Overcoming the 4 Obstacles to Digital Modernization Success

Discover the key to successful digital modernization. Learn when to initiate transformation, its significance, how to set achievable goals, and navigate challenges with effective strategies to ensure a smooth transition for your organization.

MSS
Business Transformation Advisory

Unveiling the Reality of Digital Modernization

Recently, we met with a potential public sector client to discuss replacing several of their core applications. Ironically, these applications were replaced only five years ago, but there was growing organizational dissatisfaction with them. When the applications were originally implemented, the organization expected the upgrades to reduce administrative costs, increase employee satisfaction, and streamline many of the agency's processes. The internal perceptions demonstrated that the new systems had not met those expectations.

The organization had spent a lot of money and resources modernizing their technology. Still, it failed to achieve the desired outcomes, and there was significant trepidation about another replacement initiative so soon. The CIO shared his frustration and concern about repeating the same mistakes and ending up in the same unsatisfactory position after implementing a new solution. We were asked to help select a new solution and prepare them for an implementation that would produce a better long-term outcome.

This technology leader's story is like so many digital modernization stories we hear from frustrated organizations that have been sold technology's promises but have failed to achieve its benefits.

Many digital modernizations do not outright fail. Instead, they limp sub-optimally, negatively impacting the organization's performance, people, and customers.

- **Financial Costs:** Direct investments in technology range from $100,000 for small-scale implementations to over $10 million for large-scale digital transformation efforts, with indirect costs potentially adding 20-30%.

- **Opportunity Costs:** Falling behind digitally can cost businesses 20-30% of potential revenue annually, according to some industry estimates, as competitors capture market share and innovation leads.

- **Reputation Costs:** Failures in digital projects, especially those that impact customers, can damage an organization's reputation, affecting customer loyalty and the ability to attract talent by 5-10%.

Join us as we explore vital insights to help Business and Technology leaders realize the value that technology promises, conquer digital modernization obstacles, and avoid barriers to positive outcomes.

Together, we'll explore the following issues:

1. **When and Why to Digitally Modernize**

2. **The Importance of Defining Digital Modernization Success**

3. **4 Causes of Digital Modernization Failure and How to Overcome Them**

When and Why to Digitally Modernize

Technology constantly evolves. Newer systems offer better features, more capabilities, and higher performance. Upgrading core systems allows organizations to leverage the latest technical advancements. However, organizations upgrade or replace their core systems, not just to access features. They modernize to realize three business objectives and the features they empower: enable growth, increase efficiency, or reduce operational risk.

Enable Growth

As businesses expand, legacy systems can struggle with increased workloads, user demands, and data volumes. Upgrading these systems ensures they can scale and meet current and future growth needs. Upgraded systems can enable new business models, improve customer interactions, and streamline operations. Modern systems offer better user experiences. This is particularly important as so many users of new systems are employees rather than customers. These systems are designed with user-centric approaches, more intuitive navigation, and improved user interfaces.

Modern systems provide advanced analytics and reporting capabilities. These features offer organizations deeper insights into their operations and enable more informed decisions. Organizations merging or acquiring other companies must often integrate their systems and processes. Upgraded or replaced core systems can smooth this integration process.

Increase Efficiency

Newer systems provide better compatibility and enable more straightforward integration with other systems. This allows organizations to automate workflows between systems and increase efficiencies immensely. Legacy systems, on the other hand, can be expensive and difficult to maintain and support over time. Costs associated with fixing bugs, addressing compatibility issues, and hiring specialized expertise for outdated technologies can be substantial. Upgrading can reduce maintenance costs. Replacing core systems presents an opportunity to revisit and optimize existing business processes to gain efficiency, reduce bottlenecks, and streamline workflows.

Reduce Operational Risk

Older systems may have vulnerabilities that expose the organization to security risks. Newer systems come with enhanced security features and better compliance features that protect sensitive data and reduce the risk of breaches. Changes in industry regulations or compliance requirements also necessitate updates to core systems to ensure the organization remains in adherence.

Thanks to the latest technology, organizations are diving into digital modernization to grow, become more efficient, and lower risks. Let's take a look at why it is essential to clearly define digital modernization success.

The Importance of Defining Digital Modernization Success

Digital modernization refers to adopting new digital tools, technologies, and infrastructure to enhance existing operations' efficiency, scalability, and performance. It often involves replacing outdated systems, automating manual tasks, and integrating digital tools into existing workflows. The term is frequently used interchangeably with "transformation." However, we make a distinction because each has different goals and success measures.

Digital modernization is a narrower, tactical approach that optimizes existing systems and processes. In contrast, digital transformation is a broader, strategic shift to reimagine the entire organization and its business model. The four key characteristics of digital modernization include:

1 Incremental Change

Digital modernization is typically a gradual process involving incremental improvements to existing systems and processes.

2 Focus on Optimization

The main objective of digital modernization is to improve efficiency, reduce costs, and enhance performance.

4 Tactical Approach

Digital modernization is often driven by specific business needs and focuses on solving immediate problems or bottlenecks.

3 Use of Existing Infrastructure

Digital modernization works within the existing technological infrastructure and builds upon it.

The Importance of Defining Digital Modernization Success

As these drivers show, the primary goal of any modernization effort is to **Improve Results.** "Improved Results" means positively impacting the organization's operations and delivering value to internal and external stakeholders. Therefore, success is measured by the positive change it brings to the organization's performance in areas such as:

- **Productivity:** Empowering employees with tools that amplify their capabilities, leading to heightened productivity and greater output.

- **Innovation:** Fostering innovation by enabling creative problem-solving and continuous improvement.

- **Efficiency:** Streamlining processes and workflows reduces bottlenecks and increases overall efficiency.

- **Quality:** Eliminating waste in processes and implementing value-added activities.

- **Scalability:** Ensuring that processes, systems, or functions can handle more work as they adapt to new and creative ideas, functions, and resources.

- **Customer Experience:** Enhancing the customer journey through seamless interactions, personalized services, and faster response times.

- **Adaptability:** Building a digital infrastructure that can adapt to evolving business landscapes and technological advancements.

- **Business KPIs**: Tracking real-time metrics that drive the bottom line and the business.

SUCCESS = IMPROVED OUTCOMES

Replacing or upgrading systems is more than merely a technical exercise to be completed on time and within budget. It is an opportunity to innovate and incrementally elevate the organization's overall success. From our perspective, modernization can only be called a success if it improves the outcomes that informed the business to undertake it in the first place.

The Importance of Defining Digital Modernization Success

Why Improved Results is the Key Success Measure

Technology is not an end but a means to achieve strategic objectives. "Improved Results" is more than a metric; it is a guiding principle that ensures every technological decision aligns with the organization's overarching goal of competitiveness. A focus on "Improved Results" delivers several key outcomes that strengthen the entire organization:

Strategic Alignment

Linking modernization efforts directly to organizational goals ensures that every technological upgrade contributes to the bigger picture.

Sustainable Impact

Rather than pursuing fleeting technological trends, focusing on results ensures that the changes implemented have a lasting and meaningful impact on the organization.

Adaptability and Growth

A results-oriented approach ensures the organization remains agile, capable of adapting to change, and positioned for sustained growth.

Stakeholder Satisfaction

Whether employees, customers, or partners, prioritizing improved results enhances satisfaction across the board, fostering a positive and collaborative environment.

In other words, success is defined by the desired outcome that drove modernization in the first place. If the organization is not fundamentally better at the end of the modernization, was the juice worth the squeeze? By understanding what "Improved Results" means and making it the ultimate success measure, an organization can use digital modernization not just as an upgrading of digital tools but as a catalyst for success.

In our experience, organizations fail to achieve improved results for several critical reasons. Let's look at 4 major areas that get in the way of achieving improved results and how to overcome them.

4 Causes of Digital Modernization Failure and How to Overcome Them

1. Overemphasis on the technology itself

Striking the Balance: People, Processes, and Technology in Digital Modernization
Organizations often overemphasize the implementation of the technology. That is, they disproportionally focus on "turning on the software." Several factors contribute to this overemphasis on the technology and simply launching it "on time and on budget."

First, this imbalance occurs in the initial stages of digital modernization if organizations lack a clear transformation roadmap that provides a "North Star" that directs strategic and tactical decisions.

Second, the promise of a technological panacea may entice organizations to choose platforms without fully understanding their genuine issues and the organization's capacity to utilize a given functionality.

Third, external pressures, such as competition or market trends, can rush a decision toward a technology purchase without consideration for the holistic impact on the organization.

Fourth, the complexity of modern technology often leads organizations to rely heavily on systems integrators to manage the modernization process. While these integrators play a crucial role, the overreliance on them can result in technical bias, a tactical perspective, and a limited understanding of all dimensions of the modernization journey.

Finally, organizations are either unaware of the importance of or underestimate the impact of realigning processes to exploit new technical functionality and prepare people to adopt the new system.

People — Are people adequately trained for the new technology?

Process — Are processes adapted to exploit the new technology?

Technology — Is there too much focus on the technology at the expense of people and process?

When an organization leans too heavily on technology implementation, the human and procedural elements of the transformation suffer. People are not adequately prepared for the changes, processes remain outdated or sub-optimized for new technical capabilities, and the promised organizational benefits fall short. The costs of overemphasizing technology implementation are multifaceted. Employee dissatisfaction and resistance can lead to decreased productivity, increased turnover, and a negative impact on the overall workplace culture. Poorly aligned processes may result in inefficiencies, bottlenecks, and missed opportunities for optimization. Financially, organizations may be over budget and off schedule, with a significant gap between expected and realized outcomes.
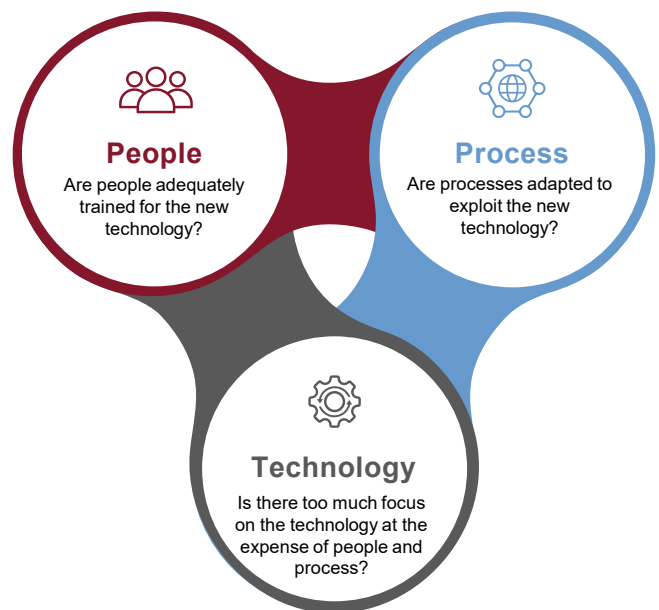
2. Lack of digital modernization experience, a proven implementation methodology, and execution discipline

Navigating the Challenges: Building Capacity for Successful Digital Modernization
The second reason many digital modernizations fail is that organizations lack digital modernization experience, a proven methodology, and execution discipline to drive these complex projects to success.

We do not say this to disparage the operating capability of any given leader or organization. Organizations must focus on achieving their core purpose, which for most organizations is not digital modernization.

Why would an organization want to develop, perfect, and maintain an expensive and infrequently used capability?

Modernization initiatives are complex, expensive, and critical to the organization's success. To succeed, organizations need a team that has dealt with and successfully addressed the various barriers, issues, and risks that will inevitably arise during digital modernization. Without an experienced team, it will fail to promptly identify and address risks and issues, spend too much time focused on low-priority tasks, and lose focus on the desired outcomes of the initiative.

Even the most experienced resources need a proven process to deliver improved results consistently. The process should holistically manage the steps to implement the new solution from beginning to end and provide guidelines to respond to the organization's unique needs and circumstances. Without structured processes and validated methodologies, execution is disjointed and undisciplined, and the likelihood of achieving the desired goal decreases.

What Happens Without Experience, Methodology, and Discipline

Project Delays and Failures: Project delays can lead to cost overruns of 10-20% above initial budgets for small to medium projects. This could escalate to millions of dollars for larger initiatives as timelines extend.

Budget Overruns: Without a disciplined approach, a digital transformation project that initially budgets $500,000 could see overruns pushing costs to $600,000-$700,000 due to scope creep and unforeseen challenges.

Choosing the Right Technologies: The cost of selecting a non-optimal technology platform could result in an additional 15-25% in adaptation and customization expenses, turning a $1 million investment into a $1.15-$1.25 million expenditure.
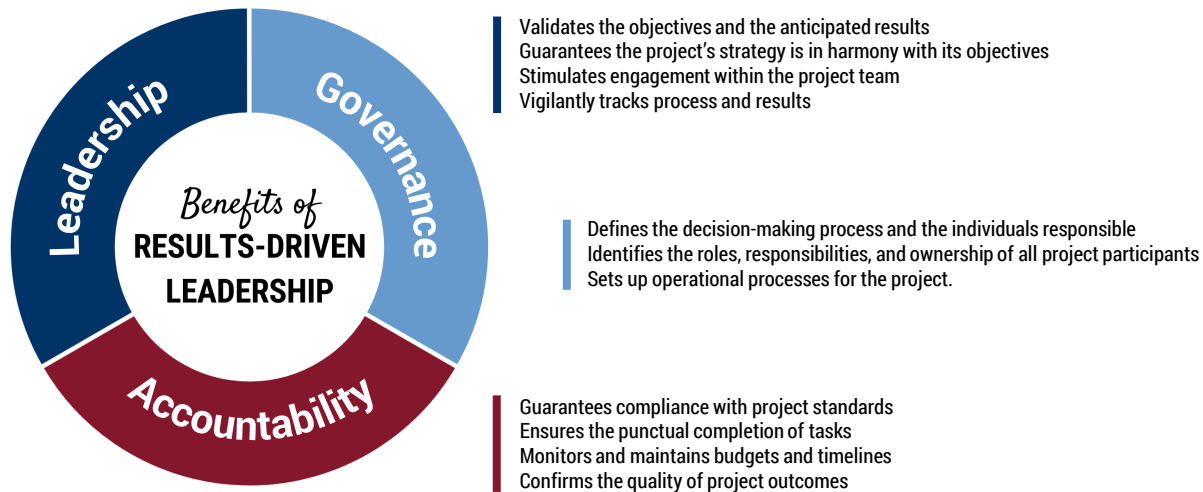
Resistance to Change: Inadequate change management can lead to a 10-15% decrease in employee productivity, which, for a company with a payroll of $10 million, could translate to a $1-1.5 million impact annually.

Data and Security: A data breach could cost an organization an average of $3.86 million, as per the 2020 IBM Cost of a Data Breach Report, highlighting the importance of investment in security measures.

4 Causes of Digital Modernization Failure and How to Overcome Them

How to overcome the issue? Use a Results-driven Leadership Approach

The solution to this issue is a results-driven leader who manages a straightforward, tested approach and oversees its disciplined execution. This involves significantly more than a project manager who identifies and tracks a list of tasks. It involves three interrelated disciplines that we call *Leadership, Governance, and Accountability*.

Validates the objectives and the anticipated results
Guarantees the project's strategy is in harmony with its objectives
Stimulates engagement within the project team
Vigilantly tracks process and results

Defines the decision-making process and the individuals responsible
Identifies the roles, responsibilities, and ownership of all project participants
Sets up operational processes for the project.

Guarantees compliance with project standards
Ensures the punctual completion of tasks
Monitors and maintains budgets and timelines
Confirms the quality of project outcomes

Leadership

A digital modernization leader (DML) is pivotal in steering an organization through digital transformation. Digital modernization leadership transcends traditional project management roles. In addition to demonstrating essential leadership qualities like integrity, decisiveness, adaptability, and empathy, DMLs foster a culture of innovation, encourage risk-taking, support the executive sponsor, and communicate the journey's significance to all stakeholders. DMLs serve as cross-functional change catalysts who guide the entire organization through the challenges of modernization. Without this capability, projects quickly veer off course, and costly mistakes and delays pile up.

DMLs focus on the big picture, drive others toward the ultimate business goal, embody the benefits of change, and provide clear, consistent direction. Chaos reigns if an organization does not fill this indispensable role, overestimates a leader's abilities, or underestimates the challenges associated with the modernization effort.

First, the organization will lack alignment. Users, project contributors, functional leaders, and vendors will be on different pages and moving in competing directions. Second, people rarely welcome change. Users will fight to maintain the status quo or derail the necessary changes when a leader does not account for this. Adoption suffers as a result. Third, the organization may lose sight of the desired business outcome. Instead of improving business outcomes, the project becomes a futile exercise of micromanaging minutiae and checking boxes. This tediousness impedes individual work, demotivates people, and causes everyone to lose sight of the end goal. Ultimately, the project fails to meet intended objectives, and the organization squanders critical time and resources.

4 Causes of Digital Modernization Failure and How to Overcome Them

Governance

If Leadership provides the energy and direction for change, Governance provides the structure and oversight necessary to align digital initiatives with the broader business strategy. Digital modernization is not a generic, one-size-fits-all project management process. It requires a deep understanding of emerging technologies and evolving best practices. It demands a tailored approach considering an organization's unique needs, existing infrastructure, and long-term goals. Governance ensures everyone understands the roles and responsibilities required for a successful digital modernization, funds each role appropriately, and fills those roles with proven resources.

Governance aligns digital investments and organizational goals, mitigates risks, and allocates resources efficiently. Well-defined governance frameworks establish clear goals, roles, responsibilities, and decision-making processes. A robust governance framework will drive employee and stakeholder engagement, prompt decision-making, and a continued focus on outcomes instead of tasks. Poor Governance leads to increased costs, wasted time, and a less successful modernization.

Accountability

Finally, Accountability is the linchpin that holds the entire process together. Every stakeholder, from leadership to frontline employees to software vendors to consultants, must be accountable for their roles in the modernization journey. Each person must be able to support the initiative's overall goal.

Even with the right team and methodology, projects can stall without strict execution, discipline, and accountability. The DM leader must have the ability and authority to hold all players accountable. This is typically where a third party has an advantage over an internal employee. A third party in a digital modernization leadership role has the authority, battle hardiness, and soft skills required to have difficult discussions with all stakeholders (from senior leadership to employees to vendors) that organizational norms make more challenging for an internal leader. The bottom line is that no matter how good the planning and governance are, no DM initiative can be successful if all parties are not held accountable for their performance.

Digital modernization is a complex and multifaceted responsibility. It involves collaboration across diverse levels, departments, and vendors. Who is the right "leader"? There isn't a one-size-fits-all answer. While the DM Executive Sponsor holds ultimate accountability for the DM initiative, choosing the right day-to-day results-based DML is mission-critical. The right DML needs to have the time, capability, and experience required to drive the day-to-day performance of the initiative. Without this crucial role, digital modernization will fail. Combining a solid methodology with experienced people positions the organization for a successful digital modernization.

3. End users are not adequately prepared for deployment

Ensuring Digital Modernization Success: The Critical Role of Change Management
Numerous modernization projects fail due to insufficient preparation of end users for the new systems and processes.

While modernization goals are ambitious and admirable, they often neglect the people who interact with these new systems daily—the end users. The failure to adequately prepare and engage these individuals can lead to resistance, inefficiency, and confusion, which sabotages the intended benefits of modernization efforts.

People are naturally resistant to change. When new technologies are introduced without proper preparation and communication, employees may become apprehensive or even resistant to using them, hindering the project's success. Inadequate training or support can leave end users feeling overwhelmed or ill-equipped to navigate the new digital landscape. This lack of proficiency can lead to errors, inefficiencies, and frustration. If modernization goals are not communicated to end users, they fail to understand the purpose and potential benefits of the new technology, which leads to organizational misalignment and employee disengagement.

Change management is a structured approach encompassing strategies and tools that prepare, equip, and support employees to adapt to the forthcoming changes. Core components of effective change management include:

- **Change Readiness**: Assessing an organization's change readiness is crucial in the change management process. This involves understanding the current culture, identifying potential resistance points, and developing strategies to address them. Organizations can tailor their change management approach to fit their workforce's unique needs and challenges by gauging readiness.

- **Communication**: Clear and consistent communication is the cornerstone of any change management strategy. Organizations should proactively share the modernization project's vision, goals, and progress with all stakeholders, emphasizing the benefits it will bring. Open communication channels enable employees to express concerns and ask questions, fostering a sense of transparency and trust.

- **Training**: Adequate training ensures end users have the skills and knowledge to work effectively with the new systems and processes. Training programs should be tailored to meet the specific needs of different user groups, offering hands-on experience and ample opportunities for practice. The training should be focused on end-to-end processes, not just system interactions. Continuous learning and support should be readily available to address ongoing challenges.

The Importance of Change Management
Organizations often think of change management as "training" on the features and functionality of new technology. As a result, it is usually seen as a "task" in the project plan or a dispensable line item in a budget. Change management is much more than training and is critical in the "people readiness" required for delivering improved outcomes. Proper change management drives and amplifies improved results, such as increasing adoption, reducing resistance, enhancing productivity, improving morale, and augmenting ROI.

4. Current processes are not adapted to exploit the new technology

Aligning for Efficiency and Success: The Intersection of Technology and Business Processes
As technology continues to evolve, so must business processes. Most businesses don't realize how out-of-date their processes have grown and mistakenly adapt the technology to fit old processes instead of the other way around. As a result, misaligned and inefficient processes deliver sub-optimal performance. Unfortunately, organizations learn how inefficient they are when they lag behind their industry, customers depart because of mediocre quality, and frustrations cause employee morale and performance to dip.

Common visible symptoms of weak or misaligned processes include:

- Longer development time, higher costs, less scalability, and difficulty maintaining superfluous custom coding to meet specific requirements rather than using pre-existing solutions

- Continuation of inefficient manual processes that could be automated

- Duplicated effort, wasted time, and missed opportunities due to lack of collaboration between departments

- Poor reporting due to inaccurate or timely data about the processes

- Outdated technology that is no longer up to the task

- Inefficient workflows leading to bottlenecks

- Inconsistency, errors, and wasted time from a lack of standard processes

Organizations married to the past customize modern software to retrofit the processes. This leads to unnecessary development time, increased maintenance costs, and software instability at each update. Businesses must adapt core and support processes to meet evolving market demands, technological advancements, and changing business conditions. Failing to adapt to innovative technologies can have significant costs and repercussions for organizations, from lower productivity to higher operational costs and the loss of competitive advantage.

While leadership is ultimately responsible for driving strategic decision-making and ensuring the organization is well-positioned for overall success, process improvement is a team sport. Process owners responsible for specific processes must constantly ensure that those processes are efficient and effective. The IT department is responsible for evaluating, implementing, and maintaining new technologies and supporting their adoption. All employees within an organization play a role in using and adapting to innovative technologies. Their willingness to embrace change and learn new skills is essential for successful technology adoption. Finally, technology vendors have a role in educating organizations about the benefits of their platforms and helping them implement innovative technologies successfully.

Overcome the Issue: Adapt current processes to exploit the new software

Adapting innovative technologies to existing processes presents various challenges, but overcoming them is crucial for organizations to remain competitive and efficient. The following steps are recommended to align processes during digital modernization.

Identify

Developing a strategic vision for adapting to current processes involves:

- Setting clear goals and objectives

- Identifying key areas where new processes can enhance performance

- Fostering a culture of collaboration and communication

Addressing concerns and resistance to change proactively, along with gathering feedback from users and stakeholders, is key to identifying issues and areas for improvement and ensuring that the adaptation to current processes aligns with the organization's overall strategic goals.

Optimize

Optimizing the adaptation of current processes to exploit new software involves providing comprehensive training and support to employees, fostering their adaptation and confidence in utilizing the latest tools within existing workflows. Celebrating successes and milestones helps maintain enthusiasm and momentum for the transition. Implementing a clear governance framework that defines roles, responsibilities, and processes for evaluating and selecting software ensures alignment with organizational goals. Establishing clear metrics and KPIs enables tracking progress and measuring the success of the software implementation. Choosing software that integrates smoothly with existing systems and processes provides coherence and efficiency within the overall technological ecosystem while allowing current operations to evolve and exploit new capabilities.

Sustain

Adapting current processes using new technology requires continuous review and assessment to pinpoint opportunities for improvement, adequate budgeting, resource allocation, and upgrading infrastructure to ensure compatibility with the new technologies. Partnering with technology vendors enhances support and expertise while standardizing data formats ensures effective communication between existing processes and new systems. Initiating pilot projects allows testing and refining how the new technologies integrate with current processes in a controlled setting. Cultivating a culture of continuous learning and experimentation, alongside implementing strong cybersecurity measures, safeguards against threats and fosters adaptability of current operations. Regular monitoring of critical metrics and KPIs and leveraging insights from professional communities ensure ongoing improvement and alignment with best practices in adapting current processes to exploit new technologies.

Conclusion

The journey to digital modernization is fraught with obstacles, yet it also offers substantial opportunities for organizations to excel. The narrative shared by the frustrated CIO highlights a typical scenario where technological promises fall short of expectations, leading to significant financial, opportunity, and reputation costs. However, organizations can navigate these obstacles by understanding the importance of "Improved Results" as the ultimate measure of success.

We examined the critical characteristics of digital modernization, beginning with the importance of updating fundamental systems to foster growth, enhance operational efficiency, and minimize risks. Four principal traits of digital modernization were highlighted: its incremental nature, focus on optimization, tactical approach, and the foundational role of infrastructure development. It also reinforced the idea that the accurate marker of success in digital modernization efforts is the achievement of improved results across various organizational dimensions.

We suggest there are four primary obstacles to achieving these improved results in digital modernization efforts: a misalignment in prioritizing people, processes, and technology; a deficiency in experience, methodology, and execution discipline; insufficient readiness among end-users for deployment; and the failure to adjust existing processes to leverage new technologies effectively. From an examination of each challenge and proposed strategies for addressing them, we highlighted the crucial functions of leadership, governance, accountability, and change management.

As organizations advance with their digital modernization initiatives, it is vital to acknowledge that technology, in isolation, fails to ensure success. Instead, success is defined by realizing the objectives that initially motivated the modernization effort. Organizations can skillfully navigate the intricacies of digital modernization by emphasizing "Improved Results" and adhering to a strategic, disciplined approach underpinned by knowledgeable leadership, strong governance, and efficient change management. This approach positions them to become more robust, efficient, and competitive. Through persistent adaptation, collaboration, and an unwavering commitment to excellence, organizations can fully exploit modern technology's capabilities to foster innovation, boost productivity, and deliver exceptional value to all stakeholders.

MSS Business Transformation Advisory (MSSBTA) is a Phoenix-based management consulting firm. We guide businesses and public sector organizations to successful digital modernizations that improve organizational performance.

MSSBTA acts as a strategic consulting partner to align people, processes, and technology with evolving business demands. Our consultants have an average of 15+ years of experience. By combining our unique *Leadership, Governance, and Accountability Model* with partner tools, we ensure cohesive collaboration among stakeholders that achieves tangible results.

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