

A HARVARD BUSINESS REVIEW ANALYTIC SERVICES REPORT



**Harvard  
Business  
Review**

# ACCELERATING THE PACE AND IMPACT OF **DIGITAL** **TRANSFORMATION**

**EXECUTIVE SUMMARY**

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# Can Digital Generate Significant Impact for More Than 21% of Enterprises?

After questioning 680 executives across functions and industries—from financial services to manufacturing and technology—four crucial points have emerged on the impact of digital technologies on global organizations.

**1. Digital is a competitive weapon but its impact is unevenly distributed.** While optimistic about the future, only 21% of executives see significant results from digital transformation in their enterprises today. These leaders consider digital a key contributor to growth, and say that it plays a significant role in establishing a superior competitive position.

But why is success not more pervasive, and what can we learn from the leaders?

**2. The challenge isn't technology prowess, budget, or access to extraordinary talent.** The study indicates that the biggest hurdles are the inability to experiment, change management, legacy systems, a risk-averse culture, and organizational silos.

But leaders see things differently, as silos and an aversion to risk are lower barriers. And crucially, an enterprise's business architecture—beyond the technology component—seems to influence the results: 53% of organizations with strong alignment between customer expectations and their organization's middle- and back-office functions/systems are achieving significant positive business impact from digital, compared with 3% of those with little alignment.

**3. The necessary leadership, skills, vision, and approach are often fragmented or immature.** These qualities don't even appear to fully reside in the CIO's organization, the traditional home of enterprise technology and business transformation. Indeed, only around a third of respondents think that the IT organization can align digital interventions to business outcomes; design customer-focused solutions with, for example, design-thinking approaches; use Lean to integrate middle- and back-office functions and systems; and consistently act on insight from data.

**4. Leaders focus their efforts differently.** Only half of respondents believe that their companies have an enterprise-wide digital **strategy**, but digital leaders (77%) stand out. Only 40% of respondents say their companies use **metrics** to pinpoint interdependencies across organizational processes, but 71% of leaders do. And tenured employees remain the backbone of change, as only 38% of companies say that they rely on **digital natives** for their digital efforts—although leaders depend on them more.

The design and implementation **approaches** respondents use are not seen as very effective at overcoming legacy system and process challenges, but leaders are better off. And while **partners** offer some help, leaders seem to find the right third parties to support them.

**Against this backdrop, we question whether the key to digital success lies in technical acumen or something else.**

Our experience shows that as large companies evolve they are supported by four pillars. They (i) infuse adequate business domain expertise into the transformation program, (ii) methodically focus on the end user's journey through design-thinking or equivalent methods, and (iii) harness Lean practices that enable end-to-end process design beyond sales and marketing and into middle- and back-office functions. This results in (iv) better digital technology and analytics choices.

These pillars make digital work. We call this approach **Lean Digital<sup>SM</sup>**.

The findings from this research are essential reading for any business. To assess your organization's ability to generate impact from digital interventions and compare the results against your peers', take the Lean Digital Ratio—a companion to this study—at [ratio.genpact.com](http://ratio.genpact.com).

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# ACCELERATING THE PACE AND IMPACT OF DIGITAL TRANSFORMATION

Despite steadily mounting investments in digital technologies, only about one-fifth of companies report that digital technologies are playing a strong role in their ability to compete, according to a Harvard Business Review Analytic Services global survey. But the study also found that the nature and trajectory of digital transformation are on the cusp of significant change. Businesses are moving away from digital technologies as ends in themselves and using them to fortify their fundamental abilities to compete. They are turning to digital technologies to support new products and business models, and revamping customer experiences by focusing on the quality of middle- and back-office interactions to the same degree that they address web sites and the front end.

As the nature and trajectory of digital transformation change, the requisite skills and capabilities are changing with them. The emphasis is no longer on technology knowledge, but on strategic and interpersonal skills such as change management and the ability to communicate and collaborate across enterprise silos. These skills are needed to drive widespread adoption of digitally relevant capabilities including customer-focused problem solving and performance improvement approaches such as Lean.

Business leaders expect that their digital efforts and capabilities will have significant impact: Within the next two years, a significant majority of companies predict sizable performance improvements from their use of digital technologies. And a small cadre of organizations are already far ahead of the pack.

## **WHO IS LEADING THE PACK AND WHAT ARE THEIR HALLMARKS?**

Respondents were asked to evaluate the impact of digital technologies on their organizations' ability to achieve positive business outcomes. The survey found three distinct groups: digital leaders (ranking the impact 8-10 on a 10-point scale), followers (5-7 on a 10-point scale), and laggards (1-4 on a 10-point scale).

Digital leaders account for approximately 20 percent of businesses. One of their most distinctive hallmarks is their strategic use of digital technologies to compete. Although 22 percent of companies overall say digital technologies play a strong role in their competitive capabilities, 62 percent of digital leaders believe they do. For example, 66 percent of leaders use digital technologies to a great extent to support the launch of new products. Only 41 percent of followers and 15 percent of laggards do the same. Digital leaders are also far more likely to use digital technologies to a great extent to support new business models—65 percent of leaders versus 34 percent of followers and 16 percent of laggards.

Many companies still face a number of daunting barriers that digital leaders have surmounted to a far greater extent.

The strategic emphasis on the part of digital leaders is reflected in their business performance. For example, these companies are significantly more likely to have strong levels of customer loyalty—75 percent of leaders versus 26 percent of laggards. They are also significantly more likely to have reduced costs by using digital technologies to achieve internal efficiencies. [figure 1](#)

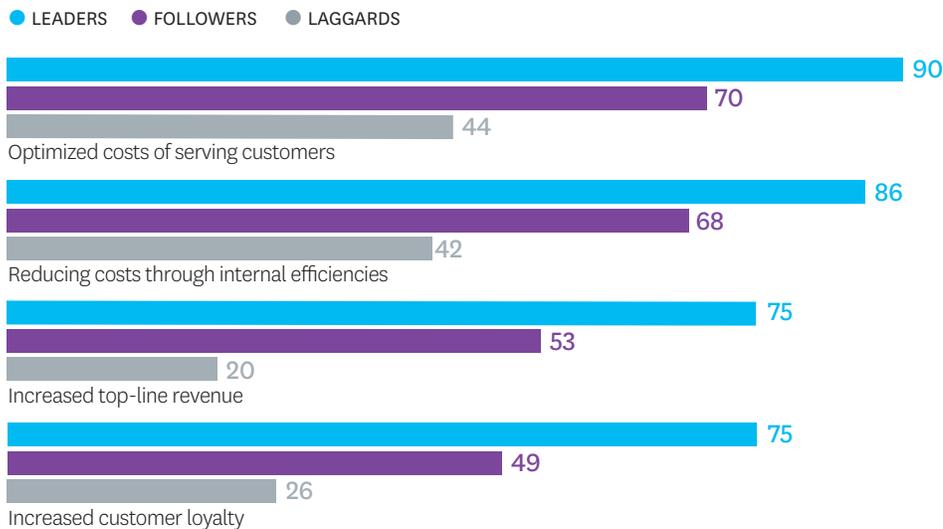
But businesses overall are planning to move quickly. Currently, 21 percent of companies agree strongly that digital technologies help their organizations achieve business outcomes. In two years, however, that number is expected to more than triple to 64 percent. In addition, 70 percent of companies say that digital technologies will boost top-line revenues, up from 50 percent currently. Similarly, 50 percent of organizations say that the use of digital technologies is increasing customer loyalty. By 2018, that number will also hit 70 percent. The vast majority—85 percent—strongly believe that by 2018 digital technologies will help their companies optimize the costs of serving customers.

**FIGURE 1**

**THE PERFORMANCE EDGE OF DIGITAL LEADERS**

Percentage indicating to what extent they agree or disagree with the following statements about the impact of digital technology on their organizations' performance.

[SLIGHTLY AND STRONGLY AGREE]



Source: Harvard Business Review Analytic Services Survey, June 2016

## BARRIERS STANDING IN THE WAY

Many companies still face a number of daunting barriers that digital leaders have surmounted to a far greater extent. Followers and laggards struggle with inadequate change management capabilities and the inability to experiment quickly, both of which require a company culture that is comfortable with taking risks. But most companies don't have that comfort: 50 percent of laggards say that their organizations' digital transformation progress is hampered by risk-averse cultures. On the part of digital leaders, the number is only 23 percent. [figure 2](#)

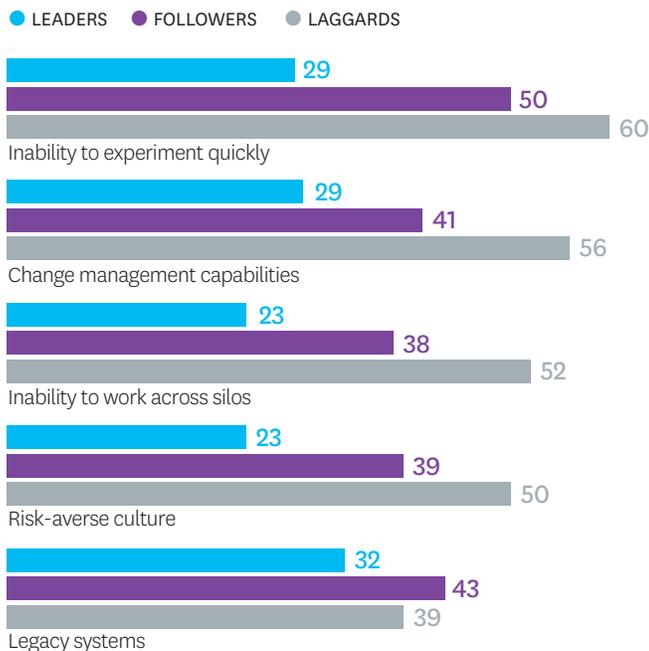
The challenges of organizational silos are also significant, and digital leaders have conquered them more than other organizations have. Consider IT. Only 19 percent of respondents strongly believe that their IT organizations lack needed talent and skills. But those skills are often trapped within IT. Nearly 50 percent of laggards, for example, believe that the level of collaboration between IT and lines of business in their organizations is inadequate. On the part of leaders, the number drops to 20 percent.

Legacy systems are a challenge all companies face in near equal measure. But leaders are much more able to tackle the challenges of these systems. For example, more than 75 percent of respondents say that their organizations' use of digital technologies requires replacing some or all of their legacy systems and processes. Yet only 15 percent of laggards and 32 percent of followers believe that their companies have adequate processes in place to do the work. On the part of digital leaders, the number jumps to 62 percent.

FIGURE 2

### TOP FIVE BARRIERS TO DIGITAL TRANSFORMATION

Percentage indicating to what extent each of the following is a barrier to their organizations' use of digital technologies. [8-10 ON A 10-POINT SCALE]



Source: Harvard Business Review Analytic Services Survey, June 2016

Increasingly, businesses realize that although their products may not lend themselves to digitization, the customer experience of buying and using them does.

Money doesn't appear to be a major hurdle. Only 28 percent of respondents strongly agree that insufficient budgets are a barrier to success. Between now and 2018, nearly 90 percent of companies plan to increase their investments in digital technologies, and almost 50 percent are planning to increase investments significantly.

### **THE IMPORTANCE OF THE END-TO-END CUSTOMER EXPERIENCE**

Increasingly, businesses realize that although their products may not lend themselves to digitization, the customer experience of buying and using them does. In everything from obtaining a mortgage to renting a car, companies are focusing on the end-to-end customer experience to ensure that it is competitive in terms of speed, efficiency, and simplicity.

Front-end touchpoints such as web sites continue to be a major focus. Nearly 50 percent of respondents say that their organizations support these touchpoints with digital technologies to a significant extent (8-10 on a 10-point scale). Among digital leaders, the number climbs to 75 percent. But non-customer-facing functions such as accounting, sales operations, auditing, and procurement are also on the radar: approximately 40 percent of companies overall and 62 percent of digital leaders are supporting these operations to the same extent as customer-facing experiences. But the results are falling short of expectations. When asked to rate how well middle- and back-office processes meet the expectations of their companies' clientele, only 17 percent of respondents say they do so extremely well (8-10 on a 10-point scale). On the part of digital leaders, the number is still less than half—42 percent.

The primary culprit of the shortfall is a pronounced lack of enterprise-level capabilities to design solutions and manage changes to the organization and its systems. Respondents were asked to assess the effectiveness of several of these capabilities on the part of their IT organizations as well as other operational functions including finance, procurement, marketing/sales, and supply chain. [figure 3](#) None of these units fare especially well, and IT organizations are often perceived to be behind others. For example, only 35 percent of respondents say their IT functions can tightly align digital interventions to business outcomes through governance and metrics. On the part of other functions, the number ranges from 42 percent for the supply chain organization to 62 percent on the part of procurement. [figure 3](#)

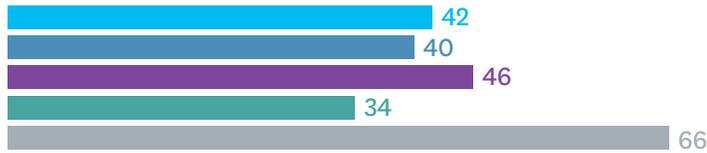
Only 34 percent of respondents believe their IT organizations have design-thinking or comparable capabilities. On the part of other functions, only marketing/sales tops 50 percent. The shortfall can be a significant impediment. As technology changes the scope of what is possible, organizations increasingly need sophisticated design capabilities to delve into customer needs and environments and develop novel solutions in sync with business capabilities.

FIGURE 3

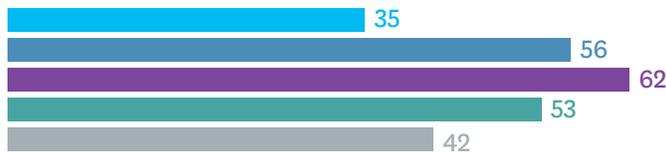
### WHICH CAPABILITIES DOES THE ORGANIZATION HAVE?

For each of the following, please select the capabilities you perceive your IT organization and the function you are most familiar with possess.

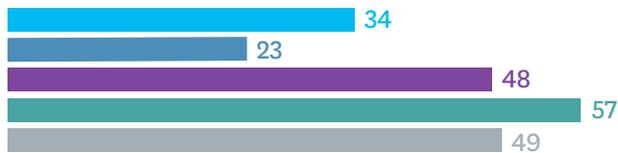
● IT ● FINANCE ● PROCUREMENT ● MARKETING/SALES ● SUPPLY CHAIN



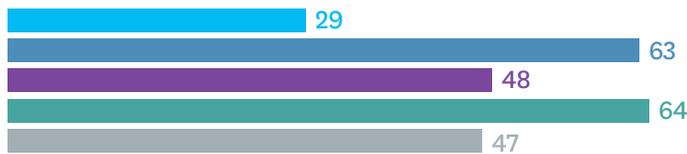
Using structured improvement methods such as Lean principles when integrating middle- and back-office functions to meet customer experience expectations



The ability to tightly align, through governance and metrics, any digital intervention to business outcomes



Using structured development approaches (such as design thinking) to identify opportunities to create value for customers before we design solutions using digital technologies



The ability to consistently act on insights from data

Source: Harvard Business Review Analytic Services Survey, June 2016

Even the ability to use structured end-to-end improvement methods such as Lean is not especially common. Although Lean has been a corporate mainstay for customer-focused operational improvements, only slightly more than 40 percent of IT organizations have that capability. Procurement leads the pack among other functions at 66 percent, possibly due to its close relationship with manufacturing and other operations. The use of advanced analytics doesn't fare much better—only 29 percent of IT organizations are considered adept at gleaning insights from data. Advanced analytics acumen is a more common capability on the part of finance and marketing/sales, but not for a significant majority of either—63 percent and 64 percent, respectively.

## A NEW TALENT MANDATE

As digital transformation moves to the center of how companies compete, technology skills and knowledge fall toward the end of the list of the skills companies say are most important. Instead, new needs are emerging that reflect the strategic dimensions of technology innovation and the barriers that businesses face. Reflecting the thoroughness of the changes to digital transformation, digital leaders, followers, and laggards are closely aligned on what they believe are the most important skills. [figure 4](#)

The ability to cope with change leads the list of the most important skills companies believe their employees in order to harness digital technologies—31 percent rank it as most important. Design-thinking skills follow closely with 27 percent putting them at the top of the list. The ability to communicate and collaborate is also critical, and respondents place it high on the list of the second and third most important skills.

**FIGURE 4**

### WHAT ARE THE MOST IMPORTANT SKILLS?

Percentage indicating which of the following are the most important skills for employees to have so that the organization can harness digital technologies.



Source: Harvard Business Review Analytic Services Survey, June 2016

The ability to cope with change leads the list of the most important skills companies believe their employees in order to harness digital technologies.

## **CONCLUSION**

Although the digital transformation of business has been a corporate agenda item for some years, only a minority of companies are successfully harnessing digital technologies to grow and beat the competition. However, the nature and trajectory of digital transformation are changing. Where it was once an issue of implementing technologies and having sufficient budgets, the demand now is to use digital technologies to strengthen competitive prowess by launching new products and business models, and revamping the customer experience, particularly the alignment of middle- and back-office functions/systems to support it. Managing the transformation requires distinct capabilities. However, many of these are not as yet developed to significant degrees across organizational functions. Businesses should follow the example of digital leaders to ensure they have these capabilities and can keep pace with the rapid changes in the digital landscape.

## **METHODOLOGY AND PARTICIPANT PROFILE**

A total of 682 respondents drawn from the *Harvard Business Review* audience of readers (magazine/e-newsletter readers, customers, HBR.org users)

### **SIZE OF ORGANIZATION**

Sixty-nine percent were in organizations with 10,000 or more employees, 13 percent were in organizations with 5,000 to 9,999 employees, and 19 percent had 1,000 to 4,999 employees.

### **SENIORITY**

Thirteen percent of respondents were executive management or board members, just over a third (35 percent) were senior management, 37 percent were middle executive management, and 15 percent came from other grades.

### **KEY INDUSTRY SECTORS**

Sixteen percent were in manufacturing (including 4 percent of respondents from consumer goods), 14 percent were in technology, 13 percent were in financial services, and 11 percent were in energy/utilities. Other sectors were each represented by 8 percent or less of the respondent base.

### **JOB FUNCTION**

Fifteen percent of respondents were in sales/business development management and marketing; 9 percent each were in finance/risk, IT, and HR/training. Other functions were represented by 8 percent or less of the base.

### **REGIONS**

Thirty-eight percent of respondents were located in North America, 37 percent were from Europe, and 25 percent were from the rest of the world.



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