Why So Many High-Profile Digital Transformations Fail

by Thomas H. Davenport and George Westerman
In 2011, GE embarked upon an ambitious attempt to digitally transform its product and service offerings. The company created impressive digital capabilities, labeling itself a “digital industrial” company, embedding sensors into many products, building a huge new software platform for the Internet of Things, and transforming business models for its industrial offerings. GE also went to work on transforming internal processes like sales and supplier relationships. Some performance
indicators, including service margins, began to improve. The company received much acclaim for its transformation in the press (including some from us).

However, investors didn’t seem to acknowledge its transformation. The company’s stock price has languished for years, and CEO Jeff Immelt — a powerful advocate of the company’s digital ambitions — recently departed the company under pressure from activist investors. Other senior executives have left as well. The new CEO, John Flannery, is focused primarily on cutting costs.

GE is hardly the only company to run into performance issues and sooner-than-expected executive departures in the midst of a huge digital transformation effort. Lego recently defunded its Digital Designer virtual building program. Nike halved the size of its digital unit in 2014 by discontinuing its Nike+ Fuelband activity tracker and some other investments. Procter & Gamble wanted to become “the most digital company on the planet” in 2012, but ran into growth challenges in a difficult economy. Burberry set out to be the world’s best digital luxury brand, but performance began to suffer after initially improving. Ford invested heavily in digital initiatives only to see its stock price lag due to cost and quality issues elsewhere in the company. These companies spent millions to develop digital products, infrastructures, and brand accompaniments, and got tremendous media and investor attention, only to encounter significant performance challenges, and often shareholder dissent. At P&G, then-CEO Bob McDonald was asked to leave by his board, as was Ford CEO Mark Fields. At Lego and Burberry, the CEOs leading the digital charge stepped into lesser roles.

What can we learn from these examples of digital dreams deferred? How did these smart, experienced leaders make decisions that don’t look so smart in hindsight? They made the investments, they got a lot of exciting feedback from their digital leaders and from the press, they increased the investments, and the cycle repeated. However, while their companies had plenty of resources, the big digital bets did not pay off quickly enough, or richly enough, to counter the drain they represented on the rest of the business.

We think there’s something more here than executive over-exuberance or slowing markets. This kind of unfortunate decision has happened over and over again, in wave after wave of transformative business technology. It happened with e-commerce, when companies like Staples and Walmart invested heavily in separate e-commerce units, only to have those units drain the company of resources. It happened with analytics and big data, when companies like Sears and Zynga invested millions in creating analytics units that never paid back their investments. And now it’s happening with digital transformation.

Several key lessons emerge when heavy commitments to digital capability development meet basic financial performance problems. A clear one is that there are many factors, such as the economy or the desirability of your products, that can affect a company’s success as much or more than its digital capabilities. Therefore, no managers should view digital — or any other major technological innovation — as their sure salvation.
Second, digital is not just a thing that you can buy and plug into the organization. It is multifaceted and diffuse, and doesn’t just involve technology. Digital transformation is an ongoing process of changing the way you do business. It requires foundational investments in skills, projects, infrastructure, and, often, in cleaning up IT systems. It requires mixing people, machines, and business processes, with all of the messiness that entails. It also requires continuous monitoring and intervention, from the top, to ensure that both digital leaders and non-digital leaders are making good decisions about their transformation efforts.

Third, it’s important to calibrate your digital investments to the readiness of your industry — both customers and competitors. For example, when P&G was making its digital push in 2012 and 2013, it was already well ahead of most companies — and perhaps all of them — in the consumer products industry. Our assessment is that it probably still is, even though the digital push was slowed when McDonald departed. P&G could probably have lost little ground to competitors had it invested in digital in a more targeted fashion. Today it does so; no digital initiative is undertaken at P&G if it doesn’t fit the strategy closely and if it’s not hardwired to value. This digital governance discipline is an excellent idea given that the company is now under attack by a different corporate raider.

Finally, when things are not going so well in the existing business, the call of a new business model can become more powerful than it should. Many a person has allowed the excitement of a new relationship to destroy their stable, if less exciting, married lives. Similarly, the prospect of launching a sexy technology-based business is tantalizing. The allure of digital can become all-consuming, causing executives to pay too much attention to the new and not enough to the old. Sears’ investments in analytics were not a bad idea, but the company’s facilities and service needed investment more. Although Nike’s executive team was derided for shrinking the digital unit in 2014, the move allowed them to focus their continuing digital investments on higher-value activities. The company’s recent decision to cut staffing and product variety in the existing business, while continuing to improve digital sales channels, appears to be an effort to optimize across both.

There’s something different about technological change that causes senior executives in large, established firms to act differently than they might otherwise. When investing in a typical strategic change, managers are usually pretty clear about what they want to accomplish and what it will take to get there. There’s a lot of work to get things right, but they know where they’re going and how to measure progress. If the indicators move in the wrong direction, they can take action to set them on the right path, or can make the choice to de-escalate the investment.

With innovative information technology, however, executives sometimes lose their rational decision approaches. Certainly it’s true that in times of radical technological change there’s a lot of figuring out to do. Executives have to understand what new technologies can do, and understand their impact on markets, products/services, and distribution channels. These decisions are inevitably influenced by hype from vendors and the media, expensive consultants offering “thought leadership” insights, many high-profile experiments, and a few exciting success stories that keep...
people wanting more. A charismatic CIO or Chief Digital Officer may make it even harder to be level-headed in those heady times.

Amid the excitement and uncertainty of a new technological era, it can be very difficult to distinguish between investments you need to make ahead of the market and investments that must be in sync with market readiness. As a CEO it can be tempting to think about the early phases of radical technological change as a chance to dominate a new market rather than learning about the market. Investing ahead of the curve makes sense when we know what the curve is. But with digital transformation there’s a lot of exploration and understanding to accomplish before the curve starts to take shape.

When digital investments don’t quickly pay off, CEOs can feel that the issue they’ve encountered is about not spending enough, rather than the company (or the market) not knowing what the end state actually looks like. They can fear that reducing a highly public commitment to the new business could be seen as failure rather than smart decision-making. They may double down on their chosen strategy rather than pivoting toward the profitable approach, hoping to bully the market rather than learn about it.

In time, markets learn more about what they want, producers learn how to deliver it, and the way forward is clearer than it was before. At this point, it is much easier to make clear-headed decisions about digital. But funding a “big digital” strategy during the figuring out process can take more patience than investors have.

Of course, not all companies with short-term digital indigestion are making bad decisions. In e-commerce, what started 20 years ago as a radical innovation — and then radical destroyer of market value — is now standard practice in every industry. The leading companies, even those that made large unprofitable investments early in the transition, were able to pivot toward more profitable e-commerce strategies. In digital, as with future waves like IoT, AI, and conversational commerce, executives would be wise to be wary about the siren call of new technological innovation. Instead of ramping up quickly, only to ramp down painfully, it would be much better if companies can make steady progress toward the right end state without making such costly mistakes.

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