

Digital Transformation Insider



Part Two: The role of leadership and culture in Digital Transformation

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1 PART TWO | THE ROLE OF LEADERSHIP AND CULTURE IN DIGITAL TRANSFORMATION

In our Digital Transformation Insider Interview Part One with Sven Denecken we talked about the importance of data, network, cloud & devices for mastering the journey through the digital transformation with a focus on the building blocks of and the customer segments. Read the full interview [here](#).

The second part of our Digital Transformation Insider series focuses on the role of leadership and innovation culture in today's era of digital transformation. To discuss the topic from different angles, 4-advice's Managing Director Simon Schoop added a second interview with Sven Denecken, Global Vice President Co-Innovation and Strategy of SAP. That perspective was complemented by talking to innovation leadership guru, Prof. Dr. Jay Rao, professor for Strategy & Innovation at Babson College in the United States. We hope you enjoy the questions and answers and appreciate your feedback!



Prof. Dr. Jay Rao
Source: www.dofuture.org | [Link](#)



Sven Denecken
Source: SAP | [Link](#)

Simon Schoop: When assessing company cultures, what have you observed to be the most powerful levers in order to achieve a) quick wins and b) long-term sustainability?

Jay Rao: Start simple, start small – only then you get quick wins. Everybody wants a quick win – but we don't experiment enough. Executives mostly make decisions based on bureaucracy,

powerpoint or hierarchy – but decisions based on experimentation make a huge difference. The biggest challenge is instant gratification. Executives want instant gratification without effort or learning. Detractors at Nestlé tried to kill Nespresso for ten years, but luckily it survived. Now it is a big hit. At times we kill great ideas pre-maturely because we are looking for a quick-win. The world is becoming more VUCA (Volatile, Uncertain, Complex and Ambiguous). Our ability to predict our way into the future is becoming more difficult. So, we need to become better, smarter and cheaper experimenters in order to have quick wins. The quest for Big Wins will lead to Bigger Failures.

Simon Schoop: When we work with customers and tell them that they need to digitally transform, they agree and usually tell us, that they are already working on it. Often, their “vision” is not very disruptive. What do you recommend to those companies ?

Sven Denecken: Digital transformation is not measured by disruptiveness itself. The devil is in the detail. I think you can digitally transform, by applying the latest technology, when you have a clear sense of the wanted business outcome. The risk is always when you don't have disruptive people or teams. So our advice to those companies is: Use transformation to improve what you do, transform it as an evolution but also look at the areas where disruption rather should come from yourself and from others.

“We have to be very careful when using the word disruptive.”

Jay Rao: We have to be very careful when using the word “disruptive”. Instead of being disruptive, let's have a different dialogue - for example “I'm going to make your experience better and easier for you by changing the process”. So the question is, how can we be constructive rather than disruptive. When we hear the words “let's disrupt” – executives usually shut down. In technology companies executives are constantly looking at disrupting other companies. I much prefer creative and constructive technology and business models; e.g., Airbnb, Uber, etc. Our obsession for disruptive products and businesses have big consequences.

Blockbuster drugs have driven up the cost of bringing pharmaceuticals to market. Polaroid never found the next big thing - same for Xerox. So my advice is: Don't put all your energy on finding the next big thing. Disruptive things can only be discovered through experimentation. There are a lot of unknowns in disruption. We cannot predict the unknown. Executives don't know the unknown and there is no way to put it into a budget. Most of corporate budgeting demands our predictions about what we will spend in the next year. This is incompatible for disruptive innovation. Also we need to remember that most innovation is incremental. In our quest for the disruptive, we neglect the incremental. Unfortunately, we need to master incremental before we can master disruptive.

“Disruptive things can only be discovered through experimentation.”

Simon Schoop: In part 4 of your digital transformation blog you mention the “change challenge”, which is to overcome defensive attitudes and internal politics, just to mention two of them. You suggest that companies should invest in change workshops that teach usage and convey the benefits of digital initiatives, likewise workshops done by 4-advice. Which contributions do you expect from external consultants like 4-advice in this context ?

Sven Denecken: I think external consultants understand that digital transformation can play a major role, because often the people inside the company are not heard with the same voice and loudness. So external consultants should clearly be aware of the internal structure and situation so they can detect the areas where you can come to quick wins - I expect external consultants that they do understand what is going on in the company and the industry and thus help customers identifying quick wins – although at the end of the day it´s the customer´s organization who needs to pick up the topic.

Simon Schoop: You're mentioning a trade off between data protection and functionality. Do you see the strict German data protection regulation as a long term advantage or disadvantage for digital transformation - for example in the context of the changes triggered by the Internet of Things ?

Sven Denecken: Clearly as an advantage looking at the concerns out there in the market. Needless to say that the digital transformation in the consumer area is far beyond what many people thought just a year back - and we see that happening in the business as well. That doesn't mean that the protection regulation from one country needs to be the global standard but we also see a large portion of trust that, it's a matter of fact that we still have customers coming to SAP because they want run their operations in a German data center.

Simon Schoop: Sven mentioned the change of the role of the IT departments and stated in his blog that their new role is to ensure everything is prepared for digital transformation. How suited do you rate the IT department of an average German, midsize company with 1000 employees vs. the one of a large corporation that's traded at NASDAQ or DAX stock markets And what should leaders in the IT departments and in general management contribute in order to leverage the digitalization as a competitive advantage ?

Jay Rao: The IT people should be very careful when they use the word transformation, because I would much rather focus on customer experience than transformation. Designing better customer experience is more important. “Don't screw up my life and user experience” is more important than transforming. For example, changing the password every three months screws up my life. IT people should rather look at people who have a poor password and selectively change those and not make everyone to change their password. Put user experience first and transformation second. IT departments often abuse all buzzwords. Instead, they should focus their energy on everyday user experience. Afterwards you can transform and disrupt. Let's

stop abusing buzzwords. Simplicity and elegance are very much ignored by IT people. This is what Apple does differently.

Sven Denecken: There is no average midsize company because all of them are a little bit different or they act in different industries. With midsize companies per se, they are more overwhelmed about the impact of technology. That's why I see the current openSAP course on digital transformation as a good way to get started and to get better informed quickly and see what can be applied. Germany's "industry 4.0" approach, which is the combination of the strong heritage of engineering combined with the new technology and networked economy is at the top of the agenda at every larger company.

Sven Denecken facilitates the [openSAP Course on Digital Transformation](#)

Simon Schoop: In every industry, one finds companies that have different degrees of digital maturity. Sven mentioned that some industries are way ahead of others – e.g. telcos have a higher level of digital maturity. Which cultural characteristics and leadership styles describe the laggards best and which ones the early digital adopters ?

Jay Rao: In the US, healthcare, education, government and financial services are the ones that are least disrupted. For example, financial services used new technologies to give customers a better experience every time a new technology came. They upgraded their customers from bank tellers to ATM machines to fax machines to telephone to mobile banking. If you take healthcare, they don't use IT very effectively. But they focus their technology advances in specific medical devices or machines for helping in medical procedures and towards treatment. On the other hand, healthcare firms have done a poor job of embracing IT fully. Hence you see that the customer experience when you go to a hospital hasn't changed very much in many years. Unfortunately, the education industry and governments are lagging in both technology adoption and customer experience.

Simon Schoop: Do you see any patterns in terms of cultural characteristics in addition to leadership styles that are favorable for digital transformation ?

Sven Denecken: Yes, openness and quality of leadership in a sense that allows innovation. When we co-innovate, we are exactly looking for those leaders who understand that it's not only a digital transformation based on technology, but a process. You need to embrace change to digitally transform.

Jay Rao: There is not one specific organizational structure or leadership style that is more or less conducive to transformation. For example, there's nothing wrong with hierarchies, but it's wrong when it increases bureaucracy and stifles employee engagement. If your employees are not engaged, don't expect them to be creative. If you don't have engaged employees, they will not transform or learn new skills.

Simon Schoop: Any company has a culture. Created during years and based on attitudes and behaviors. And a culture evolves over time but suffers from revolutions. This is what we call the risk of asynchronous evolution between people capacity to change and speed of the change required in business. Once you start a “revolution” like digital transformation, how does it impact work climate, behaviors and attitudes?

“A good Digital Transformation process needs to be accompanied by the support of the top management”

Sven Denecken: That’s a very good question. If you transform your company just in silos or areas like a line of business, there is a natural resistance from people who are not involved. A good Digital Transformation process needs to be accompanied by the support of the top management. I found even in larger companies people who are not willing to innovate and transform even if they see, it helps to go for the better.

Simon Schoop: Leadership, strategy and innovation create a culture of innovation. But often, strategy is made by leaders with a 20st century mindset, and innovation is a 21st century way of business life.

What would you recommend to the 20st century type of leaders to become more innovative ?

Jay Rao: As we’ve abused the term “innovation” massively over the past few years, the term is going out of fashion and people are becoming angry when they hear the word. What we need to focus on is organic growth. There are only two ways for firms to grow, Mergers & Acquisitions and organic growth. Organic growth comes from creating something from nothing or you copy what others have already done. Most of the world is copying. There are fewer creators than copiers. However, copying is the starting point for creation. The more and more you copy, the better you become in creating. This is especially true for large firms that have stopped being innovative and creative. You need to master copying first in order to master creating.

Sven Denecken: Culture eats innovation for breakfast. I believe that digital proficiency is not related to age. I have seen so called 20st century mindset leaders, who transform quickly. And some of the aspects that tremendously helped, was staffing the projects with the right mix, make mixed project teams learn from each other and support the digital balance in the sense of reward and risk taking both in an appropriate way. Collaborate with your externals. Look at other companies who have successfully transformed. So I think it’s a learning on both sides. Because just to have a transformative mindset alone without a basis is as risky as just holding to the current status quo and not willing to change.

Simon Schoop: Here comes my final question. What do you consider to be the three most important benefits of an innovation friendly company culture ?

Sven Denecken: First, higher likeliness of sustainable survival of the company. Second, attracting people by addressing trends like aging workforce or brain drain in your company. And number three is the attractiveness and growth potential in the market. Because your customer base will not only grow, because your customers have a different expectation, but also because you enlarge the way how you do your business with much more innovative thoughts.

Jay Rao: First, an innovative company culture attracts & retains great talent. Ideas are not a scarcity. Great ideas are a scarcity. Great ideas come from great talent. Great ideas get commercialized by talented teams. Unfortunately great talent is a scarcity. Talented teams is an even greater scarcity. Very few firms have the luxury of attracting great talent. So, most companies need to train and groom their own great talent, i.e., employee growth. So, the next questions is, how can we help employees grow and develop?

Second, innovative company culture enables employee growth. Innovation is about continuous learning. Constantly learning the “unknown,” redefining the “known” and renewing the “worn.” Every time an employee is engaged in a creative / innovative project, they are learning the unknown or reworking the known. When employees see that they are constantly learning new skills / tools, they get energized and engaged. Only an energized and engaged employee will be creative and entrepreneurial. Employee engagement improves employee initiative – they are willing to start and participate in risky projects. They become the building blocks of an innovative culture. It is self-reinforcing.

Third, innovative company culture is more enduring than any technology or product or service. Culture is more difficult to copy or disrupt. So, the firm will live longer.

Thank you very much for your time and the very interesting dialogue, Jay & Sven !

Links

Sven Denecken:

[Digital Transformation Video Series | Video series by SAP Cloud with Sven Denecken](#)

Follow Sven Denecken on Twitter | [@SAPCloud](#) and [@SDenecken](#)

Jay Rao:

[Innovation at Work | Prof. Jay Raos Blog for Innovation](#)

Follow Prof. Jay Rao on Twitter | [@InnoYogi](#)

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[More Publications from Simon Schoop | 4-advice.net](#)

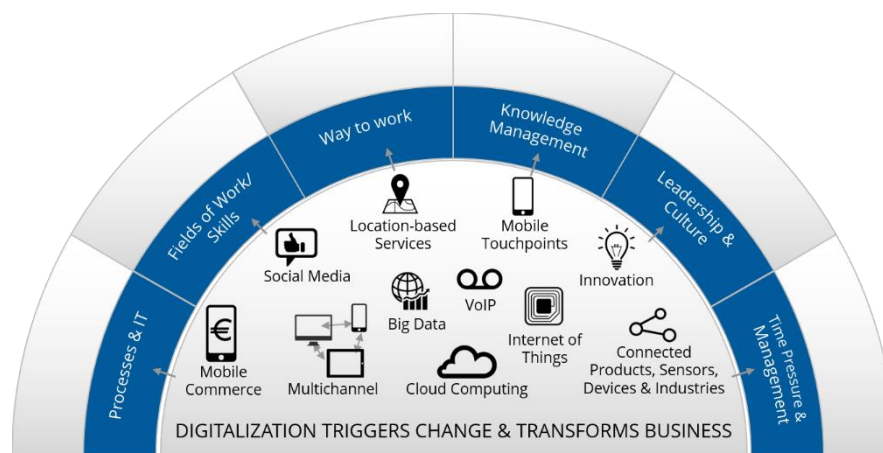
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Digital Transformation is impacting all businesses today, no matter which industry they are in. It´s the second wave of digitalization after the initial roll-out of the internet: Online transaction cost as well as cost for sensors are plummeting continuously, enabling new disruptions of market segments and whole markets. Consumer behavior and expectation have already changed, not only in the Generation Y. The altered consumer expectations lead to new business opportunities as well as to the decline of organizations which are not agile enough to cope with the digitalization and leverage the rising digital potential and synergies with the traditional way of doing business.



Source: 4-advice

Businesses who do not leverage lower transaction cost through online service delivery loose ground and decrease their competitiveness – and become vulnerable regarding new market entrants. Already, digitalization is clearly announcing the next

tsunami of transformation, the internet of things (IoT). IoT will change our world, not only in manufacturing, within the next ten years by connecting anything, anytime, anywhere.



Simon Schoop is Founder and Managing Director of 4-advice | Change & Innovation, a Germany based niche consultancy and thought leader for digital transformation.



4-advice helps organizations to become truly agile and thus increase competitiveness leveraging the opportunities of digital transformation.

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At 4-advice, we see digital transformation as the most impactful source for change & innovation nowadays and in the near future. And this is what we care about: Turning a felt threat into a business opportunity by embracing the potential of the next wave of the digital transformation. Therefore, we have decided to dedicate our main content publishing focus for 2015 to digital transformation and it´s various aspects that are changing our modern business world. We will touch on the impact and best practices of digital transformation within the different corporate functions, on the role and importance of agile organizations and innovation culture and many more topics.

We would like to invite you, to join us on this journey through digital transformation and would be happy if our **Digital Transformation Insider** insights will help you to turn the digital transformation into an opportunity for your own business endeavours.

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