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Is your agility giving you productivity?

Know the warning signs to get your digital transformation back on track

October 2020

Executive summary

Is your agility giving you productivity?

In recent years, organisations have invested significantly to try and boost their productivity but Australia's multi-factor productivity has remained stubbornly slow to respond[1]. A combination of forces account for this at a national level but, when comparing industry to industry, those with lower digital adoption are consistently less productive than others.

The problem is that digital transformations are notoriously tricky to execute.

Time and time again, digital transformations start with the best of intentions before being delayed, devalued and derailed by other priorities. But now the stakes are higher. Australia's economic recovery from COVID-19 will partly depend upon the ability of organisations to boost productivity through digitally-led business models.

At Strategy&, we've identified four warning signs that your digital transformation may be cracking. We have also developed a range of measures to repair it before it breaks.

Warning sign 1: Management's commitment to the journey is lukewarm. The management team has limited understanding of the desired 'value build' and more broadly how or why the transformation is going to change the entire business. To undermine confidence, they cite examples where peer organisations have failed. They may also feel uncomfortable with the greater transparency that comes with contemporary methods.

Warning sign 2: You're building someone else's model. Instead of designing and tailoring models to suit your organisation, the transformation team is trying to impose out-of-the-box solutions and/or rigid frameworks. You may also have pockets of people preaching conflicting approaches, rather than focusing on outcomes.

Warning sign 3: You've overcompensated on parts of your delivery – and it's eroding the value of your transformation. The design of your transformation may be too ambitious or too cautious to drive change. It may focus too heavily on job titles, ways of working or capex technology uplifts which throws tech and people out of sync. You are no longer on the optimal path towards your selected value build.

Warning sign 4: You've failed to spring clean. Digital transformation of your people and technology does not have to be a five-year investment blowout. A 'self-funding transformation' is possible – with careful navigation. Uplifting the capabilities you have in your organisation and your delivery partners can make a big difference. It will enable targeted 'elephant-eating' or 'green fielding' of the technology stack.

Value build refers to how you combine people and technology capabilities to deliver value to customers. In simple terms: it's how traditional functions such as sales, marketing, product and technology come together.

'**Elephant-eating**' refers to replacing and decommissioning core systems, one business feature at a time, while maintaining integration with old systems.

'**Green fielding**' refers to building and migrating from a completely new system instead of integrating with old systems.

Source: ABS

[1] Multifactor productivity (MFP) measures the growth in value added output (real gross output less intermediate inputs) per unit of labour and capital input used. Quality adjusted hours worked basis measures both changes in hours worked and changes in quality (that is, changes in educational achievement and experience).

Is your agility giving you productivity?

“No one word—*Agile included*—can adequately explain what’s involved in these Transformations”

Nick Jue,
CEO ING Germany

Those warning signs do not present insurmountable problems. Leaders can take steps to repair the issues before they irrevocably damage the digital transformation:

1. **Realign and commit your management team** to the transformation. Ensure that management understands why the value build will improve business, how the new model will work, and what it means for them. Because transformations only succeed with enthusiastic commitment from leaders.
2. **Design and build your own model** to ensure it is uniquely aligned to your organisation’s needs, identity and brand. This will drive the behaviours and benefits you are trying to achieve. ING, Spotify, the SaFE framework, Zappos and others are all great reference points, but ultimately you want people reading about 'your' model and its success.
3. **Revisit your scope and set a plan – then stick to it**. Recognise that you may have started too small or too big, been overly zealous on new role titles or sweeping IT upgrades. Start to transition back to a workable organisational or customer outcome. Know where aspects of the business don’t need to change drastically and stick to a consistent schedule of change.
4. **Make the tough calls and remove blockers in the organisation**. The consequences of a full digital transformation are new leadership styles, less duplication of effort, and a leaner technology stack. Make sure that your organisation emerges from the transformation with the right mix of capabilities and technologies that can drive growth and adapt to changing markets.

The genesis of the ‘agile, digital or contemporary transformation’

Is your agility giving you productivity?

Despite substantial efforts to boost it, Australia’s productivity remains flat. A combination of factors may be behind this, including:

- Measurement lag or measurement failure[2]
- Aftershocks of the global financial crisis, weak demand and investment, slowing trade[3]
- Stalling growth in global value chains
- The ageing population
- Reduced investment in education
- Impacts of automation on demand and inequality
- Weakening competition
- Reduced business dynamism.

The factors affecting productivity have and will continue to become more acute during the COVID-19 pandemic, and will remain so in the aftermath.

Multifactor productivity based on quality Adj. Hrs. worked basis by industry – 1989-2019, points

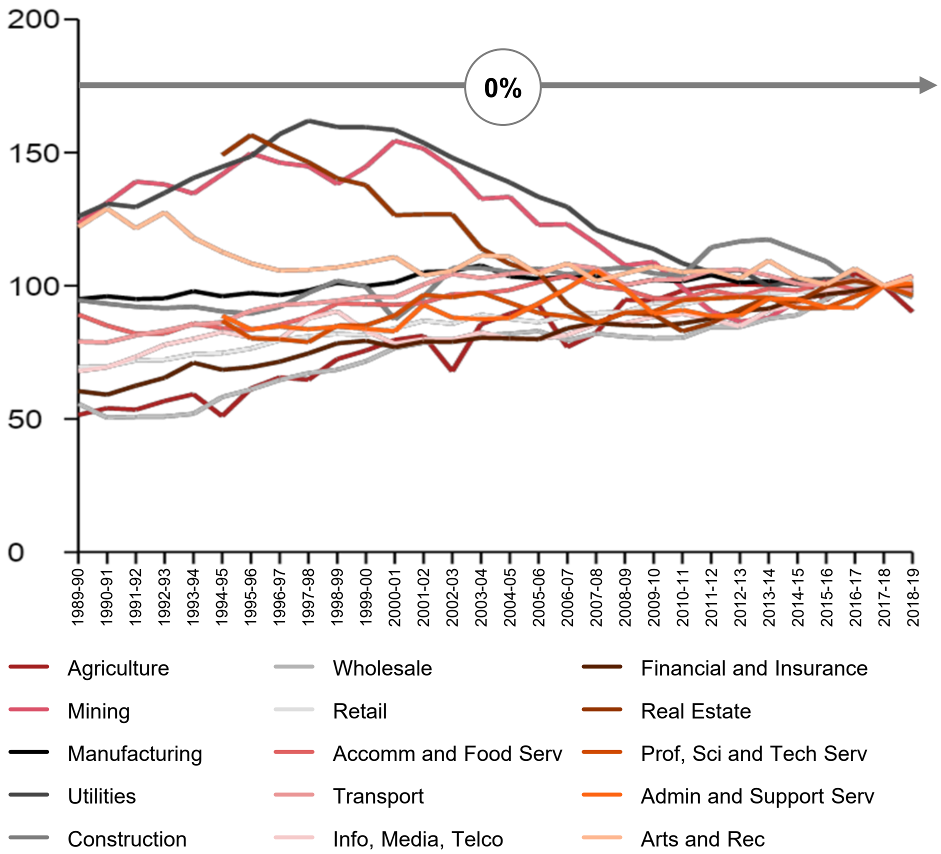

Figure 1 – Multi factor productivity. Source: ABS

[2] Underestimating the Real Growth of GDP, Personal Income and Productivity.
[3] ECB Economic Bulletin, Issue 7/2017 – Boxes Does trade play a role in helping to explain productivity growth?
[4] Boulding and Staelin 1993, p. 147; Drucker 1982.
[5] OECD Working Papers, The Walking Dead-Zombie Firms and Productivity Performance in OECD Countries.
[6] Stripe – The Developer Coefficient – Software engineering efficiency and its $3 trillion impact on global GDP – 2018.

We encountered one well-known organisation who admitted still having FORTRAN code from the 1970s in their stack, while being technology leaders for some of their offerings.

They now have a large tech debt that is slowing their ability to change as their customer preferences switched from predominantly retail to digital channels and their market share was eroded by more agile competitors.

At an organisational level, sluggish productivity can also be due to a number of factors. Some large Australian organisations' market share may have reached or surpassed their aspirations, causing them to rest on their laurels4 and become less productive. Oligopolies can deter new, innovative entrants to the market, who would place indirect pressure on incumbents to improve their own productivity5. Many of the large incumbents remain hamstrung to technology programs that they introduced in previous decades. In one survey, 66 percent of Australian respondents reported their developers are often spending more of their time addressing technical debt than on strategic projects6. These organisations are operating in a tangled web of code and patches which prevent radical innovation and productivity advances.

AU total spend on technology product and services 2017-21, $Bn

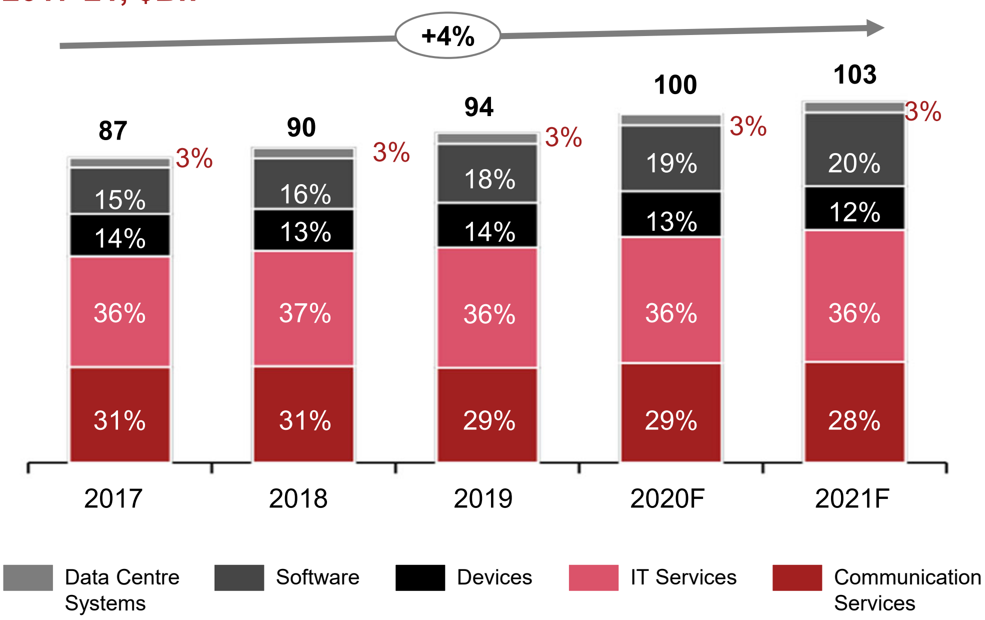

Figure 2 – Increasing digitisation spend. Source: Gartner

Smaller businesses and startups typically lack the capacity and scale to commercialise innovation or serve as change agents independently[7]. But this does not mean they can't challenge the status quo. Often they will seek to 'growth hack' their way to a larger customer base and become a successful, legitimate niche player. Armed with lean startup and contemporary methods, these smaller organisations can often outpace competitors in seemingly more volatile markets where the lines between traditional business models and value chains are blurring.

When these nimble, smaller organisations initially succeed, they can rapidly grow and progress through the software development lifecycle while continuously delivering features to their entire enterprise. This approach allows them to drive innovation, increase speed to market, and enable rapid global expansion.
This has helped drive the 'contemporary organisational revolution'[8].

[7] Uslay, Can, Z. Ayca Altintig, and Robert D. Winsor. 'An empirical examination of the 'rule of three': strategy implications for top management, marketers, and investors.' Journal of Marketing 74.2 (2010): 20-39.
[8] De Man AP, Koene, P, Ars M, (2019), 'How to survive the organisational revolution', Amsterdam, BIS Publishers.

Is your agility giving you productivity?

Multi-dimensional	Holacracy	Open source	Platform based ecosystem	Value based ecosystem	Agile
• Client as profit center • Manage all dimensions	• Consent based circles • All involved in governance	• Volunteers • Enlightened Dictatorship	• Single platform supports multiple value props • Standardised Contracts	• Ecosystem delivers single value proposition • Customised contracts	• Multifunctional teams • Tribes/Squads/ Chapters
Applicability					
• Multi product, multi-brand, multi-unit, multi geography firms • Clients need integrated solutions • Departments are interdependent	• Routine operations • Flows of similar tasks are optimised • Limited need to co-create a process with clients • Increase entrepreneurship in sales and marketing	• Software product more important than speed • Builders are users • Tasks can be broken down into logical discrete activities • High intrinsic motivation	• High economies of scale or network effects exist • Standardised interfaces for all partners (APIs) • Clients are able to integrate complementing services themselves	• Client demands integrated solution to complex problem • No one firm can deliver on its own • High economies of skill • Partners have a high level of collaborative behavior	• Product environment; non routine operations • Developing information products • Unclear solutions, high interaction with the user
Cases					
IBM	Bol.com	Wikipedia	Booking.com	International SOS	Spotify

Figure 3 – The new organisational forms – from ''How to survive the organisational revolution'

To compete with these smaller competitors (as well as the 'big tech' players in some cases) many larger companies have created programs and projects, backed by big strategies and big budgets. The aim of these is to change cultures, create autonomous self-organisation models, uplift digital approaches, innovate, and/or change legacy tech. Knowing that these changes take time, larger organisations often acquire or create smaller subsidiaries (e.g. Ubank) which, supported by the parent organisation's governance and market position, create the space for innovation.

Looking at Australia industry by industry over the past 30 years, a clear pattern emerges: Industries with higher digital adoption have been the most productive.

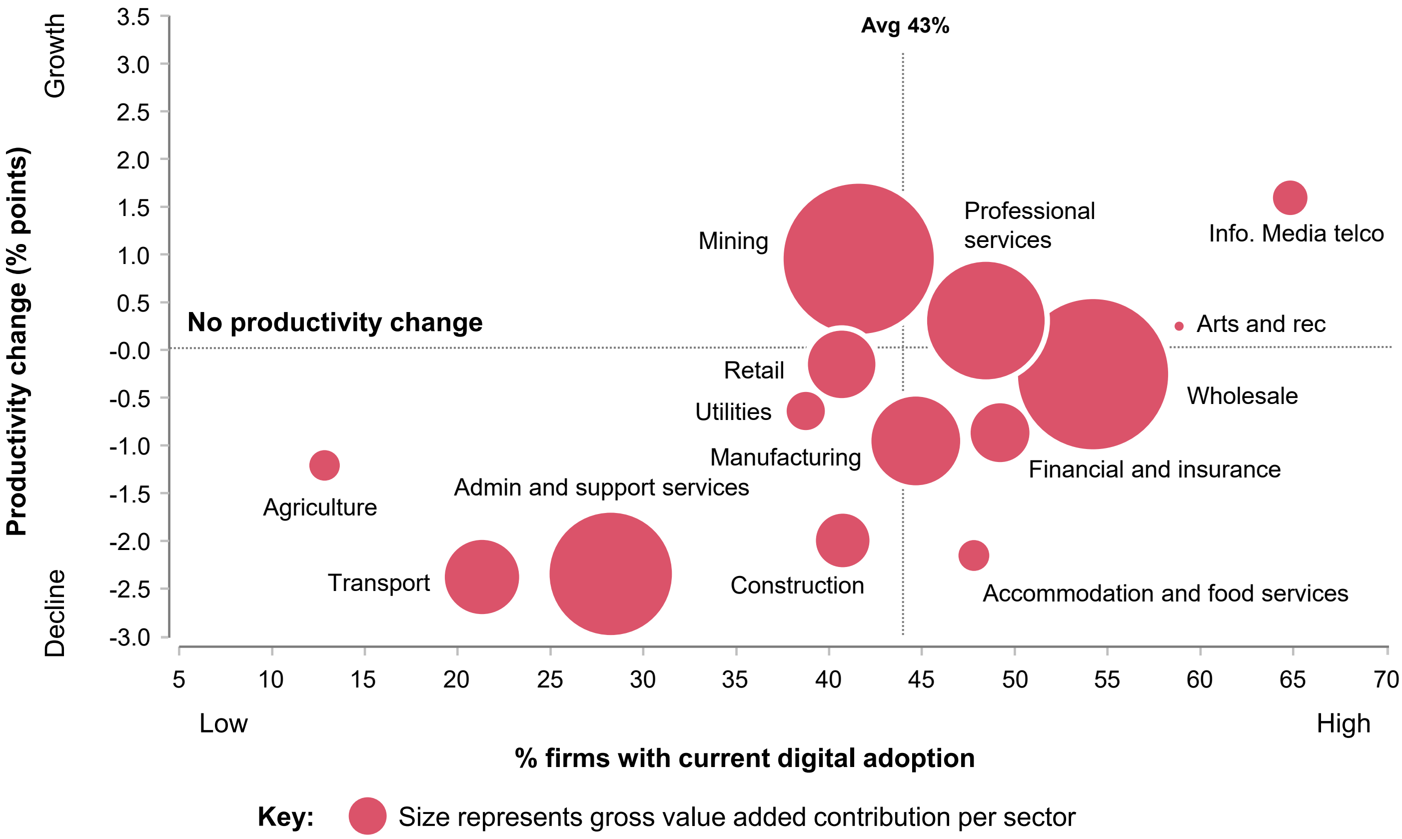

Figure 4 – Multi-factor productivity change and digital adoption

Lots of organisations do have coherent, capabilities-based strategies and are increasing digital adoption. But many businesses still aren't seeing the productivity gains they expect. Somewhere between strategy and execution these organisations have inadvertently created inconsistent customer experiences. Differing digital products and services have emerged. IT landscapes have become disjointed and expensive as technology stacks were modernised. And their digital agendas lack transparency.

The productivity of these organisations is hampered because they are unable to continually adapt their products, unable to constantly improve their capabilities system, and unable to adjust to rapidly changing regulatory, geopolitical or demographic trends.

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At Strategy&, we have analysed the Australian market and identified four common warning signs that indicate an organisation's transformation is fragile. Without corrective action, these four issues can cause an organisation to stall, lose money, or even break entirely.

Way to play

How are we going to create value for our customers in this market[1)]?

Capabilities system

What do we need to do well to deliver that value proposition?

Product and service fit

What are we going to sell in this market[1)] and to whom?

Agility

How can we respond, lead with or scale our products and services for new or disrupted markets?

Figure 5 – Elements of a coherent, capabilities driven strategy

A coherent company strikes a balance where the right product and service portfolio naturally thrives within a capabilities system consciously chosen and implemented to support a deliberate way to play within a defined market.

With agility, a coherent company *is no longer bound by a defined market* and can continually adapt it product and service portfolio and improve its capabilities system to capitalise on rapidly changing regulatory, geo-political or demographic trends

Warning sign 1: Management's commitment to the journey is lukewarm

If the following words haven't yet been uttered at your executive table, you can bet they will be soon: 'Agile is what we need to move our business into a contemporary way of working.' To back this up, someone may cite the case study of ING in the Netherlands[9]. They may talk about the way agile empowers people and revolutionises IT productivity[10].
They might also point to potential cost savings[11].

From here, it's common for an executive team to treat the agile transformation as just a regular business-as-usual project. It's less common for them to realise that agile requires a fundamental rethink about the organisation's business model, operating models and technology architecture. Some may only partially understand this. Some may cite public failures to illustrate the project risks. Some may be uncomfortable with the fact that agile models shine a light on the unvarnished truth.

All these are warning signs that management's commitment to the agile change is lukewarm.

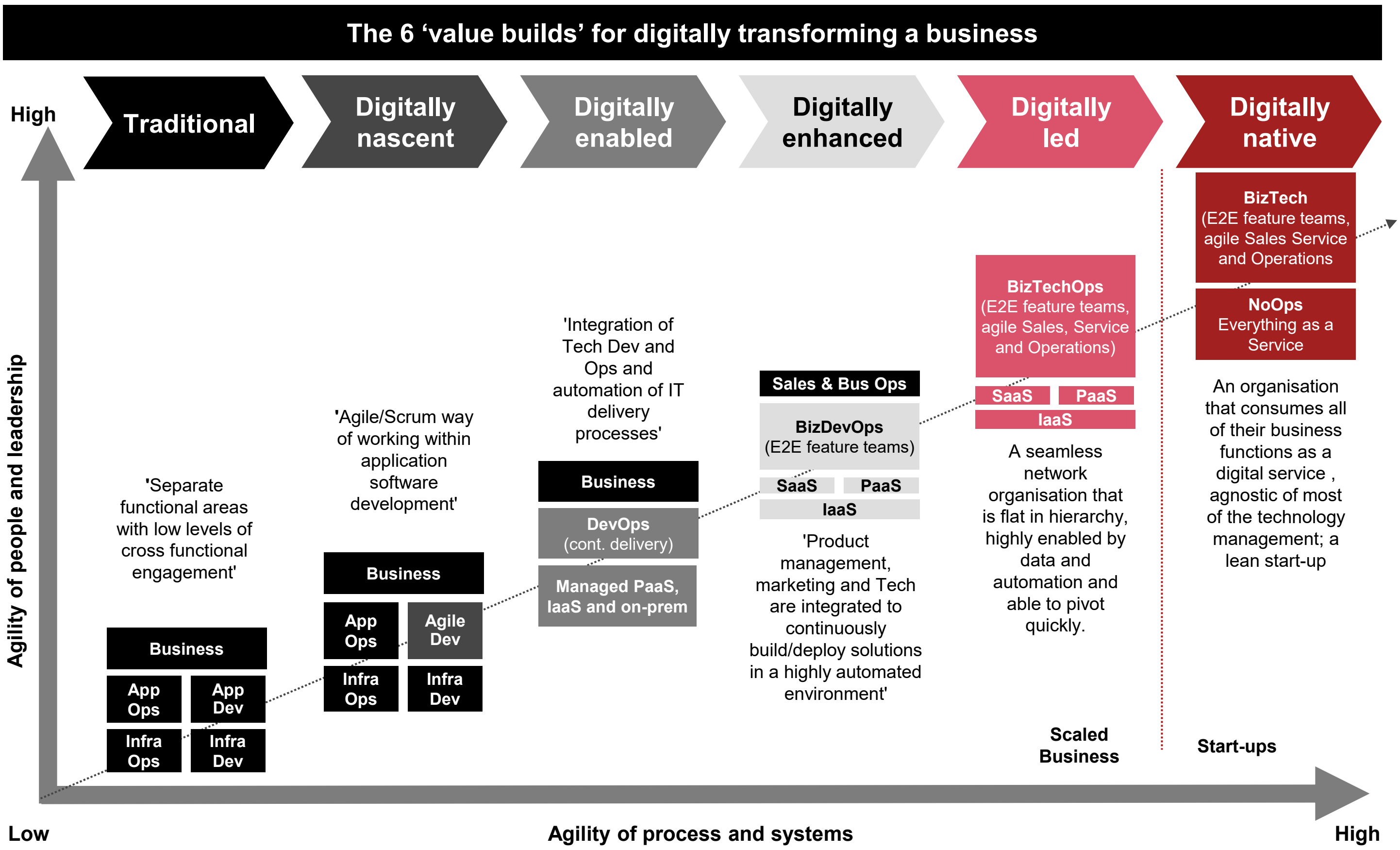


Figure 6 – The six value builds for digitally transforming a business

[9] Kerr, William R., Federica Gabrieli, and E. M. E. R. Moloney. 'Transformation at ING (A): Agile.' (2018): 818-077.
[10] Ahmed, A., et al. 'Agile software development: Impact on productivity and quality.' 2010 IEEE International Conference on Management of Innovation and Technology. IEEE, 2010.
[11] https://www.digitalpulse.pwc.com.au/agile-transformation-business-case/

No common understanding of why and how agile will change the entire business

The value build of an agile transformation runs deep and wide; encompassing sales, service, digital and technology delivery, and the support functions that enable the system of work. Typically, when leaders have a limited appreciation of the potential value build, a transformation will be cut up or segmented to lower level business unit leaders, who pass on their limited understanding of agile. As a result, major areas of an organisation are virtually untouched by the transformation; remaining locked in traditional ways of working and ruled by internal political agendas.

For example, a business we worked with in the insurance sector had one leader delivering an operating model change to achieve efficiencies. Another leader was re-organising his business unit for growth. One feared that moving to a contemporary approach and reorganising was too risky, while the other felt they had to move in that direction or be left behind in the market. The result was a fragmented approach created out of need, rather than a more intentional, holistic design (see figure 7). The resulting intermediate state created more roles and handovers.

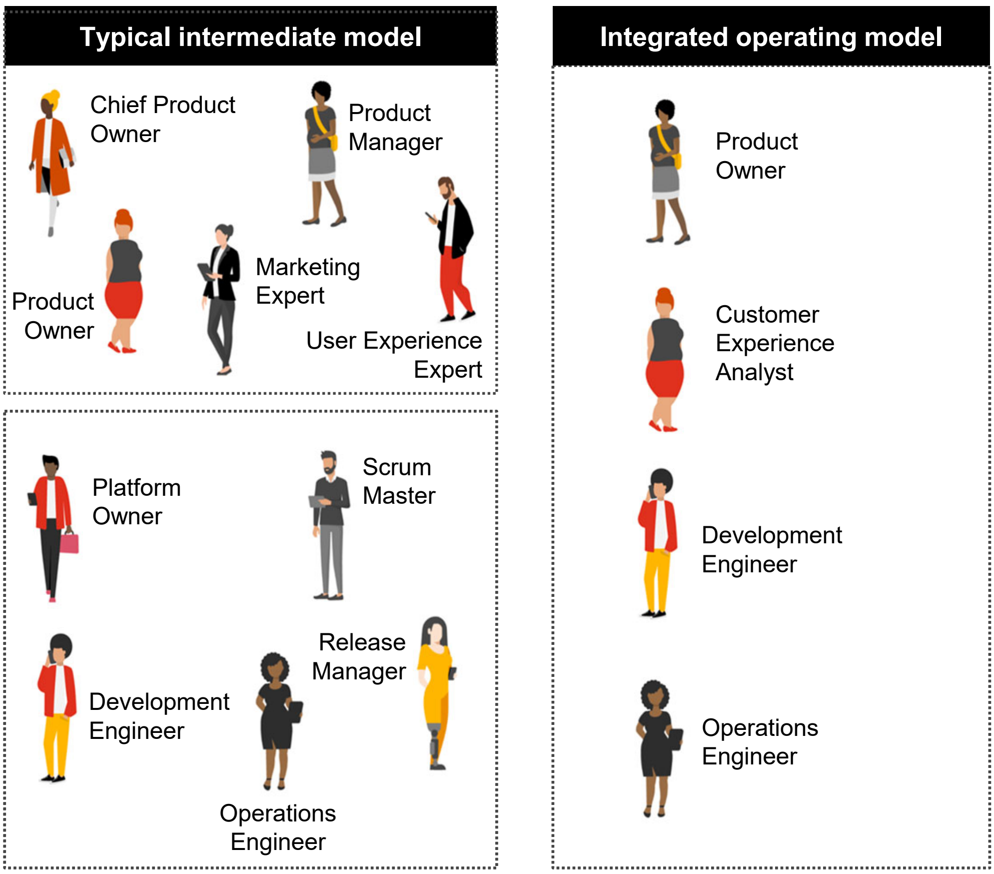


Figure 7 – Teams in a traditional operating model versus an operating model integrated across business and technology

Businesses with agility bring customers as close to product development or ‘code’ as possible for a competitive advantage.

For markets that are primarily digital native or being disrupted, being able to respond faster to changes against a lower cost and risk is how the advantage creates the right to win

Pointing to market failures to elevate the risk profile and avoid action

The term 'agile' is polarising. Some executives, managers, and teams are staggered that their organisation hasn't yet embraced this contemporary approach, while others cry foul whenever the concept is mooted. The naysayers point to case studies of failure12 to emphasise their point while overlooking the success stories13.

These failures are held up as reasons to delay, undermine and/or destabilise the transformation. On the other hand, successful organisations often keep their results under wraps because they know they have a competitive advantage and they now consider agile or digital transformation as simply business as usual. Table 1 shows the differences between a transforming incumbent (a bank) and a digital native (a software company that has not publicly shared details of its transformation's outstanding results).

Table 1 – Operating model comparison between a digital native and transforming incumbent

Operating model aspects	Transforming incumbent Leading Australian bank	Digital native Leading Australian software company
Team level structure	• Persistent teams working agile methodology	• Persistent teams working agile methodology
Operating model structure	• Mission, product and segment tribes. Separate sales and operations	• Segment tribes that include the salesforce
Goal setting	• Objectives and key results (OKRs) are set divisionally and annually. Tribe leads deliver to these OKRs throughout the year	• OKRs drive the work and are set by senior leaders on a quarterly basis
Organisational cadence	• Work breakdown from strategic, to tribe, to team level (vertical alignment) coordinated by a central function. Horizontal alignment performed by tribe leads themselves	• Work breakdown re-evaluated every quarter in a company-wide quarterly planning and alignment process following OKR setting
Leadership involvement	• Decision-making cascaded down via tribe leaders	• Weekly leadership stand-up (using visual management which is transparent for the teams)
Performance management	• Not tied to operational cadence	• OKR driven, team-based and quarterly

[12] https://www.itnews.com.au/news/anzs-boss-hits-pause-button-on-massive-agile-expansion-524529
[13] https://medium.com/@neil2killick/why-is-myob-australias-most-innovative-large-company-hiring-agile-coaches-2b87899189e1

Management is uncomfortable with greater transparency and accountability

In contemporary agile organisations, executives have access to detailed performance analytics reported in real time. Each business unit's operational performance becomes transparent, with managers expected to routinely provide progress updates. The immediate effects of campaigns and marketing can be measured daily (or even hourly).

So, management needs to be comfortable with this level of greater accountability, and capable of accounting for results under scrutiny from their peers, teams and senior leaders.

For example, after Amazon acquired The Washington Post, a digital transformation followed, including: Clarifying key metrics (web traffic and engagement), building proprietary tech to measure metrics in real time, and projecting performance against the metrics on screens around the office. The newspaper's compensation model was also adjusted in line with these performance metrics[14].

'Most board packs that you create are lies, [the people who make them]...don't want their a**rse kicked and as soon as they [an executive] doesn't understand what's going on in the team, they want more reporting… and if they don't like what they see [in the reports] they fire you.'

– Former CTO of a leading Australian digital challenger

[14] https://www.cjr.org/q_and_a/washington_post_bezos_amazon_revolution.php

Warning sign 2: You're building someone else's model

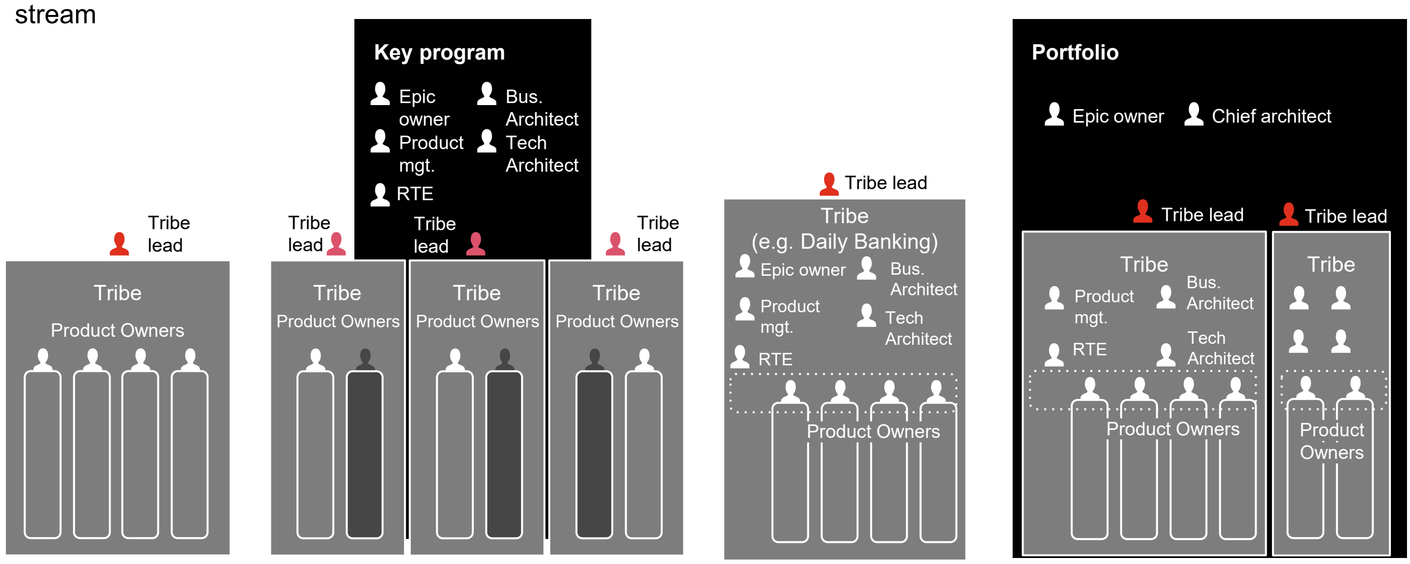
When it comes to transformation, context is all important. Organisations should tailor their transformation for the specific outcomes they require. Too often, multiple experts are recruited to impose a 'one size fits all' approach, with limited appreciation for the nuances and unique needs of the organisation.

The bandwagon effect of the Spotify model

Most executives are familiar with concepts such as 'tribes', 'squads' and 'chapters'. These terms are the building blocks of the 'Spotify model' (or 'matrix 2.0' model). This model encompasses a flat organisational structure with end-to-end process, people and technology accountabilities for product, channel or customer journey building blocks. The Spotify model has been widely lauded. It appears easy to unpack and implement, and sounds great to boards and executives who've read about it in journals or inflight magazines.

However, the Spotify model was developed for a specific organisation with a specific context. Organisations that slavishly apply this framework – without understanding their own context and tailoring accordingly – will be more likely to fail in their transformation. Two global banks headquartered in Europe were both inspired by the Spotify approach but ended up with different models. Why? Because they were solving a different issue and they are operating in a different context.

1. Basic alignment of people to a value stream
2. Hybrid alignment to domains and programs
3. SAFe release trains at Tribe level
4. Tribes as SAFe release trains



1. Autonomous teams, Product Manager coordinates across Tribes as needed
E.g. business lending tribe

2. Program is a SAFe release train bringing squads across Tribes together
E.g. regulatory program across three product tribes

3. Tribe is a SAFe release train
E.g. Financial markets with heavy dependency on outsourced providers

4. Each Tribe is a SAFe release train in a broader portfolio.
E.g. Payments and Core Bank portfolio

Figure 8 – Tailored 'Spotify model' for a leading European bank

Rigid, out-of-the-box agile

Some organisations use codified out-of-the-box frameworks, such as the Scaled Agile Framework (SAFe). Although such frameworks are well established and configurable to individual enterprises, a full-scale implementation of their strategy and planning, governance and tech can inadvertently increase an organisation's complexity.

Implementing textbook SAFe for a typical end-to-end feature (e.g. a loan origination process) would add a solution architect, a release train engineer, a product manager and a business owner on top of the basic agile team of the product owner, scrum master and team members. While there may be a need for these additional roles to coordinate across complex technology stacks or a wide field of business stakeholders, the framework requires an independent and more principles-based perspective to guide 'pruning', where necessary.

It is not only comprehensive frameworks like SAFe that carry the risk of complexity and inflexibility. We encountered an organisation where a Spotify model was implemented, neatly redistributing people into tribes, squads and chapters and installing the necessary product ownership. However, the design of those tribes did not include the difficult work of identifying and implementing the organisation's value streams and underlying capabilities. This led to a design that looked contemporary in terms of structure, but left the product owners and engineers unable to mobilise people to truly improve their customer experience. To address this, the organisation was forced to create project-based tribes, further increasing the complexity of delivery.

The larger and more diverse the organisation, the more vital it is to tailor the operating model . Different operating models typically exist to cater for the different segments and business contexts. For example, a wholesale bank looks different from retail, and the model for the product lifecycle will differ from the operating model in sales and service areas of the bank.

Agile zealotry vs. empirical delivery

As an organisation evolves towards contemporary operations, it often hires multiple agile coaches, delivery managers, scrum masters and product owners – all of whom draw upon different experiences with agile frameworks and their own views on how to operate in a digitally-led organisation.

In many cases, these professionals come from more mature digital backgrounds and haven't driven evolutionary digital transformation. Consequently they can be prone to agile zealotry rather than empirical delivery. Instead of working to gradually transform the organisation, they may fixate on the ideal way of working instead of a practical working operating model.

We spoke to a client who had deliberately left their agile coaches out of any significant delivery improvement initiatives to ensure they could have 'an outcomes-driven discussion on tangible [transformation] improvements rather than an idealistic discussion on ways of delivery from their previous employer'. Having zealots in your business is fine, so long as their zeal is focused on empirical delivery over process perfection.

Organisations will have a better chance of success when they begin their journey with a clear focus on the issues they are seeking to solve, and a hypothesis around their operating context and how each model applies. They can then develop their playbooks and inspire their coaches based on these factors, without replicating someone else's model or following an out-of-the-box approach.

'It doesn't matter that you have slogans plastered on every wall, ping-pong tables in every meeting room, post-it notes on every whiteboard and the latest job titles in the market.

Teams will begin to resist the change as they have the same bureaucratic issues they had before.'

Warning sign 3: You've overcompensated parts of your delivery – and it's eroding value

Does your business feel like no one is in control or has a plan? Do team members feel frustrated by (or envious of) the new agile teams? Are staff costs going up when they should be going down? Or are you seeing very limited returns on your technology modernisation program with both technology capex and opex increasing?

If you answered 'yes' to some or all of those questions, then you may be setting your goals too high or too low. Or you may have overcompensated on a part of your transformation. Either way, the chances are that it's eroding the value of your transformation.

You've set the bar too high or too low

The idea that you can 'start small, scale fast' is sound, but it shouldn't be forgotten that this should be done after first 'thinking big'. This means setting the business, customer and employee goals for the transformation. Digital and agile transformation is always a means to an end and not a goal in itself. Not setting sufficient goals – or simply becoming 'digital for digital's sake' – can erode the value you are seeking to achieve through your transformation. Gaining agility or improving your value build should not be the only goal. Organisations should select and design a value[15].

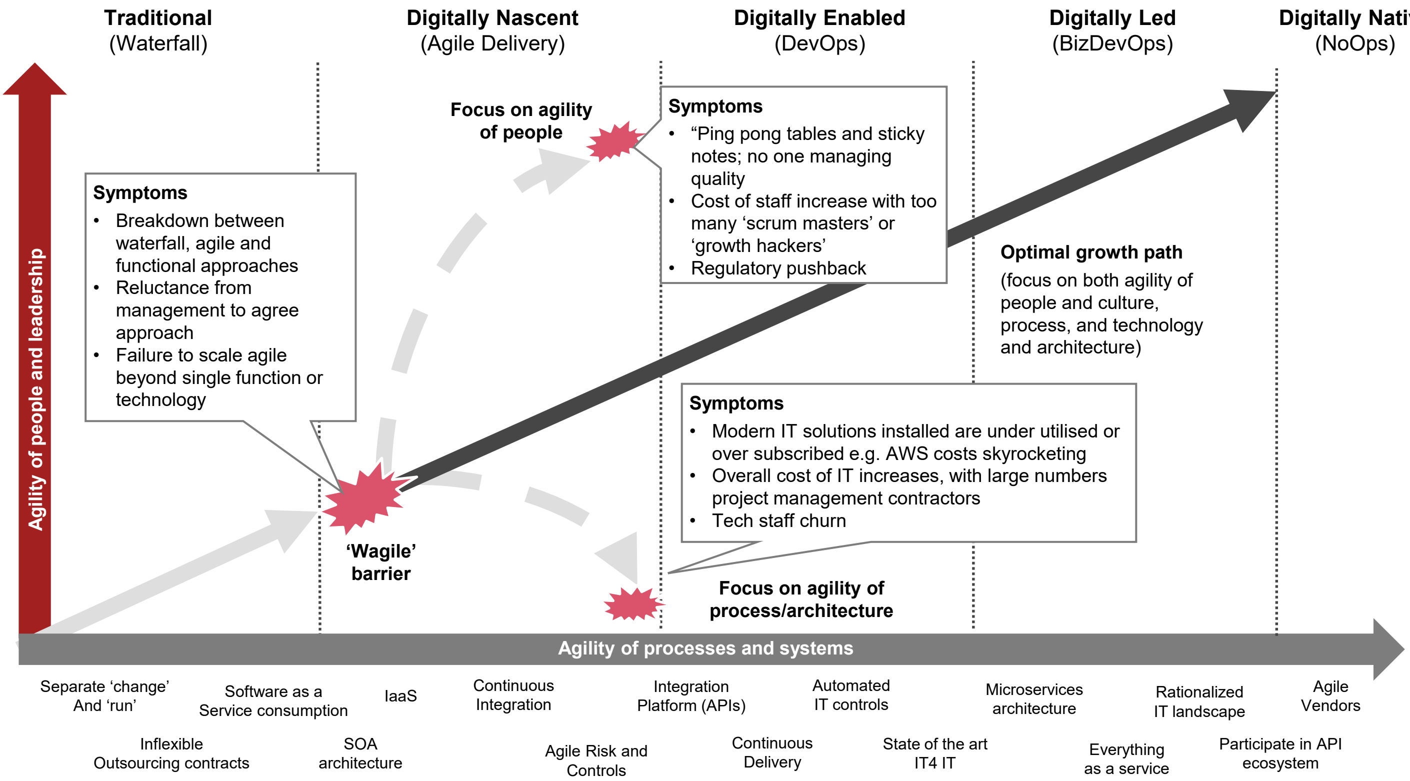


Figure 9 – Striking the balance between people and systems agility

[15] Transforming Royal Philips: Seeking Local Relevance While Leveraging Global Scale. Martin Mocker, Jeanne W. Ross, Eric van Heck, Feb 2014, MIT.

You've overcompensated on culture, people, and ways of working

Teams should be fully functioning units with end-to-end accountability (including responsibility for part of a P&L or a subset of the key metrics in their particular domain). Typically, they should be arranged around a primary axis that fits the business context and strategic focus for the next 2-3 years. We've helped organisations align around product, customer segment, value stream or customer journey, seasonal objective, or platform. Whatever axis you choose, it's vital to visibly tie it to the strategy and measurable outputs.

These new teams should also be focused cross-functional teams spanning strategy, design, experience, operations and development. Usually, they should be reviewed quarterly and have the decision rights over development, launch dates, marketing approaches, and resource allocation. This means that IT developers and IT operations are integrated into business units, forming a fusion of business, technology development, and operations (commonly known as BizDevOps).

Teams need strong leadership, effective delivery systems, and the authority to make decisions. Without this, bureaucracy will hinder them, productivity will dip, and people will resist the organisational change.

You've overcompensated on technology, architecture or process

On the other end of the spectrum, some organisations expect their digital transformation to be driven solely by the IT department. They invest huge sums in data, cloud, APIs and SaaS but underestimate the importance of bringing their people with them (e.g. by developing leadership, behavioural role modelling, and shared values). We encountered one organisation that believed it had digitised its marketing process, when in fact the process was inefficient and used multiple bespoke tools and spreadsheets. The process had simply been copied into a new SaaS tool by the technology department, which meant a new team had to be hired to run the process exactly as it had been done previously.

When transformations are tech-driven, technologists can be tempted to pick the 'best of breed' solution. Business leaders may approve the expenditure because they have used the solution in a previous organisation, or they may simply have a limited understanding of the solution. The danger is that leaders lack practical guidance to define business requirements before technology is selected. And so, after spending large sums of money, they often end up disappointed.

The optimal way to approach these technology modernisation programs is through genuine collaboration between technologists and business colleagues. Without people and technology moving in lock step during the transformation, the long-term results will be increased technology spend, increased hiring of personnel, and marginal benefit to both top and bottom lines.

Phillips transformation

In its transformation, Phillips focused on modernising only one platform per end-to-end process (i.e. the product lifecycle management system and the CRM). To reach their digitisation goals, they leveraged more agile ways of working and contracting.

This shows how the right balance can be struck by being targeted at what you replace in tech, while harnessing new ways of working.

We worked with an organisation that had previously considered it too risky to subject the CTO domain to a new way of delivery, while the business-oriented technology domain adopted DevOps.

The CTO ended up spending two years developing intricate patterns released in six-month increments, which were hardly used. All the while, the DevOps teams just wanted simple Infra as Code building blocks.

Warning sign 4: You've failed to spring clean effectively

Transforming into a contemporary organisation typically delivers benefits in three areas:

1. **Technology:** Systems are modernised, upgraded and automated
2. **Workforce:** Roles are compressed and layers of management are reduced
3. **Partners:** Contracts become less focussed on time and materials – and more focused on outcomes.

If you're not seeing benefits in these areas it's likely that you've failed to 'spring clean' effectively during your transformation.

Eating the spaghetti elephant: choosing to develop, migrate, standardise and decommission

Prior to 'everything as a service' solutions (or XaaS), many organisations built their own systems in legacy code. Over the course of the past 30 years, they slowly added bits and pieces to the system. In the process they created large, entangled webs of code that can't be unpicked (known as 'spaghetti elephants').

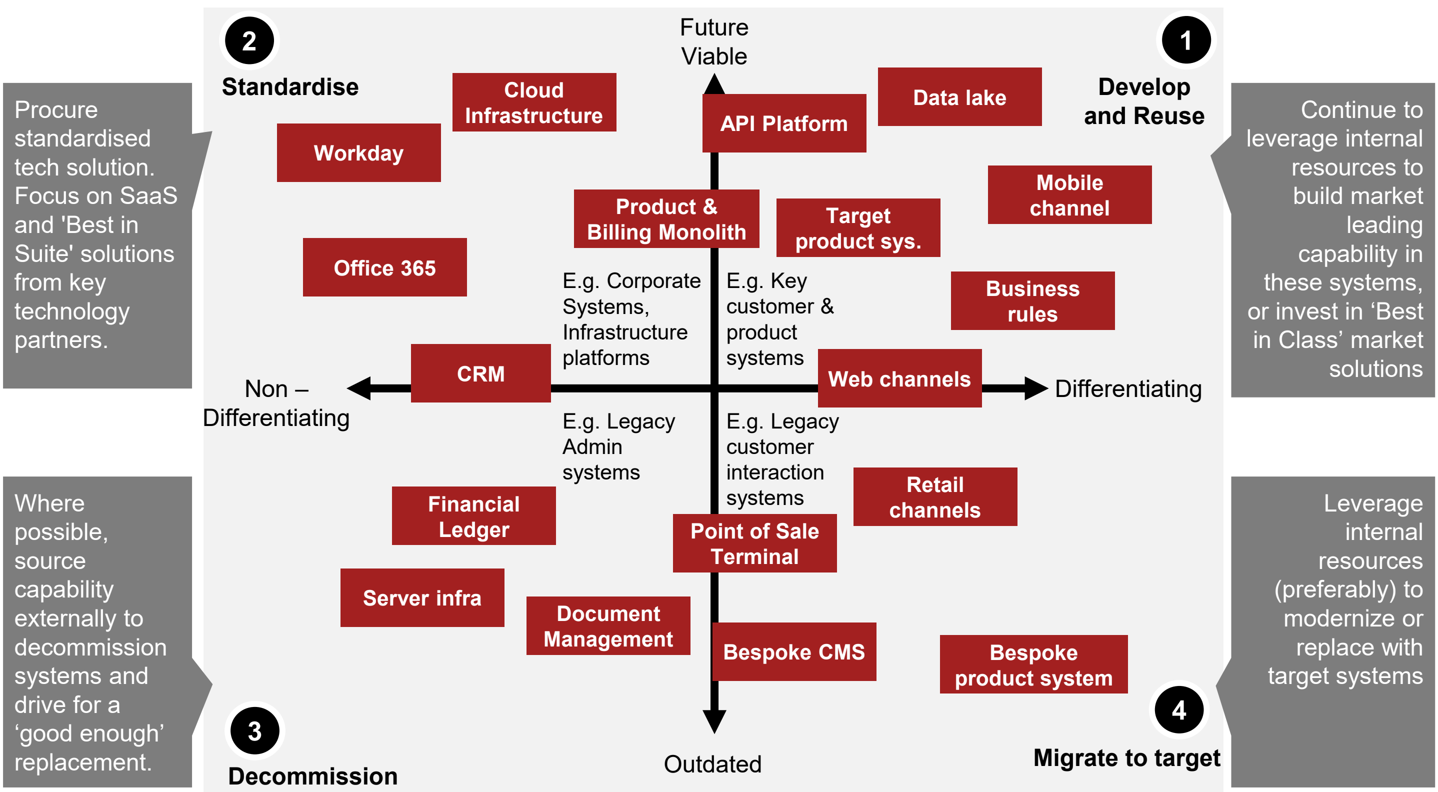


Figure 10 – Illustrative systems in a strategic sourcing analysis of the tech capability stack

One organisation we worked with introduced an ‘expert’ career track for engineers and technical experts. This allowed them to grow in technical responsibility and impact with out the burden of people management. In this model, expert engineers were able to make more than their direct report or even the level above.

Before 'eating the spaghetti elephant' of legacy technology, organisations should first determine where to invest and where to take shortcuts to reduce business complexity. This requires a broad review of the systems landscape to avoid building further complexity into the tech stack (see figure 9). Leaders should undertake this review while being mindful that moving to 'good enough' standard solutions can rapidly simplify complex architectural landscapes.

Striking the balance between new skills and institutional knowledge

Roles and functions typically require three things to transition to a digitally-led or contemporary model:

- A reduction in the number of staff
- A shift in capability from purely functional skills to broader roles with both soft and hard skills
- A shift from 'command and control' executives with direct leadership approaches to leaders (and pay grades) being more distributed between 'mini-CEOs' at team level and 'community of practice' content leaders.

Such role compression is about simplifying the decision-making process at team level, reducing bureaucratic burdens and creating smaller teams that accept full accountability. An important aspect of this process is that business units eventually gain access to engineers who traditionally reported to the CIO. This progression is illustrated in Figure 11.

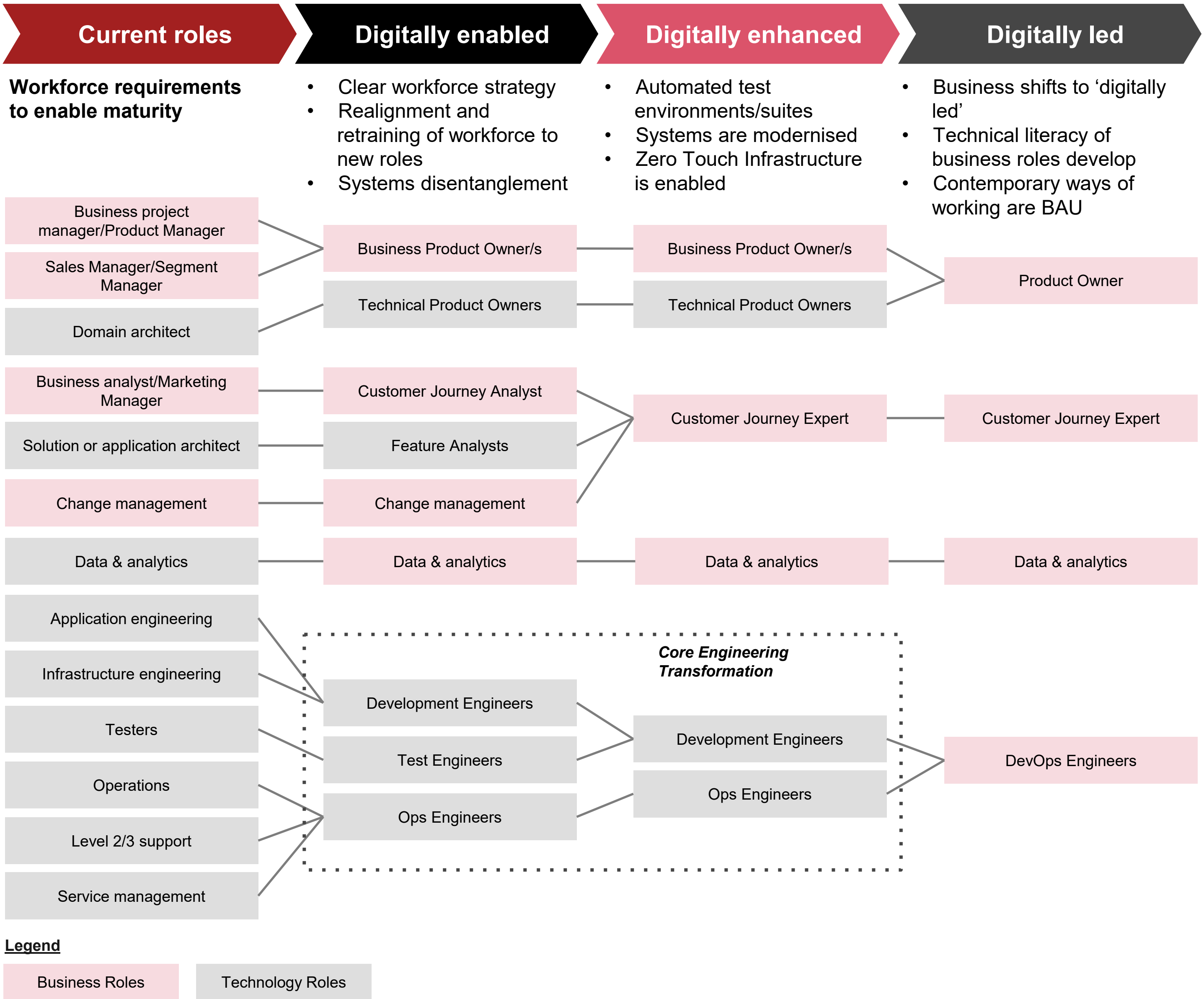


Figure 11 – Illustrative role compression following along with digital transformation

Roles are generally full time and dedicated to one capability (e.g. a segment, product, end-to-end process or piece of technology); although balance between shared service functions and dedicated resources needs to be constantly reviewed.

For example, some platform-based IT teams need release or strategic initiative managers to coordinate feature releases and builds, and to provide clarity on product roadmaps. Similarly, there will be operational teams (in branches/shopfronts, legal, regulatory, HR and finance) who may not be restructured into cross-functional teams but need to change how they work and govern. This will ensure they create systems that enable value creation rather than applying the handbrake to a transformation.

When someone has many years' experience working in traditional models, it is challenging to transition to a contemporary model. To thrive, leaders need to understand both technical and business issues.

This presents a stark choice during the transformation process: Do you retain executives with institutional knowledge and accept that they may never be able to fully adopt the new ways of working, or can your next generation of managers (with the necessary skills) step up into new roles?

Partner spring cleaning: Moving to performance-based and outcome-based contracts

Digital transformation can be a completely different experience for organisations that have heavily outsourced their technology. Establishing the digital product teams for planning, building and running a differentiating capability is already challenging enough with internal resources. It's even tougher for those working with a high level of staff augmentation or even vendors that hold the intellectual property of the technology.

As the transformation begins, large contracts should immediately be reviewed because:

- Transition from traditional contracts to outcomes-based contracts can drive partners to modernise their ways of working.
- For solutions owned by your organisation but delivered with third parties, collaboration-driven contracting can create true partnerships.

We worked with a financial institution where multiple leaders were responsible for development, operations and solution architecture of a large banking application. To alleviate the bureaucracy of the bank having to drive each work package, the leaders were accountable for regular and specific outcomes. All leaders committed to 'rating' one another on how well they collaborated. And those collaboration and performance metrics had direct influence on contracted payments.

A European bank we worked with offered their redundant people a significantly reduced pay-out if they would stay for a one year re-skilling programme towards an engineering skillset. Surprisingly, many of them took it to have a chance at being part of the future organisation.

Conclusion

Is your agility giving you productivity?

These warning signs do not present insurmountable problems. Leaders can take steps to repair the issues before they irrevocably damage the digital transformation:

1. **Realign and commit your management team** to the transformation. Ensure that management understands why the value build will improve business, how the new model will work, and what it means for them. Because transformations only succeed with enthusiastic commitment from leaders.
2. **Design and build your own model** to ensure it is uniquely aligned to your organisation's needs, identity and brand. This will drive the behaviours and benefits you are trying to achieve. ING, Spotify, the SaFE framework, Zappos and others are all great reference points, but ultimately you want people reading about 'your' model and its success.
3. **Revisit your scope and set a plan – then stick to it**. Recognise that you may have started too small or too big, been overly zealous on new role titles or sweeping IT upgrades. Start to transition back to a workable organisational or customer outcome. Know where aspects of the business don't need to change drastically and stick to a consistent schedule of change.
4. **Make the tough calls and remove blockers in the organisation**. The consequences of a full digital transformation are new leadership styles, less duplication of effort, and a leaner technology stack. Make sure that your organisation emerges from the transformation with the right mix of capabilities and technologies that can drive growth and adapt to changing markets.

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