LEADERSHIP IN A DIGITAL UNIVERSE

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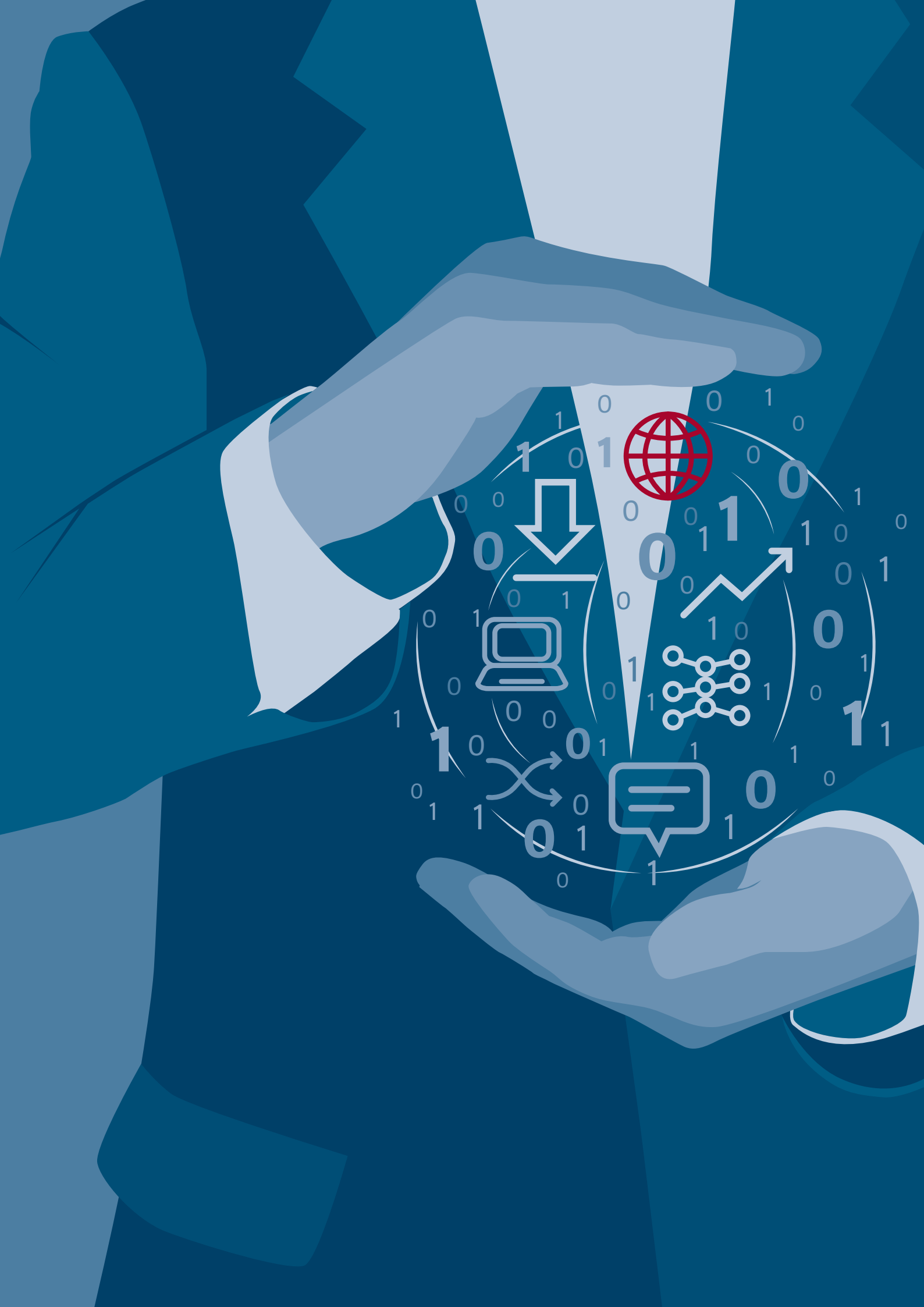
Management Summary

Digitization has been a high priority of CEO's for a long time now. But as soon as the first "digital awakening" is over, the topic is often delegated to areas like product development or IT. Specially established teams of competent experts led by a CDO focus on making the digital transition happen. In most cases, however, they have no real executive mandate. Nonetheless, any show of determination must be followed by the unequivocal identification of any potential impacts on the company, beyond mere abstract megatrends. At the same time, the focus must not be solely on technical innovations or disruptive business models. Without the appropriate management and organizational models, digital reconstruction will remain just a piecemeal affair.

Yet how can changes be spotted at an early stage? How can the required adaptability be achieved? And how can flexibility and reaction times be improved? Also, do we really all need to become as agile as startups? Furthermore, are we prepared to accept that a high proportion of companies will fail? The aim must be to identify the opportunities presented by the digital age and systematically exploit them. Agility is definitely the right way to achieve this aim. Equally important, however, is the direction from which you start out toward it.



1. Megatrend disintegration: Digitization turns around the benefits of integration

Technological innovations have always rung in successful production processes and business models only when they were supported by a functional operating model, constituting the "HOW." For instance, Henry Ford did not invent the assembly line, but he was the first entrepreneur to implement it successfully. Instead of using migrant workers, as had been usual up until that time, Ford opted for a permanent workforce. His workers were even paid an aboveaverage wage, which induced them to take up residency where he had his production plant. This was the only way he could get them to obtain the degree of specialization required to make his production line effective and efficient. From the dawn of the industrial age until the mid-twentieth century, the functional answer for the operating model lay in raising the level of integration.

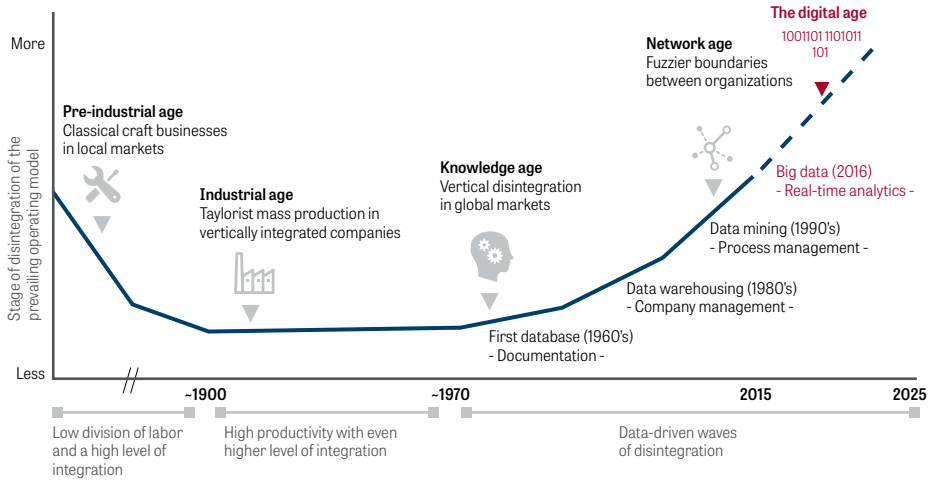


FIGURE 1: MEGATREND DESINTEGRATION

However, since then there have been signs of a U-turn. And this is becoming ever clearer as digitization continues to take hold. The benefits of integration (organization of capacities, organization and prioritization of activities, exchange of information), are being turned around completely. Hierarchies established over generations are now inhibiting the free flow of information. Moreover, there is more knowledge outside companies than inside them, with flexibly accessible networks readily available. Many more examples could be added, because the development is taking place so fast.

The advent of digitization is making it possible to harness new forms of interaction and organization. Data can be processed so quickly, cheaply, and in such huge volumes, that transaction costs go down. This makes disintegration not only more beneficial, but in many cases even absolutely imperative. While businesses belonging to the generation of "digital natives" barely need to adapt, because they grew up in this environment, for "digital immigrants" the process of transformation is a much tougher proposition. After all, their operating model is still based on very different business models, and their production technology must also often be considered outdated. In a nutshell: In many cases, traditional operating models are dysfunctional for newly developed digital business models and production technologies.

2. Exploit versus Explore: A company's maturity determines the mode

What exactly are the differences between the respective operating models of digital immigrants and digital natives, meaning between businesses that have grown into what they are and startups? The gulf between them becomes apparent when you look at how they generate value. While the digital immigrants are so busy exhausting or exploiting existing markets, the digital natives, displaying extreme agility, adaptability, and fault tolerance, are busily trying out and then rejecting new methods, only to seek others that work better. This, at least, is a somewhat simplistic way of describing the situation at the outset. But both do not necessarily have to remain stuck in their respective starting positions. On the contrary: It is clear to any observer of successful transformation processes that they entail convergence between digital immigrants and digital natives. While this involves coming from all kinds of different angles, the movement itself can be broken down into four stages.

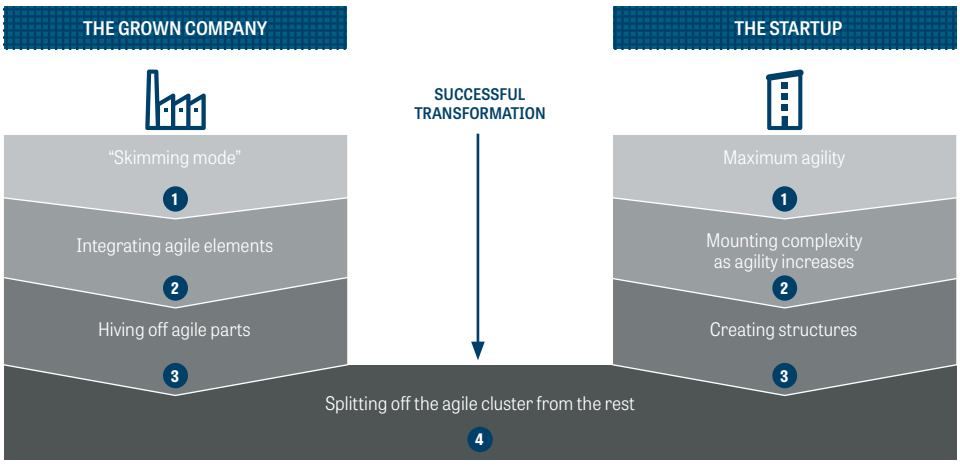


FIGURE 2: THE PATH TO A SUCCESSFUL TRANSFORMATION

Successfully transforming grown companies

Stage one for grown companies sees them starting out from their "skimming mode." Their aim here is to continue skimming off any market opportunities that they previously exploited or that may still arise.

The need to respond to a growing, but still incremental, speed of change then leads such companies to the second stage: integrating agile elements into their organization.

In stage three, the companies' flexibility and adaptability reach their limits, forcing them to react to market requirements by hiving off agile subunits.

In the fourth and final stage, this hiving off process speeds up, prompting a shift of scale. A cluster of more agile subunits leaves behind a core that continues to seek skimming opportunities in a growing environment. The aim of the game is to rip oneself apart in the best possible disruptive way before others do so.

Successfully transforming startups

The starting point for startups is characterized by their maximum agility. They are small, flexible, able to anticipate change at an early stage, and have a pronounced "fail fast" culture.

Their drive to survive leads them to the next stage of growth, namely complexity, albeit complexity that neither hinders their agility, nor calls it into question. Startups' next stage of growth requires the creation of structures to bring mounting complexity under control and enable them to continue acting in a focused manner in their market.

The final stage, as with grown companies, leads to a split into an agile cluster and a core which remains in the grown environment. The further development of Google – now with Alphabet Inc. as a holding – is an almost copybook example. These scenarios are not yet linked with any worth. Their effective value only becomes evident when the case in question is examined. We can posit one central requirement, however. Irrespective of the angle from which companies shift toward the digital management model, their approaches should be viewed as complementary, not clashing, dimensions of entrepreneurial activity. The final stage of a successful transformation will therefore be a hybrid management model.

3. Hybrid agility: The ideal management model combines agility and an ability to act in both modes

In the digital age, a management model has to be capable of successfully combining the dimensions "exploit" and "explore" in a hybrid form. In addition to this, the model must support an agile organisation, thereby ensuring the necessary adaptability and responsiveness. As a result, the ideal path to a successful management model is through hybrid agility. This is hopefully clarified by the following graphic.

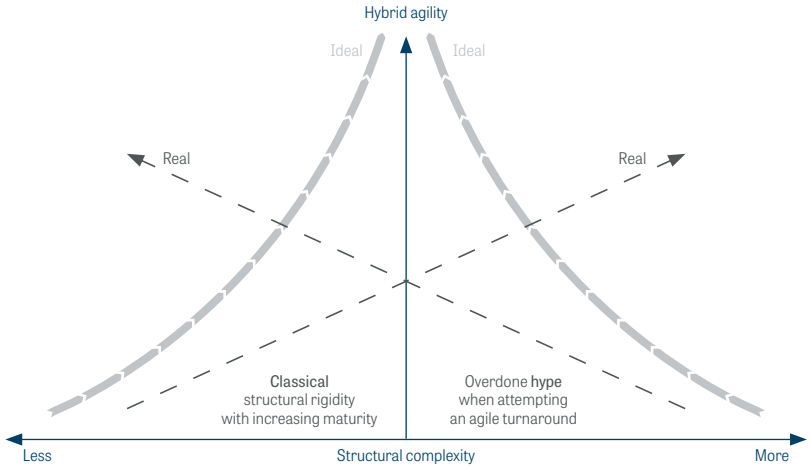


FIGURE 3: THE PATH TO HYBRID AGILITY

On the left we see discovering, innovative, agile companies on the way to greater integration. And on the right we see the "skimmers," companies attempting to make their structures agile and imbue themselves with a spirit of discovery. The curves indicate ideal developments, whereas the straight lines show what often actually happens. The key difference between the positive and negative developments is that companies situated on straight lines invariably overshoot the mark when trying to copy the benefits of the respective contrasting management model. This is either because the path taken by a startup in its infancy has led to a structure of rigid companies, or because the attempt to break out of an overly rigid structure ended in agile hype.

The many trips to Silicon Valley by Board members of German companies are merely one indication of this. Hybrid agility means companies not overdoing it and instead finding their way onto the curve, regardless of the direction from which they find themselves approaching it. The secret to successful transformation is for companies to find their own, individual way, a path that ultimately leads them to a goal that may be very similar to that of a company coming from the opposite direction.

4. Organizational imperatives for hybrid agility: Design principles geared to consistent implementation

The successful implementation of an agile hybrid organizational model presupposes heeding five core design principles. For companies "coming from the right," this means complying with them as they shift to the left. By contrast, companies "coming from the left" must not bury themselves beneath inevitably arising structures.

Focus on the customer!

Some may consider this a platitude. Yet entrepreneurial reality shows time and time again that a large proportion (if not the lion's share) of companies' energy is inwardly directed. But here "customer" refers to an external customer, not the many internal ones. Constant customer orientation not only refers to the "last mile", before the customer is reached, but to the entire process. This needs to be borne in mind on an end-to-end basis. Furthermore, "being customer-oriented" also means bearing in mind all of a customer's current and future needs. Structures here may neither prevent a maximum "go-to-market" speed, nor hinder a capacity for maximally responsive innovation.

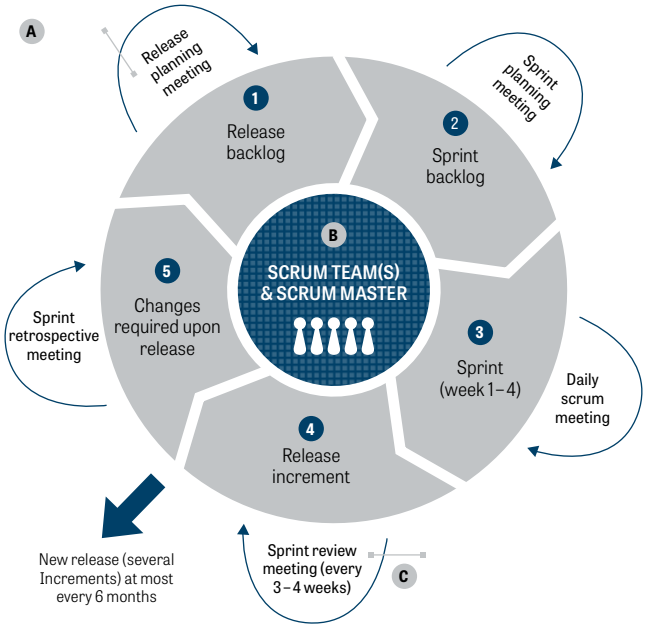
Data beats opinions!

Anyone who is quick to decide will fail. Anyone who is slow to decide will also fail, but only later. Yet anyone who fails fast can also quickly get back up again. Nowadays, decision-making processes are digitized insofar as they can draw on huge quantities of data. Imagine a scenario in which a patient suffers from pain triggered by some unknown cause. He can now choose between consulting a chief physician, who can look back on years of practical experience, or go to see a young intern with access to data on millions of previous cases. Who would the patient choose to go to?
Overcoming opinions also means being willing to make mistakes. Radically querying the skimming mode, even if the underlying business case will probably turn out to be more profitable than an opportunity for innovation regarding the business model.

Be open-minded!

The old rules of communication have become obsolete. In many places they have even been completely turned around. Information has become the most important raw material. Consequently, not everything that is expressly released may be shared, whereas everything that is not explicitly confidential should be shared! Communicating entails information from all relevant senders reaching all of the relevant recipients, making exchanges of information more effective and efficient. Autonomous, self-organised units – ideally equipped with decentralized budgets – speed up communication processes and ensure less redundancy. Opening up also means being both inwardly and outwardly directed and harnessing external collective intelligence to solve internal issues much more quickly.
The very procedural models that were initially developed primarily for software development and other such purposes are proving to be flexible and transferable to other forms of communication and collaboration.

FIGURE 4:
SCRUM CYCLE



SCRUM: *A project management approach that has massively speeded up software development. The roles are divided up as follows: The product owner is responsible for the product and its financial result responsible, and ultimately decides what is done. The development team organizes its own work and delivers the product. As a kind of master of ceremonies, the "scrum master" ensures that the process runs smoothly and creates the framework enabling the team's further development. There is no project manager in the conventional sense. The typical cycle comprises five steps. (1) A product vision jointly developed jointly by the team forms the starting point for an iterative, incremental procedural framework. (2) Next, a binding task list is drawn up for the next so-called "sprint." (3) Each sprint results in a product increment, a change that can be put into operation at any time. Sprints always last between two and four weeks. In fact, all activities and meetings take place within fixed timeframes. Daily work goes is overseen by a daily scrum meeting, lasting 15 minutes at most. The work plan cannot be altered during the sprint (stability principle). Agility comes into its own during the planning phases. (4) The sprint concludes with two meetings. In the sprint review the resulting product is assessed together with stakeholders and potential lessons are learned for the next sprint. (5) In the retrospective, the team scrutinizes the working method, proposes ways of improving effectiveness and efficiency, and plans their implementation.*

Space for learning and teaching!

If entire organizations are to be flexible, adaptable, and able to innovate, they must make every individual within them constantly strive to extend their perspective and broaden their horizon. But here, too, the number of cycles and the scale of ambition increase the dynamics of the didactic format. The carefully designed training catalogue, often found in foyers as proof of the breadth and depth of organizations own content, has become largely obsolete. Flexible formats, combined with the analysis of employees' skills and interests enable the right content to reach the right people at the right time. This aspect has something almost classical about it. The next step entails setting up forums and platforms for teaching and sharing, i.e. networking knowledge by networking the carriers of that knowledge. Knowledge carriers include not just the expert, but ultimately everyone in the organization. Student today, teacher tomorrow, including in targeted exchanges and knowledge-sharing. In this connection, the terms "inside" and "outside" the company become obsolete. Openness is everything. This also means, however, that individuals have a greater responsibility to procure their own knowledge.

Servant leading!

In an organization that can increasingly do without structure and hierarchy, leadership assumes a completely different meaning. Aspects like privileges and status symbols that still characterize the topic even today, become irrelevant. Learning and constantly developing employees want to be supported and coached along the way, but definitely not patronized. And if the team bases its decisions on solid expertise and actual data, it has no need for people who believe they know what needs to be done (see above), but rather people who guide the process through to the intended objective. The days of dominant leadership are over. The person in charge is the first servant of the team. The increasingly democratic legitimization of leadership arises from the ability to make a team realize its maximum potential. Not by issuing instructions, but by being the best team player.

5. Implementation: Two case studies

The following two case studies show how hybrid agility can be implemented successfully. The first case describes the separation of agile units. The second sketches out a more comprehensive agile turnaround.

Separating agile subunits

The formulation of a pharmaceutical technology company's strategy for 2020 was monitored by identifying potentially disruptive impact points along the company's own value chain.

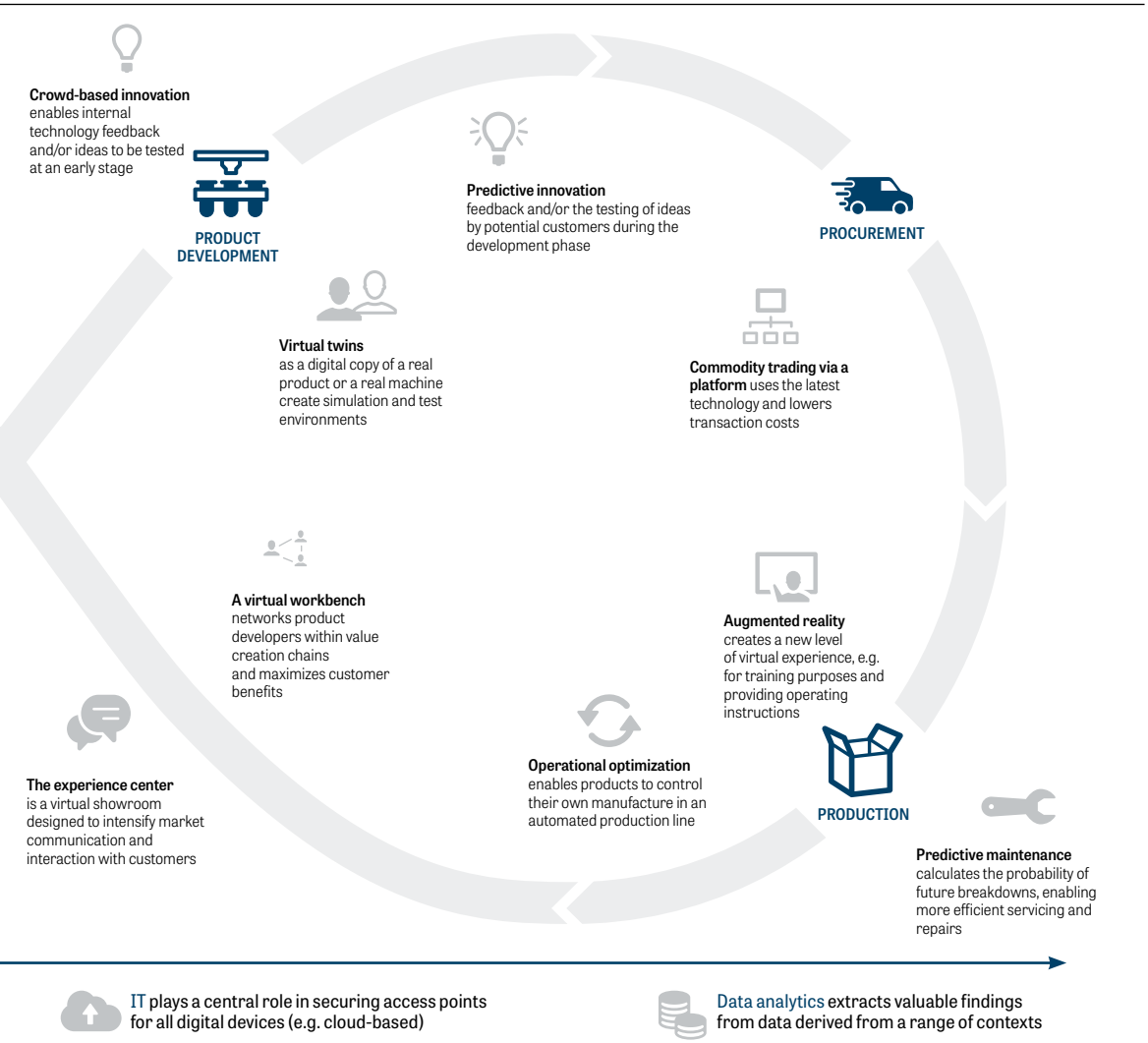
FIGURE 5: ANALYSIS OF DIGITAL IMPACT POINTS

Blockchain technology as a decentralized register dramatically streamlines administrative processes

Process mining enables the detection of procedural errors at the activity level in core areas and the provision of support

In principle, disruption was thought to pose a minor risk in the sector. Consequently, the need for a complete agile turnaround was never seriously considered. By contrast, in one specific business segment – software solutions for third parties, a central strategic pillar – a high risk from outside that branch of industry was identified.

In a bid to ensure the necessary speed of development, especially of software, in this unit, it was hived off and transferred to an "internal startup." The core of this startup was its own smart governance, comprising a connection to the parent company via advisory bodies whose frequency of meeting was factored into the scrum cycles; agile project management approaches; control via its own system of incentives; lean reporting more reminiscent of a financial holding; and otherwise the systematic non-integration of other structures belonging to the parent company, ranging from the leave system to arrangements concerning company cars.



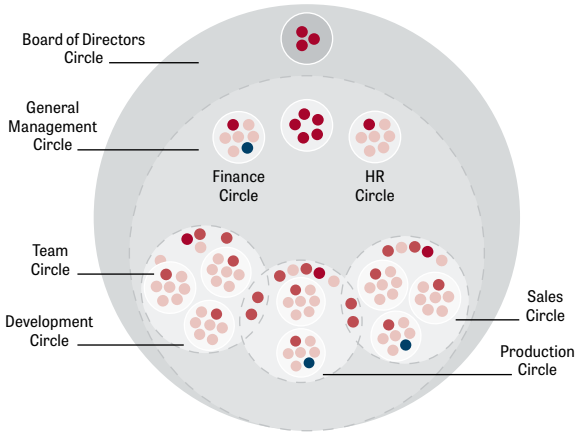
IT plays a central role in securing access points for all digital devices (e.g. cloud-based)

Data analytics extracts valuable findings from data derived from a range of contexts

Agile turnaround

The second case involves the passenger transport sector. Here, there was no need for an impact analysis, since the disruptive attack was already in full swing. The consequences were far-reaching: crumbling market segments, customer attrition, and critical price reactions under pressure. Yet the situation had hardly materialized out of the blue. It's just that the organization in question had been too slow to respond adequately and in good time. It was duly recognized that only an extreme transformation would suffice. The solution? A radically customer-oriented form of organization geared toward reaction speed and flexibility.

FIGURE 6:
AGILE TARGET



The answer was found in a more agile form of organization. The classical hierarchy was almost totally eradicated, being maintained only to the extent that it is required by law, e.g. the role of disciplinary supervisor was retained in the context of employee assessment. Fixed job titles and a rigid organizational chart were replaced by maximally autonomous dynamic roles, whose occupants were responsible for producing their own results. Roles are defined in teams and based on changing operational requirements. Individual employees often simultaneously perform several roles, to boost exchanges of information and increase adaptability. Functional "circles" are coordinated by people in specified (leadership) roles. Each circle has clearly defined objectives set by circles above them, but each circle organizes and controls measures designed to attain its objectives. The result? An optimal exchange of information, clearly accelerated decision-making processes and a collective (horizontal) governance structure within the circles, which are strategically controlled by (vertical) top-down target-setting.

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