

Introduction

Before any business transformation can deliver game-changing value, senior decision-makers must understand the purpose and goals of the work ahead. Organizations pursuing technology change, for example, must set different strategies than those aiming for geographic expansion or a sustainability makeover.



To better understand how organizations navigate their respective transformation journeys, Oxford Economics and SAP partnered to field a survey of 800 global business executives. We asked how they communicate goals and expectations, deal with challenges, and define success, then analyzed the data to highlight key factors for success. Among the general rules of transformation success are:

- **Clearly establish what the transformation aims to achieve**—as well as the teams and individuals that will be involved in carrying it out.
- **Secure buy-in from the broader workforce**—and make it clear that the end result will be worth the effort.
- **Calculate the risk each transformation will bring**—and seize opportunities as they emerge.

Knowing what a given transformation is meant to achieve and what it will require is of critical importance. Our research shows that only 57% of completed transformations are deemed worth the investment of time, money, and effort. We explored

four key transformation types in greater detail to find out where shared strategies break off into curated ones: (1) entering a new marketplace geography; (2) transitioning to become a net-neutral carbon emitter; (3) creating an entirely new product or service offering; and (4) adopting an overarching cybersecurity framework or policy for technology migration (e.g., moving data storage or IT systems from on-premise to off-premise). Best practices for each of these broad areas are highlighted in the discussions below.

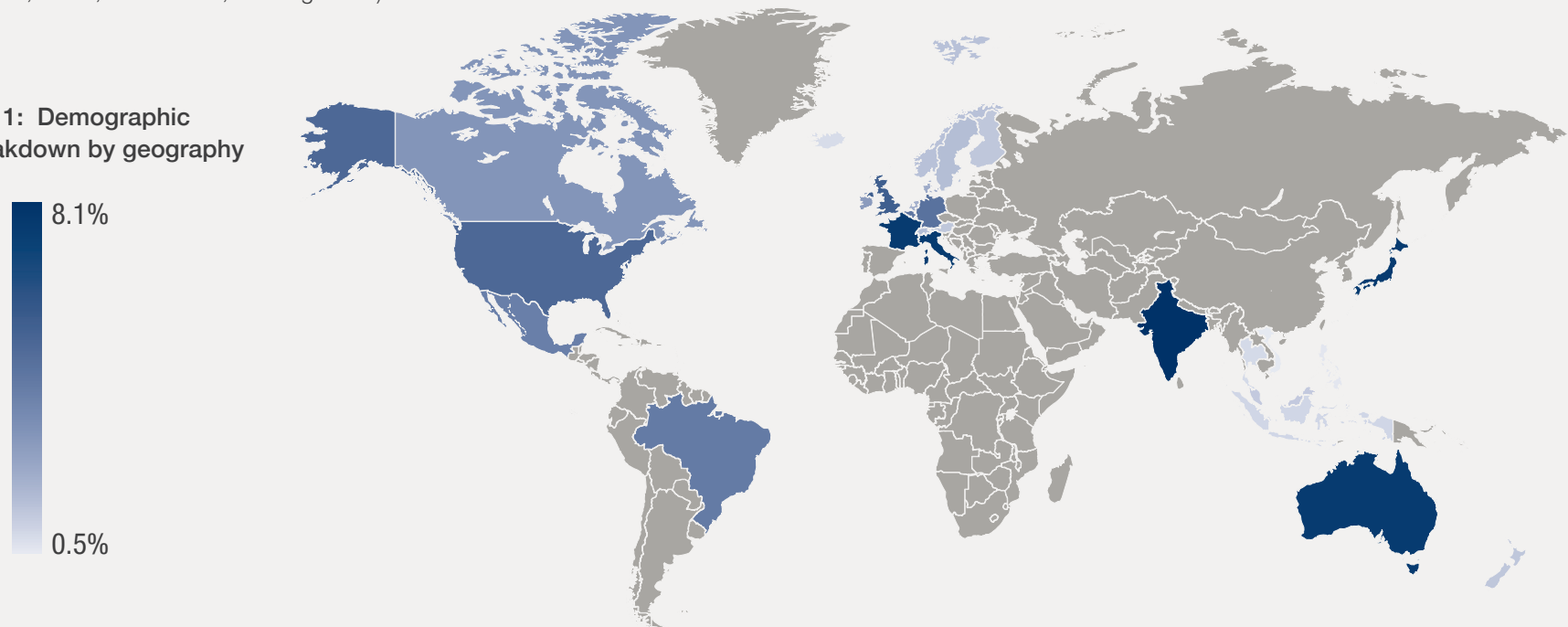
Transformations are never easy or quick. They take time, skills, and money, with well over half (58%) of projects exceeding budget projections. Nearly two-thirds (63%) of respondents struggle to navigate budgetary pushback from leadership regarding the merits of transformation efforts.

This paper will explore the critical differences in strategy and outcomes of these transformation types, as well as provide direction to executives looking to maximize the value their unique transformation visions demand.

Research methodology

Oxford Economics and SAP fielded a survey of 800 business executives about their business transformation strategies. Respondents come from 29 countries; all represent organizations with at least \$500 million in annual revenue. Responses were collected equally across ten industry sectors: Financial services; Consumer products; Oil and gas; Industrial manufacturing; Chemicals; Life sciences (pharmaceuticals, medical devices, biotech); Utilities; Retail; Automotive; and High tech).

Fig. 1: Demographic breakdown by geography



For the purposes of this survey, we provided all survey respondents with a uniform definition of what “business transformation” means; 96% of respondents agree that this definition matched their own understanding of the phrase.

Business transformation refers to the strategic evolution of a business from its current operating or business model to a new operating model or way of doing business. This kind of wide-ranging, strategic evolution, whether pursued stepwise or all at once, typically involves four core dimensions of any business—people, processes, applications and technology, and data—and necessarily takes all these dimensions and their interactions into account. Organizations typically undergo business transformations not only to meet strategic objectives but also to develop the critical business capabilities needed to remain agile, resilient, and sustainable in the face of new and emerging opportunities and competitive pressures.



Starting the transformation journey

Business transformation comes in various shapes and sizes, and a consensus on what the definition of business transformation looks like is a frequent obstacle to transformation. Nearly all respondents agree that our preset definition of the term “business transformation” seemed accurate to them, but uncertainty remains when trying to achieve consensus.

Two-thirds of respondents say that individuals and organizations often misunderstand the true meaning of business transformation, and nearly half (45%) do not feel as though the phrase “business transformation” is even part of their organization’s vocabulary. And with 70% of respondents saying that the definition of business transformation has changed over time, consensus is a moving target.

Things get even trickier when the term “transformation” is applied to very different inputs and desired outcomes. Before addressing some

specific types of transformation, though, we looked at general best practices that should guide any transformation program. These common practices are high-level and strategic in nature; executives consistently report that they have created an organization-wide mission statement that codifies the organization’s expectations for the transformation. Initiatives typically have clear objectives that directly connect transformation efforts to overall strategic goals and are linked to clear and appropriate value drivers (see Fig. 2).

Best practices also include focusing on a culture of transformation and solidifying risk management practices. Four out of five respondents say they can grow, scale, and operationalize human collaboration with machines on transformation efforts (82%), and nearly three out of four respondents say their team is adept at performing risk assessments related to transformation initiatives (73%).

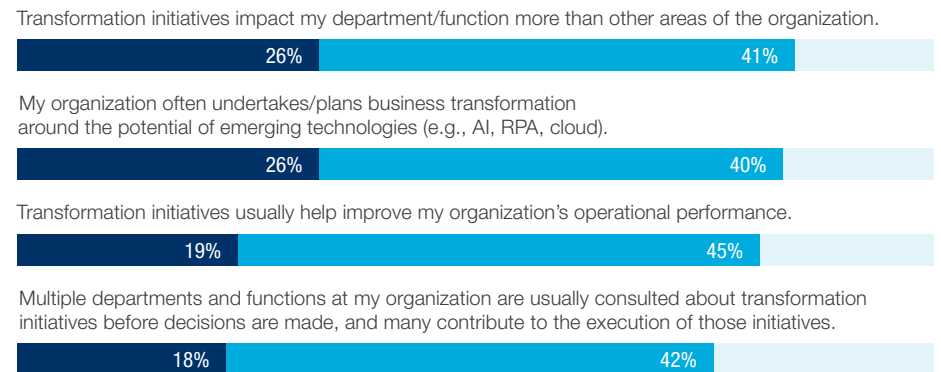
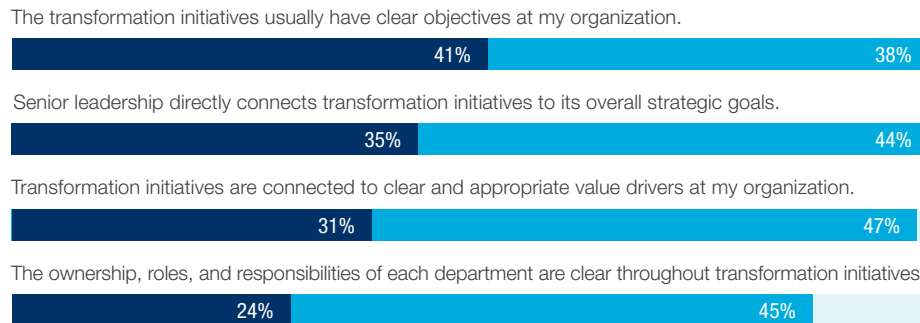
But as executives get into the actual work of transformation, there are fewer common practices, and they may vary by market and the nature of the initiative.

Fig. 2: Laying the transformation foundation

Q: To what extent do you agree with the following statements about how your organization implements business transformation initiatives?

“Somewhat” and “Strongly” agree responses

■ Strongly agree ■ Somewhat agree



TRANSFORMATION SPOTLIGHT

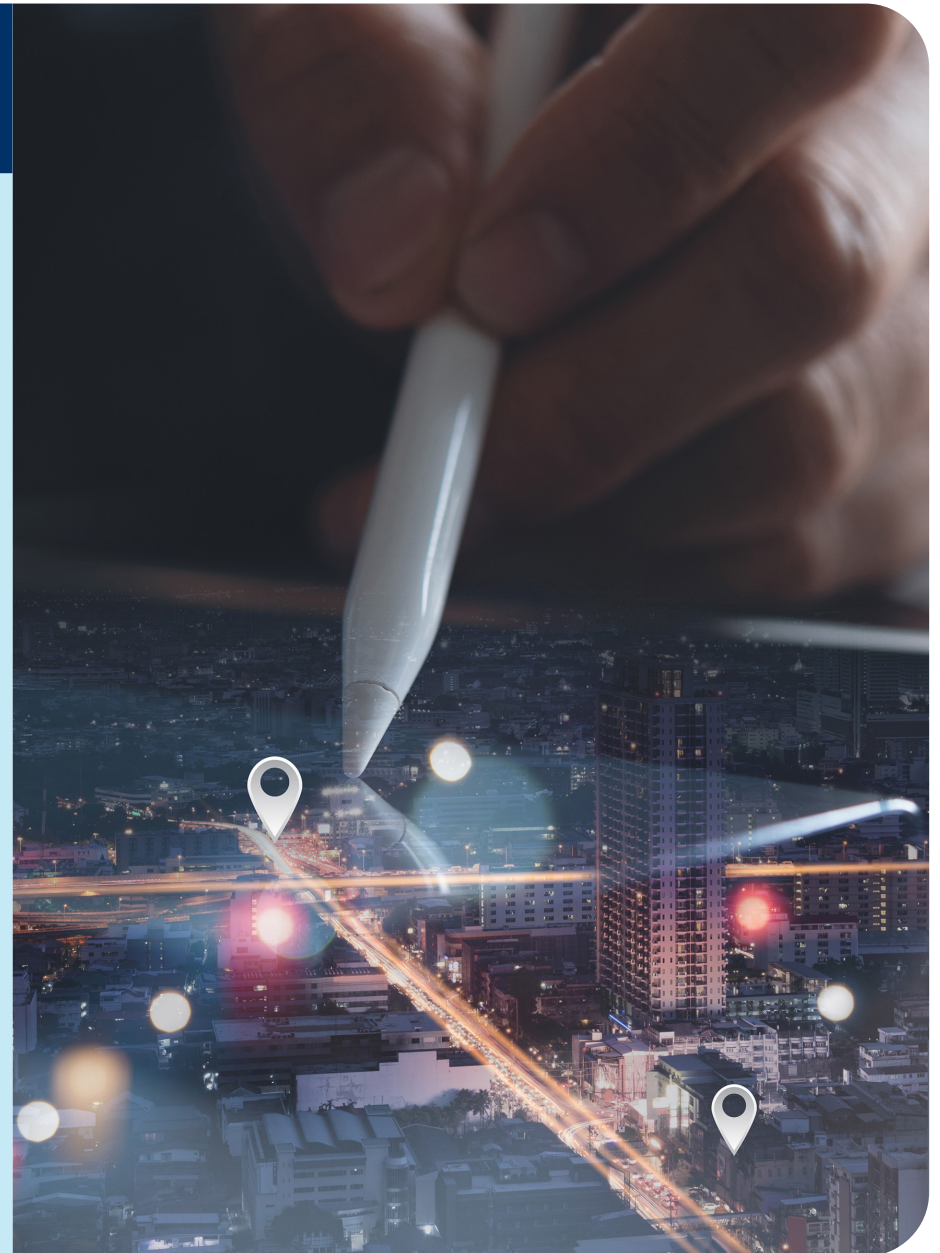
Entering a new marketplace geography

Some transformations are easier than others to successfully execute. Executives who were focused most on **entering a new marketplace geography** in the past three years are more likely to see positive results than those pursuing other types of transformation. These executives are most likely to say:

- transformation efforts have a direct impact on the organization's overall performance (66% vs. 60% all other types of transformations)
- efforts are worth the time, money, or effort (65% vs. 57%)
- efforts are successfully completed (60% vs. 54%)
- efforts go according to plan (54% vs. 51%)

The desired outcomes for organizations pursuing market expansion are quite different than the expected outcomes of other transformation types. Executives are more likely to say they expect expanding their geographic footprint to *increase profitability* (62% vs. 56% all other transformation types) and *improve cost efficiency* (32% vs. 26%), but are less likely to expect the effort to *improve customer or client satisfaction* (38% vs. 44%).

And while four out of five respondents say they are “confident” or “very confident” that their specific transformation effort led to increased profitability, those expanding their marketplace geography are more likely to fall into the *very confident* category (40% vs. 33% all others).





Creating and carrying out a plan of action

The majority of respondents agree that organizations should align stakeholders around transformation strategy. Organizations frequently consider the collaborative demands of their initiatives and the impact each initiative will have on the broader workforce. To that end, roughly two-thirds of all respondents say they have hired people for designated roles and formed cross-functional teams to carry out transformation efforts (68%). And nearly as many have created working groups to carry out and communicate strategic initiatives (63%).

This focus on ways of working helps justify the pursuit of transformation initiatives to decision-makers—it is the most important criterion to consider when evaluating a project’s merit, according to 26% of executives (the most common “most important” selection); when including “very important” responses, this figure increases to 56%. Moreover, 62% of

executives say the number of individuals or functions that will be affected by transformation efforts is very important or of top importance.

Even if companies have the right people in place, they often overestimate the effectiveness of their communications. Three in five say the plan for their most significant business transformation was well

communicated to the broader workforce, but fewer say the plan was clearly defined (53%). With 61% claiming that getting the workforce to embrace new ways of work is very or prohibitively challenging, decision-makers may want to invest more in ongoing communication planning and assessment to ensure that the message is not only clear but received.

TRANSFORMATION SPOTLIGHT

Transitioning to become a net-carbon emitter

The corporate search for more sustainable operations has been among the most discussed business initiatives over the last decade. However, the nature of challenges appears different in a business transformation aimed at becoming a net-neutral carbon emitter compared with other types of business transformations. For instance, executives supporting the transition of IT systems to the cloud must strongly consider the impact that transitions will have on existing ways of working—61% say this is a significant concern—but those pursuing net-neutral carbon transformation are far less likely to encounter this challenge (51%). Similarly, 43% of executives say

the workforce training considerations that adopting an overarching cybersecurity framework brings is a crucial focus; just one-third of net-neutral carbon transitions are held back by the same challenge.

Instead, sustainability transformations must justify the expected ROI of the carbon-neutral effort. Well over half of these respondents (54%) say this, compared to just 44% of total respondents. Additionally, 40% of executives pursuing carbon-neutral operations say they must carefully consider the tools and technologies required for achieving net-neutral status, in contrast to 28% overall.

There are two primary value drivers behind efforts to become carbon neutral. Executives expect, first, to become more profitable (53%)—a goal that executives of all types expect. Second, they are more likely than any other type of respondent to expect their transformation to improve customer satisfaction (50% vs. 42% all others). Just 3% say they have achieved the transformation’s endpoint—early responses indicate that these executives are slightly more likely than the survey average to have increased profitability resulting from their efforts.



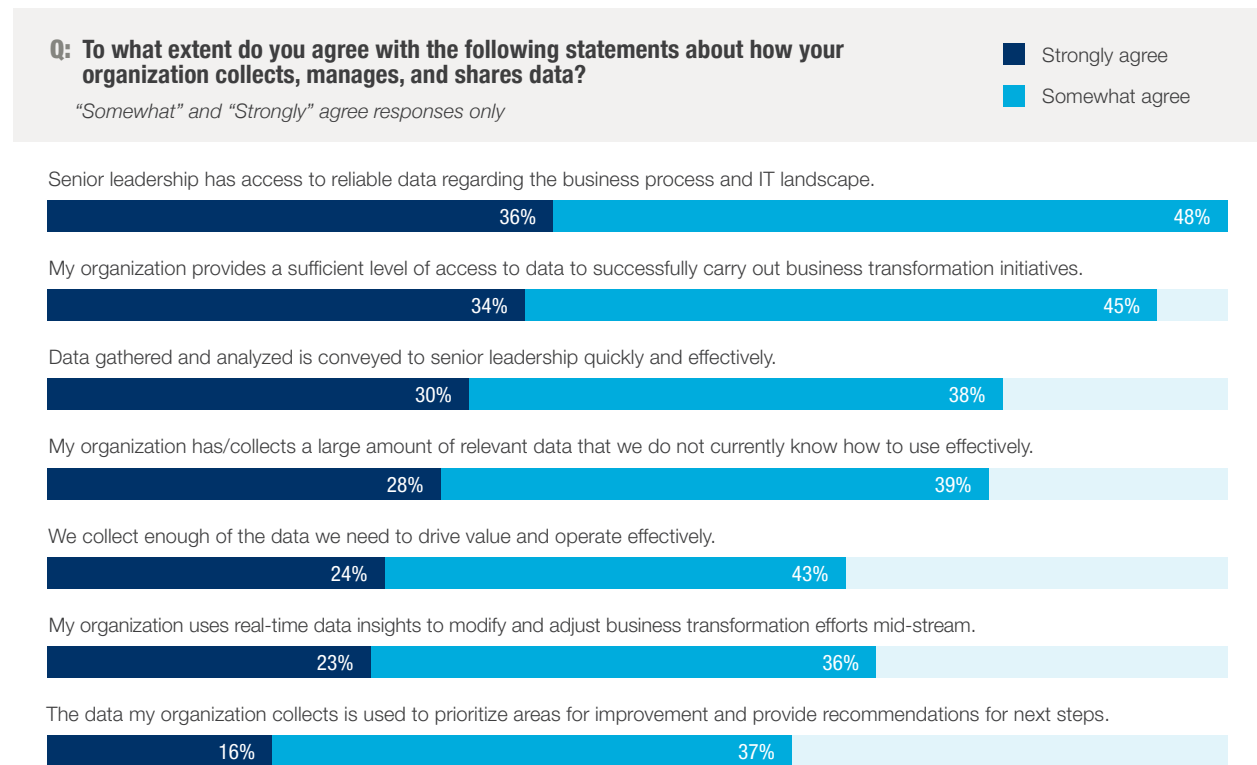
Transparency and analysis

If executives hope to keep transformation initiatives running smoothly, keeping transparency throughout the business will be crucial to monitoring efforts and staying on track. Businesses find themselves in two different camps, with only about half of respondents (52%) reporting that leadership is transparent with employees about data and decision-making related to business transformation efforts. At the same time, organizations are struggling to ensure that the data is accurate and reliable. With 70% of respondents finding it “very” or “prohibitively” challenging to determine if the data they have is reliable, data woes may push transformation initiatives off course.

There is another clear divide between organizations that use analytics capabilities to derive data insights and those that are still working toward that goal. About half of organizations (49%) have not yet moved beyond the pilot stages of enterprise analytics—and of the other 51% that have surpassed this stage, just 8% describe themselves as “leading” in their rollout. This is especially noticeable among respondents involved in specific transformations, such as those **migrating IT systems to the cloud** (54%) or **transitioning to become a net-neutral carbon emitter** (57%); these respondents are even less likely than others to have progressed beyond the pilot stage.

When it comes to transformation, the problem does not seem to be a lack of data. The opposite is actually true, as executives agree that access to data is sufficient (79%) within their organizations. Instead, the problem lies in its lack of proper utilization; only about half (53%) agree that the data they collect is used to prioritize improvement areas and inform next steps (see Fig. 3).

Fig. 3: Leadership has the transformation data it needs—but few actually use it.



Struggles to turn information into business action can also be seen in specific data types relevant to implementing changes efficiently and effectively. For example, nearly half of survey respondents (47%)

describe their organizations as underperforming at deriving insights from enterprise architecture data or process data in ways that drive decision-making.

TRANSFORMATION SPOTLIGHT | Creating an entirely new product or service offering

Innovation via new offerings requires a plethora of information to justify the investment. Executives that have been primarily involved in creating these new offerings are far less likely to say getting access to necessary data that drives transformation has been challenging (23% vs. 33% survey average). On the opposite end of the spectrum, respondents that are mostly involved in “Adopting an overarching cybersecurity framework/policy” are far more likely to encounter data access hurdles (43%).

Executives involved with creating new products and services hope their efforts will yield value in the form of financial benefits, including increasing profitability (64% vs. 56% all others) and improving cost efficiencies (34% vs. 26%). Most feel they have been successful in achieving these goals; 83% feel confident the new offerings they created have improved profitability, and roughly two-thirds feel their costs have become more efficient (65%).





Adopting technology to drive transformation

Implementing a robust technology strategy is essential for organizations aiming to mitigate analysis challenges and accelerate their overall transformation efforts. From choosing the right technology to accurately allocating budget for investments, executives are strategically navigating their options to enhance their technological capabilities.



Executives report implementing a wide range of technologies and are at varying degrees of maturity. For instance, about two-thirds of respondents report at least early use of tools like systems of record for IT assets (70%) or project management tools (66%). And while these well-established capabilities are commonplace for most, other valuable technologies see less widespread use. Less than half of respondents find their organizations at least in the early use stage for capabilities like change management tools (49%), benchmarking tools for process performance (42%), and process mining software (36%). Only a quarter of organizations have advanced beyond the pilot stage with robotic process automation (RPA) software (25.7%), and current use cases tend to be industry specific.

There is some question whether senior leadership is moving fast enough to implement helpful technologies, as 40% explicitly disagree that the organization is agile enough to adopt systems that improve business transformation efforts. That agility is particularly important when it comes to artificial

intelligence. As AI continues to proliferate across various sectors, regions, and business functions, moving swiftly to leverage the opportunities it offers will be critical to gaining a competitive advantage.

Optimism surrounding AI's potential is split. About half of respondents (52%) believe AI will significantly alter their transformation efforts, while the other half (48%) are not yet convinced that it will revolutionize transformation processes. Moreover, actual implementation of AI for transformative purposes remains limited—only 34% of organizations currently employ AI to recommend steps for improving transformation processes.

For executives to fully embrace AI as a transformative tool, many believe the ethical implications of its use must first be addressed. A significant portion of organizations prioritize the ethical use of AI over simply deriving value from it, but this strong emphasis on ethics is not yet matched by comprehensive governance: Only 35% of organizations have robust AI governance policies in place (see Fig. 4).

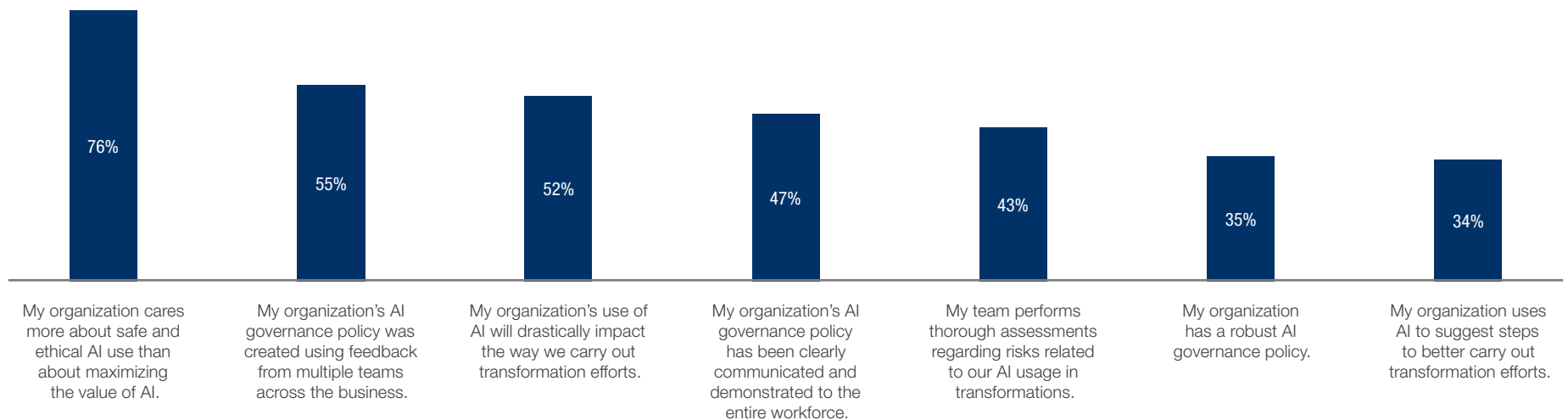
Interestingly, larger organizations operate a tighter ship. High-revenue businesses—specifically, those earning \$10 billion and above—show stronger adherence to ethical guidelines and governance. Within this group, 25% strongly agree that they have clearly communicated AI governance policies and

conduct thorough AI risk assessments (vs. 17% for all others). Furthermore, high-revenue organizations exhibit a stronger agreement that AI is being used effectively to guide transformation steps, with 43% affirming this (vs. 32%).

Fig. 4: Ethical AI is top of mind, but many have yet to establish AI ground rules.

Q: To what extent do you agree with the following statements about your organization's use of AI?

"Agree" and "Strongly agree" responses only





Understanding challenges to mitigate risk

All types of transformation encounter challenges, with the most common being cost overruns, inadequate ROI, and failure to finish the job.

- Executives report that 58% of transformations end up going over budget.
- Only 57% of transformations end up being worth the time, money, and effort they require.
- Barely half of transformations go according to plan (51%).
- Almost half of these transformations have not yet reached completion (46%).

Transformations encounter execution issues for a variety of reasons, and any one might face a different combination of challenges. For example, those respondents who have taken part in their organization's **adoption of an overarching cybersecurity framework** are more likely to encounter difficulties getting access to the data they need to complete their transformation (43% vs. 33% survey average)—while those who are **creating an entirely new product or service offering** are far less likely to encounter this hurdle (23%).

Alternatively, the challenges for those **transitioning to net-neutral carbon emission** are deeply rooted in people-oriented factors. Getting the workforce to embrace new ways of working (72% vs. 61% survey average) and receiving pushback from senior leadership about the merits of transformation (73% vs. 63%) are more commonly encountered

by these executives than those leading any other transformation. The unpredictability of transformation outcomes brings inherent risk to any business commitment. Not surprisingly, then, respondents often encounter significant delays and budgetary setbacks throughout the transformation process. Pushback tends to occur most frequently when transformation advocates present the justification for an initiative to decision-makers at the convincing or pitch stage—59% of respondents say this is a top-three stumbling point—but roadblocks emerge nearly as frequently during the research and validation stage (51%) and alteration and modification stage (50%).

If executives can secure budget and a thumbs-up from leadership, however, the pilot stage is a safe haven for experimentation. Only about 16% of respondents say they experience delays or budget holds during this early implementation stage.

Executives recognize that all transformations inherently involve risk, and many have developed risk assessment capabilities to avoid missteps. Two-thirds say their team has a good understanding of the risks associated with a business transformation, and over half regard these reviews as either a large or very large influence on their decision-making processes (see Fig. 5). Navigating these uncertainties is crucial; risk plays a major role in justifying and driving transformational efforts, but the lack of robust performance tracking mechanisms casts doubt on the true ability to assess risk exposure.

Risk tolerance levels are mixed among survey respondents. Two out of five (42%) characterize their organizations as “cautious” in the face of transformation, but only 7% describe themselves as completely “risk averse.” This indicates that most are open to taking action—and with over half (53%) describing their approach as “opportunity-driven,” it is clear many see the value in supporting transformation efforts.

Fig. 5: High confidence in risk management abilities

Q: To what extent do you agree with the following statements about how your team assesses the risk of potential business transformation initiatives?

“Agree” and “Strongly agree” responses only

My team is adept at performing risk assessments related to our transformation initiatives.

73%

My team has a good understanding of the risks associated with business and/or business transformation.

65%

My organization knows how to respond to the risks we uncover in our business transformation initiatives.

63%

The need to mitigate business risks is a key driver of the transformations we pursue.

63%

My team’s decisions around transformation rely heavily on the outcomes of risk assessments.

60%

My team performs continuous risk assessments throughout the transformation journey.

57%

Risk assessments determine how and where emerging technologies are applied in transformation efforts at my organization.

55%

My team maps, anticipates, and assesses transformation risk before embarking on our journey.

48%

TRANSFORMATION SPOTLIGHT | **Technology migration**

Executives involved with certain transformation types exhibit stronger risk capabilities than others. Even transformations underneath the same general transformation umbrella—for example, technology migrations of different types—tend to involve different approaches to risk.

On-premise to off-premise data storage

The movement of data from one premise to another brings a unique type of risk; the potential leakage or loss of precious employee or customer data could bring about significant reputational loss or regulatory issues. Executives that have been predominantly involved in moving data storage in this way are more likely to say their team has a good understanding of the risks associated with the transformation (78% vs. 64% all others), is adept at performing risk assessments related to transformation initiatives (78% vs. 74%), and that those assessments are continuous throughout the transformation journey (65% vs. 56%).

The primary goal of moving data between on-premise and off-premise locations is more likely to center around increasing revenue compared to other types of transformation (42% vs. 35% all others). And while they are no more or less likely to have witnessed value in the form of increased revenue, they are more likely to see improved cost efficiency benefits (75% vs. 68%).

IT systems to the cloud

Moving IT systems to the cloud brings a slightly different set of risks. Instead of data risks during migration, organizations may bring about their

worst-case scenario: subjecting customers to lengthy downtime during the transition. Our data reveals that executives pursuing this transformation are generally less focused on the risks their transformation can bring. They are less likely to say their team is adept at performing risk assessments (67% vs. 74% all others), that their team's transformation decisions rely heavily on the outcomes of risk assessments (55% vs. 61%), and that those assessments determine how and where emerging technologies are applied in transformation efforts at my organization (49% vs. 55%).



Summary

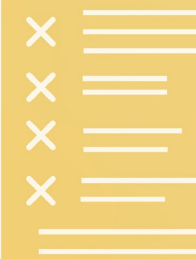
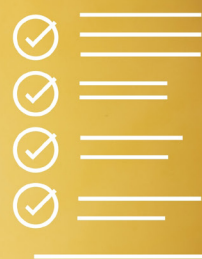
Even though the transformation playbook varies from one effort to another, a few similarities are characteristic of all types of transformations. Companies perform best-in-business transformations if they can use their data to predict the value of initiatives as a basis for decision-making, not only to assess but also plan for potential risks and establish collaboration and communication models that include the workforce intelligence early on. They also will be able to focus on how the processes will need change after the transformation initiative and make sure the enterprise architecture is being adapted accordingly to remain modern and efficient in the long run.

It is key to establish best practices around the management of business transformation according to use cases, considering the significant cost of such transformations—9.5 million euros within three years (as indicated by the research results)—and that budget and timelines are still very likely to be overrun.

To excel in business transformation management, enterprises need to tackle the following common challenges that stand out for all investigated use cases:

- **Overcoming roadblocks** in the research and validation and modification stages
- **Turning data into insights**, whether about where to make impactful decisions; measurement criteria, process change, skills requirements, or technology roadmap planning; and
- **Increasing agility** to enable quick moves to the latest technology that will help maintain a competitive edge.

Conquering these challenges will empower companies to strengthen their efforts, get buy-in across the board, and continuously innovate while running numerous transformations in parallel that allow them to adapt to the changing nature of the business, expand into new geographies, meet new customer demands, and become more sustainable.



Message from the sponsor

To successfully navigate business transformations, companies must understand, proactively manage, and optimize their business processes while maintaining a robust enterprise architecture practice that enables full visibility into their IT landscapes and all interdependencies.

Continuous, smooth communication and collaboration across business and IT teams are essential, along with the ability to adapt swiftly to changing circumstances and unforeseen challenges. It is also vital to focus on all dimensions of the organization, including its people, processes, applications, and data. By adopting this holistic approach, companies gain access to the insights, methodologies, and collaboration capabilities

required to align teams, make faster and more informed decisions, manage risks and dependencies, and stay on track and within budget.

Aggregating information and turning it into meaningful insights allows companies to discover and analyze the current state and design then simulate the target state. They can also create an actionable transformation road map and monitor execution and value generation throughout the process.

Additionally, a harmonized approach lays the ground for future transformation—providing a comprehensive foundation for AI-enabled change—and creates a continuous adaptability and improvement culture as the organization operates at a new level.

To unlock your organization's potential, visit [SAP's Business Transformation Management page](#).

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