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Digital Transformation in SMEs:

*Why Relationships Matter
as Much as Technology*

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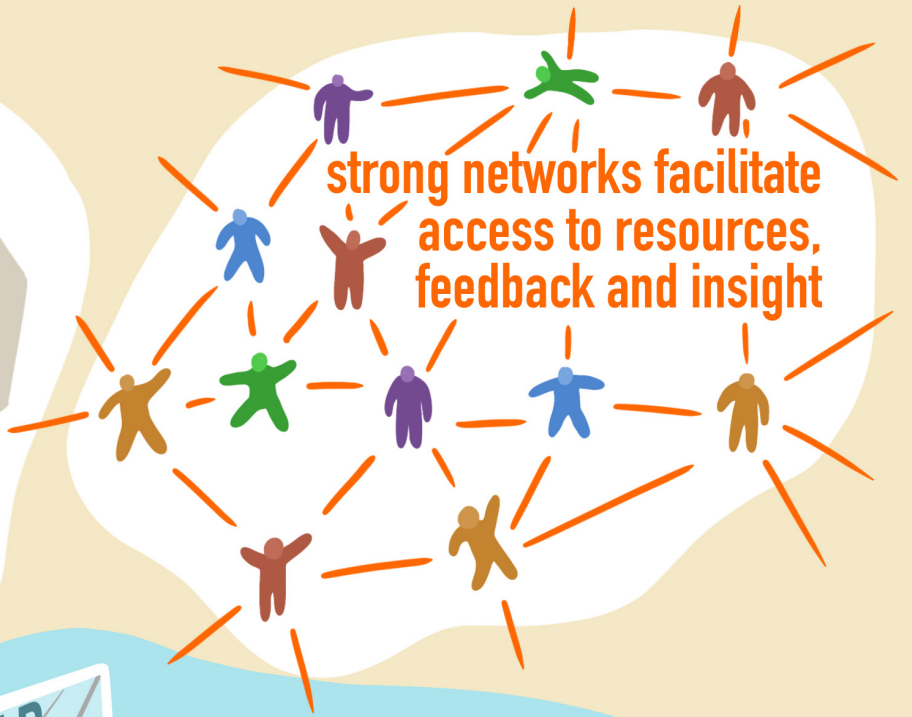
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provide technical know-how and hands on experience with new tools



strong networks facilitate access to resources, feedback and insight



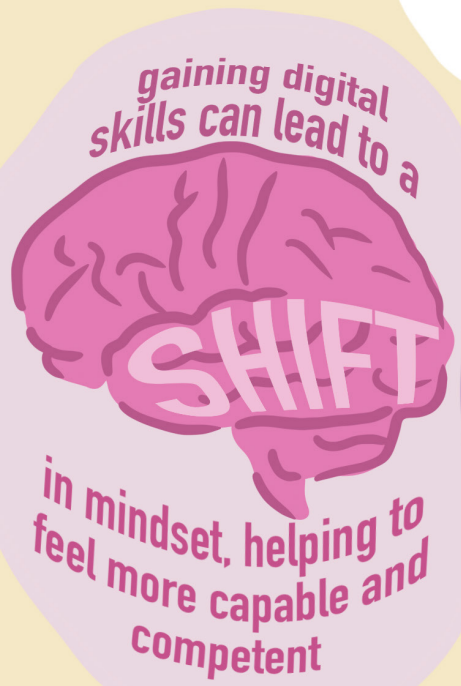
helps structure/focus digital initiatives

watch out! unclear goals risk the loss of focus and coherence!



constrain the ability to invest in advanced digital tools

Agency
Destination
Association
Progress
Tapestry



gaining digital skills can lead to a

SHIFT

in mindset, helping to feel more capable and competent



DIGITAL CHAMPION

CONTENTS

ABOUT THE AUTHORS page 1.
INFOGRAPHIC page 2.
EXECUTIVE SUMMARY page 3.

page 5. THE IMPORTANCE OF DIGITAL
TRANSFORMATION
page 7. THE UK LANDSCAPE
page 9. OUR RESEARCH
page 9. RESEARCH METHODOLOGY

FINDINGS page 11.
ENABLERS OF DIGITAL TRANSFORMATION page 11.
BARRIERS TO DIGITAL TRANSFORMATION page 12.

THE ADAPT MODEL page 15.
AGENCY AND IMPLEMENTATION RECCOMENDATIONS page 16.
DESTINATION AND IMPLEMENTATION RECCOMENDATIONS page 18.
ASSOCIATION AND IMPLEMENTATION RECCOMENDATIONS page 20.
PROGRESS AND IMPLEMENTATION RECCOMENDATIONS page 22.
TAPESTRY AND IMPLEMENTATION RECCOMENDATIONS page 23.

page 25. CONCLUSION
page 27. REFERENCES

EXECUTIVE SUMMARY

DIGITAL TRANSFORMATION is increasingly recognised as the basis for driving business *productivity, innovation, and growth*. In the UK, small and medium-sized enterprises (SMEs) - **the backbone of the economy** - often face significant challenges in adopting digital technologies compared to larger firms. Despite the availability of various policy initiatives and funding schemes, many SMEs still struggle to effectively integrate digital capabilities into their operations, leaving untapped potential for enhancing competitiveness.

This report provides an overview of the UK's digital transformation landscape, focusing on SMEs and their critical role in sustaining economic growth. We provide insights from SME practitioners, highlighting that digital transformation is not solely a technical challenge but also a deeply relational one. Our findings reveal that SMEs achieving the most success in digital transformation are those where practitioners actively engage colleagues, build organisational support, and align their **DIGITAL SKILLS** with broader business goals.

Key barriers to **DIGITAL TRANSFORMATION** include resistance to change, unclear strategic direction, and insufficient leadership support. These issues often arise from limited stakeholder understanding, weak organisational buy-in, and the absence of a clear digital strategy. Conversely, the report identifies enablers that drive success: strong internal networks, opportunities for practitioners to showcase their digital skills, and a culture that encourages innovation and collaboration.

To support SMEs in overcoming these challenges, we introduce the **ADAPT MODEL**, a practical framework tailored for practitioners embarking on digital transformation. The model comprises five interrelated dimensions:

- A** GENCY — *Empowering individuals to act as digital champions*
- D** ESTINATION — *Establishing a clear vision and goals for transformation*
- A** SSOCIATION — *Building strong relational networks within the organisation*
- P** ROGRESS — *Ensuring measurable steps and continuous improvement*
- T** APESTRY — *Integrating new technologies into the organisational fabric*

The policy recommendations set out in this report aim to address the unique challenges faced by SMEs, enabling them to harness the full potential of **DIGITAL TECHNOLOGIES** and remain competitive in today's changing world.

THE IMPORTANCE OF DIGITAL TRANSFORMATION

DIGITAL TRANSFORMATION is widely recognised as a game changer for businesses and economies. Examples of digitalisation in business include offering digital products and services online, deploying robotic production, utilising the Internet of Things (IoT), working with big data, and innovating with artificial intelligence (AI). Digital innovations are reshaping operations, including managing back-office functions and driving transformative business strategies and practices.

At the organisational level, **DIGITALISATION** stimulates *productivity, innovation, and growth* (OECD, 2021). Some important benefits of technology adoption include increased revenues, improved efficiency, smoother operations, delivering a more satisfying customer experience, obtaining an expanded client base, and generating new revenue streams. In the case of smaller firms, evidence shows that UK SMEs that leverage at least two business management technologies report productivity boosts of approximately **25%**, underscoring the transformative potential of digital investments (DDCMS, 2022). Furthermore, SMEs with a robust online presence grow more than double the size of SMEs with little or no online presence, export twice as much, and generate twice as many jobs (DDCMS, 2022)

When SMEs embrace **DIGITALISATION**, the entire economy and society benefit through economic growth, job creation, higher tax receipts for the government, and global competitiveness (Kuriakose et al., 2022).

When small businesses embrace DIGITALISATION, their business grows. They run more efficiently, generate more income and reach new customers.

The following types of digital tools are proving popular across industries and business sectors':

80% OPERATIONAL TECHNOLOGY

80% of small businesses use at least one **operational technology**. These include tools such as cloud computing (48%), accounting software (35%) and graphic design applications (29%).

79% COMMUNICATIONS TECHNOLOGY

79% deploy at least one **communications technology**. Online media is the most used at 58%, followed by video conferencing (46%).

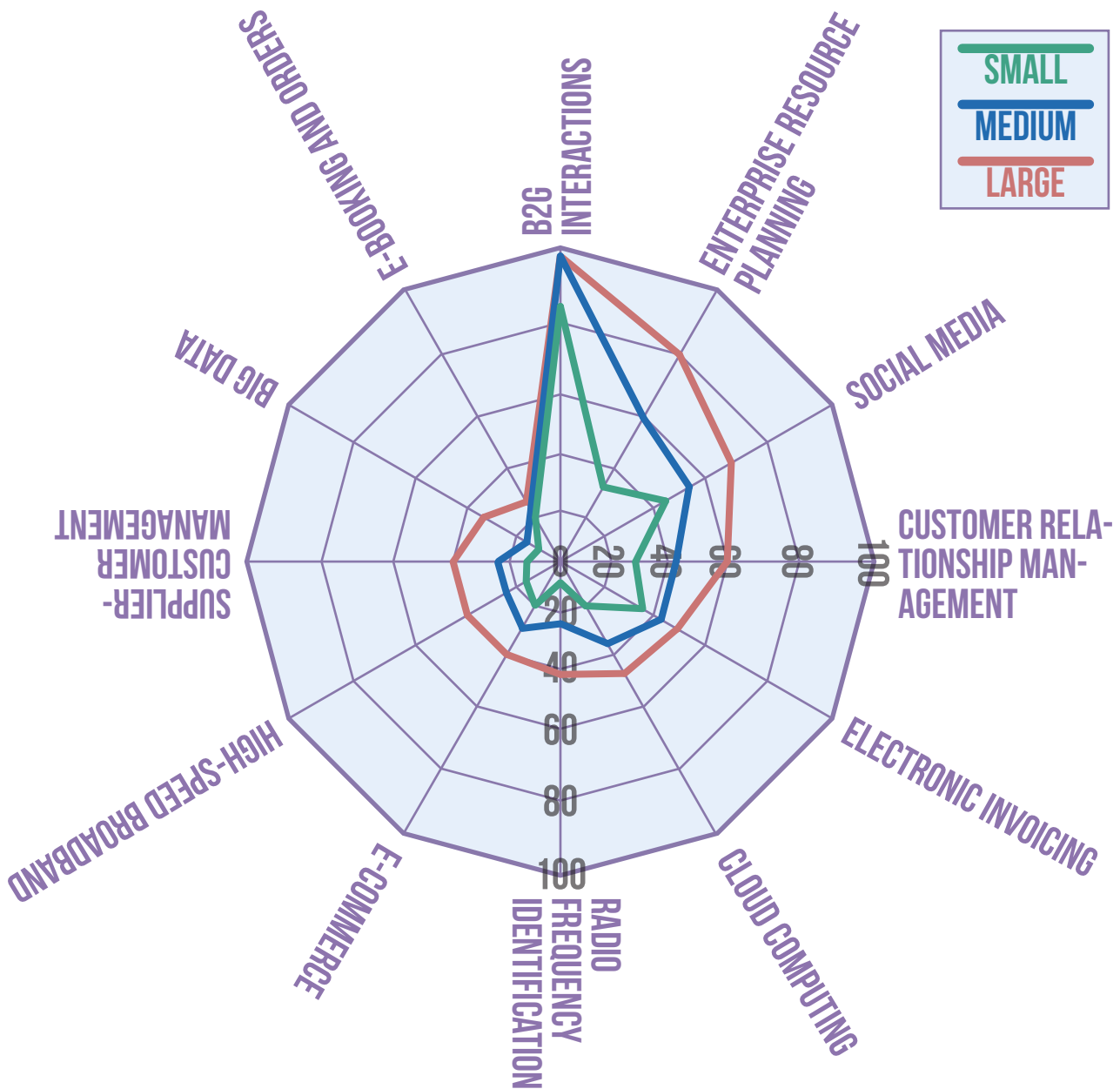
41% EMERGING TECHNOLOGIES

41% use **emerging technologies** such as digital assistants (24%) and artificial intelligence (22%).

SOURCE: XERO, 2023

Despite the importance of **DIGITAL TRANSFORMATION**, small and medium-sized enterprises (SMEs) tend to lag behind larger firms in digital adoption (OECD, 2021). Evidence suggests that SMEs often begin their digital transformation journey by focusing on general administration and marketing activities (OECD, 2021). The digital divide between small and large firms is narrower in these areas, particularly in electronic invoicing, social media, and e-commerce. However, the divide becomes markedly more pronounced when businesses move towards adopting advanced and more complex **TECHNOLOGIES**.

The challenges SMEs face in adopting **DIGITAL TECHNOLOGIES** are multifaceted, including limited financial resources, a lack of awareness and information about suitable digital solutions, and a lack of in-house expertise to support the adoption of new digital technologies (World Economic Forum, 2021). Furthermore, cultural resistance to change and a lack of strategic prioritisation for digital investments exacerbate the problem (OECD, 2021). The digital divide between large firms and SMEs has significant repercussions since SMEs form the backbone of most economies and, in the UK private sector, they account for three-fifths of employment and around half of turnover (FSB, 2024).



THE UK LANDSCAPE: SMEs AND DIGITAL TRANSFORMATION

The UK government has recognised the importance of **DIGITAL TRANSFORMATION** for SMEs, emphasising it in various strategies and reports. According to the UK government's digital development strategy, digital technologies are seen as vital for economic growth, job creation, and improving public services (FCDO, 2024). This strategy outlines objectives such as enhancing digital inclusion, ensuring a safe digital environment, and leveraging digital technologies for sustainability (FCDO, 2024).

To reach these ambitions, various policy initiatives have been designed to help SMEs enhance their **DIGITAL CAPABILITIES**. In recognition of the importance of digital readiness for successful adoption (Ri and Loung, 2021), the government has put particular emphasis on policies promoting digital awareness and skills to enhance digital uptake. By upskilling employees and business owners, the government aims to unlock new business opportunities and foster the growth of SMEs across a wide range of industries. Furthermore, upskilling could address SMEs' challenges in recruiting technically skilled employees amid competition with larger companies in a labour market characterised by a digital skills shortfall in the UK (FSB, 2023).

One of the most significant of these initiatives is the government's investments in **DIGITAL UPSKILLING**, with a particular emphasis on equipping SMEs with the necessary skills to integrate AI into their operations. In 2024, the Department for Science, Innovation and Technology (DSIT, 2024a) allocated **£6.4 million** in grant funding to assist SMEs with the costs of AI-related skills training. This funding is part of a broader strategy to integrate cutting-edge technologies into the SME sector.

Additionally, the UK government has rolled out other key funding schemes, such as **'SKILLS BOOTCAMPS' & 'HELP TO GROW'** which are designed to support the digitalisation journey of SMEs. The government has allocated **£550 million** towards these programmes, which offer SMEs access to practical and targeted training in specific technological skills (DSIT, 2024b). These bootcamps and growth initiatives also cover the strategic dimensions of digital transformation, equipping businesses with a broader understanding of how technology can improve their operational effectiveness and drive long-term growth.

Overall, the **DIGITAL TRANSFORMATION** of SMEs in the UK is progressing, driven by government initiatives, *the urgency created by the pandemic*, and the growing recognition of digital technologies' benefits. However, challenges remain, particularly in ensuring that all SMEs can access and effectively use these technologies to their advantage. A survey of 803 SMEs undertaken for the Department for Business Innovation & Skills in 2014 found that only one in five SMEs reported that their ability to use digital technologies is 'good' (Department for Business Innovation & Skills, 2015). Indeed, research conducted by Xero, *a global small business platform*, found that despite the pandemic driving many of the UK's smallest businesses (*those with up to nine employees*) online from early 2020, only **30%** have increased their use of digital tools since 2019, compared to **69%** of larger SMEs (Xero, 2023). Again, in the same research, it is reported that **41%** of the UK's smallest businesses

report using emerging technologies, such as AI and digital assistants, compared to **77%** of larger SMEs. This, and other research cited earlier, suggests that

DIGITAL TRANSFORMATION

becomes increasingly more viable as firm size increases, both within the SME category and beyond.

OUR RESEARCH

The findings presented in this report are based on the experiences of 77 SME practitioners who were considering or already embarking on digitalisation projects. The aim of the research was to:

Understand the individual and organisational enablers and barriers practitioners face in their digital transformation efforts within SMEs;

Determine whether government policies, support, and learning programmes are effectively facilitating digital transformation in SMEs;

Develop a model to guide SME practitioners in their digital transformation efforts;

Develop in-depth learning and recommendations to feed into further policy initiatives, specifically in learning programme design and delivery.

RESEARCH METHODOLOGY

To address these aims, we designed an 18-month research project conducted collaboratively by the University of Leeds and the University of the West of England, funded by the British Academy.

Our findings and suggestions are supported by a solid evidence base using the following methods:

An evaluation of the UK SME digitalisation landscape

Qualitative evidence from 77 SME practitioners in the Northwest and Southwest of England

The SME practitioners involved in this study were part of five cohorts across three different learning programmes, all aimed at enhancing the digital capabilities of SMEs. Practitioners were recruited from two distinct regions of England to capture a broader range of digitalisation experiences, reflecting each region's unique contextual characteristics. These differences included variations in business and labour market conditions, as well as the skills of the working-age population. In **West Yorkshire**, which accounted for half of the research participants, productivity levels and growth rates are below the UK average (*McCann and Yuan, 2022*). This region has been identified as one that could benefit significantly from digital transformation, given the established positive correlation between digital capabilities and productivity growth (*OECD, 2021*). In contrast, the remaining participants were based in the West of England, encompassing the local authorities of **Bristol, South Gloucestershire, and Bath and North East Somerset**. This region has experienced substantial economic and labour market growth

in sectors such as software, information technology, and digital industries, which outpaces most other areas in England (WECA, 2021).

We invited the SME practitioners participating in this research to join a group reflection session using **LEGO Serious Play® (LSP)** as a data collection method. This creative approach encouraged participants to interact with physical artefacts, which is found to unlock deeper, tacit knowledge and insights that might not surface in traditional verbal methods (Gauntlett, 2007). The hands-on, playful nature of LSP helped participants articulate complex ideas, relationships, and emotions in tangible forms, bringing about new modes of thinking and creating novel relations and understanding of the world (Knappett and Malafouris, 2008). The collaborative and iterative building process also sparked diverse perspectives through dialogue and mutual learning among participants. In this regard, the method also promotes critical and collaborative dialogue, supporting both individual and collective sensemaking in a co-creative, exploratory environment that proved valuable in developing a multifaceted understanding of digital transformation in UK SMEs.

As part of the data collection, in the group reflection sessions, SME practitioners were taken through a range of reflective LEGO model-building activities to reflect on their organisation's digital transformation journey. They were progressively asked to build three individual models. First, they were tasked with representing themselves as a digital change-maker. Then, they positioned themselves in their own organisational contexts by considering experienced and/or perceived enablers (the second model) and barriers (the third model). To structure the reflection and debrief, we used the 'build-talk-build-talk' structure (Boden et al., 2019) by asking participants to elicit verbal data as they talked through their models and what they represented. To encourage participants to flesh out deeper reflections and more nuanced comments, we enquired into position, colour, form, and symbols chosen by making simple observation statements and probing into participants' thought processes (Boden et al., 2019).

Models were photographed, and their individual presentations and wider group discussions were video recorded and fully transcribed. Three to six months after the group reflection session, participants were invited to a one-to-one follow-up interview with a member of the research team. 11 participants agreed to take part in these interviews. Each interview used the same interview schedule to ask participants about their experiences of implementing digital transformation, whilst allowing scope for deviation to allow each practitioner to specifically discuss their personal and individual experiences. All interviews were recorded and fully transcribed.

Data from the group reflection sessions and the one-to-one interviews were analysed using a three-tiered process:

- 1** Visual Analysis: The LEGO models were analysed using symbolic and compositional viewing to identify themes and patterns.
- 2** Thematic Coding: Transcripts from the group sessions and interviews were coded to identify key topics and themes.
- 3** Pattern Coding: Descriptive codes were grouped into higher-level codes to develop a comprehensive understanding of the data.

FINDINGS

Enablers such as government support, improved digital infrastructure, targeted training programs, public-private partnerships, and awareness initiatives have already been shown to facilitate the digitalisation of SMEs (OECD, 2024). Yet it is also clear that SMEs' efforts to adopt digital technologies are often hindered by several well-documented challenges, including financial constraints, insufficient digital skills, low levels of awareness, cybersecurity concerns, and regulatory complexities (OECD, 2024).

Building on these insights, the findings from our study contribute to an often-overlooked component of digital transformation in SMEs: the relational component. Beyond technical and financial considerations, we found that successful transformation requires relational enablers to help overcome key challenges. These include coordinated efforts that address trust-building, skill demonstration, milestone-setting, and the creation of supportive professional networks. These relational factors shape how barriers such as resistance to change, strategic misalignment, resource limitations, and skill deficits are managed and overcome. Our key findings will now be explained.

Enablers of Digital Transformation

1 CONFIDENCE AND SELF-EFFICACY

Structured **SKILLS DEVELOPMENT** opportunities, such as digital learning workshops or “learning factories”, provide practitioners with technical know-how and hands-on experience in new tools. These experiences not only enhance their practical skills but also equip them to anticipate and address potential challenges during digital adoption.

The acquisition of digital skills often contributes to a **PSYCHOLOGICAL SHIFT** in mindset, helping practitioners feel more capable and competent in driving digital transformation within their organisations. This shift in mindset is critical for practitioners tasked with championing transformation efforts, as it helps them approach problems with an increased sense of personal agency, creativity and persistence.

2 RELATIONAL EMBEDDEDNESS

Practitioners who create tangible opportunities to **SHOWCASE DIGITAL SKILLS** showcase digital skills can improve organisational members' confidence in new technologies. For example, presenting practical use cases or pilot results can illustrate the value of proposed tools and processes. Tailoring these demonstrations to align with the expectations and priorities of different audiences – such as frontline staff, senior leadership team, and peers – will ensure that the

message resonates across the organisation, increasing acceptance and integration of new technologies.

Building **TRUST AND COLLABORATION** across the organisation is essential for advancing digital initiatives. Practitioners who engage others and build support for digital initiatives are more successful. This involves open communication about the benefits and challenges of digital transformation that can create a foundation for collective problem-solving during implementation.

3 INCREMENTAL PROGRESS

Setting **CLEAR, ACTIONABLE GOALS** helps structure and focus digital initiatives. When these goals are aligned with the broader organisational objectives, they give practitioners a sense of purpose and direction. Organisations can also ensure that digital initiatives contribute meaningfully to overarching strategic priorities by setting goals and milestones that align with long-term objectives.

Taking a **STEPWISE APPROACH** to digital transformation by breaking it down into smaller, manageable steps fosters a sense of achievement and maintains momentum. Each completed milestone reinforces motivation and provides valuable lessons that can be applied to subsequent stages of the transformation.

4 SUPPORTIVE NETWORKS

High-quality, deep **ENGAGEMENT** with superiors, peers, and subordinates helps build a platform of support for digitalisation. Practitioners who engage others early in the process are more likely to sustain momentum and resolve potential conflicts.

STRONG NETWORKS within the organisation facilitate access to relevant resources, constructive feedback, and practical insights. These networks play a key role in improving the implementation of digital strategies.

Barriers to Digital Transformation

1 CULTURAL AND ORGANISATIONAL RESISTANCE

ORGANISATIONAL RESISTANCE can delay transformation efforts, whether due to fear of redundancy or discomfort with new systems. Employees may perceive new technologies as disruptive or as threats to their job security, which can breed distrust and hinder adoption efforts. Leaders may also only accept change if they are convinced of its tangible benefits or worry about potential risks.

Longstanding **LEGACY PRACTICES** in the organisation can stall progress. These older ways of doing things are often deeply ingrained in daily operations, creating a comfort zone that makes introducing new workflows or technologies difficult. Compounding this challenge, digital practices frequently need to work hand-in-hand with existing legacy systems, creating complexities and potential inefficiencies that discourage adoption.

2 LACK OF STRATEGIC DIRECTION

UNCLEAR GOALS put digital transformation at risk as initiatives are likely to lack focus or coherence. This ambiguity can lead to wasted resources, overlapping efforts, or initiatives that fail to deliver meaningful outcomes. When faced with a lack of strategic direction and goal alignment, practitioners may feel disoriented, frustrated or unmotivated, leading to the abandonment of digital initiatives.

CHANGING GOALPOSTS or inconsistent priorities can derail digital transformation efforts. When goals are frequently revised or poorly communicated, it becomes challenging for practitioners to maintain focus and momentum. This inconsistency can erode confidence in the initiative and disrupt the digital transformation process.

3 RESOURCE CONSTRAINTS

Many SMEs face **FINANCIAL LIMITATIONS**, constraining their ability to invest in advanced digital tools or hire specialised talent. Limited financial resources can force practitioners to prioritise short-term needs over long-term digital transformation objectives.

The daily operational demands of SMEs often lead to a **TIME SCARCITY**, leaving little room for strategic planning or professional development. Practitioners may struggle to find the time required to explore digital options, implement changes, or assess progress, slowing down the transformation process.

4 SKILL GAPS

Lack of **TECHNICAL EXPERTISE** necessary to select, implement, and utilise digital tools effectively. This knowledge gap can lead to uncertainty or hesitation in decision-making, reducing the impact of digital initiatives.

SMEs often lack the resources to provide **ONGOING TRAINING AND DEVELOPMENT OPPORTUNITIES** for their staff. Without access to relevant training programmes, practitioners may find it difficult to stay updated on emerging technologies or best practices.

5

INTERPERSONAL CONFLICTS AND BUY-IN TIME

INTERPERSONAL CONFLICTS

▶ within the team, such as disagreements over priorities or strained relationships, can hinder the integration of digital technologies. Progress in digital transformation can be stalled due to reduced collaboration among the team, a lack of shared commitment to transformation goals, and misalignment of practices among team members.

DELAYED BUY-IN FROM KEY STAKEHOLDERS

▶ can slow down the decision-making process. Securing support from influential individuals is a lengthy process. Engagement with them should start early to ensure that the rollout of critical digital projects is not delayed due to lack of support or leadership scepticism.

THE ADAPT MODEL



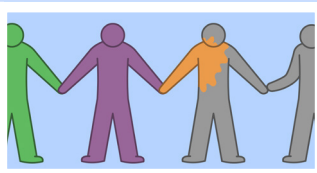
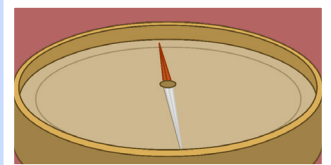
To help SME practitioners tackle these challenges, we developed the **ADAPT** model, a practical guide to making digital transformation work. This model highlights five key dimensions crucial for digital transformation in SMEs: **AGENCY, DESTINATION, ASSOCIATION, PROGRESS, and TAPESTRY**. Each dimension addresses different aspects of the transformation journey, emphasising both technical and relational elements.



AGENCY EMPOWERING INDIVIDUALS TO ACT AS DIGITAL CHAMPIONS

DESTINATION

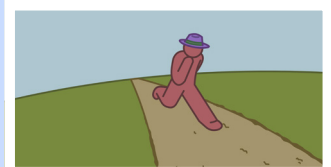
ESTABLISHING A CLEAR VISION AND GOALS FOR TRANSFORMATION



ASSOCIATION BUILDING STRONG RELATIONAL NETWORKS WITHIN THE ORGANISATION

PROGRESS

ENSURING MEASURABLE STEPS AND CONTINUOUS IMPROVEMENT



TAPESTRY INTEGRATING NEW TECHNOLOGIES INTO THE ORGANISATIONAL FABRIC

AGENCY AND IMPLEMENTATION RECOMMENDATION

The Agency element in the **ADAPT** model refers to the ability of individuals within an organisation to find ways to act meaningfully and be proactive in driving digital transformation. This dimension is particularly significant in SMEs, where the actions and decisions of individuals can have a profound impact due to the smaller size and more direct influence individuals have on organisational dynamics.

KEY ASPECTS OF AGENCY

- 1 EMPOWERMENT AND CONFIDENCE:** Practitioners need to feel empowered to take initiative and drive digital projects. This empowerment often comes from gaining technical knowledge and skills, which in turn boosts their confidence to act.
- 2 PROACTIVE ENGAGEMENT:** Proactive Engagement: Agency involves practitioners actively engaging with digital transformation initiatives, identifying opportunities for improvement, and taking steps to implement changes.
- 3 OVERCOMING RESISTANCE:** Overcoming Resistance: Practitioners with a strong sense of agency are better equipped to overcome resistance from others within the organisation. They can advocate for digital initiatives and build support among their peers and superiors.
- 4 RELATIONAL DYNAMICS:** Relational Dynamics: Agency is not just an individual attribute but is also influenced by the relational dynamics within the organisation. Building supportive relationships can enhance an individual's ability to act and drive change.

IMPLEMENTATION RECOMMENDATIONS

- 1 TRAINING AND DEVELOPMENT:** Provide comprehensive training programmes that not only teach technical skills but also focus on building confidence and self-efficacy. These can include hands-on workshops, simulations, and real-world projects. Formal training and development programmes can seem costly in the context of SMEs' limited financial reserves. However, such investments could lead to long-term financial benefits from digital transformation. Furthermore, these costs can be reduced through government-funded programmes, such as the ones mentioned in the *'The UK Landscape: SMEs and Digital Transformation'* section above.
- 2 MENTORSHIP AND SUPPORT NETWORKS:** Set up peer-to-peer mentorship programmes where employees with more expertise and familiarity in digitalisation guide and support less experienced colleagues. Where digital knowledge and skills are lacking in the enterprise, it may be possible to source external mentors to support practitioners within the organisation. SMEs can take advantage of free (or subsidised) mentoring support through schemes like Digital Boost and Help to Grow.

3

CULTURE OF INITIATIVE: Encourage initiative and experimentation to help SME practitioners discover a sense of agency in their job roles. By allowing practitioners to propose and lead digital projects and providing them with the resources and support they need to succeed, SMEs rely on an empowered, proactive workforce to drive digital transformation. Failure and mistakes should not be punished. Instead, they should be treated as learning opportunities. Since financially significant failures could be costly to SMEs with little financial slack, practitioners could be given a budget that cannot be exceeded and, if lost, would not be very expensive to the enterprise.

4

REWARD AND RECOGNITION: Rewarding individuals who take the initiative and drive digital transformation will boost morale and encourage others to act. Recognition does not necessarily need to be financial. More intangible forms of recognition, like positive performance reviews and showing trust through offering further responsibility, can be effective ways to boost motivation and confidence.

DESTINATION AND IMPLEMENTATION RECCOMENDATION

The Destination element in the **ADAPT** model emphasises the importance of having clear, actionable goals and objectives in the digital transformation journey. This can be particularly challenging for SMEs since they often need more time and expertise for effective strategic planning to determine appropriate goals and objectives. Nevertheless, the clarity such planning provides helps practitioners understand where their digital transformation efforts are headed and what they need to achieve along the way. This helps overcome risks associated with having unclear goals and changing goalposts.

KEY ASPECTS OF DESTINATION

- 1 CLARITY OF GOALS:** Practitioners need to establish clear, actionable goals, which is essential for guiding practitioners towards a well-defined endpoint, ensuring that digital initiatives are purposeful.
- 2 ALIGNMENT WITH ORGANISATIONAL OBJECTIVES:** Destination involves aligning digital transformation initiatives with the broader strategic objectives of the organisation. This ensures that digital efforts contribute to the overall mission and vision of the company.
- 3 STRATEGIC PLANNING:** Destination requires formal strategic planning. This involves detailed planning and strategising to ensure that all aspects of the digital transformation are considered and integrated into the overall business strategy.

IMPLEMENTATION RECCOMENDATIONS

- 1 DIGITAL TRANSFORMATION ROADMAP:** Provide clarity and focus to your digital transformation journey with a detailed roadmap that outlines the key objectives and milestones. This roadmap should include specific actions, timelines, and responsible parties for each milestone. Formal training and development programmes and external mentors (*discussed in more detail under the Agency element of the ADAPT model*) could provide technical and strategic planning expertise to help inform the development of a feasible and practical roadmap.
- 2 ALIGNMENT WITH BUSINESS STRATEGY:** Ensure that digital transformation efforts are aligned with the overall business strategy so that every individual in the organisation will understand how digitisation contributes to the organisation's mission. This is crucial to create buy-in and support. While SMEs often face time constraints due to immediate operational demands, alignment can still be achieved through shorter, focused strategic planning sessions. These sessions can be integrated into existing team meetings or operational reviews, ensuring that key stakeholders are involved without adding significant extra time commitments. Using tools like digital dashboards, such as Google Data Studio or Microsoft Power BI Desktop, or concise strategy templates can also streamline the process, making it quicker to communicate priorities and track progress.



TRAINING AND RESOURCES: Equip your team with the necessary training and resources to achieve the set goals so they can contribute to digital transformation purposefully and meaningfully. This includes providing access to relevant tools, technologies, and learning opportunities that support the digital transformation journey. Whilst resources are often scarce in SMEs, developing a digital transformation roadmap would help allocate scarce resources effectively to maximise their impact.

ASSOCIATION AND IMPLEMENTATION RECCOMENDATION

The Association element in the **ADAPT** model emphasises the importance of relational dynamics and networks within an organisation in driving digital transformation. This dimension helps minimise interpersonal conflict, which can hinder digital transformation. It is crucial for fostering a collaborative environment where knowledge, resources, and support are shared, helping spread any technical expertise throughout the organisation and enabling the successful implementation of digital initiatives.

KEY ASPECTS OF ASSOCIATION

- 1 INTERNAL COLLABORATION:** For digital transformation to succeed, practitioners in different roles and levels in the organisation must collaborate. This involves encouraging open communication and teamwork. When employees work together, they can share insights and develop more comprehensive and innovative solutions.
- 2 EXTERNAL PARTNERSHIPS:** Association involves building relationships with external partners, such as technology providers, industry associations, and other SMEs, which can provide valuable support and resources. These partnerships can offer access to new technologies, expertise, and best practices to enhance digital transformation.
- 3 KNOWLEDGE SHARING:** Practitioners need to create mechanisms for knowledge sharing within the organisation. This can include regular meetings, workshops, and low-cost digital platforms where employees can share their experiences, challenges, and successes related to digital initiatives. Knowledge sharing helps to build a collective understanding and capability within the organisation.
- 4 SUPPORTIVE CULTURE:** Destination requires a supportive organisational culture where employees feel encouraged to participate in digital transformation efforts. This involves recognising and rewarding contributions, providing opportunities for professional development, and creating an environment where experimentation and innovation are valued and not punished when they are unsuccessful.

IMPLEMENTATION RECCOMENDATIONS

- 1 CROSS-FUNCTIONAL TEAMS:** Establish teams of individuals who undertake different functional roles to work on digital transformation projects. These teams should also include members from various levels of the organisation to ensure diverse perspectives and expertise are brought to the table. Regular team meetings and collaborative tools can facilitate communication and coordination.
- 2 EXTERNAL PARTNERSHIPS:** Actively seek out and develop partnerships with external organisations that can support digital transformation efforts. This can

include technology providers, industry associations, academic institutions, and other SMEs. These partnerships can provide access to new technologies, expertise, and best practices.

3 INDUSTRY NETWORKS: Encourage participation in industry networks and events where employees can learn about the latest trends and best practices in digital transformation. This can help build external relationships and bring new insights and ideas into the organisation.

4 KNOWLEDGE SHARING PLATFORMS: Provide forums for knowledge sharing within the organisation. This can include intranet sites, collaborative software, and regular workshops or seminars where employees can share their experiences and learn from each other. For SMEs facing time constraints and budgetary limitations, quick, low-cost alternatives like short lunchtime learning sessions, online discussion boards, or tools like Slack or Microsoft Teams can provide efficient ways to facilitate knowledge sharing without disrupting daily operations.

5 SUPPORTIVE ORGANISATIONAL CULTURE: Foster a culture that supports digital transformation by recognising and rewarding contributions to digital initiatives. Provide opportunities for professional development and encourage employees to experiment with new ideas and technologies. Leadership should actively promote and participate in digital transformation efforts to set a positive example.

PROGRESS AND IMPLEMENTATION RECOMMENDATION

The Progress element in the **ADAPT** model draws attention to the importance of setting and achieving incremental goals to build momentum and motivation throughout the digital transformation journey. This could help overcome the potential lack of buy-in from key stakeholders, which can be a barrier to digital transformation in SMEs. This element of the model is crucial for ensuring that digital initiatives are not only started but also sustained and successfully completed.

KEY ASPECTS OF PROGRESS

- 1 INCREMENTAL GOALS:** Practitioners must set small, achievable goals that contribute to larger digital transformation objectives. These goals should be specific, measurable, attainable, relevant, and time-bound (*SMART*) to measure and manage progress effectively.
- 2 REGULAR REVIEWS:** Progress involves conducting regular reviews to assess achievements, identify obstacles, and make necessary adjustments. This helps maintain momentum and ensure the transformation efforts align with the overall strategy.
- 3 FLEXIBILITY AND RESPONSIVENESS:** Progress is only possible if practitioners encourage continuous learning where feedback and experiences from the reviews are analysed critically to identify areas for improvement. This means being open to modifying plans and strategies based on new information and changing circumstances.

IMPLEMENTATION RECOMMENDATIONS

- 1 FEEDBACK MECHANISMS:** Create informal and formal feedback mechanisms to gather insights from employees, customers, and other stakeholders. Low-cost formal mechanisms requiring little time from SME practitioners include anonymous employee feedback boxes, short online surveys, and/or sending emails to customers and other external stakeholders to seek feedback. Feedback should be reviewed, when possible, to identify areas for improvement and make necessary adjustments to digital initiatives.
- 2 REGULAR PROGRESS REVIEWS:** Schedule regular progress reviews to assess achievements and identify any obstacles. These could be short reviews built into the agenda for existing team meetings to remove the need to find additional time within team members' diaries. Time for reflection – even brief – enables practitioners to recalibrate and refine their strategies.
- 3 CELEBRATING ACHIEVEMENTS:** Recognise and celebrate the achievement of milestones. This can be done through team meetings, internal communications, or small rewards. Recognising and celebrating the achievement of milestones will boost morale and motivation and help maintain commitment among team members.

TAPESTRY AND IMPLEMENTATION RECOMMENDATION

The Progress element in the **ADAPT** model highlights the importance of integrating new digital capabilities with existing organisational systems, processes, practices, and culture. This dimension helps to overcome resistance to digital transformation from internal members of the organisation. Also, it addresses the potential for legacy practices and legacy systems to become barriers to digital transformation. This is achieved by ensuring that digital transformation efforts are harmonised with the current operational framework, thereby minimising disruption and maximising synergy.

KEY ASPECTS OF TAPESTRY

- 1 DIGITAL HARMONISATION:** A key objective of Tapestry is to ensure that digital transformation efforts blend into the organisational fabric. Harmonisation starts by identifying opportunities where new digital tools can streamline operations and add value. Evaluating areas for potential conflict is important to minimise disruption and maximise synergies among the capability set of the organisation.
- 2 INTEGRATION WITH EXISTING SYSTEMS:** Transformation does not mean abandoning legacy practices and legacy systems entirely. In fact, ensuring that new digital tools and technologies are compatible with, and can be integrated into, existing systems and practices will increase the likelihood of success of digital transformation initiatives. This includes assessing technical requirements and identifying and addressing integration challenges.
- 3 CULTURAL FIT:** Practitioners need to understand that integrating new digital capabilities is not only a technical task but also a cultural one. When new initiatives resonate with the organisation's existing values and practices, this helps gain acceptance and support from employees.
- 4 FINANCIAL CONSIDERATIONS:** While SMEs often face financial constraints, digital transformation should be approached as an investment rather than merely an expense. Organisations can prioritise solutions that offer a clear potential for value creation, such as improving efficiency or unlocking new revenue streams. Exploring phased implementations, leveraging government grants or subsidies, and focusing on high-impact, cost-effective tools can help SMEs integrate digital capabilities without overwhelming their budgets.

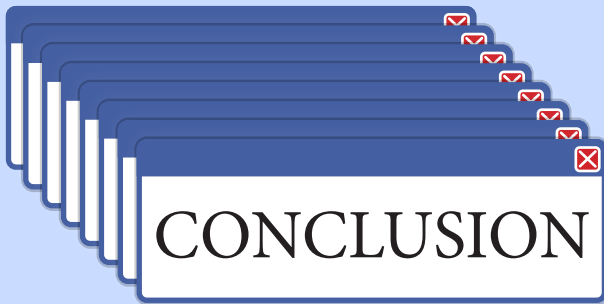
IMPLEMENTATION RECOMMENDATIONS

- 1 CONDUCT A THOROUGH ASSESSMENT:** Before implementing new digital tools, thoroughly assess the existing systems and processes. Identify potential synergy and conflict areas and develop an integration plan that addresses these issues. External mentors (*see recommendations for achieving the Agency element of the ADAPT model*) and external networks and partnerships (*recommendations for achieving the Association element*) could provide important expertise to support and inform this assessment.

2 DEVELOP A CLEAR INTEGRATION PLAN: Create a detailed plan for integrating new digital capabilities with existing systems. This plan should outline the steps involved, the resources required, and the timeline for implementation. It should also include contingency plans for addressing any challenges that may arise. Again, expertise from external contacts could be very beneficial for effectively implementing this recommendation.

3 PROVIDE TRAINING AND SUPPORT: Offer training and support to employees to help them adapt to new digital tools and processes. This includes arranging training, creating user guides, and offering ongoing support to address any issues that may arise.

4 FOSTER A CULTURE OF COLLABORATION: Encourage collaboration between different practitioners to ensure that new digital initiatives are aligned with the organisation's overall goals. This includes promoting open communication, sharing best practices, and working together to overcome challenges.



This report has underscored the critical role of relational dynamics in SME digital transformation. While adopting digital tools, acquiring technical skills and building technological capabilities are critical steps, this report has highlighted that digital transformation is a process rooted in human interactions. Practitioners who successfully navigate this journey do so by building relationships and paying attention to the interrelationship between the capability set of the organisation, so that the digital tools and the technological capabilities are integrated into the broader ecosystem of the organisation.

Our research showed that practitioners who combine technical skills with relational work are better equipped to navigate challenges and drive meaningful change. The **ADAPT** model provides a practical framework for approaching digital transformation with attention to the quality of relations – relation with the broader organisational objectives, the relation among people, and relation with legacy practices. The recommendations and implementation suggestions in this report can be summarised in the following insights.

KEY INSIGHTS FOR PRACTITIONERS:

- ▶ Supportive leadership plays a crucial role in the digital transformation of SMEs. Leaders must create an environment that encourages innovation and supports digital initiatives. This involves providing the necessary resources and nurturing a culture that values continuous learning and adaptation. Leaders who are committed to digital transformation can significantly enhance the effectiveness of digital champions within their organisations.
- ▶ Digital transformation requires practitioners to take on the role of change agents within their organisations. This involves not only acquiring technical skills but also developing the confidence to apply these skills effectively. Formal training programmes, as well as more informal mechanisms, like mentoring or communities of practice, play a vital role in this regard by providing practitioners with the technical know-how and hands-on experience needed to build self-efficacy. This increased confidence enables practitioners to drive digital initiatives and gain buy-in from key stakeholders.
- ▶ Setting clear, actionable goals and milestones is essential for maintaining momentum in the digital transformation journey. Practitioners should work towards breaking down digital initiatives into manageable steps, which helps track progress and maintain motivation. This structured approach ensures that digital transformation efforts are aligned with broader organisational objectives and can be effectively measured and managed.
- ▶ The success of digital transformation in SMEs hinges on the ability to build and maintain strong relationships within the organisation. Practitioners must engage with peers, subordinates, and superiors to create a collaborative environment

- ▶ Successful digital transformation involves integrating new digital tools and capabilities with existing organisational systems and processes. Practitioners must be mindful of the synergies and frictions that may arise during this integration process. Through digital harmonisation, practitioners can minimise resistance and disruption, ensuring a smoother transition to digital operations.

KEY INSIGHTS FOR POLICYMAKERS:

Considering our findings while addressing the UK landscape, we recommend that policymakers provide robust support for SMEs embarking on digital transformation journeys.

- ▶ Learning and skills development programmes targeted to SMEs should be designed to address both technical and relational aspects of digital transformation. By incorporating elements that build agency and create awareness of relational embeddedness, these programmes can better prepare practitioners to drive digital initiatives within their organisations.
- ▶ SMEs often need more resources and expertise for effective strategic planning. Policymakers can provide support in the form of advisory services, workshops, and toolkits that help SMEs develop clear digital transformation roadmaps. Such strategic planning assistance is instrumental in designing digital initiatives that align with their broader business objectives.
- ▶ Financial constraints are a significant barrier to digital transformation for many SMEs. Policymakers can consider providing financial incentives for digital adoption, such as grants, tax credits, funding for taking on new digitally skilled staff members, and low-interest loans to support the adoption of digital technologies. These incentives can help SMEs invest in the necessary tools and infrastructure for digital transformation.
- ▶ Developing a digital mindset within SMEs is crucial for embracing digital transformation. Policymakers can promote a digital mindset through awareness campaigns and educational initiatives highlighting digitalisation's benefits. This can help SMEs adopt a more proactive approach to digital transformation and overcome scepticism.
- ▶ To address the challenges of integrating new digital capabilities with existing systems, policymakers should provide technical support and resources for digital harmonisation. This can include access to expert consultants, integration toolkits, and best practice guidelines that help SMEs navigate the complexities of digital integration.

This report has highlighted that digital transformation in SMEs is a multifaceted process that extends beyond technical skills development. It requires a holistic approach that considers the relational dynamics within the organisation. Practitioners who can effectively engage with their peers, build confidence, set clear goals, integrate new capabilities with existing systems, and gain support from leadership are more likely to succeed in their digital transformation efforts. Policymakers play a critical role in creating an enabling environment for SMEs by offering targeted support, resources, and incentives that help practitioners navigate the relational complexities of digital transformation and achieve meaningful and lasting change within their organisations. The insights provided in this report and our study offer valuable guidance for practitioners and policymakers alike, emphasising the need for a comprehensive approach to digital capability development in SMEs.

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