Digital Transformation: Can Your Business Keep Up?

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Digital transformation is adapting an established business so it can continue to grow in the digital era. What does that really take? It turns out -- much to the surprise of many -- the most important thing is not technology. What businesses most need today is the ability to manage continuous change, and to build the kind of organization that can continuously adapt and manage the pace of change that digital technologies are forcing upon us every day.

New Capabilities Bring Opportunity and Uncertainty

Businesses today have to deal with a lot. First, technology is driving rapid changes in customer behaviors and in their expectations. Ask yourself: what do customers expect from your business in order to feel you are relevant to their lives and their needs?

In addition, we have all these new digital capabilities emerging, which, in turn, allow for new business models that simply have not been seen before. And that provides not only a lot of opportunity, but also a lot of uncertainty for established firms. Finally, digital trends are lowering the barriers to entry in pretty much every industry. It used to be we saw a few industries like media and entertainment that were being rapidly disrupted. But now it does not matter if you are an industrial manufacturer producing cylinders of gas for supply chains around the world, or an energy services company managing oil rigs around the world. Whatever industry you are in, you are facing new competitors with different business models based on technology, data, and connectivity.

We will continue to see these waves of digital disruption. We saw them with the Web and with smartphones and mobile computing, which gave rise to changes we are still absorbing across industries, from ecommerce to social media to streaming content to cloud computing. We have seen the Internet-of-Things, which was mistakenly hyped as something that was going to transform our kitchens and our living rooms. Instead, it has radically transformed our supply chains, and that is still playing out across the world.

And of course, a lot of attention right now is rightly focused on how machine learning is driving change and upending long-standing industries and ways of working. The first big wave of machine learning advances was in predictive AI. And so we see businesses like TikTok, which started with an AI-first approach to an existing category, transforming what social media looks like. Next, we'll see startups built on business models that leverage generative AI, the latest wave of machine learning.

We are still in early days of generative AI, but many powerful applications will harness it. And, like the Internet-of-Things, it may be used in very different ways than we imagine right now at the start. But generative AI (https://eiexchange.com/content/Growing-Your-Business-With-Generative-AI) , and more technologies around the corner, will continue to bring more and more waves of disruptive change to business.

Why Digital Transformation Efforts Fail

It used to be when I would ask senior executives to identify their biggest barrier to digital transformation, they would emphasize technology, lack of resources, or support from the CEO. Now, several years later, when I talk to business leaders, they never say those things. They all talk about barriers in their organization, their culture, and the speed at which they're able to act. So, in my own research, I have tried to understand the fundamental organizational and cultural problems holding companies back in their digital transformation efforts.

It comes down to five things:

1. Some companies are trying to transform without

a clear shared vision. Instead, they're just pursuing some sort of generic digital agenda that has been handed to them in a briefing book.
2. Others are trying to transform but have no strategic focus to their priorities. And so, they are shooting off in a hundred different digital directions.
3. Many companies hesitate to encourage experimentation. They are still trying to run everything on the old playbook of planning, planning, and more planning.
4. I see established businesses that lack real flexibility in their governance. Instead, they're trying to apply the same business-as-usual rules and operating procedures that were developed for their core business. In many cases, these rules are completely inappropriate for a new venture, a new business model, or a new digital product or service.
5. Finally, I see companies that struggle to transform because they simply have not done the hard work of growing their capabilities. And that comes down to the right digital technology, the right digital talent, and the right digital culture.

How To Pull Off Digital Transformation Successfully

I've learned that successful digital transformation hinges on being able to address all five of these barriers. I developed the DX roadmap in my book, not out of thin air, but by carefully studying the many companies in different industries that are among the 20% to 30% who are succeeding in their digital transformations.

What I found was they all did a few things right:

- They do, in fact, define a very clear, shared vision of where they see the future of their business, what role they will play, and why they have a right to occupy that role.
- They are very disciplined about picking the problems that matter most to the future of their business and focusing their energies there, while saying no to other things.
- They become very good at rapidly validating new ventures and new business opportunities, placing small bets, moving very fast, and learning very quickly which opportunities are worth pursuing and scaling up.
- They take a more flexible approach to governance, and they learn how to manage different paths to growth within the same organization.
- Finally, they do the hard work of identifying which technologies, what skill sets, and what cultural mindsets are most critical to their own particular digital future and strategy, and then do the hard work to invest in those over time.

Learning from Mastercard

Mastercard is a role model for managing digital transformation. This company, of course, still has a very strong core business, which is operating their credit card network.

But at the same time, they have redefined their company around a much broader vision for the digital future: powering and enabling secure commerce across any digital device or platform. That vision gives them a focus to invest and pursue innovation in many new areas, a lot of them related to cybersecurity -- for example, great innovation around digital identity authentication. The executives leading this effort are doing amazing work bringing together data, biometrics, and new forms of AI.

Yet Mastercard is not trying to do it all themselves. Yes, they have a division called Mastercard Labs, which operates in different parts of the world and partners very closely with their business units to accelerate innovation and pursue digital opportunities. But they also have a very open-borders approach to working with startups. They built one of the best corporate accelerators for startups in the industry, called Start Path. This initiative allows them to intersect with many thousands of fintech businesses every year who are applying to get into that program.

Mastercard is not looking at Start Path primarily as a way to invest money and get a return, like a traditional venture capitalist. On the one hand, they're looking at it as a way to learn a tremendous amount from the startup community and build relationships with promising new fintechs. And on the other hand, they are constantly thinking about how Mastercard can deliver value to the fintechs that take part in the program. And that's not just value from investment. One of the best things Mastercard can do is to connect these fintechs with their own incredible network of merchants and financial institutions around the world.

No matter the size of your business, the lesson from Mastercard is the same: Focus on problems that matter to your customer and to your business; and maintain an open mindset about what is going to be the best path to take you there.

Advice for Small Firms

Surprisingly, it can be actually much easier to transform if you are a small business. Yes, of course you will wish that you had more technological firepower and a deeper bench of talent within your ranks, with years of experience in wide-ranging technical fields. But again, what I have learned is that the biggest barrier to driving growth and innovation in the digital era is the slowness of complex organizations. The more employees, the more different lines of business, and the more geographies that an organization operates in, the more complex that organization will be. And that will always make it much, much harder to change than it is for a smaller organization.

My advice to entrepreneurs and small business leaders is to focus on three things:

1. Make sure you have a very clearly defined vision of where you're going and why. This will help you inspire and empower your own employees to get you there. Do not try to come up with all the answers yourself.
2. Make sure that as you grow, you keep a focus on teams that can move fast. Those are small, multifunctional teams where everyone is working 100% on only one product or problem to be solved; teams that are autonomous or with the ability to drive their own work forward; and that have clear accountability because they are being judged against a clear definition of success. Keep investing in their training and

skills. You may not have the biggest bench of talent, but make sure you keep your best people by giving them the opportunity to keep growing and learning on the job.
3. If you are a small business, most of the technology you use should be SaaS services, where you only pay as you use them, so that you do not get locked into cumbersome third-party solutions. And when you do build something yourself, make sure you build it in a modular architecture in the cloud so that it's flexible and scalable for the future.

Opportunities for Entrepreneurs

The smartest large organizations are looking to startups and entrepreneurs as they try to accelerate their own digital transformation. They may want to partner with you; they may want to hire you; or they may want to acquire your firm outright to bring in a critical mass of talent, and a new culture and mindset.

Joining a larger firm, and serving as an "intrapreneur" to spur innovation, can be extremely rewarding. But it is critical that you understand the importance of organizational dynamics. If you are working inside a big company, it is not enough for your team to achieve product-market fit. You must also achieve alignment with key stakeholders, like your supply chain team and your compliance team.

You also might get lucky: your startup grows and you stay with it. But that means that over time, you're going to face the same challenges as any other established organization! Your role may shift from chief product officer to chief operating officer. And the challenge there for entrepreneurs is to learn to lead larger groups of people, not by falling into the old playbook of top-down micromanagement, but by becoming really good at enabling people throughout the organization to drive change from whatever level of the business they are in, in a much more bottom-up fashion. That's the only model we've ever seen where companies can maintain agility and speed as they scale.

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