Harvard Business Review

REPRINT H059M5
PUBLISHED ON HBR.ORG
NOVEMBER 12, 2019

ARTICLE
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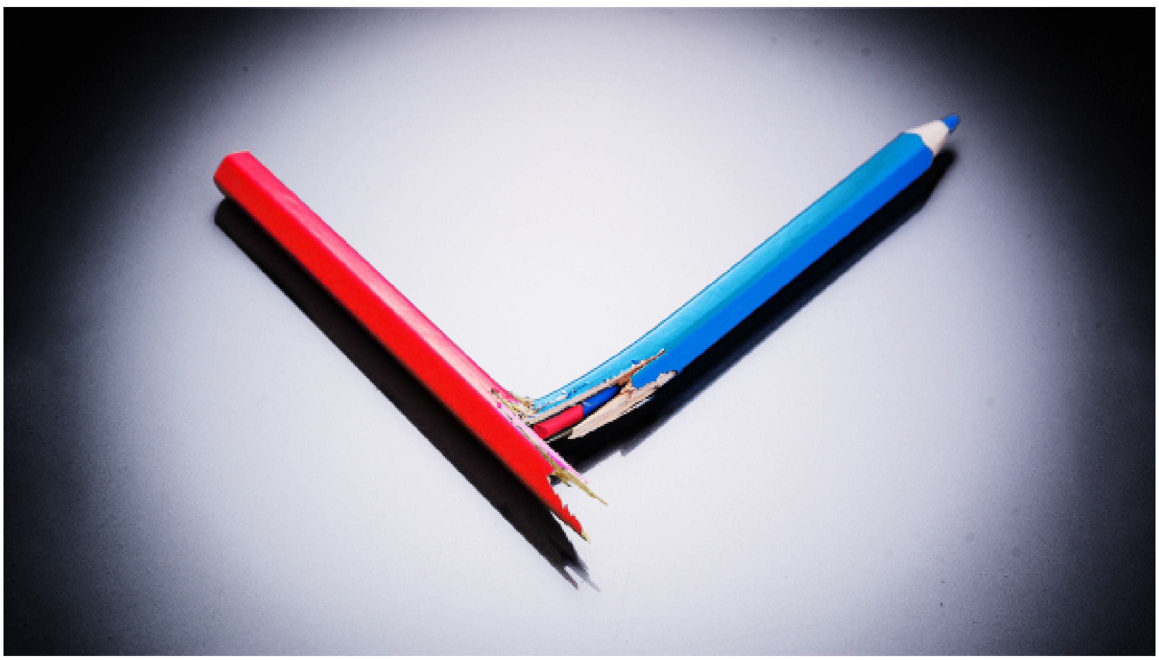

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In fall 2016, executives at Saubermacher — a waste management company headquartered in the quaint Austrian town of Graz — executed the first step of their digital transformation and ecosystem strategy. They had created "Wastebox," an app-based waste disposal platform, connecting construction companies with waste disposal firms. As CMO Andreas Opelt told us, Wastebox garnered a significant valuation only two years after inception and led one of the global industry leaders, Veolia of France, to seek out a partnership with them.

But Saubermacher faced one core dilemma: how could they maintain profitability in their legacy business activities while reaping the full potential of this new digital ecosystem business?

This transformer's dilemma is something that all incumbents face. (That's *if* they manage to successfully implement such a transformation in the first place. After all, a McKinsey study finds that 83% of all transformations fail.)

Drucker Forum 2019

This article is one in a series related to the 11th Global Peter Drucker Forum, with the theme "The Power of Ecosystems" taking place on November 21 & 22, 2019 in Vienna, Austria. #GPDF19

How can companies survive this dilemma? We conducted interviews with almost 100 Chief Transformation Officers, Chief Digital Officers, and other top executives at over 80 global companies—all notably established firms with a long history, as opposed to startups — asking them about their best practices for tackling the digital transformer's dilemma. We found that success requires five elements:

Leaders understand there's a pressing need to pursue a dual business approach. Leaders first have to realize why their organizations must transform, in order to lay out a strategy for how to act. Companies may need to respond to newly emerging competition or changing customer preferences. They may need to play catch-up as they see their market share dwindling, or they may seek to proactively create novel value propositions for new customer profiles.

Companies have complementary strategies and business models for their legacy and new businesses. First, organizations need to focus on how digitization can help safeguard competitiveness of the core business. Second, organizations need a strategy for the inception of disruptive digital business to generate additional growth. Third, organizations need to consider interactions between the core and the new digital business.

Most existing strategy tools are ill-fitted to this exercise. The majority of them focus on within-industry competition and are of little help when organizations must execute strategies involving multiple players and industries. What is needed are new approaches to strategic portfolio management and digital initiatives. It can help to visualize the company's entire portfolio of digital initiatives as a matrix of existing and new products, markets, and internal and external players. Such a visual can help leaders quickly grasp where digital transformation efforts are concentrated, allowing them to judge whether they are in line with the strategy that has been defined and what other stakeholders should be involved in executing initiatives going forward.

Companies have the right talent and mindset. Digital transformation is only possible with the right staff and leaders. Across both businesses, the most important levers in this respect are retraining and hiring. For instance, leaders of a steel company we spoke with built a dedicated digital academy to upskill employees in digital proficiency, investing in their employees' as well as the company's long-term development.

One major challenge resides in reconciling two leadership approaches in one organization. Some traditional leadership qualities will continue to be important parts of the legacy business (e.g., a zero-failure tolerance in production). However, a transformational leadership style — focused on empowering and motivating employees to become self-starters and take ownership of their role — will become increasingly important for new businesses that have to adapt much more quickly to changing demands and technology.

On top of staff and leadership, organizational culture also needs to shift toward embracing change. Promoting customer-centricity and radical experimentation will be indispensable to move the entire organization from incremental to disruptive innovation.

Companies have the right infrastructure in place. Digital transformation also requires new structures, processes, and technology. For example, managers need to reflect on whether they have opted for the right organizational design to link the two businesses. Should the company spin off a stand-alone digital business unit, fully separated from the core? Or should the digital function be centralized, giving advice and lending expertise to each business unit?

The right structure will depend on the digital maturity of the core business. Initially, a stand-alone business unit will be best suited to pursuing digital transformation efforts because the independence of the spin-off allows it to operate freely and not be bogged down by the intricacies of the legacy business. As companies become increasingly digitally mature, they should move toward a design where digital efforts are increasingly embedded across the organization. The ultimate target state is an organizational design where digitization efforts permeate the entire organization, making "digital" the new normal.

Firms must also consider external partnerships, which enable them to gain access to a larger ecosystem of players that can help them create new customer value propositions. For example, a transportation company we spoke with partners with hardware and software providers to deliver more holistic mobility solutions for clients. By acting as the hub firm in a web of complementors, they grab a share of the additional value delivered to customers.

As far as processes and technology are concerned, managers should make sure that they let go of traditional, highly structured waterfall development approaches — where any phase in the development begins only once the previous phase has been completed. Switching to a more agile set-up, which relies on rapid prototyping and adaptive planning, allows organizations to integrate user feedback along the development process, thus making sure there is actual market demand and willingness-to-buy for the end product upon launch. For instance, when a Southeast-Asian financial institution we interviewed set out to establish a digital bank, they departed from their legacy IT structure and lengthy development cycles. They shifted toward a modern, microservices-based IT stack and adopted the SCRUM methodology, working in fast-paced sprints, which radically reduced time-to-market of new customer solutions.

Companies have to measure progress and results for both businesses. The key performance indicators (KPIs) will, at least initially, be different for legacy and new businesses. For the legacy business, traditional KPIs such as metrics related to cost savings or efficiency (e.g., return on investment) suffice for measuring impact. For the new digital business, KPIs have to evolve according to the three stages of development: ideation, where business ideas are being developed; incubation, where ideas are being refined and tested for market readiness; and commercialization, which focuses on scaling up ideas for a mass market.

For instance, during the ideation and incubation phases, qualitative KPIs should prevail (e.g., whether the value proposition appeals to a distinct set of customers). Later on, in the commercialization phase, they need to be replaced by quantitative KPIs (e.g., customer satisfaction metrics).

To go back to Saubermacher, following these steps paid off. Within months, Wastebox turned into Austria's largest platform provider offering construction waste disposal services. Veolia ended up acquiring a minority stake in the digital ecosystem business in 2018, which allowed Wastebox to expand to two more markets internationally. This also boosted performance of the legacy business, with Saubermacher not only owning the platform but using it as a lighthouse example to speed up and digitize their core services. And the journey is not over: company executives told us that the goal is to expand the platform worldwide via a franchise system.

Skillfully mastering legacy and new businesses is certainly a challenge but, as Saubermacher experienced, one that can come with many rewards.

This article is part of a series connected to the 11th Global Peter Drucker Forum.

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