



BECOMING FUTURE READY REQUIRES ORGANIZATIONAL EXPLOSIONS

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Many companies plan to achieve breakthrough performance via digitally enabled business transformation. They are now in the middle of the hard work of execution—implementing the difficult organizational changes needed to succeed. We call these changes “organizational explosions” because that’s what they feel like; they are significant, disruptive changes that affect most of a company’s customers, employees, and partners.

In this briefing we share insights from the digital transformation journeys of 216 companies.¹ When we grouped these companies by whether they had completed more or less than 50% of their journey, we saw impressive differences in performance: Companies whose transformation was at least 50% complete had 32% higher net margins and 67% higher revenue growth than companies whose transformation was less than 50% complete.

Achieving breakthrough performance is not easy and typically requires four types of controlled organizational explosions. To ensure the explosions create—rather than destroy—value, they need to be carefully designed, and their impacts anticipated and managed.

THE FOUR PATHWAYS TO DIGITAL BUSINESS TRANSFORMATION

In the MIT CISR September 2017 research briefing² we identified that becoming Future Ready requires a company to transform on two dimensions: customer experience and operational efficiency. The goal is to become ambidextrous—to engage and delight customers and simultaneously reduce costs—using digital capabilities. Figure 1 summarizes the framework and the four pathways for the journey. Most companies begin their

journeys in the lower left Silos and Spaghetti quadrant of the model, then adopt one or more³ of the four pathways.

A company’s senior management chooses a pathway based on the company’s competitive positioning—in particular, the quality of the company’s current customer experience, and its efficiency relative to competitors. Companies trailing on customer experience need first to move up on the 2x2, while those operating less efficiently need first to move right.

The good news is that all four pathways lead to success; the more of the journey a company reports it has completed, the better the benefits. But each pathway yields different results on net margin and revenue growth relative to competitors (see figure 2). For example, Pathway 1 on average yields the best performance on net margin relative to competitors, as illustrated by the full circle. The relative results of the other three pathways are shown with partial circles. Similarly, Pathway 2 yields the best relative performance on revenue growth.

THE FOUR TYPES OF ORGANIZATIONAL EXPLOSIONS

To achieve such remarkable improvements in performance, the companies we studied had to design and control four types of organizational explosions:

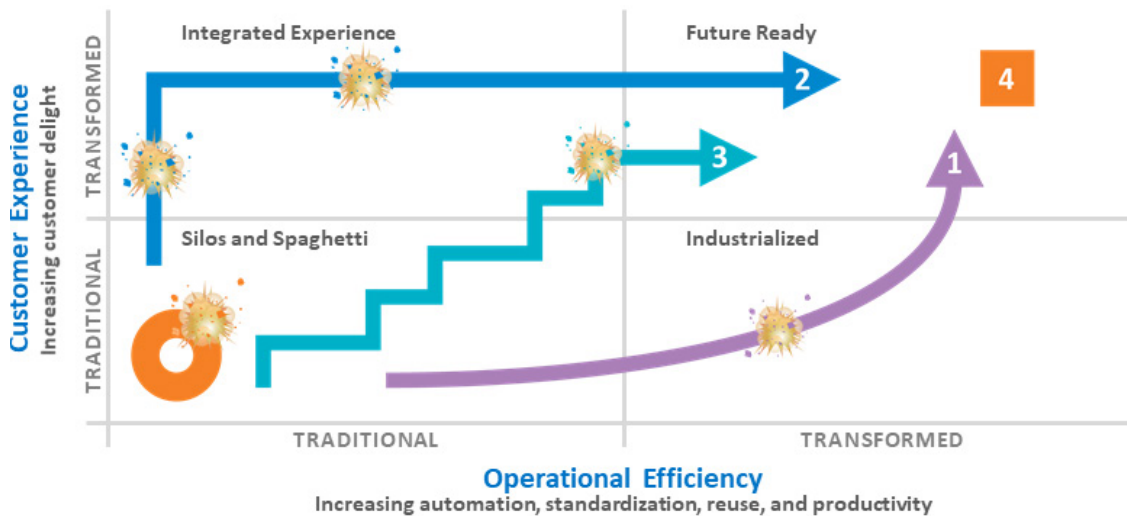
- **Decision Rights:** Transformations change the status quo of who makes and is accountable for key decisions, such as when a process is formally changed, which projects receive funding, and which products are discontinued and launched.
- **New Ways of Working:** Successful transformation requires very different ways of working, such as cross-functional teams that use agile methodologies, particularly for new customer offerings; new partnerships that speed time to market; evidence-based decision making; test-and-learn experimentation; and co-creation with customers.
- **Platform Mindset:** Becoming Future Ready requires taking a lesson from platform companies like Amazon and

1 The analysis was performed on a subset of respondents to the MIT CISR 2017 Pathways to Digital Business Transformation survey (N=413)—specifically, those 216 companies that had started their digital transformation and provided performance data. For N=216 we compared the (industry-corrected) net margins and revenue growth of companies greater and less than 50% complete relative to the cross-industry average.

2 P. Weill and S. L. Woerner, “Future Ready? Pick Your Pathway for Digital Business Transformation,” MIT Sloan CISR Research Briefing, Vol. XVII, No. 9, September 2017.

3 For example, a company with multiple business units might pursue a distinct digital transformation pathway in different business units.

Figure 1: The Four Pathways to Future Ready



Pathway lines are based on series of informal interviews (conducted between 2015 and 2017) on digital transformation with senior executives globally; the lines were confirmed via the MIT CISR 2017 Pathways to Digital Business Transformation survey (N=413). Explosions represent significant organizational changes including changes in decision rights, new ways of working, a platform mindset, and organizational surgery.

WeChat. There is a platform mindset—an understanding, with supporting actions, that creating reusable platforms (having processes that are modular, service-enabled, and/or automated) allows a company to take capabilities that make it great and provide them as digital services.

- **Organizational Surgery:** Also known as restructuring, this explosion improves both the customer experience and operational efficiency in the typical company not designed for the digital era. For example, BBVA combined operations, IT, marketing/sales, and some products into a single organizational group that provided digital banking services across the entire company and fundamentally changed the role of branches.⁴

KPN'S JOURNEY THROUGH THE FOUR EXPLOSIONS

KPN⁵ is a leading provider of telecom services in The Netherlands, serving consumers and businesses with products that include fixed line, mobile, and broadband connectivity, television, and cloud services. As the Dutch market leader in mobile telephony, KPN has over 5.5 million customers and employs over 13,000 FTE.

KPN began its transformation to becoming Future Ready in 2013 while under significant financial strain. Strong competition had reduced prices in saturated markets, regulations capped termination and roaming fees, and over the top (OTT)

companies such as Skype, WhatsApp, and Netflix had eroded legacy revenue streams while heavily burdening network capacity. To remain competitive, KPN needed to radically improve both its operational efficiency and its customer experience nearly simultaneously, making Pathway 3 the only viable option.

At the start of the company's transformation, a few customer experience initiatives—such as creating a single identity for digital services, and improving the order capture process—seemed especially promising, with large potential returns. Unfortunately, KPN's distributed (and mostly outsourced) IT capabilities restricted it from immediately executing on these initiatives. Before it could pursue a better customer experience, the company had to improve its operational foundation—to first move right on Pathway 3 before moving up (see figure 3). Here's how KPN has navigated the four types of organizational explosions along its journey.

Decision Rights

Bouke Hoving, KPN's CIO, began by obtaining a mandate from the CEO to form a transformation unit called Simplification and Innovation (S&I). This unit centralized all business process redesign, IT architecture, and IT development capabilities—requiring that all commercial business unit directors give up individual change capacity. S&I then put a hold on all siloed back-end transformations to focus on the most promising customer experience initiatives.

New Ways of Working

Developers and designers were re-insourced to energize innovation and bring IT development closer to the business. To

4 Peter Weill and Stephanie L. Woerner, *What's Your Digital Business Model?: Six Questions to Help You Build the Next-Generation Enterprise* (Boston, Harvard Business Review Press, 2018).

5 This case study on KPN is based on N. van der Meulen, P. Weill, and S. L. Woerner, "Digital Transformation at KPN: Navigating Organizational Disruption," MIT Sloan CISR Working Paper No. 431, August 2018.

Figure 2: Comparison of Pathway Results

Source: MIT CISR 2017 Pathways to Digital Business Transformation survey (N=216). Circles represent (industry-corrected) average performance differences when comparing companies where the digital transformation was at least 50% complete with those where it was less than 50% complete. Full circles represent a 12.7 percentage point difference for net margin, and a 15.9 percentage point difference for revenue growth.



attract the best digital talent, S&I had to adopt a more agile way of working and shift from traditional processing systems to open source and cloud-based environments. Embedding these agile practices within existing corporate governance proved challenging, as KPN's reporting and management mechanisms did not map to the new way of working in S&I. "Proxies" were therefore appointed: individuals that maintained short communication lines with the rest of the company and ensured that S&I adhered to KPN's standard reporting requirements. This eliminated unnecessary overhead for the agile teams, and also allowed them to learn (without fear of negative performance evaluations) from any mistakes occurring during the agile development process.

The biggest explosion was our internal target to cancel all the steering committees, KPI spreadsheets, internal management letters, management layers, and also the corporate appraisal system—which were all big inhibitors for our staff.

BOUKE HOVING, CHIEF INFORMATION OFFICER, KPN

Platform Mindset

KPN decommissioned 25% of its systems as it replaced virtually every legacy platform and phased out traditional software for open source and cloud-based environments. Early in the transformation, S&I's agile teams developed a "digital engine" that enabled API access to more than three hundred legacy services from KPN's frozen back-end, allowing devel-

opers to quickly execute on customer-facing initiatives. For instance, this combination of the company's new ways of working and a platform mindset reduced the in-store order capture time for its popular quad play bundle of services from thirty to just three minutes.

The goal was for S&I to show results early and often, keeping transformation momentum. Only after initial improvements to customer experience had been made did S&I set its sights on a greenfield transformation of its back-end systems and improving its APIs—thereby enabling a second wave of customer experience improvements.

Organizational Surgery

Before KPN migrated customers to its new back-end systems, S&I cooperated with commercial teams to rationalize KPN's product portfolio. Around 80% of offerings were cut from the portfolio, and processes for the remaining products were harmonized. This simplification effort helped to collapse internal silos and solidified the company's change of focus from products to the customer.

Success from Iterative Approach

Over four years of transformation, KPN became more ambidextrous, with great results. The company has improved operational efficiency and time to market, reduced its downtime by 90%, and achieved €570 million in savings. On customer experience it saw an NPS improvement of 20 points, and use of its customer self-service app now outnumbers call center traffic by a factor of 2.

THE CHALLENGING PATH TO VALUE

Despite a common goal among companies to become Future Ready, only 30% of the companies in our analysis have so far stayed on course and navigated the organizational explosions to reach at least 50% transformed—which is when the benefits really start to accumulate. From our work with many senior executive teams, we've learned that the key lesson is to first agree on which pathway(s) the company will follow and create a common language around how you will transform. The real challenge is in designing the four types of organizational explosions, anticipating the impacts, and managing the disruption on the pathway to value.

Figure 3: Explosions Along KPN's Pathway to Future Ready

KPN's depicted pathway line and explosions are based on in-depth interviews with the CIO of KPN, as well as with the director and employees of KPN's Simplification and Innovation unit. The dotted end section represents the company's intended (ambidextrous) pathway for 2018 and beyond.



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