

DIGITAL TRANSFORMATION AS CULTURAL CHANGE: LESSONS ON LEADERSHIP, INCLUSION, AND GOVERNANCE

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Abstract

Digital transformation in the public sector has increasingly been recognized as a multifaceted change process that extends far beyond the implementation of new technologies. Instead, it represents a fundamental shift in culture, organization, and institutions that requires strategic leadership, investment in human capital, and robust governance mechanisms (Mergel et al., 2019; Gong & Ribiere, 2021). This study examines the drivers, enablers, and barriers associated with Iceland’s nationwide digital transformation initiative, with particular emphasis on cultural readiness, leadership, inclusivity, and institutional resilience. By drawing on survey data from more than 100 employees in a key Icelandic public institution, this study contributes to the expanding literature on digital transformation in government and provides novel insights into the Icelandic context, a small-state environment characterized by strong administrative traditions and an increasing commitment to digital public services.

Digital transformation in the public sector is often conceptualized as a staged “digital journey”, where processes traditionally delivered through manual and face-to-face interaction are reshaped through

digitalization, automation, and data-driven practices (Gradillas & Thomas, 2025). Scholars emphasize that successful implementation requires both technological innovation and deep organizational learning, including the redesign of processes, redefinition of roles, and cultivation of digital mindsets across staff levels (Aidanpää & Sjöberg, 2021; Hanelt et al., 2021). Consistent with this perspective, European Union policy frameworks, particularly the Digital Decade plan, emphasize the need for infrastructure, skills development, and coordinated digital governance across member states (European Commission, 2022, 2023). These themes resonate strongly in the Icelandic context, where digital transformation efforts in central and local institutions have accelerated but continue to face structural and cultural hurdles.

The theoretical foundation for this study reflects the growing recognition that public-sector digital transformation demands more than technical upgrades. It requires addressing interconnected domains of change, including strategy, processes, culture, legal structures, workforce readiness, and IT systems (Lafioune et al., 2024). Within this framework, leadership plays a crucial enabling role: leaders must articulate a coherent digital vision, allocate resources, promote collaboration, and ensure inclusion throughout the transformation process (AlNuaimi et al., 2022; Pittaway & Montazemi, 2020). Likewise, staff competence and cultural adaptation emerge as foundational to successful digital transitions, particularly in public institutions where service delivery legitimacy depends on equity, transparency, and procedural guarantees (Kohnke, 2017; Alvarenga et al., 2020).

The empirical study draws on survey responses from 108 staff members collected in spring 2025, representing diverse work roles and geographical locations. Respondents were asked to evaluate the importance of specific factors across six domains identified by prior research (Lafioune et al., 2024). The findings reveal three overarching themes. First, human and organizational factors are perceived as the most crucial determinants of success. Staff highlighted the importance of training, collaboration, and change management as core capabilities that enable digital adoption. Leadership support, strategic alignment, and financial resources also emerged as significant enablers, reflecting the necessity of coordinated managerial action.

Second, respondents emphasized the salience of legal and regulatory clarity. Iceland’s administrative tradition places strong emphasis on procedural integrity and compliance, and survey participants indicated that uncertainty about legal obligations could inhibit innovation. This aligns with international scholarship, which demonstrates that regulatory uncertainty often slows public-sector digitalization, particularly in small-state contexts where institutions are under pressure to mitigate risks (Klievink et al., 2017; Fatima et al., 2020).

Third, the findings highlight tension between efficiency-driven digitalization and equitable service provision. Staff expressed concern

that rapid automation and self-service models could undermine service accessibility for vulnerable citizens, including the elderly and digitally disadvantaged groups. This reflects a central governance challenge: how to modernize services without creating exclusion or eroding citizens' trust in public institutions (Heidlund & Sundberg, 2023). As such, digital transformation in Iceland is not only a technical and managerial undertaking, but also an ethical one.

In summary, this study demonstrates that while digital technology and regulatory frameworks serve as necessary foundations, digital transformation in the Icelandic public sector is primarily a cultural change process rooted in learning, collaboration, leadership capabilities, and inclusive governance. Like international cases, Iceland's experience underscores that transformation success depends not only on technology alone, but also on the ability of institutions to foster a shared digital purpose, empower staff, and protect service equity during periods of rapid innovation. The findings suggest several practical recommendations, including sustained investment in staff development, strengthened inter-organizational coordination, and the integration of frontline employee perspectives into digital policy and performance frameworks. Moreover, they highlight the need for balanced digital strategies that uphold public values while embracing innovation, an imperative for governments navigating the complex intersection of technology, accountability, and social responsibility.

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