

# What is **Digital** Transformation?

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## **Abstract:**

# The right time to transform is now

Great companies embrace change even during times of disruption.

How can digital-first transformation solve your business challenges? Maybe your organization is adjusting to changes from the pandemic. Or it could be a shift in leadership, product, or business objective. Whatever the situation, your people may be struggling to adapt, and uncertain where and how to find the support they need.

The term “digital transformation” is often used, and misused, in the attempt to address the dynamic conditions all of us are facing. Too often, the knee-jerk reaction to the

need for change is to latch onto the latest consultant buzzwords, march in an army of trainers proficient in a specific approach, and hope the problem fixes itself.

However, when done correctly, digital transformation is a strategy that companies use not just to solve immediate problems, but to achieve holistic, long-term business goals. As Agile coach and organizational change leader, Miljan Bajic, states, “It should provide lasting value and create efficiencies that will lead to better outcomes for everyone.”

While digital transformation does involve technical updates, it is more about leveraging technology to offer greater efficiency.

Sometimes a small incremental technology improvement is cited as evidence of digital transformation, whereas true transformation represents a more fundamental and dynamic change. While the process does involve technical updates, the bigger purpose is leveraging technology to help your organization to be more efficient and respond more quickly to customer needs.

If there's one thing for certain, a technology-led effort to transform an organization involves cross-cutting organizational change. The trick is to find the most appropriate, cost-effective path for your organization.

**58%**  
**increase**

in acceleration, across all sectors, of digitalization plans because of the pandemic.  
– Baker-McKenzie [1]



# Part 1:

## How Digital Transformation Works



## What does it mean? And what are the benefits?

So what does digital transformation look like? Since **transformation** is a reaction to the constant change happening at all times, there may never be a final destination, but rather a shift in mentality within an organization. This new mentality focuses on driving efficiency to reduce costs, turnaround times, and overall service delivery. Goals include improving operations and enabling companies to look outwardly at better customer service and online applications.

The **digital** aspect relates to how technology can be leveraged to meet these goals.

### 2020 Digital Transformation Statistics From Acquire[2]:



**64%**

of digital-first companies are more likely than their peers to have exceeded their top 2018 business goal



**45%**

of companies reporting a positive business impact from digital transformation also saw higher net revenue growth



**52%**

of companies plan to cut or defer investments because of Covid-19, but only 9% will make cuts to digital transformation

At the core is the proposition that each department within a company exists to provide the most value to those it serves.

Technologies used include everything from web, to system integration, data analysis, and service delivery apps. At the core is the proposition that each department within a company exists to provide the most value to those it serves, both customers and others in the company. Ideally, better digital experiences engage both customers and staff in more personalized ways.

A simple example of digital transformation would be when a company replaces a paper form with a digital form. This one action in itself doesn't mean that an organization has transformed itself digitally, but it's a step in that direction.

A **transforming** organization seeks out all opportunities to digitize their forms, making the forms easier to complete on a wide range of devices, and introducing additional technology for form processing and response. By contrast, a **transformed** organization sees that the form represents just one aspect of an entire service delivery process that may contain a hundred opportunities for improvement through the right application of technology.

So how and where does an organization begin the process of digital transformation?

There are many paths to choose from when creating a framework for transformation – Scrum, SAFe (Scaled Agile Framework), Lean, Kanban \* – the list goes on. It can be a bewildering set of choices for company leaders, and the urge to try and retool first and ask questions later is hard to resist.

Leaders may also make the mistake of thinking that the same thing that worked for a comparable company will work for their company. However, structure and policies, leadership engagement, previous project history, and technology preferences all weigh in to determine the best approach.

\* See page 18 for definitions.

**50%**  
**increase**

**in likelihood of exceeding profit expectations  
when companies adhere to a well-defined set of  
transformation practices.**

**–McKinsey [3]**



It's almost impossible to define the right approach without a clear sense of what you want to accomplish.

Bajic recommends the five following considerations to help organizations locate the best path forward:

### **1. Identify your customers and their goals first**

It's almost impossible to define the right approach without a clear sense of what you want to accomplish. By talking with both employees and customers about what matters most, companies can begin to identify the outcomes they would like to see, whether it's shorter wait times, increased self-service, or improved access to different product lines.

### **2. Don't fixate on labels**

It can be tempting to put a name on how you are transforming, and it makes for an easy explanation or justification for management or shareholders. However, frameworks should fit the organization, and not the other way around. The reality is that no two companies are exactly the same. Some form of custom or hybrid framework that fits your company is usually the best option.



As the old saying goes, “Don’t try to eat the elephant all in one bite.” Find a small, attainable goal that you can start with to build competency.

### **3. Commit to it**

Digital transformation is not an edict that arrives from on high and then becomes a reality. It requires a commitment from everyone involved. Sometimes this means getting buy-in at all levels, or beginning with a smaller, successful project before moving onto larger commitments like full-scale digital transformation.

### **4. Start small**

As the old saying goes, “Don’t try to eat the elephant all in one bite.” Find a small, attainable goal that you can start with to build competency and confidence. Nothing stops change in its tracks like immediate failure, so try to ensure that you can get some small wins under your belt before you tackle the thornier challenges.

### **5. Expect to grow and change**

It is highly likely that the way a company tackles individual projects will change over time. Radical changes rarely take a lasting hold, so an incremental approach is usually employed to gradually introduce new ways of working that blend with the skills already being used in an organization.

As noted previously, digital transformation can mean a lot of different things to different people. Defining what it means in your company requires a thoughtful approach that includes a discovery process and individualized assessment of inherent strengths and weaknesses.

To get started, training can include everything from formal certification in Scrum and SAFe best practices, to technical team coaching and leadership mentoring. From there, the right kind of framework and appropriate training can be more easily defined.

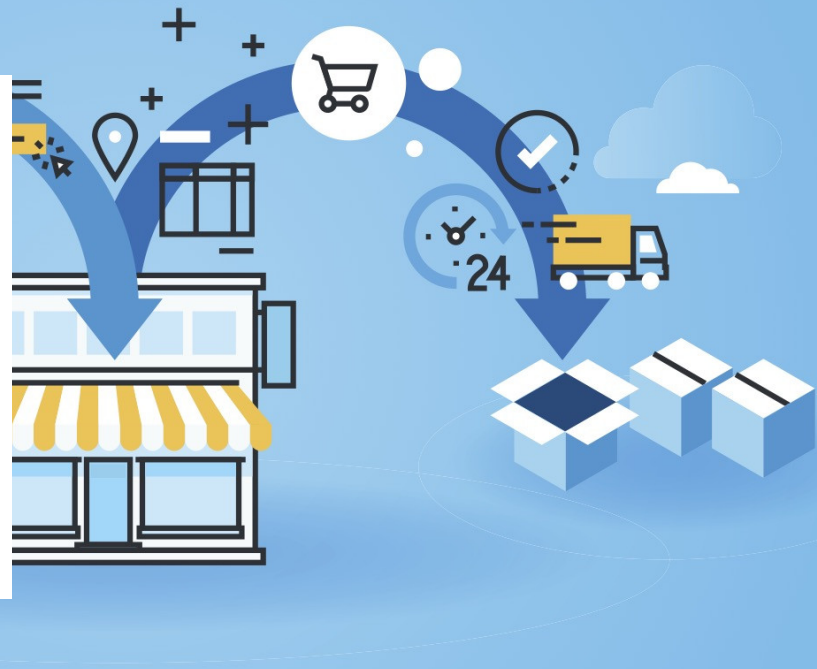
**1.7**  
**times more likely**

to report the transformation’s results surpassed expectations when companies defined their digital transformations by focusing on a few clear themes tied directly to measurable business outcomes.

–McKinsey [4]



## Part 2: How to Provide Value On a Budget



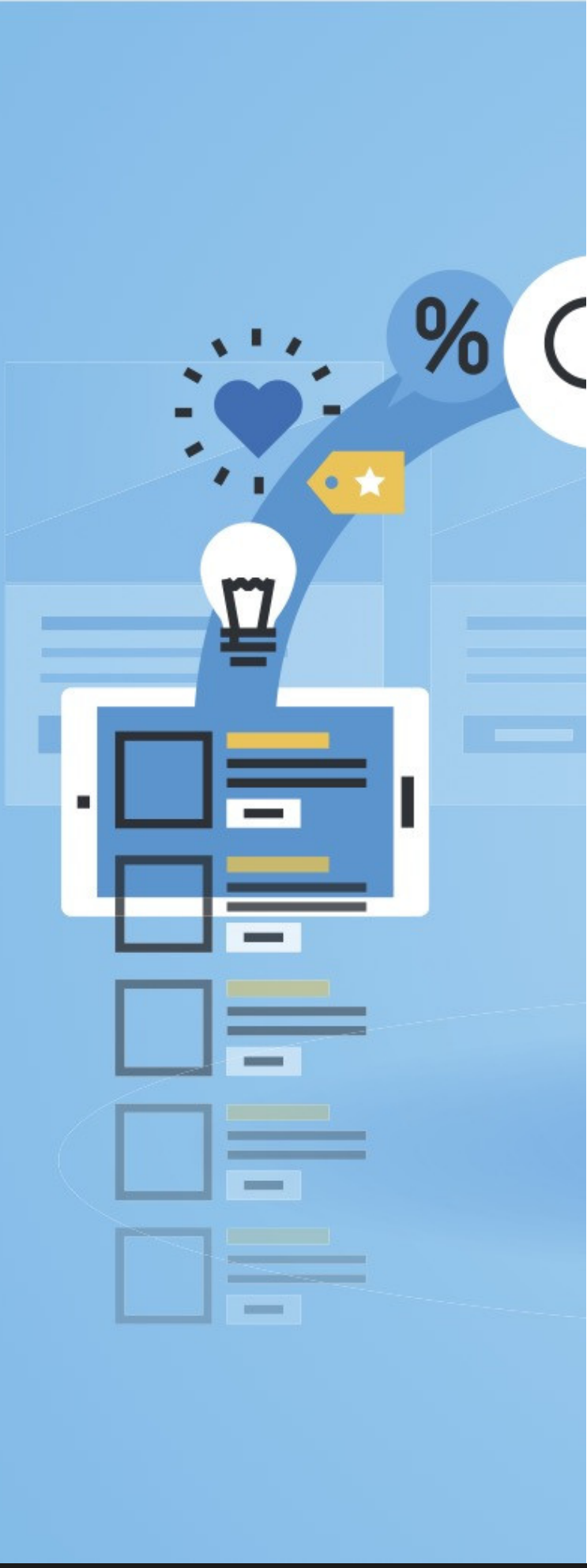
### Use small wins to build confidence and competency.

In the current economic climate, the idea of significant systemic and organizational change can seem out of reach. The temptation is often to “dig in” and “make do” with the usual tools and wait for happier times before tackling major change. However, in many ways the need for change has never been greater.

In the previous section, we outlined the basic concepts of digital transformation and how leaders can drive their organizations forward by creating a strategy for their transformation efforts. Change expert, Miljan Bajic, recommended five

foundational steps that an organization should consider before beginning its journey, not least of which is goal setting. In offering this advice he emphasizes, “Without clearly identifying your customers and their objectives, a company is going to struggle to identify appropriate outcomes and goals.”

In this section, we’ll look at how change can be realized, even on a small budget, once goals are clearly defined. With the right approach, these changes can also provide an opportunity to increase revenue to fund future development.



They realized their full modernization wishlist was going to cost a lot more than they had budgeted.

#### **CASE STUDY: MINNESOTA**

Recently, our company began working with an organization looking to modernize the way in which they operate. Frustrated by many manual processes, they had gone through the steps of defining their digital “wish list” and had compiled a comprehensive set of requirements for future systems. This particular organization split the responsibilities of different divisions into separate roadmaps that together united major improvements across all fronts into a unified approach.

Once the organization had completed the planning process, they worked with their internal IT department to estimate implementation costs before determining what their potential budget might be for the project. Quotes from outside vendors indicated that their full modernization wishlist was going to add up to a lot more than they had originally budgeted.

# They decided to break development into multiple phases in order to get meaningful value from the available budget.

In this instance, the company might have scrapped their transformation plan entirely. Rather than give up, they decided to break development into multiple phases in order to get meaningful value from the available budget.

The project began with open discussion about the project objectives, priorities, timeline, and funding. Working together with the organization, we were able to identify a potential scope that would deliver the most significant business value while aligning with their delivery objectives and available funding. At the same time, this process required us to define and estimate in some detail those features that would not make it into the initial Scope of Work, but become a workable roadmap for future development.

Our project manager guided the organization through the process of redefining the initial scope. We went through multiple revisions to the Scope of Work, estimating sections and then reviewing these with the client to ensure that they could be delivered as stand-alone feature sets. We also made sure to avoid dependencies on functionalities that weren't included in the initial build.

This process lasted several months, while the client juggled critical day-to-day issues along with planning for the future. However, working with the client in this way provided many insights into key operations, and helped determine the elements that were critical for the organization's success.

Currently we're in the process of developing a full-featured system that will roll out later this year for another division in the organization. We are also designing the foundational elements of a system that will go a long way towards unifying data across a dispersed landscape. While some of the broader capabilities of this platform have been deferred, the features are defined and exist in a high-level product backlog for later use.

## 80% of digital revenues

generated in an industry are earned by  
the best-performing decile of  
digitized incumbents.

—McKinsey [5]

If your wins can also be tied to increased revenue (or reduced costs) all the better.

Since a large part of this organization's revenue stream flows through these systems, it is expected that replacing the older, manually driven processes with a new digital self-service model will generate increased revenue. This revenue can then be reinvested into further system development. So, by being willing to break up their transformation process into manageable chunks, and realizing that even a modest initial scope would be an improvement over the status quo, this organization was able to begin their modernization journey with the budget available.

Scaling scope to budget is nothing new in itself, but when scope is focused on having the biggest impact on customers, and ensuring that outcomes deliver 'small wins' instead of significant compromises, the process has a much more positive impact. If your wins can also be tied to increased revenue (or reduced costs) all the better, since it makes it easier to justify the price of future development.



## Part 3:

# How to Navigate Complex Systems



Training and coaching key stakeholders is essential.

"To-may-to. To-mah-to." What's in a word? Complicated and complex are two words used interchangeably to describe those knotty problems that bedevil today's business operations. Corporate rules, system dependencies, office politics – they're all things that can be described as complicated or complex and most people would know what you mean.

However, within the world of digital transformation these words have two distinct meanings. The first describes something which is difficult to understand initially, but is ultimately knowable, and the second describes something harder to wrap our arms

around because it is both dynamic and circumstantial. "The distinction between complicated and complex can help us appreciate the challenges that organizations and people face," says change expert Miljan Bajic. "Without acknowledging the difference, projects are doomed to fail."

In this section, we take a step back to consider the magnitude of the task facing today's leaders. By training key stakeholders to understand the forces at play as they relate to complicated versus complex systems, the teams guiding the process stand a much better chance of reaching the stated objectives.

# Traditional models of hierarchical leadership and linear project delivery are simply not up to the task. Dynamic problems require a dynamic response.

To look at the difference between complicated and complex more closely, let's use some practical examples. Consider a pilot trying to land a plane on an aircraft carrier in pitching seas. The aircraft is complicated – made up of many parts that interact to create flight, but it is ultimately predictable in its response to input on the controls.

The rest of the scenario is complex and changing – the gusting wind, the waves, the direction of the ship, and even the crew on deck. While the pilot can control the complicated nature of flying a plane, he or she can only anticipate and react to the complex nature of the weather and movement of the ship.

Digital transformation often resembles this pilot's challenge, as leaders attempt to understand both the complicated and the complex at once. They face changing customer tastes, a constantly changing market, changing rules, and the demands of shareholders and their employees. Additionally, they are trying to make these changes while supporting day-to-day operations amidst a perpetually evolving software labyrinth and a dynamic environment.

“Living systems are complex and behave in nonlinear ways that are difficult to predict,” Bajic says.

“By contrast, machines are complicated systems that behave in more predictable ways. Computers and machines can handle complicated problems better than humans, but they are not so well suited for complexity.”

Bajic recommends that in order to tackle the complicated problems, leaders must first examine the complex issues around them. Traditional models of hierarchical leadership and linear project delivery are simply not up to the task. Just as the problems are dynamic, the response must also be dynamic. Leadership must harness the collective knowledge and skills of the whole company in order to create a flexible framework that can react to emerging conditions and information.

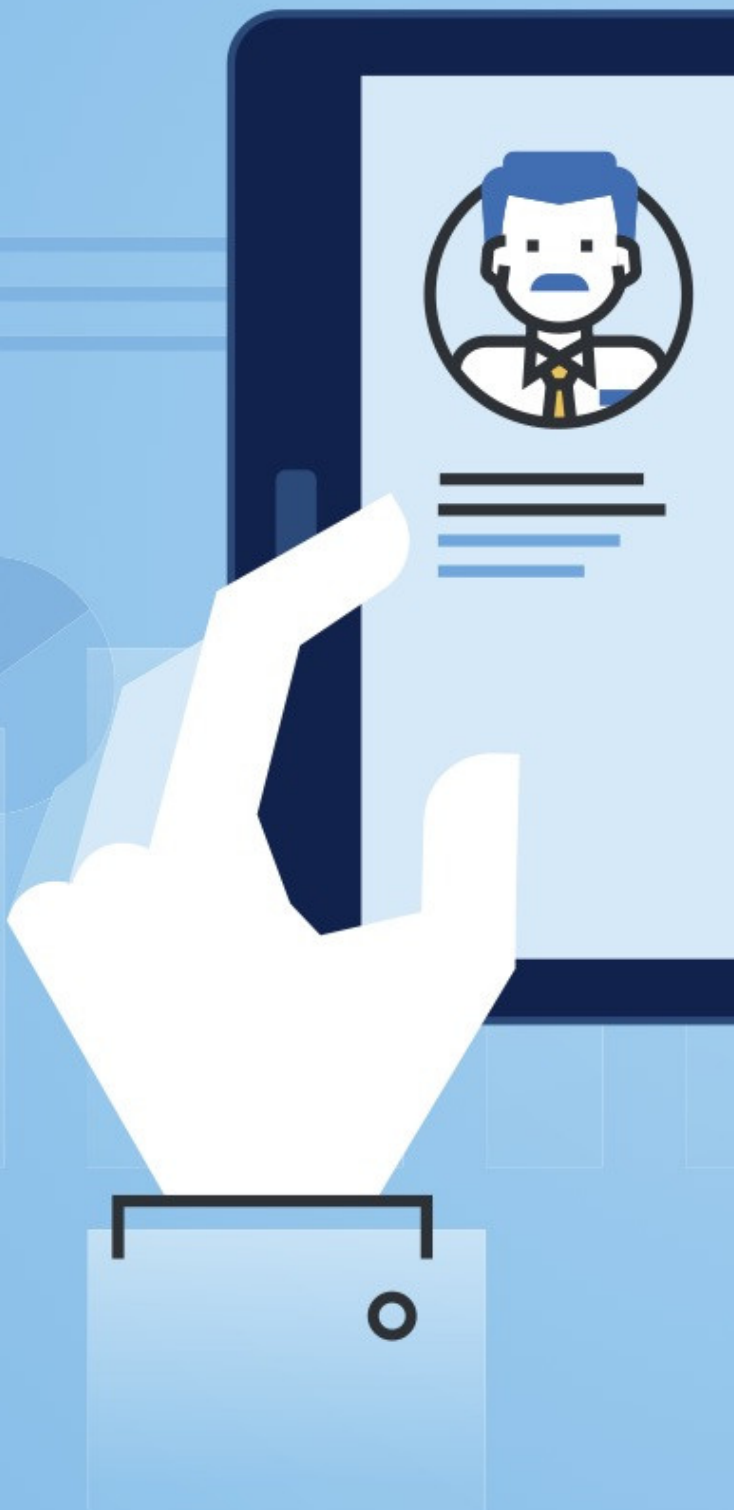
# 1.5

**times more likely**

to note expectation-beating performance when digital transformation has been a top priority for the company's senior leaders.

–McKinsey [6]



An illustration on the left side of the page shows a large white hand reaching up to touch a tablet. The tablet screen displays a circular profile icon of a man with a mustache and a suit, with several horizontal lines below it representing text. The background of the illustration is a light blue gradient with some abstract shapes.

Initiatives included change management, performance measurement, and skill development.

#### **CASE STUDY: CALIFORNIA**

We were recently recruited to help the California Department of Motor Vehicles (DMV) tackle some significant digital initiatives. As a large organization that interfaces with tens of thousands of California residents on a daily basis, the DMV had many “mission critical” systems that needed to be updated so the agency could better serve its customers.

The department leadership was aware enough to recognize the complexity of their situation. They knew the organization was not set up to tackle this work without significant support. A history of previous failures clearly indicated that new tools and techniques would be required if different outcomes were to be achieved.

Our work with the agency ran the gamut from strategic to tactical. Initiatives included change management, performance measurement, planning and estimation, and skill development.

The approach may need to evolve over time to fit the objectives, but the goal to create a more efficient department remains constant.

During one discovery phase, we guided the DMV to break down its registration project into different types (motorcycles, cars, boats, etc). We then helped leadership define the new architecture for the respective products. Bajic further supported a pilot initiative with training and coaching for stakeholders.

By the time the current public health crisis interrupted modernization plans, the DMV was well on the way to adopting a new Agile culture and developing the skills needed to reconstruct their public-facing systems in a changing environment.

As Bajic notes, “Changing organizational structures is the key to changing the culture and mindset.” Generally, product-based structures are more flexible and suitable to change in a dynamic or complex environment where organizations have to be adaptable.

“The important thing is to build on internal capabilities and strengths so organizations can make their own changes and improvements,” Bajic noted. “The best chefs aren’t tied to recipes, but can work with the ingredients they have to create something delicious using new flavors.”


“It’s about taking you from where you are, to where you want to go, by using the skills you already have and whichever ingredients (tools) are needed like Scrum, Kanban, Scaled Agile, or a customized SAFe approach to get the job done.”

In other words, while the approach and methodology may need to evolve over time to fit the department’s needs and objectives, the goal remains constant: to create a department that is more efficient and better able to deliver the most effective results.

**1.3**  
**times more likely**

that the transformation surpassed expectations  
when companies allocated operating expenditures  
toward the digital transformation.

–McKinsey [7]



## **Conclusion:** Flexibility to bend, not break

Leaders need the right capabilities to respond to the ever-changing winds of complexity.

A lot of organizations make the mistake of fixating upon the complicated, or things which can be controlled, without understanding the complexity, or the uncontrollable elements, of their situation. Inevitably, the best laid plans to tackle the complicated will be buffeted by unexpected complexities.

Training and coaching key stakeholders helps an organization better prepare for digital transformation by building leaders with the internal capabilities to respond to the ever-changing winds of complexity.

A resilient organization develops skills to bend in the face of unexpected changes without having their projects, and profits, blown away.

This white paper presents the approach of making a series of small wagers, and banking the gains, rather than relying on one big bet. Working incrementally, and transparently, and not overcommitting in terms of scope or budget, allows organizations to make forward progress even in the most complex conditions.

# Endnotes

**1** - 2020 Digital Transformation & Cloud Survey  
| Insight | Baker McKenzie

**2** - 26 Recent Digital Transformation Statistics  
[2020] | Acquire

**3** - Digital transformation: Improving the odds of success |  
McKinsey

**4** - Ibid

**5** - Ibid

**6** - Ibid

**7** - Ibid

**\* Page 6 definitions, from Wikipedia:**

Scrum: An Agile framework for developing, delivering, and sustaining complex products, with an initial emphasis on software development.

SAFe: The Scaled Agile Framework is a set of organization and workflow patterns intended to guide enterprises in scaling Lean and Agile practices.

Lean: Summarized by seven principles, 1-Eliminate waste, 2-Amplify learning, 3-Decide as late as possible, 4-Deliver as fast as possible, 5-Empower the team, 6-Build integrity in, 7-Optimize the whole.

Kanban: Work items are visualized to give participants a view of progress and process, from start to finish—usually via a Kanban board.

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