

Organizing for a new era **- the digital dilemma**

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Introduction

Companies struggle to find the right timing, speed and organisational flexibility to successfully innovate and launch digital initiatives – in particular if they want the digitalisation to run in parallel or even incorporated with the daily business.

In this perspective, we will address six organisational approaches and their embedded challenges. We will discuss the pros and cons of each approach, and from there, we introduce pains and pitfalls. We stress that the number of potential organisational approaches are as many as there are companies, and hence we do not strive to encapsulate the entire scope of possible organisation charts, but we try to provide guidance on how to avoid (and anticipate) potential “organisational pitfalls” and thereby increase the likelihood of *digital* success.

Three initial questions are essential to any discussion on change in organisational design:

- I. Is it necessary to change high-touch processes to digital low-touch processes?
- II. Is it necessary to supplement parts of the current business model with digital improvements?
- III. Is it necessary to substitute the existing business model with a fully digital model?

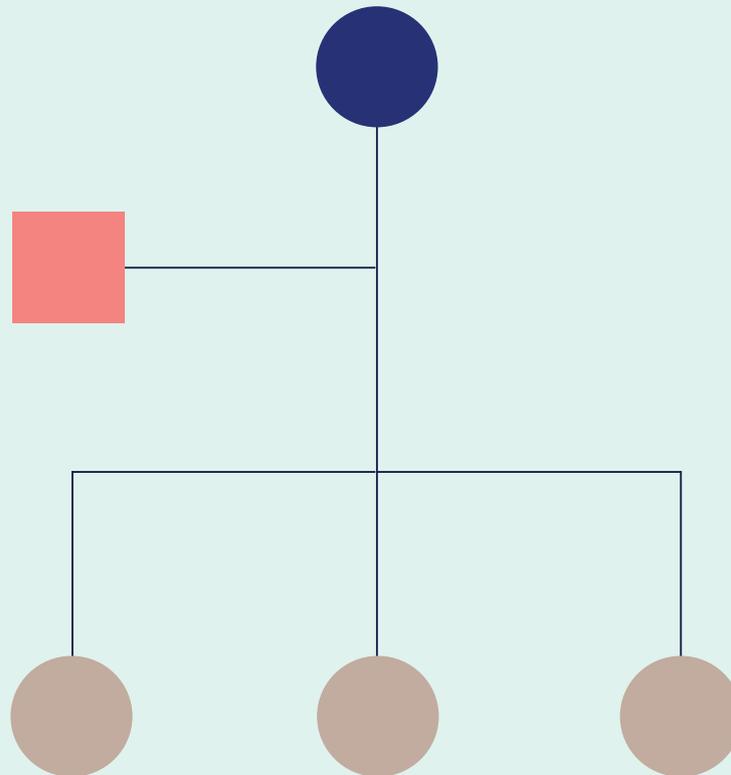
Once you have answered, you are left with the governing dilemma: How do you structure your organisation to best leverage an increased digital focus?

We introduce the Digital Business Development (DBD) unit – a unit with a dedicated focus on at least one of four digital transformation measures:

1. Optimize operations
2. Engage customers & empower employees
3. Transform products
4. Define new business model

In this perspective, we discuss six different approaches to integrate the DBD into your organisation structure. We analyse each approach in the light of our dilemma, and we reflect on the characteristics in terms of digital maturity (and the digital requirements which follow).

Support



Brief description: A classic business development function with limited mandate, that acts on requests by management. This set-up typically reflects a rather large organisation with vertical (hierarchical) co-ordination and centralised decision power. This approach also displays management's focus on not failing and therefore leaves little mandate empowering managers lower in the hierarchy.

Assumption: Low overall digital maturity within functional areas. Hence, sufficient digital business development skills are not in place for successful decentralisation.

Pros: Management is fully engaged and pushes digital agenda. This approach can be preferable in terms of periods of severe stress or crises when management has to be hands-on with development.

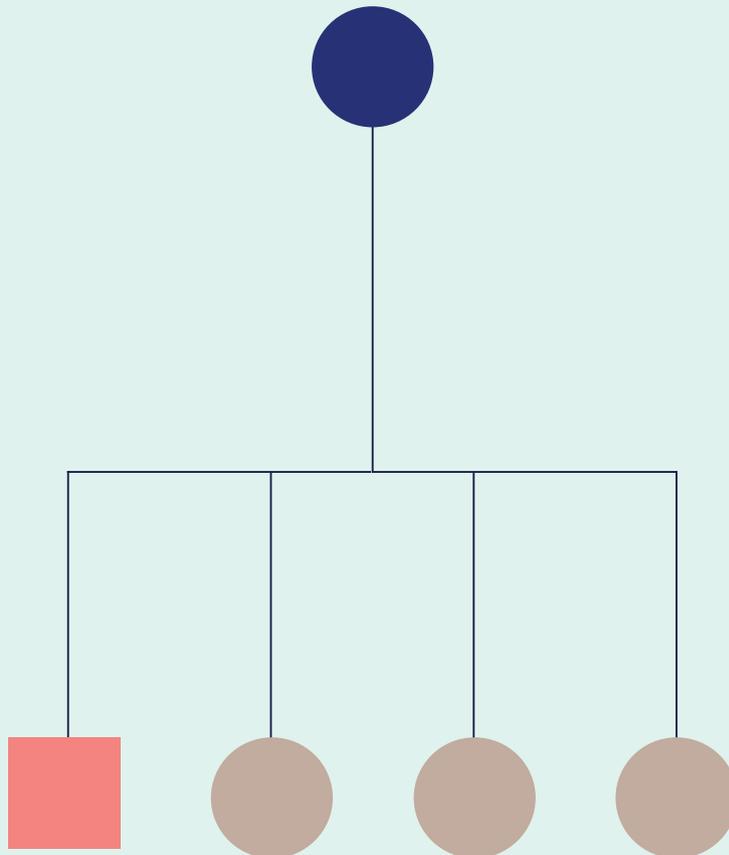
Cons: Typically, this approach leaves limited creativity to DBD and thereby lowers the general stake-

holder motivation. Senior management rarely has the skills or mindset to facilitate the needed digital development. This set-up provides possibilities to focus on the full span of potential digital transformation measures (all 4 mentioned above) - but as being close to senior management it's likely that the necessary detailed knowledge isn't sufficiently engaged.

Pain: By separating mandates clearly and letting senior management take responsibility of the Digital Business Development, from ideation to implementation, the pain of how to distribute mandate between DBD and managers will vanish.

Pitfalls: Senior management rarely allocates sufficient amount of own time to succeed in this approach. Hence, senior management should take the role of gatekeeping rather than that of digital development initiator.

Parallel



Brief description: Digital innovation originates from outside the business areas and is subsequently inherited by non-innovating business areas. DBD is a business area in itself.

Assumption: Management is pushing the digital agenda, and some digital maturity among the functional area managers is in place. Digital maturity within the specific areas is limited.

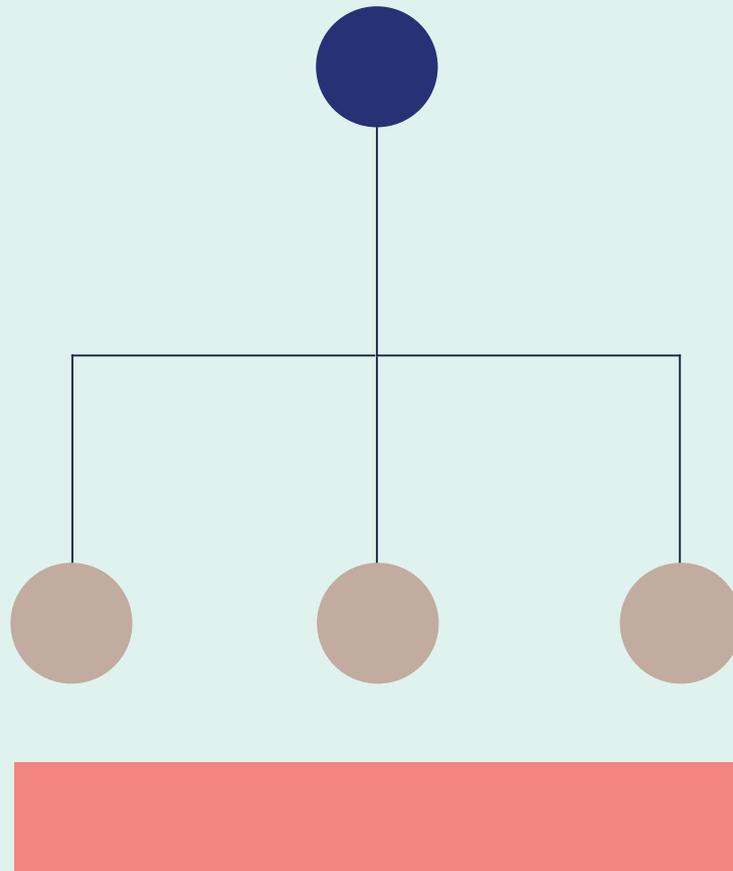
Pros: The DBD is separated from old routines and habits. A separate (and innovative) culture benefits from less rigidness and bureaucracy, opening up for agility. This set-up provides equal possibilities to focus on the full span of potential digital transformation measures (all 4 mentioned above).

Cons: If digital innovations are not insistently pushed from senior management, the risk of an insufficient implementation rate is severe and should not be neglected.

Pain: The mandate for when and how to implement digital innovations must be distributed partly to senior management and partly to the DBD, which leaves business area managers unable to make the final calls.

Pitfalls: The risk of conflicts between DBD and business area managers is severe and can lead to contradictory, short-term (often personal) objectives slowing down the speed of gaining leverage from digital achievements. An unclear mandate of when and how to deploy innovations leads to dispersity between stakeholders.

Across



Brief description: One DBD across and embedded within several business areas. We have to distinguish between organisations with business areas with similar characteristics and organisations with business areas with different characteristics. In case of the latter, it makes less sense to have one DBD embedded within several areas.

Assumption: High digital maturity level inside functional areas, and joint KPIs between DBD and areas to increase probability of success. Business areas are convergent so only one DBD is necessary.

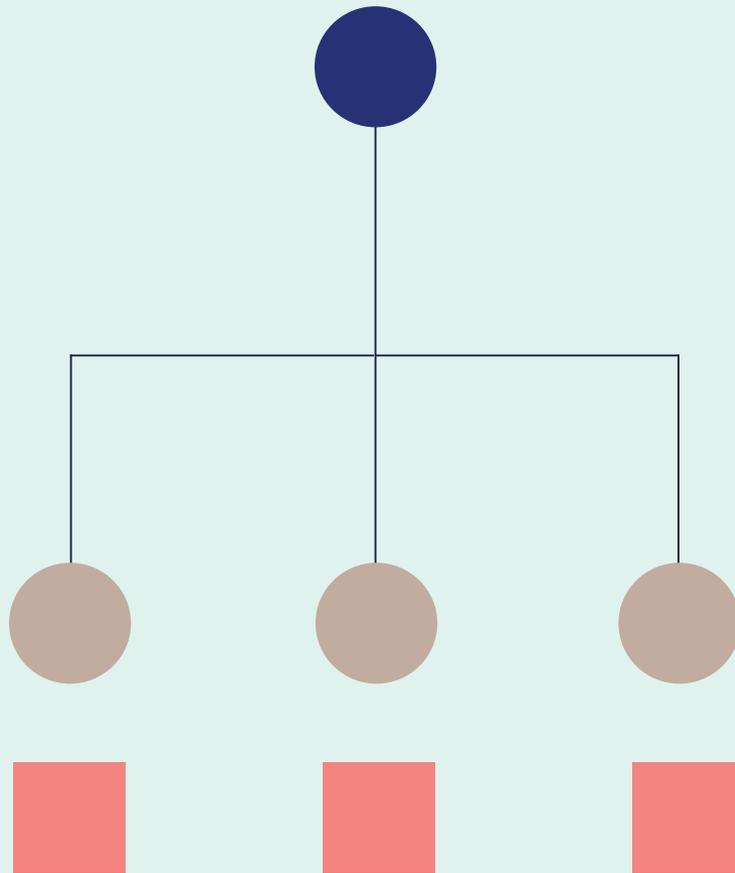
Pros: One centre for knowledge and innovation with great potential for harvesting synergies compared to the embedded approach (see below).

Cons: Innovation is influenced by old habits and tendencies and is often stopped too early or simply neglected or considered unimportant. DBD will focus less on improving the current business model and on defining a new business model (digital transformation measures 3 and 4 from above), since these would have an immediate – for some even negative – impact on the parent business area. However, this risk is not as outspoken as with the embedded approach below.

Pain: An unclear mandate between DBD and business areas will force dispersity, and conflicts will eventually emerge.

Pitfalls: DBD is not seen as truly dedicated despite a close relation to business areas.

Embedded



Brief description: Digital innovation originates from inside each business area and is consequently implemented by innovators. Hence, innovators are recognised as being truly embedded in the business area.

Assumption: High digital maturity level inside business areas. There are joint KPIs in place between DBD and business areas to ensure alignment on initiatives and implementations. Business areas are divergent.

Pros: Innovations are fully anchored prior to tests and later implementation. Any further adoptions will be easier, and the lead time tends to be superior.

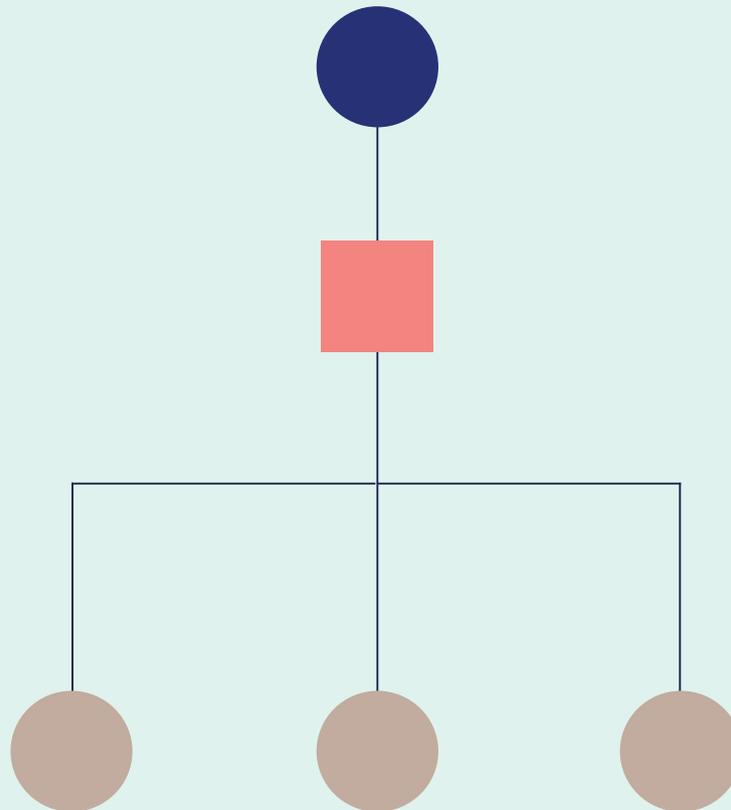
Cons: Lack of innovative freedom influenced by old habits and tendencies. Too many initiatives are stopped at a too early stage or simply neglected or considered unimportant. DBD will likely focus neither on improving the current business model nor on de-

fining a new business model (digital transformation measures 3 and 4 from above), since these would have an immediate – for some even negative – impact on the parent business area. If several business areas have similar characteristics, there is a risk of duplicated DBD set-ups.

Pain: Managers tend to avoid efficiency measures which impact their own processes and people, and the DBD will thus not innovate/implement significant changes and efficiencies. Obviously, the level of ambition will be reflected in the results, forcing senior management to engage at a later stage.

Pitfalls: Business area managers will advocate this model as the only viable organisational solution and fail to recognise that any drastic digital changes are likely to be suppressed.

Governing



Brief description: Business areas are embedded in or parented by DBD. Global mandate with direct report to management where innovation is the key driver and KPI for success.

Assumption: Incubation or “Silicon Valley governance”. Innovation comes first, and daily operations come second.

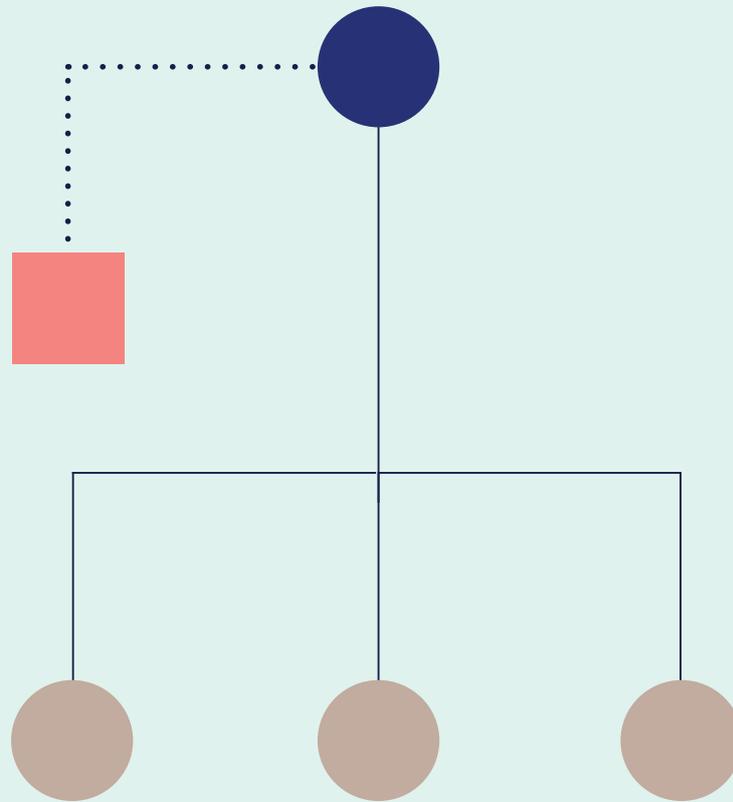
Pros: All focus is on digital innovation. This is typically the picture for start-ups or companies in the process of creating/implementing new business models. This set-up provides equal and good possibilities to focus on the full span of potential digital transformation measures.

Cons: Operational excellence and profit are not the primary KPIs for the company at this stage. The environment is forced into innovate-mode which might be stressful for operational key people.

Pain: Very stressful environment that certainly does not fit immediately with the Nordic mentality or way of working.

Pitfalls: It is vital to have a clear mandate for when and how to move a new functional area out from DBD – avoid maintaining a going concern within an incubator environment for too long.

Autonomy



Brief description: DBD is to the greatest extent possible separated from old routines and habits. Similarly to the parallel approach, this approach benefits from less rigidity and bureaucracy. This set-up provides equal possibilities to focus on the full span of potential digital transformation initiatives (1-4 above). This approach will often be recognised as truly independent, and DBD will push new initiatives through senior management.

Assumption: The autonomy (or separation) from business areas dictates a mix of approaches not leaving business areas out of digital development focus.

Pros: Senior management is fully engaged and pushes the digital agenda. Fewer battles between DBD and business areas can be expected. Old habits and routines are completely disconnected from DBD, which leaves space for truly independent thinking. All digital transformation measures (1-4 above) will be fully explored.

Cons: Lack of involvement can lead to demotivation within business areas.

Pain: Risk of running parallel organisations with very different objectives, which will inevitably lead to mistrust. Digital innovation is driven with distance to business areas, which leaves business areas in the dark.

Pitfalls: Senior management plays the link between the digital innovation centre and the business areas, and its full involvement is crucial to any success. A clear mandate for when and how to move a new functional area out from DBD is vital – avoid maintaining a going concern within an incubator environment for too long.

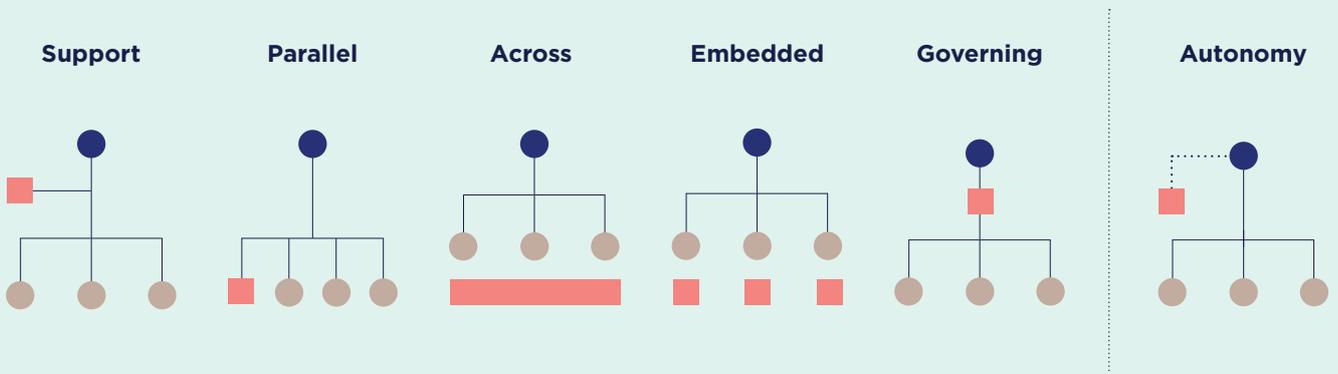
Conclusion

There is no straightforward way to structure your governance and organisation when it comes to digital innovation and deploying a new Digital Business Development unit. However, some of the described approaches are more painful than others, and especially factors such as the digital maturity and the intended management signal must be addressed carefully when selecting one (or a mix) of the described approaches.

To provide a complete picture, we have shown the six different approaches in their order of digital maturity and requirements below (left to right).

For all the approaches it's essential that sufficient digital execution power (on the back of the digital strategy) is allocated so that execution resources supports management intentions.

Finally, the question of whether DBD should be implemented in parallel or integrated with your existing organisation boils down to whether the relevant competences and maturity exists within the current organisation; hence - can they succeed in the transforming set-up?



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