. The partially synchronized stage of digital transformation typically fails due to an ineffective change management strategy or an insufficient amount of projects to adequately transform the core organization. These two sets of checklist items can help:

Change management model for the core organization

- An appropriate change management model calibrated to the organization's readiness and appetite for change

- A clear model and a rewards system to address the challenge of the "frozen middle"

- Working backwards from the current change readiness of the organization towards change creation

When Procter & Gamble acquired Gillette in 2005, the secret to its exceptional delivery of cost synergies was the deliberate choice of an organization change approach to its systems integration. Clear top-down goals were mapped against possible organization issues. Rigorous plans addressed the synchronization of these constantly.

Portfolio of initiatives

- A sufficient volume of initiatives to drive change to the tipping point

- Ideal mix of high/medium- and low-risk digital initiatives

- Clear allocation of resources to current operations, continuous improvement, and disruptive innovation projects

Organizations like Google have successfully used rough rules of thumb such as 70/20/10 to guide the allocation of transformation resources.

Stage 4 checklists. The ability to complete a one-time digital transformation of the enterprise can fail due to issues of organization structure or insufficient digital literacy. These two sets of checklists apply:

Refreshing of technical capabilities

- Reskilling of IT function to embrace digital capabilities beyond traditional IT projects

- Propagation of digital literacy throughout the enterprise

- Reassessment of the adequacy of existing technology vendors for helping meet transformation goals

AT&T's Workforce2020 program plans to spend a billion dollars on a web-based multiyear effort to retrain 100,000 of its employees in digital capabilities for the future.

Staying current on rapidly evolving technology

- A focused digital literacy program at the senior level to set the tone for the rest of the organization

- Creation of partnerships with venture capitalists and startups to stay in touch with the latest practical disruptions

- Ability to tap into the external ecosystem of experts, vendors, and suppliers to ensure sustainability of digital capability

The ability to tap into the ecosystem should be systematically built into the digital transformation program. Several large companies, including AT&T, Walmart, and FedEx, have created software developer networks by inviting a targeted number of experts to access relevant data and solve specific problems.

Stage 5 checklists. While Stage 4 transformation delivers a one-time win, it's no guarantee that the next disruption won't occur. Failure at Stage 5 is usually caused by an insufficiently agile culture or a lack of discipline to constantly sense and respond to new business disruption risks. These checklists can help address those issues:

Creating an agile culture

- Ability to support constant evolution of the business and organization

- Pervasive customer focus

- Persistent, smart risk-taking

- A common passionate purpose across the enterprise

The lessons from Zappos have proved how culture plays a hugely disproportionate role in fostering transformation through customer-focused innovation. The remarkable story of SpaceX, continually breaking old paradigms in its attempt to put humans on other planets, is a clear case of purpose-driven agility.

Sense-and-respond capability

- Reliable, repeatable processes for identifying risks of disruption

- Ability to measure and quantify risks

- Ability to react to disruptive threats in a disciplined manner

Research In Motion (RIM), makers of the Blackberry, ruled the world in smart multi-feature phone devices in the early 2000s but was all but irrelevant in the marketplace by 2012. It did not

move quickly enough to reduce reliance on its proprietary operating system and react to Apple's disruptive introduction of a greatly improved user experience.

The reliability of takeoffs in the airline industry has evolved dramatically, thanks to disciplined reliability improvement models (and checklists). Takeoff was a gamble during the early days of the Wright brothers. During World War II, it became operationally predictable. Today we take such reliability for granted. In comparison, the reliability of digital transformation is still somewhere between the Wright brothers' era and WWII. That's neither a criticism nor an indictment—it's a description of reality. But by combining clarity of strategy with the right processes for disciplined execution, we can to make a significant dent in the 70% failure rate of digital transformation today.

The World Economic Forum has declared that we are seeing the Fourth Industrial Revolution. As with prior industrial revolutions, an underlying technology is disrupting enterprises; the pace of change is accelerating, and the number of disruptive competitors who can damage your enterprise is multiplying. You face not one but two challenges. First, you need to transform your enterprise to a new digital business model. Second, you need to make your position in your industry sustainable by becoming a disciplined, ever-evolving market leader. **This combination of becoming a digitally transformed entity and a sustained market leader should be the ultimate goal of any digital transformation.** ⊞

Info

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About the author

Tony Saldanha is CEO of Transformant, a consulting firm that provides advice to boards and CEOs in Fortune 500 companies on digital transformation, especially on internal business operations. During a 27-year career at Procter & Gamble, he ran IT and Global Business Services (GBS) in every region of the world, helping create a multi-billion dollar best-in-class operation. Tony has a proven track record of GBS design and operations, CIO positions, acquisitions and divestitures, outsourcing, disruptive innovation, and experiences in creating new business models. His other activities include angel investing, advising non-profits and venture capitalists and start-up companies and starting up technology companies of his own.