

# Reboot Your Strategy For A Digital Age

July 2017





## The problem with your digital strategy

No doubt, your company has a digital strategy. In researching the topic we have yet to come across an organisation that is not considering how to compete in the digital age. But twenty years after Michael Porter wrote the seminal "What is strategy?" we see the need to again revisit first principles – specifically around how strategy is developed, rolled out, and refined in a digital age. After all, how many digital strategies sound like they come from a buzzword generator? How many have been fashioned into 3-5 year roadmaps that are only revisited annually? And how many of your employees can tell you how your competitive strategy translates into their day-to-day work?

The way that companies have managed strategy in the back half of the last century is no longer fit for purpose. You need a shift towards different approaches, practices and tools to ensure your strategy keeps up with the rapid pace of 21st century change. Our aim with this research is to pinpoint where classical development and deployment methods are failing, to define the attributes of strategy in a digital age, to surface the current practices that are good first steps to make this shift, and to project the next practices – many of which come from pioneering organisations.



## Let's first take a look at a few digital strategies

Companies rarely disclose their strategies, digital or otherwise, beyond vision statements and top-line summaries. This is because strategy is intended to create competitive differentiation. But it is still possible to diagnose the way public companies think about their digital strategies. Annual reports betray their mindset and approach towards achieving their long-term aims.

We analysed strategies from five FTSE100 companies and compared them to strategies from five companies lauded as digital leaders. We wanted to see if we could find evidence of a shift between the two groups in how they publicly describe and manage their strategy.

We chose the FTSE100 companies at random – with names anonymised to protect the guilty. Then we deliberately sought out digital leaders across a range of industries to avoid the trap of focussing on digital-native firms – only two out of our five are tech companies. All strategies were taken from 2016 annual reports.

Whilst we were interested in the unique activities of each one's strategy, we knew these 'activity systems' were likely to be specific to the industry and the individual organisation. Therefore, our analysis focussed on common elements of how digital strategies are developed and deployed, and –

most interestingly – how these companies relate digital to their strategic differentiation in the first place.

What we found are surprisingly clear indicators that serve as 'tells' as to whether an organisation is pre- or post-shift in their mindset:

1. **Language:** How do they talk about digital?
2. **Measurement:** What indicators are they using to keep strategy on track?
3. **Risk:** How do they approach risk in light of rising market uncertainty and volatility?
4. **Frequency:** How often do they revisit strategic plans?
5. **Feedback:** How are they incorporating wider intelligence into strategy creation?

Does your strategy resemble the pre-shift companies?

We suspect many do, or are not far off. That is because our next step was to interview 18 CDOs and CIOs about digital strategy and, while we saw some bright spots, we also heard a healthy dose of frustration.

# HAS STRATEGY SHIFTED TO THE DIGITAL AGE?

We analysed the annual reports of 5 FTSE100 companies and compared them to those of 5 companies lauded as digital leaders in order to identify key differences in how digital strategy is described and managed.

## PRE-SHIFT

vs.

## POST-SHIFT

### LANGUAGE

Do not be fooled by how many times digital is mentioned. Context is key. If digital is discussed solely in terms of technology or channels, then odds are that it is still a 'bolt-on' to the business.

*"Our digital strategy...allows customers to obtain quotes & policies using mobile & digital technology." (Insurance)*

Digital is not a buzzword. It is how the business is run. If mentioned at all, it is done so in holistic terms to describe market forces, internal capabilities and new ways of working.

*"We believe that technology is a democratising force, empowering people through information." (Alphabet)*

### MEASUREMENT

Reports mostly use financial KPIs to show progress against activities. These are lagging indicators that do not show problems until too late.

*"KPIs to track our Transform the Business objective are Cost Savings & Global Headcount Reduction." (Education)*

Reports refer to not only financial metrics but also leading indicators that can be used to steer the business. Test & learn measurement approaches are referenced and ingrained.

*"Our KPIs measure performance, financial strength, customer advocacy, employee engagement and impact on society." (Aviva)*

### RISK

Focus is on risk management process over outcomes, with annual or even longer assessments. This still assumes a stable market environment where risks can be predicted.

*"The board assessed the prospects of the company over a three-year period." (Education)*

Mature approaches acknowledge the unpredictability of today's world. They leverage data to sense and respond to risks as they appear.

*"Competing successfully depends on accurately anticipating technology developments...as a result we must continue to invest in R&D" (Alphabet)*

### FREQUENCY

References to annual planning cycles and 3- to 5-year roadmaps are red flags. They assume a stability that no longer exists.

*"Five year transformation road maps have been developed by each division to ensure that [we are] investing in the capabilities...that deliver the greatest benefit." (Energy)*

Overall bias to action. References to emerging threats and opportunities and continual tweaks of strategy to address.

*"Our businesses are rapidly evolving, subject to changing technologies, and shifting user needs" (Alphabet)*

### FEEDBACK

References to broadcast communication suggest that leaders continue to be expected to have all the answers. Regular misconception that employee engagement surveys fill this gap.

*"Managers hold regular team and 1:1 meetings, complemented by formal processes through works councils." (Energy)*

Communications are two-way, unfiltered and open. Engagement surveys are scrapped, in favour of frequent lightweight pulse checks. Cutting-edge orgs also measure behaviour, combining surveys with other internal data-sets.

*"In 2016, we said goodbye to the old GE opinion surveys and introduced a new feedback tool: the Culture Compass." (GE)*



# How poor strategy trickles down

## What is a digital strategy anyway?

We started each of our interviews with this question for a reason. The answers we got back gave a strong indicator of the maturity of the organisation's approach. We heard answers at two ends of the spectrum: Digital strategy is a specific initiative in discrete areas of the business, usually focussed on technology; or Digital strategy must be all-encompassing. However, across all the executives we interviewed, we sensed a collective frustration there were no two stakeholders that viewed digital strategy in the same way, with the lack of alignment around both definition and execution amongst the top three pain points. 'Digital' has become a buzzword applied in ways that are paradoxically both too broad and too narrow.

## The limits of a bi-modal approach

We also found many companies still stuck on the idea that digital is something that should be separated - both functionally and physically - from the core organisation, and instead dabbled with on the edges by dedicated digital teams housed in protected labs or incubators. Whilst this approach can produce short-term benefits, it is mostly relegating 'digital' to being solely about technology point

solutions - either related to customer interfaces, siloed product innovations (we need an app!), or internal technology deployments. This bi-modal approach runs into problems as soon as the responsive edge needs to interact with the slower core, as it inevitably must do.

## The vagaries of digital as everything and nothing

However, in contrast to the bi-modal view, even more of our interviewees expressed that digital must touch everyone and everything in the business. Whilst it is encouraging to see that the widening scope - moving beyond creating apps and a social media feed - the problem is that digital has become too vague and imprecise to have any clear meaning to both senior stakeholders and the rest of the business.

We heard about the impact in our interviews, where a lack of employee buy-in to the strategy is the second most expressed pain point. Running alongside conflicting alignment, our interviewees cited the proliferation of vague buzzwords as a barrier to winning over employees' hearts and minds. This lack of clarity means that employees struggle not only to believe, but also to understand how it relates to their day-to-day work and behaviours.

## Mind the skills gap

The most concerning finding, and the biggest pain point of all, was that nearly all of our interviewees had identified a digital skills gap for what is needed to achieve their strategic objectives. This was expressed in a number of ways, from a lack of specific capabilities such as data analytics, to being unable to break out of the entrenched legacy processes and structures that prevent a more agile and responsive execution. To compound the dysfunction, this perceived gap is causing a reluctance to trust employees with the authority and responsibility for change activity. Leaders feel that employees are not currently capable of executing their strategy, and some doubt they even have the ability to adapt in order to do so.

This underlying attitude helps to explain the popularity of acquiring or hiring these skills as the ticket to digital maturity — pinning hopes on a disruptive start-up or visionary outsider. But this is yet another bi-modal approach that has a limited shelf-life: at some point the rest of the organisation must be given the support and investment needed to develop the strategy and new ways of working needed to become adaptive.





If these top-line findings from our research tell us anything, it is that creating and executing on your digital strategy in a separate entity to core operations will not help your organisation meet the demands of unpredictable markets. Instead, a shift needs to occur to a more connected approach that involves the entire organisation in defining the future firm.

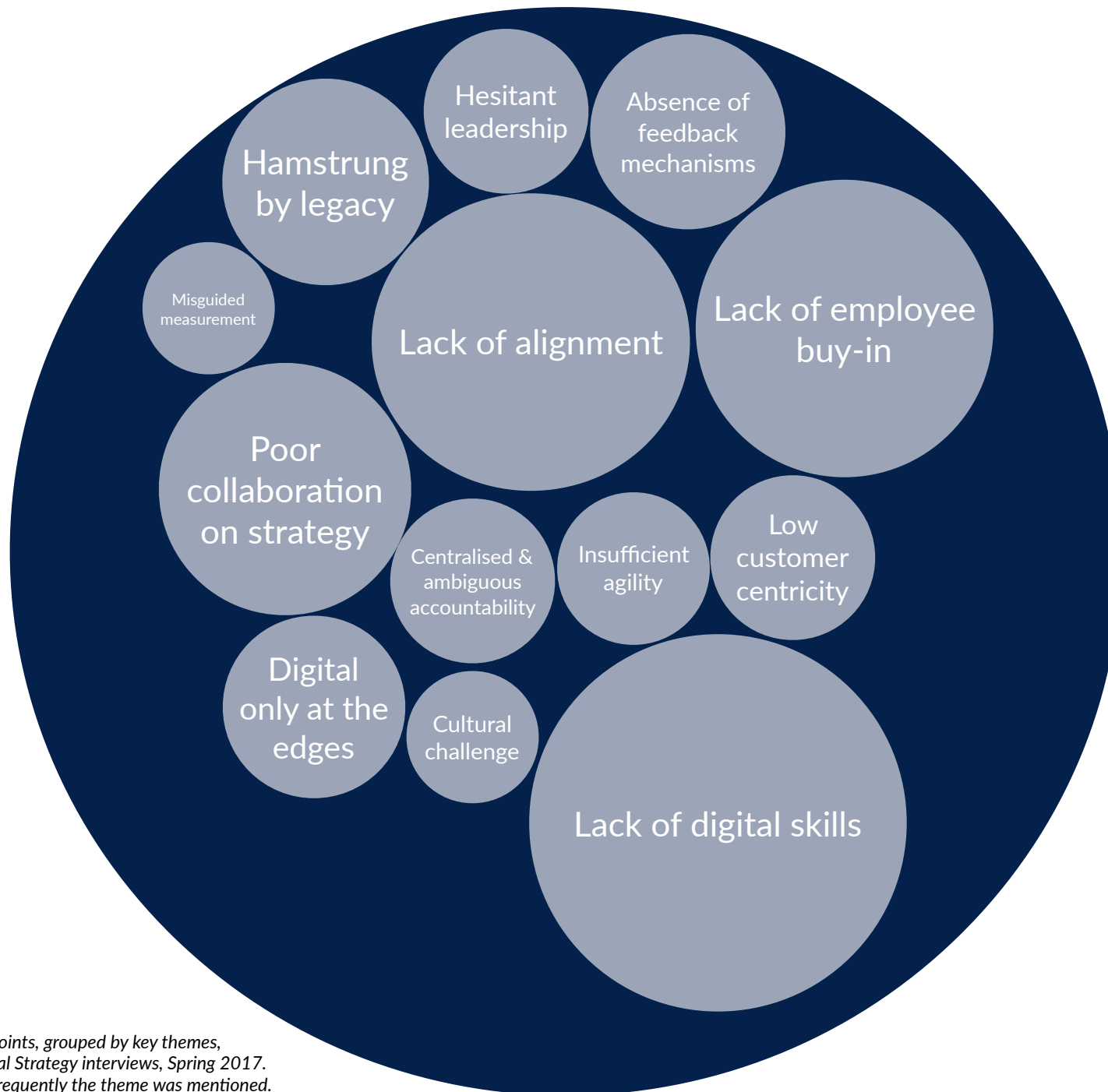
*"Historically there was a digital strategy, which quickly became 'Lead with Digital'. What does that mean? 'Follow with bricks and mortar?!'" (Retailer)*

*"Once everybody gets on board with the vision we need to make sure they carry on understanding it. If we make changes - we need to move the whole ship. The bigger it is the harder it is to move." (Automotive company)*

*"It's a strategy, not a digital strategy. The strategy contains the why, the how, the when and the what we want to become. That will obviously have a lot of digital aspects but I wouldn't call it a digital strategy." (Financial Services firm)*



# PAIN POINTS OF DIGITAL STRATEGY



*This infographic illustrates pain points, grouped by key themes, expressed during Post\*Shift Digital Strategy interviews, Spring 2017. The larger the bubble, the more frequently the theme was mentioned.*



# Strategy needs a reboot

Digital strategy is rightly a priority. Twenty-first century market dynamics demand it: From start-up disruption, to increasingly innovative competitors, to the rise of the all-powerful customer that has the ability to devastate your reputation with one viral tweet.

The problem is that executives and boards are tackling this in the ways they always have: through Vision 2020 roadmaps and gantt charts. These are management tools that worked in the twentieth century, when markets and outcomes were stable and predictable. But they don't allow for the adaptability needed in today's unpredictable world, where 3-5 year outlooks are not worth the PowerPoint they are typed on.

Interviewees were aware that the classical ways of managing strategy are not fit for purpose. They expressed frustration at the rigid frequency of annual planning cycles, narrow focus of KPI's and missed opportunities from centralising sense-making, all intuiting that these structures and practices were designed for a certainty that no longer exists. However as much as they lamented the current state, we also sensed a lack of alternative options on the table. Whilst markets shift more rapidly than ever before, control still needs to be demonstrated. So if not the traditional approach, then what?

*"When you talk about getting ideas from people, there's a sense of fatigue that people feel like this has been a problem for years that's never been resolved, so why would they come forward again?" (Industrial company)*

*"Our problem isn't that we lack ideas, it's that we lack good processes or structure to actually carry them through." (Financial Services firm)*

*"We still use very traditional KPI's, pretty functional and siloed. That's creating misalignment because the different functional leaders are looking at different things." (Industrial company)*

## Five attributes of strategy in a digital age

The answer first lies in a semantic distinction, which may sound like a quibble but is actually critical. We need to stop talking about a 'digital strategy' and start to talk about 'strategy in a digital age'. This removes the increasingly artificial barrier that so many have between digital and the legacy business.

Next, we need to evaluate what makes a strategy suitable for coping with the complexity and unpredictability of today's world. We sifted through our interviews to find common requirements, cross-referenced these against our analysis of pioneering organisations, and synthesised the themes from new management theory. Through this process we have identified five common attributes for strategy:

1. **Emergent:** When your strategy is emergent, it flexes to cope with unexpected opportunities and consequences.
2. **Participatory:** Inviting employees to input into strategic planning means you are more likely to spot developing threats or opportunities.
3. **Iterative:** Strategy today needs to be approached through test & learn cycles, to better incorporate feedback and course-correct in shorter loops.
4. **Unified:** You will create organisational adaptability if your strategy addresses not only digital technology, but also structures, practices, culture and leadership.
5. **Quantified:** Measuring success through a balanced dashboard of leading and lagging indicators predicts trends rather than just confirming strategic impact.



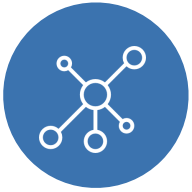
## 5 ATTRIBUTES OF STRATEGY IN A DIGITAL AGE



### EMERGENT

Learn from and allow for outcomes that were not originally intended as new situations arise in the environment. Integrate unexpected opportunities and consequences into future plans.

---



### PARTICIPATORY

Involve employees in strategy creation, using social channels to surface ideas and concerns. Use employees as a 'human sensor network' to spot emerging threats and opportunities. Share progress routinely via enterprise social channels.

---



### ITERATIVE

Break down strategic objectives into minimum viable programs that can be tested, learnt from, and modified in a step-change approach. Review progress and incorporate feedback in short loop cycles.

---



### UNIFIED

Focus upgrades on not only technology but also your org structure, practices, culture and leadership, with the goal to create adaptive organisations. Accountability for achieving this is co-owned by the executive team, rather than given to one member.

---



### QUANTIFIED

Measure success using not only financials (lagging indicators), but also 'shift metrics' — leading indicators that measure the pace of customer, employee and stakeholder change. Combine data-sets for a well-rounded picture, rather than rely on single metrics.

## How to make the shift

Our client experience tells us that going from where you are today to where you hope to be is not a one-step process. Setting your goals for changing your strategy management is only half the story. Therefore we have supplemented our findings with some suggested step-change recommendations.

These recommendations collectively address not only the pain points, but also the work required to develop the strategy attributes suitable for the digital age.

We have broken each recommendation down into:

- **Trap:** A common pitfall that is best to avoid
- **Current Practice:** A practice that some are already doing or starting. If you have not, then this is a good first step.
- **Next Practice:** Advanced practices used by pioneering organisations. If you have already nailed the current practice, then this is your next step.





### **1) Identify digital capabilities across the entire org.**

Separating your digital efforts from the core of the business should only be treated as a transitional approach to kick-start efforts. In reality, the entire organisation must engage. The most practical way of moving things along is to identify a set of digital capabilities that the whole organisation can plug into, and then teach them how to interact with this 'platform'.

### **2) Create an elastic strategy.**

It is time to break the annual planning cycle, before it becomes an act of self-harm. We recommend creating a continuously rolling strategy, that bypasses the lock-in effect of traditional approaches. Developing this elasticity means quick strategic pivots are no longer an impossible dream.

### **3) Empower teams to design their own change.**

The best execution of strategy is not a roadmap developed in your boardroom. It is time to trust that your people know best what needs to happen to effect change. Communicate direction clearly, check for alignment continually, and let them do the rest.

### **4) Level-up your 'human sensor network'.**

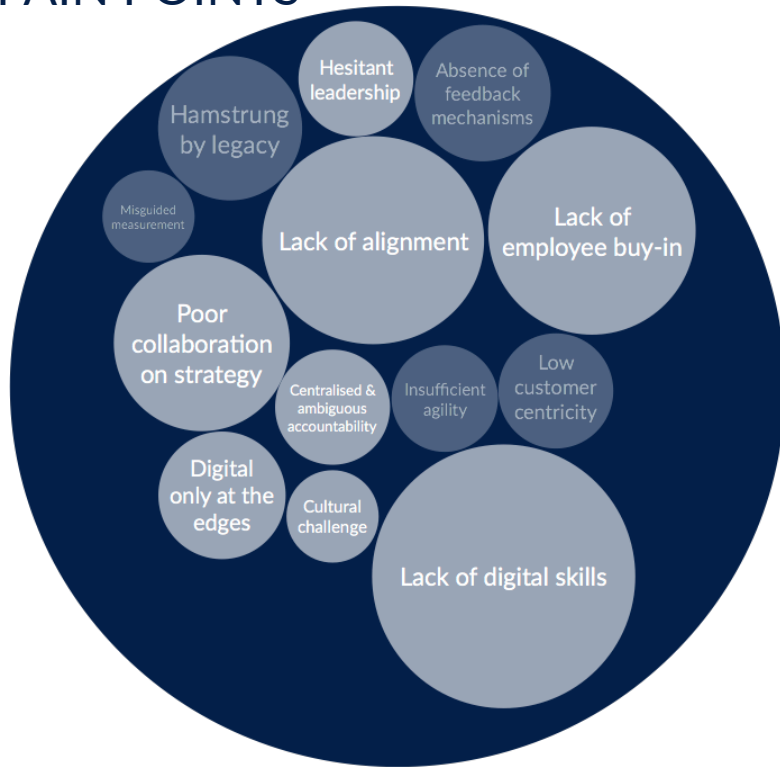
With today's market uncertainty, predictions rarely come true. Instead of putting your confidence in 5-year roadmaps, your people are the best early warning system you have. Use them as your 'human sensor network,' to spot new revenue areas and places to innovate.

### **5) Apply KPI's as part of service design.**

Financial performance only confirms a trend, it does not predict it. To truly understand how your business is performing, you need a balanced dashboard of leading and lagging indicators. They are not just measuring the at the top, but throughout the organisation, to track the development of capabilities. Pioneering organisations define the critical KPIs to deliver a service to customers, bringing these together in service blueprints that support customer journeys.

# IDENTIFY DIGITAL CAPABILITIES ACROSS THE ENTIRE ORG

## PAIN POINTS



*"We sat with the editorial team and said these developers and analysts are yours, you can direct them any way you want. We can't just do digital from the centre, we have to go to the business and do it with them." (Media)*



### THE TRAP

**Separating your digital strategy from the rest of the business**

It is common for companies to separate their digital strategy and its execution from the rest of the business, often in a dedicated Digital team. This approach falls down when digital inevitably impacts the traditional core of the organisation, but the skills gap means the retained value of the traditional business is not unlocked.



### CURRENT PRACTICE

**Creating cross-functional co-ownership**

To avoid a 'digital ghetto', some of our interviewees divide accountability for the digital strategy across two or more executive roles. The idea is that with more than one leader responsible, digital strategy will not be created in isolation.

Executive co-sponsorship helps, but the danger is that digital initiatives are still done to the organisation rather than with them.



### NEXT PRACTICE

**Create a menu of digital capabilities**

We suggest a rethinking of digital not as initiatives or technology to be rolled out, but rather a set of capabilities that can be offered as a menu or digital service catalogue to the organisation. An example of digital capabilities could be data analysis or customer experience design. This allows teams to "plug in" to capabilities they need to create new ways of working, whilst remaining coordinated.

## ATTRIBUTES



EMERGENT



PARTICIPATORY



ITERATIVE



UNIFIED

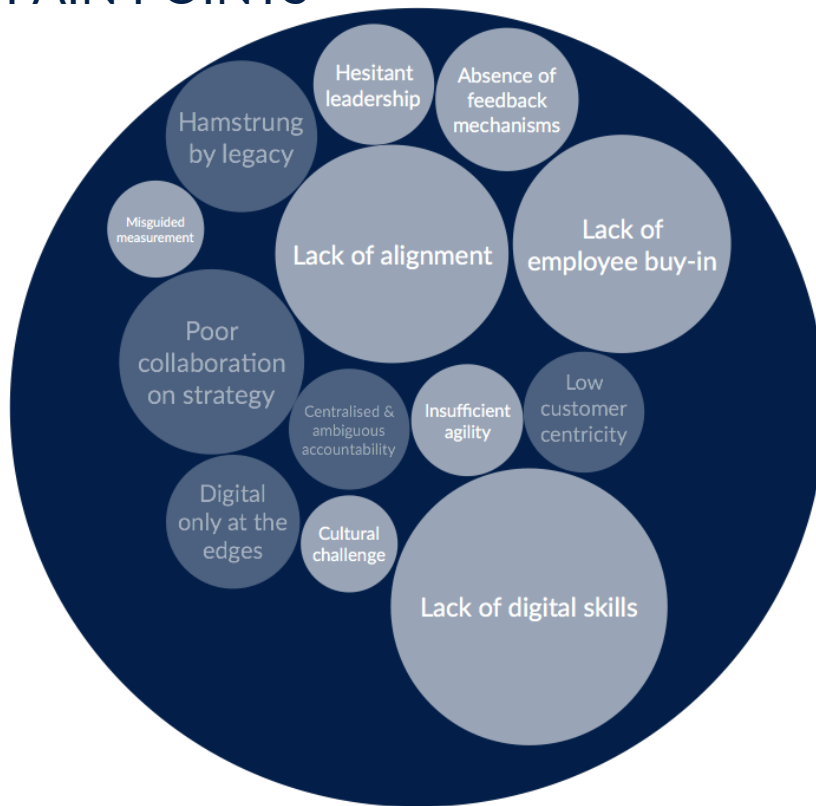


QUANTIFIED



# CREATE AN ELASTIC STRATEGY THROUGH FORMATION LOOPS

## PAIN POINTS



*"We revisit the strategy every day as we collect and respond to feedback. So it's an ongoing, living, dynamic strategy but with clear goal posts." (Financial Services)*



### THE TRAP

Managing a digital strategy as part of the annual planning cycle

This mostly happens because of the tight link between strategy and the annual budgeting & reporting process, plus the pressure to demonstrate control to the market. But in the digital age, disruption is both fast and unpredictable, rendering such management practices unfit for purpose.



### CURRENT PRACTICE

Increasing frequency of strategic reviews

Nearly all organisations we spoke to acknowledged the need to revisit the strategy more often than annually. However, we found that many are just creating more frequent progress checks as part of the same process. So while this practice is a potential transitional step, remember that it will limit your ability to react to fast-moving changes and the opportunities and threats that occur mid-cycle.



### NEXT PRACTICE

Continuously develop an 'elastic' strategy

We suggest creating a rolling, elastic strategy - where strategy is continuously reviewed and progress measured to uncover new possibilities. You can use strategy formation loops – continuous cycles of development, implementation and revision of strategic hypotheses – to redirect and avoid the lock-in effect of traditional strategy approaches.

## ATTRIBUTES



EMERGENT



PARTICIPATORY



ITERATIVE



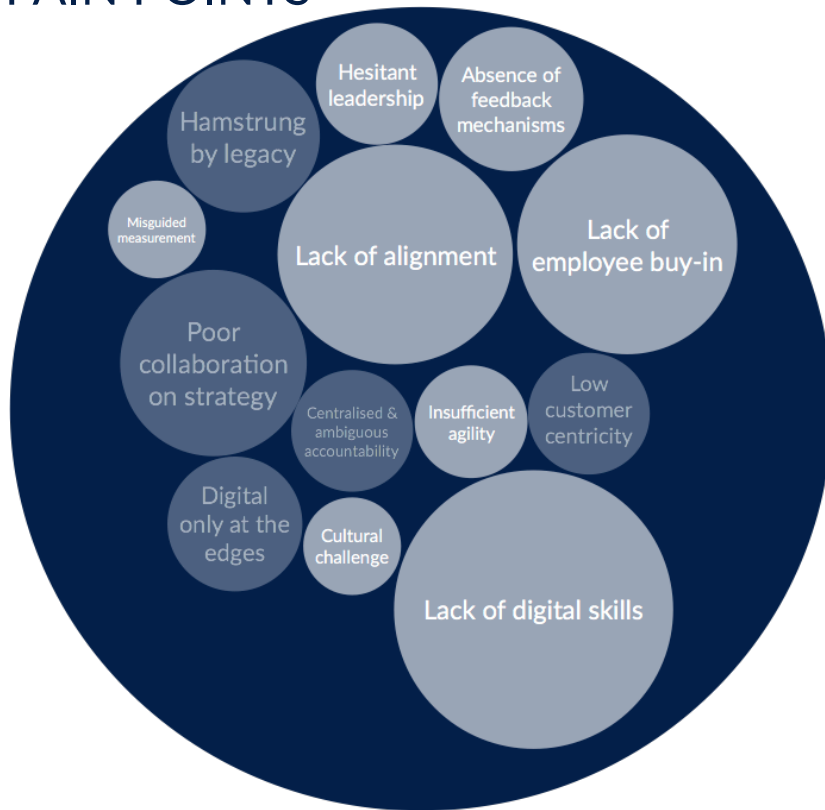
UNIFIED



QUANTIFIED

# EMPOWER TEAMS TO DESIGN THEIR OWN CHANGE

## PAIN POINTS



*"If I say to someone "I've got a solution here that can half the cost, double your speed" it doesn't mean people will go for it. But if you enable them to have it as their idea, they will." (Insurance)*



### THE TRAP

**Believing those who lead the organisation know best how to execute the strategy**

Too often, executive boards or senior leadership teams remain the only ones who make strategic decisions, that are then simply communicated to the rest of the organisation to execute.

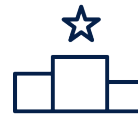


### CURRENT PRACTICE

**Inviting employee input on key decisions**

All organisations we spoke to acknowledged that the first step in engaging employees is being clear and transparent with your digital strategy, which is nothing new.

What companies are now starting to recognise is the importance of making this a two-way conversation rather than a broadcast message. However, whilst inviting input is preferable to just 'telling' employees what to do, it still assumes those at the top of the organisational hierarchy make the important decisions.



### NEXT PRACTICE

**Distributing authority for employees to design change**

Digitally-mature organisations empower the employees closest to the information to take action in service of the strategic direction. The overall direction - the 'what' and 'why' - is set by the executive team. However, central groups do not prescribe the 'how' to achieve. Instead, teams are trusted to work out how this is achieved themselves and given the authority to redesign their processes and practices.

## ATTRIBUTES



EMERGENT



PARTICIPATORY



ITERATIVE



UNIFIED

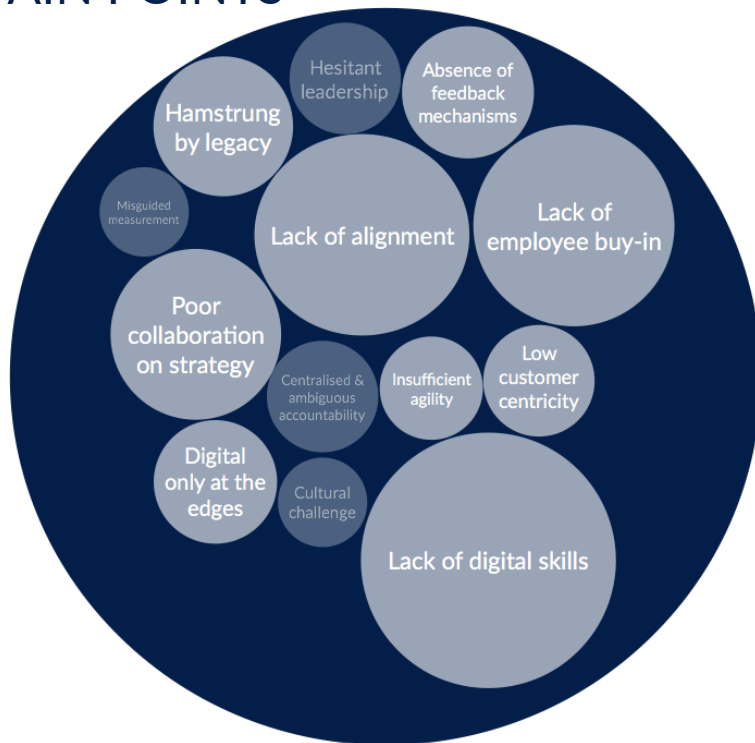


QUANTIFIED



# LEVEL-UP YOUR 'HUMAN SENSOR NETWORK'

## PAIN POINTS



"Next I'd like to look at revenue areas at the edges that we may not have thought about. If we wanted to be an e-commerce business we could do that - we have those capabilities - what's to stop us! Why not use those capabilities to create new areas of revenue?" (Media)



## THE TRAP

**Assuming successful digital strategy relies on predicting outcomes**

In the predictable markets of the 20th century, market dynamics could be forecast years into the future without much change.

A more mature approach is needed to better navigate the uncertainty of the digital age, but many organisations still try to demonstrate meaningless 3- and 5-year outlooks.



## BEST PRACTICE

**Embed channels to gather intelligence**

The first step to respond to shifting market dynamics is being able to sense the changes taking place. Many interviewees assign this responsibility to dedicated teams, however, those leveraging the most value were using digital collaboration tools - such as their ESN or team based apps - and inviting their all employees to take part.



## NEXT PRACTICE

**Spot future revenue plays through combining capabilities.**

Once your 'human sensor network' is working effectively to cope with change, the next step is to spot new revenue areas to take advantage of change. This is best done by considering the menu of capabilities your organisation has or is building and which of these services can be combined to form new products or services for your customers. By leveraging the sensor network you've built from your employees, gathering intelligence from the edge, these you can see these opportunities start to emerge and test experimental ideas.

## ATTRIBUTES



EMERGENT



PARTICIPATORY



ITERATIVE



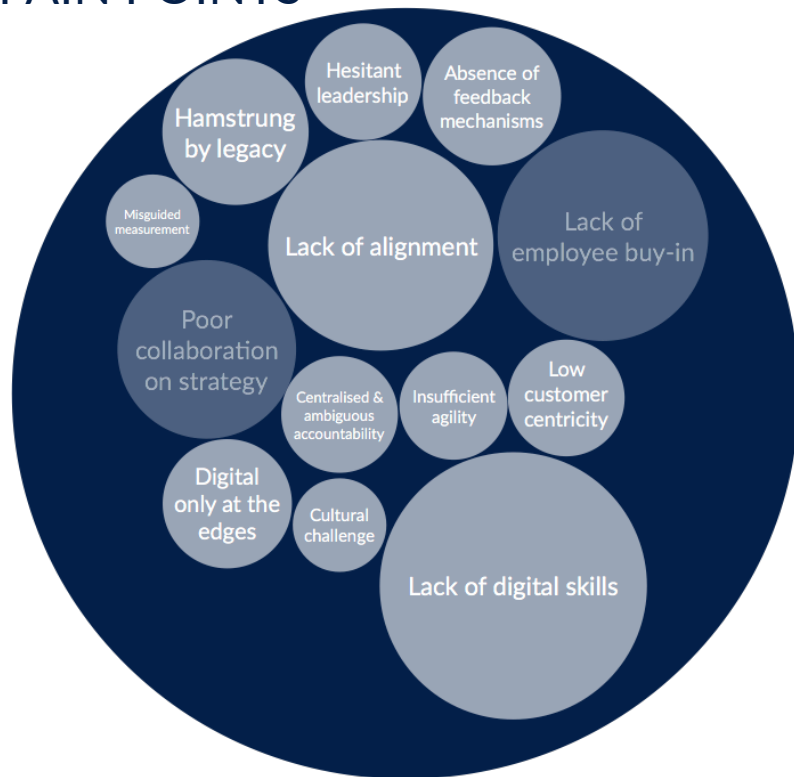
UNIFIED



QUANTIFIED

# APPLY KPIs AS PART OF SERVICE DESIGN

## PAIN POINTS



*"We realised that if we broke the organisation down into capabilities, we need KPIs that tell us if these capabilities are achieving customer needs. Then we can decide if what we do is still working or if we should pivot." (Media)*



### THE TRAP

Allowing lagging indicators to dominate your KPI dashboard

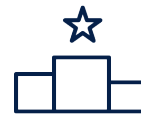
Reporting on company performance will always include financial metrics. The problems start to occur when this is your primary area of focus, as it is for so many traditional organisations. Financial performance only confirms a trend, it does not predict it.



### CURRENT PRACTICE

Rounding out dashboards with leading indicators

Most of the organisations we spoke to had started to identify a more well-rounded set of KPIs to include in their dashboards, including leading indicators that illustrate the shift to new business and operating models – like customer satisfaction, organisational culture and new capabilities.



### NEXT PRACTICE

Apply KPIs with a service design lens

Leading organisations take it a step further. Instead of just high-level metrics, they develop balanced KPIs to measure the critical capabilities - current and target - required to deliver a service that meets customer needs. For example, a car manufacturer would not just measure how well they make cars, but the activities and processes required to deliver the service of transport.

This requires breaking down customer needs into service blueprints that identify how capabilities feed in, and then identifying KPIs that measure progress against meeting the needs.

## ATTRIBUTES



EMERGENT



PARTICIPATORY



ITERATIVE



UNIFIED



QUANTIFIED

## What this means for you

We recognise that managing strategy means you encounter multiple stakeholder demands – your investors, your board and the market – and it is less easy to influence some towards a different approach.

Then you face the battle against legacy processes and assumptions that have prevailed for decades. The luxury of simply switching to a different approach is one that seems only available to start-ups, or smaller, unlisted companies with no obligations.

But by building upon the recommended actions to create your own pathways, you can evolve your strategy development and execution practices over time. We hope that we have provided not only an alternative to strategy in a digital age, but also the practical steps that will help you achieve it.

## Methodology

In the spring of 2017, we conducted 18 in-depth interviews with Heads of Digital and CIOs at both large and small companies across a range of industries to learn how they are approaching digital strategy management. Our research focussed on these two types of executive because they are most often responsible for development and execution of digital strategy in organisations.

We spoke to 3 vendors developing technology solutions to support new types of digital strategy management:

- Pinipa
- Powernoodle
- Stormboard



## How we can help

We are dedicated to helping firms of all sizes manage and measure organisational change and transformation to create more resilient and adaptive businesses for the 21st Century. Digital transformation means ensuring our organisations are ready for the challenges and opportunities of digitalisation, so it is about structure, culture, practice and leadership, not just technology.

Since 2002, we have helped leading organisations accelerate the development of their digital business capabilities, across four key needs:

**Digital Capabilities:** We build responsive learning solutions to cultivate in-house digital talent. Our online tools, content & support model quickly enable digital change.

**Agile & Hybrid Teams:** We utilise agile methods to improve efficiency, maximise use of digital tools, encourage more responsive working practices & improve collaboration.

**Digital Leadership:** We help leaders develop their digital acumen, cultivate the next generation of leaders & drive delivery of strategic digital programmes.

**Digital Workplace:** We combine bite-size learning, networks of change agents, thriving online communities & gamification to develop a digitally confident workforce.

## ***POST\*SHIFT***

Our consulting team offers expert advice and ideas for firms at any stage of Digital Transformation, and we help internal teams who are running programmes or initiatives in all aspects of their work.

**Contact: Cerys Hearsey**  
[cerys@postshift.com](mailto:cerys@postshift.com)  
@postshift

**Contact: Laura-Jane Parker**  
[laura-jane@postshift.com](mailto:laura-jane@postshift.com)  
@postshift