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101 reasons why we get digital transformation all wrong, part 2

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In part one of this two-part post I hypothesized that many organizations are approaching digital transformation from the wrong direction.

Instead of taking the opportunity to rethink their value creation practices many organizations appear to be simply applying digital technology to what they already do. Across these two posts my overall aim is to look at the goal of **transforming digitally** from two highly inter-related perspectives:

1. the way in which digital connections fundamentally transform the way we build and sustain relationships with our customers; and
2. the way in which this transformation unfurls into a need for new organizational structures in order to make these relationships effective.

Part one considered the first point and used the simple example of focusing on your customer – a mantra for every enterprise – as an illustration of the transformational possibilities. The post therefore started from an outside-in perspective to first show how digital technologies can take us from industrial-age practices focused on ‘customers’ in aggregate to digital-age practices focused on individual ‘users’ with whom we have highly personal relationships at scale. But at the end of that post I also pointed out that grasping these opportunities does not come for free – to work with our customers differently we have to work differently ourselves.

In this second post I therefore wanted to consider the second point, looking at the **organizational transformation** that will be necessary to achieve such intimacy and the way in which we need to organize ourselves to be able to sustainably create this value in future.

Customer where art thou?

So in part one I talked about the way in which digital technologies allow us to build deep relationships with individual customers. But paradoxically – because traditional enterprises have been built as deep hierarchies configured to efficiently push out highly standardized offerings to broad groups – many of the people who actually create value today are also the ones who are furthest away from customers and the market. In fact, in many organizations people in R&D or production have been pushed further and further away from customers as the organization has scaled, with only sales people having any significant contact with people outside the organization. Effectively, **the people who make the stuff no longer sell the stuff**.

This means that we gradually get into a spiral where our only information about the market comes from sales teams and quarterly data, both of which are primarily focused on the next quarter’s numbers. This in turn means that any insight that eventually makes its way to the product teams is generally about what helps the sales teams maximize their bonuses rather than what the customer might want – giving us less and less context to evolve the features of our products in line with our customers changing expectations, knowledge, and experience of other alternatives. Essentially, the company becomes blind to new threats and the evolution of the market. Even in the industrial economy this was dangerous – as eloquently explained by Steve Jobs – but at least it happened over decades. In the digital economy it is certain death – and often in a very short time frame. There is no place to hide from the exponential nature of digital economics.

Fortunately, achieving zero distance between product teams and users in practice does not require significant effort from a technology perspective. It is now simply a de facto reality when you build digital products using modern platforms. Teams who have transitioned to new application development practices such as low code – or even to low level practices like DevOps – now have reams of information to hand about the way in which people are using their product – or at least could have if they chose to do so. But the technical ability to gather this data and tweak applications in a continuous stream of updates is not in and of itself sufficient.

Many organizations have indeed started to dip their toe into these new technologies and techniques but have not yet adapted their wider business and organizational practices. Just having information that tells you what you should do – and the capability to do it – is worthless if the budgeting, management, and governance practices of the wider organization run on top down planning, investment allocation, and approvals. In most organizations that have adopted new practices the teams building digital services do indeed have enough data and skills to run at unprecedented velocity. But the management processes, governance models, and investment protocols held over from the previous era of business prevent them from acting on it in a timely fashion.

In my personal experience I see that **there is plenty of ‘digital’ in today’s enterprises but a distinct lack of ‘transformation’**. The majority of organizations still exist as static hierarchies that centralize control, distrust change, and disempower staff due to an obsession with financial metrics and a fear of losing control. While maintaining existing hierarchies and processes provides a seductive illusion of stability and control, however, it also blocks the radical redistribution of power necessary for digitally-enabled, customer-centric teams to run at the speed demanded by the

digital environment. Adopting digital technologies without the supporting transformation necessary to use them to their full potential is like running the 100m against Usain Bolt with your legs tied together; it was already going to be a stiff challenge but the constraints you have imposed on yourself make it impossible. Many CEOs complain that they can't compete for talent with companies like Amazon, Google or Netflix – to which I say, wow – go figure. If you take great people and then tie them up in hierarchies, approval processes, and organizational politics that prevent them from doing great work then it's hardly surprising that they want to work elsewhere.

Turn that frown upside down

To address this challenge we need to fuse the enabling technologies of digital with a new form of empowered team that can use them to build direct relationships with the user communities that they serve. This means **turning the traditional organizational pyramid upside down**. Rather than having a pyramid with a CEO at the top, teams at the bottom and layers of middle management to coordinate everyone in between we need to create a situation where the majority of teams are customer facing and empowered to use their intimacy with their users to run as fast as they can with minimal management overheads – with the executive team supporting these "micro-businesses" from behind with scalable investment and market access.

These teams should focus on creating the right value for their user communities without growing so big that they begin to re-establish deep hierarchies and slow down again. Like the famous 'two pizza' rule at Amazon there should be a limit after which a team is either split into separate entities or begins to 'pull' services from other teams in order to create a lean 'digital supply chain' that supports the end-to-end realization of their users' goals through service composition. Over time, the aim should be to **create a networked organization** in which customer facing teams pull support and innovation from both internal teams and an external ecosystem of partners. This will allow each team to stay close to its users and focus on delivering the most effective solution to their specific needs while pulling supporting innovation and scale into their products and services from the wider network.

Doing the right things and then doing things right

So looking at transforming digitally from a customer value perspective, we need to do two things: firstly make sure that we are sufficiently connected to our users to be able to do the right things, but then secondly also realign the way the whole organization works to prioritize doing these things in the right way. Truly embracing digital technology for transformation therefore has a surprisingly significant impact on both the way we create value for customers and the structure and purpose of the enterprise – if followed through from end to end.

Going back to the original premise of these posts, therefore, we can see that realigning technologies, changing behaviors, and inverting operating models are all part of a serious attempt to transform digitally – but are not really important in a digital transformation of what you already do. In most organizations it is very rare to hear these topics discussed, however, with the majority of focus always put onto the technologies (and associated practices) of supposed 'digital' – cloud, devops, RPA etc – rather than the unprecedented opportunities to transform the way in which we build and deliver value with customers via new lean organizational structures.

Fully embracing this shift means that the enterprise ceases to be a vehicle for centralized control and coordination and becomes a platform for market-centered innovation, using its expertise, brand, and capital to facilitate the organic formation and growth of **value creation communities that span the boundaries of the original organization**. The purpose of the firm, therefore, becomes to tend a portfolio of profitable communities which self-govern and which require no overall control beyond the organization's vision, purpose, and beliefs. Such portfolios will contain potentially hundreds of 'micro business services' which are networked together to build out lean, sophisticated, and adaptable value networks. These **micro-businesses** will be small, cross-functional entities that each face their own distinct customer niche and take responsibility for the whole lifecycle from production to sales.

By leveraging the intimacy of digital relationships and a newfound empowerment to innovate without permission, these micro-businesses can transform both the value of the services they provide to their users and the fundamental structures through which they are delivered by the enterprise.

And to me that is what transforming digitally is really about. So please don't mention shifting monolithic ERP systems to the cloud or using screen scraping robots to do legacy data entry ever again, lol

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