



The technology fallacy: Embracing the human face of digital transformation

When their organizations embark on digital transformation, finance executives typically consider evaluating and investing in a multitude of evolving and interrelated technologies, including the Internet of Things, artificial intelligence (AI), robotic process automation, and augmented reality. They also must figure out how digital capabilities can be embedded throughout the business, reshaping the company's operating model and how it delivers value.

As daunting as that may sound, it's not the toughest part of the transformation. The difference between a company that harnesses emerging technologies to establish competitive advantage, and one that commits random acts of digital, isn't the selection of the technology. Nor is it the implementation.

Culture, as it turns out, can advance or inhibit digital transformation. And if companies can lay the groundwork by building a culture that is more adaptable to change, then implementing new technology and business processes can proceed more smoothly.

So conclude the authors of *The Technology Fallacy: How People are the Real Key to Digital Transformation* (MIT Press, April 2019), whose findings draw on four years' worth of surveying executives about how technology changes the way companies operate. The study, conducted by Deloitte Consulting LLP in collaboration with [MIT Sloan Management Review](#), elicited responses from more than 16,000 people from 157 countries and 28 industries.¹

The authors also note that achieving powerful results requires companies to align their cultures, people, structure, and tasks, and to keep them in alignment as technology evolves. And in the absence of anything resembling a chief culture officer, CFOs play a key role in spearheading that effort.

In this issue of *CFO Insights*, we'll examine how finance executives can contribute to remaking the culture to facilitate digital transformation and thereby advance the company's "digital maturity"—the extent to which a company can exploit the opportunities enabled by digital transformation.

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Casting a bold vision

Based on the Deloitte/MIT SMR study, it's clear that companies are moving in a digital direction—just not all at the same pace. In 2018, 30% of respondents described their digital status as “maturing,” up from 25% the previous year. More significantly, only 25% said their company was in the “early” stages of the digital maturation process, a steep drop from the previous year’s 34% (see Figure 1).

What’s also clear is that respondents recognize what is at stake. An overwhelming majority (87%) said that digital technologies will disrupt their industries to either a great or moderate extent. Yet, only 44% believe that their companies are adequately preparing to respond effectively. The substantial gap suggests that while most organizations may be talking about digital transformation, most may not be taking the right steps to address it.

Those steps are foundational: companies should consider changing how they do business, finding ways to respond more quickly and effectively to ongoing technology shifts and developing institutional and individual skills, as well as leadership

styles to suit the new environment. And since a company’s culture can make all the difference in its overall digital maturity, organizations need to create environments where digital transformation can occur. In the study, nearly 60% of respondents from digitally maturing companies noted that their companies drive digital efforts by cultivating such values as risk-taking, collaboration, agility, and continuous learning.

Critical to creating that innovative environment is communicating the goal. While digital transformation unfolds over time, management can motivate by relaying a clear picture of how it expects the changed business model to function: which customers will be served (and how), what new value proposition will result from different cost and efficiency advantages, and—of course—how technology might support the new model (see sidebar, “Clearing a path to digital transformation”). In the Deloitte/MIT SMR survey, 80% of respondents who identified their companies as “digitally maturing” credited their organizations with having a clear and coherent strategy. Among companies that

considered themselves “least mature,” only 15% could match that claim.

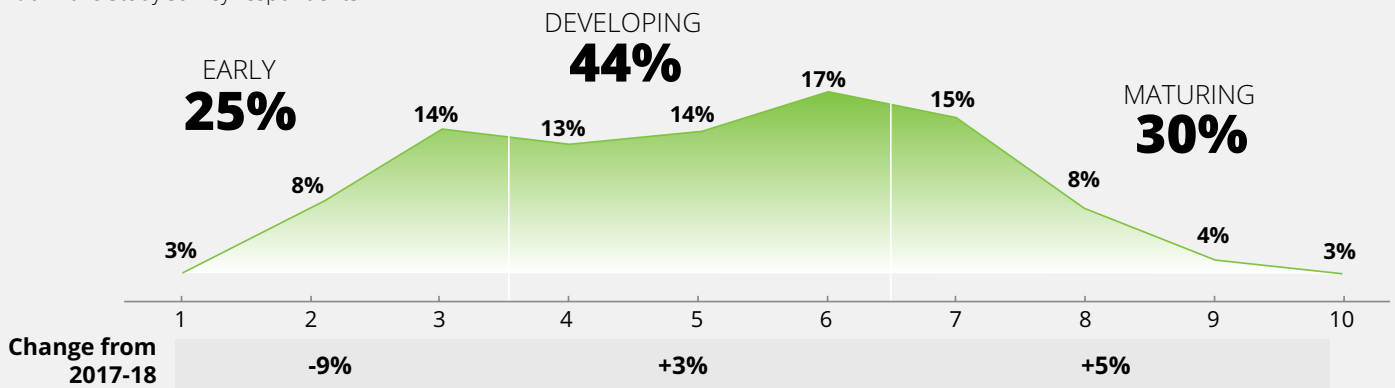
When it comes to acting on the plan, it’s advisable to shed grand initiatives in favor of short-term steps. In a twist on the concept of **minimum viable transformation**²—which refers to reducing initial investment and time-to-market by making incremental changes—the authors suggest that companies start on the digital path by making minimum viable changes. Such iterative implementations may be as straightforward as endowing managers with decision rights to manage non-employees, such as contractors and contingent workers.

With each digital initiative, of course, organizations have the opportunity to learn more about the new landscape. Managers and employees witness firsthand how the addition of a single digital tool can percolate throughout the business, affecting activities from product development to distribution to resource allocation. And the result of doing one thing differently, then another, builds up the culture’s agility muscle, as individuals accommodate and absorb each change.

Figure 1. What's your current digital maturity?

Only 30% of companies would rate themselves as digitally mature

% all 2018 study survey respondents*



Digital maturity is growing according to survey respondents**

* Respondents were asked to "Imagine an ideal organization utilizing digital technologies and capabilities to improve processes, engage talent across the organization, and drive new and value-generating business models. How close is your organization to that ideal?" (Answers on a 10 point scale where 10 is most mature). Numbers do not total 100 percent due to rounding.
 ** 2017 data sourced from, "Achieving Digital Maturity," MIT Sloan Management Review and Deloitte University Press, July 2017.
 Source: Deloitte Development LLC, 2019



The impact happens job by job, role by role. CFOs, for example, may see the need to temporarily suspend traditional capital cost ROI models to allow the digital efforts to grow. As for employees, small wins build on one another. As they see a viable business model taking shape, they should proactively focus on gaining the skills needed, formally or informally, to help advance the transformation.

Barriers to culture change

As they anticipate the dramatic impact of digital technology, companies gain a rare opportunity: a chance to restart the business—and its culture—from scratch. Not literally, of course, but by re-evaluating how the business creates and captures value, and by making some fundamental organizational shifts. But some barriers can make it difficult for companies to adjust their cultures to accommodate digital transformation, including:

- **Competency trap:** For some companies, especially well-established ones, past success can blind them to the need for urgent change. They fail to see how drastically technology is changing their competitive landscape, and why their processes and mindsets, if unchanged, could open an opportunity for other players.
- **Speed trap:** In some cases, C-suite executives may underestimate how quickly a rival with a digital infrastructure can pose a competitive threat. Their tendency is to wait until evidence of disruption drops to the bottom line—until

it may be too late, in other words. They may also overestimate the speed at which they can catch up, believing that when the time comes, they can simply run out and stock up on digital technology.

- **Structure trap.** When it comes to driving adoption of digital tools, the top-down approach is often ineffective. For companies with command-and-control structures, that means providing time and support for employees to receive training, as well as to figure out how to integrate the tools into their work. Again, it's more effective to cultivate the right conditions for acceptance than to mandate digital adoption.
- **Enemy within trap:** In the Deloitte/MIT SMR study, respondents who viewed digital technology as more of a threat than an opportunity were asked to write a few words about the nature of the menace their companies faced. As it turned out the biggest category of threats related to internal organizational issues: lack of agility, complacency, inflexible culture. They clearly lacked confidence in their company's ability to withstand competitive changes.

Model leadership for digital dominance

The need for organizational self-assurance helps explain why effective leadership plays a critical role in creating the culture necessary for digital transformation. In the Deloitte/MIT SMR study, 90% of respondents from digitally maturing companies expressed confidence that their

organization's leaders have the skills and experience to direct digital strategy. By contrast, no more than 30% of early-stage companies communicated such conviction. Still, as disorienting as the digital revolution may be, the essence of what constitutes effective leadership hasn't drastically changed (see Figure 2).

Whereas in the past, organizations may have defined a strong leader as one who had all the answers, in a transforming environment, leadership is about framing powerful and inspiring questions. To keep their organizations at the digital forefront, leaders, including CFOs, will need to model continuous learning, as well as other essential capabilities such as:

- **Providing direction/Being forward-looking.** In the Deloitte/MIT SMR study, respondents cited the ability to set direction, which has undoubtedly grown more difficult, as the most important

Figure 2. Which leadership attributes do your organization's leaders need more of to drive digital business transformation? (Please select top three)



Source: Deloitte Development LLC, 2019

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leadership skill. “Transformative vision” drew 22% of respondents in choosing their top traits for leaders, while 21% selected “being forward-looking.” As organizations adapt flatter structures, being able to persuade and influence others to build support for moving in the same direction will be a valuable skill.

- **Displaying business judgment.** This trait sounds like a remnant of the analog age, although it’s becoming less recognizable. In a digital context, decisions need to be made at a faster speed and should be supported by timely data.
- **Energizing employee execution.** The picked-up pace of the digital age requires leaders to do what they have always done, but differently. Rather than passively delegating, they must empower employees

to think creatively, work collaboratively, and behave as leaders themselves.

- **Inspiring others.** The path to digital maturity is crowded with uncertainties. Perhaps employee expectations have been ratcheted up by their dependence on GPS technology, but they want to follow leaders who can stay a step ahead, continually communicating their commitment to cultural change and reinforcing the purpose behind transformation. This skill will also be crucial in talent-building, another much-needed ability.
- **Promoting collaboration.** Digital companies don’t only mimic the horizontal structure of peer-to-peer networks; they also act the part. Leaders must leverage digital collaboration tools to encourage

intentional cross-company collaboration by fracturing silos and digitally forging cross-functional teams. The collaborative spirit should extend beyond the business, deepening external partnerships and blurring the organization’s boundaries.

In the survey, 68% of organizations believe they need to find new leaders to triumph in the digital era. What can be true of leaders may also be true of culture: the type that took the organization to the entryway of digital transformation isn’t the same type that will manage its forthcoming restructuring. The key, in both cases, is to recognize the situation—and act on it—as swiftly as possible.

Clearing a path to digital transformation

In the absence of a coherent roadmap, the phrase “digital transformation” can conjure notions of an expensive and expansive cure-all for a myriad of visible challenges: changing customer demands, the rise of nontraditional competitors, ongoing skill shortages, and ever-emerging competing technologies.

But to achieve an organization-wide transformation, companies need a focused digital strategy: a plan for integrating different technologies and adding capabilities in such a way as to support the company’s objectives. A technology rollout schedule is no substitute for a comprehensive approach. Some issues companies need to address to scope their transformation strategy include:

- **What ambition does the organization have for digital technology?** Given the abundance of new technologies, it’s easy to mistake familiarity with understanding. CFOs may decide they need AI or blockchain because they’ve heard about how the finance function can cut costs and gain efficiency and agility through automation. But if every C-suite executive were to prioritize digital tools based solely on improving their individual function, the business could potentially miss out on the broader benefits of taking a systematic approach.
- **Where are competitors coming from?** Organizations of all sizes—31% of respondents to the Deloitte/MIT SMR study represented companies with annual revenues of more than \$1 billion—want digital technology to help them evolve into fiercer competitors. But, by now, it’s become clear that startups can also deploy digital technology as a weapon, catapulting the newcomers into the heart of the marketplace. That possibility should prompt CFOs to analyze investments within the context of the company’s core differentiating competencies—as distinct from adjacent or transformational opportunities—making sure to maintain a balance in terms of where the company applies digital technology.
- **How will the role of humans change?** Based solely on the business case, companies can sometimes get overexcited about the opportunity that, say, robotic process automation provides in terms of freeing them to cut jobs. But before heads are sentenced to roll, management needs to put those positions in a more complete context: Maybe those jobs are unnecessary even without introducing new technology, or perhaps those employees could be retrained and redeployed to the company’s advantage in a digital incarnation. The overarching goal of any transformation, after all, is no different than it would have been in the analog age: to implement technology that will create revenue-generating opportunities.

Endnotes

1. Analysis of each year's survey results is included in several *MIT Sloan Management Review* articles: [Strategy, not Technology, Drives Digital Transformation](#), July 2015; [Aligning the Organization for Its Digital Future](#), July 2016; [Achieving Digital Maturity](#), July 2017; and [Coming of Age Digitally](#), June 2018.
2. Jacob Bruun-Jensen and John Hagel, "*Business Ecosystems Come of Age*," Deloitte University Press, 2015.

Contacts

Garth R. Andrus

Principal, Human Capital Practice
Deloitte Consulting LLP
gandrus@deloitte.com

Michael C. Liley

Partner, Human Capital Advisory Services, Future of Work
mliley@deloitte.de

Anh Nguyen Phillips

Research Lead, Deloitte CIO Program
Deloitte Consulting LLP
anhphillips@deloitte.com

Dr. Udo Bohdal-Spiegelhoff

Partner, Workforce Transformation
ubohdal@deloitte.de

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