

Deloitte.



Digital Change Capabilities Make
or Break a Digital Transformation





Digital change capabilities can make or break a digital transformation

An intentional focus on digital change can be essential to a digital transformation's success. How can leaders calibrate these capabilities to help drive market value?

Many organizations are operating in a similarly disruptive digital environment: economic headwinds,¹ rapid tech consumerism (i.e., generative AI),² evolving tech policies,³ an expanded workforce ecosystem,⁴ and a push for sustainable, ethical tech.⁵ In this market, digital transformation can be high-stakes often with pressure to gain value from related investments.

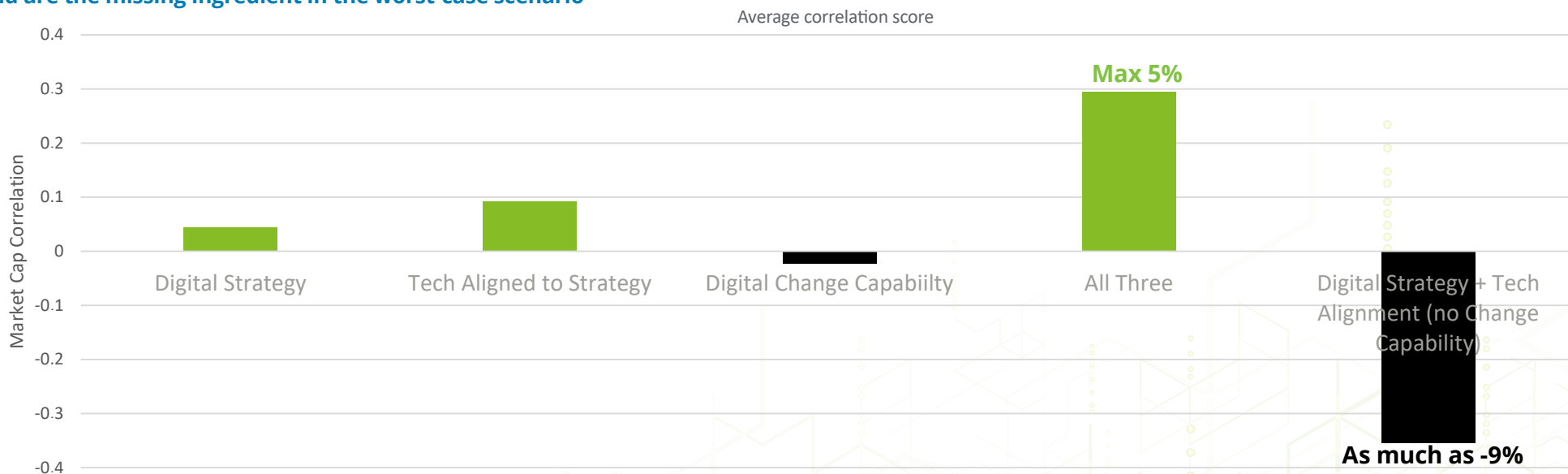
Many organizations view “digital change” as part of the value equation, but often think it’s just about change management. Building a true digital change capability is about so much more. Digital change includes the strategy for rearchitecting work, engaging the ecosystem to unleash the power of the workforce, and redesigning the organization for hybrid work with the right mindset, skills, agile practices, and measures.⁶

These efforts are tied to many digital initiatives – and can be a make-or-break factor in successful digital transformations. When these capabilities are aligned with digital strategies and technology investments, organizations report as much as a 14% market cap differential as compared to when they’re not.⁷ That

equates to approximately US\$2.75 trillion for Fortune 500 firms alone. However, embracing change for change’s sake is not the answer: organizations focused on change alone report three times less market cap than with only a digital strategy. (figure 1)

As leaders calibrate their digital change capabilities, Deloitte Global analysis of 4,600 companies’ 10K filings and financial statements over the last five years underscores which digital change themes are trending up and down across a “digital change” agenda that is only continuing to grow in prominence, breadth, and importance.⁸ As the data shows, getting digital change right matters, validated by the notable possible lift in market cap if done right and potential damage if done wrong.

Figure 1. Digital change capabilities erode market value in isolation, drive market value when combined with a digital strategy and aligned tech investments, and are the missing ingredient in the worst-case scenario



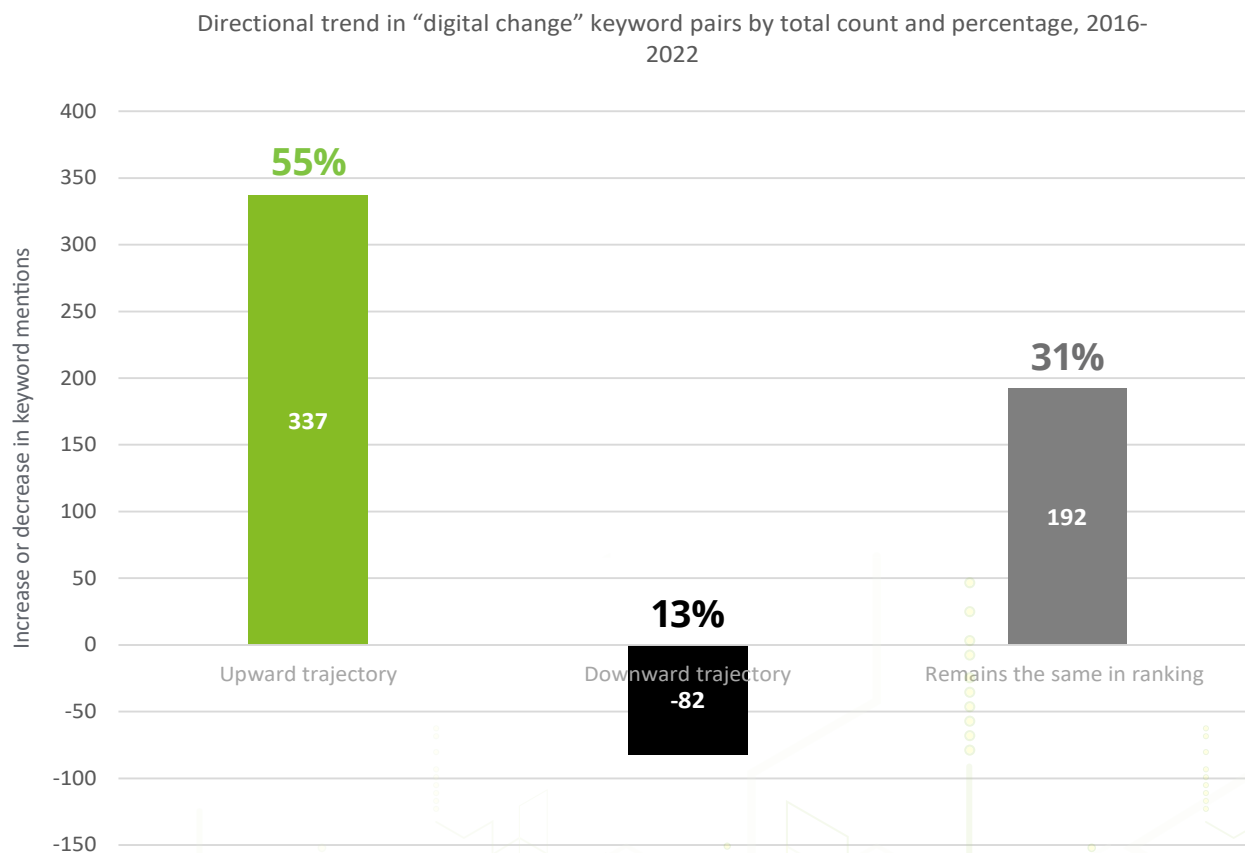
Source: Deloitte, Unleashing Digital Transformation Value: Paths and Pitfalls, February 2023, analysis of ten years of business and financial reports from more than 4,600 global organization’s filings using Natural Language Processing (NLP) and financial modelling.



The digital change agenda is getting bigger

Over the period from 2016-2022, digital change capability keywords appeared over 600 times in the business filings Deloitte Global analyzed. Our analysis found that 55% of the digital change keywords trended upward, 31% remained static as persistent priorities, and only 13% decreased. (figure 2)

Figure 2. The digital change agenda is growing in scope and scale with 86% of digital change themes analyzed are staying the same or on an upward trajectory



This demonstrates that digital change capabilities continue to have a prominent place on business leaders’ core agenda – an agenda that is only getting bigger among the set of companies and statements reviewed during this analysis.

Source: Deloitte Center for Integrated Research and Data Science and Advisory Services analysis of six years of business filings using Natural Language Processing to assess the trending trajectory of digital keywords based on a 611 total frequency of occurrence count between 2016-2022.



Digitization dominates over transformation

As shown in figure 3, the top trends related to digital change⁹ have remained consistent over the last six years, with each topic analyzed growing in importance. (figure 3)

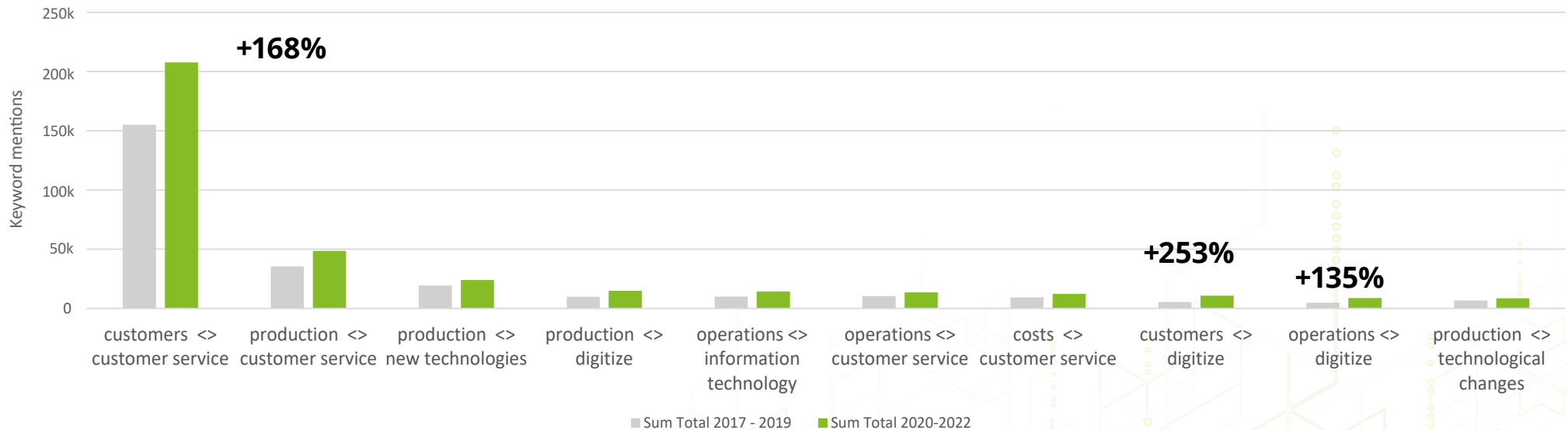
The greatest frequency of digital change terms has been related to digitizing the customer relationship (which showed a +253% increase), operations in relation to disruptive technologies, (a +168% increase), and operations that businesses can digitize (a +135% increase). Yet, what's missing here is a focus on transforming those same customer experiences and operations. This is where leaders have an opportunity to better use digital change as a lever of their technology strategies and investments.

capabilities are essential. The right mindset and approach to the operating model, organizational design, skills, and workforce will likely continue to be driving forces of value now and into the future.

Beyond the trends detailed in figure 3, each of the top 25 themes analyzed for 2017-2019 remained top trends from 2020-2022 and displayed a continued upward trajectory. Leaders, therefore, should take action to ensure they're intentionally aligning digital change initiatives with their overarching digital strategies and technology investments accordingly.

Figure 3. Digital change related to customer service and production have been top growth trends

Top 10 Digital Change Keyword Pairs 2017-2019 vs. 2020-2022



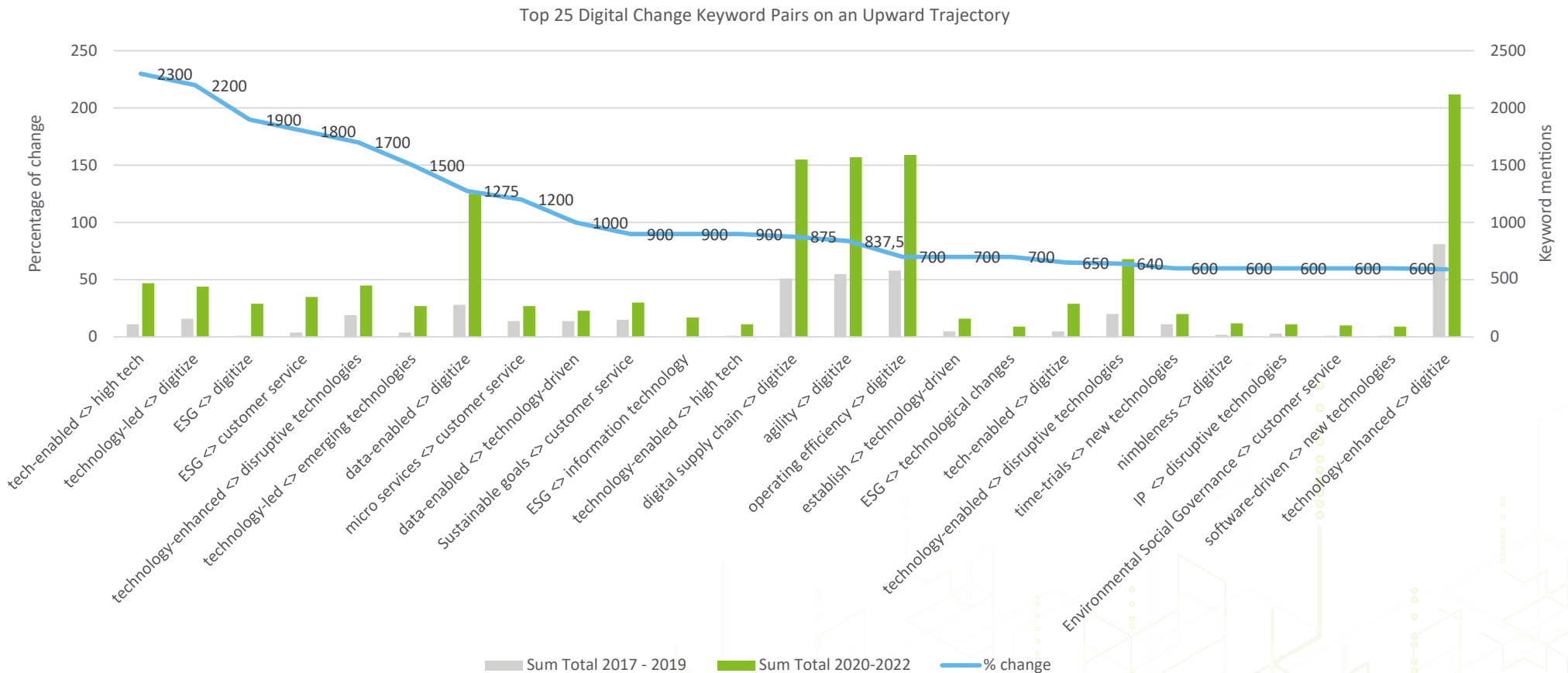
Source: Deloitte Center for Integrated Research and Data Science and Advisory Services analysis of six years of business filings using Natural Language Processing to assess the trending trajectory of digital keywords based on a 611 total frequency of occurrence count between 2017-2022.



High-tech, sustainable and data-driven

While the increasing of frequency of digital change terms predominantly aligned with a consistent set of keywords, we found several sets of keywords that were previously less prominent starting to trend upward in the rate they're mentioned.¹⁰ (figure 4)

Figure 4. These digital change keyword pairs have the highest % change



Source: Deloitte Center for Integrated Research and Data Science and Advisory Services analysis of six years of business filings using Natural Language Processing to assess the trending trajectory of digital keywords based on a 611 total frequency of occurrence count between 2017-2022.



The most prevalent of these is bringing together organizational transformation and technology transformation in IT. Other prominent focus areas include tech-enabled and high-tech approaches, ESG, data, and agility related to efforts to digitize, microservices and customer service, and IP in relation to disruptive technologies. These topics are increasing at a

rate of as much as 2300% as new topics emerge that require leaders' attention. (figure 5)

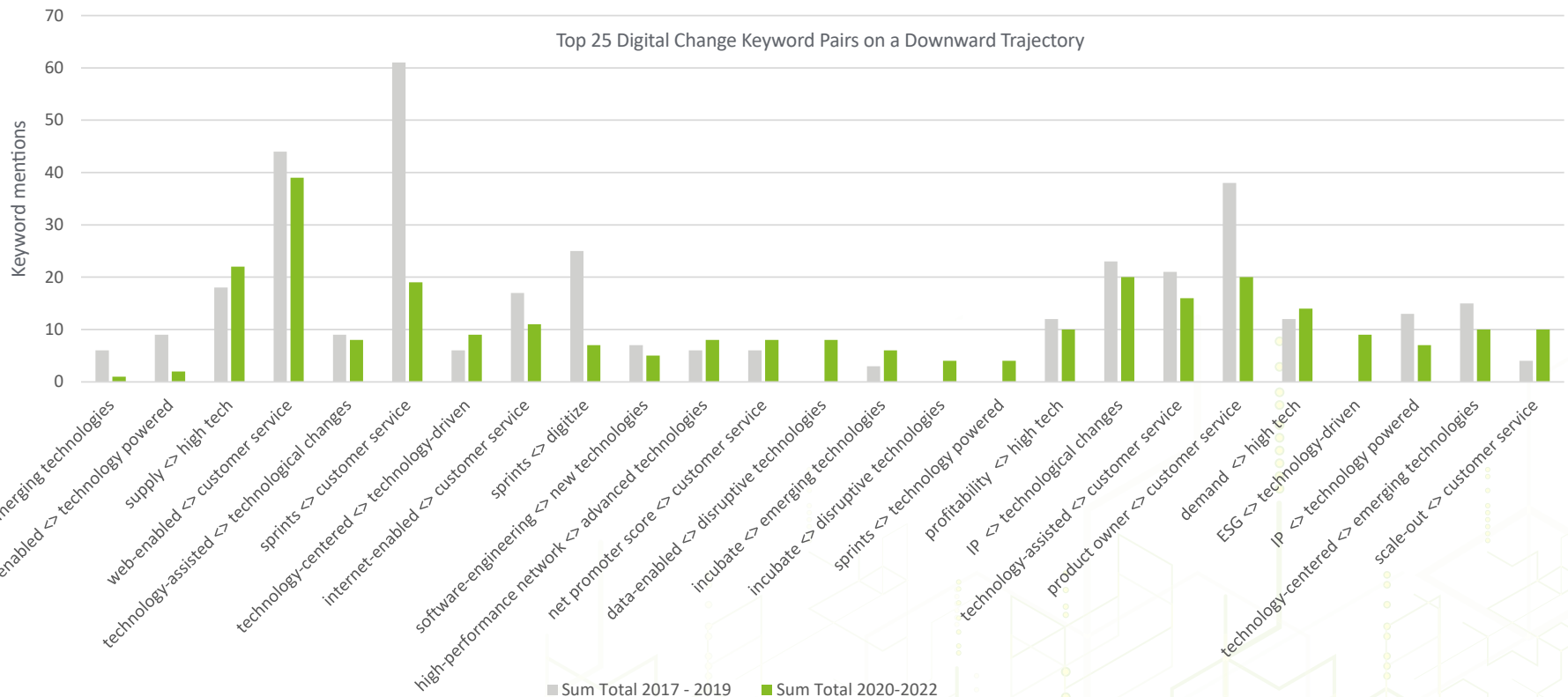
Leaders' ability to ingest and address these new topics on top of an already robust digital agenda may dictate whether they're able to implement change programs effectively. Particularly as pace of change shows no signs of slowing down. (figure 5).

We can see a slight downward trend related to topics like:

- Wearables in relation to emerging technologies (-86%)
- Software-enabled in relation to technology powered (-83%)
- Sprints in relation to customer service (-76%)
- Internet-enabled in relation to customer service (-70%)

Given more topics are being added to the digital change agenda than removed, leaders likely won't experience much relief, and should therefore find ways to work across functions to connect the dots across these matters.

Figure 5. The pace of these digital change trends slowing down is relatively low



Source: Deloitte Center for Integrated Research and Data Science and Advisory Services analysis of six years of business filings using Natural Language Processing to assess the trending trajectory of digital keywords based on a 611 total frequency of occurrence count between 2017-2022.



Digital change levers for leaders

Regardless of an organization's size, digital transformation and a strong digital change capability to drive the organization's strategy and tech investments are considered essential.



Bring Strategy and IT closer together with a hub and spoke model – and use digital change capability as a force to turn the wheel:

given that digital change drives value but can also deter it, getting that alignment right is a foundational starting point.



Break organizational inertia:

larger companies in our analysis (with a market cap of over US\$10B) especially benefited from the tech aligned to strategy scenario – catalyzed by a strong digital change capability. Perhaps this is because larger organizations with greater legacy technology dependencies may have greater investments and more value wrapped up in core IT modernization, with the potential to significantly elevate the organization. As a larger pain point, there could be the potential for greater reward. On the flip side, the digital change required for these organizations could also be far greater given their size and complexity, making it more difficult for them to capitalize on the digital change scenario as compared to smaller organizations.



Calibrate to compete at scale:

organizations under US\$5 billion in market cap were also found to be more susceptible to the risks and effects of value erosion associated with digital change.¹¹ They may more easily succeed at digital change because operating model, ways of working, Agile and other digitally aligned changes can be easier for them to make; Yet leaders should understand that where a smaller size might be an advantage, it could also put them more at risk when they're missing the right tech strategy to compete at scale.



Experiment to learn:

The way to begin the digital change journey is to start making changes, see what works for the organization and its customers, and then iteratively adapt. Experimentation allows for iterative change and that slowly and incrementally builds over time. A recent Deloitte report shows that big bold change can be the result of many small incremental changes over time.¹²



Making or breaking digital value

As leaders look for numbers to give them confidence in their digital transformation decisions, all things are rarely equal. Therefore, organizations should look beyond the number to understand what is possible, what is probable, and ground their decisions based on their own potential. There are many roads to value and an organization's ability to navigate that digital change effectively is the difference between the right path and the wrong one.



There are many roads to value and an organization's ability to navigate that digital change effectively is the difference between the right path and the wrong one.



Authors



Steve Hatfield

Former Global Future of Work Leader, Deloitte Human Capital Consulting
sthatfield@deloitte.com



Rupert Darbyshire

Partner, Deloitte Human Capital Consulting, Technology, Media, and Telecommunications
rdarbyshire@deloitte.co.uk



Nicole Scoble-Williams

Global Work Growth Leader, Deloitte Human Capital Consulting
nscoble-williams@tohmatu.co.jp



Diana Kearns-Manolatos

Senior Manager, Subject Matter Specialist, Deloitte Center for Integrated Research
dkearnsmanolatos@deloitte.com

Acknowledgements

The author team would like to thank Tim Smith, Tim Bottke and Greg Dost for their partnership on the Unleashing value from digital transformation research that was foundational for this analysis. The authors would also like to thank Sandeep Vellanki and Rohan Amrute from Deloitte's Data Science and Survey Advisory team for their expertise and support on this analysis. Finally, our thanks goes to Lucy Warren and Ally McDonald for incubating the approach to this research.



Endnotes

¹Ira Kalish, "[Looking ahead: Global economic outlook for 2023.](#)" Deloitte Insights, January 2023.

²Rachel Gordon, "[MIT CSAIL researchers discuss frontiers of generative AI.](#)" MIT News, April 12, 2023.

³Tate Ryan-Mosley, "An early guide to policymaking on generative AI," MIT Technology Review, March 27, 2023.

⁴Kraig Eaton, John Forsythe, Michael Griffiths, et. al, "[2023 Global Human Capital Trends.](#)" February 2023.

⁵John Mennel, Tim Smith, Kristin Anselmino, "[The tech leader's sustainability agenda.](#)" January 2023.

⁶Steve Hatfield, Arthur Mazor, Nicole Scoble-Williams, Simona Spelman, "[Beyond productivity: The journey to the quantified organization.](#)" Deloitte Global, 2023.

⁷Based on an analysis of ten years of business and financial data from over 4,600 global organizations. Tim Smith, Tim Bottke, Greg Dost, Diana Kearns-Manolatos, "[Unleashing digital transformation value: Paths and Pitfalls.](#)" Deloitte Insights, February 2023.

⁸This analysis revisited the keywords used from 2016-2021 to define 'change capability' in our data dictionary developed for the research, Unleashing digital transformation value: paths and pitfalls. We then analyzed change in frequency of usage year-over-year and for the most recent three years versus the three years prior to understand trending concepts and shifts in priorities.

⁹Based on frequency of mentions in the business filings.

¹⁰Based on their % of change from 2017-2019 vs. 2020-2022.

¹¹We analyzed the same 4,600 organizations in the Unleashing digital transformation value study by grouping them into two categories, those above and those below US\$10 billion in market cap to understand to what degree the presence of a digital change capability impacted market value based on an organization's size. The overall findings were consistent regardless of organizational size, though the intensity of findings differed slightly with the digital strategy market cap lift even more intense for the smaller firms than larger firms.

¹²Francisco Salazar, Brenna Sniderman, Timothy Murphy, Natasha Buckley, Aditya Narayan, "[Behind the scenes of bold change: Three areas where relationships matter more than you may think.](#)" Deloitte Insights, October 2023.

Deloitte.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2024 Deloitte Development LLC. All rights reserved.