

LOG206: E-Business

Spring 2018

Notes

Module 9: Digital business transformation

Introduction

In module 3 we saw that business environment is constantly evolving/changing. For that, reason organizations need to evolve to address the changing business landscapes. That is because the digital age rewards change and punishes stasis. Faced with the enormity of a competitive environment, demanding consumers, fluctuating customer needs and the acceleration of competitive threats, reinvention is the key to new, significant and sustainable sources of revenue.

Digital business transformation refers to significant changes to organisational processes, structures and system implemented to improve organisational performance through increasing the use of digital media and technology platforms. In other words, it is the acceleration of business activities, processes, competencies and models to leverage the changes in technology innovation, customer behavior and demand, and other external environmental factors. Since the digital revolution is still going on, digital business transformation must be a continuous process (see Figure 1).

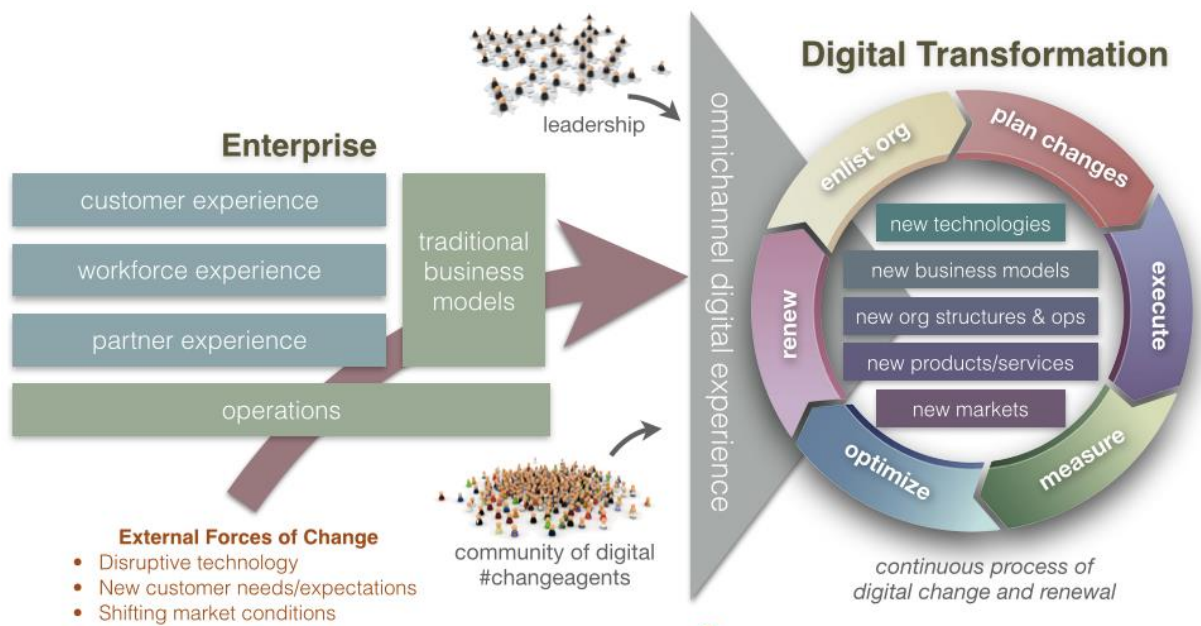


Figure 1: Digital business transformation

Key aspects to consider for transformation

There are four key aspects that digital business transformation must address, namely business models, technology infrastructure, organizational structure and culture, and business processes. These aspects are so essential that any transformation that does not address them will ultimately fail because the legacy organization will inevitably exert a gravitational pull back to new practices.

Reinventing business model

Why do established companies struggle to find the next big thing before new competitors do? The problem is prevalent and there are many examples. Think of a few of the great innovation stories of the past decade: Google, Netflix, and Skype and ask yourself, why wasn't Google created by Microsoft? Netflix by Blockbuster? Skype by AT&T? A simple explanation is that many companies become too focused on implementing today's business model and forget that business models are perishable.

Remaining competitive requires ability to execute on the current business model while thinking of the business model of tomorrow. The ever-changing competitive environment challenges the essence of relatively stable business models. Therefore, organizations must revise their business models continuously to ensure that their strategies are impactful. The mantra is *reinvent your business model or die*.

The Wheel of Business Model Reinvention

The wheel of business model reinvention is a framework that shows how to operationalize and measure the development of new business models. It also helps to evaluate proposed new business models within the uncertainty, unpredictability and rapid change in the business environment. The framework is a four-dimensional tool of business reinvention. The wheel of business model reinvention consists of the four dimensions (Figure 2):

- **Customer sensing** (including new customer value propositions): refers to the relative ease of acceptance of a new value proposition. Organizations must constantly seek ways of creating customer value propositions with products/services that are innovative and that satisfy generic underlying needs.
- **Technology sensing**: indicates the relative strength, direction and impact of technology on new customer value and the business network. Businesses must find suitable technology that increases efficiency and support the new customer value.
- **Business infrastructure sensing (organizational and business network infrastructure)**: refers to the relative responsiveness of the traditional business network to reconfigure, or to the relative ease of a new business network configuration. The business system infrastructure, in turn, should be configured in such a way that would enhance the customer value that has been created and being offered.
- **Economic/profitability sensing**: indicates the relative economic feasibility and profitability of the proposed model. All the reinvention efforts that have been undertaken should be economically feasible to benefit all those involved in the reinvention process, as well as in newly configured value chains.

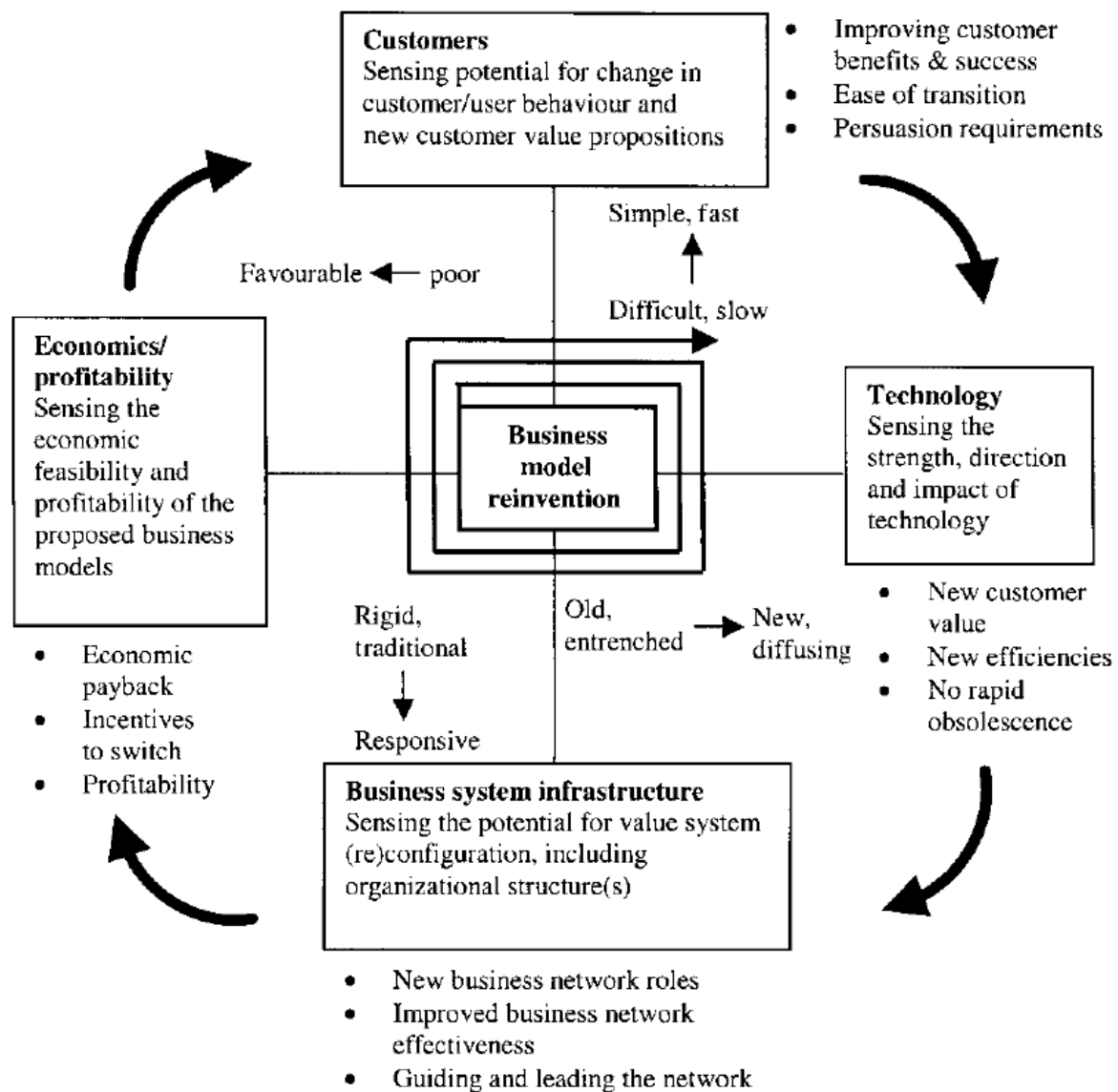


Figure 2: Wheel of business model reinvention

Key points moving forward

Customers: In the digital age the world is described by customer networks rather than mass markets. In this paradigm, customers are dynamically connected and interacting in ways that are changing their relationships to business and to each other. Customers today are constantly connecting with, influencing each other, and shaping business reputations and brands. Business need to recognize that a dynamic, networked customer may just be innovation partner they will ever find. Learn to engage, empower and co-create with customers beyond the point of initial purchase.

Build platforms, not just products: Today, industry boundaries are fluid whereby the biggest challengers may be asymmetric competitors- from outside our industry that look

nothing like us but that offer competing value to our customers. A platform brings together users and facilitates the exchange of goods, services or social currency enabling value creation for all participants. This may require opening up a proprietary product for other companies to build on like Nike did with its wearable fitness devices. It may also mean business whose value is created largely by its partners as in the case of Uber and Airbnb. Platform model produces network effects: the impact the number of users of a platform has on the value created for each user.

Turn data into assets: Today we are faced with data deluge. Big data tools allow firms to make new kinds of predictions, uncover unexpected patterns in business activity, and unlock new sources of value. That requires both gathering the right data and applying effectively to generate long-term business value. Use insights from data to develop new services and products, in other words, engage in data-driven innovation.

Innovate by rapid experimentation: Traditionally, innovation was managed with singular focus on the finished product. Because market testing was difficult and costly, most decisions on new innovations were based on the analysis and intuition of managers. The cost of failure was high, so avoiding failure was paramount. Today start-ups have shown us that digital technologies can enable a very different approach to innovation, one based on continuous learning through rapid experimentation. The idea is to use rapid experiments to quickly test the merit of your ideas, and generate new insights about your customers. Once an idea has been validated, it requires careful piloting and rollout as Starbucks has done with its new store features. This new approach to innovation is focused on careful experiments and on minimum viable prototypes that maximize learning while minimizing cost. Assumptions are repeatedly tested, and design decisions are made based on validation by real customers.

Adapt your value proposition: Traditionally firm's value proposition was seen as fairly constant. Products may be updated, marketing campaigns refreshed, or operations improved, but the basic value a business offered to its customers was assumed to be constant and defined by its industry. A successful business was one that had clear value proposition, found a point of market differentiation (e.g. price or branding), and focused on executing and delivering the best version of the same value proposition to its customers year after year. However, to master value creation in the digital age, businesses must learn how to continuously adapt their value proposition. This may involve discovering new customers and applications for its current products. It may also mean evolving a business's offering while its old business model is under severe threat. Or it may mean discovering new ways to engage customers while they are still loyal.

Culture change

Organizational culture is the behavior of humans within an organization and the meaning that people attach to those behaviors. It includes shared values, unwritten rules and assumptions within the organization as well as the practices that all groups share.

Digital transformation is not just about a technological shift. It is also about a shift in an organization's deep-rooted mindset and culture. We can change our technologies, our infrastructure, and our processes, but without addressing the human element, lasting change will not happen. Culture leads to technology adoption. The ability to innovate depends on the

impatience of the organizational culture. The following are suggestions on how an organization can change its culture:

1. **Unlearn current beliefs and create awareness:** Leaders must first themselves believe that digital disruption is required to stay relevant in the market and then communicate the same to their employees by providing illustrative facts and compelling stories.
2. **Create a vision:** Leaders must jointly create a digital transformation vision with their employees. This will reduce anxiety within the organization and earn supporters for the change. Creating a strong vision will also provide a clear direction to everyone in the company of what is expected from them and signal the outer world that your organization is serious about it.
3. **Fine tune organizational performance management:** The organization must then revise its KPIs and performance metrics to align them with the overall vision. It requires establishing and tracking new KPIs that accurately measure value and success. That means taking new approaches and establishing new metrics. This will ensure that the new values penetrate down to every level in the organization. It will also help in winning the support of a large part of the organization by giving them more clarity in terms of what they need to do.
4. **Start small and scale up:** Leaders must start implementing the new values by altering the most crucial processes and then expanding them to the wider organization. Following a big bang approach may collapse the entire system.
5. **Create an effective feedback mechanism:** The organization must establish a robust feedback mechanism to capture the views of their employees. Without the employees actually practicing the digital approach, the transformation cannot become real.
6. **Reinforce and celebrate success:** Recognize the milestones achieved and reward the individuals and teams involved. This will further reinforce the adoption of the digital approach and motivate others in the organization.

Change management

Digital transformation require new approaches of working. The changes experienced tend to be greatest for large-scale projects. For example, introduction of a new digital technology platform requires its users to learn how to use it. The greatest challenge faced by both B2B and B2C companies is managing the change.

Change management is a systematic approach to dealing with the transition or transformation of an organization. In other words, it is a structured approach for supporting the individuals in an organization to move from their own current states to their own future states.

Key change management issues for digital transformation are:

- Scheduling – what are the suitable stages for introducing change?
- Budgeting – how do we cost investment in digital business systems and projects?
- Resources needed – what type of resources do we need, what are their responsibilities and where do we obtain them?
- Organisational structures – do we need to revise organisational structure?

- Managing the human impact of change – what is the best way to introduce large-scale digital business change to employees?
- Technologies to support digital business change – the roles of knowledge management, groupware and intranets are explored.
- Risk management – approaches to managing risk in digital business projects.

Success factors for change management

1. The Role of Leadership in Change Management

The role of leadership in change management requires care, communication and commitment. As the leader, you are the bridge between your organization and the envisioned change. If you understand your role and the expectations around it, clarify your vision, communicate effectively, and hold yourself and others accountable throughout the change process, you can successfully navigate even the most disruptive change.

To highlight a few of the principles that leaders should embrace when leading through change, consider the following:

- **Clarify the vision and communicate it effectively.** The role of leadership in change management requires that you help people buy into your vision for the organization. This type of communication needs to occur consistently, no matter if it's the mundane, day-to-day issues or more serious change programs. Your message needs to be clear and consistent. Leverage your audience's preferred communication methods to ensure receptiveness. That means making the most of social media. According to a November 2015 Harvard Business Review article, we spend an average of 3 hours each day on various social media platforms, with over 50% of employers using such platforms for internal communications. The same article noted that just 17% of employees rated their leader highly when it came to recent change-related communications.
- **Stay connected with your employees.** Your employees look to you to be direct and transparent. They also want you to be approachable. The Harvard Business Review piece cited another study in which nearly three-quarters of employees said their CEO's preferred social media platform allowed them to communicate more directly with the CEO. Similar numbers of CEOs believed such interactions helped them get a quick idea of what employees were thinking/feeling, which is important when aligning your change management initiatives with the capabilities of your people.
- **Be accountable and transparent.** During times of change, leaders must be accountable for what is working and what isn't working. Being accountable fosters a desire and commitment to fix problems to yield the best results. To be truly accountable means you are willing to let others see behind the curtain to candidly assess how things are going. As you do this, your team will embrace a similar, no-blame openness to performance. Accountable leaders look at all aspects of the organization—culture, processes, management, and employees—to ensure all are functioning optimally. If they are not, a good change management leader must be willing to admit the gaps or misalignments and take actions to address shortcomings.

2. Project management

Digital transformation projects present unique challenges. Project management - the application of knowledge, skills, tools, and techniques to project activities to meet project requirements. Proper project management ensures organizations take critical steps to help achieve their desired results. Key elements that need to be incorporated for effective project management include:

- Estimation – identifying the activities involved in the project, sometimes referred to as a ‘work breakdown structure’ (WBS).
- Resource allocation – after the initial WBS, appropriate resources can be allocated to the tasks.
- Schedule/plan – after resource allocation, the amount of time for each task can be determined according to the availability and skills of the people assigned to the tasks.
- Monitoring and control – monitoring involves ensuring the project is working to plan while control is taking corrective action if the project deviates from the plan.

3. Employee acquisition and retention

Digital business implementation requires specialist skills that may not be present within an organization. Even more problematic than selecting the right type of staff is attracting and retaining digital business staff. Effective, experienced staff demand high salaries. The difficulties in staff resourcing for digital business do not end with the recruitment of staff. Since there is a highly competitive marketplace for digital business staff, many staff will want to move on to further their career. Employee retention is a major challenge for many digital businesses. Here are some suggestions for retaining staff.

1. **Communicate, communicate, communicate.** Creating an environment of open dialogue in the workplace is essential for both attracting and retaining top-tier talent within your organization. Listening to questions, addressing concerns, providing feedback and implementing suggestions are benchmarks for effective leadership, as well as requisites for high-caliber performance and employee retention. Face time, however scarce, is an immensely important factor in communicating well and establishing trust. If you are managing employees in remote locations, try to meet with them in person on a regular basis – maybe not monthly -- but at least 2 to 3 times per year. This is because studies suggest that over 90% of the meaning we derive from communication is derived from the non-verbal cues the other person gives.
2. **Coach rather than manage:** Try to balance giving your team members the authority, the tools and the space they need to do their jobs – empowering them – and staying checked-in as they execute their responsibilities. Be accessible for, and open to, problem solving – whether it’s brainstorming next steps or fighting fires. And, be accessible personally – taking a genuine interest in employees as individuals, as people.
3. **Establish clear performance metrics and make employees accountable for delivering:** Establish well-defined metrics for evaluating an employee’s contribution to achieving business goals. Expect and demand good work. Review performance versus those metrics on a regular basis and acknowledge good work. Discuss work that missed the mark and jointly determine how to avoid a repeat performance in the next round.
4. **Leverage performance reviews to gain insights into employee’ goals and aspirations:** As your company grows and matures, and more infrastructure is formalized, performance

reviews can be opportunities to discuss employees' career goals, and obtain input for creating stretch opportunities for them -- both within their current roles and in new roles.

5. **Create growth opportunities:** When hiring, look inside first. Make it a priority to scan the internal environment first to see if there are existing employees who could stretch into the new position...growing to the next level. Make sure employees are aware of internal openings and have a chance to apply for them if they are interested.
6. **Underscore positive feedback with something tangible:** Beyond salary/bonus/equity, think about “rewarding” employees for truly superior performance. You can try dinner on the company as a spot award? or, recognizing employees' start-date anniversaries?, or, closing the office early before a holiday to allow the team to get a jump on the holiday?, or, awarding a personal day after completion of a ‘hairy-scary’ assignment? At the end of the day – words are just words. While feedback is important, people also need to feel appreciated in a tangible way. The return in terms of employee loyalty and commitment will far outweigh the financial cost of these “spot” awards over the long run.

4. Employee ownership of digital business transformation

Employees take ownership when they assume responsibility over a target or result of the digital transformation project. If a company's employees have no a sense of ownership and engagement in the digital business transformation project, all the other steps will not make much difference. Likewise, if companies can increase the average level of engagement of employees, they will likely see positive results. Here are three suggestions to inspire engagement:

- Give your employees a voice so that everyone shares the context that they are able to contribute to the success of the team. When people feel like they are being heard, it will go a long way toward enriching relationships, fostering collaboration, and heightening engagement.
- Delegate the right way. Often, employees do not make decisions or take ownership of work because they are not quite sure if they should. You can solve this problem by making sure you are delegating effectively. Delegation is more than just assigning projects—it is about clearly communicating where the decision-making power lies and allowing your employees to hold themselves able to take responsibility for their results.
- Have a Plan. Align your team on a vision of where the company and team is going and make sure each employee sees where he or she fits in the picture. Employees are not going to feel compelled to accomplish something unless they are emotionally engaged.