



Apigee Institute Survey Results

Three Keys to Digital Transformation

To achieve a successful digital transformation, broadcast a company-wide commitment, establish strong support for experimentation, and appoint a senior leader with four specific strengths.

Every business has the potential to be a digital business. More importantly, every business *must* become a digital business. As the number of smart, connected devices—from phones to cars to wearables—moves toward a tipping point where most work, play, and commerce will have a digital dimension, companies that quickly deliver digitally instrumented products or services, harvest data from market interactions, and use insights to rapidly iterate and optimize their value chain will gain a decisive competitive advantage.

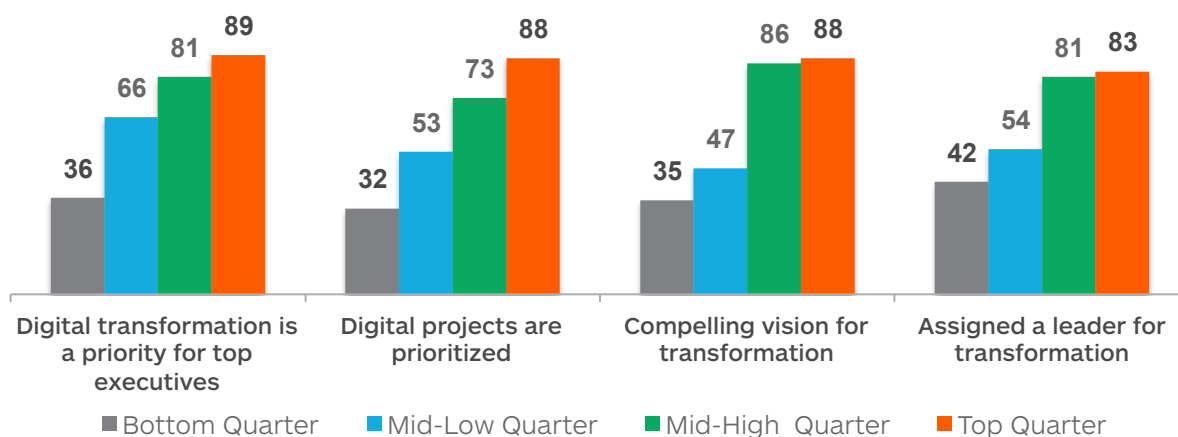
Businesses that digitally transform will be able to connect more closely with customers, accelerate the pace of innovation and, as a result, claim a greater share of profit in their sectors. Today digitally transformed companies have an edge; tomorrow, only digital businesses will succeed.¹

Companies like Nike and Burberry have moved from being providers of traditional consumer goods to digital leaders seamlessly creating value across physical and digital products, services, and experiences. In order to identify specific steps any global enterprise can take to pursue a similar digital transformation, the Apigee Institute conducted a survey of executives at over 300 large companies.²

This research uncovers three empirical patterns for successful digital transformation. An enterprise must make and broadcast company-wide commitment, appoint a senior leader with four key transformation leadership skills, and build capacity to experiment. Companies following this blueprint have already built a strong advantage on key digital capabilities: deploying apps, operating APIs, and using data analytics.

Leadership matters

Vision, focus and leadership drive strength deploying apps, operating APIs, and using data analytics. Percent agreeing with each statement by Digital Capabilities Score (page 2 for a detailed definition).



¹ For more details about this trend, see the Apigee Institute report “An Emerging Digital Divide” available at <http://apigee.com/institute>.

² See page 6 for details on the methodology





Company-wide commitment

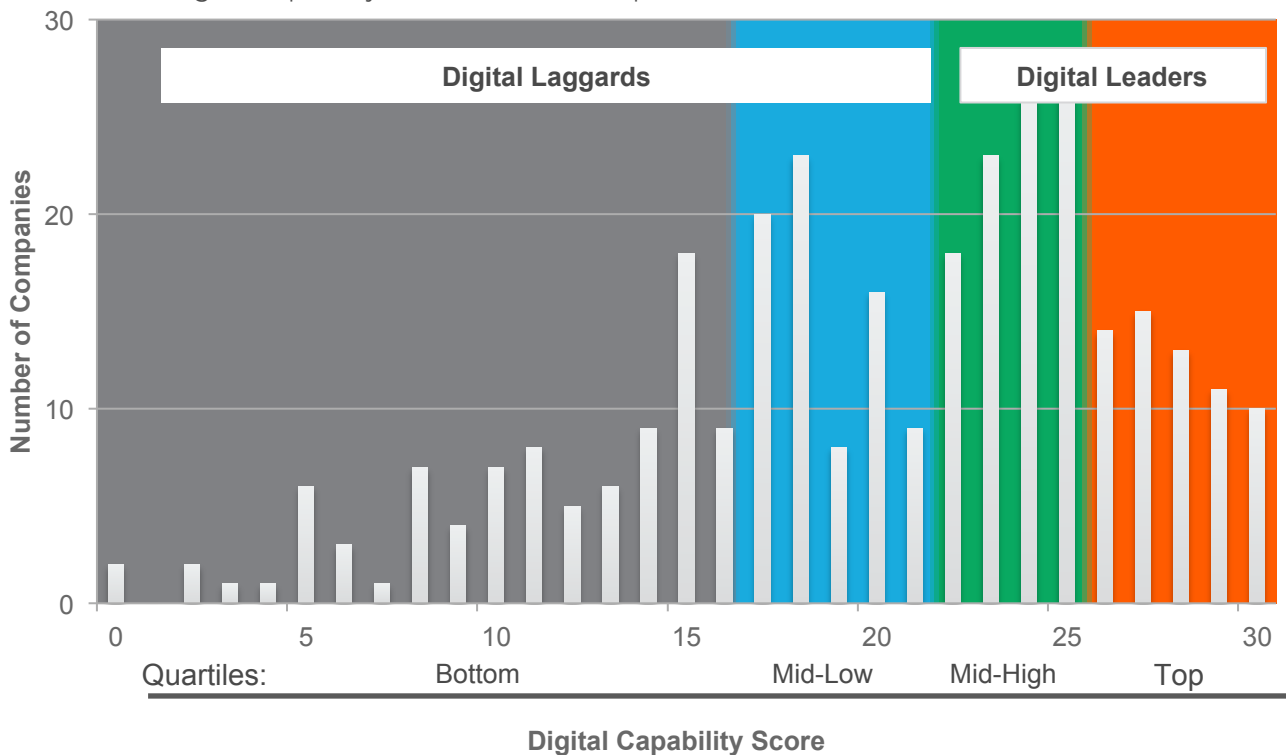
There is a sharp contrast on indicators of company-wide commitment between “*Digital Leaders*”—companies with above-average capabilities deploying apps, operating APIs, and using data analytics—and the “*Digital Laggards*” with below-average capabilities. More than 8 out of 10 respondents from Leaders agree that digital transformation is a priority for their top executives, and 87% agree that there is a compelling vision for digital transformation at their company. Fewer than half of Laggards agree on either count. The gap persists when looking at the steps taken to turn strategy into action: at 83% of Leaders, someone has been explicitly and formally appointed someone to lead digital transformation efforts; only 50% of Laggards have taken the same step. At nearly a third of Leaders (30%) the CEO has taken personal accountability for digital transformation, compared to fewer than one in ten (9%) of Laggards.

We see a similar split on prioritizing digital projects where 31% of respondents from Leaders *strongly* agree digital projects are prioritized at their company, as opposed to almost none from Laggards (3%). These differences are more pronounced when comparing the top versus bottom quartiles on digital capabilities.

A simple, but profound, indicator of an enterprise’s commitment is the way executives *talk* about digital’s impact. At Leading companies most (80%) use “digital transformation” or a similar phrase. Conversely, a majority (61%) of respondents from Laggards indicate they “just talk about technology upgrades, customer experience improvements or innovation as they come up, without any overarching term or phrase.”

Where do you stand?

Distribution of Digital Capability Scores at 300+ companies across 26 industries



A *Digital Capability Score* is the sum of self-reported current company performance on the three capabilities below on a scale of 0 to 10 where 0 means “*very weak*” and 10 means “*very strong*.”

- Using ‘big data’ and analytics to enhance internal processes, existing products/services, or new offers
- Deploying apps such as mobile or tablet applications to employees, customers, or partners
- Operating APIs to make systems and data available for self-service access or mash-ups



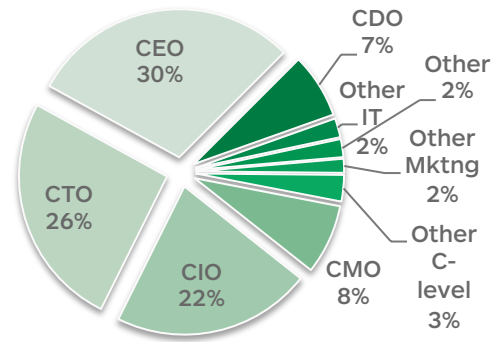
Transformation leadership

Given the novelty and cross-functional nature of leading digital transformation at a global enterprise, settling on the key qualifications for the role can be a challenge in itself. Opinion is split as to whether leading digital transformation is better understood as an evolution of the roles of the CIO or CMO. The explosion of interest in a new executive role—the Chief Digital Officer (CDO)—reflects a debate as to whether experience leading traditional IT or Marketing functions is adequate preparation for leading digital transformation. Our data suggests that there is no one pattern for digital success based on title or discipline alone—although among the Leaders the role is almost always at the C-level. (94%).

We asked respondents to assess the most senior person responsible for digital transformation at their company on a list of traits. We then identified four traits that are associated with outperforming on both the leader’s perceived effectiveness as well as the company’s digital capabilities, regardless of title:

Diversity among Leaders

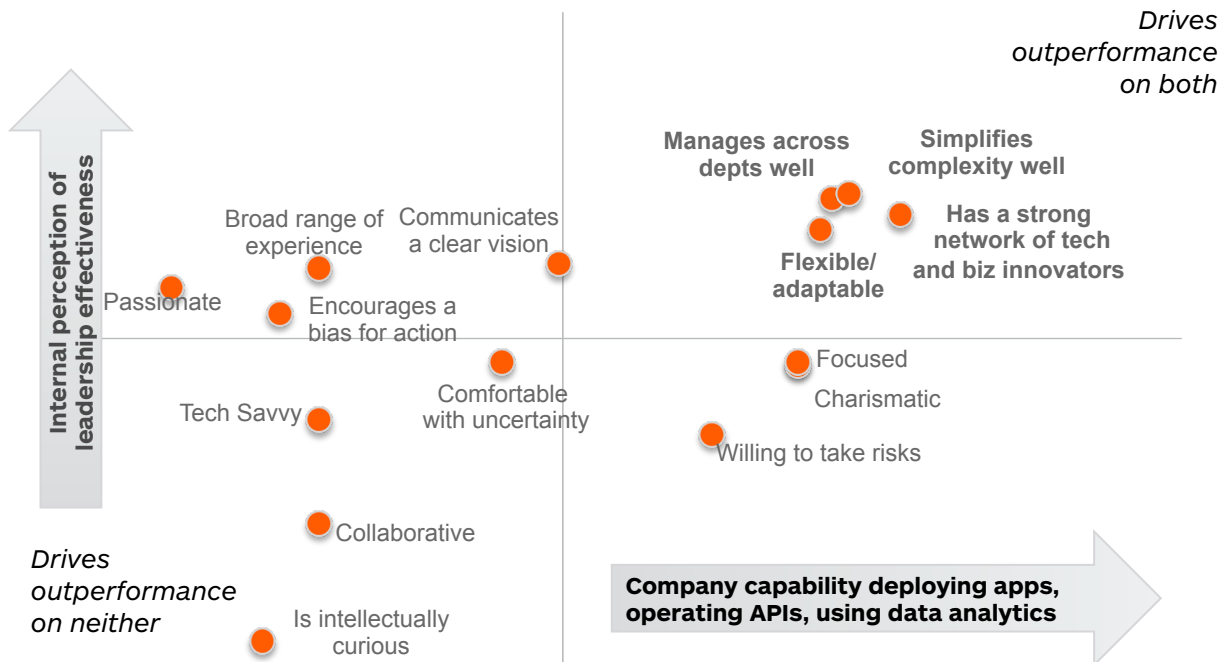
Senior-most person responsible for digital is...



- Managing across departments effectively
- A strong network of innovators
- Simplifying complexity well
- Adaptability and flexibility

Four traits that drive the highest level of transformation success

How well a trait describes the senior-most digital transformation leader in relation to outperformance on: perceived overall effectiveness of the leader (Y axis) and the company’s Digital Capability Score (X axis)





Methodology note

Respondents assessed the “senior-most person” responsible for digital transformation—or however those activities are described at their company—on a list of traits where 100 was “describes extremely well” and 0 was “describes extremely poorly.” We plotted this against two success measures:

- Overall, how effectively has this person led digital transformation at your company?
- The company’ Digital Capability Score (see page 2)

Four traits are not associated with outperformance on either measure of success: *comfortable with uncertainty*, *tech savvy*, *collaborative*, and *is intellectually curious*. This analysis does not imply that these traits are net *negative* to possess: rather, that over-reliance on these traits is unlikely to drive the highest levels of success. The association of a “*strong network of technology and business innovators*” with both perceived effectiveness and stronger digital capabilities as compared to “*tech savvy*” is particularly striking. Some level of technical knowledge may be “table stakes” for success as a digital transformation leader. But the reality at a global enterprise is that the scope of both technical and business knowledge is beyond what any one individual can fully grasp on his or her own. Rather, those who excel at finding and bringing to bear the right expertise—wherever it may be found—will be most likely to drive exceptional results.

Seven habits of a highly successful digital transformation leader...

Recommendations based on survey analysis and conversations with enterprise change leaders

1. **Mobilize company-wide commitment.** Among Leaders 83% have “explicitly and formally” named a person to lead digital transformation; 79% report that digital projects are a company-wide priority.
2. **Develop and evangelize a digital transformation mission statement.** Nearly all Leaders (88%) agree that a vision for transformation has been well-communicated—with more than a third *strongly* agreeing that they understand company executives’ digital plans and strategy (this drops to merely 5% among Laggards).
3. **Embrace data-based experimentation.** Leaders are three times more likely to use experimentation as a decision-making criterion for investments, and two-thirds (65%) of digital leaders at Leaders are described as “flexible/adaptable.”
4. **Connect with innovators and experts.** Among Leaders, seven out of 10 executives say their digital transformation leader has an especially strong network of business and technology innovators (this rises to 81% among the very top performers).
5. **Manage digital transformation across departments and functions.** Companies that implemented company-wide digital initiatives more than a year ago have already seen an impact on employees (73%), customers (80%), and their portfolio of products (77%)—almost two-thirds of these businesses have seen impact in all three areas. Among Leaders 58% of transformation leaders are described as managing across departments well, compared to only 23% among Laggards,
6. **Speak multiple business languages.** Among Leaders the transformation leader is described as able to “simplify complexity” well more than three times as frequently as at digital Laggards.
7. **Strive for tangible goals.** Leaders report stronger overall capability connecting digital investments more directly to enterprise key performance indicators. (For more on connecting digital to enterprise KPIs, see the Apigee Institute report “*KPIs, Conviction, and Competitive Advantage*.”)





Experimentation Tools and Capacity

The third key to successful digital transformation is to equip the company with the culture, governance, and tools needed to quickly launch small initiatives, accurately measure their effectiveness, and then efficiently bring the right projects to enterprise-scale. This is an area that exposes a gap even among Leaders. Only those in the top quarter of Digital Capability appear to be fully harnessing the potential of experimentation. Realizing strategic value from experimentation requires both enabling technology and governance structure.

Having the technology infrastructure needed to prototype efficiently and collect and analyze data effectively may be a widespread challenge. A majority of Laggards (55%) call their technology infrastructure a liability towards their progress on digital transformation—nearly as many (42%) of Leaders agree with them. Digital Leaders tend to be more confident in their systems, but few companies are content with what they have.

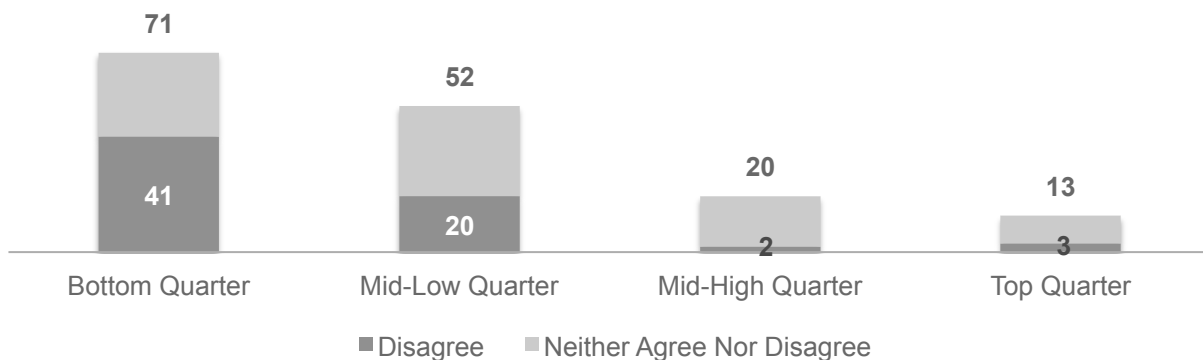
But even with technical capabilities in place, the governance and decision-making structure can accelerate or stifle strategic experimentation. In organizations that are lagging behind on digital capabilities there is a high degree of skepticism toward their existing governance structure.

Higher confidence among stronger digital performers appears to be associated with adapting their governance structure to changing conditions. While a full half of digital competitors use long-term plans to make business decisions, they also report that their governance structures are changing: 26% say that they have changed governance practices in the past 6 months; 65% in the past year. This suggests that those companies succeeding at digital transformation are also turning away from relying on static long-term plans.

Consistent with a trend toward optimizing enterprise practices for a rapidly changing operating environment, we anticipate a shift towards a real-options approach to digital investment and away from traditional discounted cash flow (DCF) approach. More than a third (37%) of the top quartile of companies on overall digital performance report using real options valuation, more than five times the rate among those in the lowest quartile (7%). (For more on the importance of selecting the right ROI criteria for digital investments, see the Apigee Institutes report “*Three ROI Criteria for Digital Success.*”)

Skepticism toward governance runs deep at Laggards

Percent disagreeing or ambivalent toward the statement “there is a good governance or coordinating structure in place coordination for digital transformation” by Digital Capabilities Score





Recommendation

To close observers of digital transformations that have already occurred at leading companies, these results are unlikely to be a shock. Both company-wide commitment and leadership skills well-matched to the nature of task are critical components of enterprise-wide change management. Experimentation tools and support are critical competencies for the modern app economy. However, these findings add further insight into empirical patterns associated with success against which any enterprise starting on or striving to reach the next phase in its digital transformation journey can and should embrace.

A short survey based on core elements of this survey is available for self-assessment and benchmarking against the overall results at <http://apigee.com/institute>.

Company-wide Commitment Basics	<ul style="list-style-type: none"> <input type="checkbox"/> Does digital transformation have the support of top management? <input type="checkbox"/> Has company leadership strongly evangelized both the goal of transformation and the reasons behind it? <input type="checkbox"/> Is there a Chief Digital Officer or another C-level leader accountable for the success of digital transformation?
Transformation Leadership Basics	<ul style="list-style-type: none"> <input type="checkbox"/> Does the transformation leader have a strong network of business and technology innovators? <input type="checkbox"/> Is the transformation leader experienced leading initiatives across functions and departments? <input type="checkbox"/> Is the transformation leader great at simplifying complex ideas?
Experimentation Tools and Capacity Basics	<ul style="list-style-type: none"> <input type="checkbox"/> Can your governance structure adapt to changing market conditions and evolving technologies? <input type="checkbox"/> Do you have the ability to experiment by deploying digital products and services rapidly, with strong measurement and analytics? <input type="checkbox"/> Do you use real options-based approaches to evaluate digital investments?

Methodology

This report is based on an online survey of 321 executives. The survey was conducted from September 26th, to October 7th of 2013. A representative survey of n=321 has a sampling margin of error of +/- 5.46%. The respondents reported working for companies in 26 different industries, and came from three different countries: the United States, the United Kingdom, and India. One third of all responses came from executives in IT functions, another third in Marketing functions, and the last third came in various business functions (e.g. sales, finance, strategy, and channel management). The questionnaire with topline results can be downloaded on the Apigee Institute website: <http://www.apigee.com/Institute>.



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About the Apigee Institute

The Apigee Institute delivers strategic insights and practical recommendations based on real-world benchmarks and original research, with a focus on guiding organizations as they build strong digital ecosystems through apps, APIs and data. Learn more at <http://apigee.com/institute>.

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