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How 4 Companies Approached Digital Transformation

by HBR Editors
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Summary. What exactly is a digital transformation, and how can you lead one successfully? Often guiding a digital transformation requires rethinking how your company creates value, its strategy, and the processes by which your employees get things done. Yet while many companies face similar problems, the specifics of their organization, industry, and staff can make it hard to translate big ideas into practice. To better understand how companies succeed in digital transformations, consider the inside perspective from four legacy companies: Moody's, Honeywell, IKEA, and Intuit.

What exactly *is* a digital transformation, and how can you lead one successfully?

Digital transformations involve a kind of organizational soul searching: How do we change while remaining the same? How do we do new things differently, while staying true to our purpose? And how do we adopt—and adapt to—new technologies as they emerge? They require leaders to delve into the granular details of their organizations, while keeping a larger vision top of mind. It's no wonder they're notoriously difficult.

Consider what digital transformation really involves. First, it requires understanding a new technology—AI, cloud computing, data analytics—and how it might help your business. But a transformation, as the term implies, is bigger than merely onboarding new tools. It requires rethinking how your company creates value, its strategy, and the processes by which your employees get things done. And finally, it requires shepherding real cultural change.

Daunting as all of this might seem, it's also unavoidable. The pace of technological change seems to only increase. The miracles of yesterday are the baseline of tomorrow. As such, digital transformation has become a muscle that companies must learn to exercise—a process that is never really finished.

How should leaders think about this task? One place to start is by asking: How have other companies navigated this? So, looking back at *HBR*'s archive, let's consider how four different legacy companies have tackled this process.

Moody's

When ChatGPT launched in late 2022, most companies adopted a wait-and-see approach. Generative AI was new, untested, and laden with risks, both known and unknown. Better to let others work the kinks out, the thinking went. However, the leadership at the legacy financial institution Moody's had a different perspective: Inaction was the riskier path. The company decided to go all-in on the new technology.

There was a problem with this plan, however. "Unlike most transformations, the end goal of this initiative wasn't clear," writes Toby E. Stuart, of UC Berkley's Haas School of Business. "The tech was evolving incredibly quickly and there were no proven use cases for how it could be applied to create value. [Moody's CEO Rob] Fauber likened the initiative to sprinting into the fog—it might be possible to see a few steps ahead, but no further."

In spite of not having a precise endpoint, leadership had an idea of what they wanted to achieve: a sweeping cultural shift that would enable the company to take advantage of this new technology, however it evolved. So, they decided on three guidelines. First, they wanted every employee, at every level, to be involved—a goal that required buy-in from 14,000 employees. Second, they wanted to resist the instinct to reject new ideas, and encourage legal, compliance, and risk staff in particular to take a "yes, and…" approach. And third, the aim throughout this effort needed to be contributing measurable value to the business.

Honeywell

To understand the distinction between digital adoption and digital transformation, consider the problem that Honeywell faced at the beginning of its recent effort to transform itself. "We had more than 150 enterprise resource planning systems (ERPs), some 2,700 applications, 1,700 websites, and no overarching plan for collecting and using data," writes Darius Adamczyk, who was CEO of Honeywell at the outset of the effort.

This was a problem for a couple of reasons. For one, because Honeywell contains so many businesses, the sprawl of tools and systems heightened those internal divides. Second, as a result, that hindered Honeywell's ability to create new value for its customers. "The question we asked ourselves," writes Adamczyk, "was 'Is it possible to use digitalization to transform a diversified industrial conglomerate into an integrated company?'"

The company pursued a three-step plan to transform itself internally. First, it focused on simplifying and reorganizing its infrastructure, going from 150-plus ERPs to 10, from 1,700 websites to fewer than 100, and from 2,700 applications to fewer than 1,000. Second, it invested in creating master databases for products, employees, and customers. And third, it developed a strategy for putting all that data to work.

The digital transformation also allowed Honeywell to offer customers new systems that would put their data to work in new ways. Because the company was already providing hardware and systems layers, it was able to add a cloud-based software-as-a-service layer that captures data and offers analytic insights—a new way of creating value built on top of existing services.

"In a way, digital transformation is really a matter of being able to create a system to capture and harness data and then to unleash its power on whatever it is you're doing," writes Adamczyk. "But to achieve that, you have to understand all the intricate moving parts that make up the whole."

IKEA

When the pandemic started, IKEA Retail's then-chief digital officer Barbara Martin Coppola, a tech industry veteran, had already spent nearly two years working to rewire the iconic retailer. The sudden closure of stores, however, prompted a rapid acceleration of those efforts. Making the legacy retailer into a truly digital company required redesigning supply chains, inventory management, logistics, and fulfillment, but it also meant reconceiving the customer experience in subtle ways that broke down distinctions between digital and physical retail.

"[T]his process is a bit like an iceberg," Martin Coppola told *HBR* in an interview. "At the top of the iceberg, we have the customer needs and adaptation—revamping everything around customer interaction and new purchasing journeys—and under the surface we are making huge changes to our business and operating model. And what is under the surface is a much bigger change than what we see above." In practical terms, that meant rolling out new data policies and communicating them to customers, integrating the app into the retail experience, introducing new AR and VR tools, and broadly embracing data in new and expansive ways.

To enact these changes, Martin Coppola had to engineer significant buy-in from employees. "I had to first become accepted as part of the community," she said. "The company values are about hard work, humbleness, being down to earth, and a strong entrepreneurial spirit—people want to go the extra mile for the company. I had to show through my behavior that I share the same values. Then, it was about meeting people and communicating an inspiring vision. Finally, it was about putting forward simple steps that people can see themselves following."

Intuit

Digital native companies aren't immune to the challenge of digital transformation. For Intuit, the financial software company, this problem manifests through the shifting baseline of customer expectations. "When a product truly solves a customer problem, users very quickly stop noticing it at all," writes Ashok Srivastava, Intuit's chief data officer. "Today's breakthrough is tomorrow's baseline." And AI has accelerated this cycle. To keep up, transformation needs to be a continuous process.

Intuit has tried to develop a culture of continuous transformation by adopting three guiding principles and embedding them into the regular flow of work: 1) Track progress with regular, rigorous, and ego-free technical checks. 2) Embed AI experts across teams. And 3) turn conflict into competitive advantage with clear escalation processes.

This process, writes Srivastava, has been integral to Intuit's success. But like everything else, companies need to be continually reconsidering whether they're working the way they need to. "These strategies aren't designed to be static; they are reactive, ready to adjust as the customer needs evolve and scale."