SAP SuccessFactors

SAP White Paper
Future of Work & Organizations

Creating Digital-Ready Organizations: Growing Companies That Thrive on Change

THE BEST RUN SAP

Table of Contents

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"Digitalization" is used to describe the integration of computerized technology into virtually every aspect of life and work. Technology is transforming our lives in ways ranging from how we shop to how we build social relationships. This transformation is happening both at home and at work. Finance, marketing, human resources, supply chain, procurement, manufacturing, customer service, and all other areas of business operations are being radically rethought due to technological innovations such as cloud platforms, machine learning, mobile solutions, the Internet of Things, and blockchain.

> "It is not the strongest or the most intelligent who will survive, but **those who can best manage change**."
>
> Professor Leon C. Megginson

What Does it Mean to be Digital Ready?

Technological innovations enable companies to execute business strategies in ways that were impossible just a few years previously (see Figure 1). Digitalization is creating new markets while destroying others, reshaping labor economics and fundamentally altering the nature of work.

This article discusses concepts leaders must understand and embrace to make their organizations "digital ready." This means being equipped to compete and win in a world where technology has permeated every aspect of work and life. Figure 2 summarizes the key points covered in the article. The article begins with a discussion of three fundamental truths about business in the digital age that leaders must manage to create digital-ready companies. It then explains how digitalization is changing the nature of organizations, as well as highlighting certain things that are not going to change. Last, the article discusses six critical topics that senior leaders, including the CEO, CFO, CHRO, and CIO, must constantly revisit to ensure the ongoing profit and growth of organizations in the digital era.

The article focuses on the human aspects associated with creating digital-ready companies. This is because the only constant element about organizations in a digital economy is the human element. Technology is causing organizations to radically change what they do, how they do it, and where they do it. But one thing about organizations is not changing: they rely on people working together to accomplish shared goals. This will always

FIGURE 1: EXAMPLES OF DIGITAL TRANSFORMATION

The following examples illustrate what we mean by the digital transformation of business. All of these are happening now.

- Reducing auto accidents by capturing and analyzing driver biometric data, shift schedules, traffic patterns, and industrial equipment performance and using this to give employees schedules and routes that reduce the likelihood of incidents.
- Replacing stores with in-home technology that allows consumers to purchase and receive products in under 24 hours without ever leaving home.
- Staffing medical clinics with global healthcare teams so a patient is examined by an on-site professional, the results are analyzed by a technician in another country, and recommendations are made by a third expert located in another part of the world – all during a single visit.
- Replacing on-site surveyors with drone-based imaging technology that captures the exact dimensions of a site and uses 3D printing to create a reproduction of the physical location without ever sending a person to the actual site.

One might have imagined doing these things in the past, but the level of effort required would have made them impossible to maintain or scale in a cost-efficient manner.

be true. Even organizations that fully embrace intelligent automation and robotics to perform tasks still need people to build, manage, and maintain the company's software systems and machines. Furthermore, although the nature of work changes constantly, how people function as humans changes very little from one generation to the next.[1] The underlying psychology of people does not evolve as fast as technology. Consequently, by understanding the core psychological elements that impact organizations we can more clearly identify what business leaders must do to create digital-ready companies.

FIGURE 2: WHAT MAKES A COMPANY DIGITAL READY?

Leaders operate with full appreciation of the fundamental truths of digitalization

1. Whatever the company is doing now, it is the wrong thing to be doing two years from now.
2. The success of the company requires people to do things in the future that are different from what they did in the past.
3. Any process designed more than three years ago is out of date.

Leaders strive to create the characteristics of a digital-ready organization

- Geography and hierarchy do not define or limit how the organization functions.
- Jobs constantly evolve and are designed by employees working in partnership with the organization.
- There are no "support" functions. The CEO, CFO, CHRO, and CIO act as a team of equals.
- The organization thrives on change.

Leaders constantly revisit the "perennial challenges" affecting organizations in a digital economy

Are we:

- Building the right organizational structure to support our future success?
- Creating a compelling, simple, and effective work environment?
- Fully engaging people around the purpose and strategic objectives of the organization?
- Making effective decisions about the people who define the organization?
- Providing people with an inclusive, supportive, and sustainable work environment?
- Minimizing human capital management risks posed by system inefficiencies, data security, and legal compliance?

1. Despite books about Millennials being different from previous generations, the reality is that people's basic motives, skills, and capabilities have changed little since scientists started measuring these things about 100 years ago. Employee expectations about work do change, based on the labor market and technologies that existed when they grew up, and certain employee characteristics tend to shift, based on the career stages and life situations we enter as we age (for example, having children tends to change one's views about the importance of employment stability). But the actual year you were born has little influence on your fundamental psychological characteristics. What matters is the time that has passed between now and when you were born.

Why change? Three fundamental truths affecting businesses in the digital economy

It is extremely difficult to change an organization if people do not understand why the organization needs to change. Change takes effort and creates uncertainty. People are hardwired to save energy and avoid risk. This goes back to our evolutionary roots when we were lazy, timid apes who left the trees only to get food and then scurried back to sleep in the branches safely away from predators. On the other hand, people can be very good at changing when they understand that it is critical if they are to avoid losing something they value or gain something they want.

The first step to becoming a digital organization is making people aware of how digitalization is changing the world of work. There are three truths about business in the digital economy that company leaders must understand and embrace for an organization to become digital ready. The first one is rooted in the accelerating pace of change that defines the digital economy.

DIGITAL BUSINESS TRUTH #1
Whatever the company is doing now, it is the wrong thing to be doing two years from now.
In a digital world, technological innovations create constant and significant market disruptions, process transformations, and shifting business conditions. Companies must adapt to these changes or quickly fall behind. Leaders may not know what these changes are or the impact they will have until after they have already started to happen. But leaders who fail to act on these changes will find their companies losing ground in a business market that is only becoming more competitive. Recent history is filled with examples of once iconic and much-admired companies shrinking or disappearing due to their inability to accept and manage this truth. Remember Kodak, Nokia, Atari, AOL, Yahoo, and Circuit City? And this list is just getting longer. To paraphrase Charles Darwin, the law of business survival in a digitalized world is “adapt or die.”

Adaptation is about change. And change in organizations ultimately comes down to people. This leads to the next truth of business in the digital age:

DIGITAL BUSINESS TRUTH #2

The success of every company requires getting people to do things in the future that are different from what they did in the past.

One of the biggest myths about human psychology is that people fear change. People do not fear change. What people fear is poorly managed change. People dislike change if it creates high levels of uncertainty, fear that they may not be able to adapt, or danger of losing valued resources such as jobs. But people like change if they believe it will create more benefits than losses, if they have the right skills and resources to adapt, and if they are working in an effective, supportive environment. Furthermore, change in these conditions is good for people. It is called "learning and growth."

People are the best resource companies have for dealing with change, but only if they are managed effectively. This requires creating conditions where employees thrive on change instead of being terrified by it: an environment where people feel change brings more opportunities than threats. The challenge companies face is how to create a work environment that fosters a growth- and change-oriented mindset among employees. This depends on building effective organizational structures, creating compelling work experiences, driving employee engagement, making effective talent decisions, and supporting workforce well-being.

Most leaders want to build an agile, responsive workforce. The problem is they do not know how to do it or they lack the tools to do it well. Fortunately, the digitalization of work has led to an explosion of innovation in technology to support workforce development and productivity. The field of human resources is being totally reimagined thanks to the capabilities of cloud-based and mobile technology solutions. Companies now have access to the tools needed to create highly agile workforces. But being able to do something and doing it are two different things. Which leads to the next fundamental truth:

DIGITAL BUSINESS TRUTH #3

Any business process designed more than three years ago is out of date.

This truth applies to all business processes, but it is particularly true of processes related to HR. There are two reasons for this. First, four years is an eternity when it comes to technological innovation. Any process designed more than three years in the past is based on out-of-date technology. This means the process was designed under a lot of constraints that no longer exist. The process probably includes design elements that would not have been used if the process designers had access to modern technology. Consider the annual review processes companies historically used to conduct performance management.

It is unlikely anyone ever wanted to build a process that encouraged managers to give feedback to employees just once a year. But when the only technology available was paper forms and static spreadsheets, this was the best companies could do. Traditional annual review processes would never have been created if the original process designers had access to modern social and mobile technology.

Second, technological innovation fuels process innovation and vice versa. Companies build technology to support more effective process design. In return, innovations in process design are enabled by advances in technology. The result is an ever-accelerating cycle of innovation. This is creating massive and disruptive change across every area of business process design. The advantage is that processes keep getting better and better. The challenge is that companies must regularly update their processes or fall behind their competition. This doesn't mean that every process needs to be updated every three years. But companies should critically review their processes every year or so and ask, "Is this still the right way to do this given the shifting needs of the organization and the expanding capabilities of technology?"

Outdated processes create inefficiencies and added costs that slow down organizational agility. But they can also prevent strategy execution. For example, the ability of companies to scale operations on a global level depends on acquiring talent across different regions of the world. This used to be done using manual methods or on-premise staffing technology localized to different regions. The move to cloud and mobile technology has radically changed how applicants around the world seek employment. Companies that fail to leverage this technology and that rely on outdated staffing systems will find their global business failing simply because they cannot effectively recruit and engage qualified candidates in different parts of the world.

The speed at which a company becomes digital ready will depend on the degree to which organizational leaders understand these three truths and realize what they mean for the areas they manage. These truths are not challenges to be solved. They are realities that need to be factored into everyday operations. To use an analogy, the truths of digitalization should not be thought of as being "major storms we need to survive." They should be accepted as changes to the overall climate of where we live. It is one thing to prepare for an occasional heat wave. It is another to adapt to living in a world where it is hot every day.

How digitalization is and is not changing organizations

The role of business leaders is to create organizations that effectively leverage employees and company resources to accomplish company objectives. But what exactly is an "organization" and why do we need them? What advantages do people get by creating or joining organizations instead of going it alone? Will the concept of organizations even be relevant in the digital era? To answer these questions, we need to define what an organization is at a very fundamental level.

There are three tangible[2] reasons why people join organizations:

- **Roles:** The chance to work on meaningful and/or interesting projects and activities
- **Resources:** Access to financial, technological, and material assets (including compensation)
- **Relationships:** The opportunity to work with other people they trust, like, and can learn from

These three things embody the concept of an "organization" in the sense that it is people working together (relationships) using shared assets (resources) to accomplish common goals (roles).

The reason people form organizations is tied to these three things. People are more productive when they collaborate in teams defined by interdependent roles, share common resources, and build relationships to support common goals. The ability of leaders to effectively manage roles, resources, and relationships will always determine the success of organizations. This will not change because of digitalization. What digitalization does radically change is the nature of roles, resources, and relationships and how they are managed.

IN A DIGITAL WORLD, GEOGRAPHY AND HIERARCHY NO LONGER DEFINE ORGANIZATIONS

Before the advent of the digital economy, organizations were largely defined by geographically defined roles and hierarchical relationships. Most people worked in colocated teams in the same office, store, or factory under leaders located in the same building or city. The nature of a company and its employees could be effectively described using hierarchical org charts. The person at the top of the org chart managed and controlled the resources in a single location or region (for example, compensation, budget, materials). Most of the people in the region reported up to that leader and shared common overall goals. And the people lower in the org chart tended to work in the same location with each other on the same types of tasks. In the pre-Internet world, roles, resources, and relationships tended to merge together. Where people worked often defined the kind of work they did (roles), who they worked with (relationships), and their access to budgets, technology, and tools (resources). Org charts were a relatively effective tool for workforce management in the pre-Internet world because there was so much overlap between roles, resources, and relationships.[3]

The rise of the Internet and the corresponding shift to virtual workforces has created a split between organizational roles, relationships, and resources. They are no longer defined or constrained by geography. It is common for people to work in one city, report to a manager in another city, and work with people across the world. Where an employee lives may tell you nothing about what that person does. In the digital world, a job is not about where you work physically. A job is defined by your goals, who you work with, and the resources you have access to. Similarly, an organization is not defined by org charts, job titles, and reporting relationships. It is defined by the actual people in the company, the nature of their roles, and the relationships they build with one another.

IN A DIGITAL WORLD JOBS CONSTANTLY EVOLVE AND ARE DESIGNED BY EMPLOYEES PARTNERING WITH COMPANIES.

Jobs in a digital economy can also take a variety of different forms. The digitalization of work is providing employees with greater ability to change how, when, and where they work and who they want to work with. A single person may have multiple working relationships with a company, shifting from part-time contracting to full-time employment and then back to part-time contractor. In a digital-ready organization, employees often have significant involvement in defining the nature and objectives of their jobs.

In the pre-digital world, companies created job descriptions and then hired employees to do the jobs. In the digital world, companies and employees work together to design jobs. This involves balancing what the company needs to get done, what employees can do, and what employees want to do, and then regularly revisiting this conversation based on the changing needs of the company and changing interests and capabilities of employees. This is particularly true for skilled positions where successful performance is defined by what people create or produce. In these jobs, people are paid for their expertise and what they achieve, not for where they sit and how long they sit there.

NEW FORMS OF JOB DESIGN ARE TRANSFORMING THE NATURE AND INFLUENCE OF ROLES, RELATIONSHIPS, AND RESOURCES WITHIN ORGANIZATIONS

Roles

There was a time when a person's work could largely be defined by the job title and a static job description. Those days are gone in many organizations. The pace of change in the modern economy requires employees to rapidly shift their focus across different goals and activities. People's work is not defined by their formal job title, but by the specific objectives and projects they are working on right now.

Relationships

One of the biggest impacts of digitalization is the ability to develop and maintain relationships with people anywhere in the world. Building effective relationships is critical to creating digital-ready organizations. Organizational agility requires collaboration, collaboration requires trust, and trust comes through strong relationships. A critical aspect of organizational design in the digital world is looking at how changes in jobs and team structures impact the quality and strength of employee relationships.

2. People also join organizations for intangible reasons such as culture and company image. But these are less influential than tangible aspects such as job structure and pay.
3. It is worth noting that org charts continue to be useful tools for workforce management for jobs that are largely defined by geography, such as retail store operations or hotel management.

Resources

Digitalization has made resources both more accessible and more flexible. Cloud technology enables employees to access tools and resources from across the world no matter where they are physically located. This technology also allows business leaders to more easily shift and track how resources are being allocated and used around the globe. Historically, the primary "gatekeeper" for accessing resources such as technology, materials, or budget was an employee's direct manager. Now employees are often empowered and expected to request resources directly from the company with little to no involvement of their manager. Greater employee empowerment increases organizational agility, but also requires higher levels of trust and shared understanding between company leaders and employees regarding resources.

Digitalization is changing the nature of roles, relationships, and resources to make organizations far more efficient, flexible, and effective. But digitalization can also make organizations much more complex, confusing, and exhausting. The "command and control" hierarchical structures that were historically used to define and manage organizations in the pre-digital age are far too slow and moribund to work in a digital economy. But they did have the advantage of being simple and easy to understand. This is creating new challenges for leaders: How can companies benefit from the flexibility and agility provided by technology without creating debilitating levels of confusion and complexity?

THERE ARE NO SUPPORT FUNCTIONS IN A DIGITAL-READY ORGANIZATION

The success of a commercial organization[4] is a function of four areas:

- **Strategy and operations:** Figuring out and implementing methods to create, market, and deliver goods and services that customers are willing to purchase.
- **Profit**: Running the company in a way that generates more revenue than cost.
- **People**: Having people with the skills, capabilities, and motivation needed to execute the organization's strategy.
- **Tools and resources:** Giving people the tools, knowledge, and resources they need to effectively execute the organization's strategy.

The most important area affecting the long-term survival of a commercial organization is profit. Companies that fail to generate profit will eventually cease to exist. But the actual existence of an organization depends solely on people. Most great organizations trace their roots back to a few highly competent people coming together around an idea. When these organizations were founded, the only thing they had was people. They did not have any profit, probably had little to no resources, and may not have had a well-defined strategy. The organization consisted solely of a few smart people coming together around a shared a vision of what could be and a desire to make it a reality.

When organizations first start out, the only thing that matters is having good people, because that is all that they have. Start-up companies tend to have very little hierarchy and few functional silos because they don't need them. All they need are people working together to develop a strategy and finding a way to get the resources needed to execute the strategy so they can start to generate a profit. As the organization grows, it starts generating greater levels of profit, accumulating larger staffs, and acquiring more tools and resources. Eventually organizations start creating separate functions focused on managing strategy, profit, people, and resources. The strategy and operations function is typically led by the CEO, along with leaders from functions such as sales, marketing, manufacturing, or operations. Ensuring that the company makes a profit usually falls under the CFO and associated functions of finance, accounting, procurement, and legal compliance. The CHRO and related HR functions are responsible for ensuring that the company has competent people. The CIO is responsible for ensuring that employees have access to systems that enable them to get the resources and information needed to perform their jobs. For simplicity's sake, I will use the labels CEO, CFO, CHRO, and CIO to refer to the four functional areas of strategy and operations, profitability, people, and resources. In the conversation that follows, I am not referring literally to the specific leaders in a company, but to those leaders and the functional areas they oversee.

Some people believe that digitalization will lead companies to do away with some of these traditional functional areas, particularly the CHRO and CIO. This could be true when it comes to the nonstrategic, administrative aspects of these functions. These are processes used for tasks such as ensuring that people are paid on time or have company mobile phones. These processes need to work and to be cost effective, but doing them well provides no competitive advantage. They are likely to be outsourced in many companies. But the strategic aspects of the CHRO and CIO functions are not likely to go away. This includes processes and tools used to acquire the right talent, develop and retain employees, and support effective knowledge sharing and collaboration. These aspects are critical for gaining competitive advantage in a digital world. You never hear CEOs say we are winning our market because we have great administrative payroll processing, but you regularly hear them say we are winning the market because we have the best people equipped with the right tools and resources.

Company survival in a digital world depends on the strategic aspects of the CHRO and CIO functions being done well. Major problems in either area can do catastrophic damage to the organization. And doing these things well is a source of significant advantage. In sum, these areas are too important to be outsourced or go unmanaged. Digitalization is also making these areas increasingly complex and specialized. For example, being

4. The term "commercial" refers to organizations that must generate profit over time to survive. The four areas described here could conceivably be different for companies that do not have to be profitable, such as government-run social institutions. But even these institutions are usually expected to minimize or avoid financial losses.

effective at HR in a digital world requires understanding complex relationships between business strategy, workforce capabilities and attitudes, labor markets and forecasting, skill development, recruiting marketing, and dozens of other areas necessary to ensure that a company has the right people in the right jobs at the right time. HR is no longer a function that someone can easily "pick on up on the job." It is an area of deep expertise. The same is true of information technology. For companies to be successful, they need professionals who understand the complexities and capabilities of these functions and how to align them to the overall needs of the organization.

Digitalization is also changing the relative importance and interdependence of the functions led by the CEO, CFO, CHRO, and CIO. Historically, the power relationship in senior leadership teams started with the CEO, followed by the CFO. These functions would set the direction of the organization. The role of CHRO and CIO was to support whatever strategy was defined by the CEO and do it in a way that complied with financial requirements set by the CFO. The CHRO and CIO may have had a seat at the leadership table, but their purpose for being at the table was not to talk about "what should our organization do." Their role was to listen and ask the CEO and CFO "what do you want my function to do?"

Digitalization is making the CIO and CHRO functions more critical to organizational success than they were in the past. The technology and people in a company enable and constrain the strategies the company can execute and how profitably it can execute them. The CEO might be characterized as defining what a company wants to do, and the CFO defines how it must be done to ensure profitability. But the CIO and CHRO define what the company can do given the capabilities of its tools and the skills of its workforce. For example, a traditional brick-and-mortar retail company could not implement an online sales growth strategy unless it had access to appropriate Web technology along with people who have the expertise to use it. The CEO may set the vision, but the CIO and CHRO must define the reality of whether the company can effectively execute that vision and what resources and people it will require.

The CIO and CHRO must also challenge the CEO and CFO to expand their vision of what is possible to achieve given the company's capabilities. Technological and workforce capabilities enable companies to do things that other companies cannot do without the same level of tools and talent. Consider the example of a retail company that has a workforce of highly skilled fashion consultants with access to in-store technology to enable rapid tailoring of clothes. This company could implement a strategy to engage customers in a "custom fitting experience" that competitors could not replicate without building a similarly skilled workforce and in-store technology.

In a digital world, a big part of setting an organization's strategy involves looking at innovations in technology, exploring the changing capabilities of its existing workforce, and considering potential sources of future talent. Companies that fail to incorporate the perspective of the CIO and CHRO in strategic planning are "driving by looking in the rearview mirror." Companies should not simply assume that they have the people they need to execute their strategies, nor should they assume that how things were done in the past is how they will be done in the future. To create a digital-ready organization, CEOs must engage their CIOs and CHROs about what's possible and what's coming, as relevant to technology and people, and then use this information to guide strategic decision-making. This creates a new type of leadership power structure. In this structure, the CEO is still the leader of the company, but the CIO and CHRO are not viewed as support functions. They are viewed as collaboration functions who share responsibility in helping the CEO determine and execute the strategies. The CFO acts somewhat like a consultant to the three other functions to ensure that their ideas and actions will enable the company to achieve its financial targets.[5]

In a digital-ready organization, strategies are set and executed based on a cross-functional dialogue that might go somewhat like this:

- **CEO and CHRO:** What actions are needed to ensure that our workforce can effectively execute our strategy, and how should our workforce's existing capabilities influence our strategic direction?
- **CEO and CIO:** What technology do we need to execute our strategy, and how should we change our strategy given recent technological innovations?
- **CIO and CHRO:** How can technology help us build and manage our workforce to ensure that we achieve our strategic objectives? What skills does our workforce need to use our technology?
- **CEO, CFO, CIO, and CHRO:** How can we leverage our technology and people to ensure that we execute our strategy in a way that achieves our financial targets?

In this collaborative structure, there is no such thing as a "support function." Every function is actively involved in setting and executing the organization's strategy and achieving its financial targets. Changes to organizational strategy may be initiated by any function. For example, a CIO who learns about a disruptive technology must challenge the other leaders on what this might mean for the company's strategy. Similarly, if the CHRO surfaces an area of concern about access to critical skilled labor, they must initiate a discussion around how this impacts the company's strategic direction. And most important, the CEO and CFO must actively listen and engage in these discussions.

It is particularly critical for CEOs to rethink the role of information technology and human resources when setting strategies. In the old economy, people sometimes said that "technology should not drive strategy." This concept is ridiculous in a world where the very notion of what's possible is constantly changing due to technological innovation. Similarly, a leader who sets strategy without understanding the capabilities and potential of their workforce is like an architect designing a building without knowing whether the materials available to build it consist of straw, mud bricks, or reinforced concrete. Most CEOs come from backgrounds in sales, marketing, operations, or finance. They probably grew up in organizations where IT and HR were viewed as support functions. They may not think of these functions from a strategic perspective. CEOs of digital-ready organizations must have a strong understanding and appreciation of IT and HR. If a CEO rarely has constructive discussions with the CIO and CHRO around strategy, then the CEO either does not understand the importance of these functions, or they need replace the CIO or CHRO with leaders who understand that these roles are not just about supporting the company, they are about guiding its growth.

DIGITAL-READY ORGANIZATIONS THRIVE ON CHANGE

In many ways, digital-ready organizations strive to operate like the small entrepreneurial companies they were when they first began. This starts with being defined by a clear focus on a common purpose. People know what the organization is seeking to achieve and why it matters. This is combined with a high level of agility and flexibility shown toward how the purpose is achieved. All strategies are viewed as temporary methods that will shift over time to address existing conditions. Change is expected and normal in these organizations. In fact, it is viewed as a key factor in driving opportunity. The goal of these companies is not to continue doing things they have already done, but to build on past accomplishments to achieve new successes.

In most small entrepreneurial organizations, everyone sits alongside everyone else. These companies may have leadership structure and defined roles, but these structures do not hinder collaboration between people regardless of who they are. The culture is one of "we're all in this together." Digital-ready organizations are defined by a similar lack of hierarchy and silos. Every function is considered equally important. There is no "support," only collaboration. Traditional command and control methods where "leaders think and employees do" are replaced with leadership methods that tap into the capabilities, ideas, and potential of employees throughout the company. Building a digital-ready organization is not about what leaders do themselves; it is about what leaders inspire and enable other people in the organization to achieve.

Becoming a digital-ready organization is not about what technologies companies use, how they build and deliver products and services, or what industry they belong to. Becoming digital ready is about changing how companies set strategies, build organizations, and manage their workforce. Any company can become digital ready. It doesn't depend on your industry, size, history, or geographic location. It just requires acting differently. Changing the behaviors of people working in an organization can be difficult. But it is not impossible provided people know what to change, understand why it matters, have the resources to do it, and are inspired and confident that they can make it happen. In other words, becoming a digital-ready organization simply requires true leadership.

5. Financial targets are an outcome of achieving strategic objectives. An organization's strategy is not defined by the financial targets it wants to achieve, but by the operational actions it will take to deliver those targets.

Perennial challenges to growing organizations in a digital world

The first step to becoming a digital-ready company is ensuring that people across the organization understand the fundamental truths that define business in a digitalized world. The success of digital organizations hinges on people's ability to continuously adapt to changing circumstances. This means doing things differently in the future from the way they were done in the past. This requires creating an agile organization that is nonhierarchical, unconstrained by geography, highly collaborative, and ready for change. Different functional areas of the company must work as equals to integrate business strategies, financial targets, technological innovations, and people capabilities.

The next step to becoming digital ready is to ensure that leaders constructively address the six perennial challenges that impact growth and survival in a digital world:

1. Building the right organizational structure
2. Creating a productive work experience
3. Engaging employees around company purpose
4. Making good talent management decisions
5. Creating a supportive culture
6. Minimizing human capital management risks

These six challenges are all related to people but they are not "HR issues." They are business challenges that depend on the people aspects of an organization. People are an organization's most critical resource for navigating a digital business environment characterized by constant change. If a company has the right people, it can overcome problems associated with poor strategy, lack of profit, or inadequate tools and resources. Without the right people, no organization can survive change regardless of its current size, wealth, resources, or market reputation.

These six issues are called "perennial challenges" because they are never fully resolved. These challenges cannot be permanently solved because the correct answers to the problems they pose change, based on organizational size and composition, market expectations, economic trends, regulatory requirements, and technology capabilities. For example, it will always be important to build the right organizational structure. But what defines "the right organizational structure" will change, depending on a company's size, business strategy, market environment, and organizational capabilities.

Historically, many business leaders rarely thought about these challenges and only addressed them in a relatively unstructured and reactive fashion. But the faster the world changes, the more critical these challenges become to organizational survival. Leaders spend considerable time discussing topics related to organizational strategy and profitability. These conversations usually happen in well-planned strategic summits supported by extensive planning and follow-on actions. But rarely do they have the same level of discussion about the six challenges that determine whether the people who make up the organization can effectively execute the company's strategy. Many leaders assume there is ample to time to "figure out the people issues" after the strategy is defined. This doesn't work in a digital world, where the shelf life of strategies is much shorter. Agility does not come simply from figuring out the right strategy based on changing market needs and business opportunities. Agility comes from quickly aligning these strategies with the capabilities of the workforce so visionary ideas are rapidly converted into operational results.

The remainder of this article looks at each of the challenges in more detail. It is recommended that the CEO, CFOs, CHROs, and CIOs jointly discuss these challenges at least once a year, if not more often. Appendix 1 contains a survey with questions that can be used to help guide these conversations.

BUILDING THE RIGHT ORGANIZATIONAL STRUCTURE

Every company must adapt the size and structure of its workforce to meet business growth demands. This includes creating new jobs, restructuring departments, and expanding and contracting different parts of the workforce. There is a lot of debate about what companies will look like in the future, and addressing this challenge may require rethinking the concept of "organization." Company structures based on hierarchical org charts that assume most jobs are full-time, located on-site, and "automation free" are becoming a thing of the past. Future organizational structures must consider the growing importance of contract labor, team-based and matrix management structures, virtual employment, labor market diversity, global labor markets, and job automation using artificial intelligence and robotics.

CREATING A PRODUCTIVE WORK EXPERIENCE

People are an expensive resource. In most companies, people account for the single largest ongoing operating cost. Money spent on people will not generate a return on investment unless the people have the resources needed to effectively perform their jobs. People's ability to generate revenue depends on access to tools, knowledge, and technology that support their productivity and efficiency. People also don't want to work for a company that forces them to use outdated tools and waste time on bureaucratic tasks. This is particularly true for high-skilled employees who are used to state-of-art, consumer-grade technology solutions. The qualities that make them highly valuable, such as specialized expertise and a track record of accomplishment, also make them greater retention risks. And what may have been an acceptable work experience a few years ago, may now be considered outdated, inefficient, and impersonal.

ENGAGING EMPLOYEES AROUND COMPANY PURPOSE

Employee commitment to their company's mission, strategy, and purpose is critical to business success in a fast-changing world. Companies rely on employees at all levels to deliver high-quality results and to actively spot and proactively address new market threats and opportunities. This requires creating a culture where employees feel a sense of connection to the company's goals and constantly seek ways to add greater levels of value to the organization. This requires using talent management methods that effectively engage, motivate, and support employees on an ongoing basis. Mid-level leaders play a particularly critical role in building a sense of connection between the company's strategic goals and frontline employees' personal interests and career aspirations.

MAKING GOOD TALENT MANAGEMENT DECISIONS

The most important decision a company ever makes about people is the decision to hire them. This one decision sets the foundation for every other action. Subsequent talent management decisions related to compensation, staffing, promotions, and development also have a massive and lasting impact on organizational performance and culture. Salary, benefits, and other money spent on people often represents over 50% of a company's total operating budget. But is this money being spent wisely? Addressing this question starts with looking at staffing levels and determining if different departments are overstaffed or understaffed based on business needs. The next step is to look at the methods used to hire, promote, and pay people. Establish well-defined methods to guide talent decisions at all levels of the company. Consider leveraging innovations in machine learning, workforce planning, and workforce analytics to ensure that money spent on people provides an effective return on investment. Also explore using new solutions to find, hire, evaluate, and pay talent that address issues that historically led to poor talent management decisions such as limited candidate pools, manager biases, and failure to consider different performance criteria.

CREATING A SUPPORTIVE CULTURE

Historically companies tended to downplay or even actively discourage discussions about employee feelings and well-being. Well-being was viewed as a subcomponent of employee health and safety that affected only a small number of people working in certain kinds of jobs. The increasing pace of change coupled with the "always on," hypercompetitive nature of business has now made well-being a major factor affecting performance in virtually all jobs. Employees cannot be highly creative, collaborative, and productive if they are stressed, distracted, exhausted, or physically ill. Ensuring employee well-being is critical to ongoing, sustainable business operations. Employee well-being is not just about physical and mental health. It is also about creating environments where employees feel valued, included, and supported emotionally, regardless of their demographic and ethnic backgrounds. The digital workforce is the most diverse workforce in history. To be digital ready, organizations must create an environment where all members of the workforce feel engaged and supported, regardless of characteristics that are not relevant to the job such as age, gender, and ethnicity.

MINIMIZING HUMAN CAPITAL MANAGEMENT RISKS

The authors of the book The Second Machine Age note that "when information was mostly analog and local, the laws of physics created an automatic zone of privacy. In a digital world, privacy requires explicitly designed institutions, incentives laws, technologies, and norms." The increasingly digitalized, global nature of work is creating new and significant risks related to data security, legal compliance, and operational efficiency. Failure to effectively manage these risks can have a major impact on company profitability and market reputation. And these risks never stay the same. Every year brings new regulations and data security threats.

The key to managing these six challenges is to focus on the challenges themselves. Start with the challenges, not the processes you currently use to address them. Remember that your existing processes may be based on outdated technology and assumptions about business markets and employee expectations that are no longer true. Encourage leaders to rethink what's possible and what makes sense given the capabilities and needs of today. Do not cling to methods rooted in traditions, technology, and process requirements of the past. Incremental process improvement provides little value if the process itself is fundamentally flawed.

Conclusion

CHANGE IS COMING – ARE YOU READY?

The rate of digitalization will only increase. As it does, the pace of change affecting organizations will continue to accelerate. Organizations that take steps to become digital ready will profit from these changes. Organizations that continue to use outdated models rooted in past practices will quickly fall behind and disappear.

The difference between success and failure in a fast-changing world comes down to the people in the organization. It is amazing what organizations can accomplish by engaging the right people around a common sense of purpose and equipping them with the right resources. The time to engage people is before you need them, not after. Is your organization ready for what's coming? Are you digital ready?

Appendix 1. Assessing Whether Your Company Is Digital Ready

The following questions can help assess the digital readiness of your organization. Use these to structure conversations about what steps are needed to become digital ready.

FOR EACH OF THESE QUESTIONS, RATE YOUR COMPANY FROM 1 TO 5 USING THE FOLLOWING SCALE:

1. **No, not at all.** We have not even started to have serious discussions about this
2. **To a small degree.** We have started exploring this but have not made significant progress.
3. **In some ways.** We have some examples where this is happening but we have a long way to go.
4. **Yes, partially.** We are doing this reasonably well but have some areas for improvement.
5. **Yes, definitely.** This has become a core part of how our company functions.

PART 1. ADDRESSING CRITICAL DIGITAL READINESS CHALLENGES

Building the right organizational structure for now and the future

- [ ] We have a clear sense of the workforce skills we need in the future along with strategies to find and acquire this talent.
- [ ] We have processes to quickly scale the size of our company up or down in response to changing business needs, adoption of new technologies, acquisitions, or market expansions.
- [ ] We have replaced traditional hierarchical organizational structures with flatter, more agile, relationship-based matrix and team structures.

Creating a productive, compelling work experience

- [ ] We take advantage of intelligent technology such as process automation and digital assistants to reshape and simplify work processes.
- [ ] We provide people with easy access to the knowledge, tools, and relationships they need to be successful in their jobs.
- [ ] We ensure that the technology experience people get at work is equivalent to, if not better than, the experience they have at home.

Engaging employees around company purpose

- [ ] When employees show up at work each day, we are confident they are focusing on the things that truly matter for our company's success.
- [ ] We quickly communicate changes in strategy and direction to employees so they understand what it means for their jobs and careers.
- [ ] We ensure that employees feel valued through informal recognition, career development, and tangible rewards and compensation.

Making good talent management decisions

- [ ] We maximize the return on investment we get from money spent to hire, pay, reward, develop, and retain people.
- [ ] We are confident we are making the right hiring and promotion decisions across all levels of the company.
- [ ] We make workforce decisions in a way that will create the kinds of leaders and skilled employees we need for the future.

Creating a supportive culture

- [ ] We have methods in place to ensure that our managers are effectively supporting employee well-being.
- [ ] We instill a culture of inclusion that fully leverages the talents of an increasingly diverse workforce.
- [ ] We provide employees with knowledge and resources to maintain their physical, mental, and emotional well-being.

Minimizing human capital management risks

- [ ] We are confident in our ability to comply with changing local government regulations affecting data collection, security, and storage.
- [ ] We have methods to ensure that our human capital management data is effectively protected from cybersecurity threats.
- [ ] We can effectively control and manage the costs associated with workforce management, including human capital management system support.

PART 2. DIGITAL READINESS CHARACTERISTICS

Which best describes the design of your organization?

a. **Hierarchical:** Decisions and structures are based around hierarchical reporting relationships.
b. **Matrixed**: Decisions and structures are based around cross-functional reporting relationships.
c. **Team-based:** Decisions and structures are based on established group membership and input.
d. **Fluid:** Decisions and structures are based on evolving groups and relationship networks.

Which best describe how jobs and careers are managed in your organization?

a. **Operational:** The company reactively creates jobs and provides career opportunities based on current business needs.
b. **Directed:** The company proactively defines and communicates jobs structures and long-term career paths to employees.
c. **Evolving:** Employee jobs and careers constantly change based on shifting business needs.
d. **Codevelopmental:** The company collaborates with employees and external sources of talent to craft new job opportunities and career paths to support current and future business needs.

Which best describes the relationship between human resources (HR), information technology (IT), and your company's business operations leaders (for example, CEO and their other direct reports)

a. **Responsive:** Business leaders reach out to HR and IT when they need something or have a problem related to people or technology.
b. **Supportive:** HR and IT work with business leaders to find ways to improve the company's workforce productivity and operational efficiency.
c. **Consultative:** Business leaders ask for input from HR and IT on key questions relevant to the company's business strategy and operations.
d. **Collaborative:** Business leaders actively work with HR, IT, and finance to define and execute the company's strategy.

Which bests describes the change readiness of your organization?

a. **Avoidant:** We try to minimize change as much as possible; our employees primarily view change as a risk or threat.
b. **Reactive:** We are willing to change when necessary, but our employees do not respond until they have to.
c. **Anticipatory:** Our leaders actively look out and plan for changes that will impact us, but most of our employees do not aggressively drive change in our company or our market.
d. **Proactive:** We aggressively drive change in our company and our market at all levels; our employees view change as an opportunity for growth.

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