

*SHIFT*BASE RESEARCH*

Barriers to Digital Transformation

Research report
October 2016



Digital Transformation. Over 6 million results on Google. Do we need another report?

Reviewing the reports and white papers that cover this topic, it is clear that many people believe Digital Transformation is only about technology deployment or digitised customer experiences - in other words, about the external face of the organisation.

While important, this perspective does not capture the full scope and potential of Digital Transformation, which goes way beyond adding new technology to existing business and operating models. It has significant implications for all aspects of how we organise the value chain, including the structure of the organisation itself.

Connected products demand a connected organisation.

Failure to engage with the internal aspects of this challenge can lead to a dangerous gap between customer expectations and our ability to fulfil them.

We believe there is a need for more resources that look at how digital impacts the internal structure of the organisation, and also more practical advice for executives within complex organisations to help with the difficult task of making change stick.

In the summer of 2016, we conducted 25 in-depth interviews with Heads of Digital and HR at large companies to learn how they were addressing the challenges of Digital Transformation and new ways of working.

Our research focuses on these two types of executive because they play instrumental roles in steering organisation and culture change.

The resulting report showcases key insights, best practices, and our practical recommendations for advancing the transformation agenda.

For the purposes of this research, when we talk about Digital Transformation, we mean:

The process of creating new organisational structures and ways of working, made possible by digital and social technology.



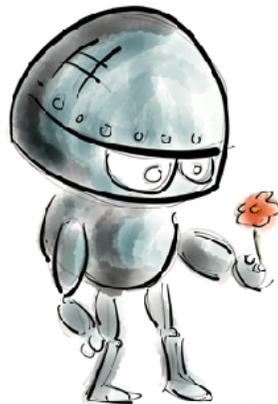
Today's Operating Models Assume A Knowable Future

How are companies coping with increasingly volatile and uncertain market conditions?

It is often a struggle. Today's operating models were built for market conditions that no longer exist. As such, these models uphold increasingly outdated norms of structure, work practices, culture, and leadership.

Most of our interviewees - many working at the coalface of disruption - acknowledged the disconnection between challenges of the future and the current operating model.

"Our processes are obsolete. We're not generating the desired output. We're taking too long and using too many internal resources." (Manufacturing)



Today's Capability Gaps

- ■ ■ ■ ■ Employees do not have the necessary skills and mindset
- ■ ■ ■ ■ We do not have the right org structure to nurture innovation
- ■ ■ ■ ■ It is tough for us to be in constant alignment with customers
- ■ ■ We need better leadership to reinvent the business for the 21st Century
- ■ ■ ■ ■ Current processes are too slow and resource-intensive
- ■ We do not encourage experimentation due to fear of failure

■ HR executive
■ Digital executive

Digital Transformation Means Designing For Adaptability

Interviewees spoke about the capabilities required to future-proof their businesses.

They cited laudable goals, including the need for lateral thinking to see possibilities for new products and services, new ways of working to speed up decision-making, and greater digital fluency to build customer empathy. These desired capabilities can only take root when supported by a new operating model designed for adaptability and connectedness.

"In our bank, we think of loans and cash flow. The client thinks about buying a house. Could there be other ways to answer that need? I want my people to know how to answer that question." (Financial services)

"We need to get to a point where everyone is working at eye level - connecting directly with each other and speaking up." (NGO)

"Our biggest challenge is to get our front-line store staff to become more digitally aware." (Retail)

Recently, we have seen increasing interest from companies in the creation of a "Digital Operating Model." Not surprisingly, this trend coincides with the popularity of alternative organisational frameworks such as Holacracy, agile teams, and the Tribe/Guilds Model. With few exceptions, most pioneers of new models – from industrial firms like Morning Star to technology start-ups like Valve – do not take an "off-the-shelf" approach.

Instead, their operating models are tuned to their particular challenges, goals, and culture. That said, the operating models of these pioneers do share common attributes of adaptability, which we divide into four categories:

1. **Structure:** how work is organised and employees communicate.
2. **Practices:** a company's dominant ways of working, both within teams and across business units.
3. **Culture:** beliefs, behaviours, habits, and norms that shape work and interaction.
4. **Leadership:** how leaders influence, motivate, and direct the work of employees.



The Attributes Of Adaptability

STRUCTURE	PRACTICE	CULTURE	LEADERSHIP
<p>Decentralised</p> <p>Distribute decisions and power across the whole organisation instead of holding at the centre.</p>	<p>Agile & Iterative</p> <p>Organise work in short sprints and review goals regularly. Break activities into small pieces with feedback informing iteration loops.</p>	<p>Open</p> <p>Promote sharing not gate-keeping, as a source of authority and influence. Promote transparency, inclusion, and accountability as defaults.</p>	<p>Curious</p> <p>Respond to emerging threats by asking questions, not making snap judgments. A curious mind is the foundation for lateral thinking and innovative ideas.</p>
<p>Resilient</p> <p>Embrace the rapidly changing world and develop coping mechanisms, rather than defences. Resilient organisations get stronger through external challenges.</p>	<p>Data-driven</p> <p>Share data to increase workforce know-how and improve decisions. Orchestrate data flows and give people tools to make sense of them in the context of their daily work.</p>	<p>Customer-driven</p> <p>Place customer needs front and centre, and use design thinking techniques to understand how to meet them with the best possible user experience and value propositions.</p>	<p>Serving</p> <p>Support and develop your teams to perform better. Listen, empower, motivate, and coach. Remove barriers that stand in their way.</p>
<p>Adaptive & Emergent</p> <p>Reconfigure your organisational structures and practices. Look for emergent outcomes as new situations arise in the environment.</p>	<p>Collaborative</p> <p>Enable employees to build on each other's work and combine strengths. Collaborate internally, but also with partners and customers.</p>	<p>Innovative</p> <p>Encourage new ideas regardless of where they come from. Prioritise customer ideas. Identify great problems as sources of innovation.</p>	<p>Connected</p> <p>Network-centric leaders get things done using influence and persuasion within social networks, not just authority.</p>
<p>Networked</p> <p>Create lateral and diagonal links, not just vertical reporting lines, to connect know-how, spread ideas, and shorten communication lines.</p>	<p>Task-focused</p> <p>Focus on 'jobs to be done' not just following the process. Encourage people to find and solve problems regardless of role.</p>	<p>Accountability</p> <p>Everyone takes responsibility for their actions no matter where they sit in the hierarchy, rather than 'blamestorming'. Reduce fear and promote ownership.</p>	<p>Inclusive</p> <p>Anyone can be a leader; leadership is not the same as management, and it can come from anywhere. Find it, nurture it, and encourage it.</p>
<p>Service-oriented</p> <p>Organise services in a way that is 'composable'. Internally, create a Shared Service Platform; externally organise for self-service if possible.</p>	<p>Podular</p> <p>Organise around small, single-purpose agile teams that are as small as possible, yet big enough to minimise dependencies on other groups.</p>	<p>Passionate & purposeful</p> <p>Engage the whole person, their passion, and purpose. Motivate employees with the company's purpose, not just business objectives.</p>	<p>Situational</p> <p>Adapt leadership style to the maturity of the team and the context. Sometimes this means driving to a goal; sometimes exploring the path.</p>



No Standard Organisational Structure Exists

Interviewees reinforce the importance of context in creating the right structure. Across these companies, no standard organisational structure exists – although models did roughly break out into centralised, decentralised, and hybrid. Only one interviewee had a documented roadmap for organisational evolution; on the whole, the interviewees used a test-and-learn approach to evolve their structures.

Regardless of the chosen model, the most successful org design approaches share basic principles that create an effective blueprint for evolving structure:

1. **Alignment** of innovation efforts and existing operations
2. **Accountability** throughout the entire organisation
3. Employee **collaboration** enabled by digital and social technology

One company aligns its digital centre of excellence and lines of business using a customer / manufacturer model. The central digital team models customer journeys, giving feedback on met and unmet needs, pricing, and packaging. The lines of business then "manufacture" the product innovations. This approach eliminates competition between the two organisations.

CENTRALISED

"We insulate digital from the operating P&L, so innovation can't be cut." (Business services)

DECENTRALISED

"We don't ring-fence transformation. My team is a resource pool for the businesses. We help the business go through a process." (Manufacturing)

HYBRID

We run an innovation challenge with our employees. We take finalists out of their departments and put into innovation lab. If their idea succeeds, then they have a new job. This is how we seed the innovation back into the business." (Insurance)



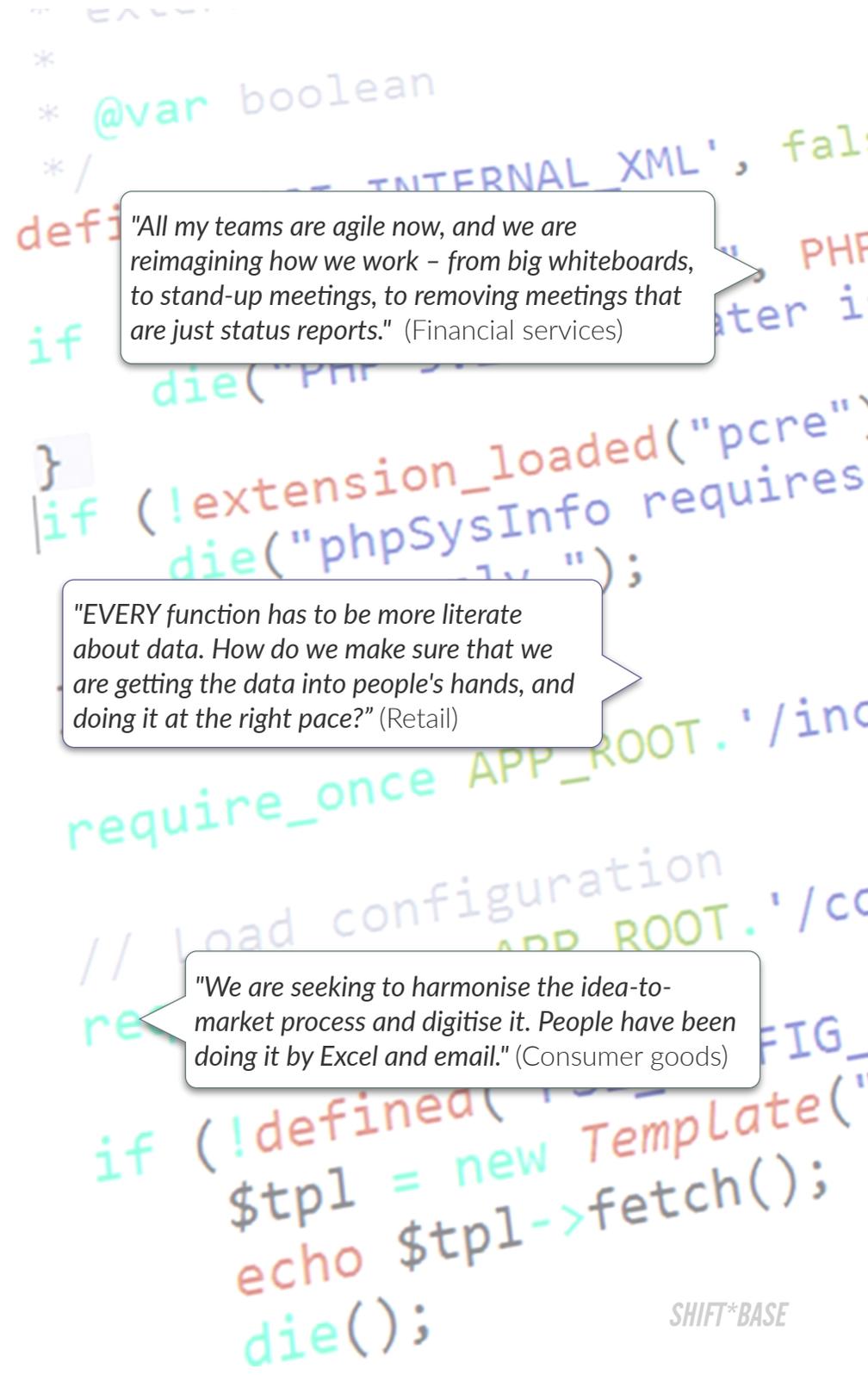
New Practices Borrow From Software

In several of our interviews, executives expressed genuine excitement for new ways of working. Many of these practices bring the tempo – as well as the lingo – of agile software development to the entire business.

Over time, software has evolved from single-purpose, vertically-integrated structures to become layered and organised on a platform of core services. We expect to see the same thing happen to organisational structures, where lower layers of services can be re-packaged and re-used by teams close to the customer interface to deliver more flexibility and value.

Most evident, however, is the way that management thinking is increasingly becoming influenced by agile methods - not necessarily the whole practice of scrum, standups, and retrospectives, but the core values of the Agile Manifesto, such as the idea of rapid iteration.

In a [landmark article](#) earlier this year, Harvard Business Review embraced agile as the future of management. In addition to agile management and operations, we also believe organisations need to focus on creating agile, adaptive structures, rather than just trying to make agile methods work within brittle, inflexible hierarchies and bureaucracies.



"All my teams are agile now, and we are reimagining how we work – from big whiteboards, to stand-up meetings, to removing meetings that are just status reports." (Financial services)

"EVERY function has to be more literate about data. How do we make sure that we are getting the data into people's hands, and doing it at the right pace?" (Retail)

"We are seeking to harmonise the idea-to-market process and digitise it. People have been doing it by Excel and email." (Consumer goods)

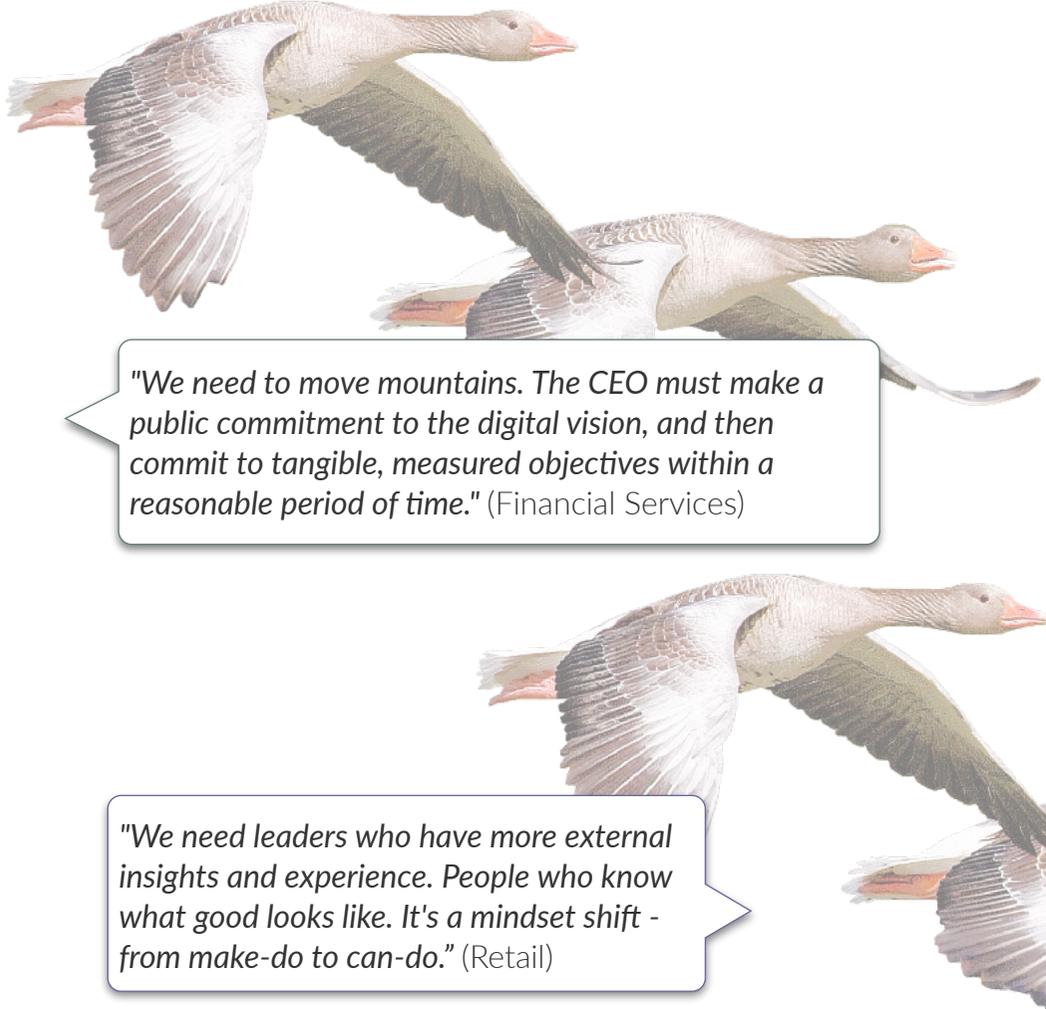


Transformation Takes Leadership, Not Sponsorship

We asked interviewees to identify the stakeholders who are driving digital transformation. We heard the answers we expected: CEOs, Board Directors, heads of digital, and other C-level executives – CFOs, CIOs, and Chief People Officers. More compelling was how interviewees described an *effective* stakeholder as one who demonstrates true leadership, not just sponsorship. Their answers provide a glimpse into the leadership attributes required in the 21st Century organisation.

Our experience bears this out. Successful projects almost always have a leader who can create the space in which a transformation team or network can operate effectively. With a weak leader who lacks the power to make decisions, or is hidebound by politics at the C-suite or board level, it is hard for a transformation initiative to succeed.

As evidenced by previous projects, successful Digital Transformation requires a strong leader who is focused on creating and protecting the space in which new ways of working can emerge. This leader removes the inevitable project barriers so that a multidisciplinary, cross-functional digital team can coordinate the implementation.



"For full digitisation of the business, it must be a CEO who is not just a sponsor but a driver. The organisation needs to see it as a corporate imperative, of a similar magnitude as a merger or acquisition." (NGO)

"We need to move mountains. The CEO must make a public commitment to the digital vision, and then commit to tangible, measured objectives within a reasonable period of time." (Financial Services)

"We need leaders who have more external insights and experience. People who know what good looks like. It's a mindset shift - from make-do to can-do." (Retail)

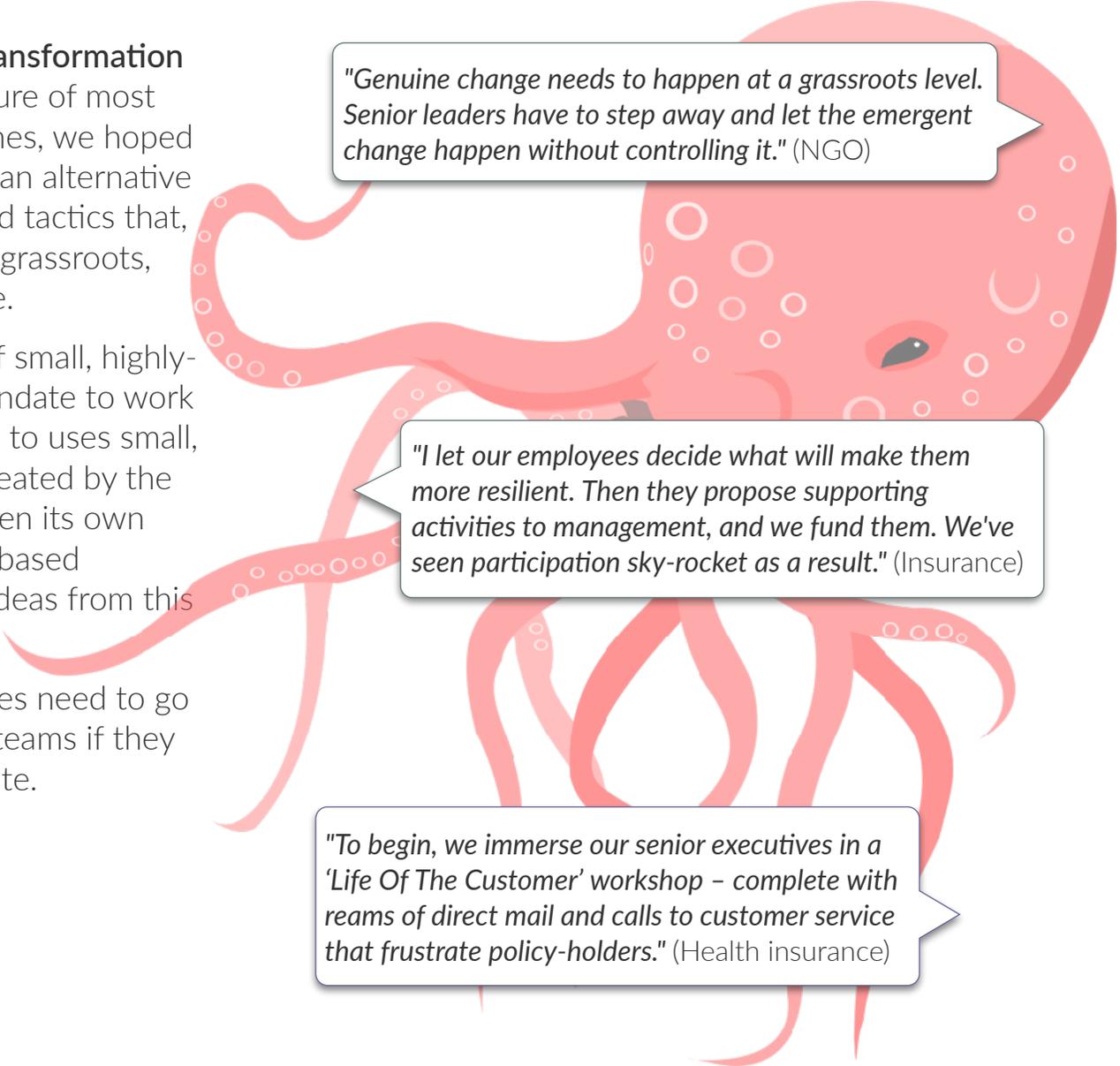


Towards The Adaptive Organisation

How are companies translating Digital Transformation plans into concrete action? Given the failure of most "big bang" change management programmes, we hoped to hear innovative techniques pointing to an alternative model. Indeed, several interviewees shared tactics that, when viewed collectively, suggest a more grassroots, participatory process for managing change.

One common feature we find is the use of small, highly-focused agile teams that are given the mandate to work differently. One media company we spoke to uses small, interdisciplinary teams to tackle threats created by the shift from print to online. Each team is given its own charter, a hypothesis to test, and a sprint-based approach for working together. The best ideas from this process earn funding.

But as we will see, transformation initiatives need to go far beyond pilots, experiments, and small teams if they are to have the impact they intend to create.



"Genuine change needs to happen at a grassroots level. Senior leaders have to step away and let the emergent change happen without controlling it." (NGO)

"I let our employees decide what will make them more resilient. Then they propose supporting activities to management, and we fund them. We've seen participation sky-rocket as a result." (Insurance)

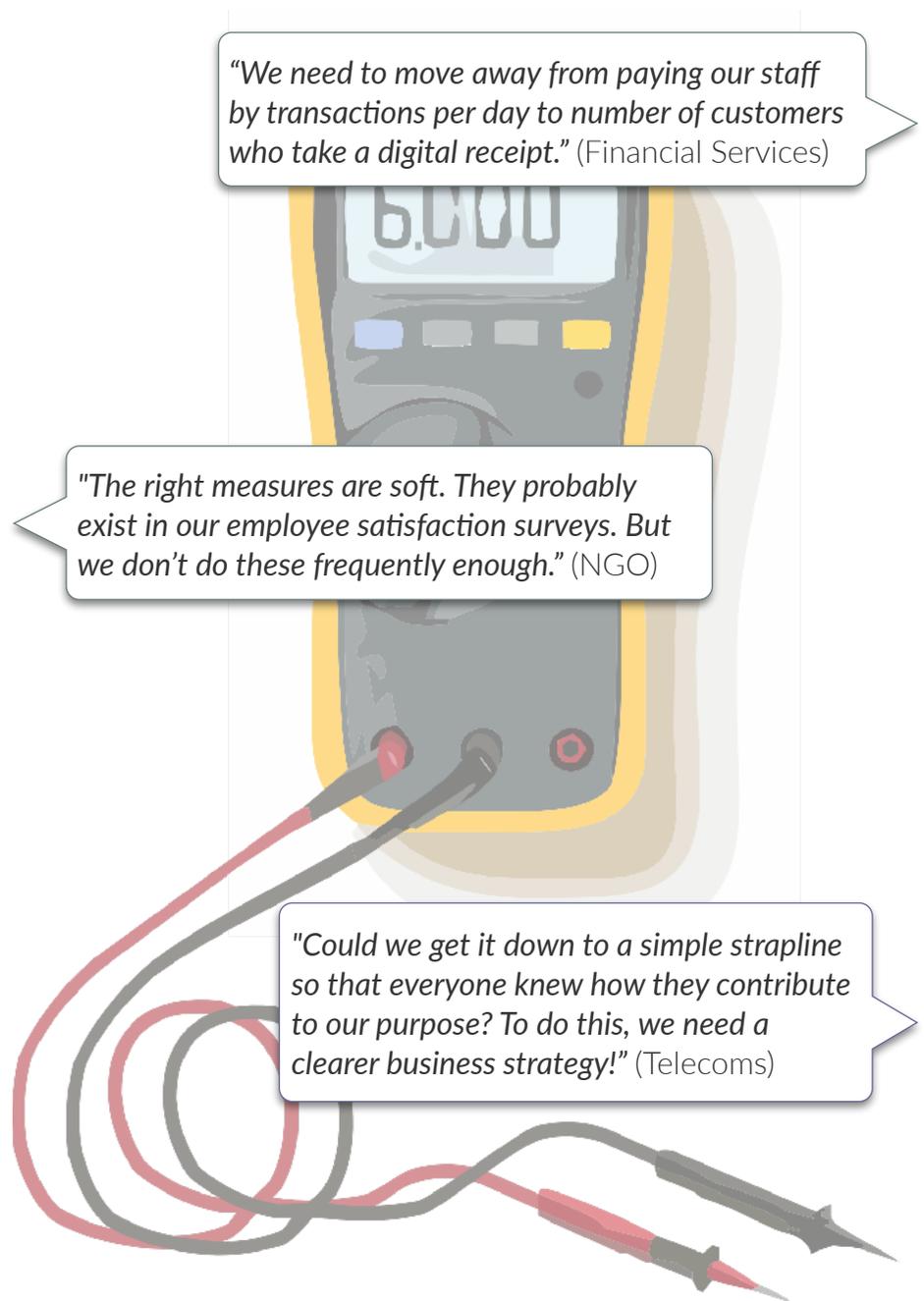
"To begin, we immerse our senior executives in a 'Life Of The Customer' workshop – complete with reams of direct mail and calls to customer service that frustrate policy-holders." (Health insurance)

Progress Requires More Frequent Measurement

We asked each executive whether they used a single organisation health metric, akin to the "10,000-Step Day" in personal fitness, to measure the effectiveness of transformation efforts. No single metric emerged (sorry NPS!), but interviewees did express a need for leading indicators that go above and beyond standard (lagging) indicators like financials and customer satisfaction metrics.

The most popular leading indicators from our interviewees are "shift-based" (e.g. increase in share of digital interactions) and attitudinal (e.g. desire to adopt new ways of working). Attitudinal indicators are often buried in employee surveys, which, frustratingly, are administered too infrequently (annually or even every 2 years). Due to the pace of change, we maintain that a higher frequency of measurement – faster, more pulse-like – is just as important as the measures themselves.

One company we interviewed tracks progress with an index that supports the transformation agenda. By tracking the index quarterly and embedding in performance reviews, employees across the organisation keep change top of mind.



"We need to move away from paying our staff by transactions per day to number of customers who take a digital receipt." (Financial Services)

"The right measures are soft. They probably exist in our employee satisfaction surveys. But we don't do these frequently enough." (NGO)

"Could we get it down to a simple strapline so that everyone knew how they contribute to our purpose? To do this, we need a clearer business strategy!" (Telecoms)

How Can Change Become Routine?

A key problem with organisational change efforts has been the treatment of change as an initiative – i.e. a one-off, top-down wave outside the flow of daily work, which might produce short-term improvement, but rarely sustainable impact. Gary Hamel and Michele Zanini articulate this well in their McKinsey piece [Build a change platform, not a change program](#).

For change to stick, it must be felt throughout the organisation, embedded in daily workflows, and measured frequently. So we must ask the practical question:

How do you translate your ambitious Digital Transformation aspirations into small, everyday actions, so that change becomes gradual and accepted?

To answer this question, we turn to behavioural economics and, more specifically, the concept of "nudging" to shrink change to manageable increments. One of the most successful and widely-known examples of nudging comes from the "Quantified Self" movement, in which people who track their personal fitness data generally, and often unconsciously, make daily positive changes and become healthier.



Towards The Quantified Organisation

Just as a crash diet rarely works for individuals, big-bang change projects rarely enjoy sustained impact over the long term for organisations. So instead of thinking about Digital Transformation as a high-stakes project in which a pre-defined model is imposed on a sceptical organisation, we advise you to approach change as a "Quantified Org" in which you:

Monitor the health and effectiveness of your organisational structures and practices on an ongoing basis - tweaking, iterating, and shaping them based on measurement and feedback loops.

A "Quantified Org" approach demands a tight link between goals and outcomes. Thus, it works best as a distributed effort in which each team is accountable for its own change. In short, it is the embodiment of the grass-roots, participatory process called for by our interviewees.

With these types of distributed initiatives, the goal is to align all the various, small efforts so that they culminate in overall organisational progress. For this to work, Chief Digital and HR roles – or any stakeholder accountable for transformation – should maintain a central coordination role for teaching and supporting the four-step process.

Outline of the Agile Transformation Loop:

- 1. Define Target Organisational Capabilities.**
Write an agile user story to define a new capability that the organisation needs now or in the future.
- 2. Design Capability Success Measures.**
Decide how to measure progress, using data where available plus human feedback.
- 3. Manage The Agile Transformation Loop.**
Distribute small change actions and manage through an iterative *Do>Observe>Think* approach.
- 4. Measure Impact on Organisational Attributes.**
Re-survey the organisation to track longer term impact on the key attributes of adaptability.



Outline of an Agile, Distributed Approach to Transformation



Define Target Capabilities



Engage Employees to Track Progress



Distribute Agile Change Actions

DRIVERS (e.g.)	GOALS (e.g.)
STRATEGIC LEVEL: CONNECTED ORG	
<ul style="list-style-type: none"> Market dynamics External threats Strategic goals 	“Connect the org better and overcome silo working...”
OPERATIONS: CONNECTED WORKING	
<ul style="list-style-type: none"> Innovation needs Employee pain points Org integration issues 	“Encourage connected working and agile methods...”
TEAMS: NEW WAYS OF WORKING	
<ul style="list-style-type: none"> Personal development New skills needed Team culture 	“Develop high performance, and autonomous teams...”
DIGITAL STRATEGY: CO-ORDINATION	
<ul style="list-style-type: none"> Speed of innovation Consumerisation / UX Data / analytics / AI 	“Create a common service platform using smart tech...”



AGILE CHANGE BACKLOG
STRATEGIC LEVEL (e.g.)
<ul style="list-style-type: none"> Leadership methods Organisational structure Communications & culture
OPERATIONS (e.g.)
<ul style="list-style-type: none"> Process socialisation Team & reporting structures De-bureaucratisation
TEAMS (e.g.)
<ul style="list-style-type: none"> New ways of working Improved meeting techniques Better collaboration tools
DIGITAL STRATEGY (e.g.)
<ul style="list-style-type: none"> Micro-services development Shared service platform Better personal apps & tools



Map & Measure New Capabilities



Agile User Stories for the Organisation: Creating The Narrative

Probably, you already have Digital Transformation goals and KPIs expressed in business terms ('faster to market', 'one face to the customer,' etc). While these add clarity, they are not always memorable, actionable, or particularly inspirational. However, they have the potential to be, through borrowing a powerful technique from agile software development: *User Stories*.

Originally, User Stories were conceived as a simple way to get developers talking about the "who", "why", and "how" of software requirements. They follow a common structure:

"As a <role>, I want <goal/desire> so that <benefit>."

It is relatively straightforward to use this technique in the broader organisation beyond IT. For example, it is easy to see how an entire organisation might rally around *"We would like to be able to spin up a new team in a day, with everything we need to serve a new customer account"*.

This model works for any given organisation (or just a department or team). Once you define your target capabilities, you then create a prioritised set of recommendations for small actions and changes that move you towards a desired target operating state, whilst measuring progress every step along the way.

When implementing the subsequent change actions, a simple, iterative DOT loop (Do > Observe > Think) approach can be used to provide feedback on what works best:

1. Distribute responsibility for these change actions
2. Encourage every level of the organisation to group actions into regular transformation 'sprints' and implement them within the limits of time and resources available
3. Constantly measure the results through a combination of data and human feedback
4. Re-prioritise, tweak, change, and learn from what is working
5. Iterate and repeat

In this manner, organisational change becomes a weekly agenda item, rather than a biennial or triennial major initiative that throws everything up in the air but ultimately might not achieve much traction. Importantly, it also gives everybody involved a simple way of assessing what they think needs to change and promoting awareness of the organisational assumptions in which they operate, much as Quantified Self has done for the individual.



The Quantified Org Diagnostic Test: How To Score Your Adaptive Maturity

Just as User Stories make target organisational capabilities more accessible and personable, the key diagnostics that you use to measure the overall impact of transformation also play a role. They must not only encapsulate the spirit of adaptive attributes, but also measure them using straightforward questions that anyone in the organisation – from executive to individual contributor – can answer.

Construct your diagnostic for frequent, pulse-like monitoring. You should be able to break apart questions and sections to stand on their own. Overall, your diagnostic should pass the "coffee break" test (e.g. anyone should be able to complete it while drinking a cup of coffee).

To exemplify how to do this, we have created a **Quantified Org Diagnostic Test**, which scores four categories of attributes - structure, practice, culture, and leadership - to help you:

- Quantify progress on your transformation journey.
- Prioritise actions required to become more adaptive.

You can take our test at www.postshift.com/diagnostic to see your results and receive personalised recommendations for your transformation efforts (the full version provides more detail for each of the attributes in the model). You can also use it as a baseline for your own diagnostic, substituting or augmenting with other adaptive attributes that you use.



What This Means For You

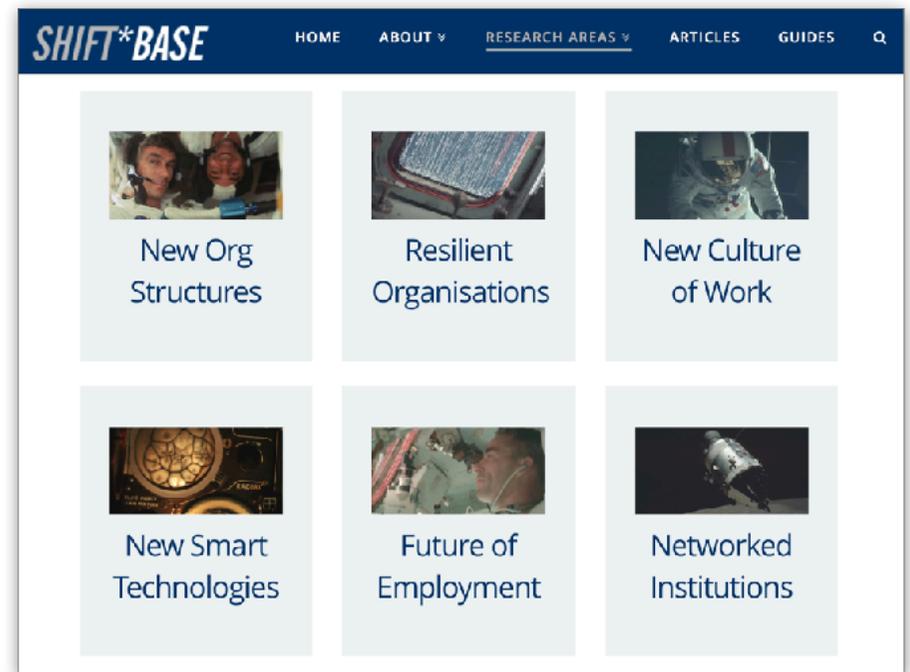
We recognise there is an inherent tension in offering a Quantified Org approach to executives ultimately accountable for digital org structure and talent. This is a change model that, through its very nature, puts control in the hands of individual teams and managers who want to improve their area of operations. And yet, many of you are, to borrow a management term from Apple, the DRI – *Directly Responsible Individual* – for Digital within your organisation.

How do you cede more daily responsibility without compromising the overall agenda? Partly, we believe, by pursuing network-centric leadership, where your role is to support, encourage, challenge, and organise emerging priorities from the organisation to create collective outcomes, rather than just planning from above and then imposing change below.

We hope you will use and build upon this structure to create a distributed change program that you can dip into and adjust to your needs as they develop over time. We hope that we have provided an alternative model that does not rely upon a combination of executive edict and external consultants for you to make progress.

Your next step is to create a toolkit and a management system to monitor, support, and measure the ongoing change actions occurring throughout your organisation. This will allow comparisons of efforts made throughout your organisation and, most important of all, provides you with a consistent way to shift and respond based upon progress and results.

We maintain an extensive toolkit and collection of guides, which you can access at <http://shiftbase.net/research-areas/>.



How We Can Help

We are dedicated to helping firms of all sizes manage and measure Digital Transformation to create more resilient and adaptive businesses for the 21st Century.

Since 2002, our team has pioneered the use of social and collaborative technology as the basis for a new business operating system; now these tools are mainstream, we help firms create the new structures and practices they enable. This requires experience across the three major stages of Digital Transformation:

Digital Technology Adoption:

- Social technology adoption / integration
- Digital strategy mapping / tracking
- Platform design and development

Business transformation:

- Org design, modelling, and planning
- Support for Digital teams / networks
- Agile transformation programmes

New ways of working:

- Culture change / new team behaviours
- Leadership development and coaching
- Learning & inspiration content

POST*SHIFT

Our consulting team offers expert advice and ideas for firms at any stage of Digital Transformation, and we help internal teams who are running programmes or initiatives in all aspects of their work.

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SHIFT*BASE

Our insights and tools team develops learning content, conducts research and provides specialist tools to accelerate Digital Transformation inside our customers' organisations.

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