

Organizational Change: A Crucial Component of Digital Transformation

The core of the 4th Industrial Revolution is a fusion of digital innovation and human interaction. This is resulting in wholesale changes to traditional business models and extraordinary organizational disruption. The non-linear speed and magnitude of these changes will continue to intensify rapidly, as advances in areas such as Artificial Intelligence (AI), Decentralized Knowledge Networks, Big Data, Machine Learning, Blockchain and the Industrial Internet of Things (IIOT) gather momentum.

From the outset of this latest industrial revolution, digital disruption was most rampant in companies where the product or service could be readily digitized. Those involved in media and entertainment, telecommunications, high tech, and financial services needed to reconstruct their legacy businesses in order to flourish.

We are now in the midst of a second wave of disruption that is far more pervasive. The focus today is on the broader area of business models and processes across all business ecosystems. Yet in many cases, digital business transformation will fail to reap the expected rewards. This is because the majority of transformations are focused on the digital rather than the business transformation.

In fact, it is critical to view digital transformation in terms of its overall impact on the organization. The ideal outcome is alignment not only with the business vision, but also a deep integration of the digital initiative with the purpose, day-to-day work and underlying ethic of the entire ecosystem. In so doing, the organizational purpose then becomes the driver of digital transformation, rather than the converse.

The Necessity of Organizational Change

The digital workplace embraces technology, culture, leadership, and business practices. However, the Achilles heel of any digital transformation effort is typically found in the realm of organizational change. Simply facilitating access to a digital cornucopia without helping workers plan for and respond to inevitable changes in the business model and work practices is a recipe for failure.

Michael Wade, the Cisco Chair in Digital Business Transformation, points out in his book 'Orchestrating Transformation' that even as companies invest heavily in digital transformation "the vast majority of organizational change efforts fail," and that "failure rates vary from sixty to eighty percent and don't seem to improve over time." Wade goes on to point out that digital transformation success is so rare that many executives have outlawed use of the word 'transformation' in their business initiatives due to connotations of "hype, frustration and fiasco."

The 2018 State of the Digital Workplace Survey found that two of the top three digital workplace priorities were 'Culture and Change' and 'Employee Experience,' while a Celonis study conducted last year found that almost three quarters of all C-suite executives interviewed believed that AI, machine learning and other automation tools were areas that needed increased spending. Importantly, the same executives acknowledged that digital transformation efforts were being siloed from the workforce and that not enough time was being spent identifying, analyzing and designing organizational support according to the needs of employees.

In working with high profile clients we have found that necessary organizational change as a result of digital transformation is much more challenging and complex than initially thought. New organizational growth maps are needed and traditional jobs need to shift to the nature of new work practices as business ecosystems evolve with new digital capabilities. After all, the traits of a successful digital transformation are increased agility, innovation and levels of collaboration that become deeply embedded in the culture of the organization. These are most evident in the ways individuals behave and teams interact.

In order for any business transformation to succeed, organizational change management must be an integral part of the process. After all, going digital is purely the means, not the end goal. Worker adoption and mastery is the key to the ultimate success of any digital transformation initiative. As such, employees need to be an integral part of the transformation conversation. We need particular clarity on how workers are expected to, and offered the opportunity to, step into the new behaviors that digital demands.

The bottom line is that focusing on the capabilities needed in the future state means determining whether the existing operation, workforce and technology enable the organization to realize the digitally-enabled goals that have been defined.

Of course, the perfect model for allaying seismic business disruption is rare. What is common, however, are organizational silos, a propensity to buy digital capabilities without clear business context, neglect of agile and digital-first redesign work practices, and poor strategic governance.

The Critical Role of Leadership in Digital Transformation

To take full advantage of digitally-driven opportunities, both digitally-wise leadership and a digitally-ready workforce are critical. Yet how do we build these new capabilities?

We need leaders to model the future state for people in order to show what 'good' looks like in the digital world. We need our digital ecosystems to work harder to support organizational change and to be worker-centric by design. In other words, these digital ecosystems must be contextual and iterative to the new work and support the decision-making practices we want people to use in the future state (i.e., unbiased, team-based, best-ideas-win-based, data-informed, etc.).

[A lot of the time organizations are changing on the “fringe”
– unwilling or unable to take change from the top.]

Digital transformation must be a CEO-driven business strategy and operating model that is focused on transforming organizationally, operationally and behaviorally. This in turn creates value through technology-enabled productivity and innovation while at the same time supporting the new digital business environment.

Senior leaders or managers may feel that their people are unwilling to adapt; unable to “learn to learn” as the new critical skill. As such, there needs to be a concerted effort to not only design for cultural change, but also a recognition that traditional operational models do not necessarily fit into digital solutions, and a reconsideration of how workers create and disseminate knowledge.

Leaders need to avoid thinking that half-baked organizational plans, such as those that are more focused on fixing pain points in the current state than imagining a new world and new work in the future state, are sufficient. They're not. That is an “illusion” of digital transformation because the hard organizational issues – business siloes, poor people leaders, inability to design organizations – are too tough to fix without disrupting the top of the organization.

From the worker's perspective, there will be new behaviors and new ways of working, and in many cases these can be contrary to previous performance expectations. Indeed, management must light the way by becoming 'Talent Champions' who focus on the capabilities that are needed in the future state as well as encourage and reward aligned behaviors.

If leadership is in a crisis of change and not doing what it needs to do to show its people the future, or if it knows where it's going and has not emphasized getting its people ready and onto the bus – it is putting its company, and its people, in jeopardy.

Leadership through organizational design is a crucial component of a successful digital transformation. It is essential to determine whether the company is ready to embrace and capably manage the disruption that implementing its digital ambitions will incur.

People in Digital Crisis – The Necessity of Acquiring New Skills

Once an organization's capability to create value in a digital world is understood, it is critical to focus on nurturing a workforce that possesses the ability to adapt quickly, is comfortable with change, is not afraid to take risks, is highly collaborative, and consists of critical, systems-based thinkers. These are not your traditional employee profiles, but rather a new breed of worker who will flourish in harmony with machines to realize the desired end state of any transaction.

A recent digital readiness survey by the Center for Creative Leadership found that the biggest challenge organizations face in their digital transformation efforts is insufficient internal skills. Similarly, Skift's 2018 Digital Transformation Survey found that over half of executives surveyed were struggling to find the technical talent necessary to deliver on their digital objectives, while a further third were neutral or 'not sure' whether this was the case. Along the same lines, a recent MIT/Deloitte study found that less than ten percent of executives strongly agreed that their employees had the skills and experience necessary to execute the organization's digital strategy.

Brian Solis, in his 2018/2019 State of Digital Transformation report, found that just 23% of organizations were specifically exploring ways to modernize the Employee Experience and engagement. The bottom line is that in most organizations there is no clear direction on what one should do as a worker to be viable in the future state. And, ironically, direction from the organization can't be prescriptive because it's an antipattern to the type of change that's needed.

What's needed is a holistic, strategic workforce plan aligned to the future business model – one based on transformative, not incremental, change. And, we need to encourage people to adapt those new work-aligned behaviors and mindsets. Only then we can expect our employees to put one foot in front of the other and to start walking toward that change.

The New Alliance of Workers and Machines

In an era of digital transformation there is an urgent need for partnership when it comes to human and machine work, one that empowers workers and teams in lieu of traditionally centralized control.

As the 4th Industrial Age gathers momentum, companies are picking and choosing their way through what some see as a digital minefield. When we talk about envisioning the workforce of the future, we need to understand which work will be consumed by humans and which will be handled by machines, and then ensure that the workers understand the scope and boundaries of their responsibilities.

One crucial piece to solving this puzzle is designing for people and their new relationships with machines. After all, we have learned from neuroscientists that uncertainty, volatility, complexity and ambiguity accompany major changes in organizational ambition. Just as the onset of the Industrial Age saw the resistance of technology-averse Luddites, the 4th Industrial Revolution is spawning a new form of challenge to workers that needs to be

carefully considered. The goal of any digital transformation leader should be to combine the prowess of both humans and machines.

This evolving human-machine relationship – especially where people remain involved when work is not fully automated – is a crucial aspect of any digital transformation effort. As artificial intelligence and machine learning algorithms become ever more pervasive in the business world, the user experience (UX) and new digital relationships will take center stage.

The overarching goal of any UX initiative should be to make human work safer and more satisfying with a ‘people-first’ persuasion. To achieve this end, workers will need to be encouraged to engage in a “continuous learning” approach to hone their most marketable and sustainable human skills.

Even when the smartest transformative ideas are pursued, the obvious question remains as to how to motivate workers to cope in their new relationships with machines when those machines could well be poised to replace them in part or in whole in the future.

The Importance of Future Work Practices

The new digital organization is more knowledge-intensive than labor- or capital-intensive. Problems arise when the external digital strategy is not supported by people-ready practices and digital capabilities. We need new work practices to be successful in our evolving now-future as well as clarity around the informal work or culture that holds the model together. In other words, how might people be offered the opportunity (and be expected) to step into these new behaviors? Workers need answers to basic questions. What do I need to learn? How do I learn to do that? How can I try?

Short of leaders building these organizational changes from the ground up, companies can't just expect workers to “change.” Change why (first)? Change what (second)? Change how (continually)? This causes the change crisis many companies are grappling with as a result of making change confusing, threatening, or vague. That makes change a personal problem without the new contexts of work that workers need, as individuals, to decide if these are changes that they are able or willing to undertake. When leadership and leading practices are absent, people don't have a fair chance to change, or they don't have enough time to adapt.

Workers will ultimately need to change a lot to survive in this brave new business world. What was required to be successful previously is not sufficient to achieve the same level of success today. Some workers may resist these changes, while others may not be motivated to do so for a variety of personal reasons, but often the leadership directive is unclear, or they're not given enough context to apply it themselves. Regardless, given the digital tsunami we are experiencing, it's odd when leaders are not actively

redesigning their organizations to accommodate this rapidly evolving business model.

The following components should accompany any leader's call for change and should be considered features of any successful digital transformation.

- Inspirational and visionary leadership that provides workers what is expected from them in terms of cultural, organizational and work practice alignment
- Organizational clarity, as opposed to structural changes that do little more than rearrange chairs on the deck
- Smart, iterative change management programs, rather than one-off "new day at work" sessions
- People-centric digital work tools
- Opportunities to work in cross-functional teams
- Aligned, new recognition and reward systems

Designing the New Digital Organization

Digital organizations are more outcome-focused, continuously innovating and iterating at a fast pace. This means that to become an agile business, we need to transform the organization to deliver digitally by shifting towards a flexible, collaborative, self-organizing and fast-changing environment.

Needless to say, these new organizational perspectives need to be designed – and it's hard work. New capabilities need to be clearly aligned to the new business model and the gaps understood. People are needed who can design new human-machine interactions, yet there are few qualified people to do that, and methodologies are typically not sophisticated enough to deal with this challenge. This situation hearkens back to the days of human factors and ergonomics experts who were employed to design user interfaces before the advent of off-the-shelf solutions.

Organizations must rethink and integrate traditional organizational silos that separate administration from the front lines, that is, create multiple knowledge pathways that lead to bidirectional work practices and innovation. This is merely the initial foray into empowering the entire workforce to transition from traditional, hierarchical models to decentralized, multi-dimensional knowledge networks.

We also need to anticipate the new social contract with people and their employers. When we don't paint a bigger picture, when we minimize digital transformation to digital – we put people in a crisis situation. No matter how much potential reward a digitally-driven idea may promise, technologists cannot successfully solve the problem of disruption within the organization.

Conclusion

So what are the best ways to handle organizational disruption as the company reorients itself towards digital transformation, and workers require new tools and processes?

Organizations must evaluate how existing jobs may evolve in the digital landscape and determine whether or not the workforce has the necessary ability to handle these changes. New jobs with new skillsets may be created, while others will disappear.

In the same vein, rather than be rigidly constrained by traditional roadmaps, digital transformation demands a more aspirational approach, whereby a company can pivot as the overall vision evolves in a series of steps that can capably handle new waves of innovation and consequent rethinking of the employee experience. The broader question then becomes what kind of organizational change people can or can't handle.

Of primary importance is the need to develop workers competencies to meet the demands of digital transformation. For larger companies, and where necessary, this may be partially achieved through mergers and acquisitions. However, under any business-digital model, leaders must begin to evolve the existing workforce and be willing to address their leadership gaps and changes needed from the top.

If we are not leading with vision, unwilling to address our leadership challenges, and failing to tackle our hardest issues of organizational and new work design, can we really expect people to follow, or are we encouraging a new breed of organizational Luddites?

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