

Cognizant

DIGITAL BUSINESS

Organizational Change Management: A Make or Break Capability for Digital Success

As more businesses embark on digital transformation, they often underestimate the impact of these initiatives on their operational structure, culture and employees. If not properly managed, the substantial organizational change that digital entails can jeopardize expected returns on investment and program success.

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EXECUTIVE SUMMARY

From start-ups to government institutions, digital is a disruptive force. The former are encroaching on the territories of long-established organizations, and the latter are recognizing the beneficial impacts of digital on citizens and even gross domestic product (GDP).[1]

When it comes to digital change, many organizations focus on external factors, such as the customer experience and new revenue streams. However, internal changes are just as crucial for digital transformation to succeed, including new skills, employee behaviors, organizational structures and corporate culture.

In fact, traditional organizational hierarchies can be an obstacle to moving toward the new ways of working needed in the digital age, particularly as small, agile and innovation-minded players move quickly to win market share from established organizations. As Klaus Schwab, founder and executive chairman at the World Economic Forum explains, "In the future, it will not be the big fish that eats the small fish, it will be the fast fish that eats the slow fish."[2] In our own recent research on the digital workforce, conducted with the Economist Intelligence Unit, we found many companies beginning to transition away from rigid organizational models to smaller and nimbler clusters of talent with expertise to excel in a particular market or niche.[3]

Multiple studies over the years have highlighted the significant failure rates associated with traditional change initiatives, but what about the change associated with digital transformation?[4] According to some leading thinkers, the question of organizational change in the current digital age is the most important of all; as Harvard Business Review senior editor Andrea Ovans says, "The question we should be asking is not what utterly unpredictable new things will turn up to annihilate your businesses but what form of organization is appropriate to capitalize on them."[5]

This white paper explores how and why effective organizational change management is a make-or-break issue in this digital age. It further identifies some of the challenges of managing digital change, with recommendations on how to address them.

DIGITAL DOMINATES THE GLOBAL AGENDA

At the 2016 Davos World Economic Forum, digital graduated to the main stage, and was named as key to the "Fourth Industrial Revolution" by the event's organizers.[6] We have been tracking the rise of digital since 2010, and helping our clients to define and execute on their digital strategies. Common questions we hear include, "What is digital?" "What should we be doing in terms of digital?" "What are the main digital challenges we should anticipate?" "How can we manage the transition?"

These questions are considered below, leveraging our primary research, our own experience across industries and secondary research.

Defining Digital

To clarify, digital is not entirely new. We are all familiar with Web and mobile channels, as well as the predictive analytics used by Amazon to make recommendations based on customers' purchasing histories. Mobile use is rampant; in Hong Kong alone, there were 2.4 active mobile connections per citizen in 2015.[7] Cloud is also widely used today — think Google's Gmail delivered through a browser. Over a billion people use Facebook, and collaboration tools such as Yammer are quickly being integrated into the corporate domain.

So if digital technology is not new, then why all the commotion? The answer is that with the onslaught of these digital technologies, customer (and employee) experience expectations have skyrocketed. Just as important, when these digital elements are combined — such as social, mobile, analytics and cloud (aka, the SMAC Stack[8]), Internet of Things (IoT), 3-D printing, artificial intelligence (AI) and more — within the right governance structure, then business and IT processes can be transformed.

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While no standard definition of digital exists, it clearly goes beyond implementing the technology itself; organizations are placing the customer, the mobile device, the revamped business process or the new business model at the center of change, thereby improving the customer experience, organizational agility, and the revenue and cost outcomes by connecting the physical world to the digital.

The Mathematics of Change Management

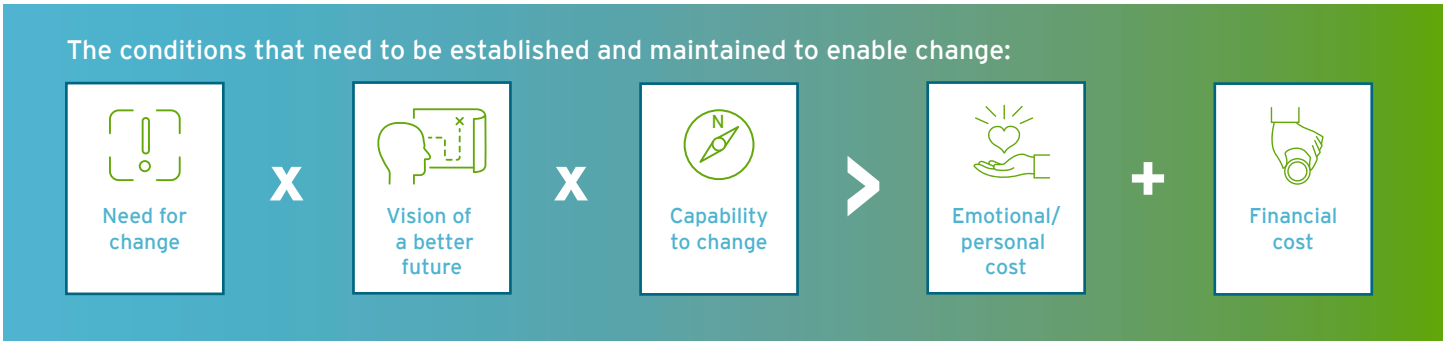


Figure 1

In summary, we define digital as "innovation to connect technology, data science, devices, design and business strategy to change a business process or customer experience."[9]

Consider the music industry, in which established labels have been disrupted by innovators like Pandora that stream digital music via the cloud across multiple devices and use predictive analytics to personalize music offerings based on individual preferences.

Success stories such as these — as well as Facebook, Amazon, Netflix and Google (sometimes called the FANG vendors[10]) — are not isolated or random events but a result of the distillation and the meaning made of digital data (or the Code HaloTM) that surrounds people, organizations, processes and "things."[11] Consumers increasingly expect a consistent, personalized and seamless experience across platforms, products, promotions, prices and policies, and these companies deliver them.

But while digital-native businesses such as these are able to design and build from the ground up, it is more difficult for long-established organizations to transform. This is where organizational change management for the digital era comes in.

Assessing the Criticality of Change Management

The failure rate for traditional technology change is widely understood to be over 50%;[12] since digital transformation impacts entire organizations, including structures and cultures, the challenge is likely even greater. In our experience, successful change is more likely when the need for change, the capability to change and the vision of a better future outweigh the emotional, personal and financial cost of the change (see Figure 1).

Organizational culture and lessons learned from past change initiatives are important considerations; according to some experts, corporate culture outranks organizational silos and budget limitations as the greatest challenge to digital efforts.[13]



Because digital affects all areas of the organization — and requires participation from stakeholders across the enterprise — effective change networks are needed to distribute and disseminate the change efforts.

NAVIGATING CHANGE

In order to navigate a successful digital transformation journey, organizations need to first understand and define what digital means to them, and identify the specific opportunity that digital represents. A cookie-cutter approach to digital is rarely recommended, as needs and opportunities vary dramatically across organizations. Because digital affects all areas of the organization — and requires participation from stakeholders across the enterprise — effective change networks are needed to distribute and disseminate the change efforts.

To navigate digital change, organizations need to:

- **Assess where digital and change leadership skills exist today** and bring them together in cross-functional groups governed by a digital council. The groups should operate according to a defined charter with the involvement of senior digital leadership.
- **Build the business case.** There is no lack of supporting materials to quickly identify the "burning platform" relevant for each industry. Businesses need to define the digital and change capabilities that are needed and assess their current maturity against these findings. Communicating the capability gaps can be an effective tool for business and IT alignment.
- **Identify digital initiatives that bridge capability gaps.** These initiatives need to be communicated widely, using creative mechanisms such as vision videos, pop-up stands in reception areas, vibrant brands, microsites and participative opportunities for employees at all levels to engage in.

Change Requires Top Leadership

Digital responsibilities, when not directly assumed by the CEO, are often assigned to others in the C suite, such as the chief information officer, chief technology officer, chief financial officer or chief marketing officer. Shared responsibilities may be the right option for some organizations; no matter which approach is taken, however, we believe it is imperative to have dedicated leadership that is empowered to connect across all stakeholders; break down organizational silos; define the digital strategy; design the operating model and customer journeys; manage skills, capabilities and resourcing needs; make sense of digital data; promote a digital-first and innovative culture; set up the digital office; ensure cybersecurity; monitor digital value; realign reward structures; and address the many other aspects that result from digital change.



In our survey of 200 CIOs and IT leaders across the U.S. in late 2015, 42% of respondents identified the CEO as leading digital initiatives, while 24% indicated the CIO, and 20% the CFO. Strong collaboration between the CIO and CMO was high lighted as a key success criteria, since a major portion of digital funding typically comes from marketing and IT budgets.[14] In another recent survey of more than 300 C-level executives and direct reports across Asia, we found as many as 70% plan to appoint a chief digital officer (CDO) within the next two to three years.[15]

Because digital impacts most if not all major business and IT processes, it is best to define, document and assign transformation responsibilities as early in the initiative as possible. Forward-thinking companies make their organization-wide processes available to all employees, which drives engagement by helping people see how their roles fit into the overall strategy, keeping in mind that select processes may need to remain accessible only to authorized employees for reasons of security or competitive strategy.

Championing digital from the top levels of the organization is paramount, and CEOs must get actively involved. This may include embracing a social media presence, such as Twitter or LinkedIn, or leveraging internal collaboration tools such as Slack, Yammer, Chatter, Jabber or blogs. Corporate leaders can share thought leadership on dedicated platforms, ensuring adequate resources are assigned to continually deliver fresh content.[16] These activities will not only help leaders better understand digital channels, but they will also drive an open and transparent culture supportive of digital change adoption.

A powerful idea for driving digital change is to provide all significant change initiatives with a unique brand and online collaboration space.

A powerful idea for driving digital change is to provide all significant change initiatives with a unique brand and online collaboration space. While this may be a major cultural shift for organizations accustomed to sharing information on a need-to-know basis, the end result — competitive differentiation — is worth the effort. After all, an intense customer focus — coupled with the ability to innovate and act quickly — is difficult for competitors to emulate.[17]

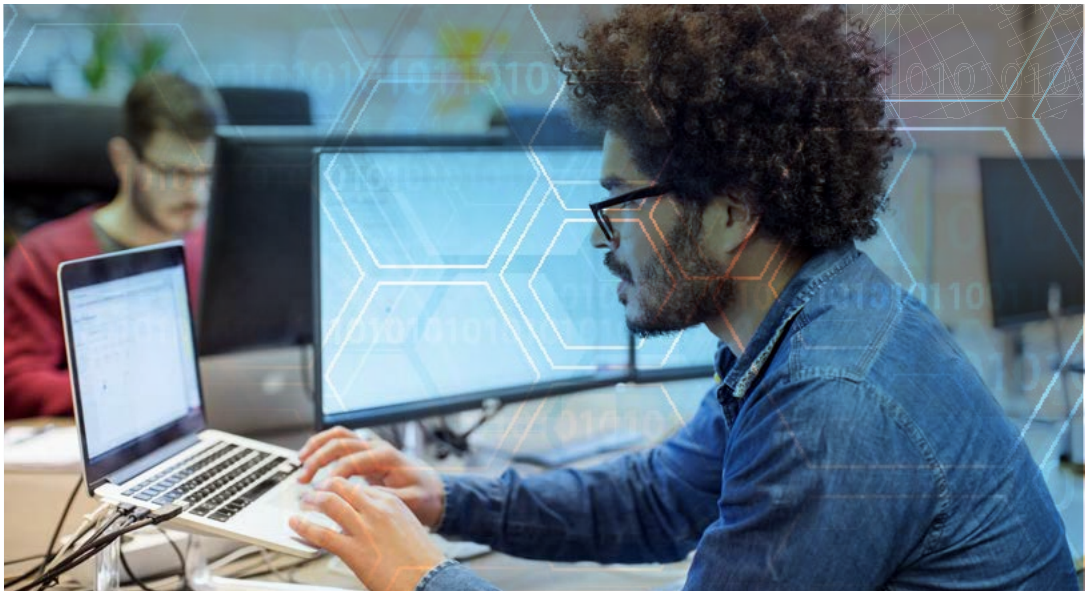
QUICK TAKE

Organizational Change Management: The Digital Difference

In our view, organizational change management in the digital era must focus on the following:

- Form a digital council, led by one or more collaborative senior leaders, to define, sponsor and implement the digital opportunity and build an innovation practice. The initial operating budget for innovation and digital transformation initiatives could be set at 1% to 2% of revenue.
- Develop a clear digital change vision. Assess both digital capabilities and change maturity, and define a roadmap to achieving the vision. Leverage the latest organizational change management methodologies that recognize the need for business agility, such as Kotter International's Accelerate 18 or our own OCM framework, 19 supplemented with the latest digital tools to implement and sustain lasting change.
- Use Agile methods to speed benefits realization, which will compound support for digital efforts.
- Grow digital talent both from within the organization and by leveraging external support as needed. Incentivize the growth of digital skills, set clear digital goals, and appraise, recognize and reward employees who demonstrate they are working toward these goals.
- Build a digital culture, including open and transparent communications from top leadership levels. Leaders should leverage company-wide collaboration platforms and e-learning techniques to encourage wider engagement through extensive communication of digital initiatives.





Organizations should not forget to include digital natives along with more senior, tenured managers. As members of the millennial generation have entered the corporate world, they have introduced the expectation of internal collaboration and transparency, as well as mobility and use of their own devices. Millennials can be engaged to monitor the latest disruptive technologies, identifying both potential threats and possible partnership or acquisition opportunities.

Finding Digital Talent

A major challenge for digital change is recruiting and retaining digital talent. In our recent research of over 420 decision-makers across the U.S. and Europe, 94% of respondents agreed that the digital skills gap was hampering digital transformation. As a result, many companies are beginning to work with smaller, nimbler clusters of talent that serve a particular market or niche. Doing so requires a shift away from rigid, hierarchical organizational models, which would hamper efforts to access, team and co-create with global talent pools that sit at the edge of the organization.[20]

Many companies are beginning to work with smaller, nimbler clusters of talent that serve a particular market or niche.

Because of the vast need for training, approaches will shift from face-to-face, to more cost-efficient methods that are on-demand, online and based on mobile platforms, such as private YouTube or Vimeo channels. Other approaches include massive open online courses (MOOCs), including Coursera and micro-learning techniques that deliver content in short bursts on an as-needed basis via mobile learning platforms such as Umu and Google's Primer.[21] While organizations must quickly establish digital talent, they also must balance speed with assurance that they are acquiring the right resources.

Encouraging Acceptance

Early in the program, leaders should identify influential individuals who may be inclined to resist the proposed digital change, and be prepared to personalize benefits communications with these stakeholders, possibly at the senior sponsorship level. Inclusive, extensive and transparent communications will help encourage adoption of the digital strategy, by giving anyone who is interested an opportunity to be part of the solution.

Adoption and enthusiasm can also be nurtured with digital methods that encourage audience participation, such as mobile-enabled real-time voting tools like Mentimeter.[22] Mobile SMS and WhatsApp channels can reach a wide audience, but organizations should be mindful that these approaches complement rather than replace the need for broader channel communications.

To instill a culture of participative innovation, organizations can crowdsource and prioritize employee ideas, ideally on open voting platforms. Such platforms can also help to scale and rapidly monetize innovation ideas, thus further generating excitement and adoption. We have developed collaboratories and "techquariums" around the world to help organizations quickly trial innovations at lower investment levels than traditional technology procurement methods.[23]

Quick wins and agile methods can also lead to faster benefits realization, which can speed acceptance.

Shoring up Human Resources

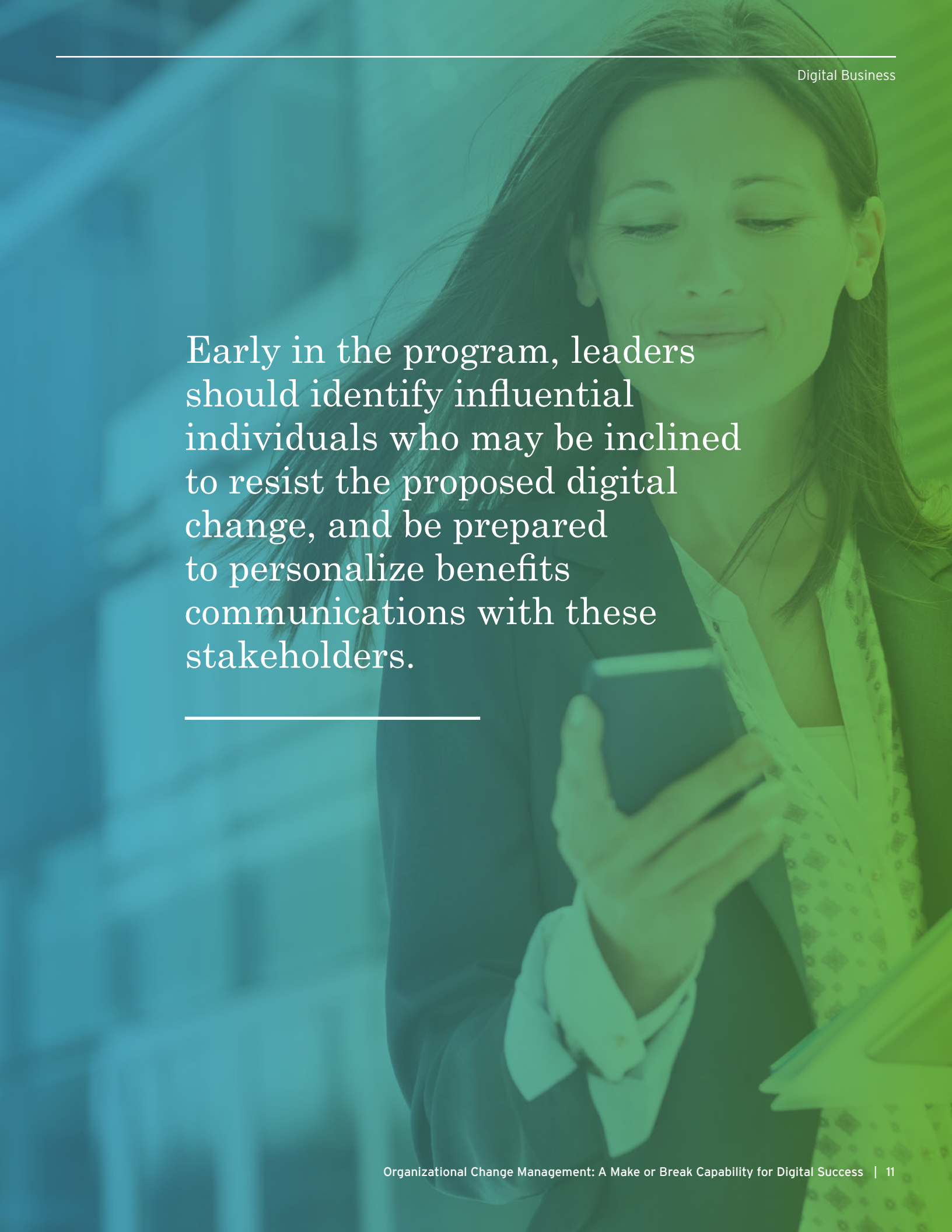
Leaders should be ready to answer tough questions from employees, such as the impact of digital automation and self-service initiatives on headcount, as well as the need for additional talent resources, such as design thinkers, data scientists and more. With the continued option of sourcing talent from external providers, as well as the growth of the gig economy,[24] new talent acquisition may not always mean adding permanent headcount.

To create individual accountability and ensure employees are focused on strategic priorities, managers should include digital objectives and measures in performance reviews, or organizations could even consider replacing the annual performance cycle with year-round recognition tools, such as WorkStride, Kudos or YouEarnedit.[25]

No matter which approach they take, it is increasingly clear that the human resources function needs to play a major role in digital transformation, particularly in terms of the impact on organizational restructuring, talent recruitment, employee performance and corporate values. Forward-thinking HR leaders will actively support the digital change, recognizing the unprecedented opportunity to provide an enormous competitive advantage to their business.[26]

Identifying a Methodology

Many organizational change management methodologies are available that can be leveraged for digital. Most will mandate a strong change vision and sponsorship, followed by thorough change planning, managed implementation, and an approach to embedding the new ways of working into the organization to sustain lasting change.



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LOOKING FORWARD

Digital is increasingly driving business performance today, and transforming business models across all industries. If organizations have not yet started to understand and embrace digital in a way that is relevant to their needs and strategies, they may already be on the path to extinction. In our recent research of more than 2,000 IT and business decision-makers in the U.S. and Europe, digital leaders already have a 160% advantage over laggards when it comes to digital.[27]

While change may be difficult to achieve, building a digital sense of urgency is increasingly easy to accomplish.

While change may be difficult to achieve, building a digital sense of urgency is increasingly easy to accomplish. Organizations should be mindful of the words of former GE Chairman Jack Welch: "When the rate of change inside an institution becomes slower than the rate of change outside, the end is in sight."[28]

Depending on where your company is in terms of digital maturity, we recommend the following actions:

- **Bring together digital stakeholders under executive leadership** to develop and drive the digital vision.
- **Define an approach to encourage innovation,** allowing all employees to participate in strategic ideation, further ensuring engagement and adoption.
- **Develop a strong digital change vision,** assess digital maturity and capabilities, and then leverage an organizational change management methodology that recognizes the need for business agility.
- **Use Agile methods for faster benefits realization,** which further encourages support for digital efforts.
- **Grow digital talent from within,** create digital champions and leverage external support as needed. Incentivize employees by setting clear digital goals, and then appraise, recognize and reward their efforts.
- **Build a digital culture, including open and transparent communications from the top,** leveraging company-wide collaboration platforms and e-learning to extensively communicate digital initiatives.

As futurist Joel Barker said, "No one will thank you for taking care of the present if you have neglected the future."[29] We are in the midst of a once-in-a-generation transformation. Change is not optional.

FOOTNOTES

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ABOUT COGNIZANT

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