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What the Heck Is Digitization Anyway?

By Thomas H. Davenport

Over the past few years I have watched with mild angst as more organizations declared that they are “digitizing” their businesses. First, I was never clear on what this means. Second, I wondered about the wisdom of digitizing for its own sake. Third, I have yet to hear an inspiring story about the outcomes of digitization.

Now, I am not normally a digital skeptic. My digital credentials are impeccable—I had one of the first digital watches, and I check myself regularly for Ebola-related fever with a digital thermometer. I am even a “Digital Fellow” (recently promoted from “Analog Fellow”) at the MIT Center for Digital Business. Perhaps I should ask my MIT colleagues what digitization means, although I always assumed it was an umbrella term to let academics study whatever they wanted to in the realm of IT.

So what is digitization? Does it require use of digital technology? (that would mean that many analog sensors are out). Does it require the Internet? And most importantly, how does it differ from the general use of information systems, computerization, IT, e-commerce, e-business, Big Data, and the many other technology-fueled business trends of the past several decades? And if it’s not different, why did we need a new term?

Some definitions, e.g., those in [Wikipedia](#) and [Whatis](#) refer to the process of converting signals into digital format, but I get the feeling that most companies pursuing digitization have a broader definition in mind.

Let’s assume that it really means something like “taking manual or offline business processes and converting them to online, networked, computer-supported processes.” That’s the impression I get when companies talk about it. Again, I would say this sort of thing has been going on for several decades now, so I am not sure we need to evangelize for it with a new buzzword.

The bigger issue, however, is whether digitization is worth doing for its own sake. The gospel for the last 40 years or so has been that computerized business applications are generally quite useful, but the worth of a specific application has to be evaluated before beginning an effort to implement it. Unless capitalism has somehow morphed into digitalism while I wasn’t looking, these basic financial justification rules haven’t changed.

If digitization were a good idea for its own sake, companies should calculate the amount of digitization they have—maybe using a percentage or an index. They should benchmark themselves against the digitization of their competitors. There would be a strong correlation between a company’s digitization score and its financial performance.

Of course, none of these scenarios is particularly valid. If a company is 62% digitized, is that good or bad? And if it finds that its primary competitor is 86% digitized, would that be cause for concern? Even if there were such measures, I don't think they would have much of a relationship to organizational performance. There could be a correlation based on the fact that high-performing companies have more money to spend on digitizing, but it wouldn't be a causal relationship.

I've heard of a few companies that have undertaken digitization initiatives. The most prominent among them is Procter & Gamble, which embarked upon a digitization initiative in 2010. Bob McDonald, then the CEO and now the U.S. Secretary of Veterans Affairs, was a strong advocate of becoming more digital. He said at P&G that he wanted to make the company "digitized from end to end." In his 2010 Annual report CEO letter, he wrote: "With digitization, our goal is to standardize, automate and integrate systems and data so we can create a real-time operating and decision-making environment. We want P&G to be the most technology-enabled company in the world."

I am a big supporter of the efforts Mr. McDonald pursued to improve analytics and decision-making at P&G, [which I wrote about here](#). And as his letter suggests, digitization can help with that. About the end-to-end digitization work in general, I am not as convinced of the value. In any case, neither initiative was enough to impress investors or P&G's board, who asked McDonald to step aside in 2013 as A.G. Lafley, his predecessor, returned as CEO. I doubt that Mr. Lafley has kept up the digitization focus, though I hear that he supports the analytical decision-making push.

Mr. McDonald is also playing the digitization card at the VA. In the [press release](#) from when he took office, he said: "...we're also going to be using digital technology to improve our systems and as we're able to free up people through improved digital technology, we're going to take those people and redeploy them again against the veteran."

You have to admire Mr. McDonald's continued passion. And if a digital application frees up people, it's a great idea to have them help veterans. But I am not convinced that we need the term "digitization" to cover these types of activities in organizations. I may be a crank, but would it be better to be a digital crank?

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