How human capital makes or breaks digital innovation

*The success of digital transformation in organisations depends on a combination of technology and people. However, many leaders ignore the role of human capital in their plans. **Ricardo Viana Vargas** writes that when digital transformation efforts fail, it is often due to the mismanagement of people.*

Netflix CEO Reed Hastings, considered one of the greatest disruptors in the technology sector, suddenly found himself among the ranks of the disrupted.

In this year's second quarter financial earnings report, Netflix confirmed a net loss of 970,000 subscribers, more than it had ever experienced in a six-month period. In a bid to recapture subscribers, the company is now preparing to launch a new lower-cost streaming tier that features four minutes of ads for every one hour of content, similar to what some of its competitors are doing.

Things improved in the third quarter, with 2.4 million new subscribers, but industry analysts note that this is still only half of the increase in the same quarter a year ago, and significantly less than the 8.3 million the company gained in the last quarter of 2021. Many believe Hastings should have made changes to the business model a long time ago.

As the world-leader in the subscription video-on-demand industry, Netflix appeared poised to solidify its position when billions of people around the world were forced to shelter at home to escape COVID-19. Social and economic restrictions and the vast library of original and older content available through Netflix seemed like a match made in heaven. However, two developments threatened the company: new competitors being formed on an almost monthly basis and the practice of password sharing allowing 100 million non-subscribers to access the company's library. Today, Netflix continues to lead the streaming pack, but its advantage has nearly evaporated. The company seems

unsure about where its business model is going and how to maintain dominance.

Netflix ran into trouble because it stopped looking for new ways to disrupt the market, allowing competitors to eat away at its business model. More importantly, it did not adequately anticipate how people – primarily its customers but also its employees – would react to increased competition.

It is unclear whether their current strategy – tempting subscribers with lower monthly fees while also asking them to endure advertisements – will work when their original value proposition was as an ad-free alternative to broadcast television.

Netflix's story shows that whether you are just heading out on a digital transformation journey or trying to find ways to maintain your role as a dominant market disruptor, it is the human factor and not the technology that will make or break you. This point somehow continues to evade many business leaders.

The enduring failure rate of digital transformations

Most of the major business consultancies – including Boston Consulting Group (BCG); [McKinsey](), [KPMG]() and [Bain & Company]() – estimated the failure rate for digital transformations at somewhere between 70 and 95 per cent. That was a problem long before the pandemic.

Why the failure rate is so high is a point of enduring debate.

Some experts in this area point out that digital transformation – a project that requires huge financial, technological, and human resources to bring to fruition – takes many years to deploy, making them intensely vulnerable to the volatility of market conditions and unanticipated events. Wars, natural disasters and, yes, pandemics are so seismic in their consequences, they can derail even the most thoughtful transformation strategies.

However, dig deeper and you begin to see that many organisations simply have flawed assumptions about what a digital transformation involves. Many see it as the deployment of technology. Deeper thinkers in this area debunk that as a dangerous myth that often leads to disaster.

In their [seminal analysis](), IT researchers Thomas Davenport and George Westerman

discovered that businesses that wilted or stumbled in the face of digital transformation had a number of factors in common. Too many of them wrongly assumed digital transformation would be a cure-all for their challenges and flaws. Digital capability, say the authors, is just one of a number of factors (product success, financial market conditions, natural or human-made disruptions) that ultimately determine a company's success or failure. Davenport and Westerman note that many of these failed enterprises were under the impression that "digital" technologies were plug-and-play solutions. Transformation "is multi-faceted and diffuse, and doesn't just involve technology," they wrote. On this point, they hit on what I think is the biggest missing ingredient in digital transformation: people.

Digital transformations fail because organisations still don't understand people

The Brightline Initiative created the [People Manifesto](), a series of concepts that amplify the importance of human capital in project management and serves as a blueprint for how organisations can re-imagine their culture and strategy execution. There are four major pillars to the manifesto:

Leadership is over-emphasized. Strong leadership is necessary for success, but it is just as important that senior leadership know not only when to lead, but also when to follow. Strong leadership is more of a liability than an asset if the people in your organisations are not motivated to follow.

Collaboration is important, but it's not everything. Promoting a collaborative team culture is important, but companies must remember that good teams are an assembly of people with different but complimentary skillsets. Not all initiatives require "team effort." Sometimes, individuals must be allowed to do what they do best, driving forward on their own.

Culture is not built; it must be cultivated. So many organisations and consultants talk about how to "build" a culture of success. In fact culture is a dynamic and living organism produced by the tension between individual behaviours and responses. To fully align culture with strategy, there must be a shared sense of purpose and trust. A safe, productive, and innovative culture cannot be left to chance. It must be cultivated by putting the right people in the right environment.

People act in their own self-interest. So many leadership advisors caution against self-interest, describing it as a dangerous and destructive force. That may be true, but you cannot simply ban self-interest; it is an essential and enduring part of the human condition. The best organisations recognize how self-interest sometimes derails project management, and craft responses that are specifically designed to shift individual interests, mindsets, and behaviours.

How to harness the power of people to drive digital transformation

The focus of digital transformation will almost always be on technology. Yet, it is the ability of employees to absorb and exploit that technology that makes or breaks the desired transformation.

In 2019, Benham Tabrizi and colleagues [identified](#) five key lessons from failed digital transformations. Two of those involved overlooked considerations around human capital. They wrote that "most digital technologies provide *possibilities* for efficiency gains and customer intimacy. But if people lack the right mindset to change and the current organisational practices are flawed, [technology] will simply magnify those flaws."

The best organisations all have similar approaches to digital transformation that, when applied appropriately, create the greatest chances for success.

1. **Don't leave people in the dark.** When digital transformations are designed, leaders tend to believe that key information on "what", "how", and "when" should only be available to some people on a "need-to-know basis." The fact is, everyone affected needs to know. Make sure a communications strategy is part of the inception of the transformation. Don't allow your leaders to hoard information and leave most people in the dark.
2. **Focus on quick wins rather than a big bang**. Some of the most promising digital transformations have come undone because leadership decided it could not reveal part of the transformation until the entire initiative was ready to go. However, delivering quick wins – partial implementation, or an iterative roll-out of a larger project – allows people to see the transformation in real time, which makes concepts concrete and builds support and enthusiasm. Keeping the project under wraps until everything is completed will only cultivate anxiety and dissent.
3. **Remember, it's not just the what, it's the why.** Are you undertaking a

transformation just to keep up with competitors? Or perhaps the end goal is to completely re-invent what you are doing and how you are doing it. You need to explain to your people why you are taking this journey and – most importantly – what the consequences will be for them. Give people time to not only accept what is happening, but plan for the future. Even if that future is not with your organisation.

4. **Confront fear head-on.** The first feeling that many people will have when they hear the words "digital transformation" is fear. They will fear the loss of their jobs and livelihoods, perhaps to technology that will do exactly what they are doing, only cheaper and faster. They may fear that they do not have the capacity to learn new skills to future-proof their careers. Organizations must acknowledge this fear and speak to it upfront. Fear that is left to fester can only threaten the success of any transformation. Remember, technology is the easy part; changing mindsets and behaviours is the real challenge.

5. **Always remember the threat posed by unforeseen events.** With global pandemics, climate change and geopolitics, we are reminded that life is volatile and unpredictable. The business model you created today may no longer be viable in six months. Organizations must be agile and adaptable. They must build contingencies into their digital transformations that allow for unforeseen events, and quick changes in direction. Do not forge ahead with an outdated plan because you're afraid to admit conditions have changed.

Even as new technologies arrive, the importance of a skilled and motivated workforce cannot be ignored

Finding the best use of technology to build a business plan can seem daunting. Which technology? Applied in what fashion? Do I need to provide my people with better digital tools, or start replacing some of them with AI-inspired solutions? Fortunately, some the world's most successful technology companies have shown us the way: you must involve equal parts technology and human capital. Digital technologies and machine learning are replacing the human touch in some jobs, but not all. With every new digital solution, there must be skilled and creative human hands helping people decide how best to use it.

The future is bright for businesses that understand the need for more and better

concurrent investment in technology and human capital. For those who do not grasp that equation, there will be a short, sharp journey to business oblivion.

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Notes:

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