

# Digital Transformation: How to approach it?

The press is full of articles on the *digital transformation*. Everybody is talking about Industry 4.0, Internet of Things (IoT), and (still) Social Business (E2.0). But... when you ask ten people about what they understand as *digital transformation* you will most likely get ten different answers.

This is where the challenge begins. Everyone will probably agree that the digital transformation implies enormous opportunities, but at the same time might also threaten existing, long-established business models. Many examples of the latter are well known. So what to do about it? How to approach this obviously important topic? And, what does *transformation* really mean? Again, it depends who you talk to...

## Transformation or evolution?

Some view it as an IT issue, some others as a topic that mainly marketing and sales have to deal with, or maybe the strategy department, or the business model people, or, or... Especially in large enterprises with their typically strong functional organizational structure the strict division of labor and responsibilities still dominates. As a result, perspectives on the digital transformation are often limited to the respective area of responsibility. Some others regard it as just another change program or fad that will go away.

But is it really a transformation bringing you from a stable status A to a stable status B? Probably not. Who can say today what status B would mean, or in other words, when the change will be completed? That's why I believe that *digital evolution* is probably the better term. Where to best start? On the technology field (creating the infrastructure), on the outside of the company (getting closer to customers and markets), or inside the company in areas such as manufacturing (see Industry 4.0), or human resources (Enterprise 2.0 and social collaboration). Or maybe do it all at once? Who decides then?

Over recent months I have been part of many discussions and activities inside and outside the company, across hierarchies and industries, from the expert levels all the way to the senior executives. Those experiences have been very helpful in order to get a better insight on the magnitude of upcoming challenges and potential approaches for solutions. Of course, not so much from a scientific, but from a practitioner's perspective gained in more than 20 years of work in large enterprises. After all, I am still a digital immigrant, not a digital native...

## Why is a digital strategy important?

The bigger and more traditional an enterprise and its industry, the more relevant is the first step: to gain a *common* understanding on the *big picture* of the digital evolution, its meaning for the company's present and future business (models), and how it can be approached by an emerging *digital strategy*. If these steps are missed, chances are very high that you end up in a lot of individual activities and initiatives that are run independently from each other in their organizational silos pursuing diverging objectives. Each of these programs might be

very successful in its niche, but it will most likely not help making the fundamental steps forward. Why?

Entering the digital evolution phase means *doing things differently, experimenting, evaluating*, and above all, *learning rapidly* what works and what not. Rapid learning, the *openness to go new ways*, and *managing risk instead of avoiding it*, are key enablers for success. Inside the company it means that you need to bring together the best heads and *collaborate openly* across the grown organizational silos. Creating connected products and services without being a connected company will be very difficult! Outside it may mean that you need to team-up with other companies to build the ecosystem for a certain product or service. Without a profound, well-communicated and accepted *strategy* in place, it will be very challenging to achieve the needed alignment across the organization. But careful! Digital strategies give orientation and direction, but at the same time need to allow for adaptation from the lessons learned. After all, it's the *flexibility* and *agility* that makes start-ups and innovators successful.

## **Start-up (projects) within a big company?**

Experimenting and doing things differently from the rest of the organization is per se not a big issue. At least not in *early exploratory phases* when work is organized in projects, task forces or similar structures that operate by specific rules and regulations dedicated to their individual needs. Also, founding spin-offs or daughter companies for new businesses might be an approach. However, when these units become successful in their new fields, they will naturally grow. And sooner or later they will then be facing similar challenges as their mother company: they need a structure, a distribution of labor and responsibilities, rules and regulations, etc.

Successful projects originally setup to exploit new business opportunities will at one point be confronted with the question: what to do with the results? Where is the long-term ownership? Will it be handed over to the "old" organization? Will it become a new business unit? The big risk during this *transition phase* is that the same old concepts that have proven successful for the mother company's established businesses will be re-applied, regardless of whether they fully meet the requirements of the new business. When this happens, the potential negative impact can be significant: from just slowing down to entirely choking the still young business. In return, not re-applying the lessons learned and practices from the start-up unit back to the mother company eliminates a major opportunity for the latter: to further develop its organization and culture.

So, the major challenge of the digital evolution for large corporations is to become agile and flexible enough for new business opportunities while at the same time protecting the established business with its highly efficient and effective operational framework.

## **Organizational enablers and capabilities**

This is where the *internal enablers* come into play. In addition to the typical strategic elements such as customer, market, products, technology, partners, competencies, business model, etc. a digital strategy should also cover the key *internal enablers*: processes, rules and regulations, organization, and especially the very often underestimated soft factors such as

leadership, associates, mind-set and culture. It must be understood that all of these “enablers” are somewhat related and influence each other. They represent a very complex system, the “DNA” of a company. Any attempt to just change individual elements without considering the other parts of the system will have minimum impact only. Just like an organism protects itself against disturbances from the outside, large corporations tend to defend the successful status-quo against up-coming changes.

Examples: releasing new leadership principles without addressing their impact on associates, working conditions, etc. will most likely do nothing, especially when their application in daily work is not enforced. Introducing a software collaboration platform without re-considering existing processes, regulations and working culture will just open another information channel, but not alter the way how we collaborate. This might be the reason why in many companies the adoption rate of social enterprise collaboration tools is still rather low.

## **Bottom-up will not work**

As the digital evolution is a fundamental, *continuous change process* that affects the entire organization and most of its *enablers* and resulting *organizational capabilities*, it will as a start require a *clear vision*, an *up-to-date holistic digital strategy*, and a *full commitment by the CEO and its executive management*. Any attempt to just drive it bottom-up or in a distributed manner will eventually slow down the process dramatically or let it fail.

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