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“Digital transformation starts with big visions and strategies, but the organizations that can execute upon them in a coordinated way, with agility, will win.”

– Whynde Kuehn,
Guest Editor

Business-Driven Digital Transformation

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The Human Risks of Digital Transformation

by Sheila Cox

So why do we need digital transformation anyway? Digital transformation initiatives are meant to strip away layers of redundancy and complexity in organizations. These layers did not emerge suddenly. They were created bit by bit and year by year. They did not materialize on their own when no one was looking; they are the result of individual management decisions — well-intended management decisions aimed at getting the job done and meeting objectives.

Leaders who implement digital transformation through a top-down approach, consultant-led approach, or IT-led approach often ignore the conditions that prompted the need for digital transformation in the first place. They decide how to solve the problem without considering the organizational dynamics, behavioral habits, and culture that created the problem. In a rush to make a significant change, leaders decide to postpone dealing with human issues until after critical decisions are made and the transformation is underway. This approach spells failure.

If you are in need of digital transformation, one of two scenarios may be present:

1. Your organization is filled with poor managers.
2. Your organization is filled with good managers who made decisions that solved some problems, while creating other problems.

If your organization is rife with weak managers, a wholesale talent upgrade will be required. Digital transformation is a waste of time until you clean house. If you have good managers whose decisions have, nonetheless, created problems, then an understanding of the environment that led to those decisions is in order.

Improve Health First, Then Operate

Consider a surgeon who wants to improve the quality of life for her patients by replacing worn knee joints. Suppose she operates on a morbidly obese individual. The knee-replacement operation could be highly

successful, but unless the patient loses weight, he will never get the benefit of new knees. Ideally, the patient stops practicing the habits that led to his obesity and starts practicing healthy habits that allow him to lose a significant amount of weight *before* he goes under the knife. A healthy patient is less likely to die in surgery, more able to recover rapidly, and more capable of building improved flexibility and strength.

Knee replacement is not a silver bullet and can do more harm than good on the wrong patient. Digital transformation is not a silver bullet either and can do more harm than good on the wrong organization. Digital transformation is serious surgery and requires an assessment of the health of the organization.

Misplaced Sense of Urgency

Time and time again I've heard leaders say they don't have the time to assess problems, identify root causes, and apply solutions. They simply implement a digital solution and hope for the best. "We don't have time to do it right. We always have time to do it over."

This approach teaches employees that leaders are not serious about making programs work — that their leaders are cynical. No one puts out their best effort, and employees spend a lot of energy ensuring that they cannot be personally blamed or punished. Of course, all of this creates a vicious cycle that ensures programs cannot be successful.

Root-Cause Analysis

Everyone likes to cherry-pick problems. To focus on the problems for which they perceive a ready solution. The problem with this approach is that organizational issues do not exist in isolation. Just like the obese patient who will never be able to fully enjoy his artificial knee, an organization that has not resolved persistent issues will never be able to fully enjoy the fruits of a digital transformation.

Before deciding that digital transformation is the solution, a prudent leader determines the underlying problems. Some possibilities:

- Not listening to the customer
- History of failure in cross-functional projects
- Unwillingness to invest in long-term initiatives
- Belief that all tools must be customized
- Focusing on long-term goals without recognizing progress along the way

Solving these problems can go a long way toward improving business performance. Of course, that's not as sexy as a digital transformation program. Everyone wants a magic diet pill that allows them to continue their bad habits while losing weight. No one wants to be told to simply eat less and exercise more.

Magical Thinking

Many leaders desperately want to believe in magic. They are easily persuaded that implementing a bunch of digital stuff will somehow magically transform their organization, business models, culture, and customer experience (see Figure 1).

Of course, many organizations derive huge benefits from cloud computing, mobile devices, big data, and networks. Applied properly, these digital building blocks are often a necessary part of a business transformation.

However, they are not sufficient for business transformation. Nor do they cause business transformation.

Wouldn't it be wonderful to simply give employees tools and change their behavior? After all, isn't that what separated humans from animals? Humans began to use tools. And no one can argue that the ubiquitous use of cell phones hasn't changed human behavior in profound and lasting ways. But here's the rub — people use cell phones in ways that accentuate their individual tendencies. Criminals use cell phones to commit crimes. Bullies use cell phones to bully. Mothers use cell phones to mother. Teachers use cell phones to teach. Salesmen use cell phones to sell. Managers use cell phones to manage.

Many leaders desperately want to believe in magic.

Somehow, many leaders have bought into the notion that when employees are provided with new tools, they will behave in fundamentally different ways. Employees who did not collaborate before will magically begin to collaborate. Managers who did not empower employees before will magically begin to empower others. Employees who avoided risks before will magically begin to innovate.

Implement Digital Stuff

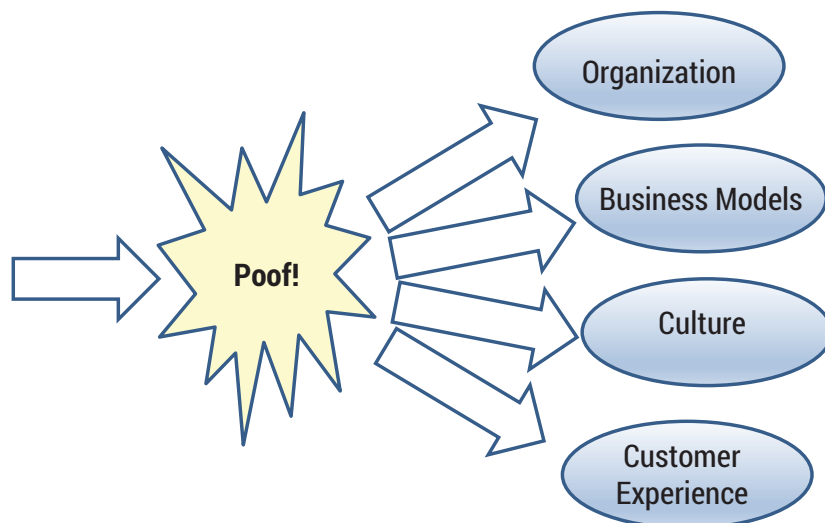


Figure 1 – "Magical thinking" model.

When digital stuff has been implemented and the desired business transformation does not occur, many leaders decide to invest in organizational change management programs. Regrettably, applying change management this late in the game does not work.

Organizational Change Management

Organizational change management is about changing the way that people think and behave — in that order. Unfortunately, change management programs that are begun after the digital transformation has been designed focus primarily on behavioral change. They neglect to engage people in changing their mindset and way of thinking. Any behavioral change that is not preceded by a change in thinking will not last. As soon as the pressure is off, as soon as managers turn their backs, people will revert to the way they've always done things. And the way they've always done things is continually reinforced by the organizational culture.

Organizational Culture

Organizational culture, or “the way we do things around here,” is created slowly and changes slowly. Organizational culture can be surprisingly strong and robust. Digital transformation can be successful with a culture that embraces innovation, experimentation, and risk taking. An innovative culture must be in place before attempting digital transformation.

Digital transformation does not and cannot create an innovative culture. Culture must come first. An organizational culture can encourage or discourage innovation

by encouraging or discouraging ideas. No ideas, no innovation.

Ideas and Culture

Your employees quickly learn whether or not your culture values their ideas. They simply observe how managers treat ideas (see Figure 2). When an individual shines their idea on their boss, does the boss block or bend the idea? Or do they appreciate and carry forward the idea?

- **Punish.** “When we want your opinion, we’ll beat it out of you.” Sadly, some organizations punish employees who come up with new ideas. Idea-bearing employees are viewed as subversives who are questioning the authority of their intellectual superiors. Leaders believe that the best business processes are designed by geniuses to be implemented by idiots.
- **Crush.** People are actively discouraged from making suggestions. Any new idea is met with an overwhelming set of objections (e.g., “We tried that 20 years ago, and it didn’t work”).
- **Ignore.** Managers may smile politely when an employee brings up a new idea, but they don’t listen and simply move on. Unsolicited ideas are considered impolite, a bit like a burp during a quiet moment in a meeting.
- **Co-opt.** When an employee brings up a potential innovation, their manager may appear to ignore it ... until weeks later, when the manager suddenly comes up with the same idea and claims it as their own.

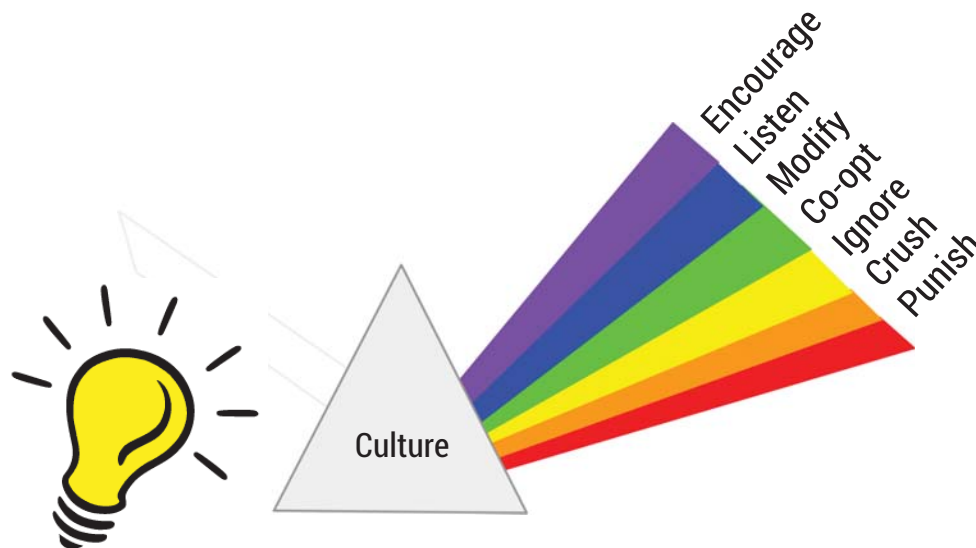


Figure 2 – How do your managers react to ideas?

Selfless employees may continue to think creatively, but most want credit for their proposals.

- **Modify.** Some managers cannot resist adding their own enhancements to their employees' ideas. "I love that idea. It would be even better if..." As with co-option, the idea is now no longer the employee's. The subtle message is that the manager knows better.
- **Listen.** When employees' ideas are heard and acknowledged — without modification or enhancement — creativity can begin to flourish. Ideas will beget more ideas. Not all recommendations need to be implemented, but they do need to be acknowledged and treasured.
- **Encourage.** For innovation to thrive, managers need to solicit, support, encourage, and reward ideas — whether or not they agree with those ideas and regardless of the position, education, or political clout of the employee.

Creativity and innovation are essential for business transformation. Without new ideas, digital transformation will be expensive and fruitless.

Collaboration

Once new ideas have been surfaced and valued, collaboration can occur (see Figure 3).

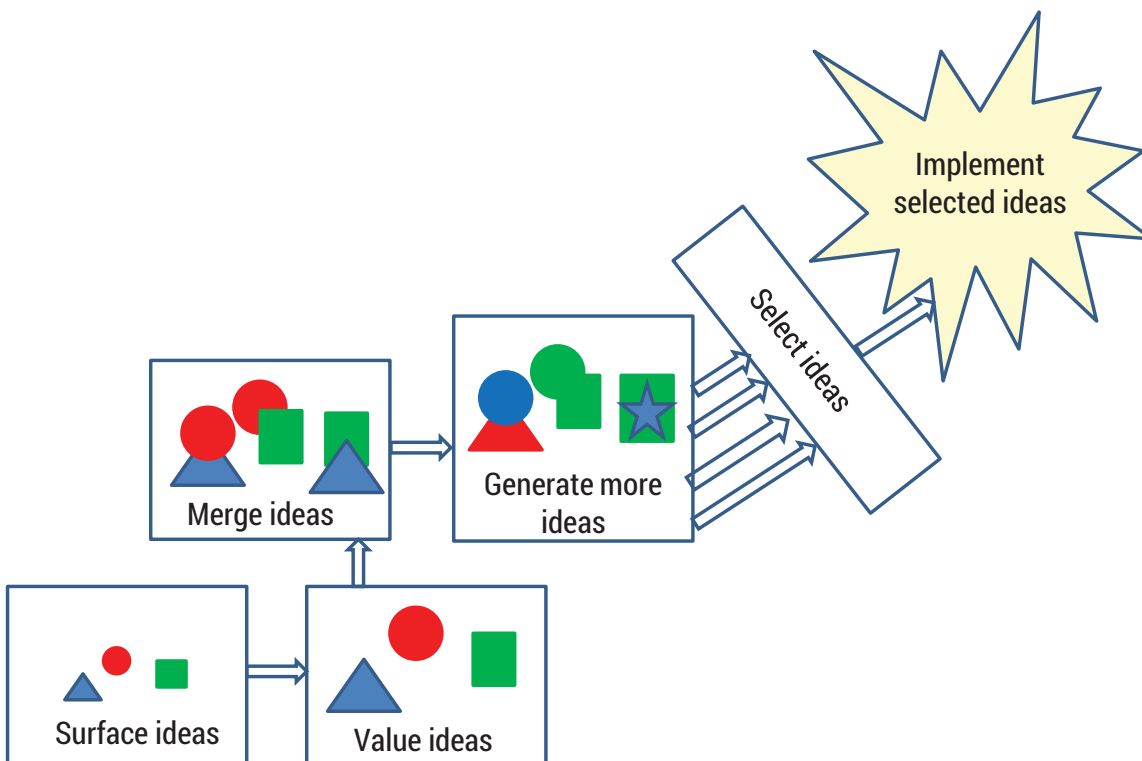


Figure 3 – Collaboration.

Even the most junior employee can have a useful idea. In order to encourage creativity at all levels, it's crucial that employees' ideas be heard and appreciated before enhancements and additional information are offered. When someone says, "That's a great idea, but..." they've negated their assertion that the idea is great. Just as telling a waiter "This is a great meal, but..." is typically a prelude to a complaint about the food.

Once ideas have been repeated, recorded, and valued without being molested, enhancements and modifications can be offered. Often a truly silly idea will cause others to think of something new and unusual that has merit. When employees recognize that all ideas are welcome, creativity flourishes and one idea spawns another. Finally, ideas are selected for implementation based upon business direction and measurements of success.

Organizational Culture Alignment

Organizational culture poses unique challenges when it comes to digital transformation. Many leaders have organizational cultures that are at odds with digital transformation. They face two options: (1) modify the digital transformation strategy so that it is consistent with the existing culture or (2) modify the culture. Some factors to consider:

- Level of empowerment
- Existence and effectiveness of cross-functional teams
- Degree of decentralized power and authority
- Extent to which advancement is based on politics versus achievement
- Degree of risk taking and innovation

When old habits, traditions, and customs dominate, business performance stagnates and ultimately declines. Unless this environment changes, transformation efforts will wither and die.

Business Transformation

In addition to an environment that nurtures innovation, organizations need a clear mission and vision in order to achieve transformational business results (see Figure 4).

Organizational Vision

Too often, technology leaders fall in love with a solution, such as digital transformation, and then put together a business case that identifies the costs and potential benefits and ends up with a projected ROI. This approach is backwards.

In order for an organization to be successful at transforming — and, of course, digital transformation *means* transforming — that organization must have a clear sense of direction. In fact, the organization must already be on the move. When the vision is clear and momentum has begun to build, digital transformation becomes another element in an overall program.

What do you want to be as an organization? What is your vision of the future? What will you look like? How will you be operating?

Clear Measures of Success

Most organizations suffer from a lack of clarity when it comes to defining success. They often have lofty visions like “delight our customers” or “be the best in our industry.” Then, when it comes down to measuring success, they default to simple metrics. After all, how does one measure whether customers are delighted?

I’ll never forget sitting down with the CEO of a *Fortune* 500 company. He was perplexed and frustrated. “How is it that all my vice presidents are meeting their objectives, and I’m not meeting mine?” He had made a common mistake — measuring his subordinates on short-term financials that were easy to calculate, without creating holistic measures for the executive team. If this organization attempted to transform before

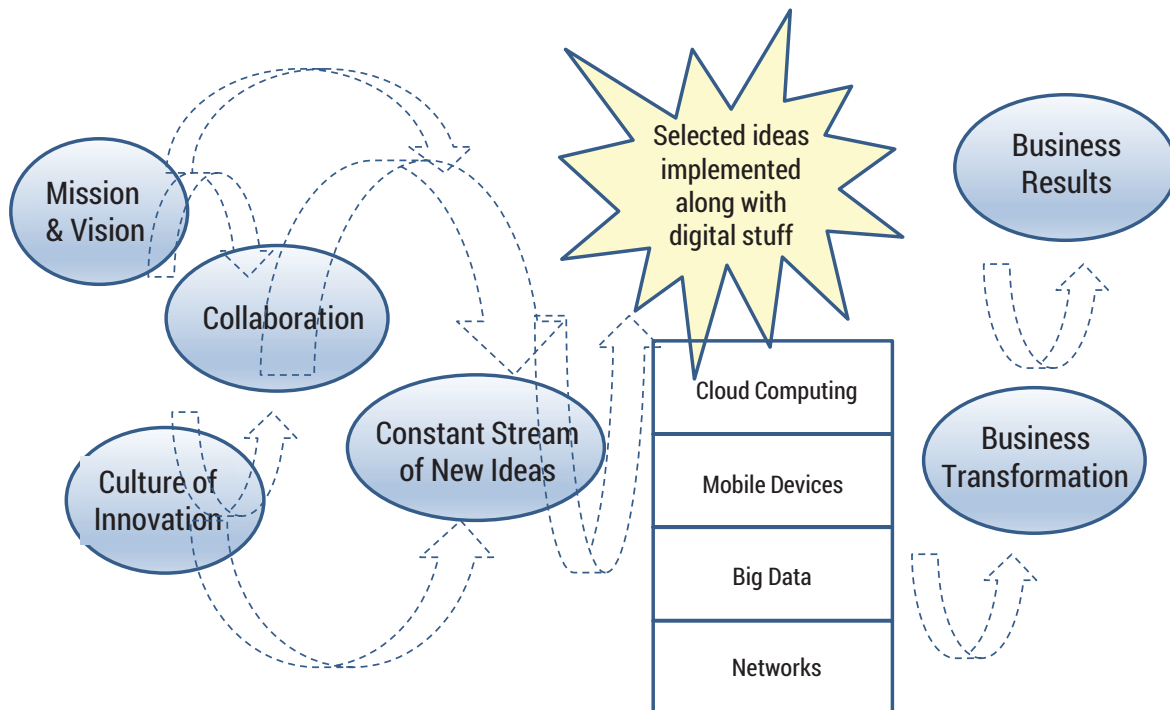


Figure 4 – Business transformation model.

first changing the measures of success for the VPs, they would continue to pursue suboptimal decisions to benefit themselves and their departments. Once the executive team was working together and moving in the same direction, they quickly identified ways to improve the organization.

Challenge One: Setting Business Direction

People desire meaning, purpose, and direction. One of the critical roles of a leader is to define and communicate a common meaning, purpose, and direction to everyone in the organization, in a way that motivates and mobilizes them. This provides a context for small and large actions.

Day by day, in situation after situation, individual managers and employees make decisions. As the Cheshire Cat pointed out to Alice, without context decision making can be arbitrary:

“Which road do I take?” she asked.

“Where do you want to go?” responded the Cheshire Cat.

“I don’t know,” Alice answered.

“Then,” said the cat, “it doesn’t matter.”

— Lewis Carroll, *Alice in Wonderland*

People don’t like to operate without a sense of direction, so when leaders do not provide one, they create their own. It might be simply to make themselves look good and advance their careers. These are important objectives, of course, but when pursued independent of an overall organizational context, they can encourage decisions that suboptimize organizational results. Such decisions can lead to duplicate or conflicting efforts, and they will never enable an organization to realize its full potential through transformation.

Challenge Two: Knowing When You’ve Succeeded

When the leadership team shares a common vision for the business and mobilizes their teams in a common direction, digital transformation initiatives can help build momentum. However, when no direction has been specified, it’s difficult to gain agreement on the effectiveness of any investment. When a project is launched because it “seems like a good idea,” the success or failure of that project is left open to interpretation — and the vagaries of political winds.

For example, one corporation invested time and money in a digital transformation aimed at reducing manufacturing costs. Partway through the project, the corporation changed the business direction 180 degrees. Costs no longer mattered; only production did. The project team

believed they were successful because they had reduced costs. Unfortunately, no one cared anymore.

Sadly, many CIOs can tell stories of projects that were “successful,” in the sense that they achieved their objectives, but were considered failures because they did not achieve business objectives. More often than not, those business objectives were not clearly defined before the project was launched. Participants were operating in the dark, hoping and trusting that in the end their efforts would be rewarded.

People don’t like to operate without a sense of direction, so when leaders do not provide one, they create their own.

Challenge Three: Balancing Importance and Ease of Measuring

Many organizations fall into the trap of measuring what is easy to measure, rather than measuring what is truly important to measure. For example, one training organization relied on two bits of information that were relatively simple to measure: (1) number of participants in a given class and (2) feedback surveys collected at the end of the class. While this information was easily collected and graphed immediately following each training session, it did not address the most fundamental questions:

- **Were the participants learning?** First, of course, learning objectives must be set. Then, in order to determine whether learning took place, it’s important to establish the baseline of knowledge and skills prior to participants attending the training class. Then, after the class, the change in their level of knowledge and skills can be tested.
- **Did they apply what they learned?** Applying new knowledge and skills means doing things differently. A change in behavior can be reported by the participants and their immediate bosses. Since this approach is qualitative rather than quantitative, many organizations don’t ask the question.
- **Did their job performance improve?** For most training, performance improvement is the intended result. Two factors make this a difficult measurement: (1) changes in performance will likely occur many months after training is completed; and (2) training is only one of the many factors that can improve performance. So, there is no direct causal relationship.

At the same time, this is the most important measurement, and it needs to be tracked.

The time to develop important (not just simple) measures of success that track movement in the desired business direction is *before* a digital transformation program is launched — even before the digital transformation program is designed. Doing so allows the organization to surface problems, issues, and roadblocks that get in the way of moving toward the business vision. Instead of falling in love with digital solutions as the latest and greatest panacea, the organization can identify what business problems could be solved and what business opportunities could be achieved.

Direction and Measurement

The importance of setting clear direction and measuring progress along the way cannot be overstated. Every time an employee walks onto a factory floor and observes a sign announcing the number of days since the last industrial accident, they know what management considers important. Or when a salesperson sees a large thermometer on the wall showing sales versus quota. Peter Drucker famously observed, “What gets measured gets managed.” Beginning to measure what is truly important can mobilize an organization toward their desired destiny.

Grass-Roots Opportunity Identification

When an organization has clear metrics of success that are continually monitored and reported, every employee can know how well the organization is doing. Just as important, they can know when the organization is not doing well. Now the difficult work of identifying and solving problems can begin.

When employees at all levels are clear on the measures of success, assist in analyzing problems that prevent the achievement of success, and participate in identifying opportunities to resolve those problems, they are automatically bought-into the transformation efforts.

Do the Spadework

Digital transformation is aimed at achieving and sustaining higher levels of business performance, with managers at all levels who are motivated, mobilized, and focused on maintaining and exploiting new ways of doing business. Unfortunately, most program managers treat technological issues and human issues as distinct and separate — and they address technological issues first and human issues second.

In order to fully realize the potential business benefits, leaders must ensure that all managers are motivated, mobilized, and focused *before* beginning to implement digital stuff. Leaders must ensure that their culture supports and encourages innovation and new ideas. Leaders must also set a clear transformational vision with business metrics. Only then will business performance improvement be achieved and sustained.

Sheila Q. Cox is a Senior Consultant with Cutter Consortium's Business Technology & Digital Transformation Strategies practice. She helps organizations build their only sustainable competitive advantage — their leaders and their culture. Ms. Cox is highly valued for her expertise in guiding organizational change that crosses functional, national, and cultural boundaries. She combines a strong focus on business objectives with a light hand in facilitating executive teams. Clients appreciate her tenacity and humor and often comment that her coaching has helped them achieve exceptional results. Ms. Cox's consulting approach begins with the common vision and goals that capture the imagination and mobilize the spirit. These goals are realized through integrated plans with achievable milestones that simultaneously transform people and processes.

Ms. Cox has over 30 years' business experience in management consulting, leadership training, and executive coaching. She is the founder of Performance Horizons. Previously, Ms. Cox was a Senior Manager at Nolan, Norton & Co., an IT firm of KPMG Peat Marwick (now Bearing Point), where she assisted Fortune 500 executives in developing and implementing strategies for performance improvement. Ms. Cox's work there included business process reengineering and organizational change management. She also chairs two CEO peer advisory boards in the greater Baltimore area. She can be reached at scox@cutter.com.

TALLER

Cambio

Organizacional:

Cómo transformar la cultura de su organización y prepararla para la innovación y la transformación digital.

con **Sheila Cox**

Consultora Senior de Cutter Consortium

21 y 22 de Marzo, 2018
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