DIGITAL AGILE TRANSFORMATION – 3 APPROACHES TO THE FUTURE

BY CHRISTOPH SCHMIEDINGER

Today, turning a company into an agile organization is a stated goal at many upper management levels. There is not, however, a single correct way to achieve this goal. The "why" for an agile transformation should first be clarified and then an appropriate strategy be designed. These strategies can be essentially summarized into three approaches: Lighthouse project, spin-off and radical transformation. In this whitepaper, you will learn what is involved with each approach and the advantages and disadvantages of each.

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Digitalization has taken over the economy. In the coming years, thousands of services and products will be overhauled and digitalized, which means IT and software development will largely be responsible for fulfilling customer requirements and expectations. To a certain degree, companies in all industries must develop into software companies. At the same time, questions arise about whether the current business models will be sustainable in the future or if they will need to be reinvented[1].

To overcome these challenges, established working methods will be reexamined and adapted to these new conditions, or completely new methods will be implemented. Companies undergoing a digital transformation are seldom able to avoid agile methods – the developments connected to the digitalization are too unpredictable and volatile. The only fixed point is the customers and users. If they are consistently the center point, focused working is possible, which in turn helps to achieve the right results faster.

What you will quickly realize, though, is that only implementing a method does not bring the desired results. As we have observed in companies going through this transformation, the biggest advantages of agile methods are first realized when the mindset, culture and leadership achieve fundamental change[2].

Digital and agile transformations occur at the same time in many companies. Whatever you ultimately call this transformation isn't really important because digitalization and agility are two closely related phenomenon. Rapid technological developments in recent years have only been possible through agile methods, and conversely, digitalization momentum needs the innovative power of agile product development.

BUT HOW CAN THE START OF THIS DIGITAL AGILE TRANSFORMATION SUCCEED?

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1   See the study "Digitalization 2018" from etventure on the digital transformation in German and American companies
    https://bit.ly/2qASjV5

2   See the study "Agile Organizations" from Capgemini: https://bit.ly/2EM1VRd

EVERY TRANSFORMATION STARTS WITH WHY

Let's assume the decision makers in a company are in agreement that assumptions about the current working methods, technologies and approaches towards product and service development need to be reexamined. The next and most important step is the question: "What do we want to achieve with this transformation?"

The answer to this question should be worked out by the C-level people. Such a fundamental transformation like this can only succeed if the highest levels of management are behind it. The starting point should be a powerful vision: challenging, but realistic – emotionally touching, but business oriented – visionary, but tangible. A vision is like a guiding star: It marks the direction of the undertaking, but it is not the endpoint. During the voyage itself, course corrections will occasionally be required because agility is a continuous "work in progress". It is not an end point that can be reached, rather it is an attitude that must be constantly put into practice[3].

LIGHTHOUSE, SPIN-OFF OR RADICAL?

The vision has been defined, but there are different ways to achieve this vision. These paths differ based on how radical the transformation will be undertaken and the effect that should be created in the company. There are essentially three approaches, each with their pros and cons: Individual or lighthouse projects, spin-offs and/or digital labs, as well as radical transformations. Reading the axis from left to right, the radicalness of these three approaches can be seen.
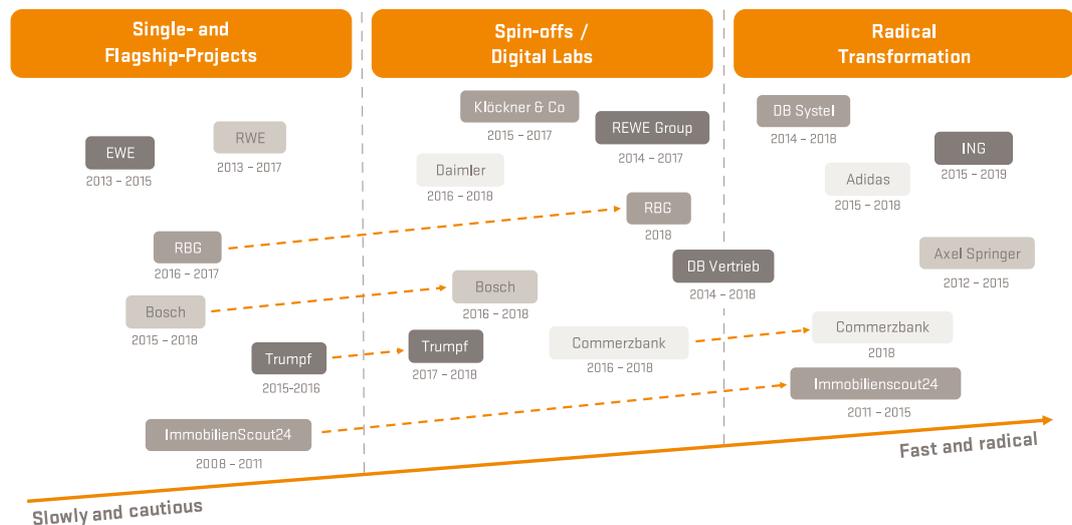

Figure 1: Transformation approaches and classification of model companies based on press reports from 2012–2018.

[3] In terms of methodology, over the years an agile management method for corporate management has even been established: Objectives and Key Results (OKR for short).

An example of radical transformation is the upheaval of the media industry since the internet gradually pushed out classical print and publishing mediums, forcing new business models to be invented. This is the reason Axel Springer Verlag decided to undertake a radical transformation in 2011/2012, which helped the company make a complete turnaround within a few years[4]. By the end of 2014, the company earned more than 50 percent of their revenue through digital content. Today, Axel Springer Verlag generates more than two-thirds of their revenue in the digital sector[5].

Similar phenomenon can currently be seen in the finance sector. This industry has had to deal with the effects of the finance crisis, low interest rates and stricter regulatory requirements, and now more recently are confronted with younger players in this traditional market: Startups and Fintechs. The number of companies choosing radical transformations are piling up in this industry. Well-known examples of this are the ING Groep and the Commerzbank[6].

By the way, there is no right or wrong when choosing an approach for the company. The best approach for achieving the goals depends on the context of the company and above all from the digitalization pressure in the corresponding industry. The greater the pressure, the more radical the approach to be chosen. As the examples in Figure 1 show, an approach can also change over time. "Simpler" variations are used to start with and as more experience is gained, the approaches become more radical, increasing the speed of the transformation and/or to expanding the scale.

Let's look in detail at the advantages and disadvantages of the various approaches.

INDIVIDUAL OR LIGHTHOUSE PROJECTS

This first transformation approach has a relatively limited effect. And this is one of its advantages. Within a clearly defined initiative, new working methods and new technologies – or a combination of both – can easily be tested. Through this learning and experimenting, insights that are gained can immediately be used for additional projects. When failures occur, they are confined to a small portion of the whole. The management involved can fully focus on supporting this small project and, for example, quickly overcome obstacles, typically leading to noticeable successes with little effort.

The advantage of limitation is at the same time a disadvantage. The transformation is slow to expand. This does depend, however, on how quickly new lighthouse projects are initiated.

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4   See the following video with Johannes Burr from Axel Springer Verlag: https://bit.ly/2CQFmNv
5   See the following article in the "Welt": https://bit.ly/2Qr7vyp
6   See the yearly report from the ING Groep (https://bit.ly/2Tvzsa8) and the following article in the
    Frankfurter Allgemeinen Zeitung about the strategy of the Commerzbank: https://bit.ly/2GTa8ti

Typically, such projects are initiated once every few months or even just yearly – so things progress slowly. In large corporations, you can see that lighthouse projects will be started at the same time in several of their organizational units. This may increase the expansion speed, but it runs the risk of diverging approaches running parallel rather than profiting from each other's experiences. In this case, it is extremely important to set up an information exchange platform for individuals involved in the various projects.

A second disadvantage is lack of employee focus when working on these lighthouse projects. The matrix structure of the line organization remains unchanged during these projects, meaning in many cases the employees cannot use their time exclusively for the lighthouse project and instead must also take care of the daily business. Focus increases speed – lack of focus, on the other hand, is poison for every lighthouse project and projects in general.

Even if the focus is on operationally implementing of the lighthouse project, the probability of success is significantly higher if management is regularly involved and deal with obstacles that arise, ensuring a learning experience. Otherwise, the risk is that agile thinking and working methods will not spread, but instead will fail to take hold. If management is involved from the beginning, the foundation for larger initiatives can be built.

The northern German energy corporation EWE began their successful agile transformation with a lighthouse project. Since 2013, many pilot projects were started in internal application development and those learning experiences flowed into newer, larger and more complex agile-designed projects.[7] Today, agile working is an inherent part of the entire company. Another example is the Austrian Raiffeisen Banking Group, which decided in 2015 to undertake a comprehensive lighthouse project to drive their banking application modernization towards newer technology platforms.[8] In 2018, based on their experiences and what was learned, it was decided to restructure the line organizations involved as part of an overall transformation.

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7   See the bg Case Study "EWE: Energiekonzern mit agilem Antrieb": https://bit.ly/2Vuxj0b
8   See the bg Case Study "Raiffeisen Bankengruppe Österreich": https://bit.ly/2VrnajM

SPIN-OFFS/DIGITAL LABS

The second, more progressive transformation variation is setting up a unit for digitalization initiatives within the company where new innovative solutions can be developed. One possibility to make this unit more independent and autonomous is to spin it off as a separate company. The advantage of this approach is that the line organization of this unit can be designed from scratch. You can utilize modern methods to create a flat, laterally-managed structure. At the same time, the spin-off/digital lab remains a limited initiative with a framework that allows for experimentation and learning. The size of the unit and the speed of scaling can be independently chosen based on how learning progresses. A new unit with a clear task allows employees to focus since they will be assigned to this new area, maybe even being able to change companies and leave their old tasks and responsibilities behind. From a technical standpoint, an independent unit can shake off the mature structures, create new structures and test them on a small scale by hooking them up parallel to the existing technology structures.

However, we cannot forget the risk of a "parallel organization" being created with this approach, gradually removing itself from the parent organization. This often happens when conflict arises between the organizations. These conflicts typically grow from differences in speed, working methods and mindset. Often, it is simply poor or lacking communication between units separated by space and subject matter causing these disagreements. The risk of conflict increases as the number of dependencies existing between the units increases, such as having to share legacy systems or support units, which typically continue to be managed by the existing organization. The challenge lies in identifying these conflicts early on, addressing them and finding a resolution. Otherwise, in the worst-case scenario, the entire unit will be rejected by the parent company and becomes isolated.

A spin-off or digital lab should not be established without having a strategy for reintegration. This strategy can be as simple as gradually retiring the old organization. Whatever the exact arrangement is for achieving a transformation across the entire company, parallel structures cannot be kept for an indefinite amount of time.

> REWE spun off its digitalization agenda 2014 into the REWE Digital company. With the help of this company, the REWE Group worked to get their many brands and companies onto digital platforms.[9] Another example is the German Commerzbank, who since 2016 has been successfully working on digital initiatives at their Digital Campus with more than 1000 employees. In 2018, it was decided to merge the Digital Campus in order to drive the internal IT services and the entire organization forward, thus setting up the entire bank to be more agile and digital.[10]

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[9] See also the following interview in W&V, especially the strategy from REWE to prevent an uncoupling of the digital unit: https://bit.ly/2LrdJ3u

[10] See also the following article on the Digital Campus strategy of the Commerzbank: https://bit.ly/2GTa8ti and the integration of Commerz systems: https://bit.ly/2FbSz5g

RADICAL TRANSFORMATION

A total reorganization is the "big bang" option for transformation. That said, this radical transformation should – especially in large corporations – be done in several steps. Typically, such transformations mean an extensive restructuring of the line organization and business processes while the operational business is running.

Speed is the biggest advantage here. What other companies attempt and achieve step-by-step over years can be completed in a short amount of time with this approach. If the radical transformation happens early on, it can lead to greater competitive advantage over others in the industry. This approach usually requires a fixed day X on which many things will be reorganized in parallel – among others, the line organization, the positioning of management, the team profiles and much more. This momentum can be used to start fresh with a dose of optimistic spirit for the future. It's important to carefully consider the future structures since radical transformations leave no room for a gradual convergence towards to desired constellation.

The speed and radicalness also have a substantial disadvantage: There will be some things left behind. In the period before launching the transformation, there will be a lot of insecurity that hampers productivity in the organization. Frustration and dissatisfaction among employees can accumulate if the transformation is not accompanied by the necessary communication and transparency – which, in the worst case, can affect employee satisfaction and fluctuation.

The most well-known example of a radical transformation is the Dutch ING Groep and their various foreign subsidiaries, who are driving radical transformations in their own organizations by following the tested Agile Way of Working in the Netherlands.[11] Here, not only are new working methods established, but the existing line organization – including management – is examined and set up to be more product and service oriented.[12] Another example is the US company Salesforce, which in 2007 fully migrated to Agile and was able to greatly increase the speed of their deliveries.[13]

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11 See also the Yearly Report of the ING Groep: https://bit.ly/2Tvzsa8
12 See the article "Ein Bank auf Speed" in brand eins: https://bit.ly/2QVCw1s
13 See the slide presentation from Salesforce: https://bit.ly/2CSq1Mn

THE STRUCTURED WAY TO ACHIEVE YOUR GOAL

Regardless which transformation approach is chosen and executed by a company, there should always be a structured process. From our experience, cross-functional teams should be used for structuring the transformation, which drives organizational development using agile fundamentals towards the goal. We call these teams "Transition Teams" because their deliverable is the transition and/or transformation of the company. Typically, Transition Teams are supported by pilot groups who take on larger issues associated with the transformation and work on a suitable solution – for example, new career paths for agile roles.
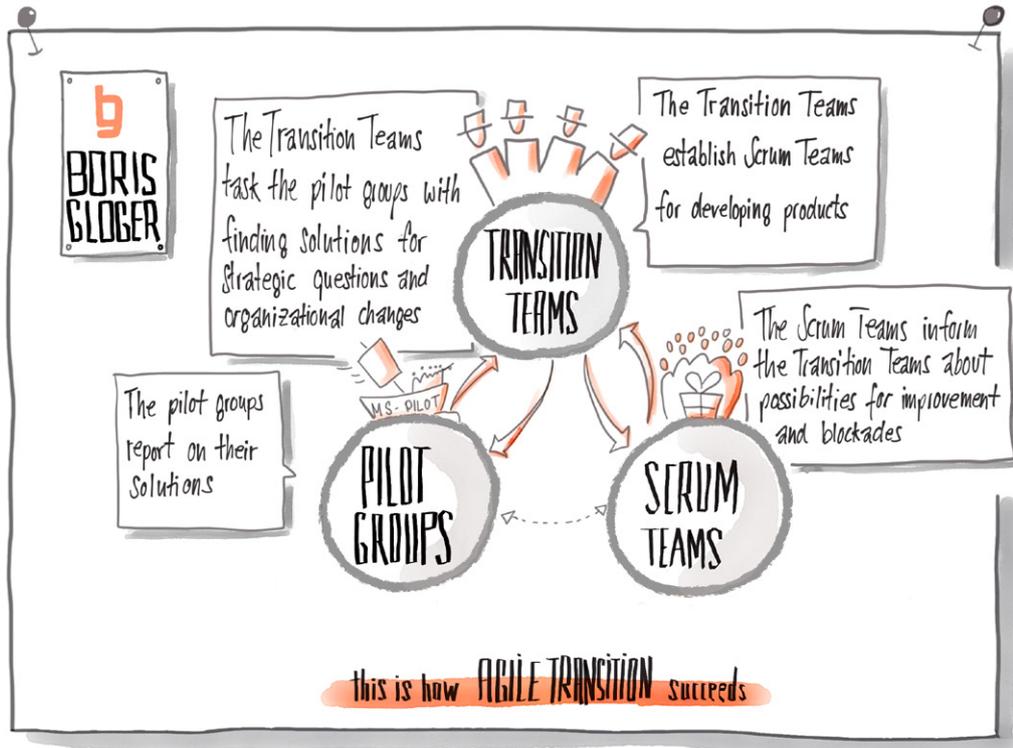

Figure 2: The Transition Team Model

THE MISSION

The most important prerequisite for Transition Team work is upper management giving them a mandate to set up the future organizational structure and the associated changes. The more radical the transformation approach, the more upper management themselves must be included. This starts with a clear vision that shows the team the way and ensures proper orientation. In addition, a radical transformation also needs clearly defined framework conditions, such as designating certain organizational structures that must remain.

THE MEMBERS

A Transition Team should be as heterogenous as possible, while at the same time powerful. Potential team members come from the product development areas, but also from strategy, management, personnel development, sales and operational work. Team membership requirements aren't just about having a positive view of the transformation. Along with enthusiastic supporters, there should also be colleagues on the team who offer constructive scrutiny to invigorate the dialogue.

THE WORKING MODUS

Like every agile team, the Transition Team also breaks their vision into smaller work packets and prioritizes these in a Transition Backlog. These packets are worked on and delivered in iterations so feedback in the form of Reviews can be received from the stakeholders. Focusing on delivering MVPs (Minimum Viable Products), i.e. tangible initial results, is important even if what is being worked on is a small part of a larger deliverable, such as training plans. Another factor for success is using workshops to involve of management and upper management early on when creating the content and as support for resolving organizational obstacles. The employees should also be involved in the transformation – large group formats like open spaces and world cafés are well-suited for this purpose.

The work content of a Transition Team is undefined – in every company, it must be individually determined what work packets are necessary for the desired vision. If lighthouse projects will be implemented, for example, then deciding on a specific project and the setup of the team would be critical tasks associated with this. In contrast, with a radical transformation the tasks in the foreground include a new organizational profile, designating new management and developing a broad training program. In any case, regular reflection in Reviews and Retrospectives help keep the company on the path towards their vision.

At one of our customers, the mission of the Transition Team was nothing less than the radical transformation of the entire "Delivery Unit". This unit included every department that had something to do with product and service development, involving approximately 150 employees. This constellation was reflected when populating the Transition Team and the chief of operations became the sponsor and Product Owner of the transformation. The team itself included management from the strategy department, personnel development, various IT managers, the digital platform manager and the most experienced agile coach within the organization. Next, the transformation was iteratively planned and designed in workshops held on a 3-week cycle. This included the new organizational profile, the description of new management positions and roles, the concept for a qualification and coaching program and streamlining essential support processes.

THE FIRST STEPS

Are you convinced that your company should be taking the step towards a digital agile transformation? Consider clarifying the following questions before you get started:

❖ What is the current market environment in our industry?
   How will digitalization affect future business?

❖ Based on these deliberations: Which transformation approach will
   we consider? How much radicalness is needed right now? What is
   acceptable for the workforce?

❖ What do we want to achieve with this transformation: a change in
   the business model, modern working methods, stronger focus or a
   mixture of many goals?

❖ What can the organization afford right now – especially with
   regard to making resources like time and money available?

❖ Who must we include when designing such a large strategic
   initiative? Does upper management stand behind this goal and
   how does it look for business and support units?

❖ Last, but not least: How much time should we give ourselves?
   In what steps and stages do we want to proceed?

More information on the success factors of a digital transformation can be found in our whitepaper "Digitalization: The 7 Factors for a Successful Transformation".

Download at https://bit.ly/2QmmJo5

borisgloger consulting supports companies with their digitalization initiatives and with establishing digital labs. Depending on your current situation and your goals, we can start with various points:

❧ Together we can develop a sustainable digitalization strategy, work with management on an understanding of agile leadership and develop an appropriate organizational setup for your initiative.

❧ In the second step, we work on the necessary framework conditions to guarantee the best possible start for the initiative and the employees involved with it.

❧ We operationally build up the knowledge of your teams on agile working methods, user-focused product development and modern technologies so that your employees are able to act autonomously as soon as possible.

❧ And finally, we support you in effectively anchoring agile values and practices across the entire company so that the organization can be agile in their response to future market developments customer needs.

Let's talk about what challenges you are facing!
Trust between your company and ours is an absolute requirement for successfully implementing your digitalization strategy. We will gladly come to a non-binding initial meeting to show you who we are, how we work and what we can do for you. We are looking forward to hearing from you!

Your point of contact: Christoph Schmiedinger

As a system engineer, project manager and Product Owner, Christoph Schmiedinger has successfully implemented many complex, scaled development projects in safety-critical areas using agile methods. This expertise flows into his current work supporting large banks with their digitalization initiatives. He consults management on the necessary strategic direction and designs suitable implementation measures.

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