



Transformation delivery

Getting digital transformation right



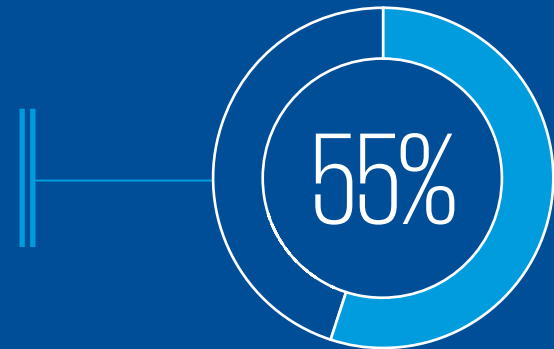
Delivering on the promise of digital transformation

Big, evolutionary change sometimes happens quickly. When the COVID-19 pandemic struck, the world screeched to a halt—then briskly shifted gears and embraced new digital ways of working, shopping, schooling and socializing.

This massive overnight transformation, jarring and challenging, set new standards for how organizations must think about digital transformation moving forward. Old ways and old speeds will no longer work. Customers won't accept it and competition won't allow it. In an April 2021 survey by Forrester Consulting,

55% of executives involved with digital transformation strategy decisions said the pandemic had already accelerated digitization and the creation of a next-generation operating model at their organization

—including 20% who said their efforts had accelerated sharply, putting them years ahead of where they had expected to be.



Delivering on the promise *continued*

While demands for rapid change arose suddenly in the wake of the pandemic, it was nonetheless in some ways merely the culmination of trends that had been forming over the past two decades. As new technologies and digitally enabled business models disrupted industry after industry, organizations began to see that gradual transformation could leave them at risk of falling dangerously behind. At the same time, transformation initiatives were increasingly ceasing to be largely discrete and disconnected events—an upgrade to an enterprise resource planning (ERP) system here, the application of machine learning to a problem there—and instead had begun morphing into a continuous and evolutionary series of projects. The net result is that to maximize outcomes and minimize potential disruptions to ongoing operations, businesses today need an efficient, effective, and holistic way to deliver on an ongoing digital transformation agenda. To truly deliver on its promise, transformation must become less a task and more a component of their DNA—a regular part of doing business and a core competency of the enterprise. In the Forrester survey,

58% of executives now describe their organization’s digital transformation efforts as part of a defined longer-term digital strategy, while only 29% characterize it as a tactical response to the current environment.

As businesses embark more fully on this new approach, the transformation journey itself must be squarely focused on outcomes because what companies need can vary significantly from one organization to the next—even when undertaking seemingly similar projects. Consider two companies, each consolidating their information systems. One is doing so with the goal of preparing itself for sale—simplifying operations, lowering costs, quickly enhancing the bottom line. For it, transforming at the lowest possible cost will be top of mind. The other organization might be consolidating information systems in preparation for entering new markets. It will be concerned less about costs and more about making sure its workforce understands and buys into the changes being made. Similarly, one company engaged in a transformation initiative may simply want to collect low-hanging fruit, while another may want to wring every possible improvement from the undertaking—impacting how, and at what cost, the project proceeds. The point is, each organization must architect its transformation initiatives to achieve the very specific outcomes unique to its circumstances. ●



Challenges

Delivering on all these objectives is easier said than done. While the challenges are numerous, they tend to cluster in four key areas: culture, vision, organizational readiness and governance.



Culture

For all the sophisticated technology employed by contemporary organizations, it's still people who determine a business's success. They set the agenda, acquire the technology, implement the systems, steer the ship. But at many organizations, people are discouraged from making the quick decisions required in a fluid, changing environment—the result of a corporate culture that makes fear of failure more powerful than enthusiasm for risk-taking. Indeed, where transformation initiatives fail, it's often due less to a lack of tools, templates or processes and more to a culture that resists change. Moving forward, a faster pace of decision-making, buttressed by the knowledge that failure within limits is acceptable, must become the norm. (At the most successful companies, it already is.) Compounding the challenge is the recent shift to a distributed workforce model in which many employees now work remotely all or part of the time. While companies have learned over the past 18 months how to keep remote employees connected, they must continue to refine the technologies and processes used to facilitate communication and collaboration—and decision-making.



Vision

Many companies don't develop a clear business purpose for their transformation initiatives, don't sufficiently tie those initiatives to their business strategy or don't think hard enough about how the initiatives will impact all of the employees touched by them. Equally worrisome, some neglect to fully consider how digital transformations, especially those focused on internal operations, may impact the customer. Successful transformation initiatives require participation from people in all parts of the business who can weigh in on the many ways it may impact employees, customers and operations. That can happen most easily in what KPMG calls a connected enterprise—an enterprise where front, middle and back offices are aligned; where the organization is tightly connected with its customers, employees and business partners; and where the organization is able to respond quickly to market signals and pivot to new opportunities as they arise. While digital transformation efforts to date have been skewed toward front-end operations closest to the customer, the executives surveyed by Forrester indicate that they expect to begin focusing more resources on middle- and back-office operations moving forward, too.



Organizational readiness

With technology changing so quickly, and demand for experts in artificial intelligence and data science far exceeding supply, it's hard for many organizations to keep pace. Where they can't meet their needs internally, companies must learn to partner efficiently with third parties who can fill in the gaps.



Governance

While many companies have seen that digital transformation has segued from a sequence of discrete projects to an ongoing series of projects, they haven't always adopted the structures and processes needed to effectively oversee this new, continuous transformation agenda. That's created real demand for dedicated teams that can lead the way forward and monitor and measure results, both to ensure that value is being realized and to inform future transformation activities.

A deeper dive:

What organizations can do to succeed

Making digital transformation a core competency is a big, broad-based undertaking. In addition to adopting a laser focus on outcomes and building the systems and policies needed to nurture a distributed workforce, organizations can better position themselves to deliver on transformation's promise by taking the following steps:



① Install a chief transformation officer and/or create a transformation management office (TMO)

For many organizations—especially larger ones—making transformation a core competency will begin with naming a chief transformation officer and/or establishing a TMO to oversee the transformation agenda. This office can put in place tools, templates, technology, principles and frameworks to facilitate transformational change. It can create standards for new initiatives, monitor the implementation and use of those standards, communicate about initiatives to the rest of the organization and, by virtue of its oversight of all transformation programs, work to minimize conflicts and disruptions.

② Appoint four “architects” for each transformation initiative

Digital transformation initiatives are often too complex—and too important—to put on one person's shoulders. To make the process more manageable and thorough, the transformation office will want to assign four architects to each major transformation initiative: a business architect with deep ties to the C-suite who can speak for the business and its needs, a technical architect with sophisticated IT knowledge to guide the selection and implementation of new technologies, a people architect to oversee the change management effort particular to a given project and a transformation architect skilled in all facets of digital transformation. These architects will support the four pillars of a successful transformation strategy: the business, technology (IT), people and transformation portfolio management.

③ Drive cultural change

Getting the culture right is important to any transformation initiative. The goal is to encourage faster and broader acceptance of the transformation agenda, in part by delegating authority and empowering people to make decisions. Some of this can be accomplished by creating a test-and-learn and “fail fast” mentality in which leaders and line employees alike understand that it's OK to take risks and fail, within guidelines of course, recognizing that we learn from failure as well as from success. This attitude must be modeled from the very top of the organization.

A deeper dive *continued*

◎ **Prioritize initiatives based on their capability to deliver value**

Transformations can consume significant amounts of time and money. To spend wisely and realize maximum value, companies will want to prioritize initiatives in line with the degree to which they are capable of delivering value to stakeholders. At a high level, initiatives should be assigned to one of three categories: “lead the market” (provide key differentiators that can drive growth), “compete” (industry- or geographic-specific capabilities that must be done to keep pace with competitors) or “execute” (basic, industry-agnostic capabilities that keep the business operating and are standardized to drive efficiency).

◎ **Employ human-centered design thinking**

Because most transformation initiatives are utterly dependent on buy-in and cooperation from employees—not to mention a favorable reception from customers—human-centered design thinking can go a long way toward contributing to success. At a high level, human-centered design thinking is an approach to problem solving that considers the user at every step of the problem-solving process, with the goal of making systems both usable and useful. Organizations can leverage human-centered design thinking to better understand the journey of the people directly impacted by a transformation initiative and to prioritize the usability of new systems.

◎ **Deliver value continuously and incrementally**

Assess each iteration of a transformation initiative along the way and continually improve it. Stakeholders no longer look favorably on multiyear initiatives that don’t deliver value until the very end. Here again, part of the goal is to create and embrace a test-and-learn mentality. But another is simply to keep transformation initiatives moving. When projects stall, whether due to mismanagement, technical shortcomings or cultural hurdles, it can be extraordinarily expensive.

◎ **Find appropriate ways to measure the value of transformation initiatives and validate outcomes**

The right metrics may go beyond purely financial benefits to include environmental, social and governance components, or “people” factors like improvements to the work environment. Companies should seek to understand and document outcomes based on the value metrics established at the outset of projects. Validating favorable outcomes will make it easier to win support for future transformation initiatives, while validating unfavorable outcomes will help to inform decisions about new undertakings. In the Forrester survey, executives judged every metric used to measure digital transformation investments as being more important today than prior to the pandemic, from growth-oriented metrics like revenue growth and market share to efficiency metrics like cost-to-acquire and cost-to-serve per customer. ●

On the case

**How KPMG has helped
three clients get their
transformations right**



Global energy giant leans on KPMG to help drive massive ERP transformation

One of the world's largest energy exploration and production companies struggled with an obsolescing ERP platform that was unnecessarily complex and overly customized. A recent series of acquisitions and divestitures only highlighted the challenges that maintaining this unwieldy platform would present as the company began separating and integrating new employees and IT applications. In response, the company opted to undertake a large-scale transformation program that would include implementation of a next-generation ERP platform worldwide, along with the standardization and optimization of its global operating model. Given the scale, cost, complexity and importance of the initiative, it turned to KPMG for help.

Building on its transformation delivery and deep industry experience, KPMG helped drive delivery of the client's objectives beginning in 2019. Over the course of the next two and a half years, KPMG led the way in developing an integrated target operating model spanning the client's global business units and functions, and guided the selection of the company's next-generation ERP system. KPMG also assisted with establishing enterprise-wide data standards, identifying and addressing data gaps, implementing guiding principles for change management and program culture, structuring the implementation plan and establishing a governance structure for the transformation initiative. When the COVID-19

pandemic struck, KPMG proactively adjusted the program's scope, schedule and resourcing to help the client manage through the turmoil, allowing the initiative to continue. By the fall of 2021, KPMG had, among other things, identified 334 options for data cleanup and standardization, built out level 3 process decompositions to define next-generation ERP capabilities, conducted fixed-versus-float assessments for company processes, developed mitigation plans for more than 50 strategic risks related to the new ERP platform, developed centers of excellence to provide leading practices and encourage standardization for future ERP integrations and implemented quarterly improvement recommendations to boost team performance.

KPMG worked with the company to prepare for the execution phase of the ERP transformation and the launch of a new Enterprise Performance Management system. Having made great strides with its transformation initiative to date, the company is now looking forward to the successful launch of additional components of its ERP system in 2022 and beyond.



How a science and technology company transformed its global HR organization

A science and technology company realized that it needed to radically transform its existing human resources management system to better support its employees around the world. Working with KPMG, it undertook a transformation that would bring in new technology while also standardizing processes, performance metrics and career paths across a number of integrated systems.

On the technology front, a key part of the transformation would involve transitioning from an on-premises to a cloud-based human resources ERP system. The company knew this move would have an immediate and substantial impact on its HR organization and its people. It would require a redesign of HR processes and changes in the behaviors of both employees and business leaders.

As an impartial adviser, KPMG helped the client assess and select cloud providers and then accelerated the transition to the cloud while simultaneously reducing risk and delivering certainty of outcomes for a faster return on investment. The client succeeded in adopting a single, cloud-based global HR platform complemented by consistent processes and performance metrics. Thanks to this transformation initiative, the company is now able to deliver a customized employee experience designed to attract and retain high performers and accelerate growth. It can provide a wider range of job opportunities through career pathing and deliver improved visibility into workforce data and analytics for business leaders and managers. And it has reduced costs by centralizing functions and utilizing more self-service technologies within its HR platform.

Nonprofit employs KPMG Connected Enterprise framework to better serve members

A global nonprofit wished to become an indispensable career development partner to its members and a model of the “professional association of the future.” It turned to KPMG and the Connected Enterprise framework we have developed to turn its vision into a customer-centric reality.

The association was keenly aware of the market’s growing appetite for on-demand, easy-to-use digital experiences for a diverse set of professional certifications, learnings and networking opportunities. It also knew there were high-growth membership opportunities in less-penetrated markets. And it knew it faced challenges to gaining market share from personal and professional “transformation” competitors, and that it would need to implement an ambitious new strategy requiring tight coordination if it was going to realize its goals.

KPMG designed and built a member-centric operating model for the association covering all eight dimensions of the KPMG Connected Enterprise framework: customer strategy, experience centrality, supply chain, partner/vendor management, data and analytics, technology architecture, seamless commerce, and organizational alignment. Utilizing the Connected Enterprise’s prebuilt diagnostics,

tools and roadmaps, we were able to quickly establish a foundational blueprint for an expanded portfolio of client service offerings tailored by customer segment, focused on career inflection points and delivered on demand. We also used our execution methodology and tools, such as Powered Finance, to accelerate the modernization of the client’s back office. Powered Finance uses automation, predictive analytics and cognitive learning to extend and enhance the capabilities of the finance function and derive more value from data.

Today, the association boasts industry-leading, customer-centric practices and metrics, benchmarks and dashboards that allow it to evaluate current performance and guide future strategy. It is able to offer more personalized digital engagement for its members across all of its channels and partners, and provide them with a seamless shopping experience that includes international storefronts with local currency acceptance. The association is well on its way to becoming the “professional association of the future” and an indispensable partner to its members.



Begin your journey:

Leveraging the KPMG difference

Digital transformation isn't a passing phenomenon that disrupted the business world as it segued into the current millennium. It will continue to reshape the way people work, shop, learn and socialize, demanding ever-greater technical competency and agility from companies that want to win their business.



Organizations can jump-start their transformation strategy with our help.

Over the past decade, KPMG has increased its capabilities for delivering on both large transformation programs and evolutionary and ongoing digital transformation strategies. Indeed, we've leveraged those capabilities for our own large-scale business transformations, including a digital overhaul of our firmwide IT services and an end-to-end HR transformation.

Early in your process, we can apply our six-step Strategic Capability Management framework to help you prioritize investments in capabilities in accordance with their ability to deliver value for stakeholders—and their place on the lead the market, compete and execute continuum.

Strategic capability management provides a framework for decision-making by assigning capabilities into three categories, which allows clients to rank capabilities relative to one another, based on a set of objective and measurable criteria.



Lead

Invest for growth

Lead the market. Distinctive strengths and assets that directly drive value. Invest in areas which are key differentiators and where we believe we are leaders.

Ex: Talent Management, Customer Experience, Product Development



Compete

Align and maintain

Stay competitive. Industry- or geography-specific capabilities that must be done in order to stay in alignment with competitors. We must do them well to keep pace.

Ex: Transactional Procurement, Revenue Accounting, Regulatory Reporting



Execute

Maximize efficiency

Build the foundation. Basic, industry-agnostic capabilities that "keep the lights on" and the business operating. We standardize them to drive efficiency.

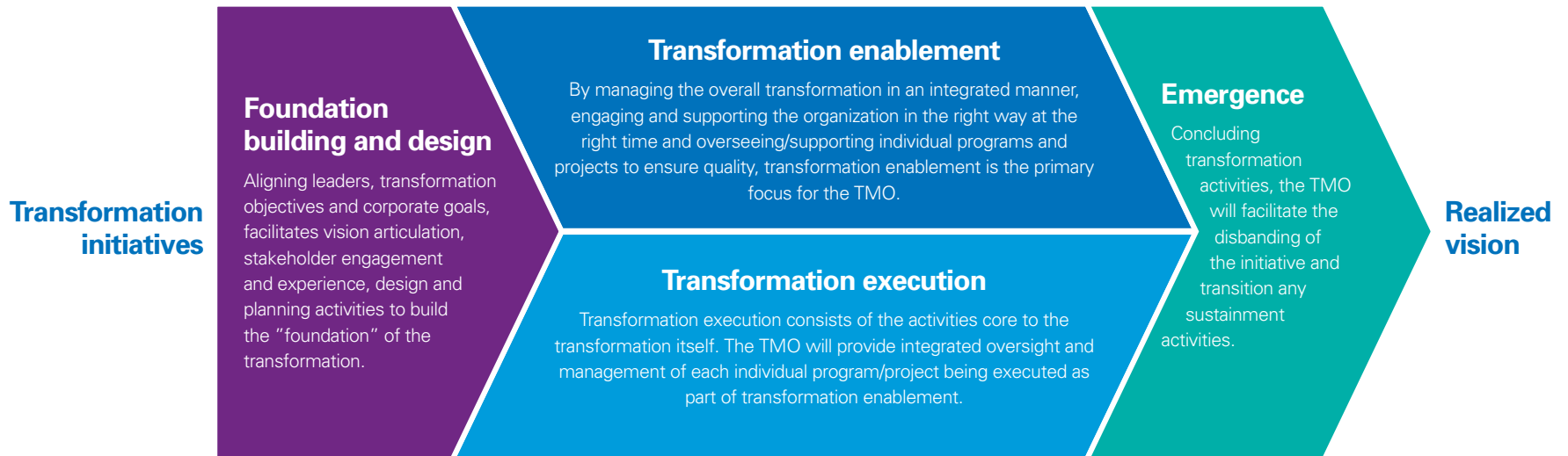
Ex: Payroll, Accounts Payable, Journal Entry GL Accounting

Begin your journey *continued*

Once transformation initiatives have been prioritized, we help you deliver on your objectives using a Guided Transformation framework that translates strategy into outcomes—outcomes unique to each client’s needs and objectives. During the first phase of this four-phase process—foundation building and design—the four architects and the TMO align business leaders, transformation objectives and corporate goals to create a vision for each transformation initiative, drive stakeholder engagement and map out how each

initiative will proceed. In the subsequent transformation execution phase, the organization carries out the activities outlined during the foundation building and design process while, concurrently, the TMO oversees those activities to ensure quality as part of the transformation enablement phase. Finally, in the emergence phase, transformation activities conclude; the TMO facilitates the disbanding of the initiative and oversees the transition to any sustaining activities that must continue.

The KPMG Guided Transformation framework



Begin your journey *continued*

KPMG can assist in setting up and staffing a TMO and in creating a centralized, disciplined governance structure focused on driving successful transformations aligned with your business strategy and objectives. We can speed up the transformation process by bringing an established set of tools, enablers and accelerators to the table, as well as relationships with more than 21 companies that can serve your transformation needs. We also bring deep bench strength to transformation projects, with more than 1,000 transformation delivery consultants prepared to support your transformation organization, and an industry-led organizational structure that helps ensure deep domain knowledge. Finally, we bring a proactive risk management approach to bear on your engagement—we call it Transformation Integrity—which allows us to provide objective oversight of complex and capital-intensive programs.

All of these enablers are represented in KPMG Connected Enterprise: our proprietary, industry-specific and customer-centric approach to digital transformation. This approach focuses every critical process, function and relationship of a business on meeting customer expectations, creating business value and driving sustainable growth in a digital world.

These proprietary methodologies are critically important to the success our clients enjoy. Still, what truly distinguishes the KPMG approach to transformation is our keen focus on outcomes and our on-the-ground ability to translate strategy into execution—to truly deliver on what digital transformation has to promise. We don't simply help organizations identify and pursue the right outcomes; we drive relentlessly toward them. ●

Find out more

To learn more about how KPMG can assist with your digital transformation agenda, please contact:

Todd Durocher

Principal, Consulting

tdurocher@kpmg.com

Kelly Stephenson

Advisory managing director

kstephenson@kpmg.com



Contact us

Todd Durocher

Principal, Consulting
KPMG LLP

tdurocher@kpmg.com

Kelly Stephenson

Advisory Managing Director,
KPMG LLP

kstephenson@kpmg.com

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