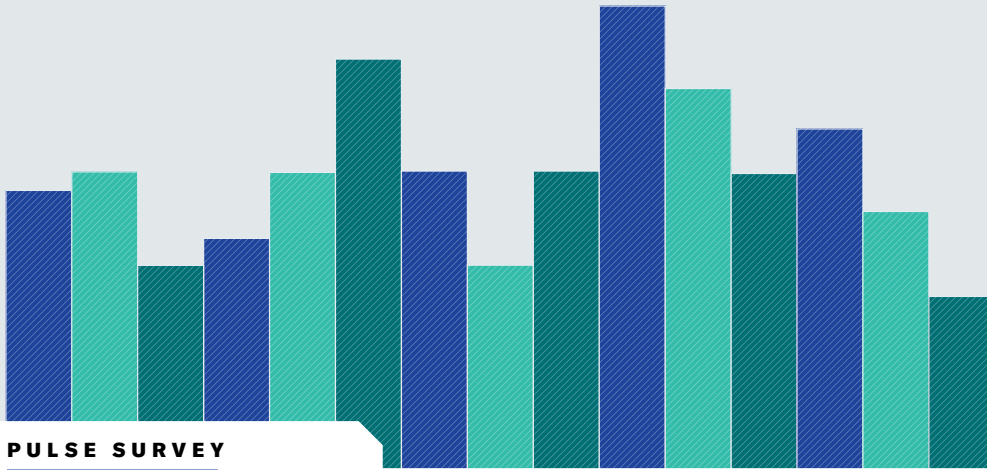




**Harvard
Business
Review**

ANALYTIC SERVICES



PULSE SURVEY

Digital Transformation Refocused:

New Goals Require New Strategies



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We are living in unprecedented times. This phrase has been a constant refrain for the past two years in every sector. Digital transformation has accelerated in organizations around the globe. In addition to these constant changes, organizations are currently facing the “Great Resignation,” which puts a new strain on organizations and employees alike.

As some organizations find success in their digital transformation strategies, they are able to provide extra bandwidth to their teams to improve customer experience through the collection and analysis of data. There is a newfound creativity in organizations that delivers innovative business models and leverages the expanded data collection for a customer-focused experience, allowing these organizations to shift to the next phase of outward-facing digital transformation focusing on insights and automation with artificial intelligence/machine learning.

Cultural acceptance of digital transformation is the largest obstacle facing most organizations. Drivers of this hesitancy include constantly changing goals, a lack of aligned key performance indicators, and an absence of clarity surrounding a defined vision for transformation efforts. Individuals understanding changes in job duties is key, coupled with an intentional investment in building employee skills. The connection back to the employees will create buy-in and a supportive culture shift. Employees need dedicated time to invest in continuous learning and an authentic opportunity to apply their new skills. If the workforce is retrained but is not empowered to put the new skills into practice, the investment will quickly degrade.

Embracing failure has become a common theme with digital transformation, but few have put it into practice. Successful digital transformation allows for mistakes, encourages transparency, and supports open communication. Many new initiatives quietly fail due to lack of focus or discovered irrelevance. Retrospectives for failed initiatives need to be encouraged at both the team and organization level. Whether it is a sales team that loses a deal, a marketing team whose campaign doesn't get a strong click-through rate, or an engineering team that tries to address a problem and then realizes the architecture is wrong, failures should be viewed as an opportunity to have open discussions without the fear of retribution. A lack of institutionalized open communication strategies will prevent the organization from gaining strength through failure. Celebrate success, celebrate learning, and celebrate and invest in the employees and partners of the organization.

By sponsoring this survey annually, we are able to explore and evaluate candid insights from IT leaders who are addressing these challenges head-on. I encourage you not only to read the report, but also to use it as a guide to leading transformational change.



Emily Brand
**Chief Architect & Global
Ecosystem Leader**
Red Hat

Digital Transformation Refocused:

New Goals Require New Strategies

The Covid-19 pandemic has been a catalyst for many organizations in their digital transformations, leading companies to expedite technology initiatives, design dramatic changes to processes, and reexamine culture and the role it plays in today's new business world.

"Two years ago, digital transformation was all about getting things done, and last year was the year of trying to get things right," says Melissa Swift, U.S. and Canada transformation leader at asset management consultancy Mercer. "We've asked digital tools to do a lot in the last few years, and now we've entered a reckoning about what is really possible, feasible, and advisable—and how to actually get everything to work together."

A fourth annual digital transformation survey conducted in January 2022 by Harvard Business Review Analytic Services of 727 executives from around the globe finds that 92% say their organization's digital transformation will become more important to business success over the next 12 months. The survey also finds that amid shifting business goals, companies are now prioritizing objectives that deliver business value and drive their organizations forward. These goals are in contrast to 2021 business goals, which focused on internal, process-driven priorities.

Although organizations are turning an eye toward the future, serious challenges remain, acknowledges David Rogers, author of *The Digital Transformation Playbook* and a professor at Columbia Business School. "It's no secret that every company is giving at least lip service to digital transformation today," he says. "And yet there's no question that many organizations are struggling with the digital transformation efforts that they have begun."

Resolving the top issues preventing organizations from achieving more success in their digital transformation—which include perennial culture, retention, and hiring challenges—should be a priority for organizations in 2022 and beyond.

HIGHLIGHTS



63% of survey respondents defined as "leaders" were **significantly more successful in modernizing their workplace cultures in 2021**, compared to 23% of the remaining sample



34% of all survey respondents say their **top business goal is enhancing customer satisfaction, followed by better analyzing enterprise data to uncover new business and operations insights (33%)**—two goals that represent shifting business priorities for 2022 transformation efforts



27% of leaders are more likely to indicate that their organization has a **much higher organizational commitment to cultural change compared to 14%** of the remaining sample

Due to rounding, some figures in this report may not add up to 100%.

As organizations look forward, technologies that streamline processes and have the potential to deliver more business value are still priorities. Business process automation and artificial intelligence (AI) and machine learning (ML) are top investments—a reflection of organizations’ shifting business goals for the upcoming year.

This paper explores how digital transformation has evolved since 2021, the main challenges companies are experiencing today, what leading organizations are doing differently, and steps that businesses can take to identify and address key focal areas in the year ahead.

New Priorities and Challenges Arise Amid Success

For many companies, 2021 was a year marked by digital transformation progress. As the dust from 2020’s unprecedented disruption settled and change from the year prior, businesses began to evaluate and assess the impact of their investments and decisions, making adjustments to their priorities and fine-tuning their strategy, says Charlene Li, chief research officer at London-based global innovation and transformation consultancy PA Consulting.

As organizations emerge from survival mode, they are sharpening their digital transformation efforts. Lessons learned have led to improved success in organizations’ digital transformations, Li says. Indeed, the Harvard Business Review Analytic Services survey indicates that more executives rank their digital transformation efforts in 2021 as being more effective than those of the year prior—38% versus 23%.

“There’s no doubt that organizations have improved their digital transformation strategies and efforts over the past year. They’ve made some really great strides,” Li says. “Now companies are starting to think about their business in a completely different way—the partners they need, the types of customers they have, and what new businesses they want to get into.”

As organizations rethink their business models, strategies, and processes, they are setting new goals and brainstorming how to meet them. These new priorities are reflected in changing digital transformation goals. In 2021, for example, respondents report that their organizations prioritized internal processes, including increasing productivity/efficiency (37%), improving business continuity and resiliency (32%), and increasing agility (30%), all of which mirrored the period during which organizations worked to establish and adjust to major technology, culture, and process changes.

In 2022 and beyond, however, respondents’ organizations are shifting the business goals for their transformation efforts to focus on enhancing customer satisfaction (34%), better analyzing enterprise data to uncover new business and operation insights (33%), and continuing to increase

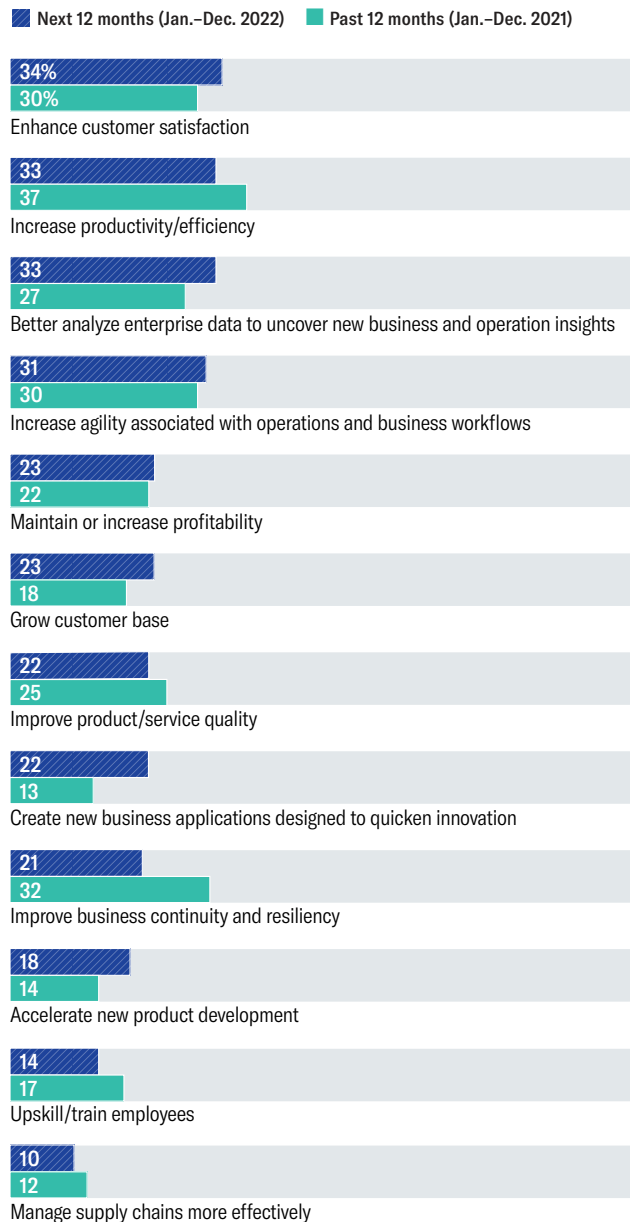
productivity/efficiency (33%). **FIGURE 1** These findings are consistent with an economy beginning to emerge from two years of constrained business activity that, for many, focused

FIGURE 1

Shifting Business Goals for Digital Transformation

Goals for 2022 reflect changing priorities

What were the primary business goals for your organization’s digital transformation efforts over the past 12 months? And what are the primary business goals over the next 12 months? [SELECT UP TO 3 IN EACH COLUMN]



Source: Harvard Business Review Analytic Services survey, January 2022



“It’s no secret that every company is giving at least lip service to digital transformation today. And yet there’s no question that many organizations are struggling with the digital transformation efforts that they have begun,” says David Rogers, author of *The Digital Transformation Playbook* and a professor at Columbia Business School.

on pure business survival. Now, organizations have more room to optimize their data strategies, find ways to be more innovative, and improve the customer experience beyond updates and accommodations made to adapt to the pandemic.

To achieve these business goals, however, companies will need to contend with challenges that threaten to hamper their success. The top digital transformation challenge respondents report is embracing these efforts across the entire organization (46%). **FIGURE 2** Without collective buy-in from the organization on the vision of and path to transformation, these efforts will undoubtedly fail.

Organizations are also stymied by personnel challenges, both in finding and securing talent to support new digital initiatives and in creating a culture of continuous learning. Without concerted efforts to reinvent hiring practices for a global workforce—and by ignoring opportunities to cultivate internal talent—organizations risk not only their ability to support new technologies and quickly evolving business priorities, but ultimately their competitive edge, too.

“We started 2021 with tremendous hope, and then the ‘Great Resignation’ happened. We couldn’t find people to work, and nobody was coming back,” Li says. “Companies need to think about what they’re doing right now to upskill and train their existing workers on what they need—but almost no one is doing this.”

Aligning digital transformation with business objectives and key performance indicators (KPIs) is another area organizations must reevaluate, the survey finds. Without clear alignment, decision making will slow and the value in digital transformation efforts will decline.

Over the next year, businesses will need to address these top challenges that inhibit them from achieving more success as they tackle evolving business priorities and turn an eye toward the future.

Revisiting Persistent Cultural Issues

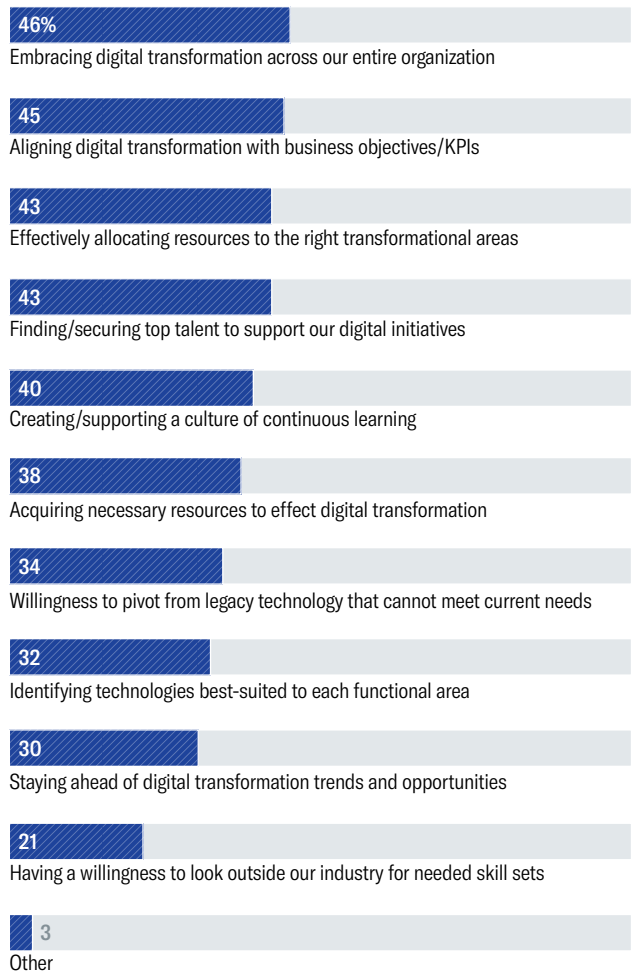
Gaining buy-in on digital transformation efforts is critical to the success of the transformation, says George Westerman, a senior lecturer with the Sloan School of Management at

FIGURE 2

Top Digital Transformation Challenges

Embracing digital transformation efforts is the most-cited issue

What are the biggest digital transformation challenges that your organization is facing today? [SELECT ALL THAT APPLY]



Source: Harvard Business Review Analytic Services survey, January 2022



“Not enough businesses focus on the transformation part of digital transformation, and the transformation part has always been about people. This has been the blind spot for so many digital transformation efforts—it’s what a lot of companies are missing,” says Charlene Li, chief research officer at PA Consulting.

the Massachusetts Institute of Technology (MIT). However, the survey finds that many respondents’ organizations are struggling to embrace digital transformation across the entire organization. Forty-six percent admit that this is a challenge, but a lower percentage—37%—say they are currently tackling this problem.

Tom Davenport, professor of IT and management at Babson College, says this discrepancy is indicative of where organizations are in their transformation. “Any kind of business transformation is hard, and when you get into year two, it’s no longer just about developing new applications,” he says. “You have to get into production deployments. You have to integrate them into your existing systems. You’re changing your business processes. You’re reskilling people who are doing this new work. None of this is easy, and sometimes culture takes a back seat.”

PA Consulting’s Li notes that focusing on the digital part of the transformation has been the downfall of many organizations. “Not enough businesses focus on the transformation part of digital transformation, and the transformation part has always been about people,” she says. “This has been the blind spot for so many digital transformation efforts—it’s what a lot of companies are missing.”

Interestingly, respondents who were not classified as leaders cite these obstacles at even higher levels, indicating that in many companies, the organizational changes needed for digital transformation are even more significant. For example, leaders are much less likely to indicate that embracing digital transformation across the organization was a challenge—33% versus 49% of the remaining sample, a notable difference of 16 percentage points—the survey finds. Leaders were also more likely than the remaining sample to indicate “much higher” organizational commitment to cultural change (27% versus 14%).

Columbia Business School’s Rogers says that one factor that separates these leading organizations from others in this area is that their leaders are constantly communicating a digital transformation story. “Employees need something to embrace, and it’s the fundamental task of a leader to define the vision of where the organization is going and your right to win there,” he says. “Unless you can articulate that, no

one will embrace the transformation because all they hear is uncertainty, change, and job insecurity. That’s what fills their minds.”

Successful organizations also aim to inspire teams to embrace change in order to fortify a culture of transformation, Rogers says. Employees need to see that they can become agents of change and be rewarded for taking initiative. “You need to inspire and attract people with a clear vision and a mindset of bottom-up change, and you need to empower employees at every level. Only then will you begin to change the culture around digital,” he says. Successful organizations recognize the importance of people and involve them in the transformation.

Another quality separating top organizations from others is their relationship with failure, Li says. “I see so many cultures where you get ahead by never making a mistake. You keep your nose clean and do the job, show up, be a collaborative consensus, and don’t stick your neck out,” she says. “But with digital transformations, you need to build a culture where it’s okay to try new things. You need to take risks. If you’re an organization where success is defined by not failing or taking risks, [embracing digital transformation] is going to be really hard.”

Having progressed on these culture challenges, leaders—those respondents who rated their organizations an 8 or better for their digital transformation efforts each of the last two years—have been significantly more successful in modernizing their workplace cultures in 2021 compared to the remaining sample—63% versus 23%—the survey finds.

Tackling Hiring Challenges with Employee Training

Having the right people in place to lead and implement change matters, too. Organizations navigated unprecedented labor shortages in 2021 as employees reevaluated their careers and left their jobs in record numbers. Companies are still reeling from the impact, the survey shows: 43% of respondents say that one of the biggest digital transformation challenges their organization is facing today is finding and securing top talent to support their digital initiatives.

“This reevaluation on the workers’ part really requires a reevaluation on the company’s part of what they’re actually hiring people for,” MIT’s Westerman says. “How are they treating them? What kind of lifestyle are they giving them? Are they giving them meaningful work? They need to set up a situation where people want to work for them, instead of having to work for them. People have more choices on how not to work for you, so companies really need to think about the experience they’re giving to employees.”

While finding and securing top talent are top concerns for many respondents’ organizations, a smaller percentage is actively addressing the problem—32%, the survey finds. **FIGURE 3** Mercer’s Swift says that organizations aren’t fully tackling this issue because they haven’t yet determined what talent they actually need to support their new technologies and business initiatives. This sentiment is underscored in part by another top digital transformation challenge: effectively allocating resources to the right transformational areas, also selected by 43% of respondents.

“There are fundamental questions that organizations need to ask themselves about what’s needed and what’s required,” Swift says. “Do we need this many data scientists? Have we uncovered yawning gaps in our basic data management? Can we not retain high-priced talent because we didn’t bring in low-priced talent to fix some of the stuff that needs fixing? These are questions to ask about what’s genuinely needed and what has shiny-object value.”

Babson College’s Davenport adds that organizations are still grappling with the potential of hiring outside local areas, which has also contributed to a lack of action on hiring challenges. “I think a lot of people are still quite confused about how you attract talent when geography doesn’t matter so much anymore,” he says. “Companies have also been slow to make decisions about whether people can live anywhere



“I think a lot of people are still quite confused about how you attract talent when geography doesn’t matter so much anymore,” says Tom Davenport, professor of IT and management at Babson College.

and their policies around that. That slows down your talent recruiting process because you don’t really know yet what you want to say to those potential employees that you’re trying to bring in.”

One untapped opportunity that could alleviate current hiring challenges is upskilling and training internal talent. Executives indicate that upskilling/training is not a primary business goal for most organizations over the next year; it is one of the least-cited priorities among respondents at 14%. Moreover, nearly a third (31%) say they disagree that their organization is a leader in offering training to employees to improve or modernize their skill sets for the future. By prioritizing upskilling and training over the next year, organizations could close skills gaps without needing to contend with a highly competitive talent market.

“The reality is that organizations won’t often invest in training their people because they figure that, eventually, they’re just going to leave,” Li says. “Investing early in their careers and developing not only their hard skills but also their soft skills as members of teams and as leaders will serve them so well both immediately and into the future—but a lot of organizations are just too shortsighted.”

This commitment to training is another area that separates leading organizations from all others, the survey reveals. They were much more likely to agree that their organization is a leader in offering training to employees to improve or modernize their skill sets for the future, with 70% versus 44% in the remaining sample, underscoring the positive impact that training has, particularly in leader organizations.

While offering training to employees to improve or modernize their skill sets for the future may not be a top digital transformation business goal for 2022, organizations do plan to improve employee education in the coming year; 52% of respondents say their commitment to education support is much higher in 2022 than it was a year ago.

FIGURE 3

The Talent Disconnect

Finding and securing talent is a top challenge, but fewer organizations are tackling it

43% say finding/securing top talent to support their digital initiatives is the biggest digital challenge facing their organization today.



32% say finding/securing top talent to support their digital initiatives is the challenge being actively addressed right now.

Source: Harvard Business Review Analytic Services survey, January 2022

Reassessing hiring strategies and increasing employee education opportunities should be a top priority for organizations in 2022, Swift asserts. Otherwise, organizations risk falling behind their competitors. “You can have the best technology in the world, but if your employees are not mobilized or you don’t have the right folks, business mysteriously slows down in a way that companies won’t be prepared for. To retain a competitive advantage, organizations need to move fast to address this problem.”

Measuring Digital Transformation Success

As companies move into the next year, organizations will need to consider how they align digital transformation with business objectives and KPIs. The survey shows this is a top-two challenge (45%) that respondents’ organizations are facing today in their digital transformations.

“A lot of companies aren’t clear about what their business objectives and KPIs actually are. They have this technology, and they have this business goal, but there isn’t clear alignment from everyone,” Li explains. “The organizations that do a really good job of this align business objectives and KPIs across the entire organization first, and then they align all of their business transformation and digital transformation work against those objectives. That’s how you make it clear that you’re doing this to achieve those certain goals and objectives.”

The survey finds that the top KPI rankings remained similar year over year. But two in particular dropped percentage-wise: growth/revenue generation fell from 55% in 2020 to 46% in 2021, and profitability dropped from 48% to 38%. They’re still top KPIs, but this shift may indicate that some organizations don’t yet have much leverage to grow revenue or profit.

Organizations may also be focusing on the wrong KPIs. Operational efficiency, for example—the No. 1-cited KPI (52%)—is the “worst” metric companies can use to measure the success of their digital transformation efforts, Li says. **FIGURE 4** “[Operational efficiency is] not so much digital transformation as it is digital updating. What you’re doing is replacing outdated legacy processes with new digital ways of working. That’s great, but is that really transforming the business?” she says.

Organizations should be wary of relying on any process-oriented benchmarks to gauge digital transformation progress, Rogers adds.

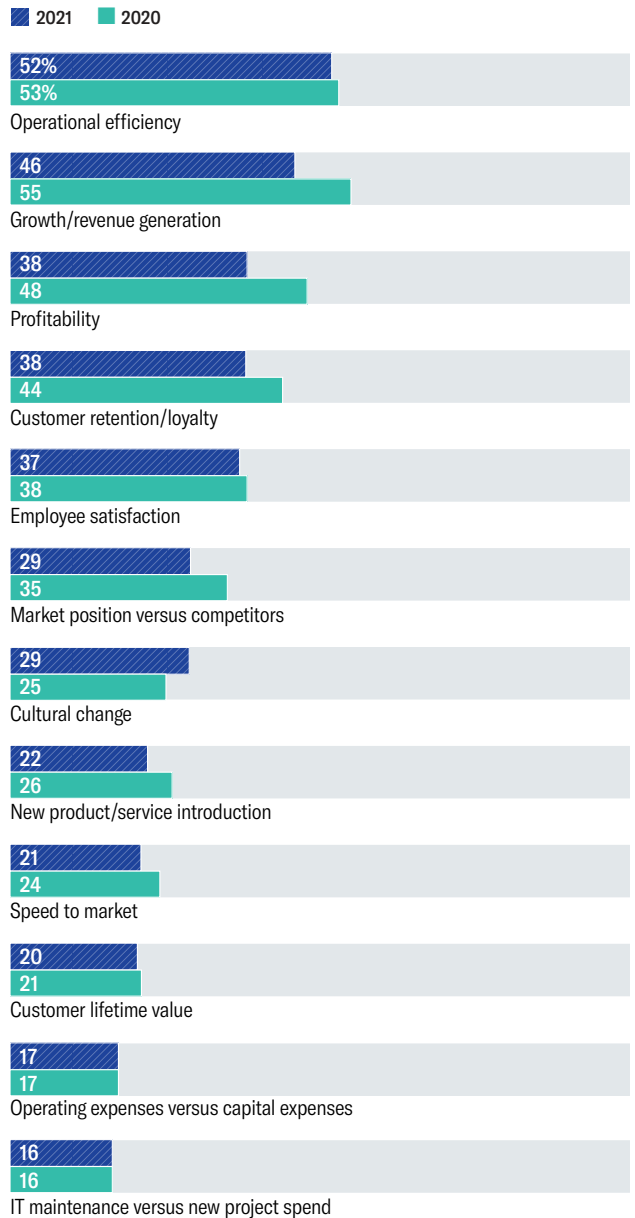
The most undervalued metric that more organizations should use to measure digital transformation success is employee satisfaction, Li says. This KPI was the fifth-most-cited in the survey (37%) overall. Digging deeper into the results, however, shows that respondents whose organizations were identified as leaders cite this metric at a much higher rate—45% versus 35% of the remaining sample. “[Leading]

FIGURE 4

Leading Key Performance Indicators Change Little

Organizations rely largely on the same business and performance metrics

Which of the following key performance indicators does your organization use to measure the success of your digital transformation efforts? [SELECT ALL THAT APPLY]



Source: Harvard Business Review Analytic Services survey, January 2022

organizations understand that digital transformation can only happen if your employees are truly engaged and actually adopting all of these technologies,” she says. “The employee experience of digital continues to be a major hairball, and it’s surprising we don’t see that metric higher up,” Swift adds.

Leaders were more likely than the remaining sample to say that they will be using a wide range of key performance indicators to measure the success of their digital transformation efforts, with notable differences on market position versus competitors (42% versus 27%), customer lifetime value (33% versus 17%), and customer retention/loyalty (49% versus 35%).

Li says not enough organizations are focused on market position and customer metrics. “One unique thing that disruptive organizations have in common is they think constantly about their future customer, and they spend an inordinate amount of time thinking about where they’ll be 18 months from now,” she says. “And they’re preparing and making all the changes today to be able to meet those customer needs in 18 months—and that’s really hard to do.”

Technology Priorities Endure

In the next year, organizations will continue to invest in technologies that streamline processes and deliver more business value. For the second year in a row, half of the executives surveyed (50%) say that their organization plans to invest in business process automation in 2022—the same percentage that planned to in 2021—followed by AI and ML technology (44%), also the same percentage as last year. **FIGURE 5**

The continued investment in business process automation is driven in part by labor shortages, Davenport says. “Companies didn’t realize there were going to be so many resignations and such a big battle for talent, so they’re finding they need to automate as much as they can,” he says.

Shifting business goals is one reason why artificial intelligence and machine learning technologies rank high as technology investments yet again. In 2021, 27% of organizations said that better analyzing enterprise data to uncover new business and operation insights was a primary digital transformation goal, ranking fifth, but in 2022, increased to 33%, ranking as the No. 2 digital transformation business goal. Davenport says that because many organizations have put new data and technology foundations in place, this is a natural next step. “[You need to figure] out how to make sense of all that data, how to make better decisions with it, how to target customers more effectively with it, and all that is done through analytics, AI, and machine learning,” he says.

AI and machine learning are technology investments that leaders are prioritizing today, the survey finds. For example, leaders are more likely to say they will be investing in a wide range of technologies over the next 12–18 months to support



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their digital transformation, with a notable difference on artificial intelligence and machine learning technologies (52% versus 42%). Overall, they are also more likely than the remaining sample to indicate much higher organizational commitment to technology advancements—38% versus 18%. Smart technology investments matter, and leaders are getting them right.

“This is clearly the year of making money with AI and not just treating it as some experimental technology,” Davenport says. “If you’re just experimenting with these technologies, you’re already falling way behind.”

While having the right technology in place is critical to the success of digital transformations—with 85% of respondents agreeing—Rogers is quick to caution that organizations should not chase top technologies without a clear strategy for growth. “Too many organizations have been sold on the idea of digital transformation before they even knew where they were heading,” he says. “They think they need to invest in a lot of technology and infrastructure upgrades and pay down a lot of technical debt. That needs to be done, but it’s going to be very inefficient if you don’t yet know toward what end you’re making those investments.”

New technologies investments should clear three criteria, Swift adds: “Is it productive? Does it deliver a good employee experience? And, ultimately, does it drive a good customer experience?”

Moving into the Future

Digital transformation is only becoming more critical to the business success of organizations. As companies begin to emerge from constrained business activity, they’re moving faster in their transformations and shifting business goals from internal, process-driven objectives to goals that deliver more business value.



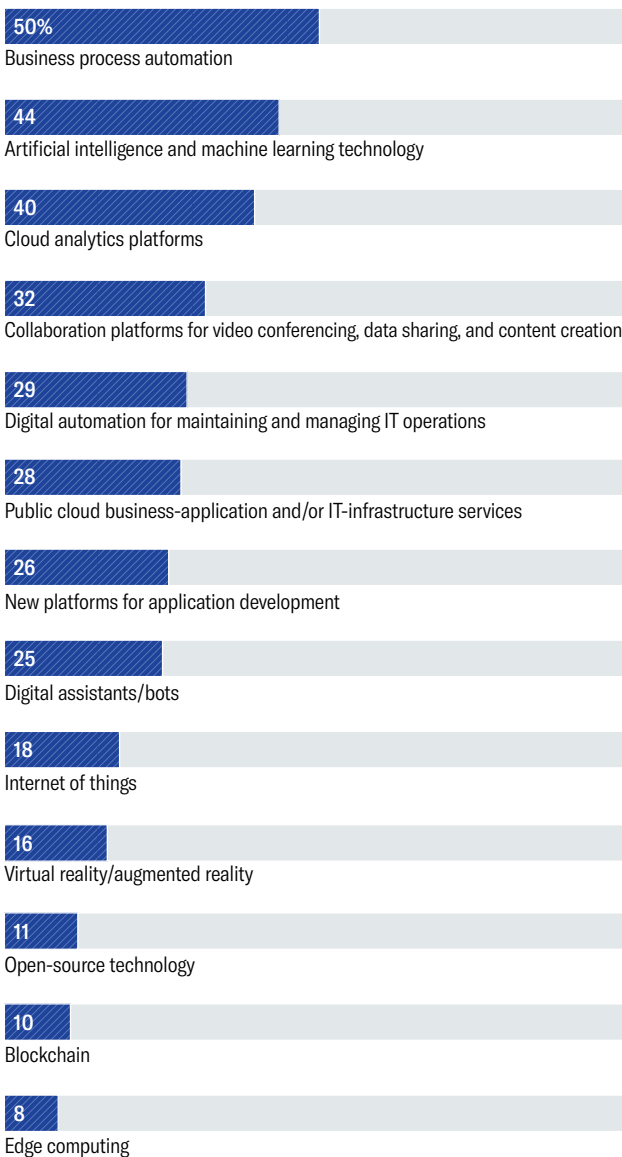
“The great companies are never truly done with digital transformation. They finish something and then they immediately ask, ‘What else can we do?’” says George Westerman, a senior lecturer with the Sloan School of Management at MIT.

FIGURE 5

Top Tech Investments

Organizations prioritize tech that streamlines processes and delivers more business value

What new technologies is your organization planning to invest in over the next 12-18 months to support digital transformation? [SELECT ALL THAT APPLY]



Source: Harvard Business Review Analytic Services survey, January 2022

In 2022, organizations should address top challenges blocking them from achieving more success from their transformation efforts. They will need to confront and actively address cultural challenges preventing digital transformation efforts from being embraced across the entire organization. They’ll need to reevaluate their hiring strategies and support reskilling and upskilling to alleviate current hiring challenges, adopt the right technologies and know where to apply them, and reassess how their transformation efforts align with business objectives and KPIs.

“The great companies are never truly done with digital transformation. They finish something and then they immediately ask, ‘What else can we do?’” Westerman says. “They’re constantly pushing the envelope. They celebrate victories and say, ‘Great. Now, with what we’ve got, what’s the next step?’”

METHODOLOGY AND PARTICIPANT PROFILE

A total of 727 respondents drawn from the HBR audience of readers (magazine/ newsletter readers, customers, HBR.org users) completed the survey.

Size of Organization

21%
100–499 employees

10%
500–999 employees

22%
1,000–4,999 employees

9%
5,000–9,999 employees

38%
10,000 or more employees

Seniority

24%
Executive management/
board members

43%
Senior management

25%
Middle management

5%
Other grades

Key Industry Sectors

16%
Financial services

13%
Technology

12%
Manufacturing

9%
Government/
not-for-profit

All other sectors are 8% or less.

Job Function

22%
General/executive management

10%
Sales/business development/
customer service

All other functions are less than 8% each.

Regions

40%
North America

22%
Europe

22%
Asia Pacific

8%
Middle East/Africa

6%
South/Central America

3%
Other

Figures may not add up to 100% due to rounding.



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