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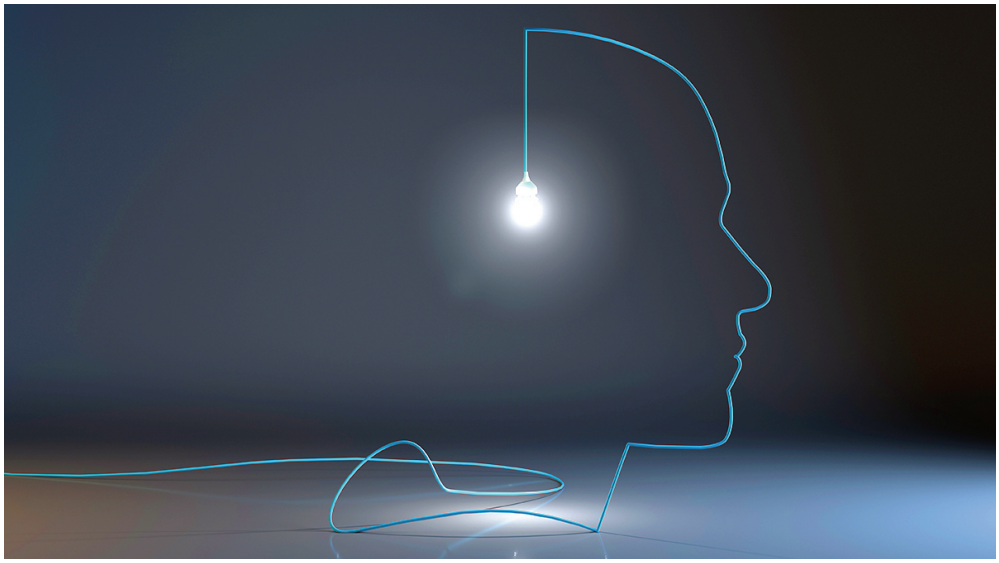
Digital Transformation



Digital Transformation Is Not About Technology

Strategy, culture, and customer experience are just as important.

by Behnam Tabrizi, Ed Lam, Kirk Girard, and Vernon Irvin

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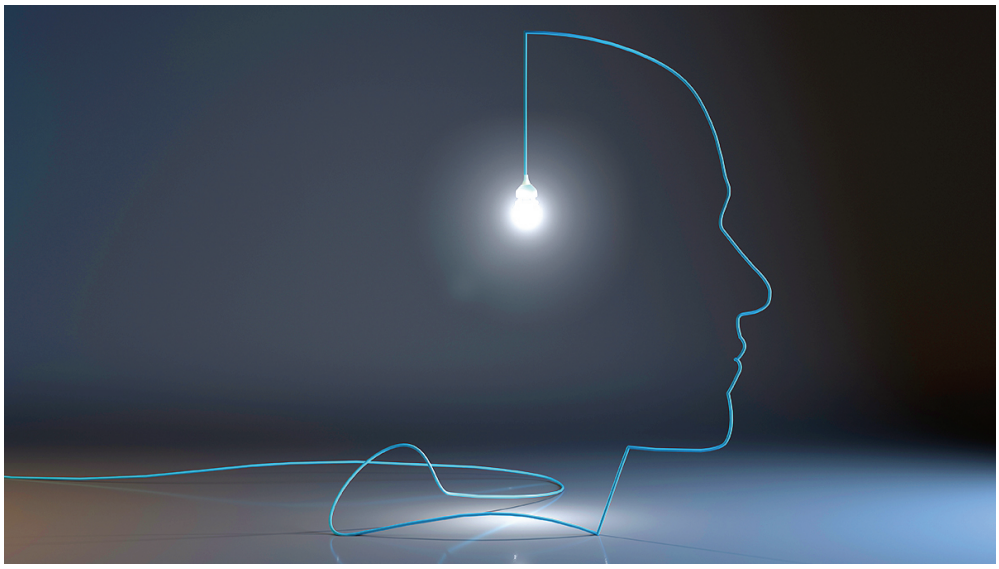

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A recent survey of directors, CEOs, and senior executives found that digital transformation (DT) risk is their #1 concern in 2019. Yet 70% of all DT initiatives do not reach their goals. Of the $1.3 trillion that was spent on DT last year, it was estimated that $900 billion went to waste. Why do some DT efforts succeed and others fail?

Fundamentally, it's because most digital technologies provide *possibilities* for efficiency gains and customer intimacy. But if people lack the right mindset to change and the current organizational

practices are flawed, DT will simply magnify those flaws. Five key lessons have helped us lead our organizations through digital transformations that succeeded.

Lesson 1: Figure out your business strategy before you invest in anything. Leaders who aim to enhance organizational performance through the use of digital technologies often have a specific tool in mind. "Our organization needs a machine learning strategy," perhaps. But digital transformation should be guided by the broader business strategy.

At Li & Fung (where one of us works) leaders developed a three-year strategy for serving a marketplace in which mobile apps were just as important as bricks-and-mortar stores. They chose to focus their attention in three areas: speed, innovation, and digitalization. Specifically, Li & Fung sought to reduce production lead times, increase speed-to-market, and improve the use of data in its global supply chain. After concrete goals were established, the company decided on *which* digital tools it would adopt. Just to take speed-to-market as an example, Li & Fung has embraced virtual design technology and it has helped them to reduce time from design to sample by 50%. Li & Fung also helped suppliers to install real-time data tracking management systems to increase production efficiency and built *Total Sourcing,* a digital platform that integrates information from customers and vendors. The finance department took a similar approach and ultimately reduced month-end closing time by more than 30% and increased working capital efficiency by $200 million.

There is no single technology that will deliver "speed" or "innovation" as such. The best combination of tools for a given organization will vary from one vision to another.

Lesson 2: Leverage insiders. Organizations that seek transformations (digital and otherwise) frequently bring in an army of outside consultants who tend to apply one-size-fits-all solutions in the name of "best practices." Our approach to transforming our respective organizations is to rely instead on insiders — staff who have intimate knowledge about what works and what doesn't in their daily operations.

Santa Clara County in California (where one of us works) provides an example. The Department of Planning and Development was re-engineering work flows with the goal of improved efficiency and customer experience. Initially, external consultants made recommendations for the permit-approval process based on work they themselves had done for other jurisdictions, which tended to take a decentralized approach. However, customer-facing staff members knew, based on interactions with residents, that a more unified process would be better received. Therefore, Kirk Girard and his team heavily adapted the recommended tools, processes, diagrams, and key elements of the core software as they redesigned the work flow. As a result, permit processing time was cut by 33%. Often new technologies can fail to improve organizational productivity not because of fundamental flaws in the technology but because intimate insider knowledge has been overlooked.

Lesson 3: Design customer experience from the outside in. If the goal of DT is to improve customer satisfaction and intimacy, then any effort must be preceded by a diagnostic phase with in-depth input from customers. The staff of Santa Clara County's Department of Planning and Development conducted more than ninety individual interviews with customers in which they asked each customer to describe the department's strengths and weaknesses. In addition, the department held focus groups during which they asked various stakeholders – including agents, developers, builders, agriculturalists and crucial

local institutions like Stanford University – to identify their needs, establish their priorities, and grade the department's performance. The department then built the input into their transformation. To respond to customer requests for greater transparency about the permit approval process, the department broke down the process into phases and altered the customer portal; customers can now track the progress of their applications as they move from one phase to the next. To shorten processing time, the department configured staff software so that it would automatically identify stalled applications. To enable personalized help, the department gave Permit Center staff dashboard control of the permit workflow. Leaders often expect that the implementation of one single tool or app will enhance customer satisfaction on its own. However, the department's experience shows that the best way to *maximize* customer satisfaction is often to make smaller-scale changes to different tools at different points of the service cycle. The only way to know where to alter and how to alter is through obtaining extensive and in-depth input from the customers.

Lesson 4: Recognize employees' fear of being replaced. When employees perceive that digital transformation could threaten their jobs, they may consciously or unconsciously resist the changes. If the digital transformation then turns out to be ineffective, management will eventually abandon the effort and their jobs will be saved (or so the thinking goes). It is critical for leaders to recognize those fears and to emphasize that the digital transformation process is an opportunity for employees to upgrade their expertise to suit the marketplace of the future.

One of us (Behnam) has coached over twenty thousand employees from multiple organizations through the digital transformation process (he has also consulted with the organizations mentioned in this article). He often encounters participants who are skeptical of the entire operation

from the get-go. In response, he developed an "inside-out process." All participants are asked to examine what their unique contributions to the organizations are, and then to connect those strengths to components of the digital transformation process — which they will then take charge of, if at all possible. This gives employees control over *how* the digital transformation will unfold, and frames new technologies as means for employees to become even better at what they were already great at doing. At CenturyLink, where one of us works, the sales team had been considering adopting artificial intelligence to increase their productivity. Yet, *how* AI should be deployed remained an open question. Ultimately, the team customized an AI tool to optimize each salesperson's effort by suggesting which customers to call, when to call them and what to say during the call in any given week. The tool also contained a gamification component, which made the selling process more interesting. Vernon Irvin, who watched this process from the inside, observed that it made selling more fun, which translated into an increase in customer satisfaction – and a 10% increase in sales.

Lesson 5: Bring Silicon Valley start-up culture inside. Silicon Valley start-ups are known for their agile decision making, rapid prototyping and flat structures. The process of digital transformation is inherently uncertain: changes need to be made provisionally and then adjusted; decisions need to be made quickly; and groups from all over the organization need to get involved. As a result, traditional hierarchies get in the way. It's best to adopt a flat organizational structure that's kept somewhat separate from the rest of the organization.

This need for agility and prototyping is even more pronounced than it might be in other change-management initiatives because so many digital technologies can be customized. Leaders have to decide on what apps from which vendors to use, which area of business best benefit from switching to that new technology, whether the transition

should be rolled out in stages, and so on. Often, picking the best solution requires extensive experimentation on interdependent parts. If each decision has to go through multiple layers of management to move forward, mistakes cannot be detected and corrected quickly. Furthermore, for certain digital technologies, the payoff only occurs after a substantial portion of the business has switched to the new system. For example, a cloud computing system designed to aggregate global customer demand can only generate useful analytics when stores in different countries all collect the same type of data regularly. This requires ironing out differences in existing organizational processes across different regions. If the details of how a new technology will be used are chiefly developed by employees from one country, they might not be aware of the potential incompatibilities.

Working with Li & Fung, Behnam helped to create six cross-functional teams, each staffed by employees from different offices in Hong Kong, mainland China, Britain, Germany and the U.S. These teams led different stages of the digital transformation. Since the structure of these teams was flat, they were able to present ideas to and obtain input from Ed Lam (CFO) and heads of business units quickly. This allowed the teams to experiment with new ideas about how innovative data structure, analytics, and robotic processing could best be integrated. Furthermore, because new proposals were vetted by employees from different country offices and different functions, these teams were able to foresee problems with implementation and were able to address them before the entire organization fully adopted the new technologies.

Digital transformation worked for these organizations because their leaders went back to the fundamentals: they focused on changing the mindset of its members as well as the organizational culture and processes *before* they decide what digital tools to use and how to use

them. What the members envision to be the future of the organization *drove* the technology, not the other way around.

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Behnam Tabrizi is an award-winning teacher, scholar, and global advisor. He has been teaching Leading Organizational Transformation at Stanford University's Department of Management Science and Engineering and executive programs for more than 20 years. An expert in organizational and leadership transformation, he is the managing director of Rapid Transformation, LLC and has helped thousands of CEOs and leaders plan, mobilize, and implement transformational initiatives. Behnam has written nine books, including *Rapid Transformation* (HBR Press, 2007) for companies and *The Inside-Out Effect* (Evolve Publishing, 2013) for leaders. His latest book, *Going on Offense: A Leader's Playbook for Perpetual Innovation* (IdeaPress Publishing), will be available for purchase in May 2023.

@TabriziBehnam

EL

Ed Lam is CFO of Li & Fung Ltd.

KG

Kirk Girard is a former director of planning and development in Santa Clara County.

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Vernon Irvin is president of Government, Education, and Mid & Small Business Division at CenturyLink.

