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Delivering human-led, tech-powered transformation

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There are seven key reasons organizations struggle to deliver on their digital transformation ambition

Businesses have faced unprecedented challenges over the last few years. From the COVID-19 pandemic to constrained global supply chains and inflationary pressures, business leaders have had to be quick to adapt to an ever-changing market environment. However, even in a tumultuous period, one thing has remained constant: Companies that constantly undertake digital transformation are the best positioned to respond to the challenges—they are more agile, more responsive and more resilient.

However, undertaking a successful digital transformation is difficult. Fortunately, the reasons why digital transformation is so difficult—and the approaches organizations can take to achieve success—are well understood. Below, we share our perspective on what business leaders need to be aware of before undertaking their digital transformation—and what they need to think about strategically to ensure success.

In PwC's 25th-annual global CEO survey, 83% of CEOs stated that they plan to change their investment focus over the next three years towards digital transformation[1]. However, our research also suggests that up to 70% of transformations struggle to achieve their expected outcomes. This points to a reality that business leaders need to face: Executing transformations successfully is difficult. Yet, the reasons why organizations struggle are generally consistent, and leaders can learn from where others have stumbled.

Top seven reasons why organizations struggle with digital transformation:

1. **Failure to lead with strategy:** Digital transformation is not anchored in a clear vision of what the organization wants to become or achieve.
2. **Fails to consider business needs through a lift-and-shift approach:** The transformation is led by IT and fails to be paired with business process transformation to interlink business and tech across all core business functions.
3. **Complicated and costly system configurations**: Organizations fail to take advantage of simplicity and efficiency and instead spend money on expensive custom configurations.
4. **Deficient enterprise data model:** If enterprise data remains in poor shape, it is not possible to get the full benefit of new technologies that require access to clean data.
5. **Lack of internal buy-in:** Commitment is required across multiple leaders in the organization across both business and technology, and a shared understanding of what needs to be done to get the benefits of the investment.
6. **Inadequate resources and training:** Organizations need to invest in creating capacity and building the right skills to support transformation.
7. **Poor governance:** Organizations need to drive accountability with formalized governance structures, such as setting up a transformation office.

[1] https://www.pwc.com/gx/en/about/global-annual-review-2022/transformation.html

PwC's approach to digital transformations increases the chances of success by focusing on six practices

Fortunately for organizations undertaking digital transformation, PwC's approach is built around six leading practices that improve the likelihood of achieving the transformation's objectives. The approach is anchored in taking a human-led, technology-enabled approach. It puts the business strategy and value case as the north star —ensuring that the transformation delivers value for an organization's customers, employees and shareholders. It also puts the needs of the business on an equal playing field with IT, requiring them to work hand-in-hand to deliver real value. Finally, the approach requires leadership from the C-suite, supported by an agile methodology and performance architecture to ensure that the organization's people are brought along on the transformation journey, while maintaining pace.

1. **Anchor in the business strategy and value case**
   Transformations should begin with defining the business strategy, informed by the business's vision, target experiences and how the transformation will create value.

2. **Aim for "fit for standard" cloud implementation**
   Organizations should conform to "fit-for-standard" processes for 80%+ of their business functions, especially in non-differentiating capabilities.

3. **Use customization to enable differentiation**
   Organizations should invest in enabling differentiating capabilities by investing in custom configurations, integrating with leading technologies or building custom applications.

4. **Align business processes and data model to cloud platform**
   Business processes required to enable target experiences must be supported by the enterprise data model and cloud platform capabilities.

5. **Lead the transformation from across the C-suite**
   The C-suite needs to drive the transformation by making critical decisions and role-modelling desired behaviours.

6. **Deliver with an agile methodology & performance architecture**
   Execution should leverage an agile methodology that integrates business and technology, and is supported by a robust performance architecture.

1 A successful digital transformation must anchor in the business strategy, clearly defined target experiences and a holistic business case

First, organizations must anchor their digital transformation in the business strategy and the broader objectives of the organization. For example, an organization may be trying to respond to disruptive new competitors, launch new digital business models or create an integrated customer experience. Aligning on the strategic purpose provides clarity to the whole organization around why the digital transformation is underway, and provides a north star to rally employees around.

Next, the transformation must anchor in a clearly defined target experience—for the organization's customers, people, suppliers and other relevant stakeholders. This means that organizations need to define the target state journeys for these key stakeholders using a cross-functional approach that considers both human and technology interactions across the end-to-end journey. Defining the target experience also helps identify how value can be created—such as identifying customer "moments that matter" where differentiation is critical—and then determine what is required by business and technology to enable that differentiation.

Finally, organizations need to develop a clear business case that details how the digital transformation will create value. The business case must have the input of both the business and technology teams; the business helps identify the value levers and determine the value, while the technology team translates the business need into the technology investments required. Doing this effectively drives many outcomes for the business, including:

1. Identifies the key revenue, cost and capital levers that will be influenced by the transformation, and helps align the organization on the returns on the investment.
2. Informs execution by identifying the priorities for the transformation. For example, if the benefits in one part of the business are significant, it may be prioritized to help fund the investment.
3. Helps to define the key financial and operational performance metrics that the business and technology teams are accountable for during and after implementation.
4. Gives visibility to the CFO and/or Transformation team on how to drive accountability for the transformation, with clarity on the value expected and the metrics.

2 Organizations should adopt fit-for-standard implementation for non-core and non-differentiating capabilities

In large enterprise clients, we consistently see the technology stack made up from a set of leading technology multinationals—GCP, AWS, Microsoft, Oracle, Adobe, Workday, SAP and Salesforce. One of the benefits of these technology firms is that they have all developed out-of-the-box solutions that are designed to meet "fit-for-standard" functional needs and have built-in leading-class features, such as embedded analytics, automation and machine learning. These solutions are built with the intention of standardizing, automating and reducing the cost base on end-to-end business processes, while enhancing experience and revenue. This includes processes across back-office teams such as finance, supply chain and human capital, as well as front-office capabilities such as marketing, customer service and support. Organizations should seek to adopt these technology solutions for the majority of their target processes—focused on those that are non-differentiating.

The adoption of standardized solutions has many benefits: lowered total cost of ownership, accelerated implementation time, improved compliance, reduced complexity and continuous improvement through automatic upgrades. It also helps the organization avoid expensive customization builds that are complex to develop and implement, and may drive little long-term value. The trade-off is that the business must align their current processes, ways of working and data structures to the technology to unlock the full potential. This can require significant business transformation, but can deliver significant sustained benefits.

Typically, we see organizations that achieve their digital transformation goals aim for the majority of their implementation to be fit-for-standard, and concentrate on custom configurations that are solely focused on truly differentiating capabilities. Often this is the opposite of what organizations have done in the past, where the technology is almost always configured to the process. This change can be a notable departure for many business and technology teams, and requires technology and business teams to work collaboratively in a human-led, tech-powered way.

Examples of "fit-for-standard" processes **Opportunity**

Back office	Finance	• Automated month closing with real time sync of ledgers • Dynamic planning and analysis for resource allocation	
	Supply chain	• Automation of inventory counts and reconciliations • Forecasting and planning of material flow	
	Procurement	• Vendor onboarding and management • Vendor performance and compliance reporting	
	Human capital management	• Streamlined source-to-onboard hiring process • Self-serve capabilities for the workforce	
Front office	Sales	• Sales and service order, request and fulfillment automation • Role-based insights and next-best-action recommendations	
	Marketing	• Automated campaign reporting • Digital lead generation and automated buy-flow	
	Customer service	• Automated service ticket system and task generation • Skills-based routing and automated knowledge articles	

Legend Relatively large opportunity Relatively small opportunity

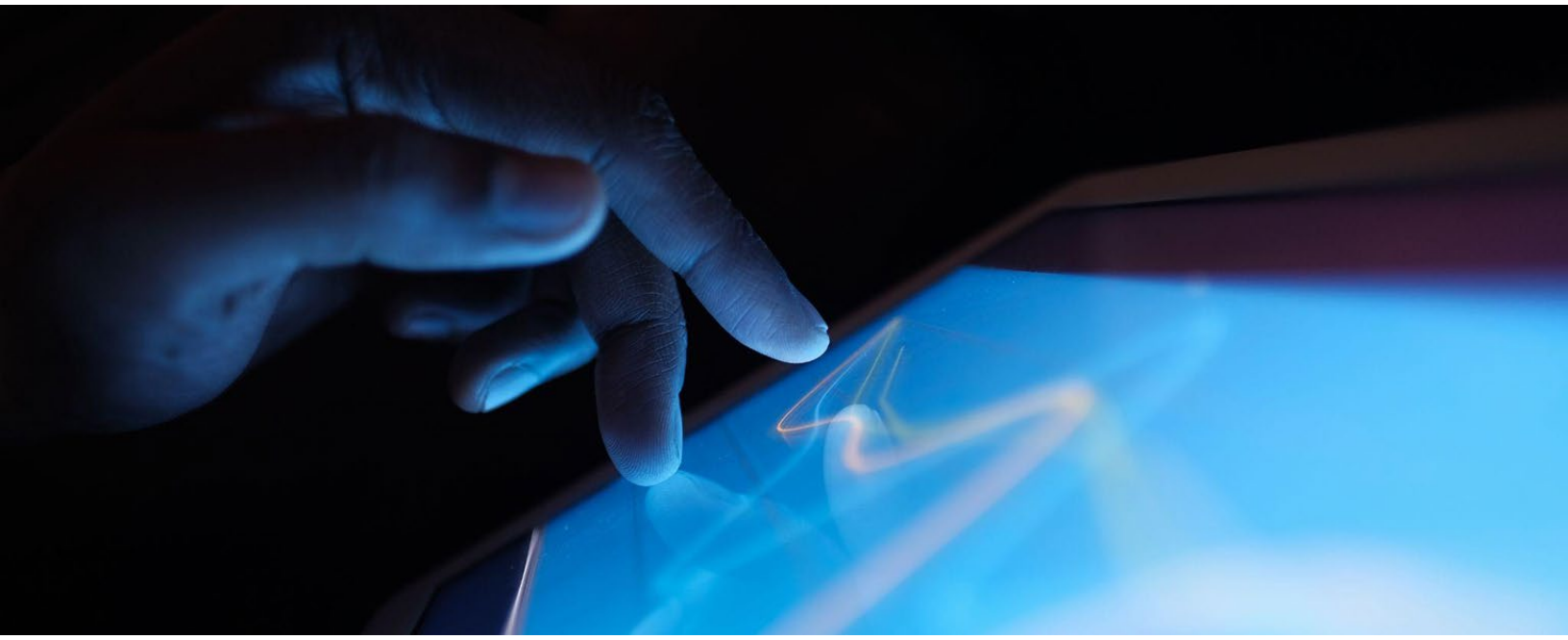
3 Organizations should leverage technology customization to enable differentiating capabilities

A reality that many organizations investing in digital transformation have to face is that adopting modern technology platforms and simplifying legacy architecture is no longer differentiating. For example, if all the major competitors in a particular sector adopt the same CRM, they all have access to the same features and functionality of the platform. To overcome this, organizations must focus on building differentiation considering three approaches: customized technology configurations, connecting to specialized technologies and/or building proprietary applications.

1. **Customize the technology configuration:** The easiest investment a company can make into differentiating areas is by customizing the technology configuration to enable a differentiating capability of the organization. This could include customer-facing capabilities such as enabling a particular customer experience or offering a unique market value proposition.

2. **Connect to specialized technologies:** Some organizations are building differentiation by building an ecosystem of market-leading specialized technology platforms that API into their underlying technology infrastructure. For example, a company that puts considerable importance on ESG may partner with a leading ESG reporting software to accelerate their ESG objectives. Building a technology partner ecosystem requires clarity on which capabilities to enable with technology, and what technologies need to be built for the future (ex. generative AI). It also requires a strong partner management capability that builds a close relationship with the technology provider, with the goal of influencing product development and roadmaps.

3. **Build proprietary applications:** Organizations that believe they have a truly differentiated and market-leading capability may choose to make a more significant investment in building proprietary applications. These types of investments should only be made into areas where organizations feel they have something differentiated in the market, and they have unique insight or capabilities to deliver relative to others. When done right, proprietary applications also create potential for new revenue streams, as organizations can productize their application and sell it to a global market.



4 Organizations must align business processes and the enterprise data model to the cloud platform

To achieve the full benefits of the fit-for-standard processes, the technology solutions require a standardized enterprise data model. For example, an AI/ML-powered customer segmentation model requires a standardized set of data to provide predictive insights and recommendations to sales teams. When a standard data model does not exist it creates clear challenges to achieving the business case of a transformation.

To overcome these challenges, organizations need to set an objective to move to a unified data model. Depending on the historic complexity of the tech/data environment, and how many legacy systems are in place, organizations may need to take a phased approach towards building a unified data model, including one of the phases below, or all three, which can be started in parallel:

1. Focus tactically on cleaning and migrating the data required to unlock the value of the highest-priority parts of the transformation. This often means working through one or a few datasets at a time, and trying to rationalize the number of data sources to create unified data models for specific-use cases.
2. Use a data lake solution or equivalent to provide a clean data environment outside the systems of record to support fit-for-standard use cases.
3. Migrate to a modernized target system architecture with a unified enterprise-wide data model, where the data is structured how the business needs it.

5 The transformation must be led by the C-suite

Digital transformations always require a set of ongoing decisions to be made about the direction the transformation is taking. The most strategic decisions need to come from the C-suite—and when leadership from the C-suite is absent, it is common to see transformations stall. In addition, the C-suite needs to lead through difficult culture and behaviour changes, such as breaking down old ways of working to align processes to the cloud platform. Even more tactically, the C-suite needs to be engaged in helping the organization make operational decisions that have notable ripple effects for the transformation. For example, alignment on customer segmentation or product rationalization.

However, to effectively lead the transformation, we believe the C-suite must follow three key principles, while role-modelling the desired behaviours and actions for their teams:

1. Demonstrate the interlock between the business and technology, reinforcing that the two groups must work closely together to achieve the transformation's goals.
2. Enable cross-functional collaboration and remove silos between functions, ensuring that the transformation focuses on the end-to-end processes that will be impacted by the transformation.
3. Remove barriers and roadblocks rapidly, setting the pace of change, and communicate with transparency both successes and challenges of the transformation to drive accountability.

6 Execution should leverage an agile at scale methodology paired with change management leading practices

While agile has been talked about for many years, many organizations fail to execute transformation with an agile approach. Even so, it continues to be a key ingredient to successful digital transformations, and has benefits such as:

- effectively integrates cross-functional working teams (e.g. across business and technology);
- lowers execution risk and enhances cost control due to frequent reviews and iterations;
- increases speed and flexibility in response to change;
- achieves ongoing buy-in with early and continuous benefits realization; and
- maintains momentum with formalized governance structures and processes.

However, most organizations only talk about agile at a more tactical level, where it has been adopted by product or software teams. The challenge organizations face is operating "agile at scale", when agile principles are adopted broadly across the organization, and also across levels, from the C-suite down to the front line.

Invest in the performance architecture to drive agile at scale

Organizations must develop an effective performance architecture for transformation. This includes establishing transformation governance to enhance leadership's decision-making, actively engaging stakeholders, setting the pace of change with clear targets and measurement of progress, and enabling benefits realization through transparent and frequently communicated value realization. When one of these components is missed, it can lead to loss of momentum, conflict over accountability and confusion over whether the transformation is achieving its objectives. The performance architecture must be set up to operate throughout the duration of the program, and have the support of the CEO and the C-suite in its role across the organization.

- A **dedicated executive leadership team** drives the transformation, including decisions, engaging with executive teams and demonstrating desired behaviours.
- A **transformation office** streamlines decision-making by reducing the number of hierarchical levels and collaborating with the executive leadership team.

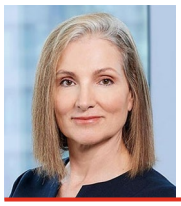
- All **stakeholders are engaged**, with stakeholders' needs clearly known and frequent check-ins throughout the transformation.
- **Long-term vision and intended benefits are communicated** to all stakeholders, with cadence and content tailored to each stakeholder group.

- Targets are **ambitious but achievable** in terms of both intended benefits and time to realize them.
- Accountability is driven through **pre-defined governance across key stakeholders**.
- **Interactive sessions** enable frequent and formalized progress-sharing and problem-solving.

- Performance progress is communicated **clearly, transparently and frequently**, leveraging digital platforms to provide visualization of progress to all relevant teams.
- **Value realized is tracked and benchmarked** against targets, with room to iterate KPIs and mechanisms to communicate progress across the organization.

Conclusion

Delivering a successful digital transformation is difficult and many organizations fail to realize the intended benefits. Organizations have an opportunity to drive successful digital transformations by adopting six leading practices to ensure a human-led and tech-power transformation—one that is designed to deliver strategic value and is supported by the right technology, processes and people. Successful digital transformations depend on the interlock between business and technology—beginning with aligning on the strategic intent of the digital transformation, and then taking a collaborative and agile approach to execution. Following these six leading practices can drastically improve the chances that your organization achieves a successful digital transformation, and accrues the benefits of the transformation for years to come.



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