TEACHING NOTES:

Digital transformation: Challenges and opportunities for digital acceleration

(a 90 minute lecture)

1. Introduction:

All companies have to adapt to meet the challenges of business if they want to survive against the global economic changes. There are numerous challenges, such as: business competition, new regulations, technological disruptions and the most important: increasing customer expectations. In order to achieve their goals and develop their capacities for innovation, companies must have flexibility to strategically rethink everything and be able to make the necessary changes quickly. Also, traditional industries are often being stunned by new business models that change the usual services or products. However, these disruptive technologies and transformations very often bring quick success for market leaders.

Ask students what they think about the effectiveness of DT strategies and DT processes considering contemporary market!

2. Research problem:

Despite the fact that DT has been used for over 10 years, DT strategies are very often misunderstood. Different research show that executives from different branches struggle with defining and implementing DT strategy. HBR report has found that 26% of the executives report that one of the biggest organizational challenges is the lack of clearly defined DT strategy.

The executives are dealing with many different challenges related to DT. This presentation is trying to tackle that and builds around following questions:

1. What is digital transformation? Is it term related to the business or technology?

2. How are typical business process management tools (ERP, CRM etc.) related to the DT? What is BPM and what it brings to DT?

3. How to manage digital transformation? What are the necessary steps? Where to begin?

4. What are the main capabilities needed to transform the business?

5. How to implement digital strategy? Especially regarding the organizational culture and change management for DT.

3. Content:

The presentation is developed around 4 topics: first is definition of digital transformation from business perspective; followed by the role of BPM in DT project because it is very often in the practice to see managers who let the vendors decide about their processes and it

inevitably lead to disruptions and increase the initial cost of DT. Third topic is related to capabilities needed for successful DT and finally the digital strategy that will transform the business to become digital. In this part the emphasis is on organizational culture, change management and challenges that companies are facing when implementing DT.

4. What is DT?

From the business perspective, DT is economic term related more to the business transformation than to digital aspect. The premise is based on the fact that any technology applied to increase effectiveness is considered as a part of digital transformation. If everything is DT than nothing is DT… seems legitimate to ask a question, Is it just another buzzword? On the other hand, DT can be seen as a concept or a tool to bring digitalization to a higher level and transform, not only businesses but entire sectors, into innovative business models… such as Netflix, Dropbox, AirBnB, UPS, Spotify, to name a few.

DT is widely used concept for describing different aspects of business transformation.

Ask students to define digital transformation in their own words.

5. DT definition

We can start with understanding the difference between concepts: digitization, digitalization and digital transformation.

Digitization is the conversion of analogue assets and processes to digital for keeping up with technology changes. It makes all the information easily accessible and available. For example: converting user data into API (Application Programming Interface); transforming content into PDF files, recording business meetings or calls.

Digitalization is converting business processes using digital technologies to increase business's efficiency and revenue. Digitalization means making digitized data work for you. Digitalization helps to improve the existing business process or processes by collecting various data and implementing them all together making the process more efficient, productive, and profitable. For example, using chat box to communicate with clients, implementing test automation to reduce manual testing

And Digital transformation is an approach to problem solving through technology. It is related to business transformation and people, their mindsets, rather than about technology. Digital transformation is transforming business processes and activities with the help of integrated digitized data and digitalized applications. This will not only increase efficiency but will also manage risk and discover new opportunities to increase profitability. Examples are the companies that transformed their businesses and completely switched their processes based on the digital platforms.

Since we found that DT is related to business transformation more than technology, the presentation continues with the role of different management concepts in the DT, starting with BPM.

6. The role of BPM

Start with the question: ***Why is BPM so important?***

Service providers (vendors and system integrators) very often state that BPM is not important because software will tell you how the processes will look like in the future. It is very important to know how business processes look like, what works well for the organizations (this should be foundation to build on), what are the most challenging areas that need improvement. However, this should be done only for higher level processes that enable us to understand how we are using technology at the moment, and what is desired future state. This way the organizations can easily understand what the best way is of achieving DT.

7. The role of BPM

Ask a question: ***What is BPM?***

Business Process Management is a management field that supports a set of management practices that aim to **continuously optimize the processes through synchronization and integration**. That way, processes are individually analysed in order to find improvement opportunities, both in and out the company's limits, as this takes into consideration the macro-environment they develop.

Data analysis should be used to guide the management toward a decision, not the other way around. It is quite often that management take a decision and then seek a confirmation for it in the data – it is not good. Process approach helps us to find the indicators that will connect specific asset with the outcome – and our decision-making process become more successful.

When the project team evaluate current state of business processes it inevitably recognizes the improvement areas, and they can identify variations in the business processes and what is working well. This is a basis for defining desired future state, where they will retain good processes and build on it, but also decide about possible improvements. It is much easier to define roles and responsibilities in future processes after good business process mapping and also to define set of requirements that will help you to evaluate, define and select best technology and software for the organization. These activities are critical for successful change management strategy and business process improvements.

8. BPM and DT

Digital transformation is becoming very important for companies competing in today's markets. 76% of the executives say transformation has become significantly more important to business success, which is six percentage points higher than in last year's Harvard Business Review Analytic Services survey.

When implementing business process improvement, we have to start with analysing current business processes and requirements and by recognizing strengths and weaknesses design future business processes and requirements. Business process improvement is a part of quality assurance in which companies are improving their operations, try to reduce costs and risks, and increase compliance of their entire business system. To do so, the companies must follow six steps:

1. They have to think about what they want to achieve and what's really important in their business? For example, they are defining goal to become more flexible and to bring more customized solutions to their customers. Or to ensure business continuity and resilience. They have to also think about: why are we doing this? It might be to be competitive and to increase level of customer positive experiences with companies' service. Also, regarding the customers: we want to know Who are our customers (internal and external)? What do they care about? When we know about our customer's expectations, we can provide better solutions and increase their satisfaction with our service or product. This way the company determine its business objectives and value drivers. Other thing here is to define what are the core competencies? Is the technology core competency or just support to our operations? For example, the manufacturing company that is working in B2B environment and its customers are expecting high level quality product and excellent logistic to ensure inflows, their core competencies are related to the product and supply chain. And if company is retailer competing with global players, their core competencies should be in flexibility and customization to specific needs of individual customer – here flexible technology that will enable high level of customization is a core competence.
2. Then we have to map the business processes. Here we have to think about what current processes are like. Are the processes aligned with our business strategies? Do our employees know their roles and responsibilities in current processes? Are they empowered to develop and improve it? In this step we find out what are we doing well and where we need to improve. And this is the basis for following phase, redesigning.
3. Here we have to think about how to adjust current processes to bring improvements… then we have to assess our employees' competencies and skills and see if we need further training programs to develop skills needed for improving our processes, we also assess technological improvements that can lead to achievements. At the end of this step, we end up with scheme of future business processes and requirements that can be used to decide on appropriate technological solutions for our business.
4. In the following step we have to decide who will own the new processes? How can we measure the results? And look if the processes are aligned with our business goals. The improvement plan is developed here with clearly defined metrics, such as

KPIs, BP indicators, critical control points etc. The metric is used to follow process variations within quality assurance practices.

5. Implementation phase starts with change management where organizations' change management strategy is developed with clear understanding of the effects that transformation is bringing to specific stakeholders' groups. When considering different stakeholder groups, it is important to understand organizational culture and to make sure it is aligned with new business processes… if we fail to do so, usually we have high level of resistance and disruptions in digital transformation of company.
6. Finally, we must develop risk management plan to deal with uncertainties and to prepare for any disruption occurring during the digital transformation. The methodology is useful for radical changes, but also for incremental changes, meaning, building on existing processes, and this is a part of quality assurance that continuously goes through this improvement phases. There are different models for improvement, such as TQM or Six Sigma etc.

Ask students which of the six steps is the most important. Discuss and conclude that all steps are necessary to bring improvement.

9. BPM - implementation

The very important question is when to start with BPM in DT?

The very simple answer is as soon as possible. It is much better to have clearly defined future business processes and to use technology to achieve our goals then to let the software dictate how business processes will look like. If we know what we want to achieve, we can use technology more efficiently and find optimal solutions for the business. Ideally, we should know what our future processes should be prior to evaluating technological solutions.

Some other question also emerges during the DT: **Can we define our future state business processes without our future technology? Doesn't the software dictate our business processes? How detailed should we go into business process mapping?**

Ask students about their opinions.

Software evaluation should include analysis of the future business processes – to define how future BP will look like. Sometimes it is related to the design phase, and it is acceptable, but very often we see the cases where organizations are thinking that software or technology will lead design of future processes… very often it ends up with disruptions and increased implementation costs.

However, the process mapping should not go very deeply into operational level. The design of future business processes should be limited to fundamental processes in the organization and transactional processes will be further developed with technological solution applied.

All this should be part of our change management.

10. Reflection and summary

To sum up the relationship between BPM and DT we can see that Digital Transformation normally produces three major changes in a company: **a change in the products and services** (for example when you include sensors in a product to collect information, you will be able to provide new services for your customer); **a change in the value chain** to produce new products and offer new services; and these two above changes together produce **a change of the business model**. If we are looking at the change management, business change is related to people, companies, processes, and things. And these four elements affect the entire value chain. Therefore, to run the new value chain to produce new products and services and to change business model, companies should review all current processes to make the necessary changes to get the digital transformation. According to Porter, that who provides competitive advantage are the processes that run the business and therefore companies should always seek new ways to improve their processes.

And research continuously confirm that high failure rate of digital transformation is closely related to people and process side of the transformation.

So, the implementation of a digital strategy in a company requires the maintenance of a holistic view of certain business processes; eliminating what does not add value; the review of the key processes to adapt to new business models; rethink strategically the business according to the new digital goals; attract customers consistently across multiple digital channels, so they will need modernization, rationalization and simplification of business processes ... We can say that **the management of business processes is the key to successful digital transformation.**

11. Capabilities for DT

Now we know how important are the business processes, and we can keep up with questions: how to manage the company in DT? What are the key capabilities for DT?

Ask students for their opinions.

The literature suggests t**hree essential pillars of modernization: culture, business process, and technology**.

The key to succeed in a digital world is related to organizations' abilities to sense changes in the environment, to seize upcoming opportunities, and to adapt, integrate, and reconfigure the current resource base. These abilities have been named dynamic capabilities and are considered as the central mean for organizations to cope with new digital realities. Dynamic capabilities can be categorized as sensing, seizing, and transforming which refer to the identification of technological opportunities in the external environment (**sensing**), the mobilization of a company's own resources to exploit these opportunities (**seizing**), and the continuous renewal of the organization by adapting, reconfiguring, and renewing the current resource base (**transforming**)

Themes of organizational capabilities for digital transformation.

7. Strategy and Ecosystem are related to the abilities to adopt the business model during the transformation. It is important that digital strategy is aligned with business strategy and that entire ecosystem follows the core values of the organization.
8. Innovation thinking is related to the emergence of innovation in the organization, such as co-creation, enhancing products with digital technologies etc.
9. DT technologies are capabilities that enable implementation of new and disruptive technologies – in other words the ability to implement new technologies such as cloud, AI, IoT
10. Data capabilities are related to the handling, security and capitalization of Data. The data should be used for decision making in the company.
11. Operations capabilities relate to ordinary business activities and value creation so that existing business operations remain competitive and profitable to fund exploratory processes
12. Organizational design capabilities relate to the design of the structural and procedural organization – it means how organizational structure will look like, how will new processes look like, or the organization is just adjusting existing processes
13. DT leadership capabilities are related to the management and culture of the organization – so it enables creation of supportive organizational culture and finding the ways to overcome internal resistance to change

Now we can see how all these capabilities are developing from sensing, seizing to finally transforming the business.

12. Strategy and Ecosystem

In the sensing it is important to set a long-term vision and strategies, and to establish long-term partnerships. In this phase we can see the organization and its internal and external context, define what are the goals and how to achieve them. Seizing means leveraging long-term relationships by creating a network for value chain. This is a phase where value is created through the network and through the ecosystem organization is leveraging its innovative potential. Therefore, organizations need the ability to create appropriate collaboration possibilities between the organization and knowledge sources in the ecosystem through informal relationships and formal alliances. Organizations which coordinate and align own innovations with ecosystem activities can increase the resilience of their own business models.

Regarding strategy and ecosystem, seizing is the most important for successful digital transformation.

13. Innovation thinking

Organizations need to develop capabilities that allow them to detect changes in the society and environment as well as capabilities that create a deep understanding of current and future needs of customers. Also, it is emphasized that organizations need capabilities to anticipate future states of the environment. The Knopik and his team have shown that the sensing mechanism has the highest relevance for the Innovation Thinking theme. This finding emphasizes that organizations must develop Innovation Thinking capabilities from the beginning of the digital transformation journey.

On the seizing side, organizations require capabilities that enable them to repeatedly develop new technologies, products, and services and to integrate and align corporate R&D units and existing lines of business. Customer inclusion is very important here.

Innovation Thinking capabilities in the transforming mechanism allow the organization to embrace open innovation. To do so, organizations need to have capabilities to actively integrate external innovations into the value network and to converge internal innovation with impulses from the ecosystem.

14. DT technologies

Sensing is the most important within DT technologies. This means that organizations should develop these capabilities at the beginning of the digital transformation process. This mechanism is related to acquiring comprehensive knowledge of disruptive technologies and competitive technology intelligence to secure long-term survival resulting in organizational capabilities to understand and assess new technologies that can trigger innovation processes within the organization.

Seizing is mainly concerned with technology adoption capabilities, leveraging the previously acquired capabilities in technology knowledge and intelligence and effectively using technological assets and engineering know-how.

Organizations must keep their workforce open-minded and preferably enthusiastic about continuous changes. Capabilities in knowledge management that facilitate, collaboration, peer learning, and know-how transfer are important elements for the transforming mechanism.

15. Data

Regarding sensing mechanism Data-science capabilities can utilize internal and external data to acquire knowledge, e.g. about markets and customers.

The seizing mechanism has the highest relevance for the Data capabilities, which highly focus on the protection of innovation. Since industrial value chains are highly integrated with information and communications

technology, organizations are frequently confronted with cyberattacks.

Capabilities for data management, data understanding, data analysis, and data security are existential to transform organizations.

16. Operations

Operations capabilities focus on the performance of existing value chains. They enable the analysis of potential inefficiencies in the value chain and increase the efficiency of existing business processes within sensing mechanism.

The seizing mechanism accounts for the highest number of Operations capabilities. While they continue to focus on the analysis and improvement of internal business processes, external insights are increasingly

considered. This requires capabilities to gather information about internal and external processes and to analyse and evaluate the results. These insights lead the efforts to improve business processes and to reallocate resources.

Regarding the transforming mechanism, the focus of the Operations capabilities shifts from process analysis and improvement to the integration and connection of operations with other lines of business.

17. Organizational Design

In the sensing mechanism, the main objectives of Organizational Design capabilities are to support the information and knowledge flow across organizational units through infrastructural and knowledge

management related initiatives.

in the seizing mechanism leverage the intra-organizational infrastructure to facilitate the flow of information inside the organization and with external entities. Prerequisites for this are a clearly recognizable organizational structure.

The transforming mechanism has the highest relative relevance for Organizational Design capabilities, which mainly relate to the adoption of internal structures and knowledge management.

18. DT Leadership

The main purpose of the capabilities for sensing mechanism is to introduce the right mindset for the transformational process into the organization. This includes the capability to promote experimentation with and

learning from new technology and ideas, as well as to facilitate entrepreneurial aspirations in the organization.

The seizing mechanism primarily refer to an innovation-promoting culture. Creating a culture that fosters risk-taking, freedom, and self-management is crucial to the emergence of innovation inside the organization.

The transforming mechanism has the highest relevance for this theme. Continuous adoption to volatile environments relies on the abilities of the workforce as well as on the right culture. DT Leadership capabilities

allow organizations to engage in a balanced capability development from both externally appointed and internally promoted employees.

19. Digital strategy

When speaking about digital strategy, we can start with this quote from McKinsey: „Visionary CEOs individually are the engines of massive change that is unprecedented in the history of information technology – possibly unprecedented in the history of commerce".

Ask students to comment.

We can see that digital strategy is a crucial for digital transformation. And it all starts within company. COVID 19 pushed businesses to digitalize. According to HBR Analytic Services from 2021 95% of executives report an increased importance of a digital transformation strategy within their industry and it is the highest percentage recorded to date.

The shift in focus from profits to resilience is remarkable, especially in a world where business decisions are increasingly influenced by market pressures that reward short-term results. For the first time, business continuity and resiliency have surpassed the profitability and productivity as the most frequent business goal. Moreover, 58% executives say their organization's transformation strategies since the pandemic's start have been effective, up from 20% before the outbreak.

20. Digital strategy – starting points

And now what are the starting points when deciding on digital strategy? First, we have to know: what are our business goals and strategies? Digital strategy must fit into that framework. Then we have to decide if we are going for radical change, or we opt for incremental change? It will influence the strategy.

Moreover, the management must decide if they are aiming to harmonize their operations after big acquisitions or if the company is having a strategy based on the customization and flexibility for their customers, they should consider their IT system as a core competence that enables them to bring customized and flexible solutions to the clients. These are two opposing approaches. But very often companies are somewhere in between and then it is important to find the right combination of different technologies that will enable strategic alignment between business strategy and digital strategy.

21. Digital strategy – five steps

When implementing digital strategy, we have to include five steps.

1. Strategic alignment means alignment of business strategy with digital strategy. (For example, if our goal is to be more flexible than we can develop digital strategy that will include some very flexible technology to help us reach a goal. Or if we want to have consistent service for our customers it may lead us to a single ERP system that will standardize our operations. The strategy for DT is not so closely related to the technology, but to the business operations. If the company going through DT is having a strategy to harmonize and standardize its processes, then their digital strategy can be outsourced to service provider.
2. Address business processes and operating model – this step is related to BPM and need for focusing on the future state. As stated before, business process management is very important and should be part of digital transformation in the early stage.
3. Applications and system architecture – here we should explore specific technologies and select ones that are useful, and we also have to consider how these different technologies are combined in business system. The exploration of software industry is needed to see how it fits to our future state needs, and to define potential options and scope of potential solutions. It ends up with software evaluation and technology recommendation… We should also assess current architecture and analyse architectural impact, followed by change plan and costs. This is the phase when we are considering technology and trying to find right solution for our business processes.
4. Organizational impact – is related to Organizational Change Strategy. It is important to understand organizational culture and determine how to develop supportive one. This step includes digital readiness diagnostic, cultural assessment, skills assessment. Finally, it ends up with organizational change plan where organizational change, communication channels and training plans are developed. Project communication starts here, and change team is taking its first actions.
5. Data and analytics include data management process, analytics roadmap with cost, software requirements, deployment plan. We should familiarize with industry best practices, reporting requirements, industry trends, start predictive analytics and implement project quality assurance. (Quality assurance is used to govern and control, and to manage risks).

Very often we hear that strategy is all about people part of the business. Therefore, we focus on organizational culture and change management in following slides.

22. Digital strategy and organizational culture

According to the HBR **84% of executives say having the right culture in place is important for DT.** Therefore, we have to find out what is the right organizational culture that will

enable change needed for successful digital transformation. Organizational culture is the collection of values, expectations, and practices that guide and inform the actions of all team members. It can be seen as a collection of traits that make the company what it is. A great culture shows a positive trait that leads to improved performance, while a dysfunctional company culture brings out qualities that can disrupt even the most successful organizations. Simplified, we can say that organizational culture is how organizations do things.

Example: We can compare Microsoft and Salesforce. Both technology-based companies and top performers, and both putting strong emphasis on organizational culture. Microsoft, known for its competitiveness focus under Steve Balmer, has been transformed by Satya Nadella, who took over as CEO of the company in 2014. He revised a company culture and moved from competitiveness towards continuous learning. Employees were encouraged to *improve themselves*. Microsoft's is still competitive and one of the most valuable companies in the world.

Salesforce puts corporate culture at centre and has experienced incredible growth. Marc Benioff, Salesforce's founder and CEO, established philanthropic cultural norms that have guided the company over the past two decades. All new Salesforce employees spend part of their first day volunteering and receive 56 hours of paid time to volunteer a year. This focus on meaning and mission has made Salesforce one of the best places to work and company is still very successful and competitive.

Ask students: what are the qualities of high performing organizations?

23. DT and organizational culture

Qualities of high performing organizations:

- **Alignment** comes when the company's objectives and its employees' motivations are all pulling in the same direction. Regarding digital transformation, alignment means that our digital strategy should also be aligned to business strategy and goals.

- **Appreciation** can take many forms: a note of thanks, a promotion. Here all team members frequently provide recognition and thanks for the contributions of others. This should also be a part of digital strategy.

- **Trust** is vital to an organization. In the digital transformation trust is very important especially for bringing completely new solutions to business processes and going through the initial implementation phase when some disruptions may occur.

- **Performance** is when talented employees motivate each other to excel, and, as shown above, greater profitability and productivity are the results.

- **Resilience** is important in dynamic environments. A resilient culture will teach leaders to watch for and respond to change. The digital environment even more emphasises the importance of resilience since market dynamic is very high.

- **Teamwork** encompasses collaboration, communication, and respect between team members. Teamwork is essential for successful implementation of digital solutions and transformation of business processes. Process approach means that cross functional teams should work together to bring improvements and to implement new technical solutions.

- **Integrity** is vital to all teams when they rely on each other to make decisions, interpret results, and form partnerships.

- **Innovation** In means that company apply creative thinking to all aspects of business, even its own cultural initiatives.

- **Psychological safety** provides the support employees need to take risks and provide honest feedback. Managers need to take the lead in creating a safe environment where everyone feels comfortable contributing.

24. DT and organizational culture

According to HBR Analytic services survey, cultural characteristics that enable digital transformation include community, inclusivity, transparency, adaptability, collaboration. We can see that these characteristics are very similar to those from previous slide. And also, we can see that in each characteristics leading companies are surpassing the rest, especially regarding inclusivity, transparency and community.

Collaboration is related to the support for sharing the work, initiating projects in group settings, and effectively connecting with additional project groups to form cross-functional teams.

Adaptability includes free information flows, enabling individuals to make decisions and respond to changing conditions, experimentation and learning encouragement.

Transparency means that individuals and teams regularly disclose their plans, products, or processes to multiple stakeholders, and that decision makers share data and resources.

Inclusivity is achieved when there are established channels for providing feedback or learning about projects and activities, leaders and project teams actively solicit diverse perspectives, there are processes for collective or collaborative decision making.

Community is related to situation when shared values guide decision making, so rather than relying solely on top-down directives, organizations mobilize expertise from people closest to challenges or opportunities to promote agility, quicker decisions, and better ideas.

25. Digital strategy – overcoming challenges

If we look at the primary business goals for the organization's digital transformation efforts prior and after the COVID 19 outbreak, we can see the shift from efficiency towards business continuity and resilience. Before pandemic, the organizations digital transformations were based on the productivity, efficiency, profitability, customer satisfaction, product or service quality, while supply chains and new business applications

were the least important. However, after the pandemic we can see that business continuity and resiliency is becoming critical, together with agility in operations and business workflows. The efficiency has fell to the third position, followed by customer satisfaction. What we can learn from this data is that the era of efficiency and productivity is coming to an end and future digital transformation goals should lead towards resiliency, agility and new business opportunities.

Ask students to name the challenges related to DT projects.

26. Digital strategy – overcoming challenges

Operational disruption is very common issue with digital transformation. It can be defined as a disruption to operations resulting from transformation. For example, being unable to ship product or close the books. Third stage consulting group presented the research results where they considered only big disruptions in digital transformation projects. Of all companies in their study, 51% to 54% experienced an operational disruption during implementation. The duration of disruptions varied from a few weeks to several months. And regarding the costs, disruptions increased the initial cost of the implementation between 50% and 300%.

They have found that the strongest and most direct impact on the level of operational disruption is related to the:

• *CLARITY OF DEFINED BUSINESS PROCESSES – those that spent more time defining clear business processes prior to or early in their transformations were less likely to experience disruption.*

• *INVESTMENT IN ORGANIZATIONAL CHANGE AND TRAINING – those that implemented more complete and effective change strategies were less likely to experience disruption.*

• *LEVEL OF EXECUTIVE ALIGNMENT AMONG KEY STAKEHOLDERS AND THE TRANSFORMATION PROJECT TEAM – those that rated higher in executive, stakeholder alignment, and project team were less likely to experience disruption.*

• *TIME AND EFFORT SPENT DURING USER ACCEPTANCE TESTING AND CONFERENCE ROOM PILOTS – the more thoroughly a company tested its processes and systems, the less likely they were to experience disruption.*

Companies that excelled in these four areas were the most likely to experience successful digital transformations with the least amount of operational disruption.

27. Digital strategy – overcoming challenges

The sources of disruption and unsuccessful digital transformation are related to the 5 areas:

First one is ORGANIZATIONAL CHANGE AND THE “PEOPLE” PART OF THE TRANSFORMATION. – organizational change is first concern and challenge when going through digital transformation. It is very often related to intentional resistance or misunderstandings regarding transformations and organizational change.

Then we have TRANSFORMATION MISALIGNMENT WITH STRATEGIC OBJECTIVES. – when digital strategy is not aligned with broader strategic objectives, project teams usually struggle with transformation because they don’t have clear vision of project goals and future organizational design.

Third challenge is DIFFICULTY MANAGING OR ADDRESSING DEFICIENCIES WITH THE SYSTEM INTEGRATOR. – when company outsource the deployments of new technology to system integrator, they often face more challenges or disruptions than those that take active ownership of their transformations.

CLARITY OF BUSINESS PROCESSES. Is the next challenge. We discussed this extensively in the presentation, and general conclusion is that the company should clearly define the future state of business processes, and don’t let the software to drive their transformation.

Finally, there are DIFFICULTIES WITH DATA MIGRATION. Cleansing, mapping, and moving legacy data to the new system is a common challenge among organizations during digital transformation.

28. Digital strategy – overcoming challenges

If we look at the leading companies and their approach to digital innovations, then we can conclude they owe it to technology. 82% of 118 leading companies are differentiating themselves using digital transformation strategy. On the other hand, only 57% of 1022 followers are using the same strategy, while 30% are keeping up with the industry, and 11% maintaining current infrastructure and capabilities. It is evident that digital transformation is related to the competitiveness and success.

29. Digital strategy – overcoming challenges

Another chart from McKinsey shows changes needed to make company's business model economically viable by 2023. Nearly 9 in 10 respondents think that the business model needs to change or has already been changed. 64% think that they need to build new digital business, 21% need to embed digital technologies in current business model, and only 11% are keeping current business model economically viable. According to this information, we can conclude that changes and innovations are crucial for success and digital transformation is central topic for business community today.

30. 7S model

The McKinsey 7S model is something commonly used to ensure that an organization is aligned in its execution of its strategy. It can also be used to ensure that digital

transformation strategy is aligned and executed in a way that makes the most sense for the organization.

Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools. It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a company for it to function effectively.

Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analysed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if it is aligned with other elements.

Structure represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework. We have to define roles and responsibilities and determine how are different departments going to interact and how business processes will look like. So this goes in the same vein as the previous ideas around business process management and its alignment with strategy and other business practices.

Skills are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure. We have to identify what are the skills that will enable the transformation and it may be technical skills or understanding the technology, also change management skills to make sure we can ensure that we can keep up with the transformation and changes in general.

Staff element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded. For example, for digital transformation strategy we have to make sure to have best people on the project and if we fail to do so the organization usually runs into trouble because they get misaligned with the staff they have and strategy they are trying to accomplish.

Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders. For example, if organization is lessees fair organization where you let different part of business do their own things and operate independently and you trust them. It is important that this style is synced with overall strategy and other S's from the model.

Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behaviour and company actions and thus, are the foundation of every organization. In other words, these are related to the working environment we are striving for and the overall culture. And within digital transformation we have to consider how can we add to the existing model or how can we add to the culture of what's been successful so far.

Systems are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change. The systems are intentionally the last part of the model since for DT success, all previously explained elements are more important and system should be aligned with it. Very often when DT projects start with systems and focuses exclusively on the systems and we have misalignment with strategic part, the DT project deals with operational disruptions and increase of initial implementation costs.

The most important lesson here is that all 7 elements in the model must be aligned and used simultaneously.

31. Summary and conclusions

And now it is time to bring some concluding remarks:

- Digital transformation is business transformation that uses digitalization. It is related to business transformation rather than to the technology.
- BPM is critical for successful digital transformation and should be addressed in the initial transformation stage. It is important to determine how future business processes will look like and to use the technology to achieve desired goals, not the other way around.
- Organizational capabilities for DT are dynamic and can be categorized as sensing, seizing, and transforming. All mechanisms should be used to develop capabilities for digital transformation, such as: strategy and ecosystem, DT leadership, Innovation thinking, DT technologies, Data, Operations and Operational Design.
- Supportive organizational culture is crucial for successful implementation of digital strategy and DT. To create supportive culture, it is important to focus on people side and to empower them to become agents for change and improvement.
- Leading companies are the ones that continuously invest in digital solutions. And the era of effectiveness is coming to an end, while resilience, flexibility and agility are becoming the most important issues.
- 7S model is useful for aligning and executing digital transformation strategy with strong emphasis on soft Ss in the model.