The Complete Guide to Digital Maturity

Contents

Introduction

Most businesses had already identified the importance of digital transformation to their future growth plans. However, the global pandemic has introduced a new level of urgency into the situation. Organizations are being forced to change – and now is the ideal opportunity to make changes capable of delivering long-term benefits.

Now is the time for digital transformation.

This report takes a deep dive into the factors driving digital transformation, lessons from those who have achieved digital maturity and a breakdown of the challenges your business faces – and how to overcome them.

Prepare to be challenged.

Understanding the Macroeconomic and Strategic Risks

The COVID-19 factor

It will likely take many years to fully quantify the macroeconomic disruption of COVID-19 and the international response, but the early evidence suggests that it may take a considerable length of time for industry to return to normal. According to the World Economic Forum, we are facing a prolonged global economic recession of 3%, and a drop of anywhere between 13% and 32% in global trade. At the same time, it expects to see a surge in bankruptcies that leads to a period of industry consolidation.[1]

Top Ten: Most Likely Fallout for the World

Economic	Societal	Tech	Geopolitical	Environmental

Prolonged Recession of the Global Economy	68.6%
Surge in Bankruptcies (Big Firms and SMEs) and a Wave of Industry Consolidation	56.8%
Failure of Industries or Sectors in Certain Countries to Properly Recover	55.9%
High Levels of Structural Unemployment (Especially Youth)	49.3%
Tighter Restrictions on the Cross-border Movement of People and Goods	48.7%
Weakening of Fiscal Positions in Major Economies	45.8%
Protracted Disruption of Global Supply Chains	42.1%
Economic Collapse of an Emerging Market or Developing Economy	38.0%
Cyberattacks and Data Fraud Due to a Sustained Shift in Working Patterns	37.8%
Another Global Outbreak of COVID-19 or Different Infectious Disease	30.8%

COVID-19 Risks Outlook A Preliminary Mapping and Its Implications

Image: World Economic Forum

This period of uncertainty and probable macroeconomic decline represents a significant threat – but it is also an opportunity for organizations to address some of the significant challenges they have previously delayed. National shutdowns forced firms to change the way they work, helping to highlight the feasibility of remote working and the importance of digital technologies take this out. These short-term workarounds could – and must – become a standard part of operations for any business determined to realize the full benefits of digital transformation.

Which Model, Digital Disruptor or Fast Follower?

Under ideal circumstances, every firm would have the time, resources and skills to formulate and implement their own disruptive strategy in house. The ratio of risk to reward is impressive, with those companies pursuing aggressive digitization strategies realizing an average 4.3% revenue growth[2].

But digital transformation is, by its very nature, disruptive. This is particularly true of conservative industries where digital skills are in short supply. Maturity, culture and even politics prevent these established firms from adopting a native digital norm. The ongoing uncertainty in the global marketplace will severely limit appetite for the "fail faster" approach advocated by many newer organizations.

The alternative strategy is to become a "fast follower," realigning resources to achieve operational excellence by following the digital strategy outlined by another company. Instead of blazing a new trail, fast followers must budget for an overhaul in process and people to deliver rapidly – perhaps even more quickly than the company they are seeking to emulate. Forming strategic partnerships with third parties that can lend skills and experience will help to accelerate adoption, allowing them to keep pace with their digitally disruptive role model.

In return for lower risk, fast followers also realize lower revenue growth – but a net increase of 0.4%[3] will still outperform predictions for the global economy in the coming months and years.

Disruptive Strategies are a Powerful Response to Intense Digitization

Revenue-growth profile, %

Revenue Effect at Full Digitization	Disruptive Strategy	Average Execution	Net Effect
			4.3
		4.0	
-12.0	12.3		
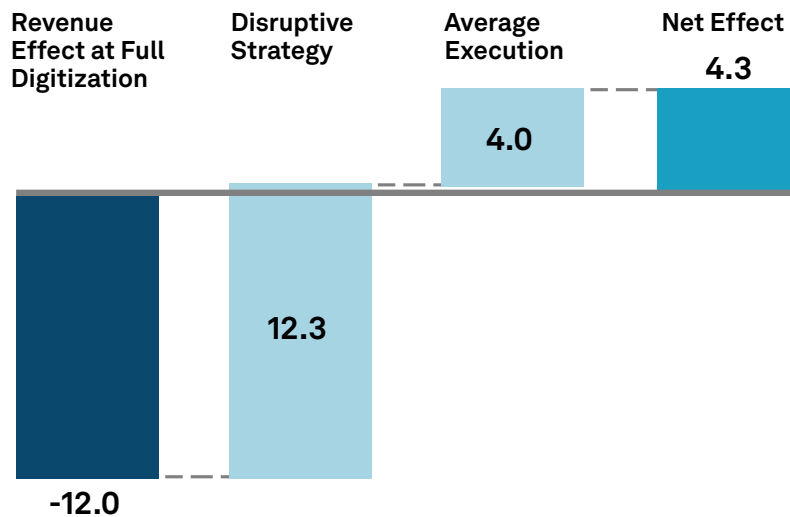
Fast-following and Great Execution are the Next Best Thing to Disruption

Revenue-growth profile, %

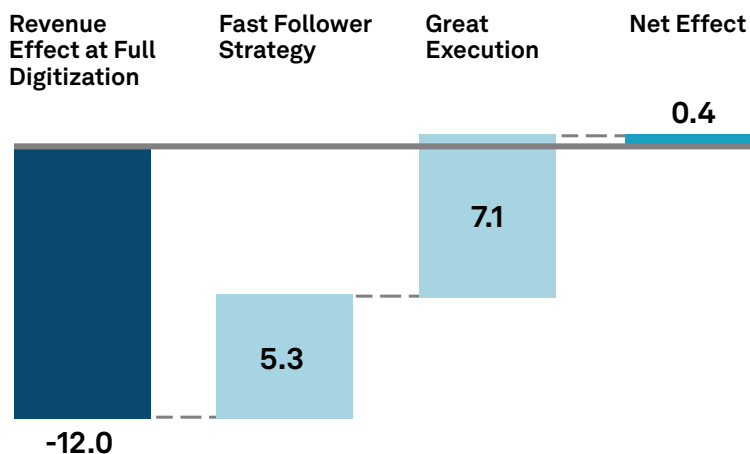| Revenue Effect at Full Digitization	Fast Follower Strategy	Great Execution	Net Effect
			0.4
		7.1	
-12.0	5.3		

Fortune Favors the Bold

Even during ideal market conditions, digital transformation requires strong leadership. The greatest positive effects are realized when the senior management team makes bold investments in technology and processes across the entire organization.

More challenging still is the realization that those who invest most in digitization will reap the greatest benefits. Leaders must adopt a 'venture capitalist' mindset that refuses to focus on a single strategic program. Instead they must initially place investments across a large scope of digitization projects. As the strategy matures, leaders then adjust budgets more frequently (usually monthly), allocating funds according to the success or failure of each project. Being aggressive allows businesses to capitalize on their digitization efforts.

Increasing cost savings and efficiencies is just part of the digital transformation story. Digital leaders aim higher, doing new things that were not previously possible too. Being bold enough to address old and new operations and processes yields significantly larger returns – up to 43% increases in net profit margins for leaders.[5]

Higher-maturity Companies Reported Industry-leading Revenue Growth and Profit Margins

Percentage of Respondents Reporting Metrics Significantly above Industry Average, by Level of Digital Maturity

Net Revenue Growth		Net Profit Margin
15%	Lower Maturity	15%
31%	Medium Maturity	31%
45%	Higher Maturity	43%

Note: Comparisons to industry averages were self-reported by the respondents.

Image © Deloitte [6]

Digital Mature vs. Digitally Developing

Assessing digital maturity is essential to understanding where an organization is in relation to its competitors and how ready it is to face the challenges of the future. To ensure a consistent, balanced approach to assessment, it helps to use a formalized structure like the Carnegie Maturity Model Integration (CMMI) process.

According to ISACA, which created and update the process, "CMMI V2.0 aligns business goals directly with operations and capabilities to drive measurable improved performance in terms of time, quality, budget, customer satisfaction and other key drivers." [7]

Operational Expenditures can open a Pandora's box of end-to-end transformation; however, with a strong vision, an effective change management process, efficient role/resource allocation and a healthy culture, operations leaders can form the backbone of business transformation and become the blueprint for wholesale business transformation.

The CMMI model defines five levels of organizational maturity, with those taking their first steps toward digital transformation starting at Level 1. Ultimately, businesses are trying to reach Level 5 where maturity has been reached and all future efforts are directed toward optimizing their processes and operations. Those organizations achieving Levels 4 and 5 are defined as high maturity because they are "continuously evolving, adapting and growing to meet the needs of stakeholders and customers."
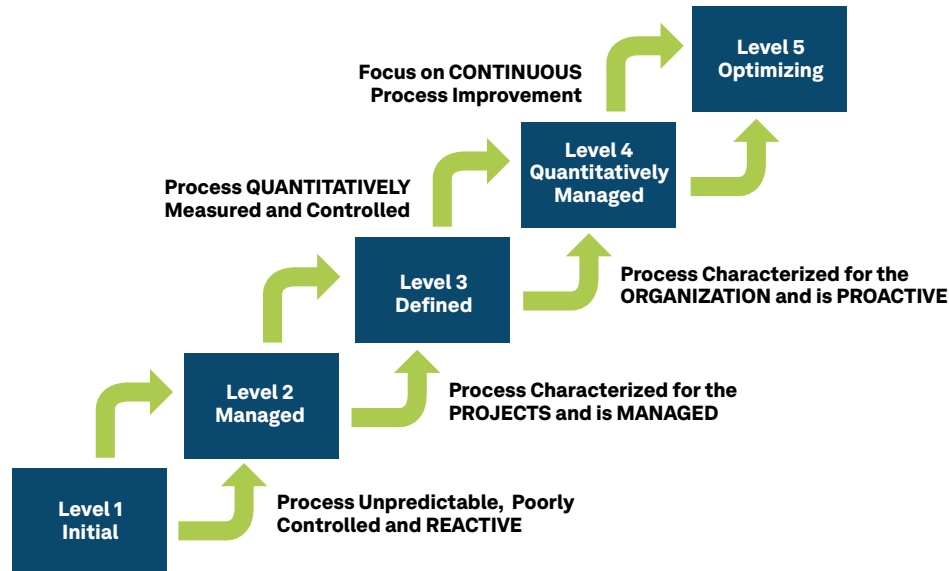
CMMI Staged Maturity Levels

Level 5 Optimizing

Focus on CONTINUOUS Process Improvement

Level 4 Quantitatively Managed

Process QUANTITATIVELY Measured and Controlled

Process Characterized for the ORGANIZATION and is PROACTIVE

Level 3 Defined

Level 2 Managed

Process Characterized for the PROJECTS and is MANAGED

Level 1 Initial

Process Unpredictable, Poorly Controlled and REACTIVE

Image © CMMI Institute

Under the CMMI classification, organizations achieving Levels 4 and 5 are considered "digitally mature." Businesses operating at Levels 1-3 are classified as "digitally developing." So how do these classifications differ?

To reach **Level 5**, companies have achieved digital maturity. All efforts are now focused on the continuous improvement of the business model and business processes. They are considered to be operating in the optimized state.

At **Level 4**, a company relies on competencies and people from outside the organization to supply the skills and experience they need to realize their strategic goals. They are considered to be in the synergy stage, with partners to help them extend capabilities. This may be through developing an ecosystem, using mergers and acquisitions to enhance their offering or to spin-off digital services to provide new revenue streams.

At **Level 3**, managers are driving activity and all their decisions reflect the new, desired behaviors. Led from the top, these businesses are working to embed the new digital transformation model in processes, systems and culture. This embedding process may be one of the hardest steps toward achieving digital maturity. Without third-party support, many businesses are currently trapped at Level 3 with no clear way to reaching true digital maturity at Level 4.
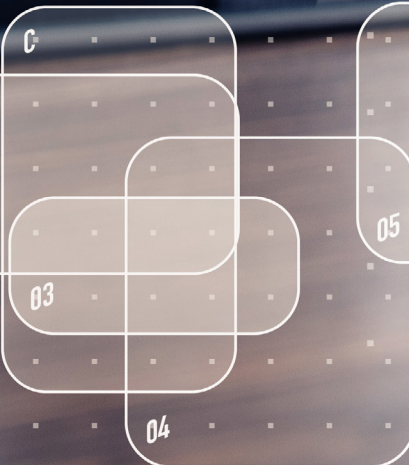
Organizations at **Level 2** take a strategic decision to prioritize digitization. They also begin to formulate a transformation strategy built around business goals and desired outcomes.

Level 1 is the starting point for every business. This represents the initial status quo before any work begins toward digital transformation. In most cases, Level 1 organizations intend to adopt digital transformation processes, but do not yet have a formal strategy for doing so.

1,822   12,349,000
3,680   238,681,000
1,062   85,678,000
485   A   8,369,000
8,569   189,301,000
6,602   102,698,000
890   24,697,000
6,280   76,002,000
2,436   02   57,610,000

01   B   C   03   04

OPI   TDS   JIF   PPO   D05   J01   A04   K02   M03   FNV   05   J10

01   02

The Six Secrets of Digitally Mature Organizations

For organizations making their own way toward digital maturity, efforts are directed by informed trial and error. For digital followers it helps to understand what their trail-blazing counterparts have done – and how to apply those lessons to their own efforts.

There are six activities common to digitally mature organizations:

1. Financial and Human Resources are Fully Aligned with Strategy

In a digitally mature organization, every activity and resource is aligned with strategy. Those operating at the higher levels of the CMMI model are investing in new technologies, purchasing complementary businesses, and hiring staff with data specializations, as they move their products and services to the cloud. Those at Levels 1 and 2 typically struggle with where and how to invest their resources.

Digitally mature organizations have evolved beyond simply automating existing processes. Instead, they invest in new technologies that will help to grow their businesses. Research suggests that recruitment is vital to digital maturity, with a chief data officer (CDO), data scientists and cloud migration specialists topping the recruitment wish list. Those businesses struggling to reach full maturity inevitably fail to invest the right skills – and almost none employ a CDO.

Similarly, digitally mature companies are much more likely to invest in new technologies to build up new processes and services that could potentially be spun off as new businesses.

Modern challenges quickly soak up available energies and resources, particularly when those resources are not aligned with strategy. Without visibility of accounts and budgets it is impossible to accurately measure the effect of "squeaking wheels" – minor issues that consume a disproportionate amount of resources that are intended for digital transformation projects. Senior management must ensure the focus remains on strategic activity – otherwise it will be impossible to create the culture of change required for digital maturity.

The COVID-19 pandemic and accompanying slowdown has provided an opportunity to reevaluate activities. Now is the perfect time to realign and redeploy resources to support the digitalization strategy.

2. Engage Key Partners and Develop Externally Focused Business Plans

Having resolved their internal process issues, digitally mature organizations turn their strategic focus outward. As well as improving experience and quality of service provided to customers, these businesses are integrating competencies from third parties. They realize that to create truly breakthrough digital offerings, they need to build breakthrough business models.

Digitally mature organizations focus on building strong, strategic partnerships at the business level to ensure that they can align these services with their in-house strategy. Key partners – suppliers, distributors, customers, even other developers – from outside the boundaries of the enterprise become strategic assets because they can provide skills and resources more quickly and cost-effectively than trying to build them in-house.

In the paper "Patterns of Digitization," researchers found several factors that set apart digitally mature companies. They were more likely to:

- Successfully engage in outside-in (external) mergers and acquisitions – often with the assistance of strategic partners

- Possess core competencies in developing digital joint ventures with the option to augment using external resources for speed and agility

- Launch digital spin-off companies from inside their organization to capitalize on their new experience, processes and services[8]

Organizations at Level 5 of the CMMI model have already optimized their internal operations to realize maximum efficiencies and cost savings. They only way to grow is outward, which is why they build strategies and trusted partnerships that are also outward-looking.

3. Demand Collaboration and a Nimble Development Environment

Design philosophies have a significant bearing on digitization strategies. These philosophies not only determine implementation but will have a major effect on the overall success and speed of the project.

Not surprisingly, digitally mature organizations have mastered these practices, identifying and refining processes to meet their needs. They were more likely to:

- Support Agile principles for development, deployment and operations

- Encourage and facilitate transparent and open communication about digital projects

- Communicate regularly with clients, suppliers and business partners, using feedback to enhance existing services or develop new ones

- Have reduced project times that use iterative development methods based upon the market environment to significantly reduce project timescales

Increasing the agility of internal and external processes allows Level 5 digitally mature businesses to better adapt to changing market conditions. It also allows them to bring new services to market more quickly and creates an environment where success can be replicated repeatedly.

4. Acquire Entrepreneurial Leaders

Digitally mature leaders are knowledgeable, exhibit entrepreneurial behaviors and promote digital transformation. This combination of experience, skills and personality traits is critical to pushing the business onward to greater success.

No matter which level of the CMMI model they have reached, the behaviors of executives and leaders directly impact on employee performance and therefore affect the implementation of digital transformation strategies. Changes of this magnitude are often destined to fail or stagnate without notable support from an organization's leadership.[9]

According to our results, digitally mature companies were much more likely to have leaders with extensive technological expertise. Although valuable, strategic leadership experience alone is not likely to be enough to successfully navigate the transition to digital maturity.

5. Insist that Leaders 'Communicate, Communicate, Communicate'

Much of the journey to digital maturity is about communicating data and insights to make better strategic decisions. But that journey begins by communicating the vision for transformation across the organization.

Once a vision for change is created, leaders need to communicate the message frequently and powerfully as recommended in Kotter's 8-Step Process for Leading Change.[10] The message about digital transformation will likely compete with other day-to-day communications, so it needs to be embedded in everything leaders do. Equally important, the vision should permeate all aspects of operations—from training to performance reviews, ensuring that vision continues to define and align strategy.

Digitally mature leaders foster timely and open communications at all levels of their organization – and with their strategic partners. In this context, communications are the formal and informal rules and behaviors of how information is exchanged between individuals and/or organizations. Evidence shows that quality of communications greatly influences the success and speed of digital transformation within a firm.[11]

There is a sizeable disparity between digitally mature and digitally developing organizations in their level of open communication. This needs to be addressed as a matter of urgency if an organization wishes to move toward higher levels of maturity.

6. Equip Your Departments, Train Your Employees

Because the transformation strategy affects the whole business, it needs to be applied at every level. Digitally mature businesses ensure each department's goals are tied to the attainment of its digital capabilities and to the organization's overall goals. They also invest heavily in training for employees to help them adjust to the new data-driven operating model and to equip them to reach their personal and departmental goals (Michaelis and Markham 2017).[12]

Digitally mature companies make a concerted effort to invest in training to give employees the skills necessary to thrive in the digital economy. Compared to digitally developing organizations, digitally mature organizations give significant attention to measuring the benefits of digital transformation, allowing them to confirm their investments are being made in the right places.

Seven Decisions that Require Leadership

Digital transformation is much more than an IT strategy. Businesses operating at Level 4 and 5 of CMMI model have radically transformed the very core of their business, including the value proposition, people, processes, partnerships and technologies that are the lifeblood of the business.

The initiatives of organizations at CMMI Level 3 and below tend to be less transformative, and their positive gains are more like short-term fixes. These legacy organizations with their legacy processes will inevitably revert to established practices eventually. Reinvention of a business is, by its nature, bold.

Digitally mature businesses all demonstrate strong leadership. Employees in these organizations are empowered to take action where appropriate, but leaders make the tough strategic decisions that determine the long-term future. True digital reinvention requires the CEO to make tough decisions, which involve difficult trade-offs – and only the strongest leaders will choose not to ignore, defer or rush into action.

Here are seven questions that digitally mature leaders have grappled with – and overcome.

Decision 1 - What is our current position and what are out strategic goals?

One of the best ways to make great decisions is to learn from the mistakes of those who have gone before. Take GE for instance; it began a program of deep digital transformation without fully assessing the impact on operations. As the challenges mounted, progress stopped and GE was stuck in a partial transformation. Without a coherent strategy defined in advance, and pre-defined limits on what they would and would not do, the project ran out of resources and political impetus.

Ford also ran into similar problems because it treated digital and corporate strategies as separate entities. Ford invested heavily in digital initiatives that did deliver significant gains – which were cancelled out by performance and quality issues elsewhere in the company.

Proctor & Gamble was an early adopter of digital transformation concepts, setting an extremely bold goal ("to become the most digital company on the planet") – but years later P&G is still struggling to achieve genuine digital maturity. A broad and unfocused strategy has seen the company make significant investments, but without any improvement in its ability to weather economic uncertainty. After years of trying, the firm has still been unable to generate much in the way of meaningful return.[13]

The CEO must understand the current maturity of their organization and set out a roadmap of the steps they plan to take to achieve digital maturity. Obviously plans may change as the project progresses, but they must know what success (and failure) looks like to keep moving toward transformation and optimization.

Decision 2 - Who will lead the change?

This leadership team of a digitally mature organization doesn't need to be large. All that matters is that the leaders have the requisite skills to drive transformation.

Starbucks managed to drive a digitization effort to increase uptake of mobile payments and the customer loyalty program. But the entire program was spearheaded by a team of three – the CIO and CDO with oversight from the CEO. There are other examples of large transformative projects being managed by teams of three or four empowered leaders.

The CEO must assemble a team of suitably skilled leaders to drive transformation, providing guidance, resources and encouragement as required.

Decision 3 - How do we communicate our strategy?

The digital transformation strategy only works when the entire organization has bought into the vision, so the CEO needs to adopt a campaign mentality. They need to decide how best to develop clear, consistent messaging to outline strategy, goals, outcomes and the role that employees play in helping move the organization forward.

Because the campaign is about influencing people, messages need to be tailored to each audience — from employees to the board to shareholders to external partners. They should use all available channels to ensure the message is received and understood.

Decision 4 - Where do we position the firm within the digital ecosystem?

Perhaps one of the most important questions to answer – does the organization have sufficient resources to see the program through to completion? Honestly?

CEOs must identify which capabilities, skills and technologies are available in the ecosystem complement and support their business strategy. They must also identify external partners who can help 'fill in' the gaps, ensuring they have the knowledge, skills and resources needed to achieve their ambitions. There should also be some consideration given to how much influence and input these partners should have on your overall strategy.

The positioning decision requires a clear sense of how to secure the company's most valuable assets, such as relationships with customers or data. Without perspective the scope of the project will quickly expand and the business risks losing sight of its strategic goals.

Decision 5 - How to make decisions during the transformation?

Digital transformation is an ongoing process and the strategy will almost certainly require refinement as the organization approaches maturity. Flexible implementation is as vital as setting the strategy, as day-to-day operations will reveal unscoped challenges.

To deal with reality (the process to maturity is unlikely to be completely smooth), the CEO and top team need to decide on governance and escalation rules to allow for inevitable course corrections. Success stories from digitally mature organizations suggest assigning at least one hour per week to assessing project status and decision-making to keep the project on track.

Decision 6 - How do we allocate funds rapidly and dynamically?

The CEO and their digital transformation team must take tough decisions. They must follow strategic initiative closely, quickly terminating those projects that lag behind expectations. Similarly, they must be ready to invest more in those that are performing well.

This rapid allocation of funds will need a change to the way the organizations creates and assigns budgets; the traditional annual cycle is unfit for purpose. During digital transformation, budgeting should reduce to quarterly or even monthly cycles.

Succeeding with a digital transformation often requires reducing funding for legacy operations. One large bank discovered that despite extremely large investments in digital operations, branches still accounted for 90% of its operating expenses. Further analysis revealed that 70% to 80% of the transactions being completed in branches could be executed digitally. The leadership team took the decision to shift virtually all their future capital spending to digital. At the same time, they closed a number of branches, and launched a program to migrate in-branch customers to ATMs or web/mobile channels.

Withdrawing funding for legacy systems and processes may be politically unpopular initially – which is why communications are so important for the overall success of projects (see Decision 3 above).

Decision 7 - What to do and when?

The harsh reality is that 70% of transformation programs fail, explaining why organizations struggle to reach Levels 4 and 5 of the CMMI process. To avoid becoming another statistic, CEOs should carefully decide how to sequence the transformation for quick wins. This allows the organization to generate revenue payoffs and reduce costs. Those gains can then be reinvested in strategic projects.

One online retailer managed to release $300 million in just five months by identifying and prioritizing the initiatives that would generate the fastest payback. By reinvesting those savings, the company realized more than $800 million within a year.

The CEO must make some hard-nosed assessments. What are the projected benefits, the time needed to capture them, dependencies and investments required? And what will the impact be on the overall transformation journey? Ordering tasks and deliverables to create a cumulative effect is also necessary, allowing the business to build toward a cohesive digital whole rather than a collection of loosely affiliated programs, which can undermine the ultimate benefits of scale.

The senior leadership team needs to define strategy – and order the steps required to reach those goals.

Barriers to Successful Digital Transformation

Even with a clear goal, there are several barriers to achieving digital maturity, which is why so many organizations are stuck at Level 3. Here are six challenges you must overcome on your way to true digital transformation.
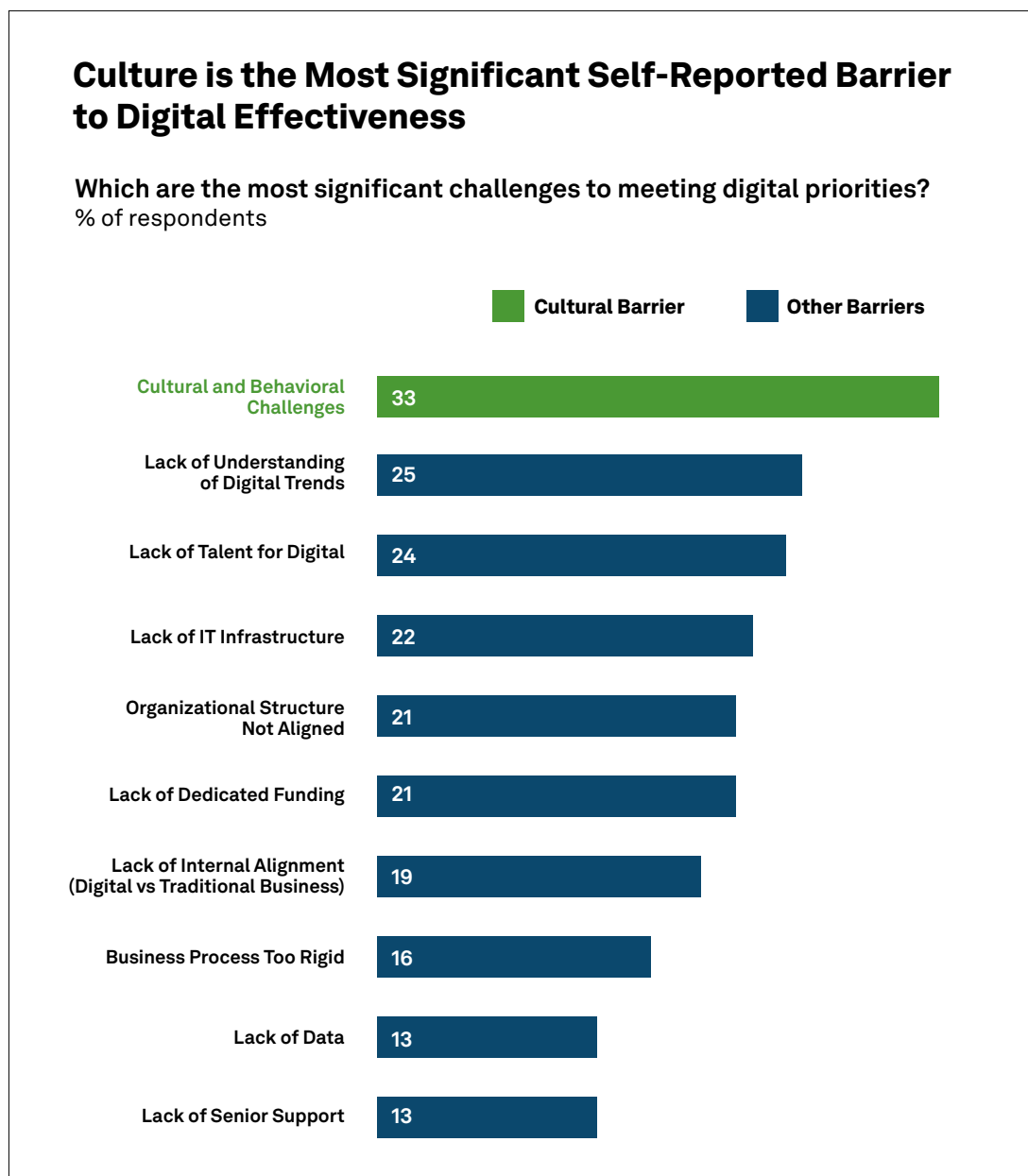
Culture is the Most Significant Self-Reported Barrier to Digital Effectiveness

Which are the most significant challenges to meeting digital priorities?
% of respondents

■ Cultural Barrier   ■ Other Barriers

Cultural and Behavioral Challenges	33
Lack of Understanding of Digital Trends	25
Lack of Talent for Digital	24
Lack of IT Infrastructure	22
Organizational Structure Not Aligned	21
Lack of Dedicated Funding	21
Lack of Internal Alignment (Digital vs Traditional Business)	19
Business Process Too Rigid	16
Lack of Data	13
Lack of Senior Support	13

Image © McKinsey & Company[14]

No Genuine Ownership of the Digital Strategy

Traditionally strategic projects have a sponsor. Achieving true root-and-branch change with your digital transformation requires far greater buy-in from the designated project leads. The strategy needs an owner who can be seen to publicly commit their resources and credibility to delivering the required outcomes.

Take Henrik Poulsen, CEO of Danish Oil and Natural Gas in Denmark, who was hired to resolve a financial crisis within the company. Despite gas prices falling 90% and the company credit rating being downgraded to negative, he turned the bleak outlook into an opportunity. Under his leadership, an entirely new company was created, Ørsted. Poulsen was always visible as he led the transformation process to build a new core business, shifting focus to find other areas of sustainable growth, like green energy, that would compensate for financial pressures elsewhere in the business.

Obsession with Big Bang Developments

Major transformative projects are long and complex, but some organizations expect the final change of state to be instantaneous. The reality is that digital transformation is an iterative process, a program of continuous improvement based on numerous projects and experiments.

The website designed to power the Obamacare healthcare program in the United States was a high-profile casualty of big-bang thinking. Despite extensive development and testing, the system clearly was not ready for production. Instead the project owner should have specified a phased roll-out to identify and fix problems on a far smaller scale first.

Failure to Empower Disruption Leaders

Because digital transformation involves a high degree of experimentation, it is inevitable that some projects will end in failure. As well as empowering the strategy owner to terminate projects as soon as under-performance is detected, they also need to be protected against unfair fall-out when things go wrong.

Transformative leaders are being asked to take large risks, not only to the business, but to their professional reputation, too. As the disruption leader communicates the need for change, other senior executives must also publicly lend their support and encouragement.

Lack of Digital Reorganization

Digital transformation is not just an IT function or a technology project. In order to effect lasting change, digital technology – and transformation strategy – must be embedded into every function in the company.

Allowing digital transformation to become another IT function dramatically limits the scope for overall change. Reorganizing digital resources and operations prevents IT from becoming a bottleneck for new developments.

Lack of Investment in Training

Project budgets will naturally ensure that the nominated digital transformation strategy owner is able to access training and learning materials to help them build the skills needed to successfully deliver projects. They should also be able to call upon additional resources from trusted third parties who providing support and assistance for project delivery.

However, all of your staff need to upskill in order to function effectively in the digitally transformed business. Take Amazon, for example, which recently committed to spending $750 million to retrain its workforce on digital skills.

Failing to Understand the Risk of Doing Nothing

If a business keeps doing the same thing, it should continue to realize the same outcomes. But as digitally mature competitors take a lead, laggard companies will simply fall further behind.

Falling behind the digital curve is not an option. But actively choosing not to invest in digital transformation is corporate suicide. Digital strategy owners must emphasize the importance or taking immediate, drastic action. And the rest of the leadership team must take these warnings seriously.

Conclusion

The statistics are clear – digital transformation is a complex, lengthy, costly, confusing process that has no definite end and which is guaranteed to result in the occasional failure. Faced with the sheer amount of effort required to deliver results, some leaders are, understandably, non-committal about digital transformation – particularly under current economic conditions. As a result, many organizations never reach true digital maturity.

But the global COVID-19 pandemic offers a unique opportunity for businesses to kick-start their digital transformation efforts. Faced with a serious existential crisis, drastic action will be required to remain competitive – and profitable.

This report has highlighted many of the challenges facing every business that aspires to digital maturity – and some of the ways to address them. Given the scale of the work required, and the urgency of the situation, it is unreasonable to expect a business to complete everything in-house.

Instead, the best way to turbocharge transformation is to foster external partnerships that allow you to borrow knowledge and experience until the relevant competencies are available in-house. Or follow the lead of digitally mature organizations, integrating those partnerships into your long-term strategy.

The reality is that every business is engaged in a fight for survival. Even if they have sufficient resources to weather a significant global recession, they face another fight with lean, agile competitors who are able to better leverage data and technology for growth.

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