

INNOVATION BRIEF

The First Step in Business Transformation Is Your Mindset

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Summary

- For most companies, the digital revolution was actually reformation (less digital transformation and more digitization). They digitized their enterprises to make them faster and better, but they did not reinvent them.
- During the digital era, innovative companies stood out because of their approach and results. Instead of using new technology to iterate on existing processes, they unlocked new opportunities through digital to transform their business models and reimagine their industries.
- The AI revolution introduces the next opportunity to deliver on the promise of transformation. Only now, AI's limitless potential is poised to enable even more profound business transformation.
- Some companies will repeat the past, treating AI like they did digital, resulting in more reformation efforts instead of transformative initiatives.
- To meet this moment, companies should adopt a transformation mindset focused on reinvention and innovation.
- Those who embrace business transformation will be at the forefront of redefining business in an AI era.

Remember the excitement when digital cloud solutions were gaining momentum and promising to transform businesses from top to bottom? The embrace of new digital solutions and the movement of legacy processes to the cloud seemed like such a sea change that it sparked a digital revolution around the world. Technology leaders rallied behind the idea of "digital transformation" to describe the massive effort it would take to revolutionize their organizations for the digital era. In 2011, Capgemini, in partnership with MIT, officially coined the term, defining it as "the use

of technology to radically improve performance or the reach of businesses."¹

Fast forward to today and that digital revolution isn't looking so revolutionary. Instead of digitally transforming, many companies prioritized the modernization of legacy functions. They didn't set out to actually transform them. Sure, companies digitized, but complex, frustrating processes that stretch across departments and siloed systems of record remain. If anything, things feel more complex as legacy, modern, aging, and customer layers of apps



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In KPMG's 2023 Technology Survey,² a majority of U.S. executives said that they still have not seen an increase in performance from digital transformation investments to date.

and data span across the enterprise.

The reality is enterprises remain mired in frustrating complexity because, in the end, digital transformation turned out to be digital reformation. Companies digitized business as usual, replicating and magnifying existing challenges. Only a select few successfully underwent true digital transformation and their

reimagined businesses gave them a competitive edge and reinvented entire industries.

In KPMG's 2023 Technology Survey,² a majority of U.S. executives said that they still have not seen an increase in performance from digital transformation investments to date. In short, 12 years after the term digital transformation was coined, it remained out of reach for most businesses.

Today's intelligence revolution offers everyone a second chance at transformation. If businesses follow the same mindset as last time, AI and agentic AI can be used to make existing processes faster and better. But if businesses embrace a transformation mindset, AI and agentic AI can help reimagine today's work. Business transformation today begins with a mindset shift that can open doors to AI's and businesses' full potential.

Digital reformation, not revolution

For over a decade, companies have been focused on digital transformation and integrating technology into all areas of the business to evolve how they operate and deliver value. For the most part, companies have been highly successful at digitizing business processes. They moved operations into a cloud environment; adopted new digital apps to perform business functions like HR, finance, and sales; and communicated, coordinated, and executed decisions using digital tools.



They used new technology to do what they did yesterday better, faster, cheaper, and bigger, without exploring ways digital could introduce transformative opportunities into the business or reimagine the business altogether.

Companies reinforced traditional organizational models, with data and workflows siloed in each domain. Cross-functional integration across systems can be extremely complicated to connect, upgrade, or replace. As a result, digitization and digital reformation are still supporting siloed people and processes.

Surveys of business leaders demonstrate the unfinished work of digital transformation. A survey by BCG found only 30% of executives thought their organizations' "transformations met or exceeded their target value and resulted in sustainable change."³ A McKinsey survey of executives also found only 30% of executives thought their organizations' transformations were "very or completely successful at both improving performance and equipping the organization to sustain improvements over time."⁴

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But digitization is not the same as transformation. It serves to reform, i.e., improve the existing processes that deliver expected outcomes. For the most part, businesses just iterated on what they have done in the past.

In contrast, those digital leaders who invested in competitiveness, productivity improvements, and better customer experiences — aka true digital transformation — outperformed their peers by achieving 1.8x times higher earnings growth, according to BCG.⁵

As these results suggest, the digital revolution did not fully deliver the promised transformation. Most businesses are still struggling with a hornet's nest of complexity, which is not just a headache for them today but also a threat to their competitive advantage.



The digital transformers

There are some companies from the digital era that stand out for their differentiated approach and results. Some of the most impactful, dynamic companies during the digital revolution —Amazon, Google, Netflix, Uber, Airbnb, DoorDash, etc.—reimagined their businesses for the digital era. They transformed how

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services and experiences were delivered and how value was created.

- Amazon reimagined commerce
- Google reimagined information
- Netflix reimagined movies and TV
- Uber reimagined transportation
- Airbnb reimagined hospitality
- DoorDash reimagined food delivery

But they were also transformative organizations because they represented truly digitally transformed or digital-first companies. They went all in on the new technological capabilities brought about by the digital revolution.

They didn't just adapt to the digital era; they transformed their business models to meet the moment. They fully integrated technology throughout their organizations and leveraged that technology to deliver value in a new, digital-first way.



Today's AI revolution

Today, artificial intelligence is ushering in an entirely new technological revolution. AI is already providing new levels of capabilities, insights, and outcomes that exceed what has been possible with humans alone.

In the enterprise, AI is offering every organization an opportunity to truly reckon with, or reconsider, their existing ways of doing things.

The reality is for any business to maximize their AI capabilities, they need complete datasets, which means they need systems to talk to each other, which means their teams have to work together, which means they have to connect silos, which means they have to rethink work,

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Transformative technology calls for transformation to meet the moment.

operational models, and tech toward a platform mentality. In other words, you cannot fully harness AI without rethinking your entire organization.

And once AI is fully harnessed, it can be used as part of a broader exercise in curiosity, challenging assumptions, exploring imaginative perspectives, and, ultimately, embracing true transformation. The opportunity for AI-driven



value creation, outcomes, and performance represent the next horizon of business. Just digitizing and infusing AI into existing processes will not be enough. Instead, the most successful, disruptive companies of the digital revolution serve as an important lesson. Iteration is not enough. Even with AI, iteration (reformation) becomes the next status quo. Transformative technology calls for transformation to meet the moment.

Business transformation

Let AI be the motivation for everyone to not only fulfill the potential of digital transformation, but also the transformational possibilities inherent in AI-driven approaches.

If digital transformation is defined as integrating technology into all areas of a business to radically improve performance and the reach of the business, then with the help of AI, that goal is possible. But it only represents the tip of the iceberg. The potential of AI necessitates bigger goals than “digital.” It also requires the transformation of legacy operational and organizational models, or total business transformation.

Business transformation aims to rethink work toward better performance and outcomes and previously unforeseen capabilities. It integrates systems and data, reimagines processes and operations, and augments to transform how a business operates, creates

and delivers value, and innovates into the future.

What sets business transformation apart from digital transformation?

Digital transformation was focused on fixing and improving the past to optimize and scale capacity during the digital revolution. That is still a key first step in business transformation, but transformation goes further.

First, AI tools and capabilities can already improve processes and drive efficiencies to optimize and reduce costs and resources. But this is the new status quo.

To go further, take the time and resources that are freed up to creatively explore opportunities and focus on transformation.

Second, these are the early days of the AI revolution. Businesses need to be forward-looking and reimagine their organizations to thrive in an AI-driven future. This is not about just making things in your business work better through digitization. It is about doing the things that businesses have never done before or didn't know to consider and completely rethinking the game in terms of organizational processes, value creation, and performance.

Embracing a transformation mindset

Business leaders should embrace a different way of thinking to avoid repeating the reformation/evolutionary, not revolutionary, patterns of the digital era in today's AI era.



An iterative mindset dominated during the digital era. It focused on using new technology to do the same things better and faster and less expensively. This iteration mindset focused on questions centered around “what” and “how.”

Iteration mindset:

- How could I do this faster?
- How could I increase frequency or performance?
- How could I do this with less effort?
- What is the maximum reduction we could achieve?
- What is the optimal way to increase efficiency?

If leaders apply an iteration mindset to AI and

agentic AI, the full potential of the technology and businesses will remain unknown. Instead, a transformation mindset can help push leaders and businesses to imagine what's next and question business as usual.

The transformation mindset focuses on questions centered on "why" and "what if."

Transformation mindset:

- Why do we operate this way?
- What are today's biggest problems and why can't we address them?

my company running and do I understand why they run the way they do?

With a transformation mindset, innovation results from asking questions that explore root causes, obstacles, and opportunities:

- Do I get more insight into my business by having multiple systems managing multiple workflows at a departmental level or using a single system that shows me how all these workflows were being coordinated? Would

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A transformation mindset can help push leaders and businesses to imagine what's next and question business as usual.

- What are things that could transform, not fix, my business and why am I not pursuing them?
- What data do we have and what data do we need?
- Do I understand all the processes that keep



that yield better oversight and insights?

- What if we had to achieve better, more exponential results with less time and resources or via an entirely AI-driven approach?
- What if we stopped assuming that the products we have used and the processes we developed over the last decade are optimized for a world that is not constrained by human boundaries?

By asking "why" and "what if..." or "how might



Keyword: innovation

If iteration is improving the work that was done yesterday for tomorrow, innovation is doing the work that you didn't know you could do or didn't think to do tomorrow. With the shift of a mindset, the day-to-day and long-term outcomes change.

George Westerman famously said, "When digital transformation is done right, it's like a caterpillar turning into a butterfly, but when done wrong, all you have is a really fast caterpillar."⁶ The same is true for AI-driven business

we," leaders can unlock previously undiscovered opportunities to catalyze AI-driven business transformation, the likes of which led to the Amazon, Google, Netflix, Uber, and other leaders of their era.

A mindset alone will not produce business transformation, but it is a crucial first step. If leaders aren't asking questions that unleash curiosity and challenge assumptions, transformation is limited to iteration. A transformation mindset can guide investment decisions, strategic priorities, and other key decisions that will help transformation move from a way of thinking to action to net new outcomes.

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– George Westerman



transformation. With an iteration mindset, most businesses will produce faster caterpillars rather than truly transforming.

In today's AI era, the stakes are even higher. The vast potential of AI technology is only beginning to be uncovered. AI's ability to exceed human capacity provides an unparalleled opportunity for companies to harness this technology to reimagine business as usual.

AI-driven business transformation helps fix the failures and missed opportunities of digital reformation, and innovates for tomorrow, to unlock new levels of creativity and revolutionize

work and industries. What will business transformation lead to? What will work and industries look like in the future? Why not ask "why" and "what if?"

Companies that seek to answer these questions will rise above the iteration-led status quo holding AI's potential back. This is a business revolution, not evolution. This is transformation, not reformation. The role of a leader in an AI-driven era is to challenge conventions and explore opportunities that lead to a better future that wouldn't have happened otherwise.

Endnotes

¹ Lampron, D. (2023, March 2). *Why saying digital transformation is no longer right*. Techopedia. <https://www.techopedia.com/why-saying-digital-transformation-is-no-longer-right/2/34652>

² Batley, M. (N.d.). *KPMG Survey: Majority of US businesses say they have not seen an increase in performance or profitability from digital transformation investments*.

³ Forth, P., Reichert, T., De Laubier, R., & Chakraborty, S. (2020, October 29). *Flipping the odds of digital transformation success*. BCG Global. <https://www.bcg.com/publications/2020/increasing-odds-of-success-in-digital-transformation>

⁴ Martin, J. (2018, October). *Unlocking success in digital transformation*. McKinsey & Company. <https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Organization/Our%20Insights/Unlocking%20success%20in%20digital%20transformations/Unlocking-success-in-digital-transformations.pdf>

⁵ See endnote 3.

⁶ Westerman, G. as quoted in MIT Sloan Executive Education. (2014, June 12). *The digital business transformation imperative*. innovation@work (blog).

The Innovation Office

The Innovation Office is the voice of future-focused innovation in ServiceNow. Our research, thought leadership, and co-innovation solutions serve as a blueprint for AI-first business transformation. We are a strategic partner with our colleagues and customers to ignite the “spark of the possible.”