

Perspectives on Digital Transformation

This document answers the following request from IFRC: Reviews and summarizes the industry best practices and lessons learned around digital transformation (business, NGO, INGO) and includes examples citing case studies, recommended articles, and videos. Example models for implementation are shared.

Introduction

This review of digital transformation is aimed to inform and guide digital transformation implementation in International Federation of Red Cross and Red Crescent Societies (IFRC) and National Societies (NS). It is aimed at leadership and is a summary of the state of art based on experience in digital transformation from business, NGOs and INGOs. This review is intended to inform the current Digital IFRC roadmap that is being developed to guide the implementation of Digital Transformation under the IFRC Strategy 2030."

Digital transformation is changing the way organisations work, including humanitarian organisations. The IFRC Strategy 2030 [48] includes Digital Transformation as one of the seven Transformations, with digital being an important enabler for the other six; all of which have to be embraced in order to rise to the 5 global challenges [62]. The strategy is supported by the Digital Pledge [3] 'Strengthening national digital and data capacities for humanitarian action'.

What Does Digital Transformation Mean Exactly?

Digital Transformation is a program of organizational change, aligning cultural, process and technological innovations. It is primarily about people rather than technology and provides the foundation for digital change in an organization.

Digital transformation is differentiated from digitalization, where digitalization is changing how we work; the use of digital technologies to change a business model – e.g. how work gets done, transform how customers and companies engage and interact, and create new (digital) revenue streams [6].

But why do we need to go through a Digital Transformation?

Digital Transformation is a chance for an organization to leverage advances in technology to become data-driven, create new opportunities and optimize activities [34]. Digital transformation is crucial for non-profits as it enables them to increase their impact on society, reach their target audience, and increase their ability to react to situations where they are needed much faster [21]. The importance of digital readiness, which allows business and life to continue as usual, has been particularly clear during the COVID-19 pandemic [30], [31].

The importance of digital transformation to humanitarian organizations was clearly shown by work by IFRC in Haiti in 2010 where social media and other digital technologies were central to effective humanitarian work [18]. Digital transformation is essential to enable nonprofit organizations to innovate so they can create stronger long- term social impact through adopting more innovative solutions and better customer experience [22].

Where do we start our digital transformation journey?

When companies start with digital transformation, they often start with technology, but this is the wrong approach. Digital transformation is about culture [35], strategy and changing ways of leadership [5]. Managers in nonprofit organization need to move beyond focusing on technology and devote time and effort to develop new leadership skills and comprehensive digital technology capabilities in the organization [22] and to invest in data which will help in the emerging data-driven world.

Analyzing the current status of the organization through a digital maturity assessment [38], assessing the capabilities that are required to be successful in Digital Transformation and identifying organizational aspirations for transformation can provide a solid starting point, although the risks of digital transformation must be taken into account [37].

Anchoring at the top a thorough digital vision linked to an organization's strategy provides a common foundation for a digital transformation. Depending upon the organizational model [63], many organisations employ a Chief Digital Officer (CDO) to take ownership of digital transformation and future digital business development [50]. A CDO can develop and implement internal governance for digital transformation and develop culture for shared innovation across the organization with a standardized digital transformation framework with a common vocabulary where all speak same language and have same understanding. Supported by dedicated internal experienced resources, focus can be on providing a common direction to distributed organizations with guidance via a central knowledge base, on-line best practice, case studies and templates. In distributed networks like the Red Cross Red Crescent, it is also important to build up and connect digital transformation capacity across teams.

By starting small [35], working with a managed portfolio of innovations, experimenting and learning a lot, you can win early supporters and early adopters using a discovery-driven approach [20]. Digital transformation is a long-term change and multi-year investment will sustain the transformation.

Promoting culture over technology

“Contrary to popular belief, digital transformation is less about technology and more about people. You can pretty much buy any technology, but your ability to adapt to an even more digital future depends on developing the next generation of skills, closing the gap between talent supply and demand, and future-proofing your own and others' potential.” [49]

Even though an organization has a positive view of transformation, different people will have different understandings of what it is and what it means for them, every organisation must prepare for some potentially dramatic changes in approach, and all in an organisation need to understand why transformation is important [45]. Having a plan for preparing an organization for change, communicating the change to your organization with a consistent theme, and messaging tailored to all levels in the organization including decision makers will positively help the change process. Structure an organization so that people at all levels are empowered to make decisions fast and respond to change [19]. Managing change is key to an organisation

moving in the same direction, with the same tempo, with measurable outcomes. Using a change management methodology such as Prosci can dramatically improve the likelihood of change project success with a standardized approach to organizational change management and reduces the amount of organizational resistance to change.

The organizational setup [46], clearly defined roles, responsibilities and processes will improve all phases of the digital transformation of an organisation and help to maintain consistency with staff changes.

There is a digital divide [44] and engaging volunteers who are more digital, providing education and awareness via lunch and learn, online courses, and collaboration with existing education institutions that are experienced in transformation can all help with the culture change. Promote a culture where digital and data literacy, an innovation mindset, customer focus and willingness to change are recognized values and behavior and adapt the organisation's HR structure, routines and culture to remove barriers to change.

Boston Consulting Group found that companies focused on culture were five times more likely to succeed or to have strong financial performance in becoming a digital organisation than those that neglected culture [17].

Inspiration can be gained from external education organisations, for example INSEAD's *The Business School for the World* training and *Leading Digital Transformation* from the Harvard Business School Digital Transformation programme [53]. Guidance can also be gleaned from a multitude of books including *Leading Transformation* [12], *The Corporate Start Up* [14] and *The Innovator's Method* [15]. These also show the importance of experimenting with innovation, and a culture of allowing to fail and learning from mistakes. *Digital to the Core* [16] makes the case that all business leaders must understand the impact the digital revolution will continue to play in their industries, companies, and leadership style and practices. Ensure digital competency and capacity to implement digital transformation and enable leaders to be able to lead digital innovation and transformation.

Strategy provides direction and focus

A digital strategy is a set of ideas that inspire a move to a lasting position of advantage through digital methods [54]. Creating a digital strategy collects the organization around the digital transformation and ensures common ownership and provides a good foundation for implementation. Anchored at the top and describing expectations from senior management and grounded in business models, customer needs and the organisation, it provides stability and predictability and maintains focus across an organization. Top management team and middle managers are the most influential actors who can push through the digital transformation [22]. To thrive in the digital era' NGOs must 'embrace a single core strategy that involves the entire organisation' [33]. This core can be used as a base template for local adaptation and should be part of an ongoing process of strategic renewals.

Many organisations use a digital strategy to focus and guide their work, for example the United Nations Development Programme [32], where digital transformation is an integral part of their digital strategy and includes learning, digital champions and innovation projects, USAID [42], the EU [7] and ICRC.

Understanding Digital Strategy from Harvard Business Review podcast [55] is an easy listen on strategy and focuses on people management because “Nothing changes if people don’t change”.

Common obstacles to Digital Transformation and why companies fail

“Of the \$1.3 trillion that was spent on DT last year, it was estimated that \$900 billion went to waste. Why do some DT efforts succeed, and others fail?”

Fundamentally, it’s because most digital technologies provide possibilities for efficiency gains and customer intimacy. But if people lack the right mindset to change and the current organizational practices are flawed, DT will simply magnify those flaws.” [11].

According to McKinsey [6] 70% of transformations fail, and the common factor is not what to do, but how to do it. Learnings from failures of digital transformation in large companies include General Electric, where they tried to do too much without a real strategic focus in any area and Ford where digital transformation was not integrated in the rest of the company [7].

Accenture points to two big reasons that digital transformations fail: unclear goals for top management and scaling issues for pilots [29]. Having a digital strategy creates a clear understanding in the organisation for the digital transformation and the need for change and can help to overcome failure.

Data is an enabler for successful Digital Transformation

Data is at the core of digital transformation [1] and allows organisation to be data-driven with informed evidence-based decision making enabled by reliable, high quality data [36]. It can improve reaction times in all levels of a highly connected organisation and innovation can be driven by needs, not technology. Sufficient, good quality data which are fit for use are a prerequisite for a successful digital transformation, as is good data literacy in an organization [56]. Treating data as an asset ensures that the value of data can be realized. Ensure to identify and communicate the business value of data, address the cultural change impacts of a data-driven approach and manage the ethical implications of data and analytics [2].

To measure and evaluate with confidence data must be available and of good quality. UNHCR, for example, has launched a Data Transformation Strategy [57] where the importance of quality and timely data that is trusted allows for decisions to be informed by evidence and makes resource allocation more effectively. DNV GL provide a framework for data quality [13].

Case studies to learn from others

Lessons from non-profits that do get it right include organizations needing digital expertise at the senior management level, digital leaders need to be engaged in decision making on

new undertakings, and digital expertise must be distributed through the organization, not sequestered in an IT team i.e. be business led, not technology led [58].

Successful digital transformations of companies described in [11] show that focusing on changing the mindset of its employees as well as the organizational culture and processes *before* they deciding on what digital tools to use and how to use them is a recipe for success as described in where the vision of the future of the organization *drove* the technology, not the other way around.

Digital government and the transformation of Estonia provides a good example of the advantages of a digital transformation, the importance of trust [59].

Accenture ran a survey of 60 Nordic NGOs and concluded they needed a holistic approach to speed up the digital journey [39].

Microsoft changed their culture during digital transformation from “know-it-all” to “learn-it-all” under the leadership of Satya Nadella [51] where skill up of employees, space to learn and data-driven insight are steps to success [52].

Best practices to help guide digital transformation

A survey from 25 companies [60] describes elements of successful digital transformation including the importance of defining a digital strategy, as does a McKinsey survey [61] highlighting 21 best practices including having the right digital-savvy leaders.

There are many examples of existing models for digital transformation that can be used for guidance and inspiration, including U.S. Digital Service [23], UK Government Digital Service [24]. OECD’s The Going Digital Toolkit [28] helps countries assess their state of digital development and formulate policy strategies and approaches in response and provides many resources and guidance which can help a distributed organisation to make the digital transformation. USAID has published their comprehensive Digital Strategy for 2020-24 [42].

Within the RCRC, National Societies which are closely involved in a digital transformation include the Netherlands Red Cross 510 team which provides good services for data & digital transformation, the British Red Cross work with many innovation projects [25], the American Red Cross working with digital innovation [26] and the Australian Red Cross’ Humanitech innovation work [27].

Nethope provides a range of services specifically for non-profit sector to help with their digital transformation [40], including The Center for the Digital Nonprofit [41].

The UN Digital Cooperation Report [43] provides a good background reading on digital change and how they propose to cooperate digitally.

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