d-transform

Enterprises & Organizations in the Digital Age
(Whitepaper)
Andreas Duffner, February 2016

This is the second in a series of reports on relevant business areas in the digital age. The information is intended to point to essential topics for enterprises exploring their digital transformation.
The first article 'Customer Interaction in the Digital Age' was published in January 2016 and is available on d-transform's website.

Abstract
In the digital age economy, enterprises and their individuals are working under the same conditions – in a *fractal* global economy. To secure their economical survival, companies will need to transform their functional organizations into fast moving teams that are characterized by new roles, responsibilities and decision power, adhocracy and digital capabilities.

What is behind the fractal economy?

It's obvious that the digital age will bring us new and unforeseeable challenges which we have never experienced before. The economy will be characterized by speed, daily changes, and transparency, which will lead to an outstanding position for consumers. Borders between companies, the market and consumers will blur. For companies, planning, budgeting and working in a stabile environment will be a critical endeavor.

The entire economy will look *fractal* – comprised of millions of small and adaptable "cells" that will create value. They will excel by variety, innovation power, permeability, speed, dynamic, self-optimization, self-organization, and self-similarity. Many of these will be organized in communities to achieve a common purpose. An excellent example is the new economy of crowdsourcing (e.g. make yourself familiar with the business model of Local Motors).

It's about the creation of adaptable organizations. Economy, enterprises and their individuals are working under the same conditions. That means, the new economy is fractal.
Blur – the speed of change .... Davis/Meyer

How can traditional organizations survive?

Companies have to understand that they can't be separated from the economy; they are integral part of it and are subject to the same conditions and forces. Thus, they need to adapt with the same – *fractal* – characteristics to survive *(Blur – the speed of change .... Davis/Meyer).*

Early indications of this trend is reflected by the transformation of traditional organizations into customer-centric (market driven) networks and teams. Increasingly companies are built on platforms (e.g. Apple) and keeping intense customer contact. They own the real important parts of their value chain and keep the mission critical topics and components in-house (processors, Apple-ID, and critical apps like iTunes). Other parts of the business are out- and crowd-sourced to better manage ups and downs in the market. Again, Apple has demonstrated this approach.

A shift from traditional beliefs regarding functional and hierarchical organizations and the associated leadership power to the new world of cooperation and teaming of equals is mission critical. This goes along with the recurrent fast and unpredictable change of business models and the expectations of the employees who are looking for interesting and attractive work instead of management career (see article 'knowledge workers' that will be published in Q2/2016).

We can illustrate the shift with this metaphor: Traditional companies look the same as big, grounded and ponderous castles. The new companies are like pavilions that are open, small, nimble and agile. I explore this concept in the video "Andreas Duffner about digitization – the journey to the digital pavilion" on www.d-transform.com.

What are the characteristics of a new agile *digital* organization? - 3 Perspectives -

When looking into more detail it appears that digital organizations not only transform from functional structures to teams and networks. They also distinguish themselves in the level of bureaucracy and their digital capabilities. Here are 3 perspectives:

Teams versus functional & hierarchical organizations – The current organizational set up of organizations is one of the reasons why companies are struggling to rigorously enter the digital age. As leadership power is still defined by the number of business lines and employees the biggest obstacle is the (middle) management. The fear of loss of power and control creates standstill instead of pioneering spirit and change.

Successful digital enterprises strive for speed, adaptability and agility. This can be only achieved if organizations develop further to teams. This new team set up is characterized by:

- **Roles:** Based on their skills and expertise employees are taking over roles and serving to one or many teams. They are given decision-making power according to the business relevance of their role to ensure real-time decisions can be made when required;

- **Market-driven value creation processes:** They are replacing top-down instructions. In addition, decision power will be decentralized and positioned directly at the market and customer interface;
- **Change of leadership practices and business control:** From management direction to active employee participation and cooperation associated with new financial incentives.

Bureaucracy – Even in the digital age bureaucracy will have its relevance, simply due to control of critical business processes like compliance management and risk mitigation. However, as digital organizations are transforming to teams and networks, how much bureaucracy do we need – especially in light of smaller, more agile and highly adaptive companies? Where is the right balance between:

- **Bureaucracy** – Defined as formal. Positional authority is privileged;
- **Meritocracy** – Individual knowledge is privileged;
- **Adhocracy** – Action is privileged.

In the article '*Adhocracy for an agile age*' *(McKinsey Quarterly 12/2015),* the authors are in favor of the 'Adhocracy' model that will be become increasingly important in the decades ahead. It's appropriate in high levels of un-predictability, its activities are coordinated around a problem or opportunity, the decisions are made by experimentation, trial and error. In this model the employees are motivated by stretch goals and recognition for achieving them. The stretch goals, to be effective, must be attainable, though not easily, to remain credibility.

Digital capabilities will determine which companies create or lose value!

Digital capabilities – Every company has digital capabilities – yet in some instances they have difficulties to identify and unleash their digital assets. For many differing reasons, they are hidden within the organization. An effective instrument to start the journey to a digital organization could be to identify and assess the current capabilities. This approach makes it more tangible and manageable to drive the change, and the following can be explored:

- Innovation, transformation capabilities and IT excellence. These three areas represent the digital transformation enablers;
- Customer centricity, effective knowledge workers and operational excellence. These areas represent the digital transformation goals *(Digital Enterprise Transformation – Uhl/Gollenia).*

Ideally, the assessment considers the entire ecosystem of the company – the *fractal economy.*

Overall, companies, their organizations and leaders are challenged by the indispensable conversion into the digital world. This conversion starts and ends with a strong understanding that the digital world is different – borders between economies, companies and their individuals blur.

About the author

As a business consultant and business coach Andreas Duffner serves to global customers since more than 20 years. His core expertise is customer relationship management, business transformation, management of multi-cultural teams, digitization as well as leadership and team coaching. He was founder of 2 start-up companies.

Andreas Duffner was instrumental for building up of SAP's global Business Transformation Services practices; in the course of this he was building up the practices in Asia, Pacific and Japan (SAP Asia, Singapore. 2008 - 2010).

The journey to the *'Digital Pavilion'*

Visit d-transform's website www.d-transform.com and watch the video about the journey to the digital pavilion:

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