The digitally-fit organization

“There’s never been a worse time to be a worker with only ‘ordinary’ skills and abilities to offer, because computers, robots and other digital technologies are acquiring these skills and abilities at an extraordinary rate.”

Erik Brynjolfsson and Andrew McAfee, The Second Machine Age

Basil Sommerfeld
Partner
Operations Excellence & Human Capital
Deloitte

Roxana Moise-Cheung
Manager
Operations Excellence & Human Capital
Deloitte
Digital transformation isn’t really about technology
Would you expect that the decision on which size of tables to choose for your employees’ cafeteria affects your organization’s productivity? Could this be part of your digital business transformation? At first glance, these may seem like random pieces that are difficult to fit within the same puzzle. But consider this: the tables in question were in the offices of a large, online travel company working with Humanyze, a people-analytics company headquartered in Boston. The latter works as an integrator of wearables, sensors, digital data and analytics to identify, for example, which employee talks to whom, where they spend time and how they interact with each other. The analysis identifies patterns of collaboration that correlate with high employee productivity. At the company in question, Humanyze found, on the one hand, that while eating together people shared more insights and thereby boosted their productivity and, on the other hand, that productivity increased in proportion to the number of people at the same table. In this case, integrating digital technology suggested that an increase in the table size would have a direct and measurable impact on employees’ ability to work productively. The tale of the tables shows that digital transformation is not only about the technologies themselves—social, mobile, analytics and cloud—the real value comes instead from how companies integrate them and transform their business and their ways of working.2

With that story in mind, let’s look around. Some might say that the fourth industrial revolution3 is happening right now! By 2020, more than seven billion people and businesses, and at least 35 billion devices, will be connected to the internet.4 With people, businesses and things communicating, transacting, and even negotiating with each other, a new world is emerging—the world of digital business, where the majority of revenues across different industries will be driven by digital.5

Is your organization ready to face the challenges triggered by the digital age? Do you have the right strategy in place? Do you have the requisite capabilities in your organization to successfully execute the business strategy? How will your governance processes support swift decision-making and respond to market trends?

Business agility is the new definition of success
In the new digital world, the definition of success is no longer linked primarily to efficiency, but to business agility. Organizations need to be able to seize opportunities in a rapidly changing business environment, while responding to the needs of their technology-empowered customers and acting quickly to successfully implement the digital strategy. Presently, dwindling numbers of organizations operate using highly hierarchical models, in which decisions are taken in a traditional top-down manner. Instead, organizations operating in the digital business sphere have adopted loose hierarchies in which responsibility sits closer to where the impact of each decision is felt. Also, companies are shifting the focus toward outcomes and away from processes performed to deliver those outcomes.

Mobility and flexibility will be crucial for people to stay relevant
It feels contradictory to note that the lifecycle of a piece of technology is measured in months, but leaders consider it acceptable for an employee to do the same job for 5 or 10 years. It is easy to stagnate in that environment, so professional mobility leading to the right life outcomes represents an important facet of successful organizations in the digital economy.

Planning the skills of a workforce in the digital environment is complicated. So is the simultaneous need to locate people who will bring new skills into an evolving organizational context and to help existing employees gain relevant skills for the digital economy. In a world of accelerating change, building the organization’s digital capability organically is not always feasible, so many organizations are acquiring other entities for their talent base, to narrow the digital skills gap.

The key imperatives for a digital organization
In 2016, organizational structure rocketed to the top of the agenda among senior executives and HR leaders worldwide, with 92 percent rating it a key priority.6 How you define and design your organization while identifying and developing talent and leadership is a key differentiator to the success of a new digital initiative; however, aligning your organization to respond to digital business objectives presents a unique set of challenges for the executive leadership team.

While 74 percent of organizations say that they already have a digital strategy, the level of readiness to execute such a strategy successfully is quite low, with only 15 percent believing that they are “equipped” with the right people and skills to succeed in a digital environment.7

In the new digital world, the definition of success is no longer linked primarily to efficiency, but to business agility.
When enabling your organization to successfully deliver on digital business objectives, the following key digital imperatives should be considered:

1. DEFINE what digital means for your organization
2. DESIGN the digital-fit operating model to support execution of the digital strategy
3. DELIVER the digital transformation

### 1. DEFINE digital

**A.** A digital organization must operate in a fluid and perpetually evolving environment, and this requires new definitions, objectives, and roles

“Digital” means different things to different people. Concepts like “digital operating model,” “digital analytics,” “digital optimization,” “digital personalization” and “omnichannel,” to name but a few, are very likely to be new and unfamiliar concepts for most employees.

Define what “digital” means for your business—the digital vision and business goals—decide how your vision translates into a digital strategy and identify the organizational design principles that will help you align your organization to the new digital business goals.

**B.** Digital organizations must be uniquely cross-functional, necessitating deliberate and formal alignment across functions

Digital organizations require the convergence of technology, customer data and analytics to enable disruptive product development. However, when adjacent enabling functions such as IT and marketing own the management of these required inputs, digital is likely to encounter friction. It is critical that a leader who can understand these enabling functions aligns their competing business objectives. As a leader, you will be challenged to create shared goals and identify the right incentives for your new digital organization.

As companies strive to become more agile and customer-focused, organizations are shifting their structures from traditional, functional models toward interconnected, flexible teams. More than nine out of 10 executives surveyed (92 percent) rate organizational structure as a top priority, and nearly half (45 percent) report that their companies are either in the middle of a restructuring process (39 percent) or planning one (6 percent). A new organizational model is on the rise: a “network of teams” in which companies build and empower teams to work on specific business projects and challenges. These networks are aligned and coordinated with operations and information centers.

Challenges still remain: only 14 percent of executives believe their companies are ready to effectively redesign their organizations in order to enhance the roles of “networks of teams”; only 21 percent feel expert at building cross-functional teams; and only 12 percent understand the way their employees work together in networks.

**C.** Digital organizations must operate with speed and precision while understanding when fast and nimble (rather than slow and consensus driven) decision-making is needed

Change is the new “normal.” Digital organisations must be nimble, hyper-responsive to market and able to change track, reallocate resources, implement processes and continuously renew their digital culture. Embedding change capabilities in the business is one of the key success factors for digital implementation.

In light of these challenges, leaders of digital organizations must answer one central question:

“How do I redesign my organization to succeed in the new digital landscape?”

### 2. DESIGN the digital-fit operating model “One operating model does not fit all”

Culturally open, dynamic and flexible structures built on mutual trust are the basis of the information economy today and should be a long-term aspiration for many companies. Although radical structures such as those of Valve and Zappos are unlikely to work in many—or indeed any—other organizations today, they can’t be dismissed as curiosities.

To become more agile, organizations must develop practices to deal with change events, to be able to adapt rapidly
Valve is a sizable and much-studied US software company that has no hierarchy, no defined strategy and is seemingly held together by the shared philosophy and sense of responsibility of its employees. Its 300 or so employees are encouraged to determine for themselves what the best projects are to undertake, convince their colleagues of their idea, then assemble teams to realize those projects. Valve was four times more productive than either Google or Apple in terms of market capitalisation per employee and as much as ten times more productive than peers in the video games industry.8

Zappos is a US-based shoe retailer with 1,500 employees, whose CEO Tory Hsieh recently announced the company’s intention to move to a radical, self-governing, operating system called “Holacracy.” In “holocratic” organizations, there are no job titles and no managers, and hierarchy is removed completely. In 2015, Zappos was ranked 86 on Fortune magazine’s “Best companies to work for” list.

It would be a mistake for leaders of more longstanding organizations to attempt to jump to such structures. The culture shock would be too great. Instead, successful leaders must proactively consider what they can learn from organizational models being established by “digital natives” and, depending on their own level of maturity, see how they can apply new ideas and adapt their organizations to meet digital challenges.
The four types of digital organization

Possible solutions range from “Tactical” models, where digital technology and ways of working are used within business units to achieve existing objectives, to “Business As Usual” (BAU) models, which embed digital culture, processes, business models and technology across the organization until they become a way of life. There are, of course, many hybrid options in between.

The Tactical model.
Characterized by: opportunism
In the Tactical phase, digital technology and ways of working are used within business units to achieve existing objectives.

Techniques like digital marketing, processes such as online self-service and technologies like field force mobility all create value without the need to re-engineer the way the business works.

The challenge is that these investments are made in silos, without a view to changing the effectiveness of the entire business. Investments are large but not strategic. Digital remains at the edge of the business, its challenges and opportunities are restricted to the minds of a few, and the subject is treated as an exception to business as usual.

The Tactical model is extremely common in organizations that have expressed a desire to establish a digital market presence, but who have so far not articulated a coherent digital strategy.

The Centralization model.
Characterized by: agenda setting
To bring appropriate governance to expenditure in digital, digital initiatives and skills are consolidated into a central unit; this unit then translates corporate strategy into priorities for digital initiatives and works with the business units with regard to implementation. This enables appropriate governance of digital expenditure. It also creates a structure for turning corporate strategy into priorities for digital initiatives with the central team being able to work with the business units to implement them. This structure tends to be more efficient in enabling the organization to scan the market for digital opportunities, support the exchange of ideas on digital between business units and deliver digital processes and technologies on behalf of the business.

This centralization can also benefit organizations that are doing far too much in digital. Phrases like “Skunk Works” and “Guerilla Units” are often used to describe the well-intentioned pet projects of managers that are meant to establish innovative technologies, products and ways of working, but rarely have much of an impact at a strategic level. Identifying and selecting these initiatives is one of the first tasks of a digital team. It can also identify strong talents and ideas to bring into the team.

In general, the central digital team is a transient feature of the organization that helps it gain control of investments, breaks down silos and teaches and empowers leaders to use digital techniques to transform the organization. This could become the optimum model in cases where, for example, the central team becomes a “Digital Expertise Center,” but in majority of cases, responsibility for digital should be broken up and passed to the business’s operational leaders.
The Champion model. 
Characterized by: transformation
A digital strategy is in place, and has been effectively communicated across the business.
A central digital team no longer holds all responsibility for digital, and emphasis is placed on sharing knowledge, educating and enabling others in the business.

Organizations operating on the basis of this model have sufficient openness and trust to effectively focus on performance rather than becoming embroiled in the decision-making process. The most significant enabler of this model is deep understanding between the leadership and employees of what digitally really means for their organization. Capabilities such as innovation, data analytics, and change are shared strengths that enable the organization to be self-sufficient.

The Business As Usual (BAU) model. 
Characterized by: normality
Ultimately the objective of digitization is to create a business that is flexible and responsive to change at all levels. In the BAU model, using and working with digital is no longer unusual, and is a fully embedded part of daily working life.
There is no longer any need for a centralized team, and those working on initiatives and with specific digital skills rejoin business units. Everyone remains connected on an ongoing basis. Teams form and disband dynamically based on business needs.
How to measure your digital readiness

To choose the right operating model for their digital organization, leaders must understand the gap between the current and desired status quo in the context of the new digital ecosystem.

Organizations should not seek to be leaders in every aspect of digital business, but instead focus on those that are fundamental to their digital strategy.

To that end, leaders must answer five key questions:

- **Do we have the right vision and strategy for digital, and the leadership, communication and focus required to support this vision?**
- **Do we have the right approach to understanding and communicating with our customers to succeed in a digital environment?**
- **Do we have the right products and strategy, and the ability to develop, manage and sell them effectively?**
- **Do we have the right organization, talent and culture to support my vision, products, and services?**
- **Do we have the right processes, controls and technologies to develop and sustain a profitable business?**

The example organization shown above is typical in that it has succeeded in delivering some successful digital products and services to its customers in line with a defined digital strategy but it delivers them in a traditional hierarchical manner. Although this is fine in the short term, in the majority of cases it will not be sustainable in the long term as the rate of innovation and change continues to increase and new digital competitors enter traditional marketplaces.
In the digital world, the most important capability gaps are not technology-related.
The most critical capabilities organizations need to develop to meet the digital challenge are far from being technology-related. Instead, they include:

- **Digital leadership to build and support the business vision and strategy.**
  Leadership is in fact more important than ever in times of change, but leadership styles may change to reflect the more collaborative nature of the digital workplace. There is no fixed definition of strong digital leadership in the digital world, but a few key leadership principles still remain critical to success:

  A. Set a vision. Above everything else, the leader must set a vision for the organization’s digital future, be able to translate the strategic course of actions to the wider organization and get the buy-in

  B. Empower, don’t dictate. The leader’s role is to give the individuals and teams the ability, resources and freedom to accomplish a goal efficiently and accountably. Leaders must keep their teams focused on the outcomes, support and reinforce their people in taking ownership and be a role model that focuses attention on the business strategy

  C. Develop the “network of teams.” The digital leader quickly develops a network within and beyond this area of expertise, successfully operating across silos and within functional teams

  D. Be smart and mobile. The digital leader is hyper-connected and always “on the go,” ready to grasp any opportunities on the market. A digitally savvy professional capitalizes on opportunities new technologies bring to the business as well as to the team

  E. Provide real-time interactive feedback and use social and mobile platforms to engage with the team

  F. Foster a culture of knowledge and content e-sharing and role model values such as integrity, openness and transparency

  G. Drive decision-making based on analytics

  H. Supports team diversity to achieve the optimum balance between deep functional expertise and generalized skills to create a flexible, dynamic and highly effective team.

- **Change management to support the embedding of a culture of innovation, adaptability and entrepreneurship.**
  Most organizations and business processes are not built for rapid change; rather, they are designed for consistency and efficiency. However, faced with a continuous change in relation to customer experiences and needs, organizations, processes, products and services must constantly evolve and adapt. Changing the mindset at the organizational level and foster a culture of change, innovation and entrepreneurship represents an imperative and a challenge at the same time.

  - **Customer journey mapping to identify the pain points in the customer journey and improve customer satisfaction.**
    Some organizations are redesigning the entire organization around the customer life cycle, while others empower their customer journey owners to create an enhanced customer experience. Whichever model they choose, organizations need to be digital customer savvy to be able to map the experiences within their customers’ ecosystem of value and translate them into the right products and services to enhance their digital experience.

  - **Innovation management** to enable a shift in thinking about and applying technology to create new sources of customer value. Digital businesses connect customers and employees to support “co-creation” of their products and services and ensure that they are properly tailored to meet customers’ needs. Companies such as Procter & Gamble (P&G) use digital virtualization to test product packaging and shelf layouts with real customers in virtual stores before embarking upon the production phase.

  - **Data analytics** to help turn data into insight and improve customer experience to drive new sources of revenue.
Key principles to effective digital governance
Silos, rigid and random are just three characteristics of the ineffective governance processes of many organizations today, ultimately leading to an ineffective customer experience. As organizations move to more mature digital strategies, they will also need to shift their governance accordingly to ensure agility as they execute their strategies and provide effective and efficient responses to the needs of their customers.

3. DELIVER the digital transformation
Embed change management practices in the organization to enhance digital experience delivery
The digital age is characterized by constant change; no digital experience project is completely finished and organizations are continuously challenged to adapt to new market dynamics and the needs of digital customers. In this ecosystem, change management is the key to helping your organization keep pace with the times.

Agile organizations develop practices to deal with change events impacting their businesses such as price wars or mergers. They must be able to rapidly identify challenges and opportunities, define an approach/response to deal with the issues, allocate resources, execute successfully and encourage positive behaviors and attitudes across the board. And they must handle all these changes as a routine without major disruption to the business.

The change management structured approach includes several key phases and key actions to be taken to enable change management capability to be embedded at the organizational level and ensure a successful delivery of the digital transformation:

- Creating a climate for change
- Engaging and enabling the organization
- Implementing and sustaining change

Key principles to effective digital experience

Define your governance playbook, to help you define, prioritize and deliver customer experiences and enable your firm’s digital experience success

Use governance to bridge digital experience strategy and delivery, either by creating unified governance bodies or by including digital in the existing committee meetings across the business

Focus on the business, not on controlling actions—set cross-functional objectives and metrics, and design client-centric processes

Develop an appetite for risk to enable innovation and drive customer experience excellence

Including digital agency partners (through transparency, integrated teams, PMOs) is critical to maintaining digital experience delivery and enhancing the customer experience
Change Management — Key steps and actions

Creating a climate for change
- Create a well-defined “customer-first” vision
- Identify sponsorship and enable collaboration between key stakeholders for the digital initiative: (e.g., CMO and CIO)
- Secure resources for new technologies and people
- Select your team to drive the digital change; create change CoE for digital

Engaging and enabling the organization
- Assess readiness for embracing new digital agenda
- Engage your change champions and agents for digital experience delivery (e.g., technology management, business and marketing leaders, etc.)
- Design and implement tailored communication to gain buy-in for digital agenda

Implement and sustain change
- Celebrate success stories on the digital agenda across technology, marketing and business
- Support continuous learning to educate employees on the digital imperative
- Monitor digital adoption by the organization and continuously adapt your approach

The eight steps of change management
1. Increase Urgency
2. Build the Guiding Team
3. Get the Right Vision
4. Communicate for Buy-in
5. Empower Action
6. Create Short-term Wins
7. Don’t Let Up
8. Make it Stick

Source: Forrester, Implement essential change management practices to improve experience delivery, 2015
Conclusion

“The machine does not isolate man from the great problems of nature but plunges him more deeply into them.”
Antoine de Saint-Exupéry

How many times have we heard about significant IT investments made in organizations to achieve a particular business objective and that “it didn’t work”? How many times do we remember ourselves coming into the office one day to discover that we “were blessed” with a newly implemented system whose only aim was to “make our life easier” and which, in fact, just made things more complicated?

Undeniably complex, the ability to digitally reinvent a business goes beyond designing and implementing technologies, systems, social networks, tablets, etc. Instead, the focus is how we constantly evolve our organizations, how we develop our capabilities and our people, and how we prepare ourselves for and eventually change our ways of working to deliver a consistent customer experience across these touchpoints in a digitally driven world.

To achieve that, business leaders need a holistic new approach that integrates technology and people into a new organizational digital ecosystem and contributes to the creation of sustainable new ways of working that ultimately contribute to enhancing the business output.

Sources