EXECUTIVE SUMMARY

As digital technologies dramatically reshape industry after industry, many companies, across multiple sectors and geographies, are engaging in digital transformation efforts to capture the benefits of these trends. Yet, we know from research that digital transformations often have less than positive results in organizational performance and sustained changes in the long-term. This raises the question - what are the strategies and practices of companies who succeed in digital transformation? This research paper is a collection of best practices from various organizations across different industries. We have gathered these insights for the purpose of aiding organizations, researchers, and practitioners in understanding how different businesses approach and implement digital transformation in their organizations, and to derive insights about the role of HR and people processes in supporting digital transformations. Through a discussion of cross-industry practices and strategies, the research can potentially inform future digital transformation initiatives, both for companies that have undergone such an effort, and those that are yet to take the leap.

WHAT DIGITAL TRANSFORMATION IS (AND WHAT IT ISN’T)

While digital transformation is a buzzword that has been thrown around, it has been defined in a multitude of ways which has often contributed to the confusion surrounding what exactly it encompasses. Most commonly, definitions of digital transformation include the integration of digital technology into business. However, believing there is nothing more to digital transformation than this simplified definition may be a profound strategic mistake. We include definitions of digitization, digitalization, and digital transformation that are often used interchangeably but should be clarified to provide a clear understanding of what digital transformation is. ²

**Digitization** is the process of converting information from analog into a digital format.

**Digitalization** is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities, otherwise known as the process of moving to a digital business.

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Digital transformation refers to a customer-driven, strategic business transformation that requires cross-cutting organizational change as well as the implementation of digital technologies. Digital transformation initiatives will typically include several digitalization projects.

The purpose of this distinction is to highlight that digital transformation is a continuous evolution. Too commonly, organizations view digital transformation as an end point. To “do” digital transformation is not simply plugging digital into the organization. Rather, digital transformation is a journey that redefines an organization’s business operations and customer experience through digital technologies toward a stronger and more agile organization than it previously was.

**Five Dimensions of Digital Transformation**

Digital Transformation capabilities can be clearly defined across five business dimensions to allow for a comprehensive evaluation of digital maturity across an organization. ³

### Digital Transformation Dimensions

- **BUSINESS STRATEGY**: The strategic context within which digital transformation is planned to provide competitive advantage.
- **PROCESS & OPERATIONS**: The evolution of processes and operations driven by digital technologies to enhance cost, efficiency, and business effectiveness.
- **DIGITAL TECHNOLOGIES**: The digital technologies that are implemented to support and drive broader business goals and objectives.
- **PEOPLE FOCUS**: The development of skills, culture, leadership, and people operational processes involved to support digital transformation objectives.
- **CUSTOMER CENTRICITY**: The focus on customer experience as an objective of the digital transformation efforts.

### Digital Transformation Maturity Model

Using the dimensions listed above as evaluation criteria, organizations can lie on a spectrum of digital transformation maturity. As demonstrated in the figure on page 3, digital maturity is separated into four stages: reactive, digitized, integrated, and transformed. For each stage, the digital transformation dimensions broadly characterize the phase at which the strategy, operations, technologies, people focus, and customer focus for an organization are at.

- **Reactive**: Organizations are in a digital exploration phase, with motives for digital transformation surrounding crisis-avoidance and a cost-cutting focus. Because of this, strategy often excludes consideration of the customer and employee experience. Technologies are less advanced and often reporting in nature such as queries, reporting, and search tools which are used to answer what has happened.

**Digitized**: Organizations are in the digitization stage in order to build a digital capability to focus on opportunities for efficiency. With a greater focus on the motives for digital transformation, organizations in this stage may be beginning to consider what opportunities exist for improving customer and employee experience. Technologies evolve to more analytic capabilities, relying on past data to infer why things have happened.

**Integrated**: Organizations are in the digitalization stage toward a move for creating a digital business. Considerations for business model changes begin to create a greater customer- and people-focused experience through digital transformation. Technologies become more advanced to use data for dashboards and scorecards to monitor real-time changes with what is happening now in the organization.

**Transformed**: Organizations become digitally transformed as strategies shift toward driving business innovation. Not only are there transformations of business models, but also the creation of new products and services to support and drive the customer experience. Support and flexibility grow for employees with shifts in the way the organization, culture, and talent processes are constructed to drive growth and innovation objectives. Technologies mature toward using data for predictive analytics and artificial intelligence to become more proactive in anticipating what might happen in the future.

### Digital Transformation Maturity Model

#### Digital Transformation Dimensions:
- **Business Strategy**
- **Process & Operations**
- **Digital Technologies**
- **People Focus**
- **Customer Centricity**

#### Digital Exploration
- Crisis Avoidance
- Cost-cutting focus
- Reporting-type technologies
- No organizational, culture, and talent process changes
- Not focused on customer experience

#### Digitization
- Build digital capability
- Efficiency-focus
- Analytic-type technologies
- Little to no organizational, culture, and talent process changes
- Customer consideration

#### Integrated
- Move to a digital business
- Business model changes
- Monitoring-type technologies
- Support provided through organizational, culture, and talent process changes
- Customer-focus

#### Transformed
- Drive business innovation
- Transforming the business model & creation of new products and services
- Predictive-type technologies
- Support and flexibility in organizational, culture, and talent process changes to drive growth and innovation objectives
- Customer-driven

### Study Design & Methodology

The findings of this study were based on six interviews conducted during the months of March and April 2020 that each lasted approximately 45 minutes. At the outset of the project, the goal was to interview significantly more companies. However, the COVID-19 crisis emerged early in the project and made it challenging for more companies to engage. Given the relatively small sample size, the
conclusions outlined in this report should be viewed as tentative and in need of future testing. Yet, there was enough consistency across the interviews conducted to suggest trends that may generalize across more companies. The interviews were structured, using the template found in the Appendix on page 11. Interview topics surrounded two areas: business impact and HR strategy. On a business level, we sought to understand how organizations view digital transformation - key areas of impact, digital tools used, underlying strategy, and actions for implementation. On a functional level, we sought to explore how the Human Resources (HR) function supports the transformation, in terms of the skill and capability-building in employees and leaders, cultural realignment, and employee support following the change. Organizations were asked to volunteer for the study, regardless of whether they were undergoing digital transformation. Titles of the participants ranged from HR manager, leading business partner, HR director, Global Head of People Development, and HR senior director representing various functions such as digital enablement, commercial and digital solutions, and the IT organization. The participating organizations spanned several industries such as technology, health-care, material science, and specialty chemicals; however, due to the sample size, industry-effects were not examined. Once the qualitative data was obtained, it was compiled into a master file for analysis.

Digital Transformation People Strategy Spectrum

To help make sense of the data that was collected from participating organizations, we created a model based on the digital maturity model we developed in the introductory section. This spectrum functions across two separate axes. The horizontal axis is the stage of digital transformation maturity that the organization is in. This was evaluated based on the digital transformation dimensions to determine where the organization should be classified. The vertical axis uses the aggregate scores of the people-focused questions to determine whether the organization has an early or developed people strategy. We then placed each participating organization in the model based on their stage of the digital transformation process and the degree of development of their people strategy. Each organization is represented by a white circle.
Findings

Business Impact

Key Business Areas Impacted by Digital Transformation
We found that the effects of digital transformation generally tended to affect all business functions, with a particular emphasis on supply chain and customer interaction/experience. In addition to this, the finance, IT, and communication functions were also mentioned. Those who stated impact across all business functions cited expansion of digital skills and capabilities needed for employees across the organization. For more specific functions such as supply chain, finance, and IT, motivations tended toward reducing manual work and errors in the work being done.

Digital Tools and Technologies Implemented
Automation and artificial intelligence tools encompassed the largest majority of responses with analytics and big data following respectively. Specifically with automation and artificial intelligence, companies cited strengthening data infrastructure, virtual assistants, robotic process automation, predictive analytics, and cloud technology as uses. For big data and analytics, the biggest drive was moving data to insights as well as collecting data from customers.

Strategy and Implementation
Concerning strategy underlying the digital transformation efforts, the majority of the responses cited cost and process efficiency as well as transforming the business model as the main motive. Several companies stated that their digital transformation efforts drove new products and services. The majority of companies stated that while the original motive behind their digital transformation was to reduce
costs and create more efficient processes, the journey of digitally transforming their business led to more primary motives of shifting their business models. Often, this included a shift of focus toward employee engagement, consumer experience, and cultivating greater insights to improve decision-making for shareholders.

To help them achieve their goals, all organizations leveraged both in-house and external partnerships. Generally, strategy is conceived in-house with execution facilitated by external partnership. Often, external consultants were used for managing data, offering greater perspective, as well as providing guidance on how to build digital capabilities.

**HR Strategy**

*Skills and Capabilities*

While responses varied depending on the needs of the business, the main critical skills that have arisen through the digital transformation process were digital acumen and analytical capability. This need comes from the ability to interpret data and draw conclusions as more business processes are becoming data based. This has increased the need for employees to be familiar and comfortable with interpreting data and driving decisions from it. Generally, other responses emphasized a desire for employees who have a future-forward mindset with a tendency for curiosity, innovation, and the overall ability to adapt to change. On the other side, several companies cited routine work as becoming less critically important because it signals both a lack of agility and ability to keep up with the organization.

Concerning how to identify skills gaps, the majority of organizations did not have formal methods to identify employees who may need support. While some stated they are currently developing core competencies, identifying needs during manager-employee conversations, and/or identifying gaps during applications, most expressed the intention of creating formal methods although they are not currently in place. However, most organizations had a strategy for closing these gaps, which primarily relied on internal development, followed closely by external sourcing and utilizing partner networks. Internal development strategy included the creation of digital universities, revamping recognition and
reward systems to reinforce digital literacy, and increased training. Several organizations stated that they would rather identify people with the skills needed through external hiring, especially within the IT function. Otherwise, partner networks are used to identify key areas to recruit from or to provide resources for training.

**Culture**

We found that the majority of organizations emphasized a shift toward a learning and growth culture. Openness and communication as well as diversity and inclusion then followed respectively. Much of the movement toward a learning and growth mindset served to promote the adoption of technology, to celebrate forward thinkers and continuous learners, to elevate a growth mindset toward fast-failure, and to promote thinking in an agile and iterative way. Openness and communication were specifically emphasized for organizations looking to foster greater collaboration.

To help these shifts in culture, organizations are adopting changes in work structures to support digital transformation. Most emphasized was the creation of collaborative digital teams who can process data and add insights to scale. Remote teams were emphasized to be related to the support surrounding the current COVID-19 transition.

**Leadership**

Generally two categories existed for who was leading the digital transformation effort. Half of the respondents stated that there was centralized leadership, whereas the other half stated that leadership was dispersed within different business units. The decision of whether or not to have
centralized leadership depended on the decision-making strategy. Those who had centralized leadership wanted decisions pushed out to employees as a single unit. Those whose leadership was dispersed had digital teams specific to different functions to lead the transformation efforts with the understanding that priorities differ across the organization.

Not surprisingly, skills that were emphasized for leaders included digital acumen, followed by change agility, communication skills, and domain expertise. This emphasis on digital acumen comes from the need for leaders to apply and understand how digital capabilities affect the business.

Skills Needed for Leaders

While responses were split as to whether or not leaders have these skills, companies have different methods for providing leaders with training or support. Communicating best practices included providing data to support why leaders should take certain actions, or hearing from senior leaders as a case for change. Other responses included learning alongside employees, buying skills externally, developing long-term change-management methods, and providing virtual scenarios to help leaders make decisions in pseudo-executive teams.

People Operational Processes
The dominant responses were in keeping with how HR is supporting employees through digital transformation: increased employee training activities, changes to core organizational structures, and simplifying the way the company is managed dominated the responses. Training for employees included creating digital universities, workshops to develop work-life balance to cope with the additional stress from digital transformation changes, and generally increasing training to build digital capabilities. Changes to the organizational structure and simplifying the way the company is managed
generally included moving towards data processing teams, and creating digital officer roles to centralize decision-making for employees.

Key Takeaways

*Business Impact*
Across participating organizations, all companies had clearly defined and created alignment across their strategy, process, and technologies for digital transformation. While early stages of digital transformation take a reactive and exploratory strategy, the majority of organizations were shifting their strategy toward becoming digital businesses and driving business innovation. Broadly, organizations not only understood the benefits of cost and efficiency through the use of digital tools, but also transcended that to transforming their business models. Aligned with these broader strategies and processes, participating organizations had the advanced predictive technologies to support their digital transformation efforts. What distinguished organizations between a digitized/integrated maturity phase versus one that was transformed was the broader integration of digital transformation efforts with creating new products and services with a significant focus on the customer experience and a developed people strategy.

*HR Strategy*
Concerning skills and capabilities, culture, and leadership, participating organizations were able to clearly articulate and define the core competencies and skills needed for the culture and employees to support the broader digital transformation strategy. Generally, all organizations had implemented support through organizational, culture, and talent process changes. This was especially strong surrounding work structure changes toward centralized decision-making and collaboration through new digital teams and improved training programs toward closing skill gaps for employees. What distinguished organizations between an early- and developed-people strategy was the strength of alignment between strategy and execution. Those who excelled in their HR strategy were not only able to outline the rationale and strategy for their approach, but also were able to connect how their improved people processes would drive growth and innovation objectives.
Conclusion

Successful digital transformation efforts require the understanding of what digital transformation is, and what it is not. While having digital technologies is key, it is important to take a holistic approach to understanding the dimensions of the business strategy, process and operations, digital technologies, people focus, and customer centricity of your digital transformation design. Digitally transformed organizations use strong digital technologies to drive customer-focused business innovation through the transformation of the organization’s business model, innovation of new products and services, and the creation of support for employees with organizational, cultural, and talent process changes to drive growth and innovation objectives.

What is most critical to understand is that digital transformation is not just an end goal, but rather a journey. Successful digital transformation efforts require strong alignment across the customers, the business, and its people. What moves organizations across the spectrum of digital maturity is the ability to establish clear goals, create a solid plan, and efficiently track results across all three areas. Outlined below are the broader steps organizations should remind themselves of as they incorporate changes for digital transformation execution:

1. Define clear goals for what the digital transformation effort should accomplish;
2. Establish a transformation team to lead your process;
3. Create a strategy that brings you closer to achieving your goals;
4. Build and implement the right digital tools to support your digital transformation;
5. Effectively measure results to track progress toward achieving your goals;
6. Define and communicate with employees about the changes expected with the transformation effort; and
7. Prioritize employees and stay focused on maintaining company culture.

Digital transformation is not something that will happen overnight and should be seen as a process that will take time. Technology is rapidly advancing and developing, and processes will need to change as new tools arise. With an agile mindset to constantly revisit strategy and goals, technologies, and employees’ needs, organizations can digitally transform to be more efficient and productive.
Appendix

Interview Template

Is your organization currently engaged in digital transformation?

Business Impact

● What are the key areas of your business that have been impacted by digital transformation?

● What digital tools and technologies are being used to transform these areas?
  ○ Big data
  ○ Analytics
  ○ Social
  ○ Mobile
  ○ Internet of Things
  ○ Automation/Artificial Intelligence
  ○ Others?

● What was the company’s/function’s strategy underlying the digital transformation effort?
  ○ Cost and process efficiency
  ○ Introducing new products and services
  ○ Transforming the business model

● Was the digital transformation effort conceived and implemented in-house/organically, or was it done as a result of/in partnership with an external consultant?

HR Implications

Skills & Capabilities

● What implications has digital transformation had for the skills and capabilities of your workforce?
  ○ Which employee skills and capabilities have become more critical? Which have become less important?
  ○ What methods, if any, are you using to identify skill gaps among your existing workforce?
  ○ What strategies are you using, or plan to use, to close these gaps?
    ■ External sourcing
    ■ Internal development
    ■ Partner networks
    ■ Other?

Culture

● How has your culture evolved, if at all, to support digital transformation?
  ○ What cultural dimensions have become more important?
    ■ Openness and communication
    ■ Learning/growth mindset
    ■ Diversity and inclusion
    ■ Other?
  ○ Have you adopted changes in work structures to support digital transformation (e.g., greater teaming/collaboration)?
Leadership

• Who is leading the transformation effort?
• What skills do these leaders need to successfully navigate digital transformation?
  ○ Are your leaders currently equipped with these skills?
  ○ Is HR providing these leaders with training or other support?

People Operational Processes

• How is HR supporting employees through the transformation?
  ○ Increased employee training activities
  ○ Simplifying the way the company is managed
  ○ Programs to build a collaborative culture
  ○ Increased decision-making power of front-line employees
  ○ Changes to core organizational structures