

Accelerating Digital Transformation by addressing technical debt

The Path to Digital Transformation

Accelerating Digital Transformation by addressing technical debt

Today, digital transformation is a priority for both public and private sector organisations. Our research indicates that 67% of organisations are accelerating their digital transformation to address the new realities brought on by the pandemic. This supports Gartner's view that:

In 2022, spending on digital transformation is projected to reach \$1.8 trillion.

“The economic, organisational and societal impact of the pandemic will continue to serve as a catalyst for digital innovation and adoption of Cloud services.”



Digital transformation increases business agility and makes organisations better equipped to deal with the current volatile geopolitical and economic environment.



A key constraint limiting digital transformation is technical debt. Gartner states that 84% of organisations have an issue with technical debt. A similar percentage has no plans to deal with it. Consequently, most digital initiatives are trying to innovate within inefficient eco-systems.



Technical debt is a critical business issue. Every pound spent on a technical debt service is a pound not spent on digital transformation. It limits an organisation's ability to focus on meeting their customer's digital expectations. According to the 2020 KPMG/Harvey Nash survey, 6 in 10 technology leaders believe that instead of focusing on predicting long-term plans, organisations are now focusing on 'getting their house in order'.



The UK government is committed to investing £8 billion in digital, data, and technology transformation by 2025.

What is technical debt and what are its implications?

One of the reasons technical debt has limited boardroom discussion is that there is no common definition for what it is. Gartner views Technical debt as “the outstanding amount of money an organization must spend on digital technology cost obligations to continue doing business”. KPMG defines it as:

“The gap between what good looks like and what is implemented”

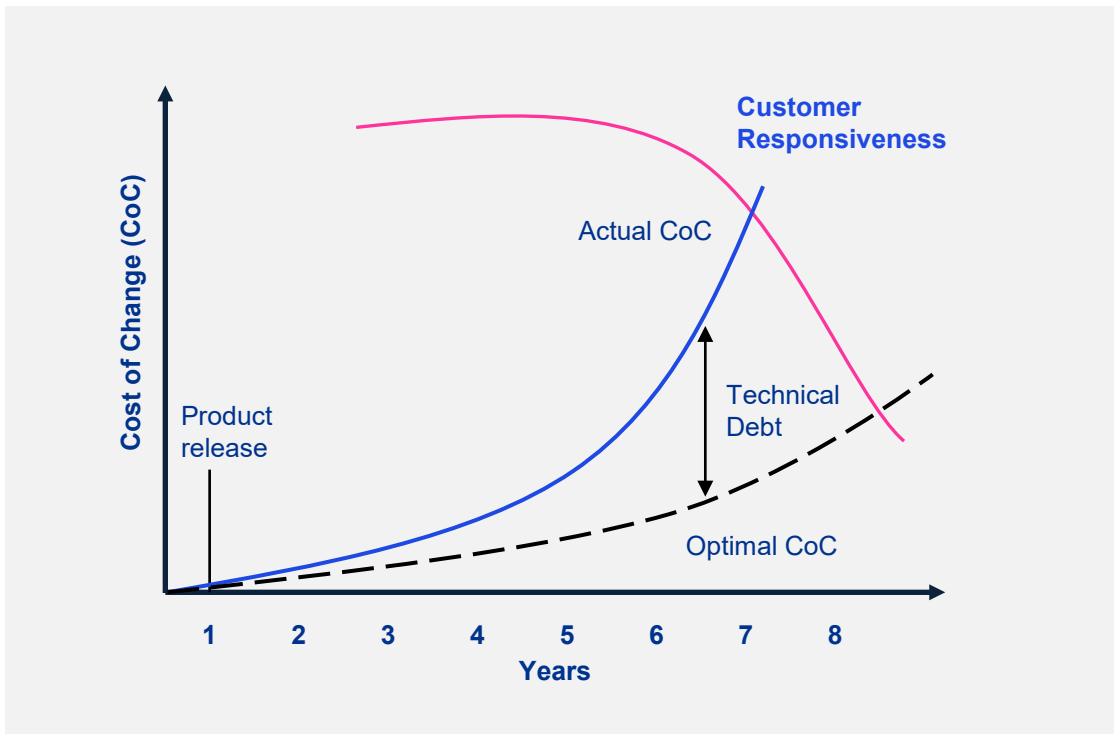
Too often technical debt is thought to be limited to poor technology choice or implementation caused by a lack of user focus, funding or time. However, the age of a solution is often overlooked. This leads to:

01 → Changes in customer needs – resulting in solutions been misaligned to today's requirements.

02 → Technology advancements and innovation – leading to better and cheaper ways to meet requirements.

03 → Solution entropy – which causes the cost of running services to increase over time .

Time alone causes an ever-growing divide between what is implemented and what is considered current good practice. This divide is not just limited to technology but wider areas, such as business processes and value realisation.



Technical debt is a material cost to the business that is hidden from the balance sheet. Businesses often do not realise that a high percentage of their 'high IT run costs' is caused by technical debt. Analogous to fiscal debt, paying down technical debt can be deferred but interest payments increase. Organisations that continue to defer payments will end up spending more on paying down technical debt and further limit their ability to fund digital transformation.

Organisations need to holistically view investments considering both sides of the digital transformation acceleration equation. In many cases it is easier to gain value by removing the friction caused by technical debt, than it is to create new value from innovation. Public Cloud gives new and innovative ways to solve technical debt challenges

How to reduce technical debt?

Technical debt is often unavoidable. Therefore, having a way to manage it is key. Our methodology to reduce technical debt:

01 → **Identify it:** It is possible to incur technical debt as “IT run costs” and overlook its existence. It is pivotal to be aware of its location, source and impact to people, process, and technology.

02 → **Quantify it:** It is necessary to “make it real” by quantifying and illustrating the true business cost in measurable pounds.

03 → **Plan to remove it:** Aligned to your overall business strategy, you should identify the method and cost to remove technical debt. This can be done using one of the three broad management methods:

- **Incremental refactoring:** Pay down the debt over time. Agile and Lean recommend allocating a percentage of resources each iteration to reduce technical debt.
 - **Replace the whole service:** If a legacy service is too complicated to be fixed or is superseded by better ways that is net positive, it is best to replace the service.
 - **Retire the service:** If the benefit a service brings to the business is less than the cost of managing the technical debt, then the service should be retired.
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04 → **Track it:** Occasionally, the cost of resolving technical debt is greater than the benefit it would provide. In this case, you should have a process to continually monitor the debt and to review it at regular intervals.

How can KPMG help you accelerate your digital transformation?

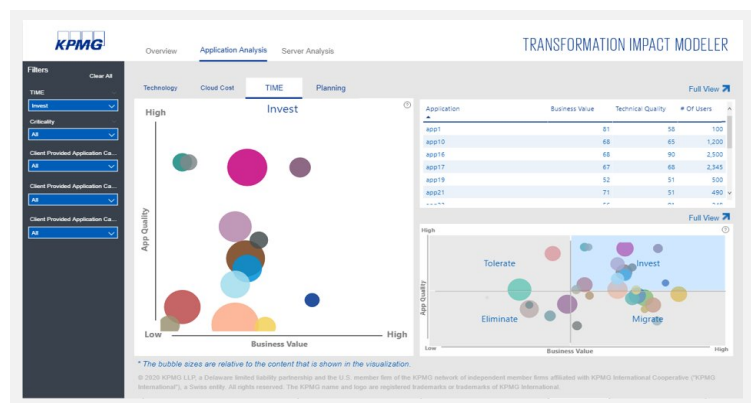
At KPMG, we have the methodology and the tools to help you strike the right balance between digital innovation and reducing technical debt. We can help you maximise your gains from digital transformation with the following:

KPMG Connected Enterprise

Identify technical debt against our connected enterprise model by comparing what you have currently implemented against the industry leading model of “what good looks like”. It allows you to educate the key business stakeholders to understand the value in reducing technical debt.

Transformation Impact Modeller

We can provide insights into the type, location and value of technical debt using our proprietary tooling which utilises intelligent algorithms, big data, and advanced analytics. This turns multiple data points into visualised information of your application portfolio, identifies areas of opportunity and next steps to reduce your technical debt.



Digital Strategy

We can help you create your Digital transformation strategy and roadmap to limit the possibility of technical debt being incurred. We can further help you measure the maturity of your digital transformation with our Digital Maturity Assessment Diagnostic tool.

Accelerate your Digital Transformation

Contact our author(s) for assistance



Richard Heath

Lead Cloud Architect –
IGH Cloud Transformation

✉ Richard.Heath@kpmg.co.uk

Richard is a Lead Cloud Architect within the Cloud Transformation team at KPMG. Focusing on public Cloud adoption. Specifically, the way that teams and organisations most effectively leverage Cloud and modern DevOps approaches to increase business agility. Richard has a special interest on AWS technologies.



Fareen Khan

Cloud Transformation Consultant –
IGH Cloud Transformation

✉ fareen.khan@kpmg.co.uk

Fareen is a Cloud Consultant within the Cloud Transformation team at KPMG with a particular focus on public sector, helping clients navigate a wide range of challenges. From Cloud Strategy, Cloud Cost Optimisation through to implementation, Fareen operates along every step of that transformation lifecycle.



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