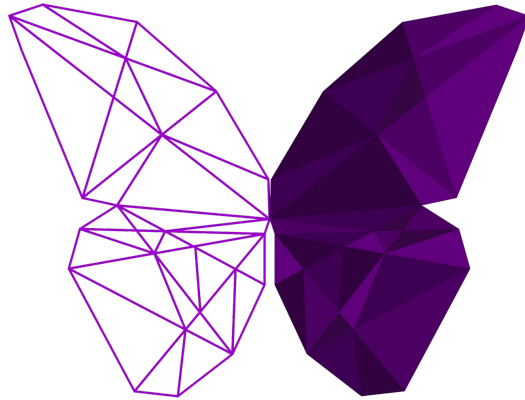


Fast Tracking Digital: White Paper



Summary of Key Questions Boards Should Ask Management About Digital Transformation:

1. Do both the Board and Management understand the realities we are facing while taking on a Digital Transformation?
2. Is there a clear vision and executive alignment for what business problem(s) our DT will attempt to solve?
3. Who is leading the charge for our company's Digital Transformation?
4. What investments in Digital Leadership are we planning?
5. Is the DT organized for success?
6. What Stakeholders are we including?
7. Are we allocating funding in increments?
8. In what ways are we coaching continual change?
9. How are we demonstrating our ability to stay the course on the way to the vision, while pivoting where necessary?

The Board and Management must be aligned before embarking on a Digital Transformation. They must recognize that any true digital transformation is an immersive business change, not merely a technology initiative or project. The company's DT must have a clearly-formed and communicated vision that aims to solve real business problems. If the DT does not ask or answer the question, "How will the business fundamentally change as a result of these initiatives?", then the DT will not have the solid foundation required for success. Can the Executive Team answer the question, "How are you and your organization participating or contributing to the company's DT?" Furthermore, the Board must determine whether the company culture supports or impedes adoption of fast change because a successful DT demands momentum. Once the Board and Management align on the vision, purpose and sacrifices needed for a successful DT, they can begin to see what human and financial resources will be required. Finally, the Board must uncover and address any ambiguity in the vision early in the process in order to align with and empower Management to endeavor to do the difficult work of transforming the business.



Fast Tracking Digital: White Paper Key Questions Boards Should Ask Management Right Now

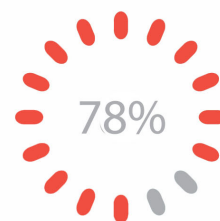
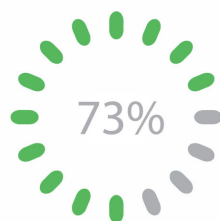
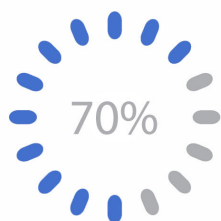
Before COVID-19 hit, 70% of companies were in pursuit of a digital transformation.¹ Shelter in place mandates expedited digital initiatives and enabled remote worker, vendor, and customer capabilities. Today, the norm is to work from home, video conference, order what you need via the internet, attend a virtual happy hour, and leverage cloud applications and tools (previously forbidden at many companies).

Management and Boards should recognize these important steps towards digital enablement, but it is not time to celebrate just yet. Enabling a remote workforce is only one initiative on the journey towards Digital Transformation (“DT”). True DT is an immersive and pervasive business change across all areas of business, not just technology. DTs restructure organizations, automate actions, and fundamentally change the way a business operates.

As a Board member, what risks should you consider, and what key questions should you ask Management right now about fast tracking the organization’s journey towards DT?

1. Do both the Board and Management understand the realities we are facing while taking on a Digital Transformation?

In March 2019, Harvard Business Review (HBR) reported that over 70% of all digital transformations did not reach their goals and failed.² A 2018 study by Everest Group recounted that 73% of businesses failed to provide any business value whatsoever from their digital transformation efforts, and 78% failed to achieve their desired business outcomes.³ Together, these equate to over \$900 billion of investment that yielded zero return.



Board members should take extra caution, be more diligent, and focus on Management's risk appetite and their plan to generate long-term value through their DT. Clearly understanding the risks and plan for DT sets the tone for open conversation about mitigation strategies and honest conversations about setbacks. DTs are difficult for a business to successfully complete because they require people, individually and corporately, to adopt, change and work across silos. As we examine the **4 categories of failure**, notice that people are the thread throughout each.

"When digital transformation is done right, it's like a caterpillar turning into a butterfly, but when done wrong, all you have is a really fast caterpillar."

- George Westerman

Research Scientist with the MIT Sloan Initiative on the Digital Economy.

a. The company's DT lacks vision to solve real business problems.

The company's business should be transforming, not just the technology. DT is not about a shiny new tool or process that is needed. If "AI Strategy" or "New Mobile App" is the title of Management's DT presentation, think twice. This may not be a DT, as it may only be another technology project masquerading as DT. DT is rooted in a strategic business metamorphosis where the question, "How will the business fundamentally change as a result of these initiatives?" is both asked and answered.

For more information on this, look to one of the most renowned DT failures, GE's digital efforts.⁴

b. There is a lack of executive alignment at the company regarding DT.

Businesses who win with a DT have Executive Teams who are unilaterally aligned to the vision, purpose, and sacrifices required to generate and then secure a payback from the DT investments. Only 5% of companies, as detailed in PWC's 2020 Digital IQ survey, accomplish this feat. Those who do, are a result of senior executives' mandate for cross-functional collaboration and a complete focus on the DT effort.⁵

5% of companies align to the vision, purpose, and sacrifices needed to win in digital transformation.

DT is not a project, nor is it a line in the technology budget. Across the board, management must line up to support, enable, contribute, sacrifice, and invest in the process and the outcomes. DT is the business strategy; therefore, the investment prioritization must follow.

Where Management chooses to focus their investments will reflect to what degree the Executive Team is aligned. Is there a formal, regularly scheduled process in place among the Executive Team, to rate or rank projects and gain alignment? Are there just as many projects on the capital list as there were before undertaking the DT? What projects were scrapped in lieu of favoring a successful DT? Are there Executives who are on the outskirts of the DT and seemingly not engaged? Are there pockets of investment that are not directly related to the DT, if so, what and why?

When interacting with Management, everyone on the Executive Team should authentically and specifically answer the question, "How are you and your organization participating or contributing to the company's DT?" For some of the Executive Team, the answer will be specific to the DT projects. For others, they might pick up aspects of running the day to day to free up their peers to focus on the DT activities, and/or they might sacrifice their interests, budgets, and department goals for the greater good. In all cases, if the answer is weak from even one executive on the team, question Management's alignment.

c. The company culture impedes adoption of fast change.

Organizations that focus on transforming culture and building capabilities during a transformation are 2.5 times more likely to succeed.⁶ Sadly, many companies undertaking a DT do not relentlessly focus on this risk mitigator.

Successful DT cultures will value cross-functional collaboration. They are customer obsessed. They embrace risk and continual change. A few of the barriers to achieving a DT culture include: previous failed attempts, change fatigue, significant period of time lapse since the last large business change (or no business change of record), inability to work across silos, lack of a clear vision, lack of talent, lack of leadership, lack of prioritization, trying to do everything, and lack of a cohesive, purposeful, organizational behavioral change plan.

What culture does the company have, and what are Management's insights about how it will fast-track, distract, or de-track the DT?

Culture change takes time and is slower to achieve than technology or process changes. Management should obsess about the culture challenge, keep it top of mind, have a plan to shape the culture, seed it, and then continually water the seeds of change. Are executives truly working for the good of the company and their peers or are they in it for themselves? A lack of trust means people will hesitate to speak openly, thereby introducing risk of failure, or at minimum, significantly slowing down the effort. How do you get executives to feel comfortable enough to speak openly without risk of repercussions? A culture of openness and trust is critical for success.

d. The company lacks momentum in the Digital Transformation.

Digital Transformation is about more than "doing Agile", it is about building sustainable business momentum and a new way of doing business.

Digital Transformations require culture, technology, process, and talent changes. These take investment and effort over a period of time. Organizations and their people easily tire from the effort if momentum and progress are not continual.

All too often, Management focuses on only one area of progress to focus (e.g., we are going to leverage Agile practices). While leveraging Agile may be a best practice in DT, a sound momentum plan ensures that visible progress is made along the way. It is intentionally crafted, quantifiable, visibly communicated, capable of flexing, and constantly monitored along the delivery journey.

2. Is there a clear vision for what business problem(s) our DT will attempt to solve?

There are several questions that a Board member can ask Management when trying to determine if the vision is clear. First and foremost, as a Board member, do you understand the vision? Does it make sense to you? Does it solve a real business problem, or a minor one? Is it big enough?

If you can answer those questions for yourself, then the next step is to do a bit of due diligence to make sure that Management can answer the same questions and more, using clear, concise, easy to understand answers. As mentioned in the barriers to fast tracking a DT, executive alignment, clear visions, and lack of focus on culture changes are all too often the reasons for failure.



We suggest the following questions for you to consider:

- Is Management absolutely clear about the business problem they are trying to solve?
- Is it worth solving?
- Has Management invested time to create a tangible vision of the future?
- What is expected to change?
- How will the business, the organization, and the financials be different in the future?
- Can every member of management articulate the vision, the expected outcomes, and what role they play in the transformation?
- How is Management planning to build momentum and share results?

3. Who is leading the charge for our company's Digital Transformation?

Leadership is the most critical decision point, and in some cases, the most expensive investment in a DT. A strong leader casts a vision and motivates others to take the hill. She or he encourages others to keep going far beyond what the individual believes they can do. She demonstrates a willingness to listen and pivot and inspires and empowers teams. A strong leader understands that changing technology is not the biggest challenge. The biggest challenge is establishing an organization that allows and encourages people to change.

Arguably, in pursuing a DT, the CEO must be in the driver's seat. Given that a DT is about changing the business, who else can lead from the top? HBR reports, "It has never been clearer that leadership — both good and bad — cascades down to impact every single aspect of the organization. As much as 50% of the variability in performance is attributable to the individual leader."⁷

4. What investments in Digital Leadership are we planning?

Most CEOs require not only the alignment of the full executive team, but also a dedicated digital leader to run the day-to-day DT. In some cases, the role of Chief Digital Officer ("CDO"), or a Chief Transformation Officer (CTO) role, is created to take on this challenge. This person is not only skilled in all things digital, but also should be experienced in leading people through material organizational, business process, business model and technology changes.

Given the difficulty in driving change, and the complexity of the culture influence, the Board might stress to Management the need to hire a transformation coach. A transformation coach is a seasoned executive with specific experience leading organizations and teams through a radical, albeit digital, transformation. These are rare leaders who have been through the fire, so to speak, and won.

"A strong leader understands that changing technology is not the biggest challenge. The biggest challenge is establishing an organization that allows and encourages people to change."

Transformation coaches operate at the CxO level. They advise, counsel, and coach the executives through the challenges towards organizational DT success. Additionally, they coach up, down, across ranks at a variety of levels, with the single goal in mind of helping the CEO navigate the difficult journey of change. They are independent, have succeeded in the past, and have a bird's eye view of the overall program, without the political ties that being internal often brings.

Case in point: At a large, global enterprise, two different divisions each set out to digitally transform their business. The end state was ideated. Much time and money were poured into crystalizing and clarifying the end state business visions and outcomes. However, executive leadership was sorely lacking.

The C-suite loudly and repeatedly vocalized their support of one business group's digital transformation, while downplaying and de-emphasize the other. Their explanation for this other than the support business was the newer, shinier business, was that the other business was the more "mature" business.

The supported business unit got the most talented SVP in the company to lead the DT, along with an unlimited checkbook. The unsupported business's DT was barely funded, provided a first time in seat Vice President with no actual digital experience. The outcomes were to be expected.

In the first case, the supported business completed their DT faster than planned. They accelerated their outcomes, over-delivered on the desired business goals, and experienced single digit turnover along the way. The DT was considered a success.

In the second case, the unsupported team extended their DT from two years to four years. The VP leader changed twice during the journey. They had high double-digit turnover of employees, and over 100% turnover of consultants. This effort took 2 times as much investment to get to the finish line. Those employees who made it to the finish line lost all confidence in the company.

Leadership matters. It starts at the top and extends down through all the key roles of a DT. Board members should ask the hard questions about the CEO's ownership of DTs, and the key leaders she or her puts in place to lead each one. DTs are not easy, and resilient leaders are required throughout the entire transformation in order to deliver the required effort to achieve the desired business goals.

5. Is the DT organized for success?

A DT requires a new operating model in order to be successful. New skills, alignment, programs, and architecture are required to transform, and even more so in a DT. What approach will Management take to transform? How will Management transform the business, upskill where needed, and architect for the future, while also continuing to operate day to day?

a. Skills. Culture and talent represent 66% of the most significant challenges in a tech-enabled (digital) transformation.⁸ The war for talent, especially in DT, continues. Management will most certainly need to invest in digital design and technical skills such as: UI/UX designers, software engineers, network engineers, human-behavior and customer centric design experts, data science experts, digital security experts, etc.

66% of transformations fail due to culture and talent

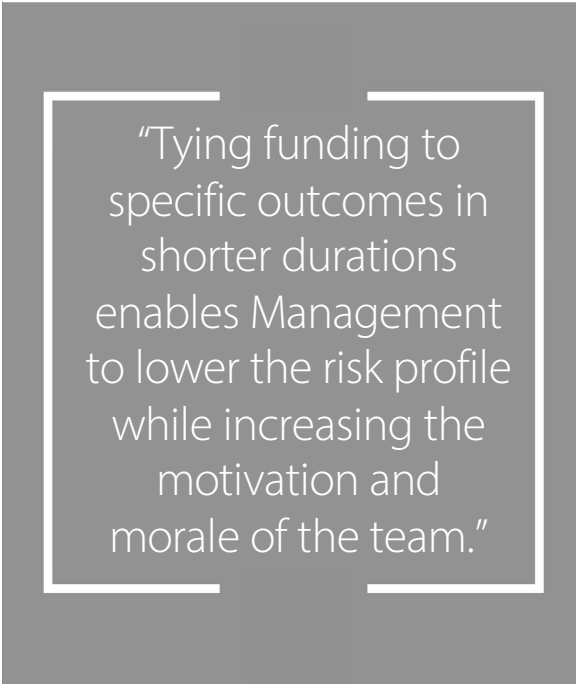
6. What Stakeholders are we including?

Regardless of the stakeholder, be that the customer, employee, or vendor, has Management consulted with those constituents? What set of factual data points is Management using to clarify the constituent's problems that the transformation will solve? What journey map efforts has Management undertaken for the personas impacted by the digital transformation? Do Management's journey maps reflect substantive changes? Do they relentlessly favor automation over manual activity and solve the bigger problems?

7. Are we allocating funding in increments?

How is Management approaching funding the effort? Is there visibility to a multi-year effort? What efforts is Management making to break the work down into increments that can be funded on a quarterly or bi-annual basis and tied to the work that is delivered in that time frame? What metrics will Management use to quantify the progress along the journey? Do the board and senior leadership have the stomach for major investments that may impact profitability in the short term?

The larger the company, the longer and more expensive the transformation will take. The more expensive a program, the harder it is to get started. With digital transformations, there is a risk of doing nothing or delaying. It is wise to understand the overall cost implications for the full, multi-year digital transformation. It is best practice to understand the expected outcomes and financial impacts to be gleaned at the end of the transformation. It is recommended that while the overall program may be approved, the funding for it will be released in quarterly or six-month increments. Tying funding to specific outcomes, in shorter durations, enables Management to lower the risk profile while increasing the motivation and morale of the team.



“Tying funding to specific outcomes in shorter durations enables Management to lower the risk profile while increasing the motivation and morale of the team.”

8. In what ways are we coaching continual change?

How is Management addressing the organizational behavioral changes that must take place to successfully adopt the changes? Digital transformation has been described as a roller-coaster ride, where the people are vital. Having a defined vision addresses the cultural change required for a successful DT.⁹ Does Management model and encourage a growth mindset culture or a fixed mindset culture? Once again, leadership plays an integral role in establishing a positive example for how to plan for, react to, and embrace change. The Board holds a responsibility to Management (and vice versa) to perform culture audits, where key players are anonymously surveyed about the organizational culture that exists. Tracking metrics in regard to corporate culture can be just as impactful to a successful DT as tracking metrics related to incremental KPIs.

9. How are we demonstrating our ability to stay the course on the way to the vision, while pivoting where necessary?

How do you know if your Executive Management Team is aligned on the vision? If Management can draw the vision without using words, they are aligned. Do not skip this necessary, if perhaps unconventional, step in aligning Management on the vision--and then ask the Board to do the same exercise. When there is a clearly defined and aligned vision, pitfalls can be averted, and pivots can be forecasted as part of the transformation journey. Ask "Why?" five times to get even clearer on the vision so you can nail down key problems you are trying to solve with this DT. Hiring a change management professional can help everyone in the organization get comfortable with the "why". From the CEO down, it is impossible to have too much communication. What formal communication touchpoints are leaders putting in place? Uncovering ambiguity in your vision early in the process will help you dive deeper in search of a better defined and communicated roadmap to success.

DTs need talented individuals with the ability to flex, pivot, test, and learn at rapid scale. Strong digital talent often has interests that are beyond the traditional career pathing that companies offer. They work best in agile environments and enjoy rapid prototyping. This is where culture and digital talent intersect, and cultures that cannot adapt to these changes will have a very hard time finding and keeping strong digital talent.

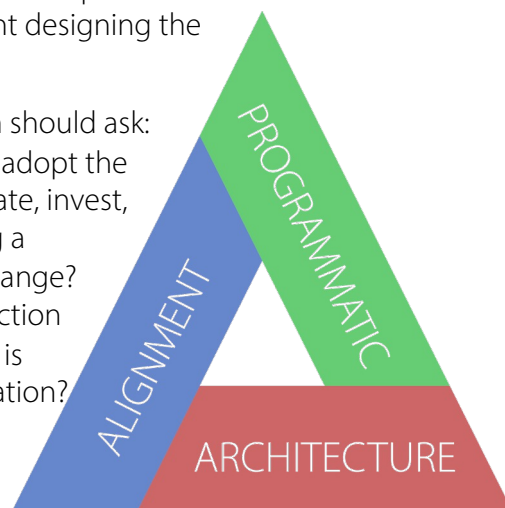
The higher your overall digital talent competencies, the faster you can accelerate your digital efforts. Investing in the right digital talent early means moving faster. Management may choose to infuse the team with these skills, and then upskill along the way. Or, Management may decide to upskill from the beginning, in which case, fast tracking the DT will be an even bigger challenge.

Is there clarity around what digital and technical skills are needed and when? How will Management address these needs both short-term and long-term?

a. Alignment. Management must also clarify the roles and responsibility for all participants in a DT. Aligning participants' roles and responsibilities to the DT goals empowers them to connect with the vision and drive it. When this practice is in place, results show that companies are 1.5 times more likely to report a successful digital transformation.⁹ Is Management designing the compensation plan for the DT participants with this in mind?

b. Programmatic. From a programmatic perspective, the DT plan should ask: How is Management mobilizing the company and the culture to adopt the changes? What is Management saying "no" to in order to accelerate, invest, and digitally transform? Is Executive Management demonstrating a willingness to adopt change, and actively leading through the change? What hard decisions has Management been forced to take and action that demonstrate their commitment to the transformation? How is Management handling the pivoting required amidst a transformation? Does Management need coaching advice, or assistance, to successfully navigate the difficulties successfully delivering a digital transformation? What is the incentive plan for those?

c. Architecture. What and how is Management investing in technical architecture that is agile? Is the focus on increasing speed to market, sustainable outcomes, automations, and the ability for the business to pivot quickly? Are there considerations to wrestle with and win the data war: deficient, hygiene, structured, unstructured, private, shared? Are there alternative approaches that would accelerate the transformation?



KEY FINDINGS:

1

A true Digital Transformation asks and answers the question, "How will the business fundamentally change as a result of these initiatives?"

2

Companies must recognize and avoid the 4 categories of failure for a digital transformation:

- (1) The company's DT lacks vision to solve real business problems.
- (2) There is a lack of executive alignment at the company regarding DT.
- (3) The company culture impedes adoption of fast change.
- (4) The company lacks momentum in the DT.

3

People, not technology, are the common thread throughout each failure category.

4

True digital transformation is an immersive and pervasive business change across all areas of the business, not just technology.

5

Executive Teams must unilaterally align to the vision, purpose, and sacrifices required to generate and secure a payback from the Digital Transformation investments.

6

Everyone on the Executive Team must be able to answer the question, "How are you and your organization participating or contributing to the company's Digital Transformation?"

7

A transformation coach may be necessary to bring in to lead the organization and teams through a radical digital transformation.

8

Management must break down the Digital Transformation work into increments that can be funded and tied to the work that is delivered in that time frame.

9

Tracking metrics in regard to corporate culture can be just as impactful to a successful DT as tracking metrics related to incremental KPIs.

10

To uncover ambiguity in the Digital Transformation vision, set a clearer roadmap to success and assure alignment Management must be able to draw the vision without using words.

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