Digital Transformation: Is a Little Failure Okay?
How “Learning Failures” Can Help You Reap Maximum Rewards from Transformation Projects
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Overview

Businesses are hardwired for achievement. Many expect significant growth year over year. So naturally, the word “failure” is avoided like the plague.

Yet when it comes to digital transformation, can a little failure be useful?

Experts agree that there is an urgent need for digital transformation – but also acknowledge that many projects are falling short of their goals. In fact, nine out of 10 digital transformation projects deliver disappointing results or actually fail.¹

Does this mean that transformation should be relegated to the back burner? According to Gartner, exactly the opposite is true. Companies must pick up the pace of digitization to remain competitive.²

So how can your business turn the corner and move from failure to success?
Why is transformation hard?

Why is transformation so difficult to achieve? Because companies are moving from their comfort zone into unfamiliar territory. This shift requires new strategies, skills, and vision.

Bain & Company research finds that few companies are adept at rapidly deploying digital technologies to solve problems and boost organization-wide performance. Bain & Company cites five key digital strategy pitfalls that impede success – including fuzzy definitions, lack of understanding of the economics of digital, and overlooking ecosystems.  

McKinsey cites five key digital strategy pitfalls that impede success – including fuzzy definitions, lack of understanding of the economics of digital, and overlooking ecosystems.  

Forrester refers to “the sorry state of digital transformation in 2018.” Confusion and resistance to change get in the way of digital transformation success.  

CIO Magazine points to the lack of visionary skills required for executives to be change agents in the digital era.  

Bottom line: it can be difficult for companies to let go of a business model that has been highly successful in the past, even when disruptive competitors are rapidly eroding profits. And it can be challenging to commit to a new direction, deploy new technologies, provide inspiring leadership, and obtain the employee buy-in that is critical to success.
The tyranny of today’s business cycle

When projects fail to deliver the expected business outcomes, companies frequently come to SAP for help.

Often, we can quickly pinpoint a major problem: they are trying to apply yesterday’s “tried and true” methodologies to a business world that has fundamentally changed. Even before companies have finished their project scope, the reality has often shifted – leaving them with a strategy that is no longer relevant.

Complex, “big bang” projects were common in the past, for good reason. In a more predictable business climate, the world looked much the same at the end of an implementation as at the beginning, even if the implementation spanned several years. But in today’s constantly changing business environment, those multi-year, huge-spend projects are exceptionally difficult to fund and execute. With current business cycles ten times faster than just five years ago, clearly a different approach is required.

3% of companies have completed true digital transformation projects.
SAP Center for Business Insight & Oxford Economics, Digital Transformation Executive Study

27% of executives surveyed consider themselves highly agile.
Forbes Insights, PMI Thought Leadership Series

92% of executives believe that organizational agility is critical to business success.
Forbes Insights, PMI Thought Leadership Series

23x more likely to acquire customers, data-driven organizations are six times as likely to retain customers, and 19 times as likely to be profitable as a result.
McKinsey Global Institute
Hype vs. true transformation

Rather than ignite transformation, hype can lead to unrealistic expectations, stalled projects, and disillusionment. Banking on a quick fix or magic bullet, companies often launch projects that have little chance of success. And if they have made grand promises that can’t be fulfilled, executives may lose the confidence of their employees, board, and customers.

The Gartner Hype Cycle maps the typical progression from hype to disappointment to adoption. Gartner believes that digital transformation is currently at the “peak of inflated expectations,” a stage immediately followed by a “trough of disillusionment.”

So is digital transformation a matter of doom and gloom? Not at all. Companies that persevere – recognizing that transformation is difficult – are the ones best positioned to excel. Companies that are able to adopt a new mindset, develop new skills, and seek the right expertise to fill knowledge gaps are much more likely to reap the rewards.

The rewards for successful transformation are substantial. Bain & Company research shows that digital leaders in every industry outperform their competition by a wide margin – with revenues growing more than twice as fast as digital laggards.

But the question remains: exactly how do companies improve the odds of transformation success?

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Is failure fatal – or is a little failure okay?

By definition, experimentation may lead to small failures – after all, the point of experimentation is to try out new methods to discover their effect. Companies can’t possibly innovate if they are locked into business processes that no longer serve them or if they are not open to new ideas.

So can a little failure be a good thing? In the words of Winston Churchill, “Success is not final, failure is not fatal: it is the courage to continue that counts.”

But how do you know if you’re on the right track – before you bet your company’s future on a new strategy? How do you ensure small “learning failures,” not catastrophic ones?

The key lies in a systematic approach to experimentation. After all, it may not be immediately apparent exactly what strategic option is the best. Executives are often uncertain about their approach to transformation and may not in fact have confidence in the people setting the strategy.

But when companies proactively engage in a methodical process of “self-disruption,” they can think beyond the status quo, fail fast, pivot, refocus, and achieve significant breakthroughs.

Transformation will never be complete – and therefore, failure will not be a one-time event. Forward-thinking leaders will view “learning failures” as essential to their innovation and competitiveness.

A recent Forrester study reinforces the fact that transformation is a continual process, not a one-time event. Transformation is never “finished” – and how could it be in a business environment that is constantly changing?

Source: Forrester
The importance of vision and metrics

While transformation projects do not need to be all-encompassing, they do need to align with a clear vision. As mentioned, fuzzy definitions get in the way of success. In Alice in Wonderland, Lewis Carroll illustrates this exact problem:

“Cat: Where are you going? 
Alice: Which way should I go? 
Cat: That depends on where you are going. 
Alice: I don’t know. 
Cat: Then it doesn’t matter which way you go.”

Metrics can provide early warning of potential problems – but digital transformation metrics must match the new reality, rather than a business model visible through the rearview mirror. Typically, they will be unlike the metrics of the past. Traditional KPIs were designed to measure quarterly or annual improvement, but new KPIs must measure progress weekly or even daily.

Digital metrics must also span functional silos and measure real outcomes. What tangible improvement was achieved for the customer – or the customer’s customer?

“CIOs should help CEOs set the success criteria for digital business. It starts by remembering that you cannot scale what you do not quantify and you cannot quantify what you do not define. You should also ask yourself: What is ‘digital’ for us? What kind of growth do we seek? What’s the No.1 metric and which KPIs must change?”

Mark Raskino, Gartner analyst.
The cost of risk avoidance

Because of high failure rates – and because of increasing difficulty in securing funding for huge projects – companies often opt for proof of concept projects. This is a great start – unless proof of concept only leads to more proof of concepts.

“When I meet with CIOs, I ask how many proof of concepts they’ve undertaken in the last six months,” says Geoff Maxwell, Global Head of Business Strategy and Execution, SAP Leonardo and Analytics. “Often, a couple of hundred. Then I ask how many of them have been deployed into production, and often the answer is zero or perhaps one or two. And how many have provided significant tangible value? They are lucky if they have one.”

“Science projects” – research projects that are divorced from real-world implementation – can provide false assurance of progress. While they give the appearance of action, they can in fact do damage as they hold the company stationary while competitors are striding forward.

Companies also often avoid risk by building a safety net into project scope, keeping their current functionality intact. Not only does this approach duplicate costs but it can also prevent companies from getting value from their projects as they continue to rely on current systems.

“There are risks and costs to action. But they are far less than the long range risks of comfortable inaction.”

John F. Kennedy

“Don’t fear failure. Fear being in the exact same place next year as you are today.”

Michael Hyatt
Design thinking: Outcome-driven transformation

By far the most promising approach to transformation is design thinking. Why? Because experimentation and a customer-centric focus are baked into the process.

Design thinking is an approach to creative problem solving designed to spark innovation. Collaboration is key. Measured risk taking is at its core – with a “fail early and fail often” philosophy unlike traditional risk-averse processes.

“Iterative, rapid delivery of value leads to a higher degree of success,” explains Maxwell. “And that success is cumulative. When you deliver tangible outcomes, in the short term, to people who care, you immediately feel the momentum to do more. At each stage, you get bolder. And each stage builds toward a bigger vision that is exciting and transformative.

“However, when you start out with an idea that is bold, you’ll find that half of your stakeholders aren’t really behind you. And they fall away even more if you hit trouble.”

Each stage involves testing a truly new idea. Failed attempts help shape the next project. Each success builds toward the bigger transformation vision – and further secures the confidence of the organization.

“The good news is that technology has come far enough so that iterative change can be implemented using agile implementation approaches on a flexible cloud platform,” adds Maxwell. “Technology is no longer the reason you have to implement in big chunks.”
Customer-centricity is the other reason design thinking is so effective.

Kaan Turnali, SAP global senior director for enterprise analytics, explains. “We leverage design thinking for problem definition and resolution with an exceedingly customer-centric approach stripped from any insider privileges, professional experiences, biases, or opinions – no matter how strongly we may want to hold on to them.”

The approach helps participants embrace ambiguity, which for many is a difficult concept. But because the approach allows people to explore creative and divergent ideas, design thinking can uncover options that might otherwise be dismissed. You can spark ideas that might have been suppressed or remain hidden.

So how does design thinking work? By being laser-focused on uncovering the end user’s needs, design thinking provides a narrower definition of the problem to be solved. Questions ignite the critical-thinking process. By bringing together different perspectives – from marketers, accountants, developers, executives, etc. – the team can sharpen its understanding of the problem and help define a breakthrough solution.

The approach also allows customers to learn how to deploy new, unfamiliar technologies within a smaller project scope.

Rapid iteration is the key. “We focus the team on what can be accomplished in an eight-week timeframe,” adds Maxwell. “The project must quickly deliver a tangible benefit that can be measured. Time is the most important metric – did we or did we not hit our goal?”

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“In skating over thin ice our safety is in our speed.”

Ralph Waldo Emerson
The key to transformation at scale: Aligning business processes

Technology by itself does not yield transformation. As many experts have pointed out, transformation is a people thing; employees must work together in a systematic way to realize the benefits.

“Technology is cool and shiny, and you’ll hear it hyped everywhere,” continues Maxwell. “Yes, machine learning is amazing. And yes, so is blockchain. But none of it matters unless you can actually deliver it within a business process.”

Let’s look at a very simple example that illustrates this fact. Let’s say you want to use a chatbot to improve your FAQ answers. You plug in your information and the chatbot delivers an answer. Based on whether users liked the answer, the chatbot can give a better answer. This makes the job of your service rep much easier – but unless the learning is fed back into the organization, the value doesn’t scale.

If the complete context is not considered when deploying technology, you can even do damage. For example, in automating a process you might eliminate some steps that are important to another part of the organization. An understanding of the end-to-end business process is critical to gain the holistic view.

In the design thinking process, projects – both successful and unsuccessful – are always put in context of the end-to-end business process. As a result, successes can be scaled and learning failures can be used as a stepping stone to a better result.

“If you can’t describe what you are doing as a process, you don’t know what you are doing.”

W. Edwards Deming
So is a little failure okay? Within the context of design thinking philosophy and outcome-driven practice, failure is not only okay – it’s necessary.

When competition is intense and risk is high, it’s easy for companies to tread water and avoid decisions. But in doing so, they only drift further behind bolder more active and innovative competitors. Design thinking, with its “fail fast” philosophy, offers a safe zone for failure – and a way to achieve quick wins that inspire confidence.

Perhaps the most surprising thing about learning failures is that they can create excitement and momentum, helping overcome resistance to change. Seeing concrete results can motivate a team to adjust assumptions and quickly try again.

Digital transformation is a journey, not a destination. It is never complete, just as the business world is never still. Rapid, iterative and outcome-driven projects can propel an organization forward and help it reach its transformation vision.

So perhaps we should replace the term “learning failure” with something more positive, just as Thomas Edison did. “I have not failed,” he said. “I’ve just found 10,000 ways that won’t work.”
How SAP can help

At SAP, we are passionate about helping our customers transform their businesses. Our customers include best-run businesses that are not only helping redefine their industries but are also making a positive impact on the world.

For more on successful digital transformation please contact us or visit SAP.com/Leonardo

SOURCES: