

Business Transformation In A Digital Age

A Changing Technology Landscape
Creates New Transformation Success
Factors

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Executive Summary

Today, business executives face a range of competing pressures. On one hand, they must constantly innovate: improving products, serving the changing expectations of customers, and keeping pace with a dramatically changing technology environment. At the same time, they must do everything they can to improve the bottom line: cutting costs, rationalizing operations, and improving efficiencies.

While these pressures — to be innovative and operationally efficient — are often viewed as separate issues, they are increasingly linked. And it's the linkage between these two priorities that is driving many business transformations today.

As business and technology priorities converge, business transformation — defined as fundamental change in processes, models, culture, and technology — has become a critical part of a company's strategy. And technology — whether it's in the form of an enterprise resource planning (ERP) system, mobile devices, or business analytics — is invariably an enabler of these transformations.

Transformation is viewed as a critical part of innovation strategy. In fact, this study found that an incredible 84% of transformation leaders view their transformation program as a critical part of their innovation strategy.

Business transformation — defined as fundamental change in processes, models, culture, and technology — has become a critical part of a company's innovation strategy.

At the same time, transformational innovation is not possible without operational excellence. The research found that core business changes — be they incremental process improvements, cost reductions, or the need for regulatory compliance — are essential elements of these transformations. In the study, more than 85% of respondents indicated that reducing operational costs and increasing internal efficiencies were the top innovation priorities.

In the research, we saw a number of examples of the linkages between operational improvements and innovation strategy:

- › A leading financial services company consolidates its call center operations not just to cut costs, but also to revolutionize the customer experience.

- › A business services provider rationalizes its ERP core not just to streamline operations, but also to enable the company's new mobility strategy.
- › A financial services organization rationalizes its data repositories, not just to cut infrastructure costs, but also to lead the market with a changing regulatory environment.

The priorities and objectives are diverse, raising several important questions about business transformation: What exactly are these transformations? What are their goals? How are they measured? What worked and did not work in their execution?

In February 2014, Tata Consultancy Services commissioned Forrester Consulting to evaluate the changing nature of business transformation. To answer these questions, Forrester conducted in-depth surveys with 100 business and IT decision-makers involved in a software-enabled business transformation project in the past three years and also conducted in-depth follow-up interviews with 10 transformation leaders.

Forrester found that these companies achieved many benefits from transformation, including infrastructure rationalization, cost reduction, and process improvements. At the same time, however, transformation initiatives have many effects on the needs of the business: driving revenue growth, improving customer experience, and improving workplace agility.

KEY FINDINGS

- › **Digital business requirements are driving many new transformation initiatives.** Technology initiatives such as business analytics, cloud, and mobility have become just as important to transformation programs as core ERP systems.
- › **Nearly all transformations are enabled by software.** Despite the heavy importance of business elements such as business process design and model changes, technology is a key enabler of transformation. Therefore, technology management must be a partner with business leadership in any transformation.
- › **Companies view many operational initiatives as a fundamental part of an innovation strategy.** Companies must operationalize transformation initiatives, balance transformation strategy and expectations, and pay careful attention to how they select and manage their transformation partners.

The Changing Role Of Business Transformation

Business transformations have many fundamental drivers that have remained constant over the past few years. The need for efficiency, improved use of data, process improvement, and model changes were as important to transformation five years ago as they are today, and companies will always need to rationalize, consolidate, and streamline core operations.

However, this research found a number of factors that are changing in the focus and expected outcomes for transformation programs. In particular:

› **Digital business requirements are driving many new transformation initiatives.** Transformations are increasingly characterized by use of technologies such as business analytics, the cloud mobile devices, and agile methodologies (see Figure 1). Specifically:

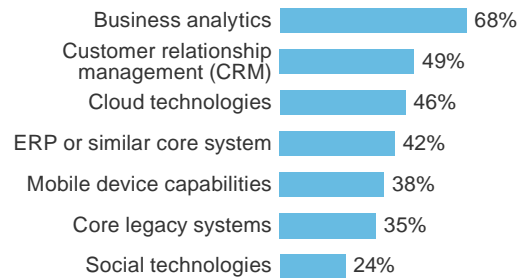
- *Data is moving from traditional BI to advanced analytics.* Advanced analytics is a class of analytic techniques used to uncover nonobvious insights or predict future outcomes using a wide range of data sources and algorithms.
- *Tablets and smartphones are standard targets for design.* Organizations are reshaping their entire infrastructure in order to support mobile business requirements. Customers and employees, empowered by mobile devices, expect greater levels of mobile functionality. This requires companies to invest in both mobile designs as well as rationalize their core data systems that feed these devices.
- *The cloud is increasing the speed of deployments but causing integration challenges.* Cloud-based solutions are rising in popularity but place a greater burden on business process design and data integration. Transformation leaders must play a key role in redesigning business processes to exploit the capabilities of the cloud, while also making cloud work seamlessly within the legacy technology environment.

FIGURE 1

Business Analytics Are The Most Enhanced As Part Of Transformation

“Which of the following technologies were implemented or enhanced as part of your transformation project?”

(Select all that apply)



Base: 100 US and UK IT and business professionals (director+) with significant involvement in business transformation projects

Source: A commissioned study conducted by Forrester Consulting on behalf of TCS, May 2014

› **Companies are simultaneously focusing on both operational effectiveness and innovation.** Companies are looking at business transformation holistically, not segmenting these initiatives by device, systems, or even business goals.

In our research, we found that the highest innovation priorities were to “reduce operational costs” and “increase internal efficiencies,” but nearly just as highly prioritized were factors like “improve the flexibility and agility of our organization” and “improve products and services” (see Figure 2). In our interviews, we found that clients realize that innovation without operational excellence will not scale in terms of security, reliability, and maintainability. The two agendas increasingly go hand-in-hand.

This complete view of business transformation has become necessary because transformations make extensive use of integrated data and applications. In our research, we spoke with companies working on repository consolidations for increasing regulatory compliance, and companies standardizing core systems to reduce costs. However, in each case, systems and data were required to be tightly integrated to enable front-office, customer-facing initiatives.

As interviewees noted:

“When we got back to the basics and started to ensure those basics functioned properly, we were able to create much more functionality and pave the way for new functionality. For example, we know we are better prepared to go mobile now, because the core technology is in order.”

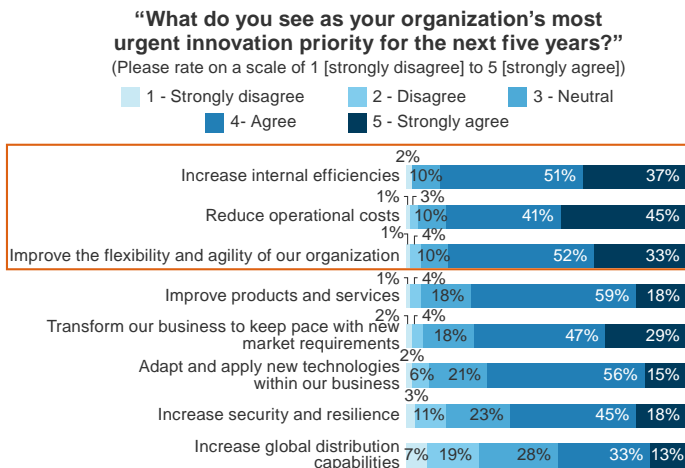
— Director, business services company

“Our transformation is based on a simple idea — to enable employees to pull any information about a customer contact at any time. But it’s a complex process and has tremendous business implications . . . you can be proactive with the customer if you have the right core systems in place.”

— Head of IT and business solutions, utility company

Finally, the combination of innovation and operational drivers, along with the greater breadth of capabilities of today’s systems, has made global the default for how systems, processes, and groups operate. Companies are using cloud software, business process redesign, consolidation, and other elements to become more globally consistent.

FIGURE 2
The Most Urgent Innovation Priorities



Base: 100 US and UK IT and business professionals (director+) with significant involvement in business transformation projects

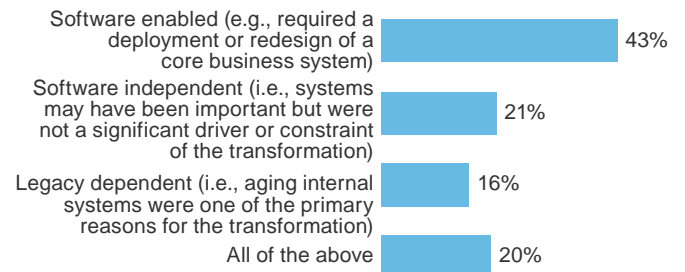
Source: A commissioned study conducted by Forrester Consulting on behalf of TCS, May 2014

➤ **Nearly all business transformations are enabled by software.** Increasingly, the interdependence between business leaders and technology has grown. The result is

that few fundamental changes to models and processes are possible without addressing technology capabilities. In our survey, only one in five respondents reported that systems were not a significant driver or constraint in business transformations (see Figure 3).

FIGURE 3
Most Transformation Projects Are Software-Enabled

“Which of the following statements best describes the impact of software on your transformation project?”



Base: 100 US and UK IT and business professionals (director+) with significant involvement in business transformation projects

Source: A commissioned study conducted by Forrester Consulting on behalf of TCS, May 2014

Meanwhile, 79% agreed that the design and implementation of software is an increasingly important component of a business transformation. As noted, new business-focused technologies such as social, mobile, analytics, and cloud are considered important drivers of their business transformation — and are changing the expectations of transformation projects. As one interviewee noted:

“A customer might call in with a problem, and it might be related to [our core ERP system], but now it might be related to many other points of interaction we have with customers. So we need to integrate all of the points of contact.”

— Head of IT and business solutions, utility company

However, the use of these technologies often requires customization and business process redesign. When asked to rate the level of customization their transformation required, more than 54% of survey respondents reported that core business systems

required at least a high level of customization, with one in five reporting very high customization requirements.

This implies companies need to go past vendor promises of simple out-of-the-box solutions, even when considering new cloud delivery options. Vanilla deployments may be the right options for some commodity processes, but many systems — particularly those that provide competitive differentiation — will require customization. Understanding when to standardize and when to invest in customization will be a critical skill for IT organizations to master over the next decade. To understand the tradeoffs, technology leaders will need high levels of business, technology, and operational sophistication.

IMPLICATIONS FOR TRANSFORMATION LEADERS

So what does this mean? Technology in all forms is necessary for most transformations but requires a high degree of customization and process redesign. However, as already stated, companies can't look at transformations as limited to one business unit or application, but instead must take an enterprise view of these initiatives.

As a result, these have become highly complex projects that need to scale to the entire company. This mandates a heavy involvement of IT. While many activities will take place outside of the IT organization during business transformations, the vast majority of business transformations will require their technology leaders — particularly IT organizations — to be a partner with the business.

Why Transformations Falter

Not all transformations succeed. Our survey indicated that nearly one in five reported an ROI of zero to 5%. From interviews and other sources, we found many stories of transformations that took years longer than planned and some that were cancelled before they realized any benefits at all.

This should not necessarily alarm transformation leaders. Despite the challenges, the research showed that companies realize many positive benefits from transformation programs and associate them all with positive ROI.

Still, measuring results — and capturing value — is a difficult discipline to master, and business technology leaders have a lot to learn from the best practices we saw through our research.

LOOK BEYOND THE TECHNOLOGY

Given the technical elements in these transformations, companies need strong IT capabilities. But technology skills alone are not sufficient to ensure success — companies executing transformations need nontechnical skills as well. When we asked about the skills gaps that organizations faced, we found that five out the top six primary skill gaps were nontechnical, sometimes called “soft” skills. These include skills in culture change, organizational issues, new practices, and organizational design (see Figure 4).

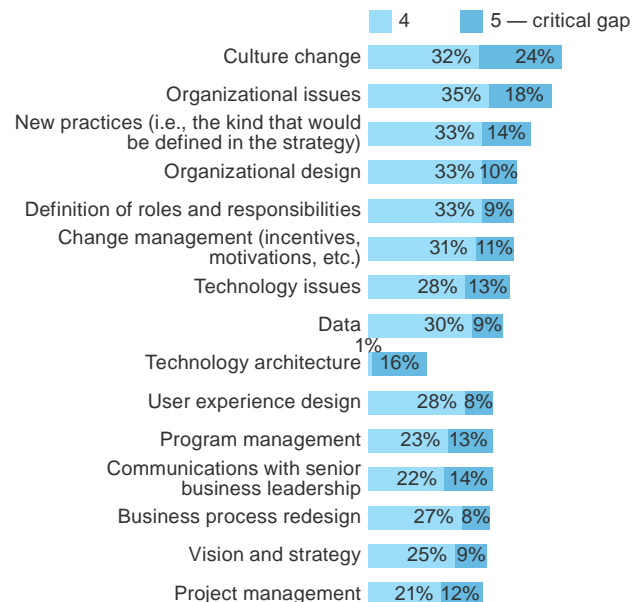
FIGURE 4

Culture Change And Organizational Issues Are The Primary Skills Gaps

“What are primary areas of skill gaps you faced in implementing your transformation within your organization?”

(Please rate on a scale of 1 [no gap at all] to 5 [critical gap].)

Only top 2 boxes are shown)



Base: 100 US and UK IT and business professionals (director+) with significant involvement in business transformation projects

Source: A commissioned study conducted by Forrester Consulting on behalf of TCS, May 2014

This surprising result comes from a number of factors — some obvious, some not:

- › **Implementing transformational change involves many nontechnical areas.** These include changes to culture, the structure of the organization, incentives, and others. Respondents noted that technology can be controlled and

updated, but cultural issues are embedded in the business and harder to change. Noted one interviewee:

“We had gaps in every major area — technology, business process, change management, organization. We did not have enough staff for any of this.”

— Director of IT, financial services company

- › **Design to realize value.** Measurable benefits don’t occur automatically. Leading organizations must design their transformation programs to create, capture, and communicate incremental benefits. This gives them the ability to make midcourse corrections based on tangible benefits, and to use those benefits to maintain support. This continuous “feedback loop” is a critical part of keeping momentum behind the transformation project as it evolves.
- › **The science of transformations won’t cover every issue.** Many activities, particularly technical ones, within a transformation are now implemented through highly disciplined methodologies, supporting tools, and institutional thought leadership. Yet there is still great artistry and, therefore, unpredictability and risk, in the nontechnical areas.
- › **Technology leaders know they are weak in the “soft” skills.** After years of building and deploying systems, IT organizations have built up technical skills in requirements development, coding, data integration, and other technical areas. Only in the past few years have IT organizations placed importance on the softer skills — but they’re acutely aware of their own limitations. When we cut our data into those from IT and those from the business, we found that IT had greater recognition of gaps in nontechnical skills. For example, being able to manage “organizational issues” was rated as a significant gap by nearly 70% of IT respondents, compared with only half of those in the business.

SYNC BUSINESS AND IT PRIORITIES AND BUDGETS

The organizations we interviewed faced many challenges when funding and measuring the results of their transformation programs. In our interviews, this reflected the multifaceted nature of transformation. Our research showed that transformation programs affect many functional areas, involve multiple internal stakeholder groups, and create many different business outcomes — making the question of “who owns the project” increasingly complex.

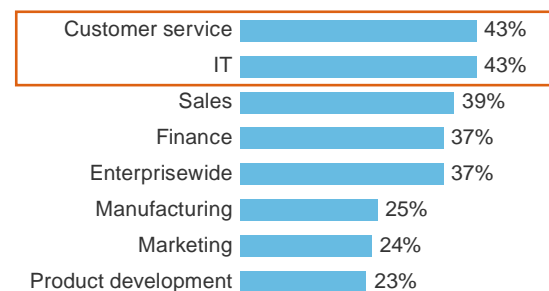
For example, when respondents were asked what primary areas were affected by transformation projects, “customer service” and “IT” came out on top, but a number of functional areas were rated similarly high (see Figure 5). As we noted, we expect the interdependences between organizational groups to only increase.

FIGURE 5

Customer Service And IT Are The Most Affected

“Which of the following best describe primary areas of impact of your transformation project?”

(Select all that apply)



Base: 100 US and UK IT and business professionals (director +) with significant involvement in business transformation projects

Source: A commissioned study conducted by Forrester Consulting on behalf of TCS, May 2014

In our interviews with transformation decision-makers, we saw several best practices:

- › **Linked IT and business priorities.** The priorities and budgets of the business are often unclear and not connected to IT priorities and projects.
- › **Shared budgeting.** Several individuals expressed concerns that the business was driving the transformation priorities, but IT organizations were tasked with the execution and budgeting. These projects were inadequately funded, requiring IT to draw resources from other projects. If the business is to benefit from the transformation, it will have to share in the allocation of scarce resources or draw from a centralized pool of resources allocated by business leaders.
- › **Consolidated and continued financial tracking.** Several companies noted that their budget measurements focus on upfront IT costs but fail to account for change management and ongoing maintenance. Leading organizations create centralized governance and cost

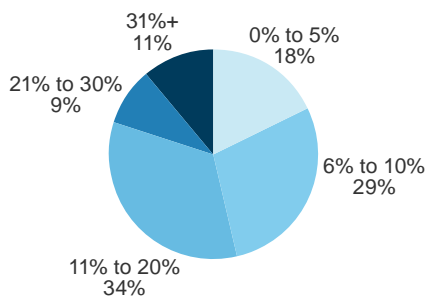
management that allocates for the work of each stakeholder group and monitors spending in relation to overall benefits.

USE MEASUREMENTS TO TAKE ACTION

Few companies match their plans to their results. Fewer still make significant changes to planning, estimation, or budgeting based on their results. Nearly 50% indicated that their ROI was less than 10%. Nine percent indicated that they had ROIs higher than 34% (see Figure 6).

FIGURE 6
ROIs For Business Transformations

“You indicated that return on investment is a component of your transformation project. What ROIs have you measured?”



Base: 56 US and UK IT and business professionals (director+) with significant involvement in business transformation projects

Source: A commissioned study conducted by Forrester Consulting on behalf of TCS, May 2014

What separates those who see tremendous success versus those who realize modest benefits? Our interviews indicated that few companies make significant changes during the project, based on hard measures of results. Part of this is because of the momentum such projects create and the difficulty in changing direction. But much of this is because of poor matching of ongoing results to plans and initiation of changes based on those results. To effectively act on measurements, organizations must:

- › **Create the right mix of IT and business metrics.** Since transformations affect IT and business outcomes, you'll need to consider both. Create a scorecard evaluation that tiers your transformation priorities and creates effective measurements at each tier.

- › **Constantly adjust measurements.** In most transformations, the benefits and challenges are not fully clear until they are tangible. Re-evaluate your metrics scorecard periodically and adjust for changing business conditions and new priorities.
- › **Invest in governance.** No evaluation of a transformation project is complete without self-criticism. Evaluate how well key stakeholders (including partners) are managing the transformation program and provide continuous feedback.

Investing In The Right Level Of Partnership For Your Transformation Needs

Given the complexity of transformation, the selection of the right partner is becoming more critical than ever. In fact, over 70% of respondents in our survey indicated that their transformation partner was a critical element of success. This was true whether considering operational or innovation requirements.

It's no surprise that so many of our survey respondents and interviewees emphasized the importance of their transformation partners. The level of business risk, the application and use of new technologies, the need to apply different methods, and the technical challenges have exposed large gaps in the resources of many companies. When looking at the operations of most IT organizations, the majority of IT spending is dedicated to simply maintaining existing levels of service, leaving few resources for business transformation.

Though most companies (63%) are largely confident that they selected the right transformation partner, and did so based on a balanced set of criteria, companies recognize that the selection process is often incomplete. At a high level, we found three primary criteria for selecting providers: 1) trust; 2) completeness and capabilities in innovation; and 3) operational excellence.

TRUST IN YOUR PARTNER SETS THE FOUNDATION FOR SUCCESS

Trust in your transformation partner is the most fundamental element of the selection process. In our interviews, respondents indicated that they almost always went to their incumbent providers first. And it was no surprise that 74% of survey respondents indicated that previous history was an

important selection criterion. Clearly, organizations want — and increasingly need — to work with partners that have proven their capabilities, established key IT and business connections, and have a reputation for excellence. This is also important, since your transformation partner will bring new perspective to your business and even help manage internal conflicts. As interviewees noted:

“We started with the preferred vendor list, and we work with the vendor manager organization, supply chain, and enterprise architects to make the partner selection decision. There are of course different systems that can contribute to selection, but the point is you start with the preferred list.”

— *Director of IT, financial services company*

“Cultural alignment was huge, because of the distributed nature our environment. There was lots of protection about how we did things, so we needed an outside perspective.”

— *Director of IT, financial services company*

Yet there is a trap here — a singular commitment to legacy providers may hinder access to new partners and new ways of thinking. Though there is and will continue to be strong interest in operational excellence, our research shows that growing interest in innovation will lead many companies to look more deeply at nonincumbents. For this reason, we recommend that companies evaluate new vendors with a focus on their experience, expertise, and commitment to the specific kind of transformation you are seeking.

A COMPREHENSIVE SERVICES OFFERING PROVIDES LONG-TERM FLEXIBILITY

Given the breadth of a transformation program, it's not surprising that a partner's "end-to-end capabilities" are considered a priority by 75% of respondents (see Figure 7). These capabilities include business case development, assessment, strategy, delivery, and ongoing maintenance.

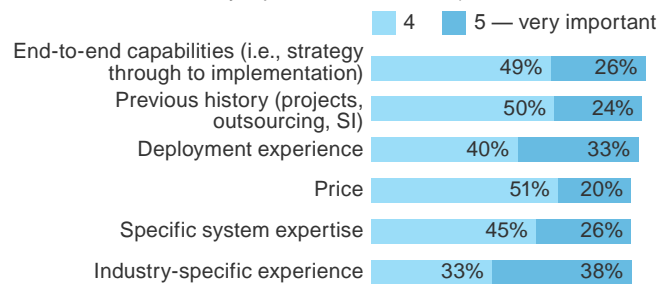
But while almost all services providers boast an "end-to-end" portfolio of services, their ability to integrate and orchestrate them in your business environment is what matters. From interviews, we found little tolerance for disparate services pulled loosely together from different parts of the services provider's organization. Rather, services must be tightly integrated so that knowledge and accountability can be sustained throughout the project (see Figure 7).

FIGURE 7
Key Partner Selection Criteria

“How important are the following to your selection of your primary business transformation partner?”

(Please rate on a scale of 1 [not at all important] to 5 [very important].)

Only top 2 boxes are shown



Base: 100 US and UK IT and business professionals (director +) with significant involvement in business transformation projects

Source: A commissioned study conducted by Forrester Consulting on behalf of TCS, May 2014

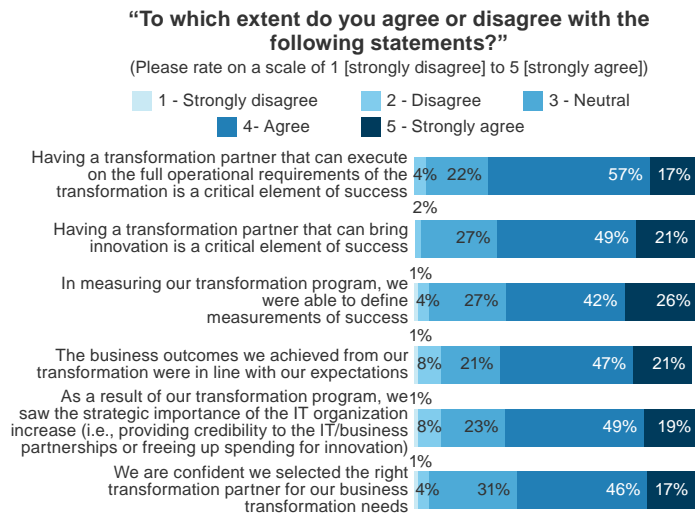
ABILITY TO CONNECT OFFERINGS ACROSS SERVICES IS A DIFFERENTIATOR

A good partner must be excellent in both operational and innovation capabilities. Seventy-four percent of respondents stated that they needed a partner to execute on the full operational requirements; 70% added one that could bring innovation.

In this regard, it's important to evaluate a company's capabilities in each area (operational improvements, business alignment, innovation, risk, etc.), while recognizing that these areas are linked. Unless your transformation program is highly focused within one application or business unit, your partner must be able to address many priorities at once and deal with the politics of finding alternatives whether they are provided in-house or through partnerships.

Finally, don't get bogged down in selection criteria. Thought leadership will attract attention and buy credibility, but it's not enough to sustain long-term success. Brand name and geographic presence are "nice to haves" but not critical to the majority of transformation leaders, who must see results (see Figure 8).

FIGURE 8
Balance Of Needed Partner Capabilities



Base: 100 US and UK IT and business professionals (director +) with significant involvement in business transformation projects

Source: A commissioned study conducted by Forrester Consulting on behalf of TCS, May 2014

Key Recommendations

We recognize that many companies starting a business transformation project often have limited resources. Therefore, it's important to focus on what's important. From an analysis of all the data, we recommend the following::

- › **Stay focused on business outcomes.** Your transformation program may have a host of process, technology, spending, and operational improvement objectives. But transformation initiatives will only be meaningful to your business leaders if they generate tangible business outcomes — significant cost savings or top-line revenue improvements. Know how your transformation initiative contributes top- and bottom-line innovation goals, even if these are relatively minor parts of your day-to-day agenda.
- › **Don't accept that organizational change is a mysterious dark art.** Too many organizations spend a lot of resources (time, money, and energy) on technology investments, but decide to “wing it” when it comes to change management. In reality, the science of organizational change has evolved significantly in the past 20 years, with many best practice frameworks for process redesign and cultural change management. Work with services partners that have proven frameworks and methodologies that systematically address the “soft” side of transformation, and plan your budget with these needs in mind.
- › **Invest in the new generation of technology.** It's not going to do you any good to invest in a multiyear transformation project if you're investing in outdated technology capabilities. If elements of social, mobile, analytics, and cloud are not part of your transformation program, you'd be well served to ask why not. While no organization wants to spend ahead of the technology adoption curve, these technologies are increasingly a mainstream part of the new technology environment. At least some of your resources should be allocated toward the technology environment of 2025.
- › **Understand that innovation without operational excellence is mediocrity.** Trying to improve customer experience through advanced analytics, without the functionality and data of your core systems, is largely a waste of time for today's large organizations. IT, in particular, needs to take on the job of improving core systems, processes, and data to support innovative initiatives. All this must be done while maintaining existing levels of service.

Appendix A: Methodology

In this study, Forrester interviewed 10 business transformation leaders and conducted an online survey of 100 US and UK decision-makers with significant involvement in business transformation projects. Survey participants included Director+ decision-makers in IT and line of business. Questions provided to the participants asked about their goals, metrics, and best practices around business transformation projects. Respondents were offered an incentive as a thank you for time spent on the survey. The study began in February 2014 and was completed in May 2014.